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Getting Results: Independent Verification in Output-Based Aid

As interest has increased in results-based financing (RBF), an approach to development work that shifts the focus from inputs to outputs through use of performance-based incentives or subsidies, the need for reliable verification systems has become all the more relevant. Independent verification is a key component of output-based aid (OBA), a form of RBF that links the disbursement of funds to the achievement of specified results. The verification process is built into OBA project design, helping to integrate monitoring into the project cycle. This note discusses aspects of the verification process, and offers case studies of projects in Indonesia and Kenya that are making innovative use of the independent verification mechanism.

In an OBA project, service delivery is contracted out to a third party, either a government or private sector entity, who provides pre-financing and receives a subsidy to complement or replace user fees once outputs have been verified by an independent verification agent (IVA). Outputs could be the installation of solar home systems, provision of solid waste management collection, the connection of households to water supply systems, delivery of specific health interventions, or other services.

Because verification is linked with subsidy disbursement, the IVA can improve service quality and accountability, providing assurance that funds have been used for the intended purpose. Although verification is ultimately focused on outputs, it can be ongoing throughout the

Box 1. Supporting Independent Verification in Indonesia

One of GPOBA's largest technical assistance activities to date—the support for the IVA in the World Bank's Local Government and Decentralization Project (LGDP) in Indonesia—is a pilot approach in which government auditors are converted to IVAs, supported and monitored by civil society. The LGDP includes an output-based disbursement approach: a portion of the central government's grants for basic infrastructure in the transport, irrigation, water and sanitation sectors in selected local governments is reimbursed to the Ministry of Finance following output verification. Criteria includes physical output delivery, technical quality, and compliance with a range of regulations. The IVA in this case is the Indonesian National Government Internal Auditor (BPKP). Prior to the project, which started as a pilot in 2011, the government had no mechanism for verifying outputs of the infrastructure grants.

The GPOBA grant provides (i) capacity building and technical assistance to the IVA to strengthen monitoring and evaluation of outputs using GPOBA methodological materials, and (ii) technical assistance to strengthen municipal management and raise citizen awareness of government accountability. So far, 213 BPKP staff have been trained, and the project now covers 209 local governments; it will be scaled up nationwide to cover around 460 local governments by 2018. The training methodology will be institutionalized within BPKP's training center curriculum, enabling its replication for wider audiences. Two verification handbooks for BPKP and local government have been developed that make clear the quality required in infrastructure in order to pass IVA inspection. This new verification system reinforces accountability, enabling the benefits of infrastructure and service provision to be enjoyed by local citizens.

All project implementation units and functions are already embedded within local government institutions. This strengthening of local capacity supports the government's ability in the future to verify outputs from other investment projects.

project cycle, so that shortcomings or obstacles can be identified and corrective actions put in place before the point of final verification.

The IVA can be an audit firm, an NGO or civil society representative, a qualified individual consultant, or a government agency. The IVA ideally possesses technical sector expertise and financial audit expertise, as well as experience working in poor communities, and—especially for rural projects—an understanding of local culture and language. Most OBA projects have used independent consultants, either local or international, to enhance transparency. Generally speaking, a long-term goal of strengthening and capacity-building of country systems to perform verification is desirable. [**see Box 1**]

Key Considerations

Indicators: Setting indicators should be an inclusive process, involving a realistic assessment of the reporting capacity and internal control systems of service providers (SPs) and implementing agencies. Effective verification relies on available data sources and baseline data, such as existing access to services and development indicators. [**See Box 2**] Results and indicators must be specific, measurable, and under the control of the SP. They should be directly linked to incentives, and aligned with stakeholder objectives and priorities. While the verification process should be kept simple where possible, more complex systems are sometimes needed to accurately measure access to services. For example, the Energy Sector Management Assistance Program (ESMAP), under the Sustainable Energy for All (SE4All) initiative, has developed the Multi-tier Framework (MTF) to monitor and evaluate energy access. The MTF redefines energy access from a simple yes/no count to a multi-dimensional assessment that includes duration, reliability and quality of supply; affordability; legality; safety; and other factors. Energy access is then graded on a tiered-spectrum from zero to five.

Scale and Frequency: Seeking 100 percent verification of outputs is not feasible, and statistical sampling is often the most economical and effective approach, with care taken to ensure that the sample adequately represents the universe. Many projects in the infrastructure sector have a two-stage verification and disbursement process—the first being the service provision (eg, a working electricity connection), and the second taking place after several months of verified service, involving a review of billing and collection records. In other sectors, such as health, education, or SWM, verification and disbursement are ongoing. Flexibility in the timing and frequency of verification may be required. In an OBA education project in Vietnam, for example, a more frequent verification cycle instigated during project implementation allowed for more regular disbursement of funds, helpful to SPs who had found prefinancing difficult.

Balancing Simplicity and Effectiveness: While verification mechanisms should be kept simple, particularly where local capacity is weak or has been decimated by conflict or natural disaster, it may be advisable to complement the use of IVAs with multi-layered verification systems involving different stakeholders. Where risk of corruption is

Box 2. IVAs Working to Prepare OBA Sanitation Projects in Nairobi

Two OBA projects supporting improved access to water and sanitation services in Kenya expanded the role of IVAs to include critical baseline data collection that informed project design. The gathering of data prior to project commencement is often done through an independent consultant other than the IVA; here, IVAs performed the task, leaving them well positioned to track progress toward indicators and outcomes during project implementation. The Kayole Soweto Water Sewer Project and the Mukuru Settlement-Kenya Railways Reallocation Project are part of the Nairobi Sanitation Output-Based Aid Program for Low Income Areas, a new social services provision arrangement being implemented by Nairobi City Water and Sewerage Company (NCWSC), in collaboration with National Treasury and the World Bank Water and Sanitation Program for Africa (WSP-Af).

In the Kayole Soweto village, the project is connecting 16,000 households to NCWSC's water and sewerage network. NCWSC has obtained a commercial loan to finance the project, and an OBA grant will reimburse the company a percentage of the cost of sewerage and water connections. NCWSC will recuperate the balance through upfront connection fees and monthly billing surcharges for up to five years. Prior to the start of the project, the IVA visited sample households and residential blocks in Kayole Soweto's nine settlements to determine the baseline situation related to the proposed project's eligibility for funding under the OBA program and to specific project outputs. The IVA assessed: the numbers of existing connections and households to be considered for connection; output targets and the appropriate OBA subsidy level; project costs and cost per capita; and willingness/ability of residents to pay for connection fees and supply services.

In Mukuru Kwa Njenga and Mukuru Reuben settlements, home to over 100,000 people, residents living close to the railway line fall under the remit of the Kenyan government's Railway Re-allocation Action Plan. The plan aims to provide new housing units, and partners with other government bodies to provide basic services for affected residents. As part of the OBA project to subsidize water and sewer connections for the re-allocated population, the IVA conducted a baseline survey, gathering data on those affected by Re-allocation Plan; the status of the construction of the re-allocation units and the readiness of Kenya Railways to move people to new premises; the number of units to be connected to water supply and sewer services; output targets; and residents' willingness/ability to pay for connection fees and water supply services.

high and accountability is low, such systems are especially relevant.

Avoiding Conflicts of Interest: When selecting an IVA, the aim is to avoid conflicts of interest and reduce the inherent risk of capture. The funding entity should be protected against potential manipulation or inflation of results, which may occur when a government entity (such as the project's implementing agency) is responsible both for overseeing SPs and for output verification. Likewise,

Box 3. Using Technology in Results Verification

Going forward, technology will play a greater role in the verification process, as it can reduce costs while increasing efficiency, rigor, and credibility. A number of results-based approaches are already making innovative use of technology in verification. OBA projects supporting installation of public phones in rural locations have used automated network management terminals, which provide alerts when a phone is out of service and collect traffic and maintenance statistics. In Maputo, a World Bank project funded by an Innovation Grant developed a participatory, results-oriented information system for urban services. The system collected information from citizens about SWM services through a web portal, mobile apps, SMS, and voice calls, and made this information publicly available.

The World Bank's Program for Results (PforR) is also piloting the use of technology in verification. In PforR's Red River Delta Rural Water Supply and Sanitation Project in Vietnam, the task team partnered with the ICT Unit to introduce mobile data collection in the first round of verification. The benefits were immediately apparent: access to data in real time through an online database system (including mapping functionality), and the capacity to detect errors before they became systematic. With each output geo-coded and photographed, any questions about compliance could refer back to these data points as evidence. PforR task teams are also partnering with the World Bank's Innovation Labs to pilot other new technology-based approaches to verification in the coming year. These pilots include: low-cost sensors, which provide continuous data on functionality while reducing or eliminating the need to physically visit sites; verification using images, where images are combined with site visits and GPS coordinates, then analyzed for compliance by desk-based agents; and dynamic sampling, in which data collection software provides continuous feedback alerting field teams when they have reached a statistically precise level of accuracy and can stop sampling from a particular cluster.

the agency that hires the IVA should not have a vested financial interest in the IVA's performance. If the same SP who hires the IVA is the direct funds recipient, there exists scope for collusion or lax application of verification protocols.

Risks can be mitigated by hiring either a reputable auditing firm or the SP's existing external auditors. Auditors are subject to established professional standards and unlikely to risk their credibility or license. The main solution adopted by GPOBA has been the use of external firms or consultants. In projects where the World Bank funds the IVA's contract, conflicts of interest are mitigated by requiring the hiring entity to follow World Bank guidelines on selection of consultants.

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Note: All monetary amounts are in US$ unless stated otherwise.

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