

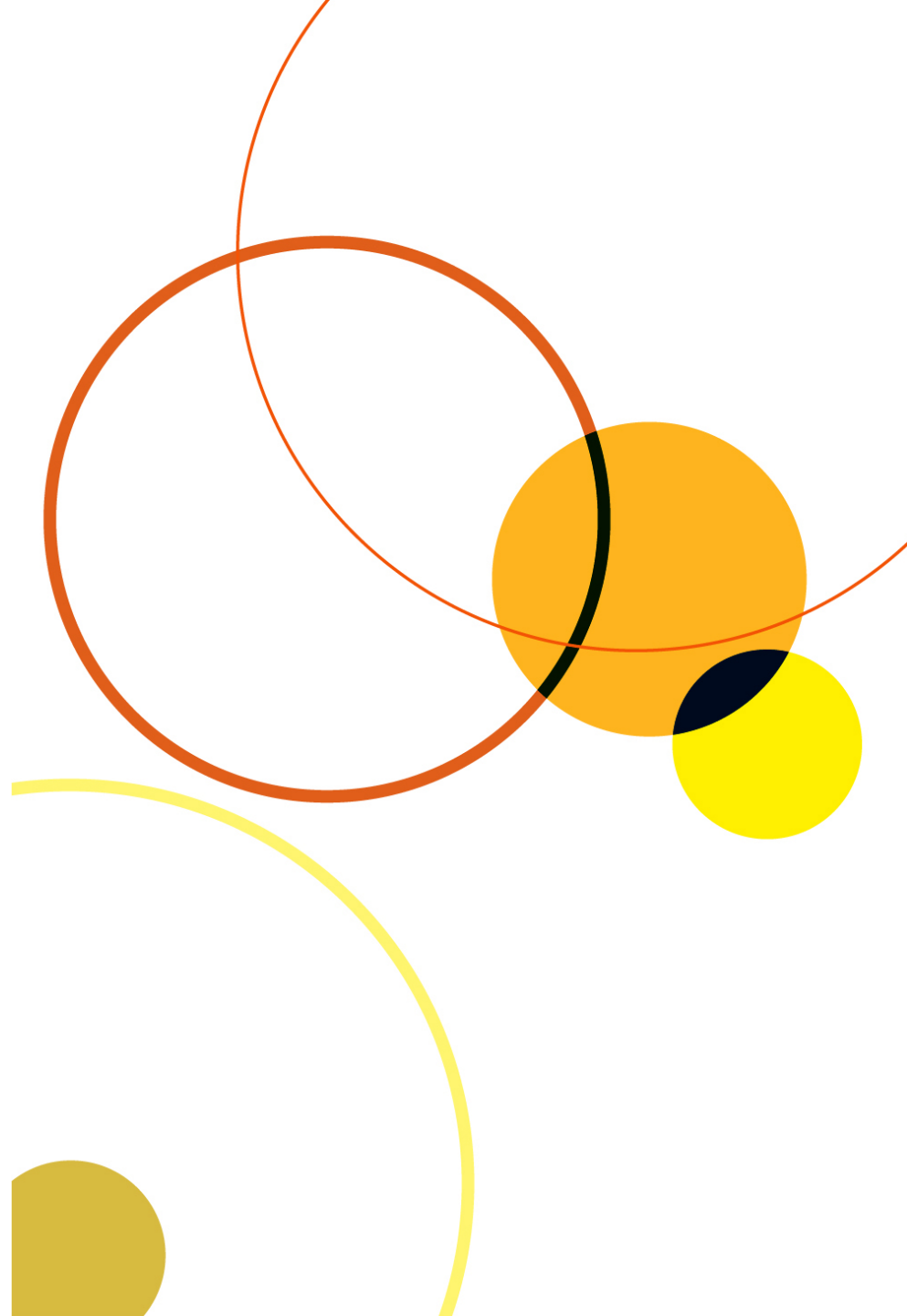
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# Using results-based approaches to achieve climate outcomes

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**Presentation prepared for CCXG  
Global Forum**

19th September 2013



## Key conclusions

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1. Despite the complexity of terms often used, the key aspects of results-based approaches are easy to identify.
2. Results-based approaches are already commonly used in development finance, and are increasingly being discussed and used in relation to climate finance.
3. The available evidence suggests that often results-based approaches **can** be effective; but a number of concerns have been noted.
4. Results-based approaches should therefore be used in the ‘right’ circumstances; taking account of their economic features.
5. There are likely to be a number of such cases in relation to climate.

# Introductions

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ESMAP is a global technical assistance program administered by the World Bank and situated in the World Bank's Sustainable Energy Department in Washington, DC. ESMAP's program includes both regional and country-focused activities implemented by the regional units of the World Bank, and global initiatives managed by the ESMAP core program unit. The ESMAP core unit of about 25 staff is responsible for the day-to-day management of the program, following the strategy laid out in ESMAP's Business Plan as approved by the CG. The unit comprises teams working on energy access, clean energy, energy efficient cities, energy assessments and strategy, results-based approaches for energy sector development, gender, small island developing states, communications, and monitoring and evaluation.

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Vivid Economics is a leading strategic economics consultancy with global reach. We strive to create lasting value for our clients, both in government and the private sector, and for society at large. We are a premier consultant in the policy-commerce interface and resource and environment-intensive sectors, where we advise on the most critical and complex policy and commercial questions facing clients around the world. The success we bring to our clients reflects a strong partnership culture, solid foundation of skills and analytical assets, and close cooperation with a large network of contacts across key organisations.

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1. What are results-based approaches? Where have they been used?
2. What evidence is there on the efficacy of results based approaches?
  - views of developing countries
3. Designing results-based approaches: when and where might they work best

## Results-based approaches can be defined by three key criteria

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following DFID, three criteria defined results-based approaches

1. (part of) payments are made contingent on achievement of previously agreed results;
2. recipient discretion as to how results are achieved; and
3. verification of results by an independent third party as the trigger for disbursement

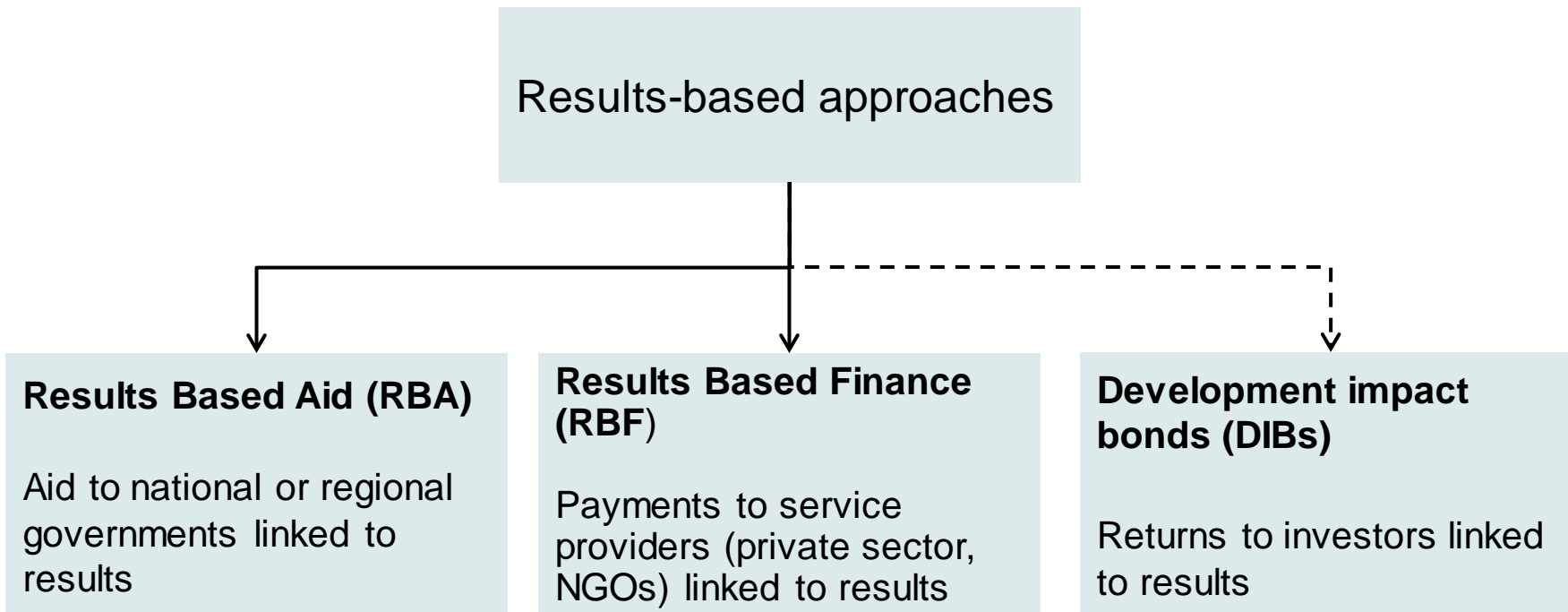
aims to provide, through dialogue,

- clarity on what results are desired
- maximum discretion to recipient as to how these results should be achieved
- reward in proportion to independently verified results

# There is some convergence over the terminology used for results-based approaches

**The framework below has been adopted by DFID, ESMAP and German Development Institute**

Figure 1. Results-based approaches can be split into RBA, RBF and (possibly) DIBs

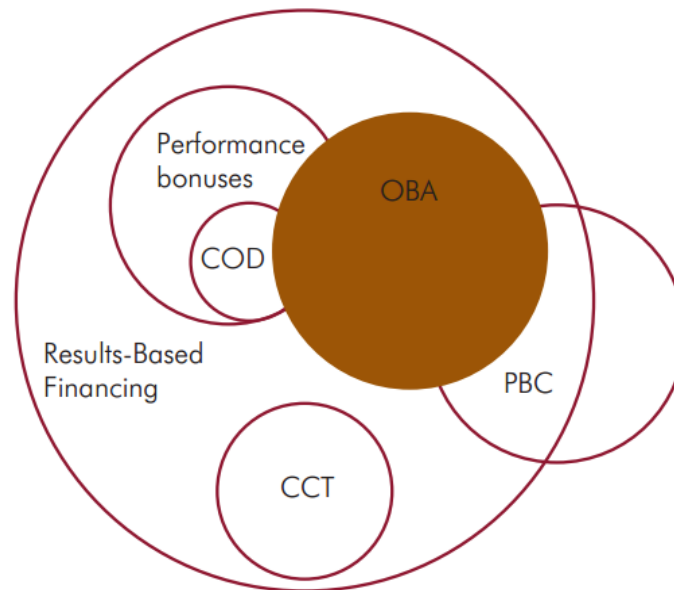


Source: Vivid Economics

# But beyond this, the terminology is a bit of a mess

## This is contributing to confusion

Figure 2. There is a confusing array of terms used to describe results-based approaches



CCT = Conditional Cash Transfers;  
COD = Cash on Delivery; OBA = Output-Based Aid;  
PBC = Performance-Based Contracting (for example, for roads)

Source: Johannes, Mimmi and Mumssen (2010)

# Results-based approaches are already being used in the climate and energy space

**These provide valuable learning as the Green Climate Fund assesses how to deploy results-based approaches**

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although some argue over the details, there is a broad similarity between the Clean Development Mechanism (CDM) and RBF

- payment is made contingent on delivery of emission reductions
- the project developer is free to design the emission reduction project however they like
- emission reductions needs to be verified before credits can be earned/sold

other RBF initiatives

- World Bank's Carbon Initiative for Development (Ci-Dev) which will pay a fixed price (not linked to traded prices) for new CERs in low-income countries
- the imminent 'GET FiT' programme – which will use donor funds to 'top-up' Uganda's renewable feed-in tariff

RBA-like initiatives

- Norway's initiative to reduce deforestation in Brazil, Indonesia and Guyana
- Energy+



# And there is also considerable experience in using results-based approaches in development finance

## **The health sector has been a pioneer**

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the Global Partnership on Output Based Aid's database lists more than 40 projects in which output based subsidy funding has been used

- wide range of sectors: health (dominant), water and sanitation (also large) education, telecoms
- and in all geographic regions

Advanced Market Commitment (AMC) for pneumococcal vaccine is a \$1.5bn RBF (plus additional 'baseline' baseline funds from GAVI) that it is estimated may prevent more than 1.5 million childhood deaths by 2020

RBA is somewhat rarer but some examples:

- DFID pilot to support education in Ethiopia
- Millennium Challenge Accounts of the Millennium Challenge Corporation share some of the characteristics of RBA

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## In many circumstances, results based approaches have been effective

meta-evaluation of OBA approaches suggest results-based approaches have more often been successful

corroborated by some Randomised Control Trials (RCTs)

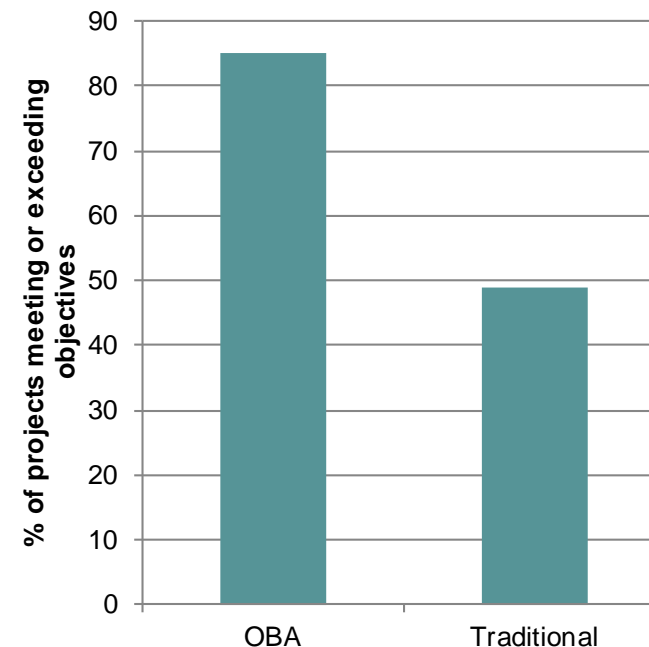
- study of performance-based incentives in Ugandan healthcare found a 20 per cent productivity increase when the payments became performance based
- results based payment to led to 21 per cent reduction in teacher absenteeism in India

also evidence of benefits in building capacity

- Mumssen, Johannes and Kumar (2010) find that the process of verification associated with results-based approaches improves transparency

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Figure 4. Evidence from GPOBA suggests results approaches are successful



Source: Johannes, Mimmi and Mumssen (2010)

## And the early evidence suggests that developing countries support them

### The greater discretion results-based approaches provide to developing countries is attractive

Parks & Rice (2013) survey of development policy makers and practitioners find approval and endorsement for results based approaches

- ‘providing payments to the government based on specific, measurable improvements in development outcomes’, was the second **most** popular change
- ‘eliminating all forms of conditionality’ was the second-*least* popular change to aid (named by 27 respondent),
- significantly, participants from governments of developing countries (364 out of the 640 participants) favoured conditionality-linked payments by a larger proportion than the sample as a whole (38 per cent, as compared to 37 per cent in the sample as a whole), and by a larger proportion than US government officials (33 per cent)

## But there are a number of concerns about their use

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- trade-off between equity and efficiency
- possibility of project cost increase
- humanitarian time-inconsistency
- inherent challenge of baseline and incentive setting
- challenges of long term commitments
- unpredictability of resource flows
- misuse of funds
- reductionist side-effect

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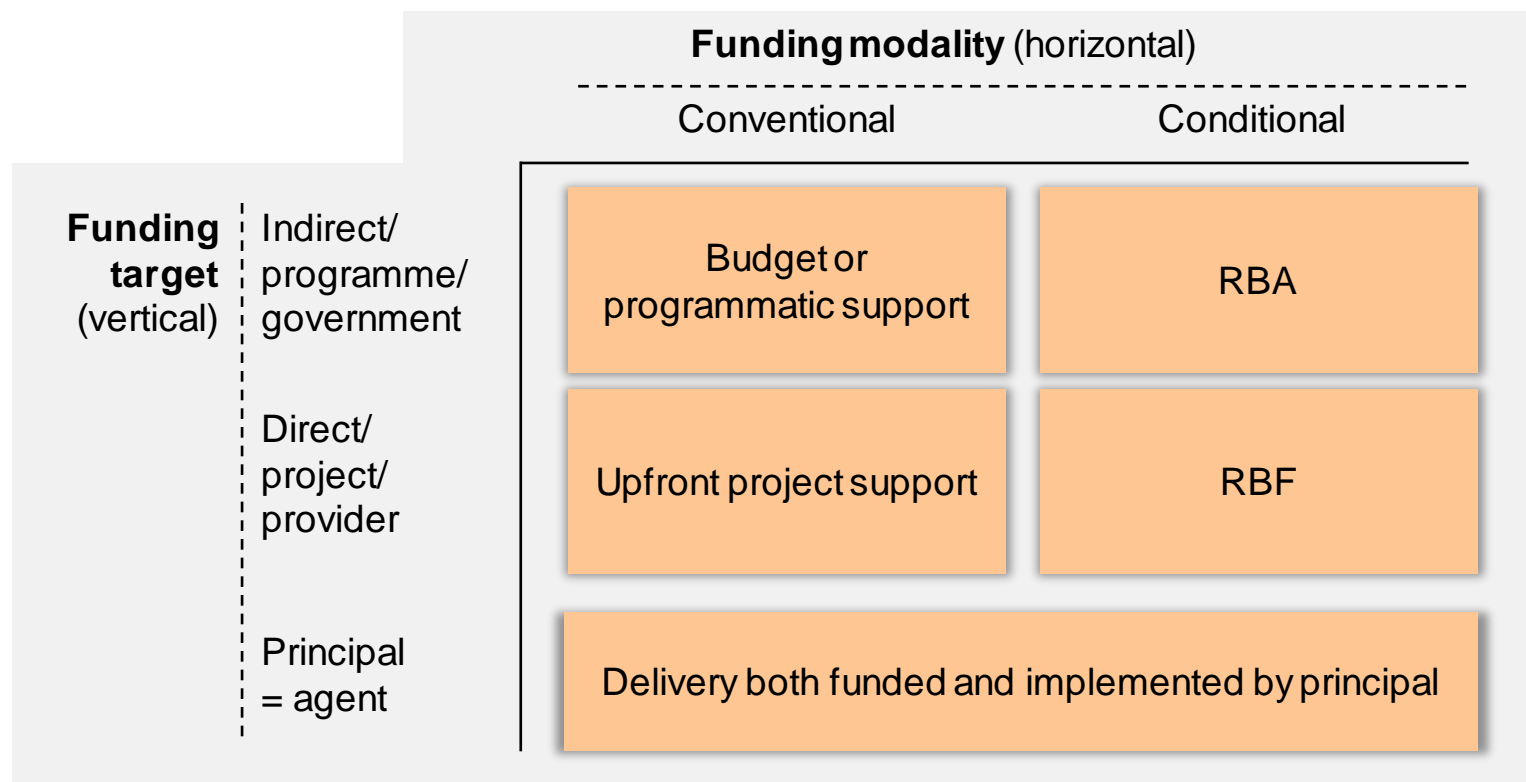
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# Results-based approaches can be placed in a broader taxonomy of support

**These vary according to the funding modality and the funding target**

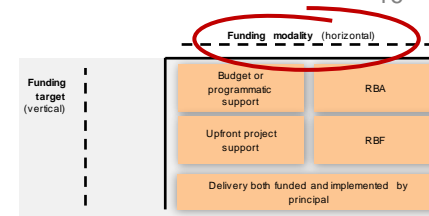
Figure 4. Instruments can be placed on a horizontal and vertical dimension



Source: Vivid Economics

# There are three preconditions to the successful use of results based approaches

**These apply equally to RBA or RBF**

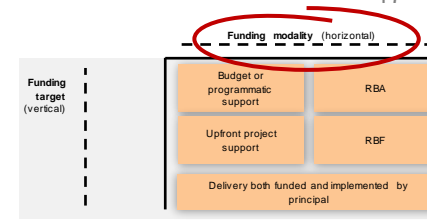


- credible principal
- interested/committed and capable agent
- prospective agents have sufficient access to finance



# The key characteristic of results-based approaches is that they change risk allocation

**Recognising this is crucial to considering where they may work best**



at heart, the choice between results based approach and conventional approaches is about risk allocation

— **note:** under results-based approaches the principal still bears ultimate delivery risk, including reputational risk

placing greater risk on agents has both an advantage and a disadvantage

— advantage: greater risk provides a stronger incentive, making the delivery of results more likely; it also reduces the need to monitor inputs

— disadvantage: the additional risks may require additional reward or lead the agent to not want to participate

the choice between results-based and conventional instruments is (largely) about managing this trade-off

# Increasing risk on agents is an unavoidable consequence of providing stronger incentives

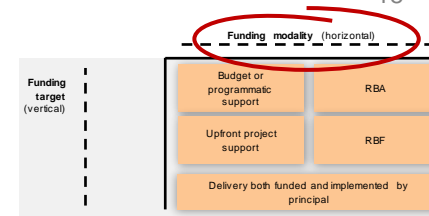


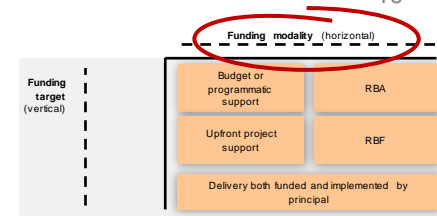
Figure 5. Stronger incentives and more risk for agents are two sides of the same coin



Source: Vivid Economics

# The use of results-based approaches rests on finding results indicators that balance 3 criteria

**These need to be assessed at the scale of the initiative**



1. acceptable risk transfer to the agent which, in turn, depends on
  - controllability of result
  - resources of the agent
  - the extent to which costs vary with greater or less delivery of the result
2. sufficient proximity to ultimate impact
3. sufficiently easy to monitor

# These concepts can be put into practice

This analysis relates to ongoing work examining results-based approaches for cookstoves in Ethiopia

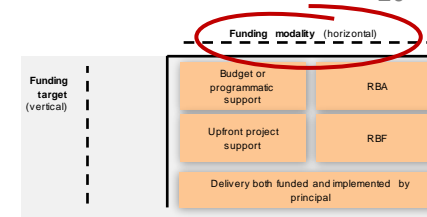
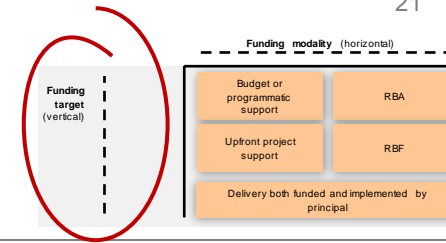


Figure 6. Different results indicators are more or less successful against different criteria

	Number of improved cookstoves sold	Overall penetration of cookstoves of different tiers	Overall penetration of cookstoves adjusted for use attributes	Hybrid result, combining sales with infrequent measures of use attributes	Carbon savings, health impacts or other metrics capturing desired impacts
Proximity to impact	Sale need not guarantee use.	Sale does not guarantee use and may capture other changes	Captures many aspects of whether stove is being used appropriately	Captures both availability and use, though use is measured infrequently	Directly measures the relevant impacts
Agent control over result	Good as does not expose agent to risk households use of stove	Good as does not expose agent to risk of how households use stove	More risk placed on agent but training of households could reduce risks	Agent is exposed to some risk from limited use	Further risk placed on government that may be less easy to control
Ease of monitoring	Built into existing MRV plans	May require more extensive use of surveys than planned	Would appear to need more extensive surveys to be compatible	Would require semi-regular household surveys	Very challenging to measure accurately at national level
Suitable result?	✓?	x	x	✓?	x

# Target choice depends on the characteristics of the initiative and the prospective agents



## initiative characteristics

- significant externalities would support RBA approach
  - leakage risk associated with REDD+
- significant economies of scale would support RBA
- does risk increase or decrease with greater scale?
  - diversification benefits but less ability for agent to control

## agent characteristics

- some agents will have much better access to finance or be technically competent

Once either an RBA or RBF instrument has been selected, there will be a range of different design questions to consider

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- instrument: grant or loans
- payout amount
- payout structure
- baseline
- should the principal take ownership rights?
- exit strategy?

## Results-based approaches: where next for climate?

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many mitigation cases when results-based approaches make sense

- risk transfer likely to be acceptable, many countries have the resources to pre-finance and an emissions monitoring framework is emerging
- agents likely to value the greater autonomy

much more difficult to implement when objectives are difficult to quantify (adaptation) or when trying to achieve multiple objectives

- although there may be benefits from forcing funders (and recipients) to be explicit about trade-offs

there is no need to start from scratch – development finance has explored many of the theoretical and practical issues

scope to combine with enhanced direct access to the GCF?

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