

Promoting simplification and results-orientation through output-based financing in Czech Republic

Output-based financing is based on principles used by the World Bank in development aid.¹ These universal principles mean that it can be applied in Structural Funds at the level of service providers / project promoters. The approach has been used under the 2007-13 ESF OP in the Czech Republic and will be continued in 2014-20 to enhance simplification and results-orientation. It is conditional on significant levels of expertise and resources to prepare calls, but the administrative burden during implementation is very low. Consultation with relevant partners is crucial in order to adjust the scheme and unit costs to their needs.

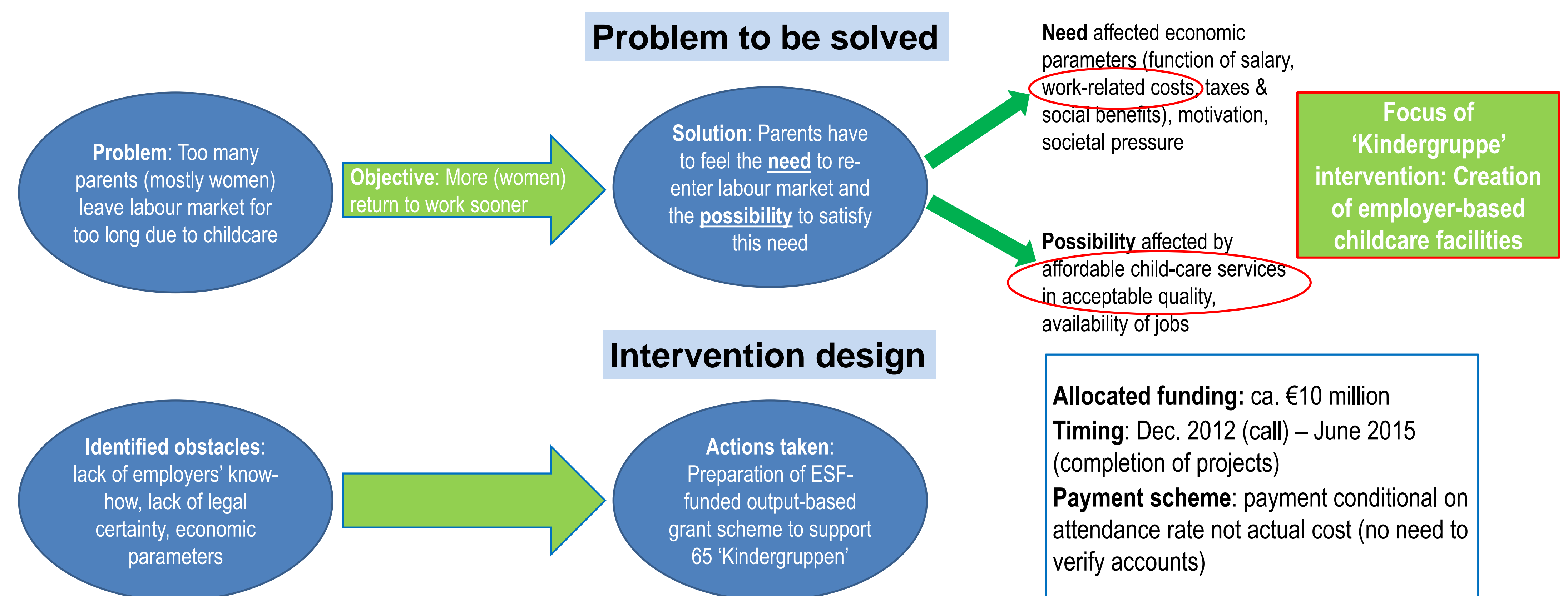
General principles of output-based financing:

- Contracting out of service provision to third party with payments made after the delivery of specified outputs
- Programme authority prepares blueprint / template for standardised intervention based on theory of change
- Delivery partners cannot decide on objectives, outcomes and outputs as these are given
- Can be applied to basic, stable, large volume, well-understood services to close the gap between ability to pay and the actual cost to ensure consumption at socially optimal level

Core concepts:

1. *Targeting of subsidy*: it is clear to whom, why, and for what the subsidy is provided. End-users are intended to benefit directly.
2. *Accountability*: by paying only after delivery of pre-agreed and verified outputs, risk is shifted to the service providers who are accountable to both their clients and the funding body.
3. *Innovation and efficiency*: focus only on outputs leaves service 'solutions' partly up to competition of providers.
4. *Using incentives to serve the needed*: encourages service providers to serve those they might otherwise disregard.
5. *Output verification and monitoring*: monitoring of outputs is easier and more precise as the payment is made only for independently verified outputs.
6. *Sustainability*: emphasis on affordability for users (pay user fees they can afford and are willing to pay), cost recovery for service providers and future sources of funding.

Case study: Czech 'Kindergruppe' output based call



Main challenges and learning

Output-based financing...

... is applicable to the provision of **relatively simple, standardized services** (i.e. easy to standardise in terms of requirements and indicators), not for innovative and new topics;

...relies on **consulting relevant partners** (including potential applicants) during the preparation process to adjust the scheme and unit costs to their needs;

... is highly **demanding and costly during call preparation** (human resources, expertise, time) – in-depth knowledge of the given issue is crucial to be able to properly set all detailed call requirements (e.g. unit costs, threshold values for indicators, payment function etc.);

...**BUT** involves **very low administrative burden during project implementation** at the level of both programme and project management as no verification of any accounting documents is required;

...may lead to beneficiaries withdrawing from projects contracts if they realise that they will not meet set result indicators.

For further information, please contact the Managing Authority of the Czech Technical Assistance OP: Vladimir.Kvaca@mmr.cz

See also <http://www.esfcr.cz/vyzva-b5> - link to the project call information (in Czech)

1) World Bank Group, Global Partnership on Output-based Aid, <http://www.gpoba.org/>