



Results Based Financing Mechanisms: Experience from Output Based Aid

*Partnership Forum Panel Sessions – Financing
Transformations*

CIF Partnership Forum

Cape Town, June 2011



Attracting Private Capital
for Sustainable Infrastructure Development

Financial Solutions Unit
Finance, Economics and Urban Development

Summary

2

- Results-Based Financing being talked about
- Output Based Aid (OBA) – what it entails
- OBA experience to date
- Findings on benefits of OBA approach
- Bangladesh example of OBA with SHSs
- Expanding local financing capacity
- Ensuring appropriate service level
- Mumbai example – framework for delivery at local level



Attracting Private Capital
for Sustainable Infrastructure Development

Financial Solutions Unit
Finance, Economics and Urban Development

Results based financing

3

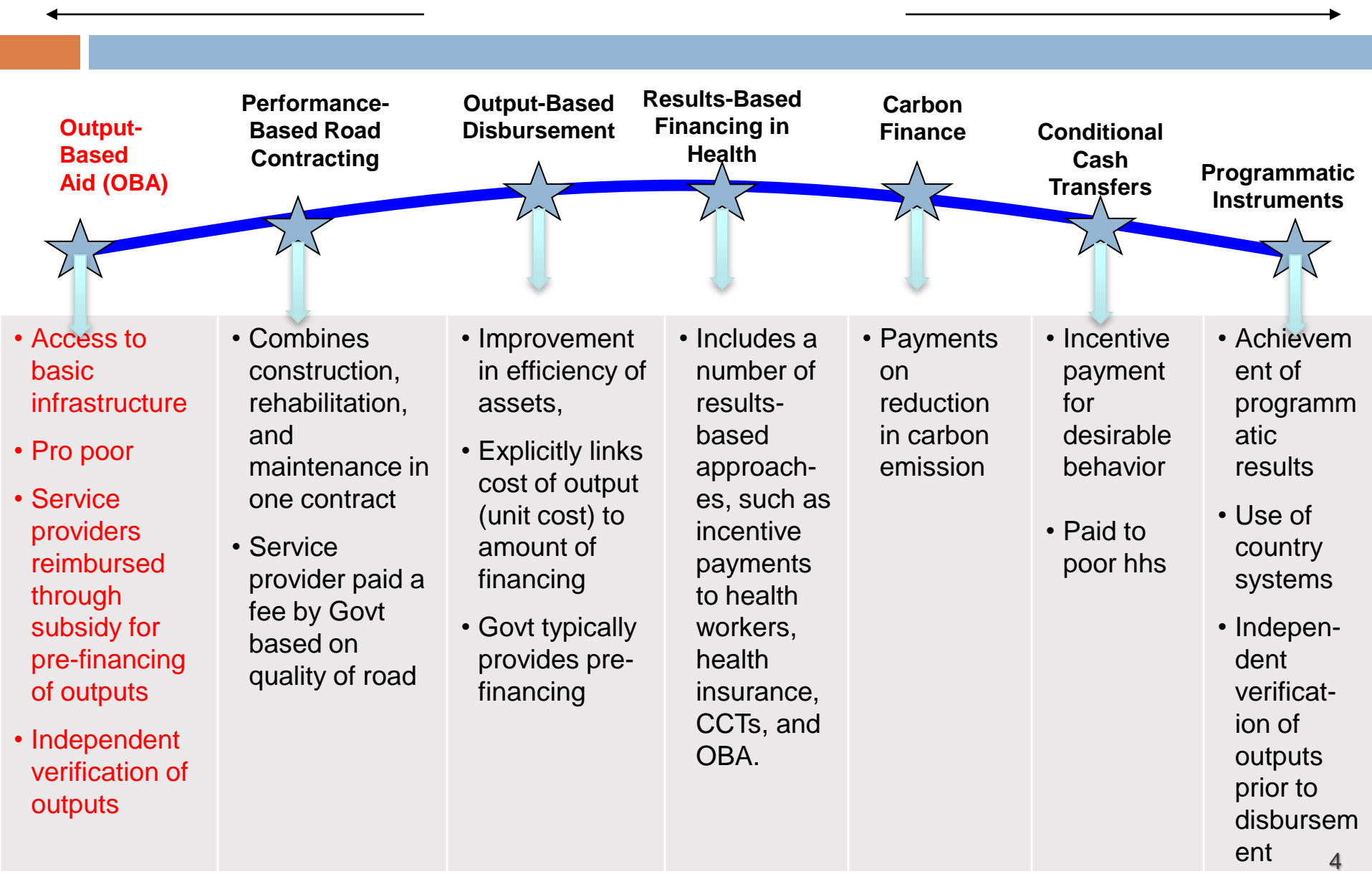
- Payments to businesses or households after measurable pre-agreed actions have been achieved and verified.
- “financing” refers to payment to address the gap in funding between costs and revenues – the affordability or viability gap.
 - ▣ Subsidy to households so they can afford costs of connections
 - ▣ Cross-subsidy to utility to purchase/produce otherwise financially uncompetitive energy



Attracting Private Capital
for Sustainable Infrastructure Development

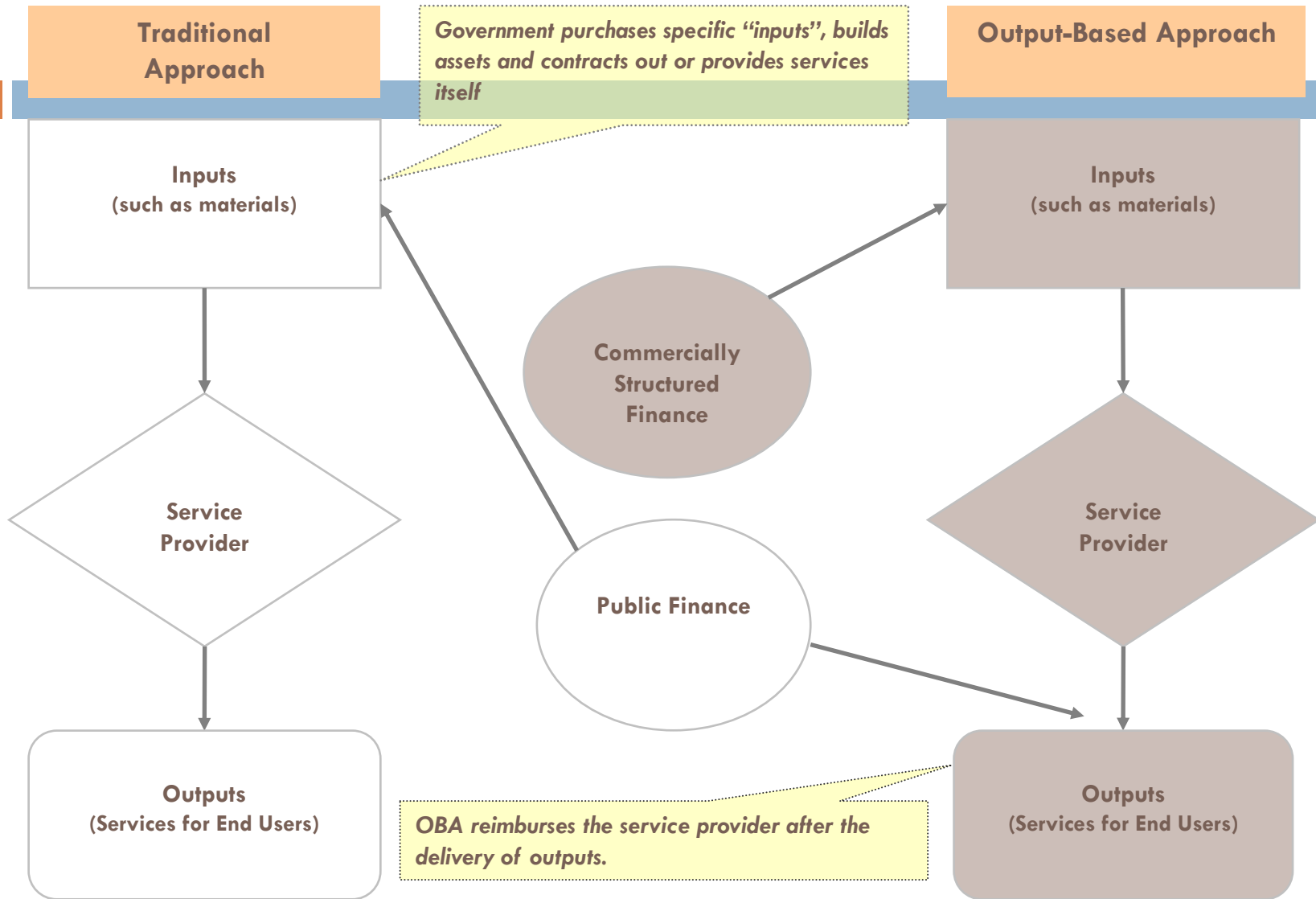
Financial Solutions Unit
Finance, Economics and Urban Development

OBA is part of a menu of instruments making up Results-Based Financing



Traditional approach vs. results-based

5



Attracting Private Capital
for Sustainable Infrastructure Development

Financial Solutions Unit
Finance, Economics and Urban Development

Risk transfer: Subsidy Provider to Service Provider

6

- Payment only after Service Provider has delivered adequate level of service.
- Service independently verified before payments are made.
- Several examples:
 - ▣ Output-based Aid and Feed-in tariffs most relevant to clean energy/climate change.



Attracting Private Capital
for Sustainable Infrastructure Development

Financial Solutions Unit
Finance, Economics and Urban Development

Output based Aid

7

- Determine the **service** to be provided (the output)
- End recipients are **targeted**
 - ▣ low income
- **Subsidies** set at an efficient level
 - ▣ Designed on case-by-case basis with sustainability in mind. Process for determining what the level of subsidy should be.
 - ▣ Based on competitive process or efficient unit price discovery – not actual cost.
- Design appropriate **institutional arrangements**
- Projects continually monitored and regularly improved upon.
 - ▣ Everything is designed up front



Uganda: Access to Sustainable Water Services for the Poor in Selected Small Towns

Significant experience with OBA

8

- 2002: 32 projects identified - \$1.5 billion WBG funding
- 2010: 131 projects identified - \$3.5 billion WBG funding (excl. \$2.8 bn government financing)
 - ▣ 66 projects identified outside the WBG
 - ▣ 51 Global Partnership on Output-Based Aid (GPOBA) projects, mainly in water, health and energy, of US\$153 m value (committed)
- Evidence base is increasing (34 projects closed, 78 under implementation)



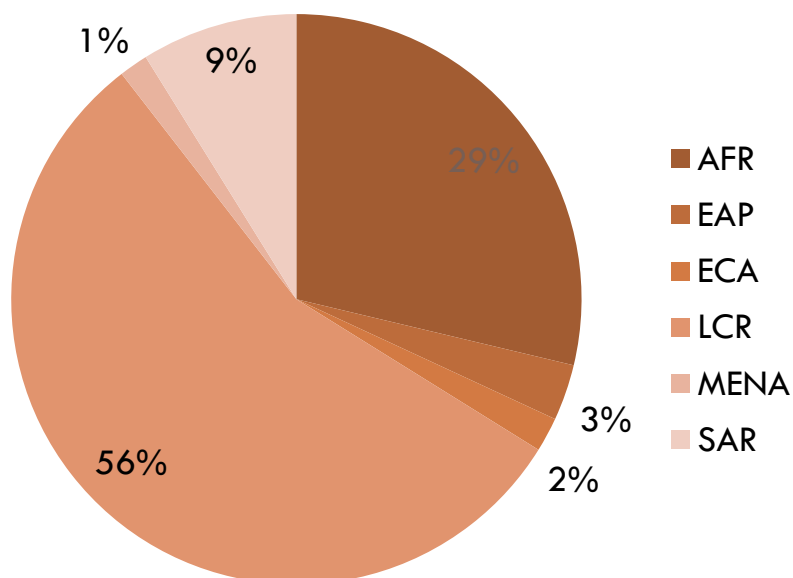
Attracting Private Capital
for Sustainable Infrastructure Development

Financial Solutions Unit
Finance, Economics and Urban Development

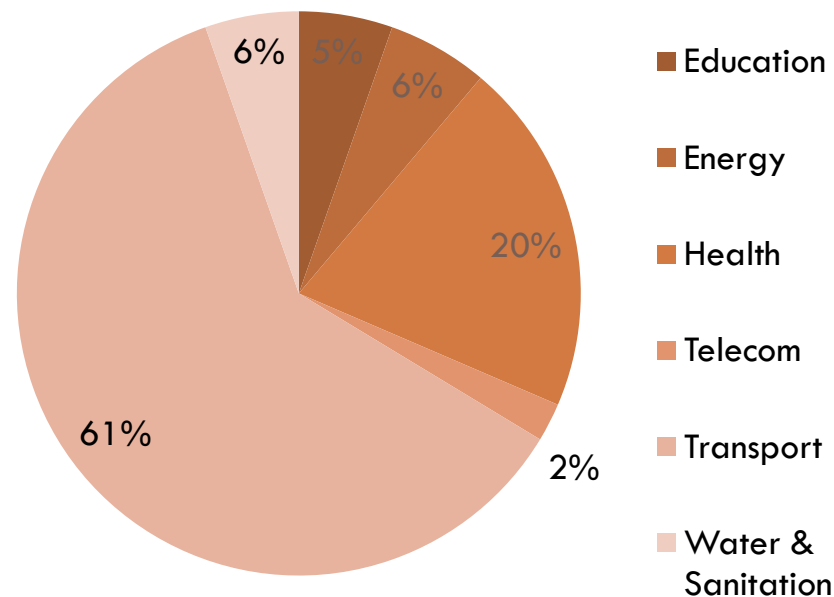
Snapshot of OBA in the WBG

9

WBG OBA Portfolio by Region



WBG OBA Portfolio by Sector



Attracting Private Capital
for Sustainable Infrastructure Development

Financial Solutions Unit
Finance, Economics and Urban Development

Lessons : Benefits of OBA Approach

10

- **Outcomes are targeted – explicit ex ante determination of who should be eligible for the scheme**
 - ▣ “Internalizing monitoring” by paying on outputs
- **Results focused – all stakeholders have strong incentives to deliver service (and are only paid after doing so)**
 - ▣ So far \$1 of subsidy has leveraged \$2 of private financing; varies by sector and region
- **Scope for Innovation and efficiency – service outputs rather than work inputs are prescribed**
 - ▣ efficiency gains through competitive processes
- **Designed in sustainable way – affordability assessment is carried out up front.**
 - ▣ Encourages careful subsidy design



Specific case: Bangladesh Solar Home Systems

11

- ❑ Rural Electrification and Renewable Energy Development (RERED) Project.
- ❑ Since 2003, with a variety of grant donors including GEF, KfW, GTZ and latterly GPOBA. Two rounds of credit support from IDA.
- ❑ Targeted at off-grid consumers.
- ❑ 1 million connections in May 2011 (440,000 connections since May 2010).
- ❑ New round of IDA financing being processed for \$172 million (630,000 new systems).



Bangladesh: Electrification for Poor Rural Households

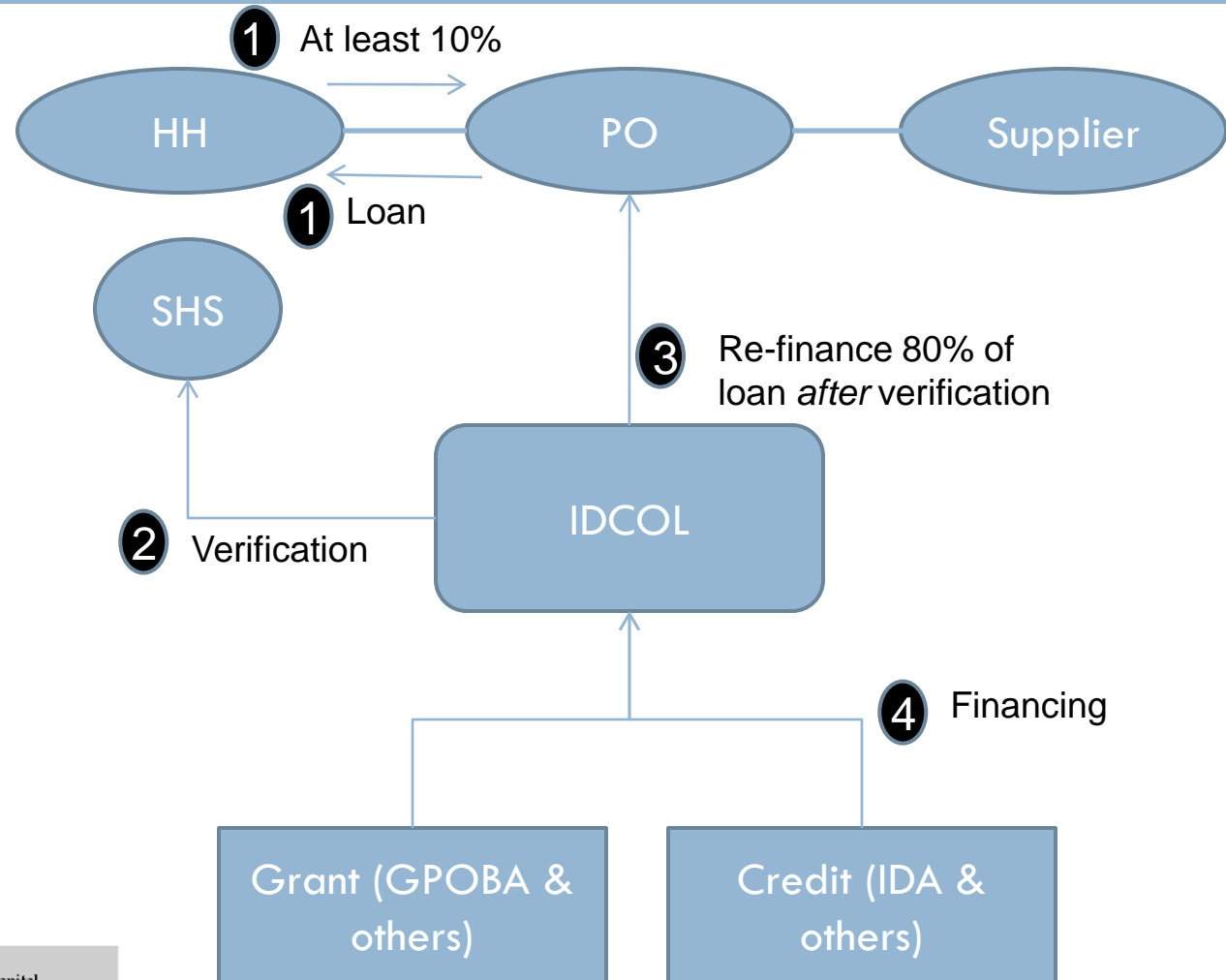


Attracting Private Capital
for Sustainable Infrastructure Development

Financial Solutions Unit
Finance, Economics and Urban Development

How it works: high level summary

12



Attracting Private Capital
for Sustainable Infrastructure Development

Financial Solutions Unit
Finance, Economics and Urban Development

Expanding local financing

13

- Need to pre-finance puts an onus on developing/leveraging the existing/local financing community
- The explicit (OBA) contract with clear output requirements provides certainty for payment/re-financing.
 - ▣ POs were offering hhs credit at a rate of 12-15% with a repayment period of 3-5 years. By setting up the results-based lending facility offering 6-8% over 10 years, POs could extract their capital for use in further new projects.
 - ▣ Rapid increase in the size of lending.
 - ▣ Entry of several financial institutions into the market.



Attracting Private Capital
for Sustainable Infrastructure Development

Financial Solutions Unit
Finance, Economics and Urban Development

Appropriate service levels

14

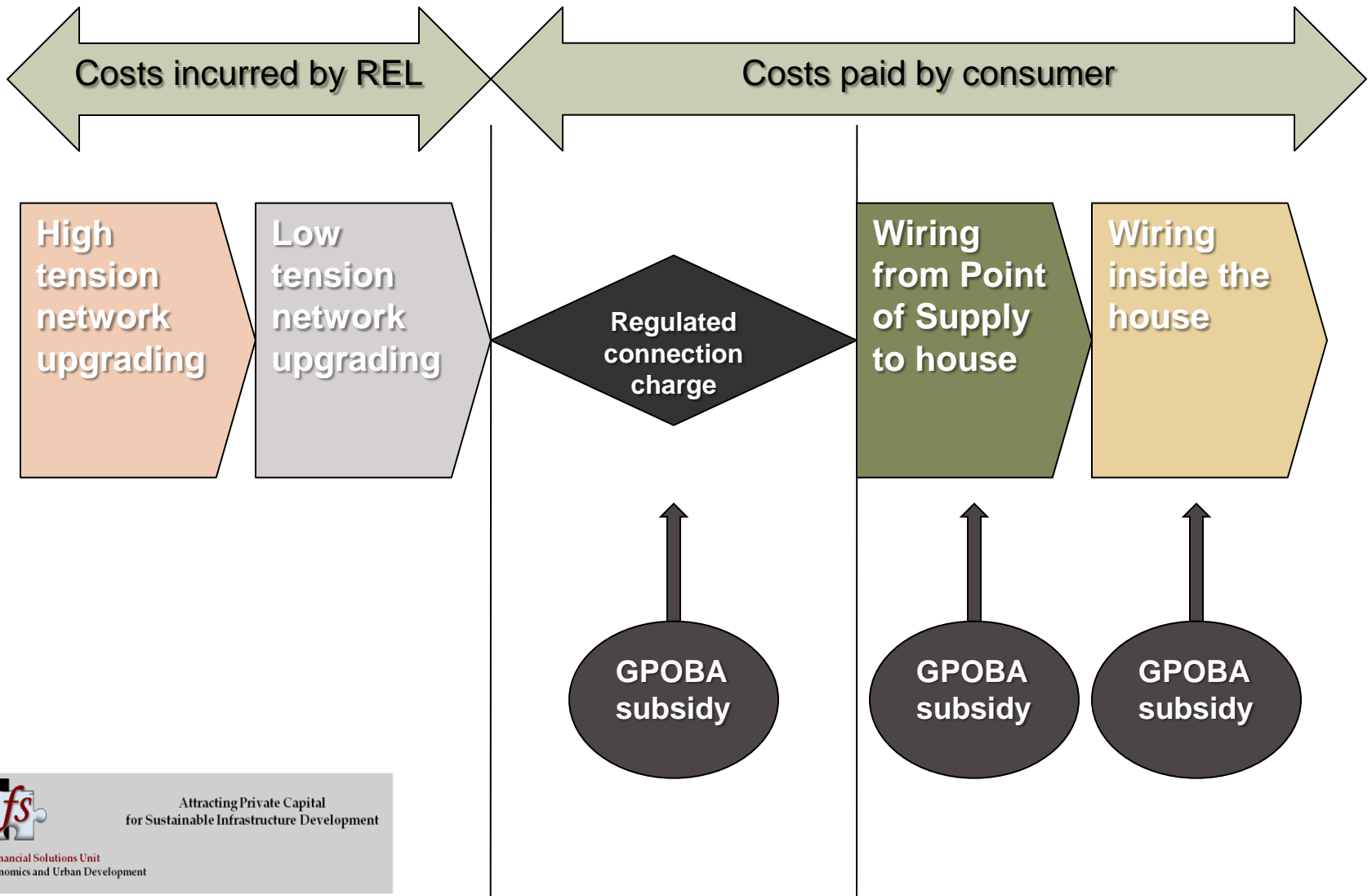
- The project minimizes risk that its suppliers won't perform by designing 'outputs' to reflect desired performance.
 - ▣ Includes post installation warranty.
- Government Agency (IDCOL) checks that this service requirement has been met before authorizing release of funds.



Attracting Private Capital
for Sustainable Infrastructure Development

Financial Solutions Unit
Finance, Economics and Urban Development

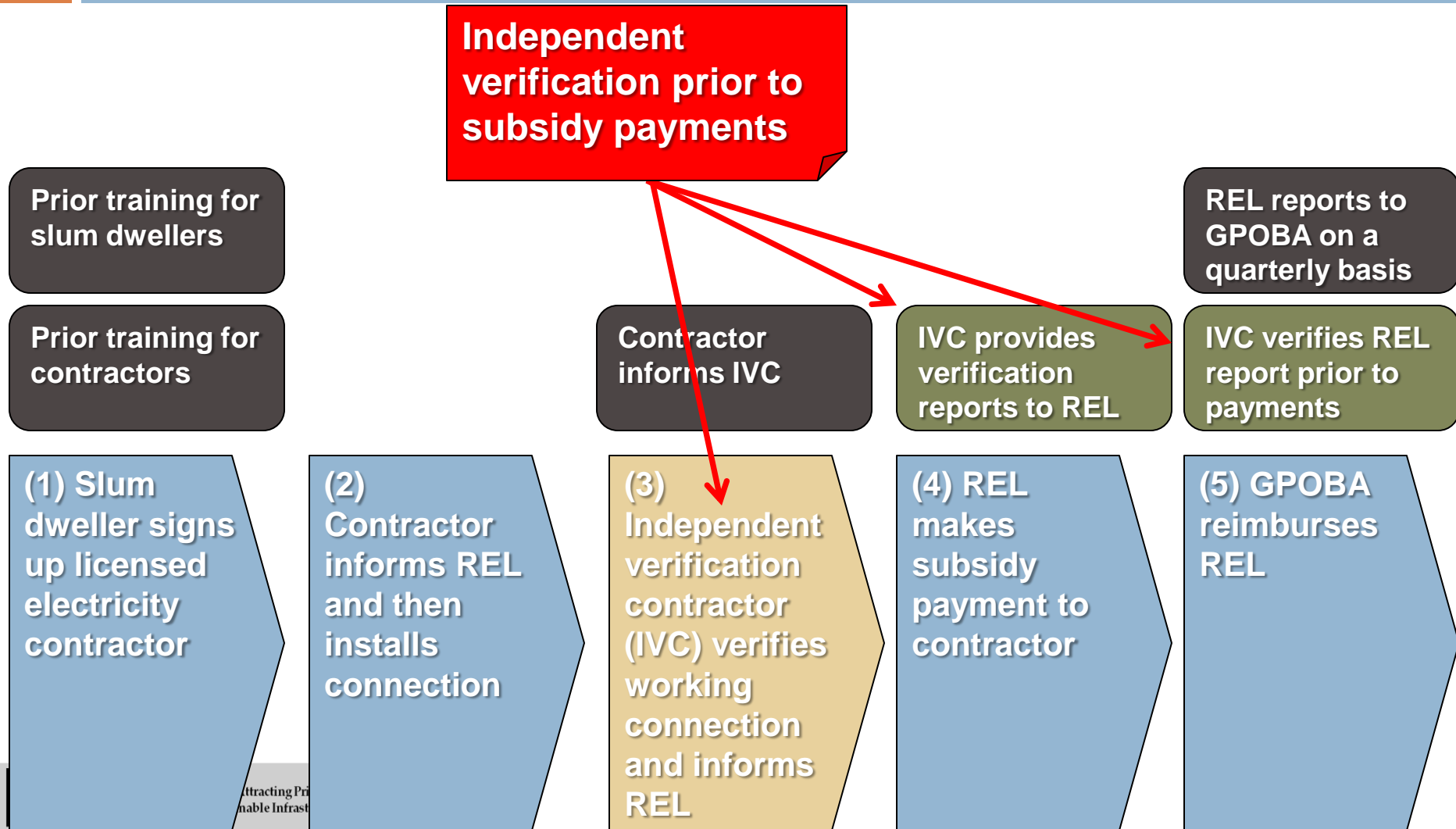
Case study: Mumbai wiring in slum context



Attracting Private Capital
for Sustainable Infrastructure Development

Financial Solutions Unit
Finance, Economics and Urban Development

Sequence of events under the project



Provides framework for delivering access and energy efficiency at local level

17

- Service delivery meets technical and affordability requirements in areas that are beyond the responsibility of the regulated distribution company.
- Supports delivery of adequate basic services in an informal/slum environment.
- Ensures that the financial support is used **efficiently** and delivers **targeted** and **effective** results.



Attracting Private Capital
for Sustainable Infrastructure Development

Financial Solutions Unit
Finance, Economics and Urban Development

Mustafa Zakir Hussain
Senior Infrastructure Finance Specialist
The World Bank

mhussain2@worldbank.org

For information on OBA, visit:

www.gpoba.org



Attracting Private Capital
for Sustainable Infrastructure Development

Financial Solutions Unit
Finance, Economics and Urban Development



Attracting Private Capital
for Sustainable Infrastructure Development