

Completion Assessment Executive Summary

ideas42 - Global Cities Nudges

January 2022

Investee	ideas42
Main implementation country	Brazil
Additional implementation countries	India, Kosovo
Funding amount agreed	USD 300,000
Funding amount disbursed	USD 300,000
Co-funding	EUR 8,915.70 (OSCE) USD 9,750 (Accenture Middle East)
Investment Date	10 November 2018
Expected PYI at year 10 (ex-ante)	Not scored

GIF provided ideas42, a non-profit that uses insights from behavioural science to improve lives, a \$300,000 grant to explore the potential of using pay-for-performance financing when implementing their behaviourally informed interventions. The team was tasked with reaching agreements in principle with at least three government entities. The agreements would allow the use of reimbursable pay-for-performance contracts on energy or water conservation or tax compliance using behavioural nudge interventions. Additionally, the pilots would build coalitions to promote outcomes-based nudges in development. The team engaged with city authorities in Pristina (Kosovo), São Paulo (Brazil), and Delhi (India). In Pristina, ideas42 partnered with the Organisation for Security and Cooperation in Europe (OSCE) and carried out a pilot to increase property tax compliance. Although draft MoUs have been agreed with city authorities, none of them included an expression of interest for a pay-for-performance arrangement and only the MoU with city of São Paulo was formally signed.

The guiding hypothesis was that a) governments are interested in energy/water conservation or revenue enhancement and b) pay-for-performance contracting would overcome government reluctance to invest in an unproven innovation (the use of behavioural nudges for those purposes) that might prove ineffective. The hypothesis was not supported. Ideas42 contacted 25 cities, had conversations with 15, and drafted MoUs with three. None of these engagements led to a pay-for-performance trial.

Learnings indicate that there are still multiple challenges to be overcome for cities to engage in pay-for-performance arrangements to implement behavioural interventions, including procurement regulations, availability of contextualized evidence on effectiveness of nudges, understanding of evidence and evaluations methods, cost of engaging service providers, and state capacity to implement outcome-based contracts. In the end, the complexity and unfamiliarity of outcome-based contracting for municipal governments appears to have hindered rather than facilitated uptake of the nudge innovation.

Innovation

The innovation is pay-for-performance financing for behaviourally-informed interventions by governments. Interventions based on behavioural science are new and mostly implemented in developing countries through philanthropic funding. Ideas42 explored ways to shift the paradigm from use of grant-based financing for nudges to a more incentive-compatible and administratively simple outcomes-based approach. The pilot was intended to de-risk this innovative pay-for-performance arrangement for

implementing behavioural insights for increasing tax revenue or ensuring water and energy conservation for governments and other stakeholders, and be catalytic in creating a market for ‘nudge’ service providers.

Despite a rich and growing body of evidence from a variety of contexts that nudges can significantly increase tax revenues and reduce energy use, the uptake of nudges by governments and utilities is limited and the commercial market of companies offering such nudges is underdeveloped. This is a market coordination problem; tax departments and utilities are entrapped in the bureaucratic inertia and inadequate capacity to try out such innovations while the nudge providers are reluctant to make the upfront investments and assume the attendant first-mover risks.

In theory, this problem can be overcome through pay-for-performance contracts, similarly to the market of energy saving companies (ESCOs). ESCOs make the necessary upfront investments, replacing inefficient electrical devices with more energy efficient alternatives. The ESCOs then recover the cost from a share of the energy savings over a period of time. This serves as the inspiration for providers of behavioural nudges.

The hypothesis for this innovation is:

- a) Governments and utilities could realise energy and water savings through behavioural nudges to consumers of these services.
- b) Governments and utilities do not promote behavioural nudges, in part, because they don’t know whether the savings will justify the expense.
- c) Pay for performance contracting will be an effective way to overcome the risk aversion noted above.

The main elements of the pay-for-performance model is demonstrated in Figure 1:



Figure 1: Pay-for-performance model for nudges

Investment Goal

The pilot’s primary objective was to explore ways to shift the paradigm from use of grant-based financing for nudges to an outcomes-based model. This was to be achieved through:

1. Reaching in-principle arrangements with at least three government entities to pilot the use of reimbursable pay-for-performance contracts on tax compliance or conservation in the energy or water sectors using behavioural nudge interventions. The arrangements were envisioned to include an expression of interest to:
 - 1) Contract behavioural experts to redesign household-facing communications in one or more of the domains mentioned above;
 - 2) Accept causal attribution of the nudge interventions; and
 - 3) Reimburse some share of the cost of the nudge intervention conditional on reaching agreed targets.
2. Engaging actively with like-minded entities and building coalitions to promote outcomes-based nudges in development and catalyse a market.

Type of investment

GIF provided ideas42 a grant of \$300,000.

Implementation

The pilot’s implementation took place between January and October 2019, as spelled out in the grant agreement. ideas42 identified a list of 25 high potential cities and carried out outreach through network introductions, cold call emails, [webinars](#) in 4 languages (English, French, Spanish, and Portuguese), and conference presentations. In total, ideas42 had conversations with over 15 cities around the world and visited 6 countries.

Results

Although ideas42 made good progress on one of the investment objectives – to engage with like-minded entities and build coalitions to promote outcomes-based nudges in development – ultimately, it was not successful in achieving the main investment objective of reaching in-principle arrangements with at least three government entities to pilot the use of reimbursable pay-for-performance contracts for behavioural interventions.

Interviews with officials from the three cities with which ideas42 engaged most closely indicate there are still multiple challenges to be overcome for cities to participate in pay-for-performance arrangements for behavioural interventions. These barriers include procurement regulations, availability of contextualized evidence on effectiveness of nudges, understanding of evidence and evaluations methods, cost of engaging service providers, and state capacity to implement outcome-based contracts. The learnings from the pilot are summarised in the sections below.

KPI	Target	Achieved
Number of MoUs (or equivalent document) discussed and agreed to in-principle with representatives of local governments	3	<p>Ideas42 did not sign any MoUs to pilot the use of pay-for-performance contracts. Three MoUs to cooperate in the area of behavioural science in tax collection have been discussed with city authorities in Pristina (Kosovo), São Paulo (Brazil), and Delhi (India), but none of them included an interest to:</p> <ol style="list-style-type: none"> 1. Contract behavioural experts to redesign household-facing communications in one or more of the domains mentioned above; 2. Accept causal attribution of the nudge interventions; and 3. Reimburse some share of the cost of the nudge intervention conditional on reaching agreed targets.

		An MoU expressing intent to cooperate in the area of behavioural science was signed with the city of São Paulo, but there was no follow up by December 2020. Conversely, although the MoU with the city of Pristina was not formally signed, the cooperation with OSCE resulted in additional engagement with cities in Kosovo in 2020.
Number of blogs/communication products	2	ideas42 produced a number of communication products outlining the pay-for-performance model of contracting nudge interventions, including: <ul style="list-style-type: none"> ○ ideas42 blog post ○ GIF guest blog post ○ UNDP article ○ 5 webinars ○ CityNudge brochure ○ CityNudge landing page
Partnerships with networks promoting innovation in local government	3	ideas42 set up partnerships with: <ol style="list-style-type: none"> 1. ICLEI (Local government for sustainability), a network of local authorities based in Brazil 2. OSCE in Kosovo 3. Smart Cities Mission in India <p>Following the conclusion of the GIF pilot, ideas42 and ICLEI wrote a proposal for funding behavioural work with cities, but the fundraising process was slowed by the Covid-19 pandemic. ideas42 also continued cooperation with OSCE in Kosovo and delivered a presentation on behavioural interventions and the results of trial in Pristina to some 50 city officials in October 2020.</p>

Key learnings

- The City Nudges investment did not overcome the risk aversion of governments to implement nudges for tax savings and resource conservation. This is partly due to the reluctance of politicians to engage in interventions that have not been proven effective in their context.
- Implementing pay-for-performance financing for behaviourally-informed interventions was challenging for city authorities as it required appreciation of behavioural science interventions, evidence-based policy, and innovative procurement modalities. In effect, this was asking cities to embrace three innovations at once.
- The barriers to the uptake of behavioural innovations and innovative?? contracting are highly contextualised and overcoming such barriers requires significant local knowledge and continuous engagement with the government. Cooperation of city authorities in clusters or innovation hubs and early engagement of local partners may be more effective solutions to uptake.
- The jump from grant funding to government funding requires political leadership, a structured regulatory mechanism, and continuous engagement with government officials.
- Planning grants may be more effective funding instruments for GIF in case of proposals that require identification of exact settings or counterparts.