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The Global Partnership on Output-Based Aid

# **OBA Core Concepts and Assessing the Suitability for an OBA Project**

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# Defining Output-Based Aid (OBA)

A method for improving the delivery of basic services – (e.g., water, electricity, and health) – when the inability of users to pay full cost justifies performance-based subsidies to complement or replace user fees.

- ▶ Services contracted out to a third party (service provider, which can be a private or public service entity)
- ▶ Service providers are - for the most part - reimbursed *after* delivery of the (pre-) agreed output
- ▶ Subsidy funding generally from public sources

# **Six Core Concepts define OBA**

**1. Targeting of subsidies**

**2. Accountability**

**3. Innovation and efficiency**

**4. Using incentives to serve the poor**

**5. Output verification and monitoring**

**6. Sustainability**

# Core Concept 1

## Targeting of Subsidies

So, it is clear to *whom*, *why*, and *for what* the subsidy is provided.

- ▶ Targeting ensures transparency
- ▶ End-users are the direct beneficiaries of the subsidy
- ▶ Subsidy reimbursed for agreed portion of costs incurred to provide a service

## Targeting of subsidies



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”)



# Accountability



In Lesotho, GPOBA is supporting a PPP for a hospital that replaces the main referral hospital of the country. The GPOBA project also includes support for filter clinics that provide relatively basic services to the poor.

The service provider is only reimbursed after providing services in both the hospital and the filter clinics.

# **Core Concept 3**

## **Innovation & Efficiency**

Predetermined “subsidy” in the form of a reimbursement paid on agreed outputs instead of inputs.

- ▶ Service “solutions” are partly left to the service provider to encourage innovation
- ▶ Efficiency achieved through competition (for new services) or benchmarking leading to value-for-money



# Innovation & Efficiency



In Uganda, a competitive bidding process to provide water supply resulted in an average efficiency gain of 20% in 10 towns.

# Core Concept 4

## Using Incentives to Serve the Poor

OBA encourages service providers to serve poor households they would otherwise have no incentive to reach.

Subsidy incentive creates *win-win situation* for end-user and service provider:

- ▶ Makes connection cost and/or tariff affordable to end-users
- ▶ Allows service provider to recover costs of providing service
- ▶ Incentivizes service provider to provide financing for “green field” or expansions, leveraging subsidy

In a rural electrification concession in Senegal requiring a minimum number of connections 20 km beyond the grid, the winning bidder proposed to more than double the required minimum—from 8,500 to 21,800 – by providing \$9.6 million in private financing, i.e. 60% of total financing, compared to the 20% minimum private financing requirement under the tender.

# **Core Concept 5**

## **Output Verification & Monitoring**

The (ongoing) monitoring of outputs (or results) is easier and more precise in an OBA as the subsidy payment reimburses the service provider only after outputs are verified.



# Output Verification & Monitoring



In Vietnam, a project to provide safe drinking water for 75 locally managed, village-based piped water schemes, disburses 80% of subsidy on verification of connection and 20% after 6 months of satisfactory service.

# Core Concept 6

## Sustainability

Focus: *Affordability, cost recovery, and future source of funding.*

### *Sustainability of scheme:*

- ▶ Users pay lower monthly payments in line with affordability
- ▶ The service remains sustainable because the service provider can recover their costs from users able to pay for the service

*Sustainability of funding:* After one-off payment upon connection, there is *no need for future public funding.*

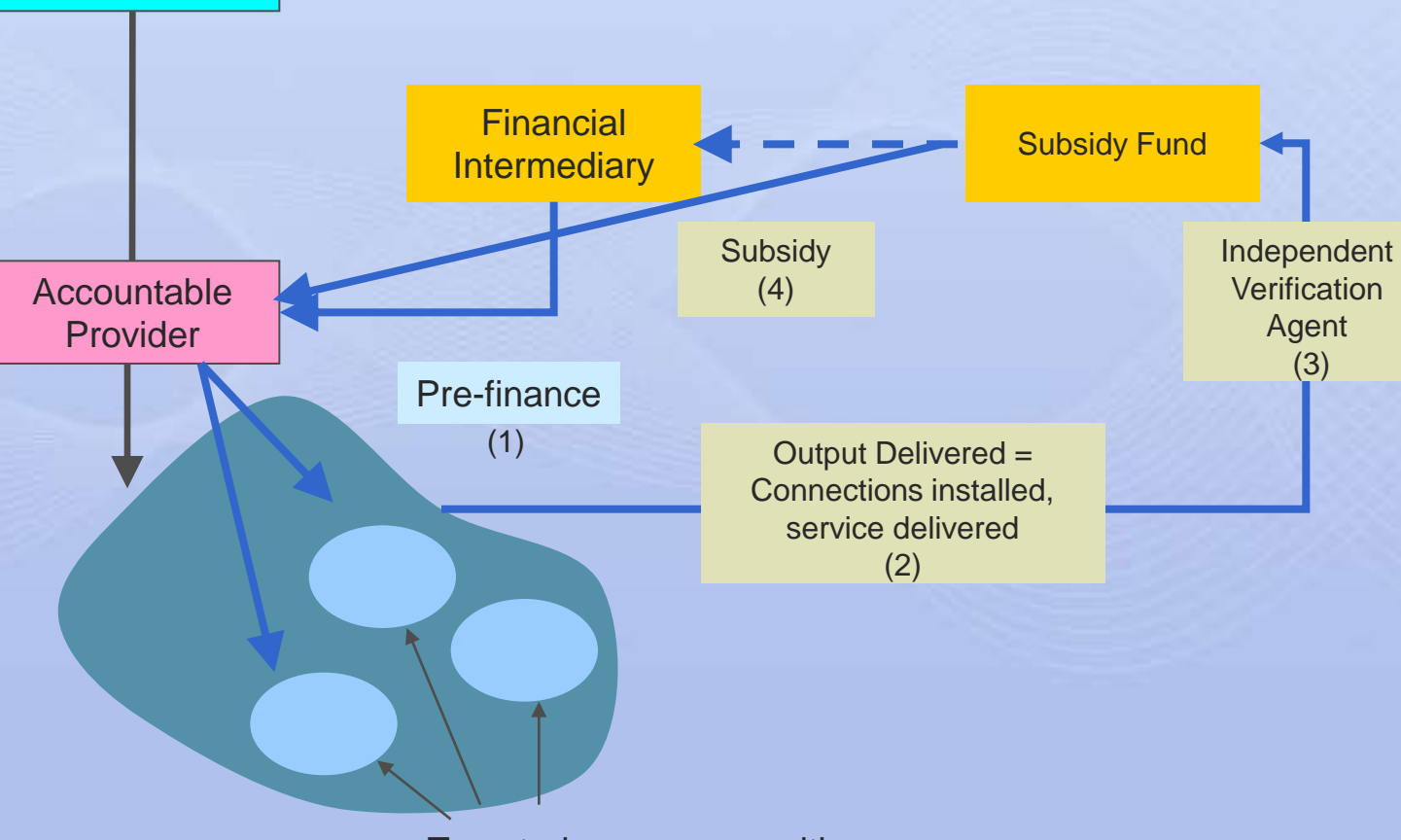
# Sustainability



In a rural electrification project in Senegal, 75% of the subsidy is paid after a working electricity connection is made; and the 25% final payment is only paid after three successful billing cycles in order to ensure sustainability of the electricity provided to poor households.



## Application of Core Concepts



# Identifying if OBA is Suitable

## Conducive enabling environment

