The Global Partnership on Output-Based Aid

OBA Approach:
Core principles and a case of rural electrification

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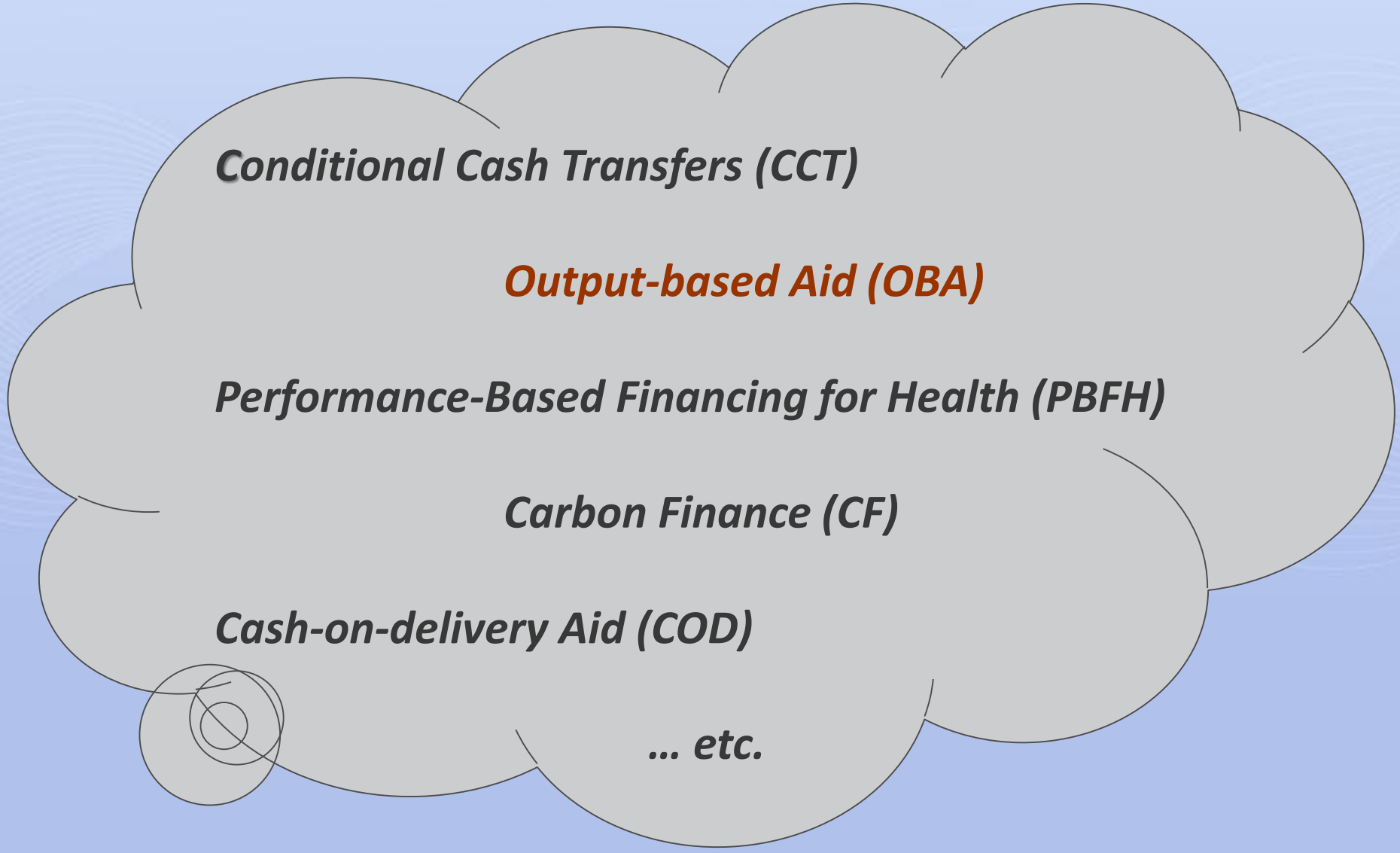
Result Based Financing…the “RBF Soup”



The Global Partnership on Output-based Aid

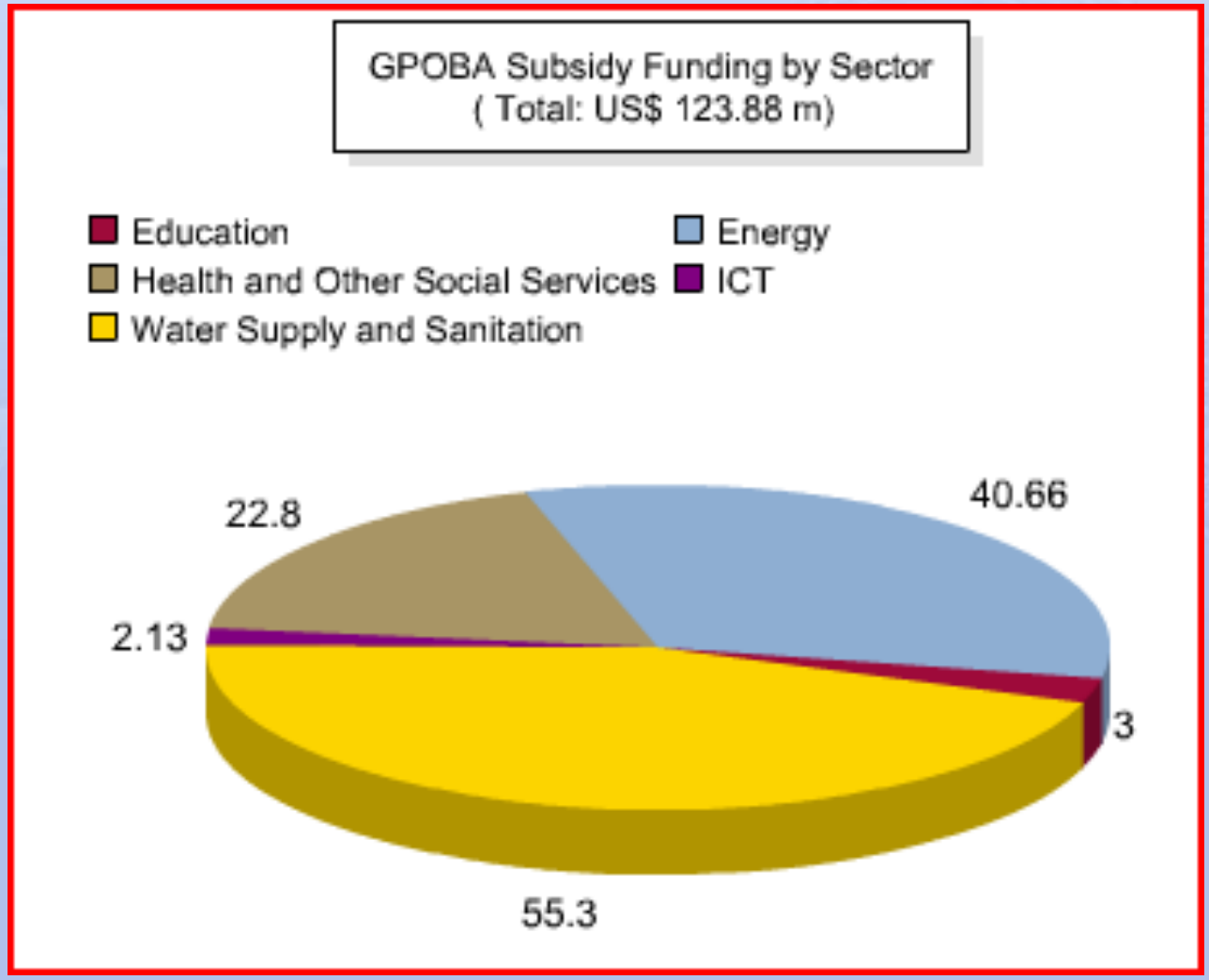
- Global Program **created in 2003 by DFID & WB** to test OBA projects, document and disseminate lessons learned

- 2005: DFID additional contribution enabled to fund **actual subsidy schemes**.
  - Current donors: DFID, DGIS, AusAid, SIDA, IFC

- In 2013 GPOBA will evolve:
  - ***From subsidy funding -> to "technical advisor"*** for development partners to help design their own OBA projects

Robust portfolio of subsidy funding

- **30 projects** totaling **US$130.6 m**
  40% FUNDING IN ENERGY
- Expected to benefit 7+ m poor people



Six Core Concepts define OBA

1. Targeting of subsidies
2. Accountability
3. Innovation and efficiency
4. Using incentive to serve the poor
5. Output verification
6. Sustainability

Core Concept 1
Targeting of subsidies (Colombia example)

A combination of **income-level** and **geographic targeting** used to connect poor households in the lowest-income strata with natural gas service on the Caribbean coast in Colombia.

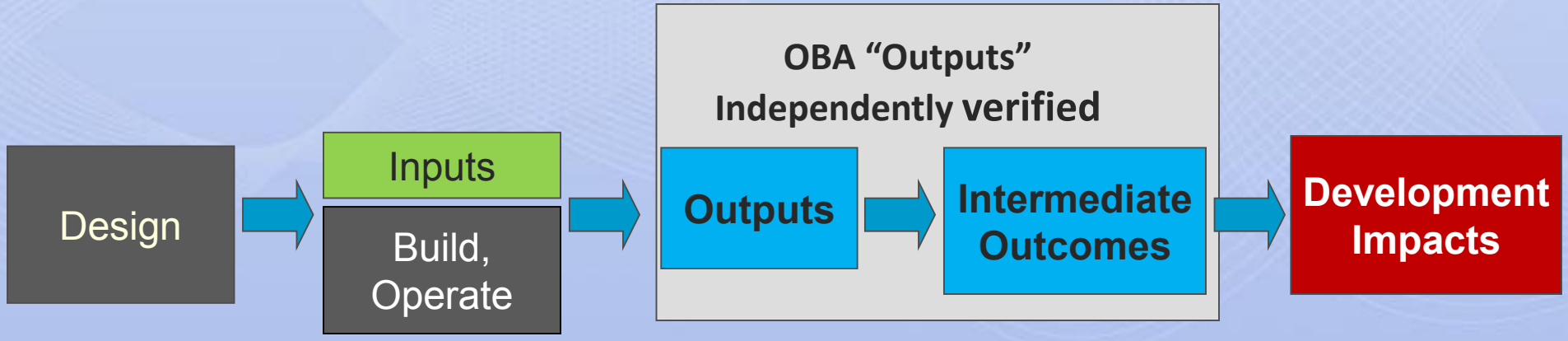
Core Concept 2
Accountability

Service provider is *accountable for results*, and incurs a "penalty" if results are not achieved.

- Service provider takes both **performance and finance risks**
- Service provider is reimbursed *after* delivery of agreed and verified output to targeted end-users (i.e. the "subsidy")

How can we hold supplier ACCOUNTABLE?

Contract for an output as closely related to desired outcome/impact as possible



- Output specification
- Service provider selection

OBA "Outputs" include

- *Water connection made & service provided*
- *Solar Home System installed & maintained*
- *Medical treatment provided*

Output DEFINITION: Bangladesh SHS

Solar Home System

Output DEFINITION: Solar PV Systems to Increase Access to Electricity in Ghana

Solar Home System

Output DEFINITION: Mumbai Slum electrification

CONNECTION & internal wiring

Determining the Value of the Subsidy

- For a given output:

The value of the subsidy is determined as:

The difference between the unit cost
and
the amount that the user is willing and able to pay.

Output-Based Aid (OBA)

Key role of M&E function in OBA Projects

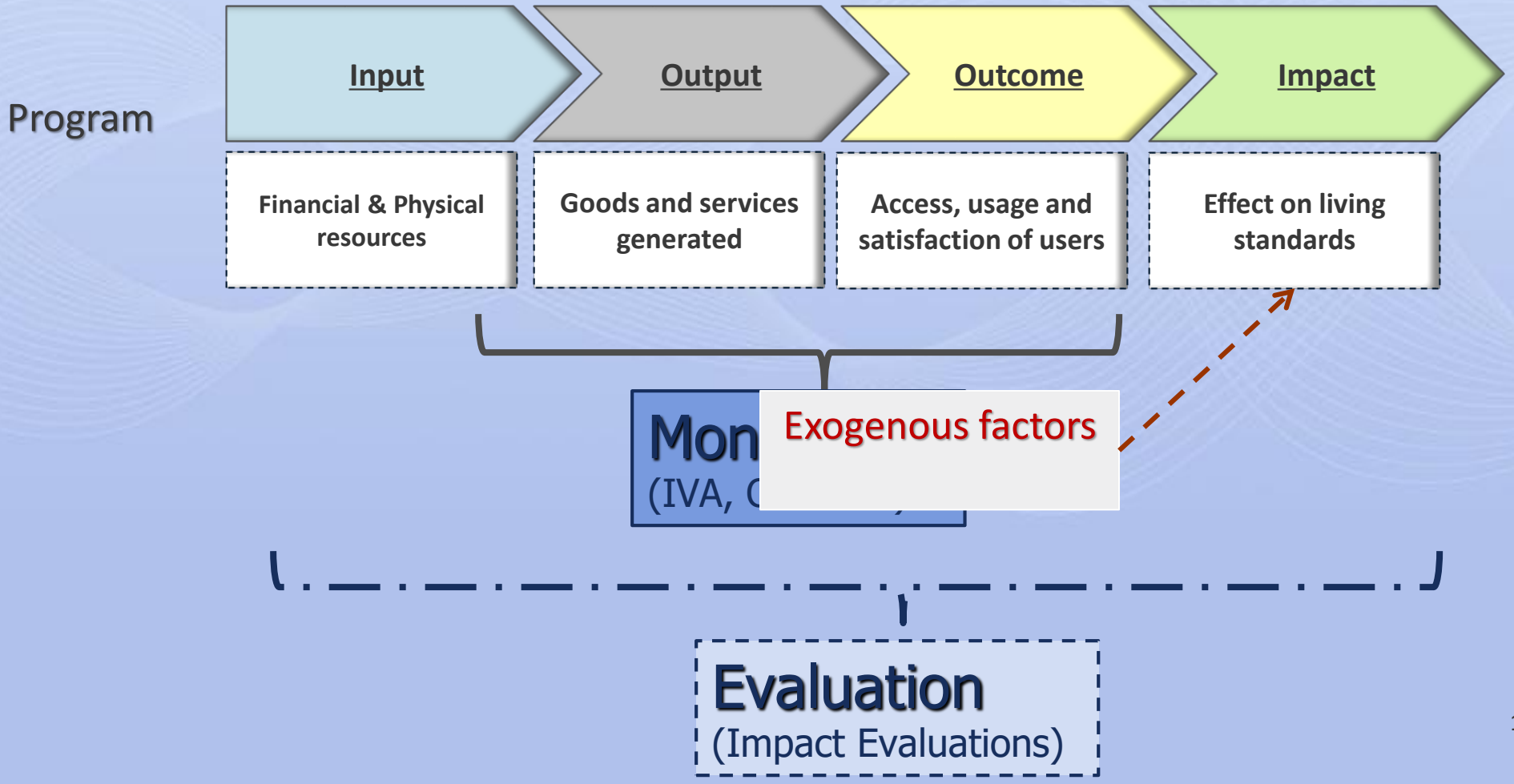
1. **OBA makes it *necessary* to monitor results delivered**
   - Monitoring framework as integral part of project design
   - Incentives and management attention built in, by linking disbursement to IVA reports

2. **OBA *helps supervision* of the project**
   - Regular output reporting helps spot implementation problems
   - Verification helps validate design (e.g. does targeting work?)

3. **OBA makes it *easier* to evaluate performance & development impact**

ESTIMATING IMPACT (causality)

(the challenge of attribution)



To find out more, visit
www.gpoba.org

Supporting the Delivery of Basic Services in Developing Countries

Ethiopia Electricity Access Rural Expansion Project: the "last mile paradox…"

Many poor households don't have access to energy BUT:

a) The **infrastructure has been installed** in their communities – often close

a) The **cost of connecting** them is **relatively small**

a) These **households can afford to pay for the services** once they are connected

Determining Appropriate Unit Costs for Specified Outputs

- The **avg connection cost** near the grid (usually less than 150 feet) **from US$50 to US$100** per household
- ~ 15% of hh annual income
- **Consumption** costs:
  - US$1.60 /m on kerosene (lifeline consumption about **US$8–10 per year** at prevailing rates.)
  - + firewood and dry-cell batteries for lighting
  - Or neighbors charge on a per lamp basis, resulting in an average equivalent tariff of about 30 US cents per kWh

Ethiopia Electricity Access Rural Expansion Project

Total Grant Amount: $ 8,000,000

BACKGROUND: a GPOBA component of a World Bank-funded project (EAREP II).

GOAL: increase access to grid electricity in rural towns and villages, by assisting EEPCo in its connection fee financing program

OUTPUT: (repaying loans for 80% cost of)

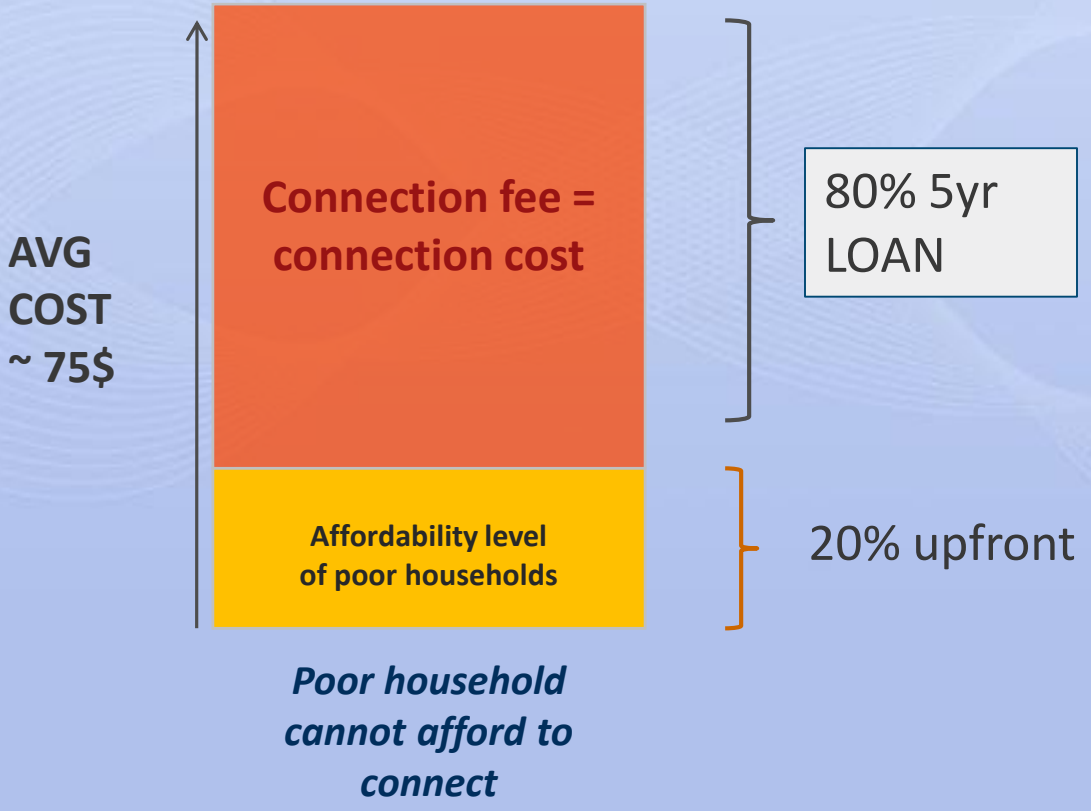
228,571 Metered Connection s

+ 2 CFLs per family

TARGETING: connection with concessional financing only available one year after the village had been electrified

OBA grant covers:

EEPCo's **costs of financing the loans** extended to poor household customers + **2 energy-efficient CFLs** x family



EEPCO receives
~ ***US$35 from GPOBA*** upon ***verification*** of outputs

1) 17.5$ once the **connection** and the distribution of CFLs take place
2) 17.5$ **after 3 billing** cycles

Key lessons learned

Efficiently targeting subsidies – A blend of targeting mechanisms is proving effective. More refined targeting mechanisms will be required with scaled-up projects, and as technologies change.

M&E – Internalizes monitoring (key design element). But quality of monitoring and verification varies.

Shifting performance risk to service providers – Success stories from all sectors of small amounts of OBA subsidy can mobilize private sector expertise to poor areas.

Not a substitute for sector reform – Need for legal and regulatory practices supportive of private sector risk-taking (i.e. development, monitoring and adjustment of contracts, tariff setting). Conversely… OBA helps redistribution of efficiency gains from sector reform to users through improved access and services.

Some challenges

Limited Pre-financing, access to finance, market development, ability to pay by users

- Difficulty in shifting sufficient performance risk if cost of financing outputs puts burden on provider and/or if the resulting fees to users (e.g., tariffs) are unaffordable

  > Phase-in payments against reasonable milestones as long as performance risk for output delivery for the most part remains with the service provider.

Capacity limitation to fulfill performance monitoring requirements

> Training, hiring of independent verification agents, involvement of NGOs, and private administrators.

Design flaws: over estimated unit costs or beneficiaries, implementing unit's capacity weaknesses

> Restructuring , extensions, and additional financing

Government: approvals, interference, procurement, unrest, natural disasters, reform context

➢ *Improve dialogue, project preparation and risk mitigation*

Thank you !

To find out more, visit:

- *GPOBA website:*

www.gpoba.org

- *OBA-Data website:*

www.oba-data.org