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# **A Review of the Use of Output-Based Aid Approaches**

**International Development Association  
Sustainable Development Network  
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## List of Abbreviations and Acronyms

ACP-EU	Africa Caribbean Pacific - European Union
AFR	Africa
AFD	<i>Agence Française de Développement</i>
CAS	Country Assistance Strategy
CBO	Community Based Organization
CREMA	<i>Contrato de Recuperacion y Mantenimiento</i>
DFID	Department for International Development
EAP	East Asia Pacific
ECA	Europe and Central Asia
ESMAP	Energy Sector Management Assistance Program
GPOBA	Global Partnership on Output-Based Aid
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communications Technology
IDA	International Development Association
IEF	Infrastructure Economics and Finance Department
IFC	International Finance Corporation
IFI	International Financial Institution
KfW	<i>Kreditanstalt für Wiederaufbau</i>
LCR	Latin America and Caribbean
MDG	Millennium Development Goal
MIGA	Multilateral Investment Guarantee Agency
MNA	Middle East and North Africa
NGO	Non-Governmental Organization
OBA	Output-Based Aid
OBD	Output-Based Disbursement
OPRC	Output- and Performance-based Roads Contract
PEP Africa	Private Enterprise Partnership for Africa
PMMR	Performance-based Maintenance and Management of Road
PPIAF	Public-Private Infrastructure Advisory Facility
SAR	South Asia Region
SECO	Swiss State Secretariat for Economic Affairs
SISP	Small Infrastructure Service Provider
SUP	Standard Unit Price
USAID	United States Agency for International Development
WSP	Water and Sanitation Program

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## Executive Summary

1. ***Purpose and background.*** This paper responds to a request by the IDA Deputies to review projects within the Bank that use Output-Based Aid (OBA) approaches. OBA is an innovative and flexible mechanism that harnesses the private sector to deliver basic infrastructure and social services to the poor. The World Bank Group's Private Sector Development Strategy (2002)<sup>1</sup> gave this mechanism a boost in order to reach the poorest segments of the population, while increasing accountability for results. A pilot program was launched by the World Bank in January 2003, and since then more OBA projects have been initiated.

2. ***A snapshot of Bank OBA projects.*** The paper evaluates 83 OBA projects in the Bank, over half of which are in IDA countries. The total OBA portfolio amounts to around \$1.6 billion, of which almost \$280 million has been allocated to IDA and IDA/IBRD blend countries. The Bank OBA projects are at vastly different *stages* – only 5 projects have closed, 37 projects are under implementation, and 41 projects are still in the design stage. By *sector*, the majority of projects are in the water, telecommunications, and transport sectors. By *region*, they are mostly being piloted in sub-Saharan Africa and Latin America.

3. ***Focus of the review.*** To ensure that this diverse group of Bank OBA projects is assessed consistently, six benchmarks are set up against which all projects are reviewed. So this paper evaluates whether OBA projects: (a) explicitly target subsidies; (b) shift performance risk to providers; (c) are innovative and efficient; (d) leverage private sector financing and expertise; (e) are sustainable; and (f) monitor results. Not all Bank OBA projects could be reviewed against each of the benchmarks because they are at various design and implementation stages. While some of them can be evaluated at the design stage, others can only be evaluated at the implementation or closing stage. The paper focuses on the appropriate subset of the 83 Bank OBA projects for each benchmark.

4. ***Main findings and next steps.*** While it is too early to draw definitive conclusions, preliminary findings are encouraging and show that OBA projects have the potential to deliver infrastructure and social services to the poor in an innovative manner. Going forward, the World Bank Group will continue to implement and monitor OBA pilot projects. Meanwhile, the Sustainable Development and Private Sector Development networks will continue to increase awareness of OBA approaches in the Bank, especially in IDA countries, and will encourage country teams to apply these approaches not only in a pilot capacity but also selectively for large-scale projects, drawing on results and lessons learned.

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<sup>1</sup> World Bank (April 2002). “*Private Sector Development Strategy: Directions for the World Bank Group.*”



# A Review of the Use of Output-Based Aid Approaches

## I. Introduction

1. **Purpose.** Output-Based Aid (OBA) is an innovative and flexible mechanism that harnesses the private sector to deliver basic infrastructure and social services to the poor. The World Bank Group's Private Sector Development Strategy (2002)<sup>2</sup> gave this mechanism a boost in order to reach the poorest segments of the population, while increasing accountability for results. A pilot program was launched by the World Bank in January 2003, and since then more OBA projects have been initiated.<sup>3</sup> During the IDA14 Replenishment discussions, Deputies requested a review of the use of OBA approaches in the Bank for the IDA14 Mid-Term Review. This paper responds to that request.

2. **Main findings and next steps.** While it is too early to draw definitive conclusions, preliminary findings are encouraging and show that OBA projects have the potential to deliver infrastructure and social services to the poor in an innovative manner. Going forward, the focus will be on implementing and monitoring OBA projects financed by the Bank for further results and to understand how OBA adapts to different sector and country settings. Meanwhile, the Sustainable Development and Private Sector Development networks will continue to increase awareness of OBA approaches in the Bank and will encourage country teams to apply these approaches not only in a pilot capacity but also selectively for large-scale projects drawing on results and lessons learned. Through further OBA pilots and selective scaling up, the lessons learned to date can be further tested and addressed.

3. **Layout.** This paper is structured as follows. Section II defines OBA, explains how it is applied, and lists its advantages. Section III provides a snapshot of OBA projects in the Bank and also describes some sources of funding for OBA projects. Section IV presents the methodology and results of the review. Section V summarizes key challenges and lessons learned. Section VI concludes with recommendations. Annex 1 provides a description of all identified Bank OBA projects.

## II. Background

4. **What is OBA?** OBA is a mechanism for supporting the delivery of basic infrastructure and social services where policy concerns justify the use of explicit, performance-based subsidies.<sup>4</sup> These policy concerns could include the inability to charge for the use of a service (i.e., a public good such as a road), positive externalities (i.e., a merit good such as health, sanitation or education), or the inability of certain segments of society to pay for a service essential to maintaining basic human dignity (such as consumption of a minimum level of safe and clean water or energy) and achieving the MDGs. At the core of the OBA approach is the contracting out of service provision to a third party – usually a private operator but also possibly

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<sup>2</sup> World Bank (April 2002). “*Private Sector Development Strategy: Directions for the World Bank Group.*”

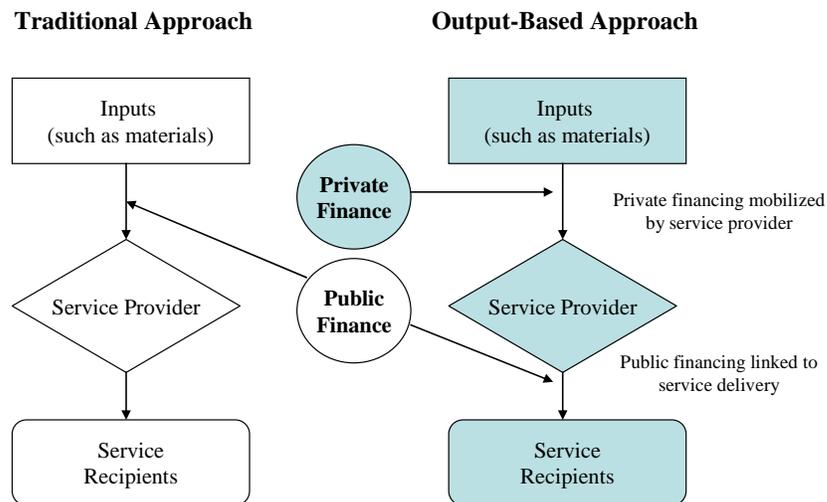
<sup>3</sup> The Global Partnership on Output-Based Aid (GPOBA) (see paragraph 11).

<sup>4</sup> For the purpose of this paper and in the case of OBA, subsidies are defined as public funding used to fill the “gap” between the total cost of providing a service to a user and the user fees charged for that service. (In some cases, for example for public goods, user fees may be zero).

a community-based organization (CBO), a non-governmental organization (NGO), or even a public service provider – with payments made *after* the delivery of specified outputs. Chart 1 below provides a stylized example of how input- and output-based schemes differ.

5. ***What is new about the OBA approach?*** Neither performance contracts nor subsidies are new to the developing world or the Bank. Performance contracts have been implemented for several decades, using both public and private operators. Subsidies have also existed in infrastructure and social services sectors. OBA refines the performance-based approach by bringing together both performance-based arrangements and subsidies through the explicit link of the disbursement of subsidies to the achievement of agreed outputs. OBA approaches recognize that subsidies are required in certain cases to increase access to services by the poor and that full cost recovery tariffs are not always feasible. OBA does not purport to be a substitute for sector reform. Appropriate tariff and regulatory reform, for example, are key to sustainable OBA approaches (see paragraph 30).

**Chart 1: Delivery of Aid – Traditional Vs. Output-Based Approaches**



*Source: Brook and Petrie, 2001*

6. ***Applications of the OBA approach.*** The three main applications of the OBA approach identified to date are one-off subsidies, transitional subsidies, and on-going subsidies.

- **One-off subsidies** are the most common application of OBA approaches and usually involve capital subsidies for access. An example is when a large portion of the subsidy is paid *after* the targeted beneficiaries are connected to a network and connections are verified. Given that in OBA approaches the emphasis is on service delivery rather than on physical connections, even in the case of one-off subsidies a portion of the subsidy can be withheld and paid only after verification of a certain number of months of satisfactory service delivery.

- **Transitional subsidies** can be used to support tariff reforms, where a subsidy is used to fill the gap between what the user is deemed able and/or willing to pay and the cost-recovery level of the tariff.<sup>5</sup> The subsidy is transitioned out after a given number of years, as the user contribution increases (and possibly as the cost-recovery level decreases with efficiency gains). In these cases, the output against which the subsidy is paid is the service delivered and billed by the provider.
- **On-going subsidies** may be required in cases where there is a perpetual gap between affordability and cost recovery including for consumption costs. Life-line tariffs<sup>6</sup> targeting low-income groups for consumption of discrete quantities of infrastructure services involve on-going subsidies which, like for transitional subsidies, are paid against services delivered. Vouchers in the health sector often involve on-going subsidies.<sup>7</sup>

7. **Advantages of OBA approaches.** In the 2002 Private Sector Development Strategy, the Bank sought innovative ways to harness the private sector to deliver infrastructure and social services to the poor, with special emphasis on results, transparency and accountability. The main advantages of OBA approaches are discussed below and are used in this paper as benchmarks for assessing projects using OBA approaches (Section IV). OBA projects:

- Enhance **transparency** through the explicit use of subsidies that would allow for **better targeting**, tying the delivery of subsidies to a specified output, and defining *who provides* the subsidy, *who receives* the subsidy, *what* is being subsidized, and for *how much*. For example, to better target the poor, subsidies provided in water projects in Kenya and Uganda will include disbursement against provision of kiosks or public water points, which the poor are more likely to use (and the non-poor are less likely to use).
- Increase **accountability** of service providers by shifting performance risk<sup>8</sup> by paying them mostly *after* the delivery of the agreed output. For example, a road scheme in Chad paid private contractors only if they met output-based targets, such as average speed attainable while traveling on the road.
- Provide stronger **incentives for innovation and efficiency** through competition or benchmarking, and by leaving technological solutions largely to the service provider who will get paid the amount agreed *ex ante* regardless of cost incurred *ex post* if outputs are delivered to required quality standards. For example, in Peru and

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<sup>5</sup> In the long-term, cost recovery tariffs would be expected to recover long-run marginal costs.

<sup>6</sup> “Life line” is the term often used for a minimum quantity of a good (e.g., water, electricity) priced at a pre-determined affordable level in order to help ensure at least a basic level of consumption.

<sup>7</sup> Thus OBA can be channeled through **demand-side subsidies** where the user armed with a voucher can shop for a provider amongst those approved and able to accept the voucher, as is more common in the health and education sectors, or through **supply-side subsidies**, which is more common in the infrastructure sectors where some natural monopoly characteristics may exist.

<sup>8</sup> Under OBA, service providers take on performance risk since they are paid upon delivery of outputs: if they do not deliver the agreed output, then they will not be paid. This is deemed an appropriate allocation of risk since the service provider for the most part is the entity best able to bear performance risk.

several other Latin American countries, competitive tendering through lowest subsidy required coupled with giving private operators a degree of freedom in technology and design, led to lower costs for rural telecommunications services.

- Promote the **engagement of private sector capital and expertise** by encouraging the private sector to serve customers (usually the poor) they might otherwise disregard, and provide an opportunity to leverage private finance and expertise for non-subsidized customers as well. For example, the secure revenue stream provided through OBA subsidies encouraged small local operators in Paraguay's water sector to expand from serving peri-urban areas to rural ones.
- Factor **sustainability**<sup>9</sup> into project design by: (a) forcing the question of who finances what for how much (and for how long); (b) allowing for targeted one-off and transitional subsidy schemes; and (c) linking subsidies to a sustainable service through appropriate contractual mechanisms. For example, a rural electrification scheme in Senegal will involve one-off subsidies for connecting rural households to an off-grid system through an output-based mechanism in the initial years, but will also involve contracts of 20 years or more through which the private operator is given incentives to provide a sustainable service.
- Internalize the **monitoring of results** since payments are made against agreed outputs and because outputs are defined as closely to the desired outcomes (i.e., "results") as is feasible in each circumstance. For example, to ensure that service providers will get paid based on agreed results, a scheme to connect Armenia's urban poor to the natural gas heating network included a comprehensive system of monitoring and verification that leveraged existing social programs.

8. ***OBA consistent with Results-Based Country Assistance Strategies.*** Results-Based Country Assistance Strategies (CASs) are required to have explicit results frameworks that specify expected links between the Bank's interventions and the country's long-term development goals.<sup>10</sup> Examples of CAS outcomes include increases in access to Information and Communications Technology (ICT); increases in the percentage of population with access to safe and clean water or energy; and increases in access to paved or unpaved roads in good condition. OBA approaches applied in investment projects can help contribute to meeting the objectives of a results-based CAS in a transparent and efficient manner since payments are made against agreed outputs. In fact, OBA is explicitly mentioned as a means to achieve desired results in the upcoming CASs for Honduras and Senegal in a variety of infrastructure sectors, and is being contemplated for several other CASs.

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<sup>9</sup> For the purposes of this analysis, sustainability is defined as the program/project's ability not only to achieve desired outputs in the short and medium term, but also to consider the long-term provision of basic services.

<sup>10</sup> "Results Focus in Country Assistance Strategies: A Stocktaking of Results-Based CASs." OPCS, World Bank, July, 2005.

### III. A Snapshot of Bank OBA Projects and Sources of Funding

9. **OBA projects by stage, sector and region.**<sup>11</sup> Around 83 OBA projects have been identified in the Bank in the infrastructure and social services sectors and are listed in Annex 1.<sup>12</sup> These OBA projects are at vastly different *stages* – only 5 projects (6 percent) have closed, 37 projects (45 percent) are under implementation, and 41 projects (49 percent) are still in the design stage.<sup>13</sup> By *sector*, Chart 2 shows that most Bank OBA projects are in the water sector (31 percent) and telecommunications (25 percent), with transport in third place (18 percent); most of the water projects are at relatively earlier stages. However, by funding volume, projects in the water sector are very small while projects in the transport and social sectors are larger. By *region*, Chart 3 shows that the vast majority of OBA projects are in sub-Saharan Africa and Latin America. However, by funding volume, projects in sub-Saharan Africa are small while those in Latin America are large. Of the 83 OBA projects, over half (42 projects) are in IDA countries and 10 more are in IDA/IBRD blend countries.

10. **Project size varies.** The total Bank OBA portfolio amounts to more than \$1.6 billion, of which almost \$280 million (18 percent) has been allocated to IDA and IDA/IBRD blend countries.<sup>14</sup> OBA projects tend to be small given they are still in a pilot stage; the median project size is only about \$6 million, although some of the transport and social services projects in IBRD countries have been very large (Annex 1). Projects in the energy and water sectors tend to be smaller. The total population reached through all projects is expected to be over 48 million, with an estimated subsidy per person of about \$22.<sup>15</sup>

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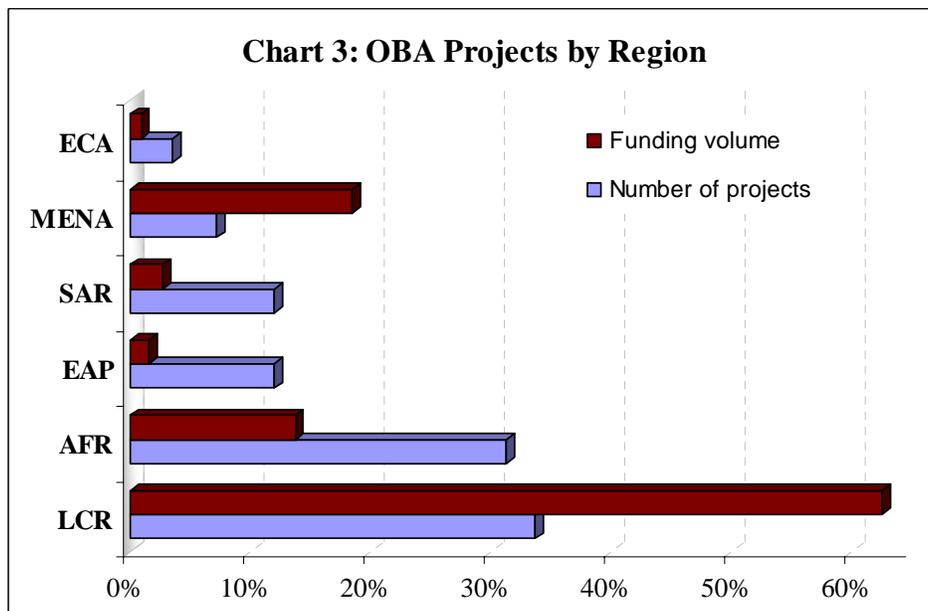
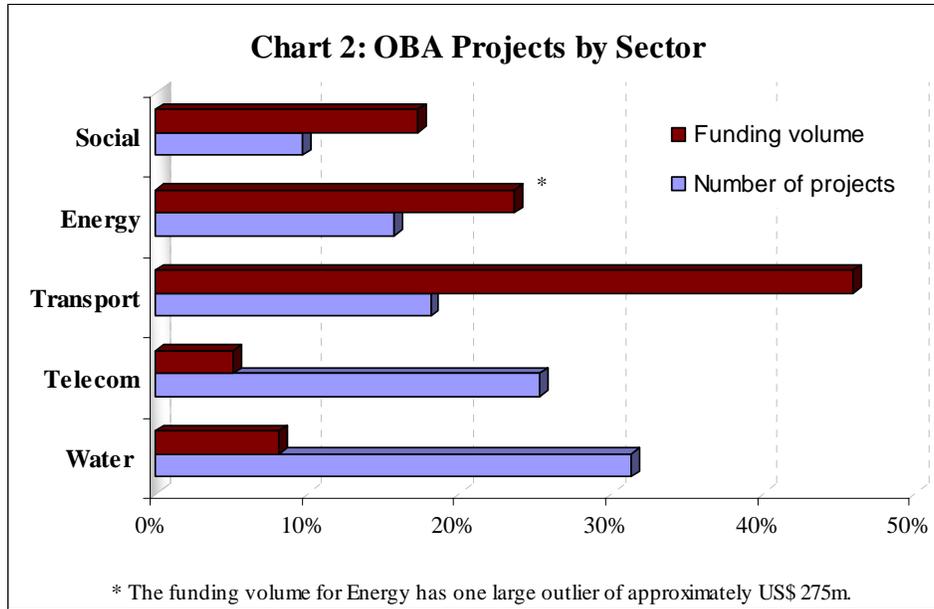
<sup>11</sup> Carbon finance projects, which also utilize output-based approaches, are not included in this review.

<sup>12</sup> Projects identified as of July 31, 2006. The sample includes projects in both IDA and IBRD countries. The latter are included in this review because the lessons learned are also applicable to IDA countries.

<sup>13</sup> The project is considered “closed” under Bank definition when the credit or grant (i.e., subsidy) has been disbursed. Projects are designated as “under implementation” for the purposes of this analysis when tendering is in process, operations and/or investments are underway, and grants and/or credits have been committed and/or are soon to be disbursed. Projects in “design” are actively pursuing an OBA component.

<sup>14</sup> IDA provides financial assistance to governments in the form of grants or concessional credits or both. The recipient government can (i) pass on these funds to private and/or public providers in grant form, (ii) lend these resources to the private and/or public provider at an interest rate higher than that of the underlying credit, or (iii) offer a combination of the two.

<sup>15</sup> This is an average subsidy per capita across many sectors and regions, and the actual subsidy per capita or connection can vary substantially across sectors and even within sectors, given local and project circumstances. Also: population and subsidy per capita excludes transport (i.e., roads) projects since population figures were not obtained. Other sectors: 6 persons per household or connection is assumed, when this household figure is unknown.



11. **Who is funding OBA projects?** Most of the funding for identified OBA projects comes from IDA and IBRD. In addition, to support pilot OBA activities, the GPOBA was established in 2003,<sup>16</sup> which is a multi-donor trust fund financed by DFID and IFC (through the Performance Based Grant Initiative).<sup>17</sup> As of October 2006, the Dutch and Australian governments have

<sup>16</sup> GPOBA's share of the total Bank OBA portfolio is \$67.2 million, of which \$42 million relate to IDA and IDA/IBRD blend countries. The GPOBA is involved in as many as 39 (47 percent) of the 83 Bank OBA projects. In addition, GPOBA has provided technical assistance to IBRD and IDA projects for which GPOBA is not providing financing for the OBA payments. In FY06, GPOBA proactively focused on developing pilots in water and sanitation as well as on projects in sub-Saharan Africa.

<sup>17</sup> IFC (February 2006) "IFC Performance-Based Grants Initiative."

pledged funds towards GPOBA as well. Donor agencies such as USAID and KfW of Germany are also implementing OBA projects, largely in the health sector, but also in water and energy. SECO of Switzerland provided OBA funding for a joint IFC/IDA energy project in Tajikistan. AFD of France is involved in implementing OBA approaches in water and sanitation projects in Morocco, Kenya, and Cambodia. Further, a report commissioned by the ACP-EU Water Facility has explicitly encouraged the funding of OBA projects, and the Australian Government in its recent White Paper on its overseas aid program also included OBA approaches in its strategy to “build performance into individual activities by enhancing approaches that link payments to deliverables.”

12. ***Governments have been implementing OBA projects as well.*** In fact, most of the very early OBA pilots did not involve the Bank Group or other IFIs/donors. Many roads and ICT schemes in both developed and developing countries involve OBA approaches, as do voucher schemes in health and education. There are also some examples in water and energy. For instance, the urban water sector in Chile has been utilizing an output-based approach in the form of an on-going subsidy scheme for low-income households since the early 1990s. A rural electrification OBA scheme in Guatemala has been underway for several years and has involved nearly \$200 million in subsidies for household connections (but did utilize a MIGA guarantee). Two OBA initiatives have been identified in Brazil: a wastewater treatment program, and an electricity program to connect poor families to the grid, where over 1.4 million people were connected in 2004.

#### IV. A Review of Bank OBA Projects

13. **Setting up benchmarks for the review.** To ensure that the diverse group of OBA projects is assessed consistently, this review uses the advantages of the OBA approaches, listed in paragraph 7, as benchmarks. Therefore OBA projects are reviewed on the basis of whether they: (a) explicitly target subsidies; (b) shift performance risk to providers; (c) are innovative and efficient; (d) leverage private sector financing and expertise; (e) are sustainable; and (f) monitor results. Information was gathered for this review through project documentation as well as discussions with respective task teams.

14. **OBA projects reviewed.** Not all Bank OBA projects could be reviewed against each of the advantages described above because they are at various design and implementation stages (Annex 1). While some advantages can be evaluated at the design stage, others can only be evaluated at the implementation or closing stage. For instance, this review studies all projects including those in design stage when evaluating explicit targeting of subsidies,<sup>18</sup> shifting of performance risk to increase accountability of service providers, and leveraging of private finance or expertise. Regarding the impact of OBA on increasing innovation and efficiency, this review draws on a smaller subset of projects that have already undergone tendering and for which unit subsidy values have already been determined, and for which comparable information for non-OBA projects is available. All of the projects including those at the design stage are assessed for their ability to internalize the monitoring of results, although only those that are further along in implementation can be assessed for their ability to report actual results.

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<sup>18</sup> It is recognized that a final assessment of the effectiveness of the subsidy targeting would in some cases require an ex post customer survey and/or impact evaluation on actual beneficiaries.

Although the actual sustainability of OBA projects can only be assessed in the future, this review evaluates all projects including those in design stage to see whether sustainability is addressed at the design stage. Table 1 summarizes which set of projects was used to evaluate the various advantages of OBA projects.

**Table 1: OBA Projects Reviewed**

<b>Advantages</b>	<b>Projects analyzed</b>
A. Explicit targeting of subsidies*	All identified projects listed in Annex 1
B. Shifting performance risk to providers*	All identified projects listed in Annex 1
C. Innovation and efficiency	18 projects with tendering and comparable results**
D. Private sector financing and expertise***	All 83 projects were analyzed, and all identified projects involve some form of private financing and/or expertise, except for 5 water projects testing OBA with the public sector, and 1 health sector project that relies mainly on public providers.
E. Sustainability	74 of the 83 identified Bank OBA projects were analyzed to determine whether sustainability factored into design; only earliest roads and ICT projects provide some evidence regarding long-term sustainability.
F. Monitoring results*	All identified projects listed in Annex 1 for design assessment. 18 projects further along analyzed for actual results monitoring.

\* *Required by definition to qualify as an OBA project.*

\*\* *Includes 5 non-Bank projects given limited information especially on comparable non-OBA data.*

\*\*\* *The extent of private sector involvement varies greatly between sectors. For example, most roads projects do not involve private investment beyond working capital, but all involve private operators and “managers.” The health project that relies on public providers is being scaled-up and will include private operators as well.*

### **A) Explicit Targeting of Subsidies**

15. ***All OBA projects explicitly target subsidies to the poor.*** A review of all projects listed in Annex 1 confirms that OBA projects are transparent in targeting subsidies to the poor (Box 1). This is achieved by tying the payment of subsidy to deliverable outputs, which are defined to be as close to the user as possible, and are designed to reach the poor. Some examples of outputs include: (i) individual connections to a water, energy, or ICT network, or ICT centers created/installed; (ii) quantity of water or energy delivered; (iii) kilometers of roads that meet the required standards for maximum speed attainable and user comfort; (iv) delivery of defined basic health services such as vaccinations, well-child visits and pregnancy visits; and (v) number of students enrolled.

16. **Ways to target subsidies to the poor vary.** In the infrastructure sectors, the main way that OBA attempts to target subsidies to the poor is by providing access to infrastructure services to those who do not already have it – with working connections acting as a proxy for access. Further, OBA subsidies target the poor through self-selection. For example, OBA schemes for Kenya and Uganda are considering subsidizing public water points or kiosks (which the poor are more likely to use and the non-poor less likely to use) as opposed to individual household connections to a water network. A rural electrification scheme in Bolivia provides a constant absolute unit subsidy for all sizes of Solar Heating Systems above 40Wp (peak wattage), which favor smaller systems that the poor are more likely to use. Most of the OBA schemes attempt to target subsidized services to the poor through geographic targeting, usually by identifying rural villages (in the case of water or electricity) or large swathes of rural areas (in the case of ICT, roads and health), since many poor people in developing countries live in rural areas, and have less access to infrastructure than their urban counterparts.<sup>19</sup> Additionally, a few OBA schemes are targeting subsidies to low income peri-urban areas to help determine OBA’s effectiveness in helping address looming urban development challenges.

**Box 1: Explicit targeting of subsidies in sample OBA projects in IDA countries**

- Two **health** projects in sub-Saharan Africa – one in **Rwanda** and the other in the **DRC** – provide packages of cost-effective basic health services to the poor. Targeting is both geographic and through self-selection: the inhabitants in the targeted rural areas are particularly poor and, in addition, the wealthier population tends to use more up-market private medical facilities.
- A **sanitation** scheme in Dakar, **Senegal**, is providing poor households with on-site sanitation. This scheme is targeted to low-income neighborhoods.
- An **electrification** scheme in **Tajikistan** provides hydro-generated electricity to the poor residents of the Gorno Badakshan Autonomous Oblast region, one of the poorest and most remote parts of the country. A life-line tariff scheme provides a mechanism for the poorest to save on energy costs.
- A **roads** project in **Chad** traverses rural areas which are extremely poor, providing the inhabitants better access to schools, health clinics, and markets.<sup>20</sup>
- An **ICT** project in **Uganda** is providing subsidies for rural inhabitants – many of whom have a household income of less than \$1 per day for increased access to cellular phones.

*Note: See Annex 1 for details.*

## **B) Shifting Performance Risk to Providers**

17. **Mixed evidence.** A review of the projects listed in Annex 1 shows that OBA schemes vary in the degree of performance risk shifted to service providers (and therefore in the degree of incentives provided). In theory, OBA schemes should shift all risk to the service provider by withholding all subsidy payments until the output is delivered. In practice, however, not all subsidies can be withheld until the output is delivered because service providers may not have the ability to take on all the performance risk on their own. This ability to take on the risk

<sup>19</sup> Komives, Foster, Halpern and Wodon. “*Water, Electricity and the Poor: Who Benefits from Utility Subsidies?*” World Bank, Washington, D.C., (2005).

<sup>20</sup> In the case of OBA in roads, private road contractors operate and maintain roads over a multi-year period and performance payments are made after the roads are deemed to meet designated standards.

depends on the availability and cost of finance as well as the willingness and ability of consumers to pay – all of which could be lacking in many IDA countries. Therefore the degree to which the performance risk is shifted to the service provider varies and few Bank OBA projects are designed to withhold *all* of the subsidy payments until the output is delivered and verified.<sup>21</sup>

18. ***Ability to shift risk varies by country and sector, but is increasing.*** Almost all OBA projects reviewed provide some up-front payments to service providers, with the exception of a couple of projects that are designed to disburse the subsidy only after the delivery of the output. Many OBA projects, especially those in the ICT sector, provide payments in tranches throughout the duration of the project against defined outputs or milestones of the project – e.g., percent of network “rolled out.” However, ICT service providers are increasingly taking on more risk as the agreed outputs are being shifted further “out” to continuous service provision (see Box 2). Roads projects usually involve some up-front payment and input-based components although the latest OBA roads contracts – known as “Output and Performance-based Roads Contracts” – are more ambitious in shifting performance risk to the service provider (see Box 2).<sup>22</sup> In both ICT and roads sectors, this evolution of increased performance risk borne by the service provider has taken place over a period of years, and has continued even as the OBA schemes have migrated from Latin America to sub-Saharan Africa. In these two sectors, the ability to take on additional performance risk may be directly related to the length and depth of experience of the private sector as operator and/or investor, as well as the experience with OBA approaches. Examples of the record of OBA in shifting performance risk in the energy, water and health sectors are also provided in Box 2.

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<sup>21</sup> Of course, where there is potential, the tendering process could be designed to shift all performance risk to private providers through 100 percent output-based payments, and in which case only those providers able to take on that risk would bid.

<sup>22</sup> World Bank (September 2005). “*Sample Bidding Documents for the Procurement of Works and Services Under Output- and Performance-Based Roads Contracts.*”

**Box 2: Shifting performance risk through payments upon outputs**

- The first OBA **roads** contracts in **Latin America** involved substantial input-based payments to providers for rehabilitation costs and provision of output-based payments for maintenance. The newer Output- and Performance-Based Road Contracts, including those being designed in **Africa**, involve a larger percentage of output-based payments, including for costs incurred related to rehabilitation.
- An **ICT** project in **Uganda** involves an initial disbursement of 10 percent of the subsidy upon signature of the service agreement, 60 percent upon provision of the public access objectives, 20 percent upon provision of the private household access objectives, and the remaining 10 percent upon verification of satisfactory continuous service operation.
- In the **Senegal Rural Electrification** project, payments are disbursed largely on project construction milestones, although 30 percent of the payments are withheld until after the delivery of viable working connections and proven service delivery.
- In the Maternal and Child **health** project in **Argentina**, 40 percent of the subsidies are disbursed based on enrollment of qualified patients, and 60 percent after service delivery.
- In **Paraguay's** rural **water** sector, original OBA sub-projects involved disbursement of subsidies only after delivery of working connections. This inhibited involvement of many local operators; thus disbursement was relaxed to allow for some (and in some cases a large percentage) of payments to be made up-front.

*Note: See Annex 1 for details.*

**C) Encouraging Innovation and Efficiency**

19. ***OBA projects encourage innovation and efficiency.*** A review of the projects identified demonstrates that OBA schemes have resulted in “value for money.” Most OBA schemes to date, which were competitively tendered and for which there is comparable information for non-OBA schemes, have demonstrated some efficiency gains as shown in Table 2. This table shows that a lower unit cost was required in these OBA schemes as compared to available data on non-OBA schemes.

20. ***Possible reasons for efficiency of OBA schemes.*** Because subsidies are mostly disbursed after output delivery, one might expect that this would increase the cost of capital to service providers, and therefore that output-based schemes would be more costly per unit delivered. Subsequent reviews of OBA might indeed find this to be the case as more information (including for non-OBA comparables) becomes available. However, that does not appear to be the case based on available data at this time. While the reason for the apparent lower unit costs of OBA schemes shown in Table 2 is not clearly known, one possible explanation could be that leaving the design largely to the provider is more cost effective than traditional government-designed schemes, which tend to be over-engineered.

**Table 2: Comparison of a few OBA and non-OBA schemes**

<i>Sector</i>	<i>Country</i>	<i>Subsidy/output for OBA scheme</i>	<i>Subsidy/output for non-OBA scheme</i>
Water	Paraguay	\$200-\$276/connection	\$300-\$400/connection (public sector comparator)
Energy	Bolivia	\$600/connection <sup>23</sup>	\$1000/connection from 2004 UNDP program
Energy	Philippines	\$0.028/kWh = estimated subsidy requirement of US\$ 2.8 million in 2005	\$0.13/kWh = estimated total subsidy requirement of US\$ 9.9 million in 2005
ICT	Uganda	\$3,700/public payphone	\$12,590/public payphones
Roads	Chad	Subsidy requirement 7 percent lower than estimated	—
Health	Rwanda	\$3.67 subsidy/ patient	\$28.89 subsidy/ patient

*Note: Uganda non-OBA is based on simulations, given difficulties in comparing fast-evolving ICT projects.*

21. ***Too early for definitive conclusions on efficiency gains.*** It must be noted that there is only limited information available so far on comparators and counterfactuals to make meaningful comparisons. Besides, renegotiations of public-private partnership (PPP) contracts especially in the water sector are not uncommon, and therefore the record on OBA projects will need to be carefully monitored in the future to verify efficiency gains. An example where the expected efficiency gains did not fully come to fruition is the IDA-funded Guinea water OBA project that began in 1989 (Annex 1). Although the lease contract was awarded based on the lowest lease contract rate required – leading to an expectation of efficiency gains – the resulting tariff was subsequently increased too quickly using a transition tariff scheme. Customers, therefore, turned to alternative sources making the OBA scheme unviable for the private operator who was paid based on water billed and collected.<sup>24</sup> Although the Guinea case did result in some positive developments, it demonstrated that careful bid design including understanding of willingness to pay is critical to ensuring that efficiency gains are realized.

#### **D) Attracting Private Financing and Expertise**

22. ***Private sector involvement varies by sector.*** Of the 83 projects identified, all except five projects involve some form of private financing and/or expertise. But the extent of private sector involvement varies greatly among sectors. For example, many roads projects do not involve

<sup>23</sup> The tender for provision of solar home systems on an OBA basis resulted in a gain of 25 percent on the number of new users.

<sup>24</sup> Brook, Penelope, and Alain Locussol (2001). “Easing Tariff Increases: Financing the transition to cost-covering water tariffs in Guinea.” World Bank.

private investment beyond working capital, but all involve private operators. On the other hand, all ICT projects involve private sector investors and operators.

23. ***Leveraging private financing depends on ability of service providers to recoup costs through user fees.***<sup>25</sup> However, one cannot expect OBA projects to leverage *very high* levels of private finance since the poor (whom OBA projects target) cannot afford to pay high tariffs.<sup>26</sup> In sectors and countries where cost recouping tariffs can be charged, like ICT in Latin America, there has been relatively strong leveraging of private finance. For example, in one of the first OBA schemes in Peru, the OBA-financed satellite-based public payphones were installed in communities that cellular operators did not believe had sufficient demand to justify commercial operations. However, within a few years some of these communities now have cellular networks because the demand and traffic generated by the public OBA phones was sufficient to justify subsequent *un-subsidized* investments by cellular operators. There has also been some leveraging of private finance in the water and energy sectors. For example, an energy project in Mozambique is estimated to leverage private finance to as high as \$3 of private finance for every \$1 of subsidy provided – although this is still to be determined as the project is in the early implementation stage. On the other hand, roads projects do not involve leveraging additional private finance because there are no user fees involved.

24. ***Increased involvement of small local or regional private companies.*** Often, the small size of the pilots has led to relatively greater interest on the part of local or regional private operators as opposed to large international ones. Many of the OBA projects in the water and energy sectors, especially in rural areas, involve local or regional operators. In a few cases, NGOs and CBOs are acting as service providers. In Kenya, the CBO will access finance through a micro-credit institution, with the OBA subsidy providing comfort to the lender, enabling an increased loan tenor and reducing the interest rate.<sup>27</sup>

#### **E) Sustainability of OBA projects**

25. ***Too early to assess actual sustainability but preliminary signs are promising..*** Actual sustainability of OBA schemes can only be assessed in the longer-term. However, sustainability can be built in at the design stage as described in paragraph 7. This review confirms that sustainability is addressed consistently in the design of all OBA projects.

26. ***Sustainability may depend on how subsidies are applied.*** The main ways in which OBA projects address sustainability are the following:

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<sup>25</sup> For example, \$1 of an output-based subsidy payment not only allows for \$1 of pre-financed investment (plus financing costs) to be recouped after output delivery, but that \$1 of the OBA subsidy payment may also lead to additional private financing to be recouped through user tariffs. That would mean that for every \$1 of OBA subsidies disbursed, more than \$1 of investments is financed by the private sector, depending on the investor's perception of/ability to recoup costs from user tariffs.

<sup>26</sup> Some OBA projects are attempting to increase leveraging by including a sizeable portion of non-poor/non-subsidized consumers within a larger scheme.

<sup>27</sup> In addition to cases where NGOs and CBOs are service providers, NGOs and CBOs have been involved in OBA schemes by participating in targeting, capacity building and monitoring.

- **One-off subsidies** are the most common application of OBA and are relatively sustainable as they do not distort consumption or production behavior (beyond the initial investments made), as compared to on-going subsidies which require a constant flow of public finance.<sup>28</sup>
- Even in the case where on-going subsidies are required, the existence of clearly earmarked funds for investment can provide some assurance of sustainability. **Universal access funds**<sup>29</sup> or similar in ICT, rural electrification, and for roads can help enhance sustainability through a demonstrated commitment of earmarked funds. However, there is an ongoing debate on whether earmarking of funds is appropriate for fiscal and development policy.
- Sustainability is also partly addressed through the fact that the OBA subsidy is usually **part of a long-term contract for service delivery**. For example, based on the information collected for this paper, service contract lengths can be as high as 25 years (see paragraph 7). Further, even when subsidies are mainly disbursed one-off against access provided, part of the subsidy is sometimes withheld until there is proof of sustainable service delivery for a certain period of time.
- Key to any OBA scheme – as with most interventions in the infrastructure sectors – are tariff **levels** that cover at least operation and maintenance costs and also to some extent investment costs, preferably regulated through a contract or regulatory body. Most of the infrastructure OBA projects for which information is available involve user tariffs and take into account the impact of appropriate tariffs and subsidy levels on sustainability.

Examples of how sustainability has been addressed – mainly by being carefully factored into the design of the project – are provided in Box 3.<sup>30</sup>

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<sup>28</sup> There are a few cases of on-going subsidies in the Bank, mainly in the health, education and roads sectors, where user fees are not common features of service provision.

<sup>29</sup> Universal Access (or Service) Funds in ICT usually involve cross-subsidies from one set of users (e.g., urban telephony customers) to another (e.g., higher cost rural users). In developing countries, this is often justified not only because rural areas are predominantly very poor, but also because the per capita costs to service rural users are very high and charging at full cost will not enable access for rural areas. In ICT especially, increasing users on the system enhances the benefits for all users.

<sup>30</sup> More research and analysis would need to be conducted to determine the sustainability of OBA schemes in the health sector, although one would expect that the high positive externalities related to providing the poor with health care would give strong justification for continued subsidies required to serve the poor.

### Box 3: Examples of sustainability designed into OBA schemes

- Two **roads** contracts have closed and a third is near closing, and several **ICT** OBA schemes are nearing completion. Determining actual sustainability will take many years, but the fact that these roads and ICT schemes are being scaled up in the same countries and replicated throughout the world is an indication that the expected results regarding sustainability are fairly positive.
- One-off subsidies that do not distort consumption behavior are provided so that low-income households in **Armenia** have access to natural **gas** services. Further, to ensure that a viable service is provided, a portion of the private operator's payment is withheld until after 12 months of service delivery. The natural gas distributor is considered to be a viable and efficient network operator who invests in and maintains the system to good standards.
- A rural **electrification** scheme in **Senegal** will involve one-off subsidies for connecting households to an off-grid system, and will entail contracts of 20 years or more through which the private operator is given incentives to provide a sustainable service.
- All of the OBA **roads** projects described in Annex 1 – for example the ones in **Chad** and those being designed in **Cape Verde** and **Tanzania** – are relatively sustainable compared to the forced-account roads contracts that are more traditional. This is because the OBA contracts require the private operator not only to build or rehabilitate the road, but also to maintain and manage the road to specified standards, often for a longer contract period than traditional road contracts.

*Note: See Annex 1 for details.*

## F) Monitoring Results

27. **Monitoring results is an integral part of OBA project design.** Because service providers are paid upon the delivery of the output – or results – OBA internalizes the tracking of results. Many of the OBA schemes use independent agents to verify that outputs are achieved. In most cases, connections act as a proxy for access, or “results”, partly for targeting purposes, but also because of the practicalities and ease of monitoring and verification. Because outputs in OBA approaches are mostly related to the use of a service, consumers also play a larger role in monitoring whether results are achieved, thereby enhancing the transparency of the schemes. Box 4 provides some examples of results tracked to date.

### Box 4: Initial results of OBA projects

- A piped **water** scheme in **Bangladesh** has provided connections to 4,433 poor rural households, with connections and service provided mostly by local NGOs operating on 15-year build-operate-own-transfer contracts.
- Over 27,000 low-income people in rural **Paraguay** are receiving **water** through over 5,500 OBA-financed connections.
- 441 kilometers of unpaved main rural **roads** were rehabilitated, maintained and managed in **Chad** through an output-based contract.
- One year after a **health** care scheme was introduced in **Rwanda**, there was reportedly a dramatic increase in several targeted outputs: 44 percent increase in health-care consultations, a 107 percent increase in deliveries at health centers, and a 19 percent increase in children receiving a hepatitis vaccine (although there was an unexplainable 7 percent drop in children receiving a chicken pox vaccine).
- An **ICT** project in **Nicaragua** has so far tripled the number of communities with public payphones, benefiting over 256,000 people.

*Note: See Annex 1 for details.*

## V. Challenges and Lessons Learned

### A) “External” Challenges and Lessons

28. ***OBA projects still at an early stage.*** This preliminary review of 83 Bank OBA projects demonstrates that OBA approaches have so far met overall expectations, although learning and evidence gathering are still in progress. Some preliminary lessons and challenges can be gleaned from the review of Bank OBA projects.

29. ***OBA schemes adapted flexibly to country circumstances and sectors.*** Lessons for OBA projects so far indicate that these schemes should be designed and applied flexibly depending on country circumstances. As such, OBA should evolve and adapt to sector and local circumstances. For example, in countries where the ability and/or willingness of consumers to pay is low and where access to finance is limited, OBA projects may have to be flexible to *stagger or phase payment of subsidies* with some subsidies being paid before the outputs are delivered. The OBA scheme in Paraguay’s rural water sector did just that to encourage greater participation of local investors, as did the Senegal Rural Electrification scheme (both of which are described in Box 2). Another example of the flexibility of the OBA approach relates to *targeting* in that OBA allows for a variety of targeting methodologies for the disbursement of subsidies (e.g. self-selection, geographic, individual households).

30. ***OBA is not a substitute for sector reform.*** OBA was introduced with the recognition that full cost recovery tariffs are not always feasible, yet OBA does not purport to be a substitute for sector reform: sustainable tariff policies are essential. One real challenge faced in the design and implementation of many OBA schemes has been slow-moving tariff and regulatory reform. Tariffs that do not cover operation and maintenance costs will result in one-off connection subsidies being unsustainable even in the short term, as operators will not have the incentive to serve newly connected households. Tariffs that do not include an element of capital cost recovery will lead to unsustainable systems in the longer term, as the operator will have insufficient capital to replace assets. Without appropriate sector-wide tariff reforms and regulations, assuring the sustainability and replication of OBA programs is difficult. Further, in some sectors such as ICT, sector-wide reform is required to pilot successful OBA schemes, since there are no localized solutions. For example, the recent ICT pilot in Nepal, which did not sufficiently tackle regulatory reform upfront, resulted in relatively high bid prices (although the risky political environment and harsh geographic conditions may have also contributed to this).

31. ***Local operators and investors play an important role, but access to finance is a key issue.*** The success of many OBA schemes depends on the existence and interest of competent local private operators and investors. Local private operators as well as private investors from other developing countries are starting to fill the gap in water and energy sectors where international private financing has not been forthcoming. This may be in part because of the small size of most OBA pilots to date. But this has implied substantial capacity building for the local companies in terms of understanding OBA and working under Bank-approved procurement procedures. However, the ability of local operators and investors to participate in OBA schemes depends on their access to finance.

32. ***Using public sector service providers in OBA schemes is challenging.*** The fact that there are very few OBA projects involving public sector service providers<sup>31</sup> demonstrates the challenges in providing the right incentives in these cases. These challenges relate to:

- finding viable public sector service providers that continue to provide sustainable services after (connection) subsidies have been disbursed;
- providing incentives to public sector service providers to deliver outputs (including potential penalties for not delivering);
- ability of public sector service providers to take on pre-finance risk due to lack of creditworthiness; and
- determining a subsidy amount in the absence of competition or benchmarks (see paragraph 37).

The challenge of providing appropriate incentives to public sector service providers is not new. The effectiveness of performance-based contracts in improving public enterprise performance has been debated over the past several decades. OBA projects involving public sector service providers will be carefully monitored over the next few years to document lessons learned.

33. ***But output-based disbursements between federal and local governments show promise.*** The recent move to use output-based disbursements between federal governments and their regional/provincial governments is encouraging for the application of OBA involving the public sector. OBA – or as it is sometimes referred in these cases, as output-based disbursement (OBD) – is being piloted on a much larger scale in a few projects in IBRD countries in Latin America. These projects involve Bank loans to federal governments, which in turn, make disbursements to regional/provincial governments for the delivery of clearly specified outputs. The most notable are the Provincial Maternal-Child Health Investment Loan in Argentina, and the water sector improvement program in the state of Guanajuato, Mexico. In Guanajuato, sector transfers (which in part are financed through a Bank loan) from the federal government to the municipal utilities are linked to clearly defined outputs achieved: cubic meters of treated waste water, and number of household connections to a water network. In the health programs in Argentina the outputs are number of vaccinations, maternity check-ups, and well-child visits. The health scheme is being scaled up in Argentina and replicated in several other Latin American countries as well as in India and Vietnam.

34. ***Role of governments in OBA projects.*** Regardless of the specific design of the OBA scheme, the role of the government is crucial to the success not only of the pilot but especially for establishing an enabling environment which would allow for replication or scaling up. Governments are instrumental in providing a link to public policy – undertaking appropriate tariff reforms, developing laws and regulations, identifying priorities for targeting of subsidies –

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<sup>31</sup> OBA approaches originally began with private sector providers. However, there has been a growing recognition that the option of working with public sector providers should also be explored to reach larger segments of populations in IDA countries, where they play a major role. Working with public sector providers could be an important avenue for scaling up OBA in IDA countries.

all of which are important for the success of OBA projects. Evidence to date suggests that OBA appeals to client governments, especially those with willingness to adopt innovative approaches to service delivery. Some governments that have been skeptical about increasing the role of the private sector in infrastructure service provision have actually welcomed OBA as a way to target service to the poor, while holding private operators accountable for agreed outputs.

35. ***Results monitoring is key in OBA projects and is expected to lower corruption.*** OBA schemes implicitly require careful monitoring and verification since the delivery of results/outputs is a prerequisite to paying the service provider. However, there are costs related to developing the appropriate monitoring and verification systems (as there would be with input-based schemes), and in some cases capacity of the local implementation agency might be a concern. Governments and implementing agencies will therefore often require some support. Also, careful consideration of “independent” verification of outputs must be made to minimize potential for corruption. Furthermore, because of the transparent use of funds where it is clear *how much* subsidy is paid for a *specified output* largely *after output delivery*, it is expected that OBA may help reduce corruption in the use of aid monies. However, it is acknowledged that reducing corruption takes a much larger effort than OBA alone, and that the “absence” of corruption will be difficult to measure.

## **B) “Internal” Bank Challenges and Lessons**

36. ***Procurement issues.*** Adapting OBA schemes to Bank procedures has involved additional project preparation time for Bank staff. A Guidance Note for Staff on Structuring OBA Approaches was released in November 2005, to help guide staff through procurement and disbursement related issues.<sup>32</sup> Through this, it was determined that there are no major impediments in Bank procedures that would prevent the success of scaling up OBA. However, additional guidance is required, for example, when working with incumbents<sup>33</sup> and public sector providers as described below.

37. ***Challenge with incumbent providers – whether private or public.*** Developing OBA schemes with incumbent providers poses the challenge of determining an efficient level of subsidy that ensures “value-for-money” in the absence of competition; this is a challenge for OBA that is both “external” and “internal” to the Bank. Further, working with incumbents has entailed some additional efforts regarding adapting or clarifying existing Bank policies and procedures. The main challenge has been determining the appropriate subsidy for the agreed outputs in a way consistent with existing Bank procurement and disbursement policies given the absence of competition. To overcome this challenge, a Bank Operational Memorandum (now an addendum to the aforementioned Guidance Note) provided additional clarity on the procurement issue, making it possible for the Bank to engage in direct arrangements with the incumbents insofar as principles of efficiency, economy and transparency are met when the incumbent procures the goods, works, or services required to achieve the output. Furthermore, the Bank is exploring the use of standard unit price (SUP) methodologies. The SUP concept involves the establishment of an amount that represents a realistic approximation of the efficient cost of

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<sup>32</sup> “Guidance Note to Staff on Structuring Output-Based Aid Approaches in the Bank,” November, 2005.

<sup>33</sup> Incumbent providers are those who have already invested in large sunk assets and should therefore have relatively lower marginal costs.

providing the specified service output, providing a tool to enable effective negotiation of subsidy amounts. The Bank has piloted SUP in the provision of health services in Argentina.

38. ***A learning curve.*** Innovative approaches to shorten and streamline the OBA life-cycle are required, although the learning curve is flattening. A few OBA programs have taken two to four years to go from design to implementation. Because most OBA schemes have been pilots and therefore by definition are relatively small, transaction costs per subsidy could be expected to be relatively high.<sup>34</sup> But transaction time for Bank task managers for designing OBA schemes in the ICT sector has been reducing, in part because of the years of piloting that have led to mainstreaming. This is also the case for roads, where the sample Output- and Performance-based Roads Contract mentioned in paragraph 18 is expected to help streamline the process, as did the CREMA and PMMR contracts before it.<sup>35</sup>

## VI. Next Steps and Conclusion

39. ***Larger OBA projects are needed to draw definitive lessons.*** As discussed in this paper, the size of OBA projects to date has been fairly small. Working with larger projects will allow the effectiveness of the OBA approach to be evaluated further. Larger OBA schemes would also be more attractive to project managers because of both the greater potential impact and the reduced relative transaction costs. One way to support larger projects is through OBA funds for sectors that span across a country or region. For example, OBA is being used widely in the ICT sector in the form of universal access funds. OBA approaches are being considered in a few cases for incorporation in rural electrification funds. Similar funds could be developed for water and sanitation. However, there is an ongoing debate on whether earmarking of funds is an appropriate fiscal and development policy.

40. ***Need more pilots with incumbents (whether public or private), and with public sector operators in general.*** Public or private sector incumbent operators often are the dominant service provider in the water and energy sectors. To reach larger areas and populations, more OBA schemes with incumbents could be piloted. This could also include more output-based disbursement schemes such as the water and sanitation scheme in Guanajuato and the Argentine health program. As described above, there are additional challenges in working with incumbents and with OBD schemes. These challenges are being addressed, although more guidance is needed. For example, a second Guidance Note is being prepared jointly by IEF/GPOBA, LAC, and fiduciary departments in the Bank. OBA projects involving public-sector providers will be explored further for determining the best way of providing incentives for public operators to deliver outputs to targeted beneficiaries. It should be noted that traditional input-based schemes also involve challenges when working effectively with public sector operators. In fact, OBA may help more clearly define what the challenges are, and allow for closer monitoring of results.

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<sup>34</sup> Subsequent reviews of OBA will look more closely at available transaction cost information, although the real challenge is to find information for non-OBA projects that are sufficiently comparable.

<sup>35</sup> “CREMA” contracts – or “*Contrato de Recuperacion y Mantenimiento*” – were the first OBA contracts and are used in Latin America. “PMMR” – or “Performance-based Maintenance and Management of Roads” – expanded on CREMA and is the precursor to the OPRC discussed throughout this paper.

41. ***Constraints in access to finance.*** Access to finance by local operators has been a key challenge for OBA in many cases. As a result, the requirement that OBA disbursements should be paid only upon delivery of outputs has been relaxed to a certain extent by staggering or phasing disbursement of subsidies prior to the delivery of outputs, while still maintaining incentives to deliver services. However, more innovative solutions have to be found. For example, bilateral development banks and other IFIs can improve access to finance by service providers participating in OBA projects. In particular, IFC and MIGA could further expand their presence in IDA countries to provide the required finance and risk mitigation instruments to the private sector. Moreover, partnerships with micro-finance institutions to provide financing when working with community-based providers (with the OBA subsidy acting as additional comfort through the assurance that if outputs are delivered as agreed, donor-funded subsidy payments will be disbursed) could also overcome the access to finance issue. In these cases, comfort in a secure revenue stream (if outputs are delivered as agreed) should also increase tenor and reduce the cost of the loan. A pilot where this is being tested is with K-Rep of Kenya – in which IFC is a shareholder and lender – which will provide micro-finance loans to community-based providers (see paragraph 24). Finally, there is an important link between leveraging private financing and having an appropriate tariff and regulatory structure in place. As mentioned in paragraph 30, OBA approaches are not a substitute for sector reform.

42. ***IDA and non-sovereign lending?*** At the time of the IDA14 replenishment discussions, Management had committed to exploring the possibility of lending directly to the private sector without a sovereign counter guarantee. Analysis of the options to date indicates that a promising way for IDA to do so would be through OBA approaches that allow explicit targeting of subsidies to the poor. At present, OBA approaches are still being piloted and selectively scaled up as lessons are being learned. In view of this, and given that lending without a sovereign counter guarantee would present important policy decisions for IDA, Management will revisit the issue of whether it should engage with the private sector directly using OBA approaches in 2-3 years.

43. ***Affiliated trust funds to support OBA projects.*** Donor-funded trust funds can provide grant financing for project design and capacity building for OBA projects to governments, regulators, potential service providers, local banks, and consumer representatives. For example, DevCo, an IFC-administered trust fund, is undertaking capacity building in several African countries under its Small Infrastructure Service Provider (SISP) program. PEP Africa and the Mekong Delta Initiative, both IFC initiatives, have provided capacity building to potential service providers. GPOBA, the Water and Sanitation Program (WSP), the Energy Sector Management Assistance Program (ESMAP), and the Public-Private Infrastructure Advisory Facility (PPIAF) have all provided upstream support to donors and governments in structuring OBA projects as well as in capacity building for relevant stakeholders.

44. ***More guidance to operations staff.*** A complete set of operational guidelines and reference documents on OBA will be developed. The existing Guidance Note to staff provides an important framework that enables Bank clients and staff to design programs and contracts that fit within Bank procedures. In the case of public sector providers and output-based disbursements, ring-fencing and accountability to appropriately shift performance risk are additional complexities that require more guidance. Further guidance to operational staff is

needed on developing OBA (and OBD) schemes with incumbents using standard unit costing. A clearer set of OBA guidelines is currently being developed (see paragraph 37).

45. **Conclusion.** Although not conclusive at this stage, there is growing evidence that OBA enhances aid effectiveness. What is clear from lessons learned over the past several decades is that aid needs to focus on delivering and measuring results. Those results can be more pro-poor if interventions are explicitly targeted to be so. OBA is a clear step in that direction. The focus, going forward, will be on implementing and monitoring the existing pilot projects. Meanwhile, the Sustainable Development and Private Sector Development networks will continue to increase awareness of OBA approaches in the Bank and will encourage country teams to apply these approaches not only in a pilot capacity but also selectively for large-scale projects, drawing on results and lessons learned. Through further OBA pilots and selective scaling up, the lessons learned to date can be further tested and addressed, and will be reported at IDA15 Mid-Term Review.



**Annex 1: List of Identified Bank OBA Projects in Infrastructure and Social Sectors (as of July 31, 2006)**

	<b>Country/ Region</b>	<b>Project Name (and P0)</b>	<b>Type of OBA approach</b>	<b>Subsidy Estimate (amount, source and type where known)</b>	<b>Estimated Output &amp; Quantity (where known)</b>	<b>Project Status</b>
<b>Water and Sanitation</b>						
1.	Bangladesh (SAR)	Social Investment Program Project (SIPP) (P053578, P084014 - GPOBA)	The government is seeking to find new and innovative ways to provide basic services to rural households, with funding channeled through the Social Development Foundation (SDF). As part of this effort, six rural piped water schemes have been piloted nationwide using output-based capital cost subsidies.	\$381,169 (IDA) One-off subsidy	4,433 water connections (primarily household but includes a few public standpipes)	Implementation
2.	Bangladesh (SAR)	Water Supply Program Project (P086661)	The project plans to pilot innovative measures like OBA-type capital subsidies to scale up the provision of safe water supply free from arsenic and pathogens in villages and growth centers.	Estimated \$23.1m (IDA) One-off subsidy		Implementation
3.	Brazil (LCR)	Project Expansion of water services in low income and peri-urban areas of Manaus (P098446 - GPOBA)	This project uses OBA-type capital subsidies to provide water and possibly sanitation services to low income and peri-urban areas of Manaus, with a population of approximately 11,000 families. Possible replication to 70,000 households.	\$3.3m (GPOBA) One-off subsidy	11,000 Household connections	Design
4.	Cambodia (EAP)	Provincial and Peri-Urban Water and Sanitation Project (P073311 P084167)	In two batches of pilots in eight towns, OBA contracts were awarded to expand access of basic water and sanitation services to poor households. Replication in other towns is underway.	\$1.5m (IDA) One-off subsidy	5,941 targeted connections	Implementation
5.	Egypt (MENA)	Upgrading of Sanitation in East Alexandria – Egypt (P099580)	The overall project objective is to connect poor households living in the squatter settlements east of Alexandria to a wastewater system and to install water meters.	\$6.05m (GPOBA) One-off subsidy	Not yet available	Design
6.	Egypt (MENA)	Gharbeya Wastewater Project (P097289)	Most households in the Governorate of Gharbeya are not connected to a sewerage system as they cannot afford connection charges, thus causing an environmental hazard. The project uses OBA-type subsidies to meet the government target of expanding sewerage connections to 11 percent of the population by 2007 and 100 percent by 2022.	\$2.7m (GPOBA) One-off subsidy	21,000 Household connections	Design
7.	Guinea (SSA)	Second Water Supply	This project combines water lease with a tariff transition	\$16.9m (IDA)	Cubic meters of	Closed

	Country/ Region	Project Name (and P0)	Type of OBA approach	Subsidy Estimate (amount, source and type where known)	Estimated Output & Quantity (where known)	Project Status
		Project (P001044)	subsidy. It is one of the first known OBA-type projects in water. The payment of subsidies is based on revenue billed and collected.	Transition subsidies	water supplied and revenue collected	
8.	Honduras (LCR)	Extension of Water and Sanitation Services in Low income areas of Honduras (P101461)	GPOBA will fund the development of an OBA scheme aimed at improving access to water and sanitation services to low-income households. Potentially, up to 40,000 low-income households in the locations of El Naranjal, Villa Unión, Villa Peniel, Río Hondo, Tegucigalpa, Comayagiela and San Pedro Sula will benefit from the proposed scheme.	\$7m (GPOBA) One-off subsidy	Not yet available	Design
9.	India (SAR)	Naandi Water (P098811)	Naandi Foundation, an Indian NGO established in 1998, has piloted OBA models for safe water provision in Andhra Pradesh. Naandi has identified 25 additional villages to expand this model to, and GPOBA will provide subsidy financing for the project.	\$1m (GPOBA) One-off subsidy	10,000 connections	Design
10.	Indonesia (EAP)	Expansion of Water Services in Low income areas of Jakarta (P096686)	The project tests an output-based approach for a selected low-income urban area of Jakarta, within the concession territories of both TPJ and Palyja.	\$1.5m (GPOBA) One-off subsidy	5,000 household connections	Design
11.	Kenya (SSA)	Microfinance for Small Water Scheme (P098087)	The pilot aims to develop and test an output-based approach for community-managed piped water projects in rural/peri-urban areas. Projects are pre-financed using market-based finance from domestic private sector microfinance institutions.	\$1.2m (GPOBA) One-off subsidy	12,500 connections	Design
12.	Kenya (SSA)	Extension of Water and Sanitation services (WSS) in low incomes areas in Kisumu (P098285)	The OBA approach is being considered to increase the access of water and sanitation services to the informal settlements of Nyalenda and Manyatta, located near Kisumu, Kenya.	\$350,000 (GPOBA) One-off subsidy	2,500 shared connections to serve 12,000 families	Design
13.	Mexico (LCR)	Guanajuato Water Project	The Guanajuato output-based disbursement scheme is an effective and practical way in which transfers – whether they be from the Federal government, the State or a loan program (such as the IBRD loan for Guanajuato) – can be linked to explicit outputs. Under this scheme, specific payments are made against number of inhabitants connected to safe and reliable service, the utility's improved financial standing and treatment of wastewater.	\$38m (IBRD) (\$22.7m for connections) One-off subsidy	15,902 connections (90,640 inhabitants, 5.7 inhabitants per household)	Implementation

	Country/ Region	Project Name (and P0)	Type of OBA approach	Subsidy Estimate (amount, source and type where known)	Estimated Output & Quantity (where known)	Project Status
14.	Morocco (MENA)	Morocco Rural Water and Sanitation Project (P086877)	The project aims to increase the rural population's access to potable water supply and safe sanitation, to improve hygiene practices and to promote long term sustainability of the RWSS sector.	\$2.1m (IBRD/ GPOBA) One-off subsidy	7,700 new water connections, 807 flush latrines, 1072 soakaway pits. Possible 5- year transitional subsidy disbursed on volume of water put into distribution.	Design
15.	Morocco (MENA)	Morocco Urban Water and Sanitation Project (P093079)	The project aims to use OBA schemes to expand access to water and sanitation among the poor living in recently legalized informal settlements in urban and peri-urban areas of Casablanca, Meknes and Tangier.	\$7m (GPOBA) One-off subsidy	24,000 connections	Design
16.	Nigeria (SSA)	Second National Urban Water Sector Reform Project (P071391)	The project uses OBA-type capital subsidies to establish 50,000 new water connections (both house and kiosks) in Calabar City, Cross River State.	\$13.4m (IDA) One-off subsidy	50,000 water connections (both houses and kiosks)	Implementation
17.	Pakistan (SAR)	Punjab Urban Water Supply and Sewerage Reform Strategy (P094270)	The project aims to investigate options including the OBA approach for improving water supply and sanitation service in the urban centers of Punjab.	Not yet available	Not yet available	Design
18.	Paraguay (LCR)	Fourth Rural Water Supply and Sanitation Project (P039983)	The project uses output-based aid subsidy, which is awarded through competitive bidding, to provide water services to unserved rural areas and small towns.	\$1m (IBRD) One-off subsidy	5,218 household water connections	Implementation
19.	Peru (LCR)	Lima Water Rehabilitation and Management Project (P098288)	The project leverages the resources of local NGOs to implement innovative low-cost condominium technology to expand access to water and sewerage services in the peri-urban neighborhoods of Lima.	\$1m (GPOBA) One-off subsidy	4,000 connections	Design
20.	Peru (LCR)	National Project for Rural Water and Sanitation (P065256)	The project aims to increase the availability of water in 9 rural municipalities, which will be selected based on income level and political commitment to implement private sector participation and OBA.	\$2.5m (IBRD) One-off subsidy	Not yet available	Design

	Country/ Region	Project Name (and P0)	Type of OBA approach	Subsidy Estimate (amount, source and type where known)	Estimated Output & Quantity (where known)	Project Status
21.	Philippines (EAP)	LGU Urban Water and Sanitation Project APL2 (P069491)	The project aims to assist the La Union Province in attracting a private operator to take over an existing provincial water supply system (previously operated by a water district) and to achieve a rapid expansion of the existing distribution network through house connections, partly to low-income households.	Estimated \$2.3m (IBRD) One-off subsidy	Not yet available	Design
22.	Senegal (SSA)	Senegal Onsite Water and Sanitation Project (P095587)	The current Bank-funded Long-term Water and Sanitation project utilizes an OBA approach for on-site sanitation facilities. GPOBA is designing a scale-up to this with an additional element to increase sustainability through an OBA sludge collection and treatment component.	\$14.7m (IDA/ GPOBA) One-off subsidy	63,000 sanitation connections	Implementation
23.	Sri Lanka (SAR)	Colombo Wastewater	The project aims to provide waste water connections for poor households.	\$1.5m (GPOBA) One-off subsidy	5,000 expected connections	Design
24.	Tanzania (SSA)	Water Supply in Secondary Towns (P097290)	The objective of the pilots is to demonstrate OBA as a mechanism for improvement of water services in small towns in Tanzania and as a viable mechanism for the government to accelerate access to services throughout the country.	\$4m (GPOBA) One-off subsidy	15,000 connections	Design
25.	Uganda (SSA)	OBA in Water Supply in Uganda's Small Towns and Rural Growth Centers (P098291)	OBA schemes for small towns and rural growth centers will provide targeted subsidies to the poor for access to piped water supply, while allowing private operators to expand their role providing much needed financing and expertise. Outputs will include yard taps and standposts.	\$3m (GPOBA) One-off subsidy	2,000 connections (each connection to serve several families)	Design
26.	Vietnam (EAP)	Ho Chi Minh City Targeted Service Expansion through Water Loss Reduction (P097670)	OBA scheme would provide incentives to the public utility and its private contractors to reduce leakage and connect targeted poor customers.	\$8.4m (IDA/ GPOBA) One-off subsidy	52,000 connections	Design
<b>ENERGY</b>						
27.	Armenia (ECA)	Access to Gas & Heat Supply for Poor Urban Households (P095329)	The project provides subsidies to finance connections to the gas network for the poorest urban households in Armenia.	\$6.53m (IDA/ GPOBA) One-off subsidy	17,200 connections	Implementation
28.	Argentina (LCR)	Renewable Energy in the Rural Market	The project uses output-based subsidies to expand access to electricity in remote rural areas through cooperatives and	\$30m (IBRD) One-off subsidy	30,000 household	Implementation

	Country/ Region	Project Name (and P0)	Type of OBA approach	Subsidy Estimate (amount, source and type where known)	Estimated Output & Quantity (where known)	Project Status
		Project - PERMER (Offgrid Electrification Concession)	provincial “offgrid concessions” that are negotiated with existing grid concessionaires or bid out for minimum subsidy and regulated by independent provincial regulating agencies.		connections and 2500 social and productive uses connections	
29.	Bolivia (LCR)	Decentralized Infrastructure for Rural Transformation (P073367)* Supplemental Funding project (P088817)	The project aims at increasing access in poorer, more remote areas by offering OBA subsidies to new providers of solar photovoltaic units and cellular phones. Supplemental project will improve micro-financing arrangements.	\$9m (IDA) One-off subsidy	15,000 solar home systems	Implementation
30.	Bolivia (LCR)	Decentralized Electricity for Universal Access	The proposed project combines public-private partnership (PPP) with innovative, output-based “medium-term service contracts” (MSC) for the provision of electricity to some 50,000 Bolivian citizens using renewable technologies under the Government’s new Universal Access Policy.	\$6m (GPOBA) One-off subsidy	9,000 solar home systems	Design
31.	Colombia (LCR)	Natural Gas Distribution for Low Income Families in the Caribbean Coast (P099573)	OBA-type connection subsidies are used to connect 35,000 families in the lowest income strata to the natural gas distribution network in Colombia.	\$5.2m (GPOBA) One-off subsidy	35,000 house connections.	Implementation
32.	Egypt (MENA)	Connecting Poor Households to Natural Gas (P098295)	GPOBA support has led to the GOE requesting a \$250-\$300m loan to connect users to the gas network, with a pro-poor element, and connections made partly on an OBA basis.	\$275m (IBRD) One-off subsidy	1,200,000 connections	Design
33.	India (SAR)	Improved Electricity Access for Indian Slum Dwellers	The objective of the proposed project is to develop, test, evaluate and scale up customized approaches to improve electricity access and normalize services in slum areas in order to improve the economic opportunities and quality of life for slum dwellers. It is expected that the project will benefit 20,000 slum dwelling units.	\$1.5m (GPOBA) One-off subsidy	20,000 connections	Design
34.	Mozambique (SSA)	Energy Reform and Access Project (P069183 and P084151 - GPOBA)	The pilot OBA in Northern Inhambane aims to expand electricity coverage through subsidies for connections with the support of several bilateral and multilateral donors.	\$1.4m (IDA) One-off subsidy	3,000 connections	Implementation
35.	Nicaragua (LCR)	Offgrid Rural	The project aims to support the sustainable provision of	\$1.85m (IDA)	7,000	Design

	Country/ Region	Project Name (and P0)	Type of OBA approach	Subsidy Estimate (amount, source and type where known)	Estimated Output & Quantity (where known)	Project Status
		Electrification - PERZA (P073246 and P087545 - GPOBA)	electricity services and associated social and economic benefits in selected rural sites.	One-off subsidy	connections	
36.	Peru (LCR)	Peru Rural Electrification (P090116 (IBRD)) (P090110 (GEF))	The objective of the project is to increase access to efficient and sustainable electricity services in rural areas of Peru.	\$15.9m (IBRD) One-off subsidy	160,000 connections	Design
37.	Philippines (EAP)	Private Sector Participation in the Provision of Power Supply to Missionary Areas (SPUG) (P090238 and P084162 - GPOBA)	An OBA consumption subsidy design has been used to improve electricity supply in remote islands, bringing economic development and general well-being to low-income communities. The subsidy is provided from a national fund financed by a surcharge applied to all electricity end-users.	\$2.8m in year 2005 (cross subsidy) Ongoing subsidy	kWh of electricity supplied	Implementation
38.	Senegal (SSA)	Electricity Services for Rural Areas Project (P085708)	The project uses OBA-type capital subsidies with international competition to maximize the number of beneficiaries getting effective electricity service delivery for a limited amount of public money available, to fill the gap between high capital cost and limited user payment capacity.	\$18m (IDA/GEF Grant) One-off subsidy	Minimum 20,000 connections	Implementation
39.	Tajikistan (ECA)	Pamir Private Power Project (P075256)	The project uses an output-based transitional subsidy to improve reliability and enhance the quality of electricity supply in Gorno Badakshan Autonomous Oblast region. Project sponsors include Agha Khan Foundation and IFC.	Approximately \$9m (IDA/ Swiss) Ongoing subsidy	kWh of electricity supplied	Implementation
<b>TELECOMMUNICATIONS (ICT)</b>						
40.	Azerbaijan (ECA)	OBA Telecommunications. (Developed from South Caucasus Rural Telecom. Strategy) (P081250 - PPIAF)	The first ICT OBA pilot to be designed through this PPIAF study is being initiated in Azerbaijan.	(early design)	Not yet available	Design
41.	Bolivia (LCR)	Decentralized Infrastructure for	The project is financing the expansion of rural electricity and ICT services in the identified project areas with new service	\$4.1m (IDA) One-off subsidy	25,000 cellular phone	Implementation

	Country/ Region	Project Name (and P0)	Type of OBA approach	Subsidy Estimate (amount, source and type where known)	Estimated Output & Quantity (where known)	Project Status
		Rural Transformation (P073367) Supplemental Funding project (P088817)	provision models that are based on OBA mechanisms. Specifically: 1) the electrification of isolated and dispersed rural households, micro-businesses, schools and health centers with solar home systems; and 2) the expansion of cellular phone coverage in the project areas.		connections in 100 communities	
42.	Burkina Faso (SSA)	Competitiveness & Enterprise Development Project (P071443)	The ICT OBA component will provide subsidies for the provision of rural telephony services within a 5km walking distance in 13 identified underserved regions.	\$1.04m (IDA) One-off subsidy	683 payphones and 6 internet points of presence (POP)	Implementation
43.	Cambodia (EAP)	Rural Telecommunication Access Project (P098279 GPOBA)	This pilot project aims to implement OBA-based subsidy tender to provide cellular coverage.	\$2.28m (GPOBA) One-off subsidy	5,500 cell phone connections	Design
44.	Chile (LCR)	Infrastructure for Territorial Development (P076807)	The ICT component will provide financing to the telecommunications universal fund to carry out international public tenders to contract operator(s), to build a modern telecommunications infrastructure and provide access to the internet in rural communities in Chile. The beneficiaries will be schools, municipalities, micro enterprises, health centers, and other entities in small towns of rural Chile.	(early design)	Not yet available	Design
45.	Ecuador (LCR)	Power and Communications Sectors Modernization and Rural Services Project PROMECE (P063644)	The project will support the Government's efforts to deepen reforms in the telecommunication and electricity sectors, by strengthening regulatory institutions and improving environmental management of the sectors' activities. Pilot OBA projects to develop business centers with computer and internet access and ICT-based business services to micro and small businesses in marginal urban and large rural communities.	\$4.2m (IBRD) One-off subsidy	166 telecenters (4 public telephones and 5 computers per telecenter)	Implementation
46.	Guatemala (LCR)	Guatemala Telecommunications P088652 (GPOBA) P088195 (PPIAF) P094321 (Bank project)	The objective of the project is to assist the efforts of the Government of Guatemala to develop and implement a more comprehensive, effective and sustainable strategy for the telecommunications sector that will foster increased private sector investment in rural and peri-urban areas.	\$12m (IBRD) One-off subsidy	5,234 public payphones, 18,285 private phones and 288 internet points of presence	Design
47.	India (SAR)	Rural Telecommunications	The overall objective of the proposed \$250 million project is to accelerate rural connectivity in India based on an OBA	(early design)	Not yet available	Design

	Country/ Region	Project Name (and P0)	Type of OBA approach	Subsidy Estimate (amount, source and type where known)	Estimated Output & Quantity (where known)	Project Status
		Development (P093925)	subsidy scheme.			
48.	Indonesia (EAP)	Indonesia Rural Telecom (P101461)	This is an output-based scheme to provide telecommunications services to rural areas in Indonesia.	\$4m (GPOBA) One-off subsidy	Not yet available	Design
49.	Malawi (SSA)	Rural Infrastructure Services (P057761)	The project is aimed at expanding access to and improving the quality of infrastructure services (telecommunications, electricity and water) in selected districts in Malawi, to exploit the productive potential of farm and non-farm rural enterprises. The ICT OBA component will finance rural pay phones, telecenters, and possibly internet connectivity.	(early design)	Not yet available	Design
50.	Mongolia (EAP)	OBA Pilot project of Universal Access Strategy (P092965)	The project will support the implementation of the Government's Universal Access Strategy through accelerating the provision of telecommunications and internet services in rural Mongolia. This will primarily be achieved through a competitive award of capital subsidies through an OBA tender process to operators that would be responsible for installing, operating, and maintaining the new telecommunications systems on a commercial basis.	\$6.87m (IDA/ GPOBA) One-off subsidy	Public payphones in 350-400 herder communities, and voice & data services to vanguard institutions (hospitals, schools, etc) in 45 village ("soum") centers	Implementation
51.	Mozambique (SSA)	Mozambique Communication Sector Reform Project (P073479)	The objective of the project is to improve access to and quality of efficient and affordable communications services by creating an enabling environment for competition and private participation in sectors deemed critical to facilitating national and regional market integration.	\$3m (IDA) One-off subsidy	929 payphones and 8 internet public internet access centers	Design
52.	Nepal (SAR)	Nepal Telecommunications Sector Reform Project (P050671)	The objective of the project is to support telecommunications sector reforms to increase access by developing a competitive and liberalized market structure, and to enable the private provision of telecommunications infrastructure and services in rural areas. The OBA component will support the least-subsidy concession for rural service, where the operator is required to provide at least two public access lines in each of	\$11.9m (IDA) One-off subsidy	1068 public access lines (at least two in each of the 534 VDCs)	Implementation

	Country/ Region	Project Name (and P0)	Type of OBA approach	Subsidy Estimate (amount, source and type where known)	Estimated Output & Quantity (where known)	Project Status
			534 village development committees (VDC), and operate services in these VDCs for at least 10 years.			
53.	Nicaragua (LCR)	Telecommunications Reform (P055853)	The project aims to support the reform of the telecommunications sector, including new legal and regulatory framework, capacity building to the regulator and privatization of an incumbent. The OBA component uses negative concession for provision of payphone and possibly internet services in rural areas, under two selected pilot projects.	\$1m (IDA) One-off subsidy	Public payphone access to 366 communities in the central and pacific zones of Nicaragua	Implementation
54.	Nicaragua (LCR)	Rural Telecommunications project (P089989)	The project is aimed at providing technical assistance to telecom regulators and carrying out OBA tenders for the provision of telephones, internet access and telecenters in rural areas.	\$7.9m (IDA) One-off subsidy	347 public telephones and 103 Internet POPs.	Design
55.	Nigeria (SSA)	Privatization Support Project (P070293)	The objective of the project is to support transparent and effective implementation of the Federal Government of Nigeria's privatization program through expanded private investment and improved efficiency in productive sectors and in infrastructure. The OBA component uses reverse subsidy auction for the provision of payphone and internet services in rural areas via two tenders for pilots in three different geographic areas.	\$6.1m (IDA) One-off subsidy	Minimum of 790 payphones and 395 Internet Access Points.	Implementation
56.	Org. of Eastern Caribbean States (LCR)	Telecommunications and ICT Development Project (P088448)	The Telecommunications and ICT Development Project aims at improving the access to, quality of, and use of telecommunications and ICT services to achieve socio-economic development in the OECS. The universal access component will review current universal access policy, create related guidelines, and provide financial support to establish a Universal Service Fund (USF).	\$1m One-off subsidy	Number of Internet subscribers	Design
57.	Samoa (EAP)	Telecommunications and Postal Sector Reform Project (P075739)	The objective of the \$4.48 million project is to improve performance of the ICT sector through increased competition and effective regulation. The project also attempts to extend access to basic communications, postal services and the Internet to rural communities. The \$95,000 pilot study for the OBA component will consist of a study to assess options to extend communications into rural areas; if agreement is reached on the OBA based on results of the tender, the OBA	(early design)	Not yet available	Design

	Country/ Region	Project Name (and P0)	Type of OBA approach	Subsidy Estimate (amount, source and type where known)	Estimated Output & Quantity (where known)	Project Status
			subsidy will be allocated.			
58.	Tanzania (SSA)	Energizing Rural Transformation (P078090)	The project's development objective is to improve the quality of life of rural and peri-urban households and to raise the incomes generated/jobs created by enterprises in those areas – by means of increased access of households, enterprises and social facilities to electricity and ICT services.	\$6.25m (IDA) One-off subsidy	4000 public payphones, 50 internet POPs and public access points.	Design
59.	Uganda (SSA)	Energizing Rural Transformation (P069996)	The Uganda Energy for Rural Transformation Project includes an innovative OBA component for mainly public phones based on cellular technology, as well as Internet Points of Presence. The first known OBA project in the ICT sector in Africa, it follows the model of using World Bank financing as initial seed money into a universal access fund, which can then become sustainable through regular contributions by private operators with no need for public funds.	\$6.7m (IDA) One-off subsidy	1529 payphone (one per 2,500 inhabitants) and 32 internet points of presence (POP).	Implementation
60.	Zambia (SSA)	Increased Access to Electricity & ICT Services (P077452)	The objective of this project is to develop and support initial implementation of a commercially-oriented and sustainable framework for increasing access to electricity and ICT services in rural and peri-urban Zambia. The ICT OBA component will channel funds through the universal access fund in the form of subsidies to competitively selected private operators who undertake service obligations in commercially nonviable areas, mostly for voice telephony projects and, in a smaller proportion, for internet POPs, telecenters, ICT training centers and local content creation.	\$3.13m (IDA) One-off subsidy	4000 public telephones, 25 POPs, 25 public access centers and 2 Internet Exchange Points (IXP)	Design
<b>TRANSPORT</b>						
61.	Argentina (LCR)	Road Maintenance and Sector Rehabilitation Project (P006003)	The project uses CREMA contract with output-based components for rehabilitation and maintenance. Multiyear lump-sum contracts funded by both the government and the World Bank using incentive-based payment schedules to ensure the quality of the work.	\$155m (IBRD + GoA) Ongoing subsidy	11,667 km for 5 yrs	Closed
62.	Argentina (LCR)	National Highway Asset management (P088153)	The project is developed based on National Highway Rehabilitation and Maintenance Loan to incorporate approximately 15,000 km of additional roads into CREMA	\$286m (IBRD + GoA) Ongoing subsidy	8188 km	Implementation

	Country/ Region	Project Name (and P0)	Type of OBA approach	Subsidy Estimate (amount, source and type where known)	Estimated Output & Quantity (where known)	Project Status
			arrangements.			
63.	Argentina (LCR)	Provincial Road Infrastructure Project (P070628)	The project aims at improving the reliability of essential road assets that facilitate access of provincial production to markets and improving the efficiency of their management.	\$128.5m (IBRD + GoA) Ongoing subsidy	2,204 km	Implementation
64.	Argentina (LCR)	National Highway Rehabilitation and Maintenance (P052590)	The objective of the project is to stabilize the condition of the non-concessed national road network and to increase the participation of the private sector in road rehabilitation and maintenance services.	\$591m (IBRD + GoA) Ongoing subsidy	Rehabilitation of 5485 km and maintenance of 14,400 km in two phases	Closed
65.	Brazil (LCR)	Federal Highways Project (CREMA) (P055950)	The project aims to use performance-based contracts for rehabilitation and maintenance.	Not available	Not yet available	Design
66.	Burkina Faso (SSA)	Transport Sector Project	The project aims to use Output- and Performance-based Contract (OPCR), formerly known as Performance-based contracts for the Management and Maintenance of Roads (PMMR), involving OBA and regional private companies.	TBD (IDA + GoBF Road Maintenance Fund) Ongoing subsidy	1021 km	Design
67.	Cape Verde (SSA)	Road Sector Support Project (P087004 and P088645)	The project uses OPCR, involving OBA and regional private companies.	Approx \$6.9m (IDA) Ongoing subsidy	300 km	Implementation
68.	Chad (SSA)	National Transport Program Support Project (P035672)	The OPCR-type contract covers the management, maintenance and rehabilitation of roads during the 4 year period.	Approx \$11.1m (IDA) Ongoing subsidy	420 km	Closed
69.	Chad (SSA)	OBA in Road Network Management and Maintenance (P035672 and P088645)	The project aims at using OPCR, building on first OPCR-type arrangement in Chad (see P035672)	TBD (IDA)	650 km	Design
70.	India (SAR)	Annuity Road Project	The project uses performance-based contracts	unknown	unknown	Implementation
71.	Madagascar (SSA)	Transport Infrastructure Investment Project (P082806 and	The project aims at improving the management and maintenance of roads involving OBA and regional private companies. There are three separate OPCR-type contracts.	TBD (IDA + GoM + EU) Ongoing subsidy	TBD	Design

	Country/ Region	Project Name (and P0)	Type of OBA approach	Subsidy Estimate (amount, source and type where known)	Estimated Output & Quantity (where known)	Project Status
		P088645)				
72.	Paraguay (LCR)	Road Maintenance Project (P082026)	The project uses OPCR involving OBA and regional private companies. Pilot performance based road rehabilitation and maintenance contracts in Paraguay.	\$39.3m (IBRD) Ongoing subsidy	968 km	Implementation
73.	Tanzania (SSA)	Transport Sector Support Program Project (P055120 and P088645)	The objective of the project is to remove constraints to transport services and to strengthen local management and implementation capacity. The project builds on the Chad experience.	(IDA + GoT) TBD	Not yet available	Design
74.	Uruguay (LCR)	Transport Project II (CREMA) (P049267)	The objective of the project is to increase efficiency in the provision of transport services and maintenance of road infrastructure through performance-based contracts, and to strengthen road sector management.	\$42m (IBRD + GoU) Ongoing subsidy	856 km	Closed
75.	Yemen (MENA)	Second Rural Access Project (P085231)	The project uses OPCR, involving OBA and regional private companies.	\$10.9m (IBRD + GoY) Ongoing subsidy	950 km	Implementation
<b>HEALTH</b>						
76.	Argentina (LCR)	Provincial Maternal-Child Health Invest. Loan (MCHIP, 1st phase APL) (P072637)	GOA transfers funds to provincial governments to insure health services for the poor uncovered population. Provincial governments hold contracts with private and public service providers, who compete on the basis of quality.	\$238m (IBRD + GoA) Ongoing subsidy	582,292 inhabitants	Implementation
77.	Democratic Republic of Congo (SSA)	DRC Health Centre Rehabilitation Support Project (P088751 and P089946 - GPOBA)	The objectives of the project are to rebuild agricultural production, rehabilitate and reconstruct critical infrastructure, restore essential social services, and strengthen the capacity of government regarding development programs. The project is exploring OBA approaches.	approx. \$49m (IDA) (to finance 8 contracts to provide health support to 67 health zones) Ongoing subsidy	8.9 million population	Implementation
78.	Ecuador (LCR)	Health Insurance Strategy for the Poor Project in support of the first phase of the Universal Health Insurance Program (P088575)	Health projects usually use a unit costing approach for a list of predefined health services. Providers (public and private) that meet quality criteria compete for patients on the basis of quality.	\$167m (IBRD + GoE) Ongoing subsidy	1.4 million inhabitants	Implementation

	<b>Country/ Region</b>	<b>Project Name (and P0)</b>	<b>Type of OBA approach</b>	<b>Subsidy Estimate (amount, source and type where known)</b>	<b>Estimated Output &amp; Quantity (where known)</b>	<b>Project Status</b>
79.	India (SAR)	Rajasthan Health Systems Development Project (P050655)	The objective of the project is to increase access to health care services by the poor, and to improve the quality of health care services through institutional development.	(early design)	Not yet available	Implementation
80.	Paraguay (LCR)	Mother and Child Basic Health Insurance Project (P082056)	The project uses quasi-insurance for delivering a basic package of health services to mothers and children.	\$8.3m (IBRD) Ongoing subsidy	737,000 inhabitants	Implementation
81.	Rwanda (SSA)	Comparison of two health OBA schemes in Rwanda (of Second Poverty Reduction Strategy Credit) (P092944 and P093479 - GPOBA)	The Government of Rwanda has asked the WB for assistance in the preparation of a Poverty Reduction Support Credit. The Government would like to carry out a comparative analysis of two promising 2-year old OBA schemes.	\$3.6m (IDA) Ongoing subsidy	1 million inhabitants	Implementation
82.	Vietnam (EAP)	Health Project	The project is being designed in line with the Argentina project.	(IDA) (early design)	Not yet available	
<b>EDUCATION</b>						
83.	Chile (LCR)	Lifelong Learning and Training project (P068271)	Subsidy is paid on successful completion of adult learning modules provided by certified public and public and private service providers.	\$ 100.6 m (\$41.4m IBRD) One-off subsidy	71,500 students of basic education, 48,500 secondary education, 250,000 distance learning, 65,000 technical training	Implementation