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Results-Based Approaches to Deliver Durable Solutions for Internally Displaced Persons (IDPs) in Ukraine

Housing and Health

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DISCLAIMER

The author's views expressed in this report do not necessarily reflect those of P3DP, FHI360, USAID, or the United State Government.

TABLE OF CONTENTS

EXECUTIVE SUMMARY..... 4

INTRODUCTION..... 6

METHODOLOGY..... 8

RESULTS-BASED APPROACHES 101 9

UKRAINE: GENERAL FINDINGS 15

IDP HOUSING 17

IDP HEALTH..... 22

CONCLUSION AND RECOMMENDATIONS 25

ANNEX A: REFERENCES 27

ANNEX B: ORGANIZATIONS INTERVIEWED..... 31

EXECUTIVE SUMMARY

Results-based approaches (RBAs) – or financing mechanisms that tie funding to results – have been growing in popularity among donors and governments as a more effective way to fund social programs and improve service delivery. The Ukrainian Public Partnership Development Program (P3DP), funded by the United States Agency for International Development (USAID) and implemented by FHI360, has spent the last 5 years working with the Government of Ukraine (GoU) to expand the use of “classic” public-private partnerships (PPPs) – one type of RBA – to close the country’s infrastructure gap.

During that time, an armed conflict along the country’s eastern border has killed thousands of its citizens and displaced many others. While some will surely return home if and when the conflict subsides, the majority intend to make their relocation permanent and face a complex set of needs that transcend infrastructure alone. Coupled with the country’s troubling economic situation, rarely will Ukraine face a more urgent time to explore new ways to improve the impact and efficiency of social services. This paper explores the potential of a broader category RBAs (outside of “classic” PPPs) in mobilizing non-government actors to deliver long-term solutions to IDP needs, specifically as they relate to housing and health. It targets both donors and government authorities.

Having gained its independence from the Soviet Union just 15 years ago, Ukraine is a middle-income country still very much in transition from communism. This makes it a very peculiar place for piloting RBAs. On the one hand, it has many of the “raw” ingredients of a developed country, including key infrastructure, basic services and reasonably sophisticated institutions, lending itself – at least in theory – to RBAs. On the other hand, crippling corruption, a highly complex legal system (with many communist-era laws still on the books), a still-dominant role of the state in traditionally social sectors like health, and an economy on the verge of collapse seriously challenge its feasibility.

Moreover, IDP problems are complex and the non-state actors traditionally charged with providing durable solutions – namely, the humanitarian assistance and development communities – are ill equipped to deliver them. Given the short-term nature of assistance, outcomes are not well documented and the evidence base for interventions – particularly around housing and in urban contexts – is generally weak. It thus comes as no surprise that RBAs are not commonly used to tackle refugee/IDP issues.

This is not to say that piloting RBAs in Ukraine is impossible or even undesirable. Rather, interested partners are advised to start small, be modest about what they can achieve and be realistic about how much time, effort and resources it will take to get there. Below are a number of recommendations to help get a pilot off the ground, broken down by stakeholder. More detailed recommendations can be found on pages 24-25.

DONORS:

- *Come forth with credible outcome commitments.*
- *Take a hands-off approach, allowing implementing agencies maximum flexibility in how funds are spent.*
- *Build provider capacity through targeted technical assistance and funding of overhead.*

- *Fund rigorous impact evaluation.*
- *Protect providers from risks outside of their control.*

GOVERNMENT:

- *Work with international partners to create a policy and legal environment that is conducive to RBAs.*
- *Strengthen policy response to IDP crisis.*
- *Actively participate in RBA pilot – if not as an outcome funder then as an observer.*

PROVIDERS:

- *Be proactive in identifying service areas amenable to RBAs.*
- *Invest in building capacity to engage with donors in new and untraditional ways.*
- *Be open to more rigorous evaluation of programs.*

INVESTORS (as in the case of impact bonds):

- *Help bring discipline and rigor to the social sector in Ukraine.*

INTRODUCTION

The Ukrainian Public Partnership Development Program (P3DP), funded by the United States Agency for International Development (USAID) and implemented by FHI360, works with the Government of Ukraine (GoU) to create an environment conducive to public-private partnerships (PPPs) by providing technical assistance, capacity building, awareness-raising and implementation.

The term “public-private partnership” does not have a universal legal meaning and can be used to describe a wide variety of arrangements involving the public and private sectors working together in some way.¹ However, it is most commonly used (including by P3DP) to describe a long-term contractual relationship between the public and private sectors in which a private entity designs, builds and operates an infrastructure asset such as a road, hospital or school and receives a financial return by charging users (as in the case of a toll road or water service), the public entity (as in the case of a school or other social infrastructure), or both. A key characteristic of such contracts is that payments are made not for the asset itself (e.g. construction of the road) but rather the services that flow from it (e.g. a car driving over the road). This is a significant departure from traditional procurement models, which typically focus on inputs (e.g. the building materials used to construct the road). It is this feature of “classic” PPPs that brings them into the fold of results-based approaches (RBA), although they are often overlooked by the RBA literature.

A number of political and economic factors make this an opportune moment to look beyond “classic” PPPs to consider a broader range of results-based tools in the context of Ukraine. In the spring of 2014, political developments in the nation’s capital – namely, a decision by then-president not to sign a free trade agreement with the European Union in favor of joining the Eurasian Customs Union – led to Russia’s invasion and annexation of the Crimean Autonomous Republic and an armed conflict in the Donbas region of eastern Ukraine.² These events have resulted in the displacement of over 1.4 million people.³

Although exact numbers are unavailable, it is estimated that the vast majority of Ukraine’s internally displaced persons (IDPs) intend to make their relocation permanent.⁴ For some, the decision is rooted in political, economic and/or practical considerations directly related to the conflict (i.e. political affiliations and damaged/destroyed property, infrastructure and markets). For many, however, the decision to move pre-dates the conflict, stemming from the historical economic decline of eastern Ukraine following the collapse of the USSR. For them, the conflict was merely a tipping point. Regardless of the reason for moving, the conflict has – directly or indirectly – put tens of thousands of additional households on demand for public services in virtually all the big cities across the country. This coupled with the country’s current financial instability would indicate that there has never been a more urgent time to explore new instruments to improve the efficiency and impact of Ukraine’s social services.

¹ World Bank, (2011)

² BBC News, (2014 November 13)

³ IDMC, (2015)

⁴ Ukraine NGO Forum, (2015)

The aim of this study is threefold: (1) explain RBAs and how “classic” PPPs fit in, (2) assess some of the challenges and opportunities in using RBAs (beyond “classic” PPPs) to address long-term IDP needs in Ukraine, specifically as they relate to health and housing, and (3) provide some illustrative examples of how they might be applied. It is not meant to be a detailed feasibility study but rather a high-level analysis of the potential benefits and challenges partners are likely to face.

METHODOLOGY

The research for this study was carried out from July to September 2015 by an independent consultant specializing in results-based approaches. It comprised of desk-based research and semi-structured, qualitative interviews with representatives of international and national non-governmental organizations (NGOs), civil society, UN agencies, donors, think tanks, and health and housing experts and professionals. A total of 23 were conducted, mainly via telephone and videoconference. The consultant did not travel to Ukraine.

RESULTS-BASED APPROACHES 101

WHAT ARE RESULTS-BASED APPROACHES (RBAS)?

Over the last two decades, RBAs have acquired a dizzying array of names and typologies: *results-based financing*, *pay-for-performance*, *payment by results*, *output-based aid*, *cash on delivery*, and *conditional cash transfers* are just some of the terms used today to describe different RBA programs. They all have one thing in common: at least some portion of payment is tied to the achievement of pre-agreed results or measurable action(s) being taken. At their most basic level, RBAs shift focus and resources away from inputs, processes and receipts (how money is *spent*) to outputs or outcomes (what that money *achieves*).

Examples include:

- The UK's Department for International Development (DfID) pays the Government of Ethiopia a fixed amount for each additional student (above a baseline) that sits his/her grade 10 examinations plus an additional amount if the student passes the exam.⁵ (*Cash on Delivery Aid*)
- The Commonwealth of Massachusetts pays a group of impact investors (including Goldman Sachs) for reductions in the number of days young men who receive a package of social services spend in jail, as compared to a group of men who do not receive those same services.⁶ (*Social Impact Bond*)
- The Government of Brazil rewards poor families for meeting education and health targets for their children in return for grants ranging from \$7-\$45USD per month.⁷ (*Conditional Cash Transfer*)

A distinguishing feature of these mechanisms is who bears risk. RBAs shift risk away from the payer – typically a donor, government authority or private entity – to the recipient, which can be a government authority, provider, individual or private investor. The level of risk transfer, or what percentage of payment is tied to results, can also vary substantially (anywhere from just above 0% to 100%) and depends on a number of factors, including the recipient's risk appetite, the degree to which the recipient controls factors influencing performance and capital constraints.⁸ For the purposes of this study, only instruments that transfer risk away from a public entity (either a donor or government) to a private provider (for-profit or not-for-profit) are considered. "Pull mechanisms" such as awards, prizes and advance market commitments, while results-based and involving a private sector actor, are also excluded from this analysis since they are primarily aimed at product innovation – not service delivery – and thus not as relevant for tackling typical IDP problems. Table 1 lists the relevant RBA instruments, including "classic" PPPs, and compares them across a number of key characteristics. The mechanics of how they work are explained below.

⁵ Birdsall and Perakis, (2012)

⁶ Delevingne, (2014 January 30)

⁷ Watts, (2013 December 17)

⁸ Savedoff, (2010)

Table 1: Comparison of relevant RBA instruments across key characteristics

	Traditional grants	“Classic” PPPs	“Plain Vanilla” RBA	Impact Bonds	Output-Based Aid
Payer	Public agency/ authority, private donors	Public agency/ authority, service users	Public agency/ authority, private donors	Public agency/ authority, private donors	Public agency/ authority
Implementing agency	Non-profit entities	Profit-maximizing companies	Social enterprises, non-profit entities	Social enterprises, non-profit entities	Profit-maximizing companies, social enterprises, non-profit entities
Provider of working capital	Payer	Private investors, commercial banks, DFIs	Implementing agency	Private “impact” investors	Implementing agency
Payment triggers	Inputs	Outputs	Outputs, Outcomes	Outputs, Outcomes	Outputs
Average investment size (and range), USD millions	N/A	N/A* (≈USD 10M-200M)	N/A	USD 4M** (USD <1M – 21M)	USD 5M*** (USD <1M – 14M)
Average contract duration (and range), years	Annual	N/A* (≈10-30 years)	N/A	4 years** (1-17 years)	N/A
Contract manager	Public agency/ authority, private donor	Public agency/ authority	Public agency/ authority, private donors	Public agency/ authority, third-party coordinating agency	Public agency/ authority
Evaluating agency	Public agency/ authority, private donors	National audit bodies	Independent third party	Independent third party	Independent third party

* Exact data unavailable – based on expert PPP consultant’s rough estimations

** Instiglio Database of Impact Bonds, accessed Sept. 2015; investment size based on working capital needed/ raised (not outcome payments, which may be higher due to premiums paid to investors) – exact amounts may vary depending on exchange rate used; average reflects available data only.

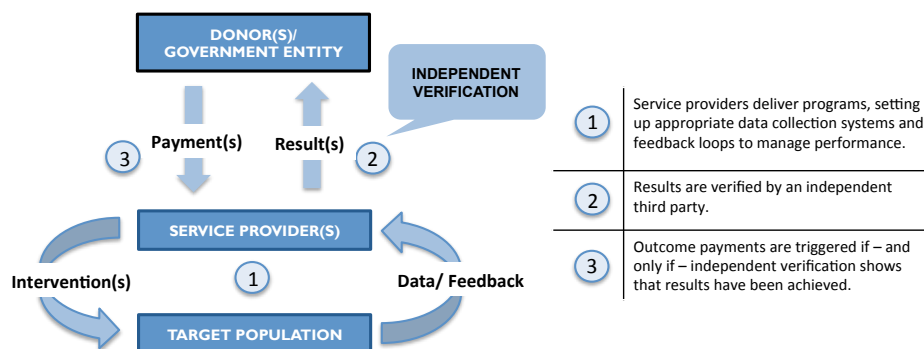
*** GPOBA Annual Report 2014; investment size based on value of subsidy only (not total investment size).

In describing what RBA is, it may also be useful to describe what it is not. Some payers describe themselves as using RBA because they set targets and indicators but actually reimburse recipients for budgeted costs. Such mechanisms, while potentially useful for managing performance, are not results-based.

HOW DO THEY WORK?

In a typical or “plain vanilla” results-based contract, the payer and recipient - in this case, a donor or government entity and a non-governmental service provider(s) – come together and agree on a desired result (e.g. reduced stunting among children under the age of 5) and a method for measuring success (e.g. height and weight measures as

Figure 1: Standard results-based contract

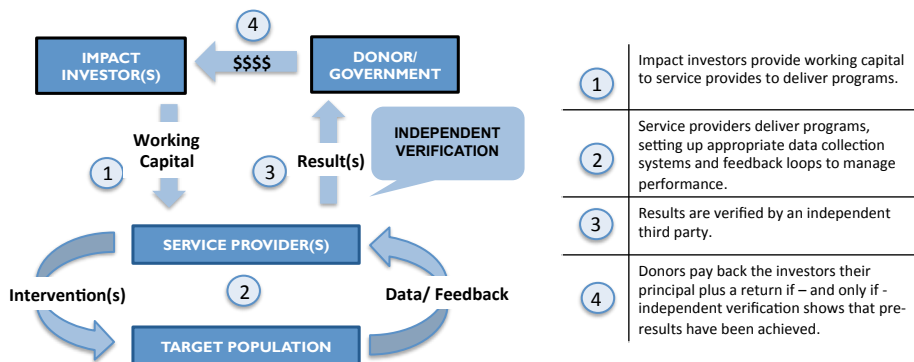


compared to a historical baseline or comparison/control group). They also agree on a timeframe and price per outcome. Once the contract is signed, the service provider(s) rolls out its programs with little to no interference from the donor/government entity and gets paid if and when pre-agreed outcomes are achieved, as verified by an independent third party. Figure 1 illustrates this process.

The separation of functions – namely, independent verification – and autonomy of service providers are key characteristics of any results-based contract.

A common question that arises with RBAs is how service providers finance their operations, since they do not get paid until after results have been achieved. For “bankable” projects that generate sufficient financial returns, as in the case of “classic” PPPs, upfront finance can come from a mix of debt and equity from commercial banks, development finance institutions (DFIs) and/or private investors.⁹ Nonprofit organizations, on the other hand, typically do not have access to or cannot afford the cost of commercial capital and must therefore rely on their own unrestricted reserves, which can limit their ability to engage

Figure 2: Impact bond structure



in RBA. One solution is an *impact bond*, a recent innovation where impact investors, a new and growing category of private investors motivated by both financial and social returns, provide working capital to service providers. If pre-agreed results are

achieved, a donor or government entity repays the investor his principal plus a financial return commensurate with success. If the project fails to achieve pre-agreed results, the investor loses up to 100% his capital (depending on the level of risk transfer).¹⁰ Figure 2 illustrates this model.

WHAT ARE THE BENEFITS?

By tying funding to results, RBAs can – if properly designed and implemented – align incentives and generate significant benefits for all stakeholders involved:

- **To the payer:** *The outcome payer pays only for results.* Under traditional funding models, money is disbursed upfront regardless of whether or not outcomes are achieved, and is never returned if programs fail. To mitigate risk, governments and donors are forced to focus on how their money is spent – or on *inputs* – instead of on outcomes. This limits the space for innovation and often means

⁹ World Bank, (2011)

¹⁰ CGD, (2013)

that programs end with uncertainty about what outcomes – if any – were achieved.¹¹ By tying funding to results, RBAs allow donors to focus on what really matters – impact.

- To the service provider: *RBAs allow service providers the flexibility to do what they need to do to get results.* Development is complex and messy, arising from the interactions of a dynamic and unpredictable system.¹² However, an input-driven funding model such as the one described above often leads to linear, highly prescriptive solutions that inhibit the kind of experimentation and adaptation necessary to achieve outcomes at scale. By shifting the focus away from inputs to outcomes, results-based approaches allow service providers the flexibility they need to “fail quickly” and adapt programs along the way. Also, because the focus is on achieving real impact, results-based approaches ensure a more predictable, multi-year funding stream.
- To the private investor (in the case of *impact bonds*): *Private investors have the potential to earn a financial return while generating social impact.* The type of investor most likely to participate in an impact bond is a new but growing class of investors called “impact investors,” who are motivated by both social and financial returns (i.e. “blended” returns).¹³ Today, impact investors range from philanthropic foundations to commercial financial institutions to high net-worth individuals. While impact investing has already begun to demonstrate the power of business in bringing about sustainable solutions to social problems, its potential remains largely untapped. By attaching a monetary value to the achievement of social outcomes, impact bonds transform neglected social problems into “investible” opportunities for these investors.

WHEN SHOULD THEY BE USED?

RBAs are not a “magic bullet” and are not meant to solve every development problem. It is important to consider whether the development problem is amenable to RBA and if it is feasible given the local context. There are a number of important questions that need to be considered, as summarized below.

- *Is there a benefit to risk transfer?*

RBAs are best suited to solve problems where there is a weak link between inputs and outcomes, or what are referred to in the literature as “principal-agent problems.”¹⁴ In this scenario, one actor (the principal) delegates tasks to another (the agent) in the hopes of achieving some objective. Let us consider the example of a foundation that pays an NGO to improve primary school enrollment rates. The foundation faces two potential problems: (1) *divergent objectives* (e.g. the foundation may be concerned with improving outcomes for primary school students while the agent is concerned with improving outcomes across the entire school-age population) and (2) *informational asymmetry* (e.g. the NGO has considerably more information about its operations, context, beneficiaries and outputs that the foundation can only learn at a significant cost, if at all). In this case, paying for results would be preferable to paying for the services directly as it would ensure that objectives are aligned and resources are allocated optimally.

¹¹ Ibid

¹² Barder, (2012)

¹³ CGD, (2013)

¹⁴ Savedoff, (2010)

However, because risk transfer is not free, the payer must carefully assess whether the benefits outweigh the costs. If, for instance, the production process is well known or easily observable, it may be better to pay for the services directly.

- *Is the desired outcome measurable, attributable and verifiable and does it avoid perverse incentives?*

Since payment is disbursed if – and only if – outcomes are achieved, both the payer and the recipient need to trust that the desired outcome can be measured objectively. Some outcomes (i.e. vaccination rates) are more easily measured than others (i.e. institutional reforms), thus limiting the universe of problems amenable to RBA. Outcomes must also be attributable, or within the control of service providers, or else service providers risk not getting paid for something they had no control over, and payers risk paying for outcomes that would have happened anyway. Some factors like war, recession and weather are clearly outside the control of providers and should not be passed on. Other risks, particularly on the demand side, are more debatable. Often times the range of factors over which a provider has control is itself a choice – one that may go unchallenged under traditional input-based funding models.¹⁵

Once an appropriate outcome metric has been chosen, it must also be verifiable by an independent evaluator using a robust system for measuring success. This can involve a historical baseline, live comparison group or control (as in randomized control trials). Lastly, outcome metrics must be chosen carefully to avoid perverse incentives and be as close as possible to the desired change or outcome while taking into account practical considerations like cost. For instance, paying for employment outcomes alone can incentivize “creaming and parking,” or selecting beneficiaries closer to the labor market while avoiding those harder to reach. Perverse incentives can usually be mitigated through careful design, for instance by tying payment to multiple indicators (including quality and demographic targets).

- *Do providers have the track record/capacity to deliver outcomes and engage in RBA contracts?*

RBAs introduce different rules of engagement, requiring providers to generate new information about their program’s effectiveness and engage in more complex contract negotiations. It also requires organizations to assume new risks – not just financial but also reputational – and be able to manage them effectively. RBAs are thus more likely to work well in contexts where there is already a strong presence of service providers with the track record and capacity to engage in this new form of contracting. The absence of these factors may not necessarily preclude an organization from engaging in RBA but may cause the contract to be improperly designed and result in the provider’s overexposure to the risk of non-repayment.¹⁶

- *Is there a willing and able outcome payer (i.e. commissioner or donor)?*

Just like RBA introduces new rules of engagement for service providers, it also changes how donors and commissioners traditionally procure services. For example, as opposed to committing and disbursing

¹⁵ Ibid

¹⁶ Bond, (date unknown)

funds on an annual basis, governments commit to paying for results, but do not disburse until years later if – and only if – results are achieved. This seemingly small detail may require legislative changes that can significantly delay contract signing and effective implementation. It also requires strong contract enforcement mechanisms to ensure providers get paid if and when outcomes are achieved.¹⁷ Results-based contracts can also take significantly more time and effort to set up than traditional input-based contracts, often requiring commissioners to acquire new skills and expertise (i.e. pricing outcomes, assessing risks, etc.). Although possession of these skills and expertise is not a prerequisite for engaging in RBAs, it does require a high level of political commitment.

- *Are data collection systems already in place?*

The availability of data is an important consideration from both a feasibility and cost perspective. For instance, a workforce development program will save considerable time and resources if implemented in a country where there are official systems in place to record employment outcomes as opposed to a country where most of its people work in the informal sector and where such outcomes are – for the most part – self-reported.

HOW HAVE THEY BEEN APPLIED?

RBAs – although most commonly used in global health – have been applied in a wide and growing number of sectors, including workforce development, agriculture and climate change, and in a diverse group of countries, from developed countries like the United Kingdom to fragile states like Haiti and Afghanistan. Unfortunately, housing is not an area where many RBAs have been applied. The closest that donors and/or governments have come to paying for housing outcomes is in tackling homelessness, usually in developed countries where stable housing markets already exist.¹⁸ They are also not commonly used to tackle refugee/IDP issues; conditional cash transfers (which are not covered in this paper) are the only known applications of RBA in this field.

¹⁷ Instiglio, (2014)

¹⁸ At the time of writing, the Department for Communities and Local Government in London, UK had launched a social impact bond to tackle chronic homelessness and the Commonwealth of Massachusetts (U.S.) was in the process of developing one as well.

UKRAINE: GENERAL FINDINGS

Having gained its independence from the Soviet Union just 15 years ago, Ukraine is a middle-income country still very much in transition from communism. This makes it a very peculiar place for piloting RBA. On the one hand, it has many of the “raw” ingredients of a developed country, including key infrastructure, basic services and reasonably sophisticated institutions, lending itself – at least in theory – to RBA. On the other hand, crippling corruption, a highly complex legal system (with many communist-era laws still on the books), a still-dominant role of the state in traditionally social sectors like health, political instability (Ukraine has been through 4 presidents in 10 years) and an economy on the verge of collapse present a number of challenges for the piloting of RBA:

- ***Interested partners may be hard-pressed to find a willing government partner.*** For quite some time, the GoU had been reluctant – mostly for political reasons – to even recognize the full scale of the IDP crisis. A March 2015 report by the Brookings Institution found that a lack of political will to engage with internal displacement and cooperate with the international community has substantially hampered the elaboration and implementation of durable solutions for IDPs.¹⁹ Although President Poroshenko has since asked international donors to provide Ukraine with financial assistance to tackle the problem, Ukraine’s more pressing economic woes are likely to overshadow the government’s response, as doing so would require allocation of additional resources in an already stretched budget. To further complicate things, Ukraine is one of the most corrupt countries in the world,²⁰ making substantive engagement with the government all the more difficult.
- ***Donors are few and far in between.*** Although Ukraine drew in just over USD 1 billion in official development assistance (ODA) commitments from international donors in 2013 – making it the third largest aid recipient in the European region (after Turkey and Serbia) – over 80% came from just three donors: EU (67%), US (8%) and Germany (7%).²¹ Most of it is channeled through the government (38%) or multilateral institutions (48%) and targeted towards large economic infrastructure projects (48%); very little of it is channeled through private actors (approximately 6%). Moreover, competition with other global crises including Ebola, Syria and Iraq means that this dynamic is unlikely to change as a result of the current conflict, which is one reason why the humanitarian response remains largely underfunded (roughly USD100 million, or 37% of total financing needs as of September 2015).²² Interested partners may have better luck targeting Ukraine’s growing number of small personal/family foundations, although this will likely limit the scale of an RBA pilot.
- ***Ukraine’s current legal framework is not yet conducive to RBA.*** Although Ukraine has implemented innumerable legal and political reforms since independence that permit a wide range of contractual arrangements between the public and private sectors, its legal and regulatory framework is still a moving target, with new laws being issued every week and many important

¹⁹ Ferris, Mamutov, Moroz and Vynogradova, (2015)

²⁰ Transparency International Corruption Perceptions Index, (2014); Ukraine ranked 142 of 174 countries.

²¹ OECD CRS, (accessed 2015)

²² OCHA, (2015)

legal changes still sitting in parliament. P3DP has produced several assessments of the legal framework for PPPs in Ukraine during the past 5 years and is in the process of doing a final assessment before the program closes in September 2015. Thus, while a detailed analysis of the potential legal challenges in implementing RBAs is not yet possible, it is safe to say that it would be a risky endeavor for all parties involved.

- ***Ukraine's current political, economic and legal landscape leaves many factors outside of service providers' control, thus limiting the nature, scope and benefits of risk transfer.*** There are a large number of factors potentially outside of the control service providers. While this may not necessarily preclude engagement in RBA (RBA has been piloted in much more difficult countries like Afghanistan and Haiti), it may seriously limit the nature, scope and potential benefits.
- ***Many service providers lack the track record and technical capacity to deliver outcomes, manage risks and engage donors/governments in this new, more complex way.*** Insufficient funding, a negative policy environment and traditional attitudes/beliefs towards the state (which occupied a central role in the former Soviet Union) have resulted in a fragmented local NGO sector characterized by low technical competence and transparency in internal management.²³ Moreover, Ukraine's middle-income status and the traditional reluctance of local and central authorities to cooperate with NGOs backed by Western assistance have not lent to the development of a strong international NGO (INGO) sector. Although a number of large INGOs began to arrive in the wake of the current conflict, their focus has been primarily on short-term relief; with the conflict now entering its 18th month, some are already on their way out.²⁴ Lastly, despite rapid marketization following Ukraine's independence, the private for-profit sector remains small in sectors traditionally in the domain of the government, most notably health.
- ***Insufficient data will add significantly to the cost of implementation.*** Although the GoU – unlike many developing countries – collects a large amount of data on its citizens, it is generally not used to inform policy. Moreover, failed attempts to create a reliable and comprehensive IDP registration and tracking system have left providers of humanitarian assistance with an incomplete picture of IDPs and their needs.²⁵ While some organizations have (commendably) put a considerable amount of their own time and resources into conducting needs assessments, data collection was not always coordinated, resulting in fragmentation and duplication of efforts.²⁶ This will add considerably to the cost of an RBA pilot, as much of the data will need to be collected from scratch.

²³ Bekeshkina, Iryna and Piotr Kazmierkiewicz. (2012)

²⁴ HCT, (2015)

²⁵ Ferris, Mamutov, Moroz and Vynogradova, (2015)

²⁶ Consultant interviews, (2015)

IDP HOUSING

WHAT IS THE DEVELOPMENT PROBLEM?

Despite the large number of displaced, roughly 90% of IDPs in government-controlled areas have (perhaps surprisingly) been absorbed into the existing housing stock, mostly in and around urban areas: 60% are living in rental housing, 20% are staying with friends or family and 10% have found other accommodation (i.e. purchased homes).²⁷ This is mostly owing to the fact that negative demographic trends have left a sizeable portion of Ukraine’s housing stock (roughly 3%) unoccupied.²⁸ Only 10% – typically the most vulnerable (i.e. the disabled, elderly and single women with children) – are housed in temporary “collective centers,” or re-purposed summer camps, sanatoriums, schools and other buildings.

However, due to the unique nature of Ukraine’s housing market, official statistics underestimate the true size of Ukraine’s vulnerable IDP population. According to official sources, nearly 95% of all homes are owner-occupied, a result of the collapse of communism when, in the process of privatization, the state transferred ownership of a house or apartment to whomever happened to be living there at the time.²⁹ Thus, the majority of IDPs have left behind owner-occupied homes that are now either damaged/destroyed or collapsed in market value, leaving them with limited resources to purchase or rent a new home and no collateral to access credit markets.

Meanwhile, IDPs are challenged to find affordable accommodation in an already squeezed rental market, with multiple families often forced to share single-family homes without a formal contract as they struggle to find work, overcome psychological trauma and re-adjust to new communities. As the conflict drags on and personal resources run out, more and more IDPs are at risk of eviction. While social housing and other forms of government assistance are available on paper (e.g. given the peculiarities of Ukraine’s housing market, individuals who rent for five years or more are considered to be “vulnerable populations” by the government and entitled to social assistance programs³⁰), there are currently over a million vulnerable households entitled to government help (not including IDPs), and the expected wait time for assistance is over 100 years.³¹ While there is general interest and willingness from the government to expand the stock of social housing through new construction, including through PPPs, corruption, economic crisis and a weak legal/regulatory framework means that it will take some time for these projects to get off the ground, if at all.

WHAT IS THE NATURE OF THE CURRENT RESPONSE?

Until recently, the response effort has consisted of short-to-medium-term relief measures, mostly in the form of cash assistance, distribution of non-food items (e.g. construction materials) and provision of temporary housing through collective centers.³² Although the government has provided some assistance to

²⁷ Ibid, (citing 2015 REACH shelter assessment, n=3000)

²⁸ UNECE, (2013)

²⁹ Ibid

³⁰ Ibid

³¹ Ibid

³² UNHCR, (2015), backed by consultant interviews

IDPs, including monthly cash assistance and temporary housing, such efforts have lacked cohesion, are vastly under-resourced and are somewhat overshadowed by Ukraine’s more pressing economic woes, not to mention the overarching need to expand the affordable housing stock for all middle- and lower-income households - not just IDPs. As a result, most of the burden of providing relief to IDPs has fallen on the shoulders of local and international nonprofits, coordinated by UNHCR’s Shelter and Non-Food Items (NFI) Cluster.

As the conflict enters its 18th month and shows no signs of abating, the humanitarian assistance community has begun to shift its focus away from emergency relief to medium-to-long-term solutions. A technical working group was set up by the Shelter Cluster in May 2015 to help define what “durable solutions” might look like for this population (for which no consensus currently exists) and explore options.³³ Although a number of programs are either underway or have been proposed by various actors, most are unsustainable (e.g. conditional cash-for-rent transfers), expensive/difficult to scale (e.g. donor-funded mortgage subsidies) or rely on government action (e.g. recognizing informal tenancy, rezoning land for residential use, etc.).

Moreover, while there is broad agreement and recognition that any successful intervention to provide durable housing solutions will have to be part of a larger, more integrated response involving other sectors (e.g. livelihood, psychosocial, etc.), the humanitarian assistance community finds itself ill-equipped to deliver them.³⁴ Funding is a major challenge - not just the overall level of funding but also how it is deployed. Sector-based earmarks and year-by-year donor budget cycles make it very difficult for organizations to plan and implement long-term, multi-pronged programs (as opposed to one-off projects). Moreover, donor preferences have created a somewhat false dichotomy - both cultural and institutional - between humanitarian assistance (that which is life-saving and temporary in nature) and recovery (often defined by what it is not - i.e. not “life-saving” and not “sustainable development” but somewhere in between) when in reality durable solutions require both sides to work together simultaneously. Perhaps understandably, given the choice, most donors prefer the short-term, tangible nature of humanitarian assistance rather than the murky - and risky - business of long-term solutions. The result is a humanitarian assistance community focused on quick fixes and with no platform to discuss longer-term issues.

HOW MIGHT RBA ADD VALUE?

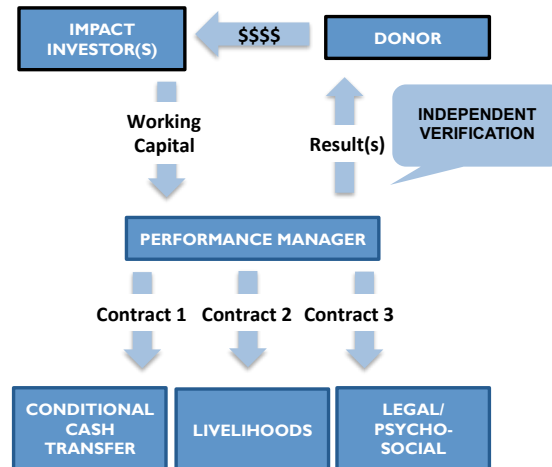
By tying funding to results, RBAs can align incentives to focus on longer-term housing outcomes and provide the necessary platform for linking emergency relief with recovery and development. Moreover, they can provide implementing agencies with the flexibility they need to design programs from the ground-up and adapt them along the way. Figure 2 provides an illustrative example of how it might work using an impact bond structure with a performance manager, i.e. a third party coordinating agency.

³³ TWIG website, (2015), backed by consultant interviews

³⁴ Consultant interviews, (2015)

In this model, a donor, impact investor, performance manager and potential providers come together and agree on an outcome metric(s), appropriate intervention model and method for measuring success (e.g. live comparison group). Impact investors disburse working capital to the performance manager – typically an independent firm – who would then mobilize and manage a network of providers delivering an integrated package of services to IDPs, including cash assistance, livelihoods and psychosocial support. In addition to managing contracts (and paying providers for their services), the performance manager would also put into place any necessary data collection systems to effectively track and manage performance. After an agreed period of time, an independent third party verifies outcomes. If outcomes are achieved, the donor pays back the investor his principal plus a financial return commensurate with success.

Figure 2: Illustrative example of an IDP housing intervention using an impact bond structure with a performance manager



Picking an Outcome Metric(s)

There are a variety of different ways to measure housing outcomes, from initial outcomes like “# of IDPs housed with access to running water” to high-level outcomes related to livelihoods and integration (see Figure 3 for sample housing metrics and indicators). A number of factors should be kept in mind when choosing an appropriate outcome metric for housing:

- *Housing outcomes are highly context-specific.* What constitutes a good housing outcome in one context may not be appropriate in another. Thus, the process of picking a suitable payment metric(s) must involve an iterative process with input from all interested stakeholders, most importantly IDPs themselves.
- *Building a home is a process – not a product.* As one interviewee put it, “a person cannot eat his house.” A whole host of other things must fall into place, including livelihoods, infrastructure and social services. Thus, the outcome metric(s) most appropriate for triggering payments will likely be multi-dimensional. However, this must be balanced with practical considerations like cost and attainability. If the goal is set too high and/or beyond the control of service providers, they may be overexposing themselves to the risk of non-payment.
- *Tying payments to a single metric can result in perverse incentives and/or unintended consequences.* For instance, an exclusive focus on an initial outcome like “# of IDPs current housed” can result in providers pumping IDPs with unsustainable subsidies or cramming them into tight quarters. Likewise, paying for intermediate outcomes like “# of IDPs employed and current on rent” can incentivize cherry-picking IDPs who are easier to work with while ignoring

harder-to-reach IDPs. Yet still, a program that works exclusively with IDPs can result in unintended consequences like displacing host community members from jobs, thus cancelling out the program’s potential benefits and generating ill will toward IDPs. Such risks can usually be mitigated through careful program design and tying payments to a number of complementary indicators.

Figure 3: Sample housing metrics and indicators

Initial	Intermediate	Overarching
<p>Does IDP have access to adequate housing?</p> <p>Indicators ensure decent living conditions that conform to national law and international best practices.</p> <p><i>Sample Indicators:</i></p> <ul style="list-style-type: none"> • Access to in-unit running and hot water, # of families sharing a toilet or shower, insulation, heating system, occupancy ratios <p><i>Interventions Required:</i></p> <ul style="list-style-type: none"> • Construction, in-kind transfers, cash assistance <p><i>Monitoring Difficulty:</i></p> <ul style="list-style-type: none"> • Easy-Moderate 	<p>Is this outcome stable/sustainable?</p> <p>Indicators ensure that IDP’s access to adequate housing is not short-lived/unsustainable.</p> <p><i>Sample Indicators:</i></p> <ul style="list-style-type: none"> • Employment status, earnings, payment status (i.e. “current” on rent), home turnover rates (i.e. moved more than once in 12 months) <p><i>Interventions Required:</i></p> <ul style="list-style-type: none"> • Livelihood/workforce development, protection, health/psychosocial <p><i>Monitoring Difficulty:</i></p> <ul style="list-style-type: none"> • Moderate-Difficult 	<p>Does IDP enjoy a good quality of life?</p> <p>Indicators capture integration outcomes and overall well-being.</p> <p><i>Sample Indicators:</i></p> <ul style="list-style-type: none"> • Asset ownership, consumption/ expenditure, resilience, school enrollment, civic participation, job satisfaction <p><i>Interventions Required:</i></p> <ul style="list-style-type: none"> • Livelihood/workforce development, protection, health/psychosocial <p><i>Monitoring Difficulty:</i></p> <ul style="list-style-type: none"> • Difficult

POTENTIAL CHALLENGES

While there is little question that RBA can - in principle - help overcome some of the structural problems plaguing the humanitarian assistance sector, a number of practical considerations challenge its feasibility. The following build on the more general challenges already mentioned in the previous section:

- *The humanitarian assistance community knows less about what works in urban contexts and middle-income countries than in rural contexts and developing countries.* An overwhelming number of IDPs in Ukraine have expressed a preference for urban areas, which makes them more difficult to target and define housing outcomes for, not only because they face more complex needs but also because we know less about what works in urban settings compared to rural ones. To complicate things further, many humanitarian organizations are unaccustomed to working in middle-income countries and are relatively new to Ukraine.
- *Long-term housing outcomes are not well documented, making it difficult to assess providers’ capacity to deliver.* Given the short-term nature of humanitarian assistance, most projects focus on inputs (raw materials), activities (construction) and outputs (# of houses built), which focus

attention on *the product* – not *the process* – of building a home. This makes it difficult to assess providers' capacity to deliver long-term outcomes.

- *Housing outcomes are highly sensitive to external factors, including changes in government policy and broader economic trends.* For instance, the introduction (or removal) of a housing subsidy for IDPs – though good for IDPs – would be detrimental to a results-based contract since it could prove too difficult to disaggregate the impact of the subsidy from the intervention. Similarly, larger economic trends could have a substantial impact on IDPs' financial security and employment, which could indirectly influence housing outcomes. Although there may be ways to mitigate such risks through careful program and evaluation design, Ukraine's unstable political, economic and regulatory situation may make it difficult (if not impossible) to fully anticipate and assess such risks.

IDP HEALTH

WHAT IS THE DEVELOPMENT PROBLEM?

Health ranked as a top priority among IDP households surveyed in the 5 most impacted regions: Dnipropetrovsk, Kharkiv, Zaporizhia, Lugansk and Donetsk.³⁵ Most of the health problems affecting IDPs are pre-existing conditions that bear no direct relation to the conflict; rather, it is the conditions of displacement that have exposed them to elevated risks, both in terms of the accessibility and availability of healthcare. Although the population has universal access to unlimited health care services, free at the point of use, as a constitutional right, chronic underfunding has resulted in a large proportion of out-of-pocket payments (42.3% of total health expenditure (THE) in 2012 – among the highest in the EU and Eastern European countries).³⁶ This has resulted in a highly unequal health system that adversely affects poorer households, including IDPs who have lost jobs and assets. Moreover, a sprawling and highly rigid, input-based public healthcare system inherited from the Soviet Union has made it difficult to adapt to changing demographics, resulting in strained healthcare resources and infrastructure wherever IDPs reside. As a result, over 30% of IDP households reported difficulties in accessing health services.³⁷

Except for conflict-related psychological trauma – the third most reported health concern among surveyed IDPs³⁸ – the health profile of IDPs does not significantly differ from the rest of the population, characterized by high prevalence of non-communicable diseases (NCD). In 2012, the major causes of mortality were: cardiovascular disease (61% of total mortality), followed by cancer (15%) and external causes including accidents and poisonings (8%); these three causes account for 84% of all deaths in Ukraine.³⁹ Cardiovascular disease is also the most common cause of morbidity measured as disability-adjusted life years (DALYs). The key risk factors are tobacco and alcohol consumption, followed by uncontrolled hypertension and obesity. The prevalence of these risk factors, as well as rates of stroke and heart attack, is much greater in the east compared to the rest of the country, as reflected in lower life expectancy of eastern regions.⁴⁰ Although detailed data on IDPs is unavailable, it can be expected that since most IDPs are coming from eastern regions, they face a higher risk of NCD-related mortality and morbidity, a point that is further exacerbated by their displacement.

In addition to NCDs, a number of communicable diseases, including HIV/AIDS, TB and vaccine-preventable diseases like polio and measles, have increased rapidly as causes of disability and premature mortality in Ukraine. Ukraine has one of Europe's largest HIV+ populations⁴¹ and one of its lowest vaccination rates (less than 50%), the latter a result of chronic underfunding of centralized vaccination procurement (in 2013 around 70% of total demand).⁴² In addition, it is 1 of 27 countries in the world with a high burden of multidrug-resistant (MDR) tuberculosis.⁴³ The country's massive displacement of people has led to a worsening of the situation, and IDPs are at higher risk of infection (and co-infection) due to

³⁵ Ukraine NGO Forum, (2015)

³⁶ Lekhan, Rudi, Shevchenko, Nitzan Kaluski and Richardson, (2015)

³⁷ HCT, (2014)

³⁸ Ukraine NGO Forum, (2015)

³⁹ Lekhan, Rudi, Shevchenko, Nitzan Kaluski and Richardson, (2015)

⁴⁰ Ibid

⁴¹ BBC Radio4, (2013)

⁴² Lekhan, Rudi, Shevchenko, Nitzan Kaluski and Richardson, (2015)

⁴³ Acosta, Nitzan Kaluski and Dara, (2014)

several factors like poor underlying health (including stress-related disorders), difficulties in accessing medical service and overcrowded temporary living conditions.⁴⁴

WHAT IS THE NATURE OF THE CURRENT RESPONSE?

The ongoing devaluation of the local currency has left the 2015 health budget covering an estimated 30-40% of the country's total health needs.⁴⁵ Thus, it comes as no surprise that the government has not allocated any extra funding for health services for IDPs. Meanwhile, the humanitarian assistance community – comprised of about 40 national and international NGOs and UN agencies – is overwhelmingly focused on meeting immediate needs in and around the conflict zone, including replenishment of impacted hospitals and pharmacies and running of mobile health units.⁴⁶ A handful of NGOs are engaged in longer-term capacity building, mostly by training public healthcare providers, schoolteachers and local psychologists in emerging issues like infant and child feeding practices, gender-based violence and family-based therapy. However, for the most part, in government-controlled areas outside the direct line of fire, assistance is limited to referrals to one of the country's many public health facilities.

HOW MIGHT RBA ADD VALUE?

RBA has been used by a diverse group of players in both developing and developed countries – including governments, donors, providers and insurance companies – to incentivize patients, providers and health systems managers to improve the quantity, quality and equity of healthcare.⁴⁷ This has led to a rich body of evidence and best practices on how to design programs and measure outcomes in a wide range of health areas, including HIV/AIDS, TB, asthma and diabetes. While it was not possible to examine every health issue affecting IDPs in Ukraine, a number of factors seriously limit the scope for using RBA in health in Ukraine:

- *The private sector – both for-profit and non-profit – plays a very limited role in healthcare delivery, thus limiting the pool of potential partners.* In 1991, Ukraine inherited an extensive and highly centralized “Semashko” health system, a hierarchical, nationally controlled system staffed by state employees.⁴⁸ Although the system has undergone considerable decentralization and reforms since independence, it has remained largely in public hands, owing to provisions in Ukraine's Constitution that prohibit any reductions of the existing network of publically owned health care facilities.⁴⁹ Thus, the private sector is small in organizational terms (4.4% of hospital stock) and reform efforts have – understandably – focused on improving the country's existing system instead of trying to bring in new players.⁵⁰ While a number of NGOs are active and play an important role in providing health and social care services to vulnerable groups, their activities

⁴⁴ Ibid

⁴⁵ HCT, (2014)

⁴⁶ OCHA, (2015), backed by consultant interviews

⁴⁷ Eichler, Levine, and the Performance-Based Incentives Working Group, (2009)

⁴⁸ Lekhan, Rudi, Shevchenko, Nitzan Kaluski and Richardson, (2015)

⁴⁹ Ibid

⁵⁰ Consultant interviews, (2015)

are often quite narrowly focused on areas such as sexual health, HIV/AIDS and TB (particularly among INGOs).

- *In general, donors contribute very little to healthcare financing in Ukraine, with the most significant contributions going to fighting infectious diseases such as TB and HIV, and supporting maternal and infant health programs.* Foreign donors – including a number of international organizations (UN agencies, the EU, EBRD, World Bank and the Global Fund) and bilateral donors (Canada, Germany, Switzerland, US and others) – contribute less than 1% of THE (0.2-0.3% in 2005-2011), mostly through technical assistance.⁵¹ The most significant role external financing has played is in fighting infectious diseases such as TB and HIV, and supporting maternal and infant health programs.
- *External risks – i.e. hyperinflation, which has caused the prices of pharmaceuticals to skyrocket, and an inefficient drug procurement system – will complicate efforts to pilot RBA in areas where outcomes are highly dependent on the availability and accessibility of medicines.* Financial instability and the ongoing devaluation of the local currency have dramatically increased the cost of pharmaceuticals. This is problematic because direct payments for pharmaceuticals dominate out-of-pocket spending; in 2011, 30% of THE was in the form of out-of-pocket payments for drugs.⁵² Furthermore, failures in Ukraine’s tender procedures – especially for vaccines, TB and HIV/AIDS drugs, hypertensive and cardiovascular medications – have resulted in severe drug shortages, further exacerbating the population’s adequate access to healthcare.⁵³

Thus, the health areas with the strongest service provider capacity and donor interest – namely, HIV/AIDS and TB – are also the areas with the greatest external risks, as adequate disease treatment and management are highly dependent on the steady, predictable and affordable supply of drugs. Interested partners may be able to mitigate such risks in part by focusing their activities on prevention instead of treatment and management. Other areas like mental health and psychosocial, while emerging in importance and subject to few external risks, suffer the greatest weaknesses in provider capacity. No clear “winner” emerges.

⁵¹ Lekhan, Rudi, Shevchenko, Nitzan Kaluski and Richardson, (2015)

⁵² Ibid

⁵³ HCT, (2014)

CONCLUSION AND RECOMMENDATIONS

Over the last decade, results-based approaches have grown in popularity among donors and governments as a more effective way to fund social programs and improve service delivery. Although they are most commonly used in global health, they have been applied in a wide and growing number of sectors, including workforce development, agriculture and climate change, and in a diverse group of countries, from developed countries like the U.S. to fragile states like Afghanistan.

However, Ukraine's post-communist legacy and where it currently stands in its political, economic and legal transition make it incredibly unique when compared to other contexts where RBAs have been implemented. In many "traditional" poor countries, the state is often absent (or non-existent), leading local NGOs and/or international actors to step in to fill the gap. Ukraine, on the other hand, suffers from the opposite problem: a large but ineffective state inherited from the Soviet Union that permeates all aspects of Ukrainian life, a small for-profit sector in traditionally "social" sectors like health, an unstable legal/regulatory environment, with new laws being issued every week (and many communist-era still on the books), and a nascent, fragmented NGO sector still trying to define its role vis-à-vis the state. Moreover, its status as a lower middle-income country has limited the footprint of international actors. This landscape, coupled with Ukraine's current economic crisis and political instability, creates a challenging environment for RBAs.

Moreover, IDP problems are complex and the non-state actors traditionally charged with providing durable solutions – namely, the humanitarian assistance and development communities – are ill equipped to deliver them. Given the short-term nature of assistance, outcomes are not well documented and the evidence base for interventions – particularly around housing and in urban contexts – is generally weak. It thus comes as no surprise that RBAs are not commonly used to tackle refugee/IDP issues; conditional cash transfers are the only known applications of RBAs in this field.

This is not to say that piloting RBAs in Ukraine is impossible or even undesirable. In many ways, the nature and scale of the current IDP crisis coupled with the country's troubled budgetary outlook make it all the more urgent to explore new tools like RBAs to improve the impact and efficiency of social services. But interested partners are advised to start small, be modest about what they can achieve and be realistic about how much time, effort and resources it will take to get there. Below are a number of recommendations for getting an RBA pilot off the ground in Ukraine, broken down by stakeholder:

DONORS:

- ***Come forth with credible outcome commitments.*** It is usually donors who initiate results-based contracts; thus, it is they that will need to demonstrate interest and back it up with credible outcome commitments.
- ***Take a hands-off approach.*** Donors should fight the temptation to earmark funds for specific activities and just focus on outcomes. Implementing agencies should be allowed maximum flexibility over how funds are spent.

- **Build provider capacity.** To build a strong pipeline of potential providers, donors should offer technical assistance in areas like monitoring and evaluation and internal management and be open to funding non-project related activities including overheads.
- **Fund rigorous impact evaluation.** Given the weak evidence base around providing durable solutions to IDPs – particularly in the housing and urban contexts – donors should set aside funds to pay for rigorous impact evaluations.
- **Protect providers from risks outside of their control.** Given Ukraine’s economic and political instability, donors should seek to protect implementing agencies from risks outside of their control while ensuring that the benefits of risk transfer still outweigh the costs.

GOVERNMENT:

- **Work with international partners to create a policy and legal environment that is conducive to RBAs.** This should include strengthening contract enforcement mechanisms, introducing tax breaks for socially oriented investing and enabling flexible multi-year contracts.
- **Strengthen response to IDP crisis.** Even through Ukraine’s current economic situation does not allow the allocation of extra budgetary resources for IDPs, the government should strengthen its policy response, as this would send a strong signal to donors.
- **Actively participate in RBA pilot – if not as an outcome funder then as an observer.** Even if the government does not end up being an outcome payer, it should actively participate in the development of RBA contracts to (a) ensure that outcomes reflect country priorities, and (b) build its own capacity to engage in RBAs (and potentially take over outcome payments once the donor exists).

PROVIDERS:

- **Be proactive in identifying service areas amenable to RBAs.** This will help organizations engage donors who are interested in paying for outcomes, thus crowding in additional resources for IDP issues.
- **Invest in building capacity to engage with donors in new and untraditional ways.** Engaging with donors in a results-based contract requires organizations to acquire new skills, including preparing proposals, assessing and evaluating risks, pricing outcomes, and monitoring and evaluation. Organizations should be proactive in building this capacity, including by seeking out donors who are willing to fund such activities.
- **Be open to more rigorous evaluation of programs.** Independent verification of results is an integral part of any RBA. Organizations should be open to the possibility of more scrutiny and evaluation of their programs, and to the kind of learning that it can generate.

INVESTORS (as in the case of impact bonds):

- **Help bring discipline and rigor to the social sector in Ukraine.** Potential investors should be proactive about seeking out opportunities and work closely with providers to manage performance and offer their expertise.

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ANNEX B: ORGANIZATIONS INTERVIEWED

Health

1. World Bank
2. Yale School of Medicine (Psychiatry and Psychology)
3. Ukrainian Society of Overcoming Consequences of Traumatic Events
4. United Nations Children's Fund (UNICEF)
5. Acción Contra el Hambre (ACF)
6. International Committee of the Red Cross (ICRC)

Housing

1. United Nations High Commissioner for Refugees (UNHCR)
2. United Nations Development Program (UNDP)
3. InterAction
4. Social Partnership
5. German Corporation for International Cooperation (GIZ)
6. Ukrainian Red Cross Society
7. The Internal Displacement Monitoring Centre (IDMC)
8. International Organization for Migration (IOM)
9. Adventist Development and Relief Agency (ADRA)
10. People in Need (PIN)
11. Norwegian Refugee Council (NRC)

Other

1. Bureau of Population, Refugees and Migration (IOM), U.S. Department of State