

# Results-Based Financing

Presentation to SREP Sub-Committee

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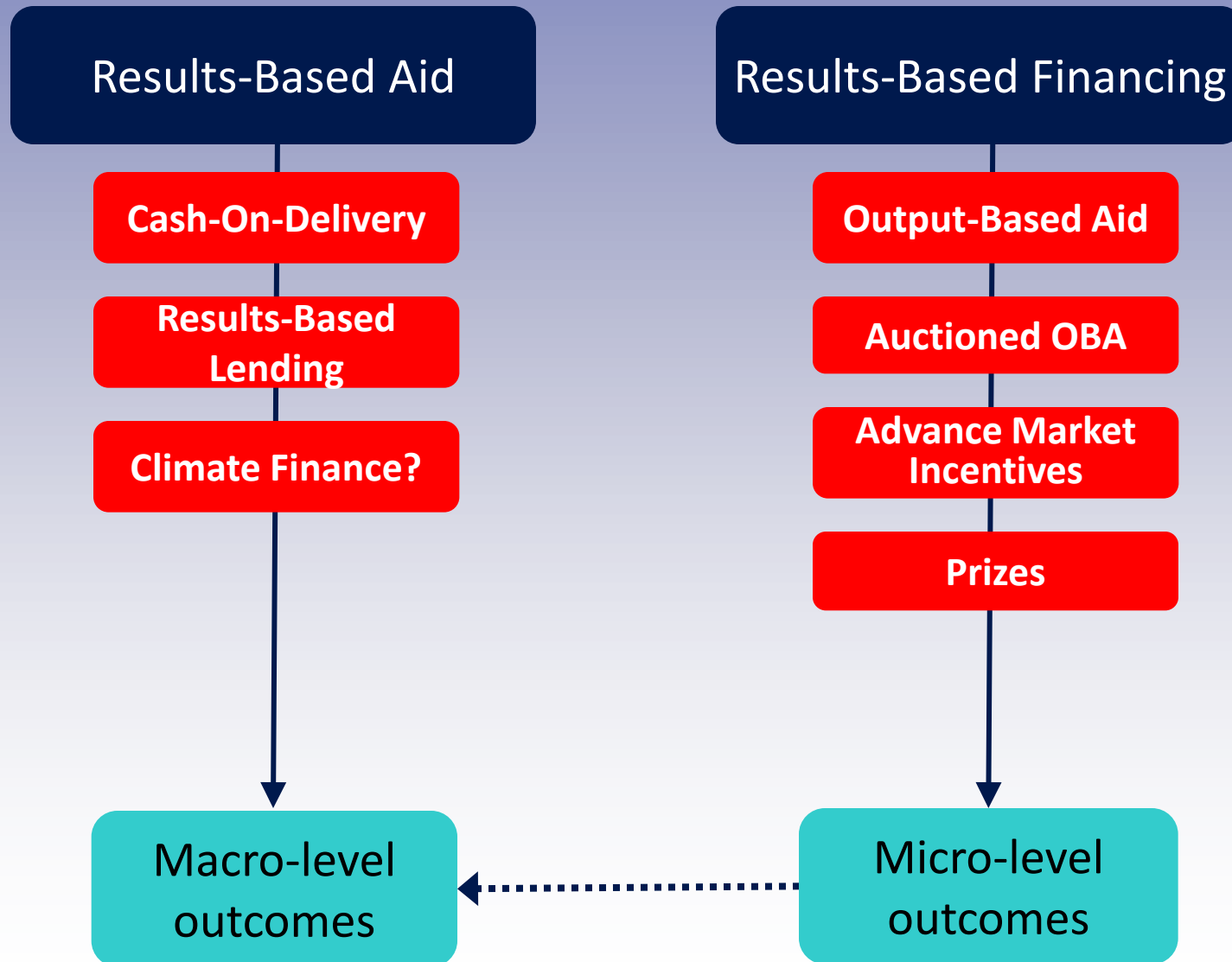


**THE WORLD BANK**



Energy Sector Management Assistance Program

# Results-based approaches



# Results-based financing

## DEFINITION

Transfer of money conditional on taking a measurable action or achieving a predetermined performance target.

## KEY FEATURES

- 'Principle' is usually a national government or development agency; 'agent' can be private sector, civil society or state enterprises
- Shifts risks to the delivery agent
- Promoted as a way to achieve greater efficiency
- Incentivizes innovation and cost reduction
- Greater emphasis on monitoring and verification

# Example: Output-based aid (OBA)



**Improving access to basic services and infrastructure**

**One-off capital subsidy provided on proof of completion**

## **POSSIBLE APPLICATIONS**

- **Provide basic energy services to poor, remote communities**
- **Incentivize new mini-grid connections**
- **Domestic biogas subsidy**

# Example: Auctioned OBA



**Private sector provision of basic energy services at least cost**

**Reverse auction for OBA subsidy based on bids from private sector providers**

## **POSSIBLE APPLICATIONS**

- **Provision of top-up subsidy – e.g. For community installations**
- **Targeted support to overcome affordability gap**

# Example: Advance Market Incentives



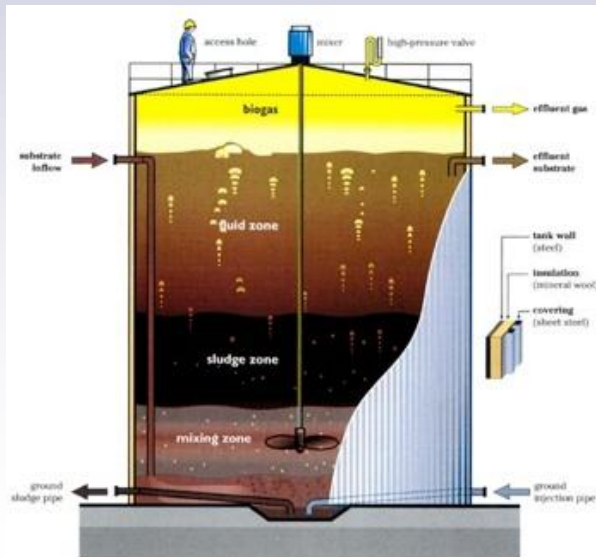
**Development and deployment of new business models for energy access**

**Short-term incentive mechanism to create or expand markets**

## **POSSIBLE APPLICATIONS**

- **Development of business models for mini-grids or institutional biomass**
- **Support for consumer goods markets: pico hydro, solar hot water, solar lanterns**

# Example: Prizes



**Technological innovation or improved service provision**

**National prize platform targeting innovators, entrepreneurs and service providers**

## **POSSIBLE APPLICATIONS**

- **National innovation: Improved cookstoves, pico hydro kits, gasification technologies**
- **Improved service delivery: plant reliability, product durability**

# Other forms of RBF

- Advance Market Commitments (AMCs)
- Public-private contracts
- Carbon finance
- Payment for ecosystem services
- Feed-in tariffs



# Challenges

- Less appropriate in 'greenfield' situations
- Auditing requirements can lead to high transaction costs
- Access to credit
- Rent-seeking and gaming
- Risk of non-delivery

# Opportunities under SREP

- Broad inclusion of RBF in financing modalities paper
- Allows governments to tie resources to results – and quickly reallocate
- Particularly relevant where private sector delivery is targeted
- Potential for much greater leverage through market catalyzation

## SIDE EVENT

# Update on results-based funding developments: options for SREP

1-2pm, Wednesday June 22, 2011

Room 2.42/2.43, CTICC, Cape Town

- *Want to know more about results-based funding and how it can increase access to modern energy services?*
- *What is Energy+?*
- *How could results-based financing be used to stimulate private sector delivery of modern energy services?*

**All with a direct interest in SREP are invited.**

**Lunch will be provided.**