



Shifting Gears: What Can Be Done To Mainstream PBF Into Government Budgets¹

► 1. What's the ambition?

Performance based financing (PBF) has introduced significant changes to how providers are paid. With PBF the provider is established as its own budget holder and is reimbursed based on the level and quality of services that have already been delivered. This is a profound departure from an input-based budget system.

Despite its promise, there remains a sustainability challenge: as long as the PBF operates in parallel to PFM structures, it fragments the payment system and governments are likely to revert back to the input-based legacy PFM system after the project closes - even if the PBF approach has shown results. This note lays out the problem, and provides a basic logframe of how to engage for greater use of national public finance systems to support the sustainability of the reforms.

1. This note was authored by Benoit Mathivet, Sierd Hadley and Moritz Piatti-Fünfkirchen. Invaluable inputs were received from Ellen van de Poel, Timothy Williamson, Alain-Desire Karibwami, Ayodeji Oluwale Odutolu, Isidore Steleunou, Jean Rusatira Rwema, and Munirat Iyabode Ayoka Ogunlayi. Generous financing was made available by the Global Financing Facility.

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2. Where are we and where do we want to be?

So how are PBF projects typically situated in the budget and how is this different when fully mainstreamed? The following two scenarios offer a simplistic illustration:

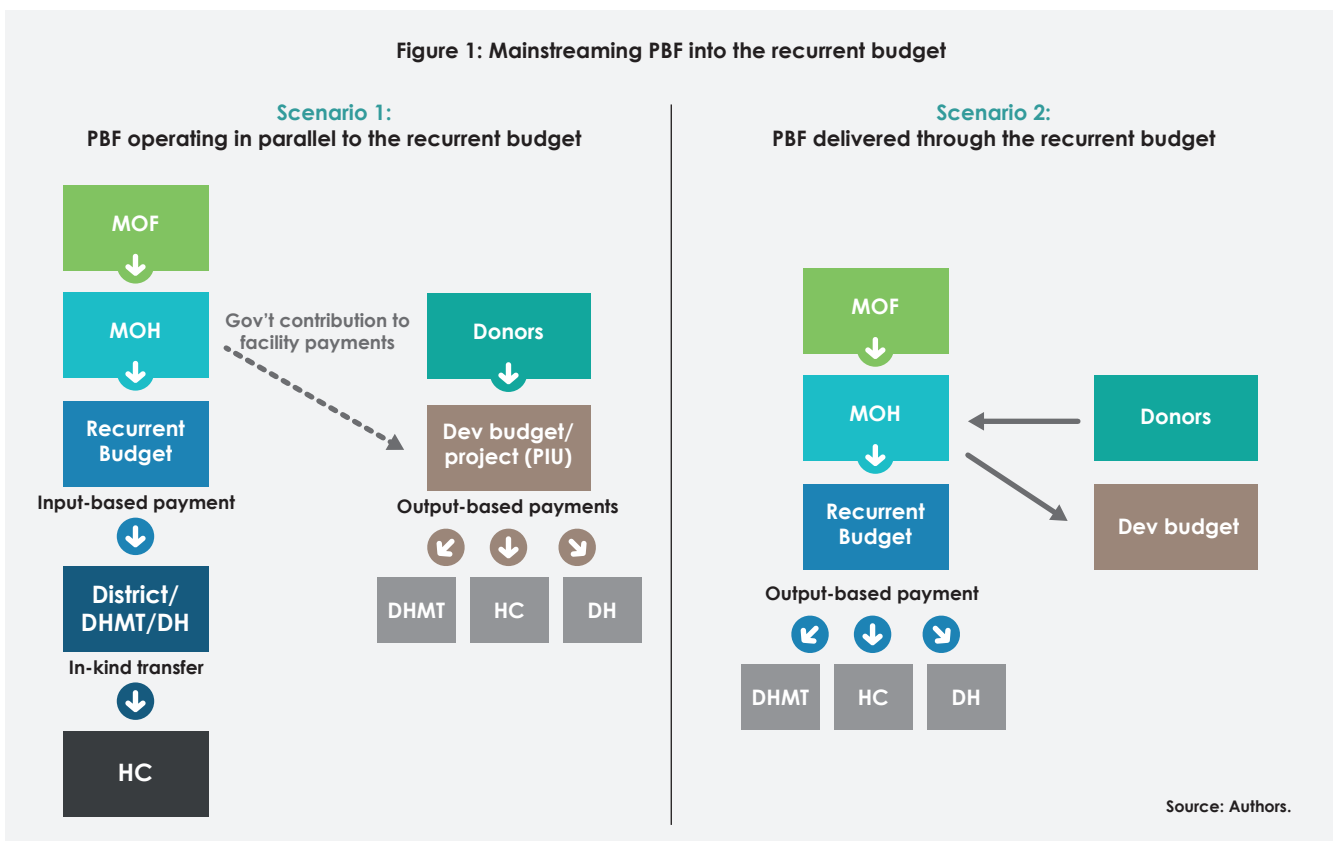
Scenario 1: PBF projects are frequently represented in the development budget.

Situating PBF projects within the development budget allows development partners to maintain some control over how funds are managed. It also allows introducing many changes, such as paying providers directly on an output basis. However, as long as the PBF is channeled through the development budget, PBF remains a project modality that is fundamentally different from how the recurrent budget is managed. This fragments the financing system: on the one hand there is the legacy PFM system (e.g., input-based budget or program budget) for the delivery of the recurrent budget and on the other the PBF is situated in the development budget that operates fundamentally differently. The risk is that once the project closes (or government reallocates funds), financing for the PBF dissipates and sustainability of the PBF reform is at risk as the government will continue financing the sector through the recurrent budget and legacy PFM processes. The only way to address this problem is to ensure PBF principles are eventually reflected in the recurrent budget, which will require significant PFM reforms. This is discussed in Scenario 2.

Scenario 2: Mainstreaming PBF into the recurrent budget.

Here development partners finance the MOH budget, who in turn is able to pay facilities against the delivery of outputs through the recurrent budget. This means that PBF principles are fully embedded in how the recurrent budget is formulated, approved by parliament, implemented, and evaluated. As this is an annual process, sustainability will be guaranteed. The question will not be 'whether' facilities should be paid against PBF principles, but rather 'how much should they get' and against what indicators. Embedding it into the public finance law and dialogue with the legislative branch of government will ensure sustainability. As such this scenario is fundamentally different from scenario 1, and to get there will require an iterative reform process to strengthen principles such as provider autonomy, financial management, capacity of providers, and introduction of an output orientation in the payment system.

Figure 1: Mainstreaming PBF into the recurrent budget



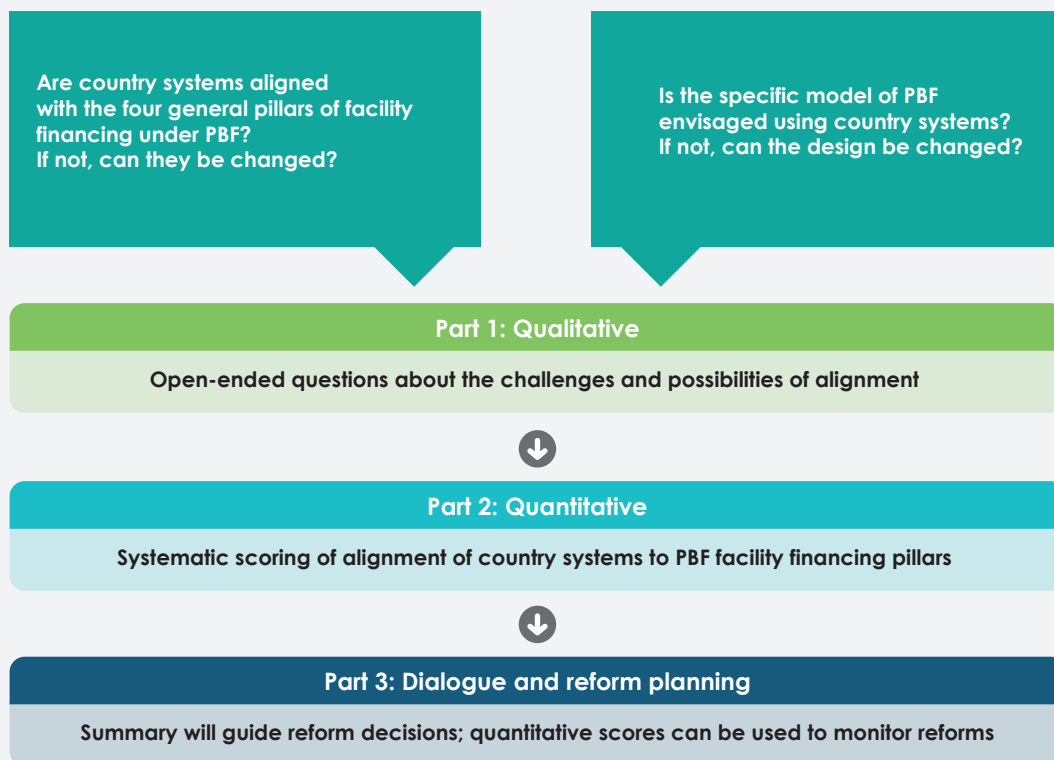
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▶ 3. Thinking through the transition

The transition requires assessing systematically to what extent the current PBF approach is aligned with government PFM systems, and where there may be opportunities to improve the status quo. Amongst other things, this will require exploring whether the government PFM system recognizes facilities as spending entities, provides facilities with financial services, gives them the authority to use funds in a flexible manner, and can facilitate output-based payments to providers.

A systematic diagnostic approach to do so is offered by the recent [World Bank Discussion Paper](#)². It offers a qualitative and quantitative approach to identify the differences between a conventional PBF system and an input-based PFM system in a systematic way. From taking stock of the current situation a roadmap can be developed with national stakeholders to outline what type of reforms are necessary to allow the recurrent budget systems to adopt PBF principles and agree, where a compromise from the existing PBF implementation may be necessary, to allow greater use of national systems or facilitate sustainability.

Figure 2: Summary of the new diagnostic approach



Source: Authors.

2. Platti-Fünfkirchen, Moritz, Sierd Hadley, Benoit Mathivet. 2021. Alignment of Performance-Based Financing in Health with the Government Budget: A Principle-Based Approach. Health, Nutrition and Population Discussion Paper. World Bank, Washington, DC. <https://openknowledge.worldbank.org/handle/10986/36362> License: CC BY 3.0 IGO.



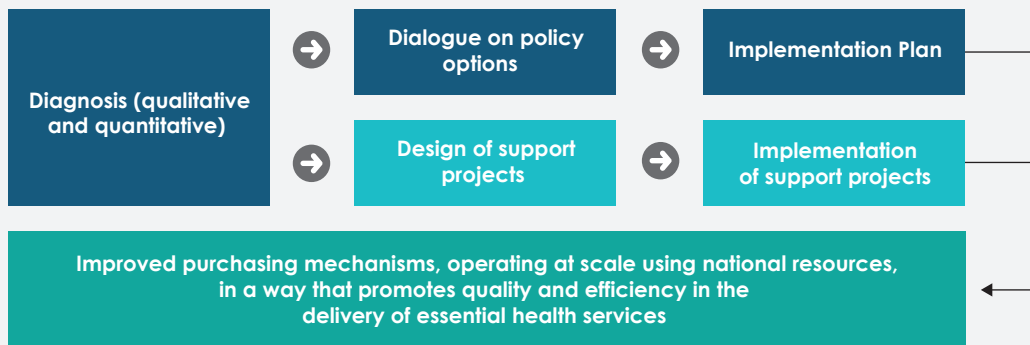
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▶ 4. Operationalizing the transition

The diagnostic assessment needs to be followed by a vision that is underpinned by facility financing principles. These principles should reflect provider autonomy and ability to spend with flexibility, financial management capacity, output orientation of provider payments, and having in place a unified payment system. The gap between the status quo and the vision should then clarify what reforms are necessary to make progress and help identify the reform space.

Once the reform space has been identified a reform roadmap needs to be developed and operationalized. The World Bank has a suite of tools available to support this broader ambition, including providing analytical and advisory services, and support through lending operations.

Figure 3: Logframe for PBF mainstreaming: from diagnosis to operationalization



Source: Authors.



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Instruments available to pursue the reform process include technical assistance and analytical and advisory services, as well as financing through investment lending, development policy operations or lending through program for results. Examples of how these instruments could be used are outlined in Table 1.

Table 1: Use of instruments to pursue PBF mainstreaming

| EXAMPLES OF REFORM ACTIONS | POTENTIAL USE OF INSTRUMENTS |
|---|--|
| Identify the problem and develop and implement a reform roadmap | Make use of WB ASA funds to finance a diagnostic and engage MOF and MOH counterparts. Alongside operations funding TA, ASA can also be used to support the implementation of the road map. |
| Establishing provider autonomy | Make use of a DPO or PforR to ensure an adequate policy framework and/or institutional reforms are in place that allow/s facilities to receive and spend funds as needed. |
| Establishing recurrent financing channels for PBF in the budget | A DPO, PforR or IPF with PBCs could also be used to help establish a budget line for conditional grants to health facilities and provide the fiscal space to do so; PforRs and IPFs with PBCs can support the effective design and management of those grants following their establishment. |
| Building FM capacity and performance | Investments in FM capacity could be done through an existing IPF or PforR. Capacity can be human, institutional, and technological capacity – each of which is critical. Sufficient capacity is likely required by ministries of finance, the ministry of health, local governments and providers to extend autonomy and spending flexibility to facilities. IPF Performance Based Conditions and/or PforR DLIs can also be used to incentivize institutional performance. |
| Output-based payments | Provide gradual support for output orientation of payments to providers through PforR instruments. Indicators to disburse could be, for example, number of local governments or facilities making use of a conditional grant system, the value of which is output oriented. |

Source: Authors.



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Operationalization of the reform process likely requires a combination of instruments and overlapping work over the medium term. In many countries a PBF operation is already in place and financed through an IPF engagement. Mainstreaming PBF does not mean dropping this engagement even if the longer-term aim should be to transition to greater integration with country systems, which can be supported through an IPF with PBCs, a PforR or a DPO. Rather, lessons from the PBF experience can be carefully documented that helps inform the mainstreaming reform.

It may then be desirable to understand how the PBF is different from existing institutional and PFM processes through the diagnostic approach. For this, TA or ASA resources can be used to also develop the goal and a reform roadmap. A strong emphasis on cross-stakeholder facilitation and consultation should be included alongside the detailed technical work.

The existing IPF engagement for the PBF project can also be used to build financial management capacity at facilities and supporting institutions that will eventually make it easier to mainstream the approach into the government budget. The IPF can support the training of staff or offer financing for financial management information systems that will support accounting and reporting and give confidence to ministries of finance that resources will be used prudently.

The IPF project design can also reflect on the PBF modality and the extent to which this follows government standards and the degree to which it can be mainstreamed in the future. For example, use of different accounting and reporting templates at the PBF will eventually make alignment to PFM systems more difficult. An effort can be made to reduce this transition cost at the PBF design stage in the project. Publishing budget allocations to local governments alongside input-based fiscal transfers and integrating PBF in grant and budget guidelines issued by line ministries can also be steps towards closer alignment in decentralized settings.

In parallel to PBF project implementation, the team can work on policy and institutional reforms through DPOs that may be necessary for mainstreaming PBF into the national budget. For example, it may be necessary to address the policy environment such that facilities can receive and spend funds, have access to banking services, or establish a conditional grant system for facilities. A programmatic DPO engagement may allow for mutually supportive policy actions and triggers over the medium term. DPO resources are fungible and not earmarked for a specific purpose.

Following the traditional IPF, a PforR engagement, or IPF PBCs in weaker fiduciary environments can allow for a sustained reform implementation that supports policy and institutional change alongside actual financing of PBF through government recurrent budgets and systems. Through Disbursement Linked Indicators or PBCs, disbursements can be linked to financing – such as making conditional grants available to local governments for financing PBF based on institutional performance (the number of local governments that are paying grants directly to facilities on time, or the number of facilities that have bank accounts and are reporting on use of funds and performance). Through specifying eligible expenditures or the program expenditure framework respectively, IPF with PBCs or PforR resources can be used to provide financing for a PBF approach through the recurrent budget.