Climate Investment Funds

SREP/SC.6/10
October 24, 2011

Meeting of the SREP Sub-Committee
Washington, D.C.
November 1, 2011

Agenda Item 10

SREP AND RESULTS-BASED FINANCING

Proposed Decision by the SREP Sub-Committee

The Sub-Committee reviewed document SREP/SC.6/10, *SREP and Results-Based Financing*, and welcomes the conclusion that there does not appear to be conflict between a results-based financing approach and the current SREP results framework. The Sub-Committee takes note of the recommendation in the paper that the results framework be reviewed and revised to achieve better clarity regarding core objectives, the expected co-benefits and the outcomes of SREP financing, and requests the CIF Administrative Unit, in collaboration with the MDB Committee, to prepare a proposal for a simplified results framework that incorporates results-based aid approaches for consideration at the next meeting of the Sub-Committee.

I. BACKGROUND

1. In its June 2011 meeting, the SREP Sub-Committee requested the CIF Administrative Unit and the MDB Committee to "review the SREP results framework and to inform the next meeting as to how some of the indicators in the framework could be linked to results-based financing." This paper has been prepared in response to this request.

2. Results-based financing (RBF) includes a range of instruments that target micro-level outputs and outcomes (i.e., at the program and project level) and can be used by governments or development organizations to provide incentives to the private sector, civil society groups or sub-national government entities to carry out deployment, create or expand markets, or invest in innovation. RBF instruments may provide both capital and revenue support, and include instruments such as Output-Based Aid (OBA)[1], Advance Market Commitments (AMCs)[2] and Innovation Prizes[3].

3. Program for the Scaling-up Renewable Energy in Low Income Countries (SREP) includes provision for the use of RBF instruments in the agreed financing modalities, and there has been significant interest from the SREP Sub-Committee in promoting results-based approaches. However, it should be noted that RBF is not a 'silver bullet'; experience in the energy sector is limited; and RBF is likely to be applicable only in certain types of programs and projects, not all of which will be suitable for financing by the MDBs.

II. COMPATIBILITY OF SREP RESULTS FRAMEWORK

4. The SREP Results Framework agreed by the SREP Sub-Committee at its November 2010 meeting is based on a five-level logic model that feeds into the wider CIF Results Framework. The results framework follows from the logic model, and at present contains 21 indicators. Of these, nine indicators apply at the project or program level, and could be said to represent 'outcomes':

a) Percentage (%) change in number of project beneficiaries with access to energy services from renewable energy.
b) Percentage (%) change in number of GWh from renewable energy and per capita.
c) Number of jobs (women and men) in renewable energy services created.
d) Percentage (%) in tons (millions) of CO_2-equivalent mitigated and $ cost per ton.
e) Percentage (%) change in $ cost/GWh of renewable energy for project beneficiaries grid-connected.

[1] GPOBA (2010). Output-Based Aid: Lessons Learned and Best Practices. Available at: http://www.gpoba.org/gpoba/ebook
[2] Vivid Economics (2009). Advance Market Commitments for low-carbon development: an economic assessment. A report for DFID. Available at: http://www.vivideconomics.com/uploads/reports/low-carbon-amcs/DFID_low_carbon_AMCs.pdf
[3] DEW Point (2011). Evidence Review – Environmental Innovation Prizes for Development. A report for DFID.

f) Number and type of knowledge assets (e.g., publications, studies, knowledge sharing platforms, learning briefs, communities of practice, etc.) created
g) Number of non-SREP countries replicate SREP project approach (e.g., investment documents citing SREP pilot project documents)
h) Evidence of use of knowledge assets
i) Leverage factor of SREP funding; $ financing from other sources (contributions broken down by MDBs, governments, multilaterals and bilaterals, CSOs, private sector)

5. RBF programs/projects disburse funding in direct response to the results achieved by third parties, but the indicators used to trigger disbursements are at the 'output' (rather than 'outcome') level. For example, possible disbursement indicators for RBF programs might include:

a) Number of installations completed and/or operating at the end of each reporting period
b) Number of live connections at the end of each reporting period
c) Number of [lantern/PV system/pico-hydro] sales made
d) Tonnage of [briquettes] delivered (up to a specified limit)
e) Units of energy generated/delivered
f) Percentage improvement in efficiency/service level

6. As a result, RBF programs and projects are likely to utilize similar outcome indicators to programs/projects using conventional funding instruments. This means there are no perceived barriers in the current SREP results framework to the adoption of RBF.

III. SELECTING RBF INDICATORS

7. Selecting output indicators that are easy to understand and assess is hugely important. Although energy sector experience outside OBA is currently limited, RBF programs are most likely to be successful when there is only one indicator against which disbursements are made, although in some cases programs may have multiple incentives, thus introducing additional indicators[4]. However, multiple objectives can be incorporated by setting conditions for disbursement, such as a requirement for mini-grids to only use renewable energy sources, or for the supply of electricity to be continuous and/or attain a certain level of reliability. As a result, it may be possible to report by proxy against other indicators at the outcome level (such as GHG emissions avoided/saved) using a set of assumptions that flow from the central disbursement indicator.

8. For RBF programs, monitoring against the one or more chosen indicators takes places automatically because it is integral to disbursement. This is in contrast to up-front forms of financing, where monitoring needs to be built in as an additional item in the program's implementation strategy and where there is less incentive on the part of the

[4] For example, a RBF scheme targeting mini-grids might offer one incentive for each live connection, and another for every unit of power (kWh) generated.

program manager to carry it out. Factors outside the scope of the central disbursement indicator can then be dealt with via ex-post evaluation, most likely in conjunction with a baseline survey at the start of the program. This might include considerations such as new jobs created, increase in market turnover, and improved sustainability of local biomass resources. Other co-benefits, such as time savings, health improvements and educational benefits, are probably best dealt with by referencing the latest evidence (e.g. on the benefits of improved access to modern energy) in the logic chain.

IV. CONCLUSIONS

9. There does not appear to be a conflict between the RBF approach and the current SREP results framework. RBF instruments are highly compatible with SREP's objectives, perhaps particularly so in the case of promoting greater access to modern energy services through new and expanded markets and private sector delivery. In the case of energy access, SREP's dual focus on renewable energy is perhaps best seen as a condition for financial support under RBF mechanisms, rather than an explicit objective.

10. On a word-for-word basis none of the possible RBF disbursement (or output) indicators mentioned above correspond to SREP program/project indicators. This highlights the fact that the current set of SREP indicators is set at the outcome level, and would be assessed through ex-post evaluation. The current indicators are also very broad, reflecting the desire to capture a wide range of objectives.

11. The existence of 21 indicators across five levels raises the question of whether the current results framework is proportionate and well-structured. At present, SREP appears to have a large number of objectives at different levels: increased use of renewable energy, improved access to modern energy services, improved energy security/reliability, economic benefits and jobs from a growing renewable energy sector, reduced costs of renewable energy, and improved respiratory health. This does not appear to be consistent with standard logframe guidance, with emphasizes having a clear logic model. Furthermore, many of the proposed indicators may be difficult to apply due to a lack of baseline data, and weak incentives for regular reporting.

12. Now that SREP programming is beginning, it may be an opportune moment to reconsider the results framework and achieve better clarity on the core objectives (desired 'impact'); the expected co-benefits of achieving these objectives, and then the outcomes that would be needed to do so. This might lead to greater specificity and focus in terms of the macro-level (impact/outcome) indicators, and greater flexibility for programs and projects to use just one or two micro-level (output) indicators.

13. Such an exercise would also enable the incorporation of results-based aid approaches into SREP which, similar to results-based financing, would require the use of just a few impact level indicators - for example, reduction in the rate of extreme energy

poverty[5], increase in renewable energy generation and/or avoided/reduced emissions, and improvement in the reliability of electricity supply.

[5] A number of organizations are considering how energy poverty could be measured and reported at the national level.