

# RESULTS-BASED FINANCING IN DISASTER RISK MANAGEMENT AND CLIMATE RESILIENCE

By the example of Output-Based Aid

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**E-Discussion**

**Output-Based Aid/Results-Based Financing Community of Practice**

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# Scope of the Exercise

1. **Explore** the operational linkages between Results-Based Financing (RBF) and Disaster Risk Management / Climate Resilience
2. **Identify** the mechanisms, benefits and challenges of applying RBF instruments in DRM operations – focusing on the Program-for-Results (PforR) and Output-Based Aid (OBA) Instruments
3. **Discuss** opportunities for operational and knowledge sharing partnerships on the application of RBF in DRM and Climate Resilience operations



# DEVELOPMENT CHALLENGES AND RBF

- Disasters can induce poverty and affect the poor disproportionately
- Disaster assistance is growing together with recognition of how disasters can affect development and poverty alleviation, but the available resources are limited
- There is a recognized opportunity for using results-based financing. Specifically, Output-Based Aid (OBA) and Program-for-Results (PforR) can complement each other among an array of the World Bank Group approaches to making the aid effective

Need to strengthen resilience of the poorest households

Need to ensure effectiveness of the development aid

PforR can offer broader program support, while OBA can work on a smaller scale, offering targeted support focused on specific outputs and disbursed through subsidies

# RESULTS-BASED FINANCING IN THE WORLD BANK



- Results-based financing (RBF) is an umbrella term for a range of schemes that links payments to the results achieved (e.g. PforR, conditional cash transfers, performance-based payments, OBA)
- The WB has introduced a series of RBF schemes across different sectors (e.g. infrastructure, health, education, forestry, climate change)
- On infrastructure-related operations the primary RBF instruments are PforR and Output-Based Aid
- In disaster risk management PforR has been first applied in 2016, while OBA hasn't been tested yet



# PROGRAM-FOR-RESULTS:

- Disburses on the basis of the achievement of key results (including prior results) under such Programs;
- Uses and strengthens the Program Systems to provide assurance that Program funds are used appropriately and that environmental and social impacts are adequately addressed by such Programs;
- Strengthens, where appropriate, the institutional capacity necessary for such Programs to achieve their intended results.
- The Programs may be:
  - a) national, multisectoral, sectoral, or sub-sectoral in scope;
  - b) part of broader, longer term, or geographically larger programs; and/or
  - c) carried out by governmental and/or nongovernmental parties.

Project preparation requires integrated risk assessment (technical, fiduciary, environmental and social system assessments)



# MOROCCO'S INTEGRATED DISASTER RISK MANAGEMENT AND RESILIENCE PROGRAM-FOR-RESULTS PROJECT (P144539)

**Aims** at improving institutional frameworks to finance disaster risk reduction activities and strengthen financial resilience to natural disasters for targeted population in the Program's area (support to an existing integrated DRM reform program)

**Size:** US\$ 200 million

**Duration:** 2016 – 2021

**Places additional focus** on improving resilience of low-income population

**Subprograms:** (1) *Promoting Institutional Reform and Capacity Building*; (2) *Scaling up Disaster Risk Reduction Activities*; (3) *Improving Disaster Risk Financing and Insurance*.

**Selected Program-for-Results modality**, because it: **(i)** provides incentives for achieving concrete results and allows targeting Bank's implementation support on achieving of these results; **(ii)** is well suited to support a government program that aims to improve the strategic management of an existing expenditure framework, including through more transparent investment selection processes and better monitoring and evaluation (M&E); **(iii)** enables the Borrower to use its own systems and focus Bank support on improving their efficiency and effectiveness, including on fiduciary and social and environmental issues.

# OUTPUT-BASED AID:



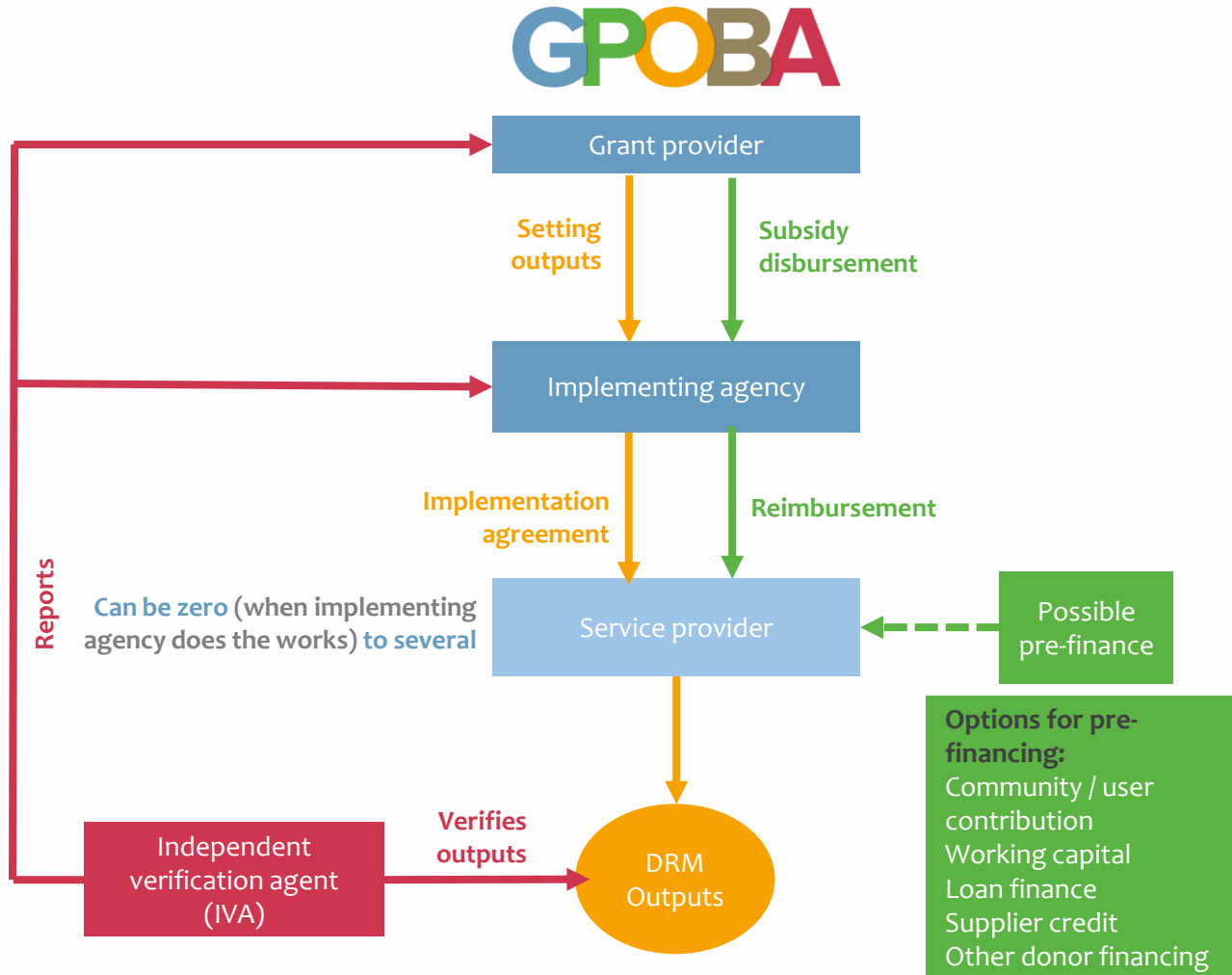
- Ties the disbursement of subsidies to the provision of basic services for the poor and marginalized communities;
- Contracts service delivery out to a third party (public, private or PPP scheme), who receives the subsidy - the service provider pre-finances the project and is reimbursed only after the outputs delivered are verified by an independent verification agent.

Steps required for project preparation:

1. Understanding priorities and setting clear targets;
2. Understanding capacity of the implementing agency and the service provider;
3. Choosing right subsidy mechanism;
4. Ensuring independent verification of the results.

OBA scheme can work as a stand-alone operation or support other financing instruments and programs.

# STRUCTURE OF A TYPICAL OBA PROJECT



1. A Service Provider (public, private or public-private partnership scheme) self-finances and delivers pre-defined outputs;
2. To receive these subsidy payments, the results must be verified. First, the Service Provider reports on the outputs it has delivered to an Independent Verification Agent (IVA);
3. The IVA reports back to the funding bodies on the actual quantity of outputs delivered. IVA checks may be scheduled over a number of months to ensure sustainability of outcomes;
4. Based on the verification reports, the fund providers release funds to the Implementing Agency;
5. The Implementing Agency then releases these funds as subsidy payments to the Service Provider;
6. The project may also provide incentives to Service Providers in the form of low-cost refinancing of credit. In these cases the International Finance Institutions (IFIs) can provide low cost loans to the Implementing Agency;
7. The Implementing Agency then uses these loans to offer low cost loans to the Service Providers. These loans are typically used to finance household credit, the profits of which are used to finance Service Providers' working capital;
8. The IVA gathers information on output delivery throughout the course of the project and delivers an ex-post evaluation review to the funding bodies at its close.



# SUBSIDIES IN DISASTER RISK MANAGEMENT

- Across 17 cases identified in a desk review, subsidies have been used mainly in **risk reduction** and **recovery**, with less frequent use in **risk identification** and **financial protection**
- Subsidies have been used both in **developed** and **developing countries**. The World Bank has been involved in some of these programs, including post-disaster recovery of settlements in Colombia and Pakistan and providing disaster information to insurance companies in Mongolia

## Among the 17 case studies,

- Only one program has explicitly targeted the poor
- Several targeted disaster-affected and internally displaced households.
- Most subsidies were given without regard as to income level to retrofit private houses, increase overall urban resilience, and help affected populations



# SUBSIDIES IN DISASTER RISK MANAGEMENT: SUMMARY OF EXPERIENCE

## Subsidies in disaster risk management

<b>Risk identification</b>	<ul style="list-style-type: none"><li>Collecting disaster risk information</li><li>Performing risk diagnostic / assessment</li></ul>
<b>Risk reduction</b>	<ul style="list-style-type: none"><li>Upgrading informal settlements</li><li>Encouraging risk reduction by municipalities, including building safer schools</li><li>Increasing urban resilience</li><li>Retrofitting houses against earthquakes</li></ul>
<b>Preparedness</b>	No use of subsidies identified in preparedness
<b>Financial protection</b>	Provision of information to insurance companies
<b>Resilient recovery</b>	<ul style="list-style-type: none"><li>Assisting recovery of small-to-medium enterprises</li><li>Aiding transport sector recovery</li><li>Assisting reallocation</li><li>Aiding housing reconstruction</li><li>Ensuring reconstruction is resilient</li></ul>

### The Japanese experience with subsidies in DRM

The Japanese government has used subsidies extensively in DRM. Among its programs are: (i) reinforcement of schools against earthquakes; (ii) identification of housing vulnerability to disasters and subsequent support to house retrofitting; (iii) reducing disaster risk through targeted subsidies related to a particular problem – e.g., concrete fences causing casualties in earthquakes; (iv) in-kind help and results-based subsidy after retrofitting a private house (with a compensation from the government to a household if the house retrofitted through this program was damaged nevertheless); (v) post-disaster subsidies for reconstructing damaged infrastructure for municipalities.

### Thailand's experience with subsidies for reducing disaster risk for low-income households

The Thai government developed two subsidy programs. One supported small-to-medium enterprises recovering from disaster by providing employment subsidies. The second was divided in two parts (both seeking to provide housing to low-income householders exposed to disasters): (i) managed by communities, which designed and implemented improvements; (ii) managed directly by the government to build ready-to-occupy flats and houses for lower-income households who could afford “rent-to-own” payments.

# PROGRAM-FOR-RESULTS AND OUTPUT-BASED AID

## PROGRAM-FOR-RESULTS

**Instrument:** lending

**Modality:** supporting new or existing programs of a government or nongovernmental parties

**Disbursement:** against achievement of verified results specified as disbursement-linked indicators

**Project preparation:** borrower is responsible for project-preparation. An advance for project preparation can support the preparation phase

**Necessary ex-ante steps:** program's strategic relevance, technical soundness, expenditure analysis, economic rationale, results framework, fiduciary and environmental and social systems and risks

**Implementation agency:** government or non-government parties

**Monitoring and control:** the task team of the Bank

**Operational features:** focuses on institutional strengthening

## OUTPUT-BASED AID

**Instrument:** grant

**Modality:** stand-alone or embedded in ongoing investment projects

**Disbursement:** through subsidies against verified results (such as # of households that gained access to electricity)

**Project preparation:** task team of the Bank is responsible for project preparation. A technical assistance from GPOBA is used for project preparation

**Necessary ex-ante steps:** strategic relevance, assessment of capacity of the implementing agency and the service provider, selecting subsidy mechanism and assessing its relevance, ensuring capacity of independent verification agent

**Implementing agency:** public agency or utility, private service provider, non-government organization, community-based organization

**Monitoring and control:** independent verification agent

**Operational features:** specifically targets poor households or marginalized communities

# OPPORTUNITIES FOR OUTPUT-BASED AID IN DISASTER RISK MANAGEMENT

Output-Based Aid approach helps keeping focus on poor

- The poor are disproportionately affected by disasters as they have fewer assets, and their livelihoods (such as agriculture) and consumption patterns are often more vulnerable\*;
- Disasters can also push people into poverty, while poor can be also significantly affected by small-scale disasters\*;
- Risk reduction often targets wealthier areas partly due to economic estimations, which project higher avoided damage in areas that are better off\*.

It helps the effectiveness of aid by increasing probability of achieving results and their quality, and ensuring ownership of what was achieved

Since financing is disbursed upon results, this approach helps increasing accountability of the counterparts and ensuring that resources are used where needed



# HYPOTHETICAL CASE STUDIES OF RBF INTERVENTIONS FOR FURTHER DISCUSSION

<p><b>Challenge</b></p> <p>Cost for post-disaster reconstruction and affordability for poor households</p>	<p><b>What we want to achieve</b></p> <p>Reconstruction of housing that adheres to disaster-protection norms</p>	<p><b>Challenge</b></p> <p>Household vulnerability in disasters (e.g., floods, landslides, earthquakes) and affordability of retrofitting for households</p>	<p><b>What we want to achieve</b></p> <p>A targeted and sustainable approach to retrofitting houses</p>	<p><b>Challenge</b></p> <p>Insurance companies cannot access the market and/or disaster insurance coverage is expensive</p>	<p><b>What we want to achieve</b></p> <p>Affordable collection of disaster information, and possibility of providing more affordable premiums due to reduced price of data collection and less uncertainties about risks</p>
<p><b>Target of the subsidy</b></p> <p>Housing construction agency or the local government, with in-kind participation of local population</p>	<p><b>Preparation issues</b></p> <p>(1) Criteria for selecting the affected households; (2) Subsidy mechanism that reduces payment risk issue; (3) Ensuring participation of the local population; (4) A risk assessment is required prior to organizing the new settlement or constructing the disaster-resilient houses; (5) Independent verification may be needed throughout the reconstruction to help achieve the desired results.</p>	<p><b>Target of the subsidy</b></p> <p>Construction agency with an in-kind or monetary participation of the eligible households</p>	<p><b>Some preparation issues</b></p> <p>(1) How to ensure effective targeting? (e.g., by involving communities in selecting the poor households); (2) How to ensure participation of the households? (3) How much can a household afford to contribute? (4) Is the construction agency able to pre-finance the works? (5) Is the government willing to support the program?</p>	<p><b>Target of the subsidy</b></p> <p>Insurance company (or a government agency that collects and provides free disaster information to the company)</p>	<p><b>Preparation issues</b></p> <p>(1) Set targets with regard to collection of information; (2) Decide how to deal with information sharing if subsidizing the company; (3) Avoid adverse impact on the insurance market.</p>
<p><b>Benefits of using RBF</b></p> <p>RBF can support other investment projects through provision of performance-based subsidies. Using RBF helps to ensure good targeting. Involvement of local people creates jobs and increases ownership, even as people are being trained in new skills. RBF also allows for the payment of subsidies in several installments (e.g., payments upon educating the population, selecting the site, constructing the foundation, etc.), which lowers risk for the other actors.</p>	<p><b>Benefits of using RBF</b></p> <p>RBF increases ownership of achieved results. In the above scenario, subsidies will complement some part of the cost that will be covered by households (in-kind or material). At the same time, subsidies would be disbursed only upon construction being completed. Basic retrofitting measures could be performed within smaller projects, like OBA interventions, but could also reach remote areas.</p>	<p><b>Benefits of using RBF</b></p> <p>Since actors involved are paying part of the cost of information, it increases their ownership of it. Correct setting of the outputs could also help ensuring quality of the collected information.</p>			

# Open Discussion



- Are you aware of any subsidy programs in disaster risk management? What were their success and lessons learned?
- Could there be a request for a subsidy program that disburses by results in your region?
- Which pillars of disaster risk management can OBA best contribute to?
- How can OBA approach help achieving the results in disaster risk management?

Looking forward to your comments  
in the e-discussion thread or send  
them to us via email

Thank you!

Output-Based Aid/Results-Based Financing Community of Practice

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