



Knowledge hub - Collection of best practices

Summary of the best practice

1. Title of the best practice (e.g. name of policy, programme, project, etc.) *

PERFORMANCE-BASED FUNDING

2. Country or countries where the practice is implemented *

Brazil

3. Please select the **most relevant** Action Track(s) the best practice applies to *

- Action Track 1. Inclusive, equitable, safe, and healthy schools
- Action Track 2. Learning and skills for life, work, and sustainable development
- Action Track 3. Teachers, teaching and the teaching profession
- Action Track 4. Digital learning and transformation
- Action Track 5. Financing of education

4. Implementation lead/partner organization(s) *

World Bank

5. Key words (5-15 words): Please add key descriptive words around aims, modalities, target groups etc. *

Performance-based funding, performance, education outcomes, education financing, education policy

6. What makes it a best practice? *

The performance-based funding of education may be considered a best practice because of the well documented results it has produced in education outcomes in a disadvantaged state (Ceará in Brazil) that has retained it since inception

Description of the best practice

7. Introduction (350-400 words)

This section should ideally provide the context of, and justification for, the practice and address the following issues:

- i) Which population was affected?
- ii) What was the problem that needed to be addressed?
- iii) Which approach was taken and what objectives were achieved? *

Performance-based funding has been used at state level to drive quality but also to address equity (those schools identified as high-performing receive supplementary funds but must use them to support low-performing/disadvantaged schools).

Ceará innovated in its education policy by establishing a mechanism of financial incentives to spur improvements in student performance. As primary and lower secondary education are mostly provided by municipalities, the state government established a results-based financing (RBF) mechanism to foster improvements in learning outcomes. The reform linked the transfer of consumption tax revenue to municipalities according to education performance, making education quality a priority for mayors. Ceará was the first state to implement a performance-based criterion for the ICMS-quota, with education results as the main component (18 percent) in addition to a health indicator (5 percent) and an environment indicator (2 percent).

8. Implementation (350-450 words)

Please describe the implementation modalities or processes, where possible in relation to:

- i) What are the main activities carried out?
- ii) When and where the activities were carried out (including the start date and whether it is ongoing)?
- iii) Who were the key implementation actors and collaborators? (civil society organizations, private sector, foundations, coalitions, networks etc.)?
- iv) What were the resources needed (budget and sources) for the implementation?

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The performance-based financing mechanism in Ceará was inspired by a results-focused World Bank investment project with the state government. Starting in 2005, the World Bank supported the state government of Ceará through a sequence of multisector investment projects, with financing linked to disbursement-linked indicators. The program has remained in existence since its inception. The indicators were designed to achieve results in several sectors, including education, and this experience played a role in motivating the creation of a new lending instrument in the World Bank called Program for Results (PforR). The projects also helped to strengthen the capacity of the state government to identify indicators and targets. The rationale for conditioning disbursements on the achievement of targets for relevant indicators for the sectors supported by project was then replicated by the state government of Ceará—outside of World Bank projects—to redesign the redistribution of ICMS funds for municipal governments. The implementation involves the state government of Ceará transferring resources to municipal governments annually, upon the achievement of education outcomes, with the total amount of transfers reaching more than the equivalent of US\$100 million. Depending on how well the municipalities perform on the key indicators and the size/level of income of the municipality, the transfer can reach more than one-third of the total revenues of the municipal governments.

Activities:

- The state government of Ceará established incentives for municipalities to achieve education outcomes, provided extensive technical assistance to those municipalities, accelerated the devolution of the management of lower-secondary schools to municipal governments, and established regular monitoring of learning and action based on that learning.
- One quarter of the transfers to municipal governments related to the state's main tax was distributed according to the outcomes obtained by the municipalities in the previous year. The RBF mechanism in Ceará was established by a law approved at the state congress. For education, the outcomes selected were student grades on standardized tests for primary schools. The child mortality rate was the outcome for health and the construction of solid waste disposal was the outcome for the environment.
- The Ceará's model of results-based financing became mandatory to all Brazilian states. An amendment of the Brazilian constitution in August 2020 made the Ceará's model of results-based financing linked to improvements in education results to be mandatory to all states. The Ceará model also influenced the creation of national results-based financing to school networks according to improvements in education results.

9. Results – outputs and outcomes (250-350 words)

To the extent possible, please reply to the questions below:

- i) How was the practice identified as transformative? (e.g., impact on policies, impact on management processes, impact on delivery arrangements or education monitoring, impact on teachers, learners and beneficiary communities etc.);
- ii) What were the concrete results achieved with regard to outputs and outcomes?
- iii) Has an assessment of the practice been carried out? If yes, what were the results? *

The state of Ceará, in Brazil, transformed its education system and is currently among the top performers in the country, despite its low socioeconomic status. Ceará is a poor state with around 9 million people, roughly the size of Austria or Papua New Guinea. It is the fifth poorest of Brazil's 26 states. Yet, Ceará has seen the largest increase in the national education quality index in both primary and lower secondary education since 2005, with 10 municipalities among the top 20 in the national ranking.

One notable implication of performance-based funding for local governments is that it makes them accountable for results. A Results-based financing (RBF) mechanism that incentivizes subnational governments to improve education outcomes requires that local administrations play a leading role in the provision of education and that they have a high degree of financial, organizational, and managerial autonomy to deliver results.

Spending in primary and lower secondary education in Ceará is very efficient. Municipalities in Ceará are highly efficient in the use of resources to generate education outcomes, spending less than one third the amount of the richest Brazilian states, like São Paulo, while achieving higher education quality index scores.

Ceará revolutionized fiscal transfers to municipalities by creating incentives to improve education outcomes. Before 2007, revenues from the state consumption tax were distributed to municipalities based on their population size and level of income, which is still the case in most Brazilian states. A new state law was passed at the end of 2007—the first in the country—that made one-quarter of that transfer dependent on municipal performance in education, health, and environmental outcomes, with education quality having by the far the greatest weight.

10. Lessons learnt (300 words)

To the extent possible, please reply to the following questions:

- i) What were the key triggers for transformation?
- ii) What worked really well – what facilitated this?
- iii) What did not work – why did it not work? *

- The results-based financing model in Ceará is singular since it uses only outcome indicators in its rules for fiscal transfers. Reforming a transfer mechanism to make its conditions solely based on outcomes is not trivial. Policymakers are used to output-based financing that, despite its egalitarian rationale, does not close equity gaps and frequently generates inefficiency. Introducing a results-based mechanism involves a change of mindset, and it sends a very powerful message: if a subnational entity wants more resources, it has to deliver outcomes not just generate outputs.
- Since the amount of money to be shared each year was designed to be fixed and the rule rewards performance, this created potential winners and losers. In the original design of the rule, a ceiling for the gains and a floor for the losses of the municipalities was proposed. The process that defines each municipality's share is however dynamic, and a municipality being a loser in one year does not mean that it will lose again in the following year.
- One possible adverse behaviour induced by performance-based funding is the attempt to obtain higher average grades by focusing more on the best schools and students, increasing inequalities within the municipal education network. Furthermore, the model creates a potential moral hazard where only the best students show up for exams.
- A critical condition for implementing an outcome-based rule for the transfer of financing is strong commitments at the political and technical levels. At the political level, the champions were the head of government (in Ceará, the governor) and the education secretary. Outcomes are the ultimate goal of any public policy, but they usually require substantial changes that lead to political resistance. It is also important to have technical champions, i.e., people able to work on the design and simulation of the incentive mechanism.
- It is also essential to have an M&E structure in place. Once there is a rule based on outcome indicators, there is need to measure them in a reliable and timely fashion. It is important that indicators are consistent from a technical point of view and are defined by institutions independent of the municipalities.
- The establishment of an RBF mechanism requires the allocation of enough and stable funds, which should not compete with the funds available to finance the basic operation of schools.
- The central government must have a strong commitment to transparency and "showing the math" of the incentive mechanism of the policy. The central government also has an important role in communicating the incentive mechanism to subnational entities and society, convincing them that the proposal is relevant, timely, fair, and equitable.

11. Conclusions (250 words)

Please describe why may this intervention be considered a “best practice”. What recommendations can be made for those intending to adopt the documented “best practice” or how can it help people working on the same issue(s)? *

The performance-based funding of education may be considered a best practice because of the well documented results it has produced in education outcomes in a disadvantaged state (Ceará in Brazil) that has retained it since inception. This intervention can also be replicated in other countries, and or sectors other than education. A recommendation for nations looking to replicate the Ceará experience is to note that results-based financing with technical assistance is only possible with some level of decentralization of the education system. The devolution of schools to the management of local governments—including a high degree of autonomy to design and implement their education policies—is a necessary condition for implementing an RBF model similar to the one that exists in Ceará. The decision to devolve the management of schools to subnational governments also establishes clear roles and responsibilities for each government level. Furthermore, a well-designed results-based mechanism to improve education outcomes should: Set the monetary incentive as general and sufficiently high to generate incentives for the heads of subnational government to improve education outcomes, reward outcomes rather than outputs, selecting clear indicators and defining transparent formulas, define the right weights to level and improvement in indicators, and control for adverse behaviours.

12. Further reading

Please provide a list and URLs of key reference documents for additional information on the “best practice” for those who may be interested in knowing how the results benefited the beneficiary group/s. *

Implementing a Results-Based Financing Mechanism for Subnational Governments to Improve Education Outcomes.

<https://documents1.worldbank.org/curated/en/561471606111232725/pdf/Implementing-a-Results-Based-Financing-Mechanism-for-Subnational-Governments-to-Improve-Education-Outcomes-An-Implementation-Guide-Inspired-by-the-Case-of-Ceara-Brazil.pdf>