



Output-based Aid in the Water and Sanitation Sector

Access to Market finance for African
Water Utilities

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Presentation Structure

- What are output-based approaches?
- How can they be used to expand access to water and sanitation?
- Examples of the application of output-based approaches in the water and sanitation sector
- This workshop: how OBA could be used for some utilities to set up their first commercial loan

Delivery of Basic Service to the Poor

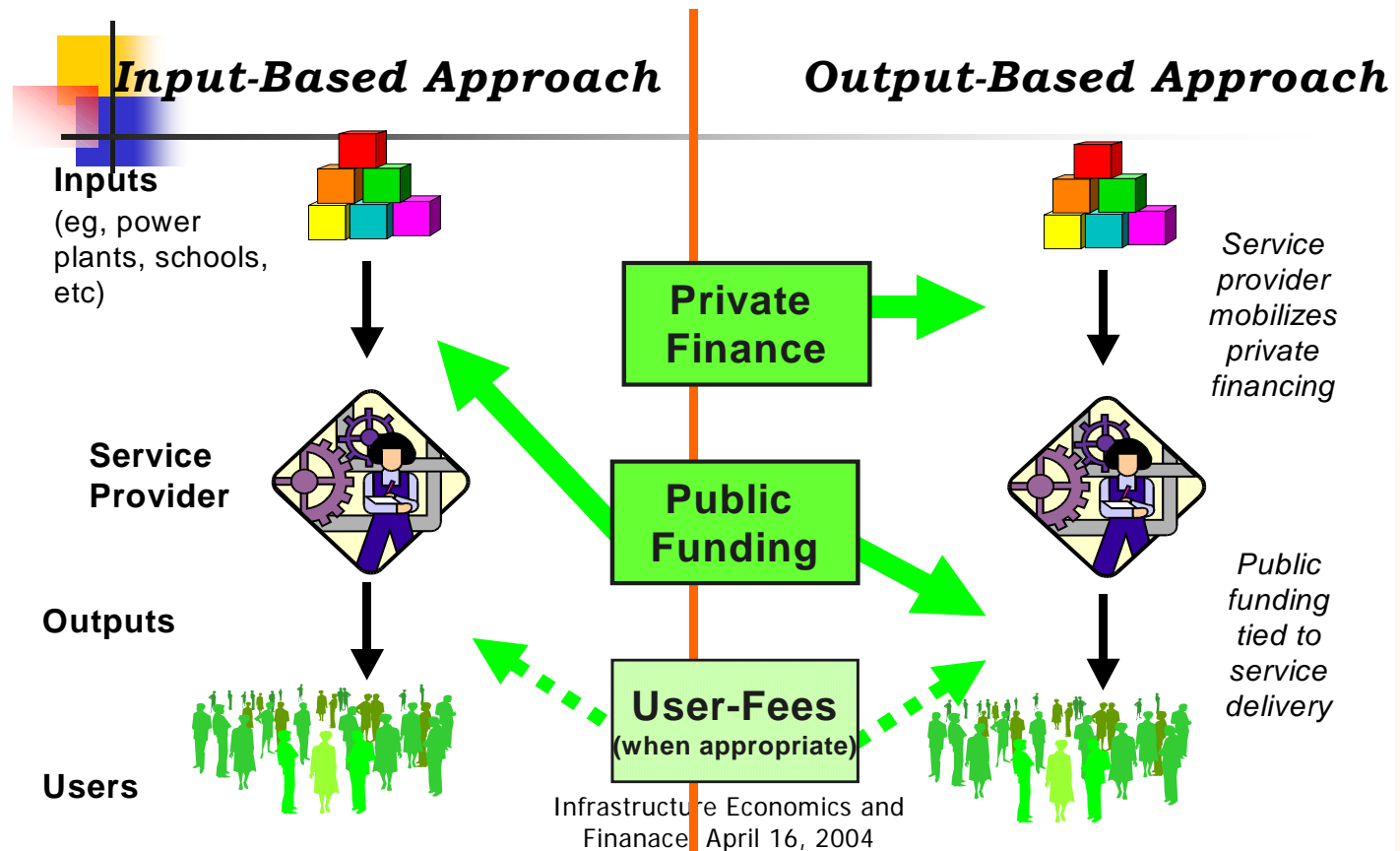
- There are **limits** to financing some basic services through **user-fees alone**
 - Affordability concerns
 - Public good characteristics
 - Infeasibility of imposing direct user-fees.
- Directing public funding to *inputs* used by **public sector providers** often does not achieve expected results
 - Poor targeting of intended outcomes
 - Weak incentives for efficiency & innovation
 - No or limited private financing leveraged.

Key Features of Output-Based Approaches

OBA is a strategy for channeling subsidies to support the delivery of basic services where:

- Disbursement of aid is made contingent to actual performance against the output indicators
 - ➔ Pay for results, not pipes and pumps

Example of Contrasting Approaches

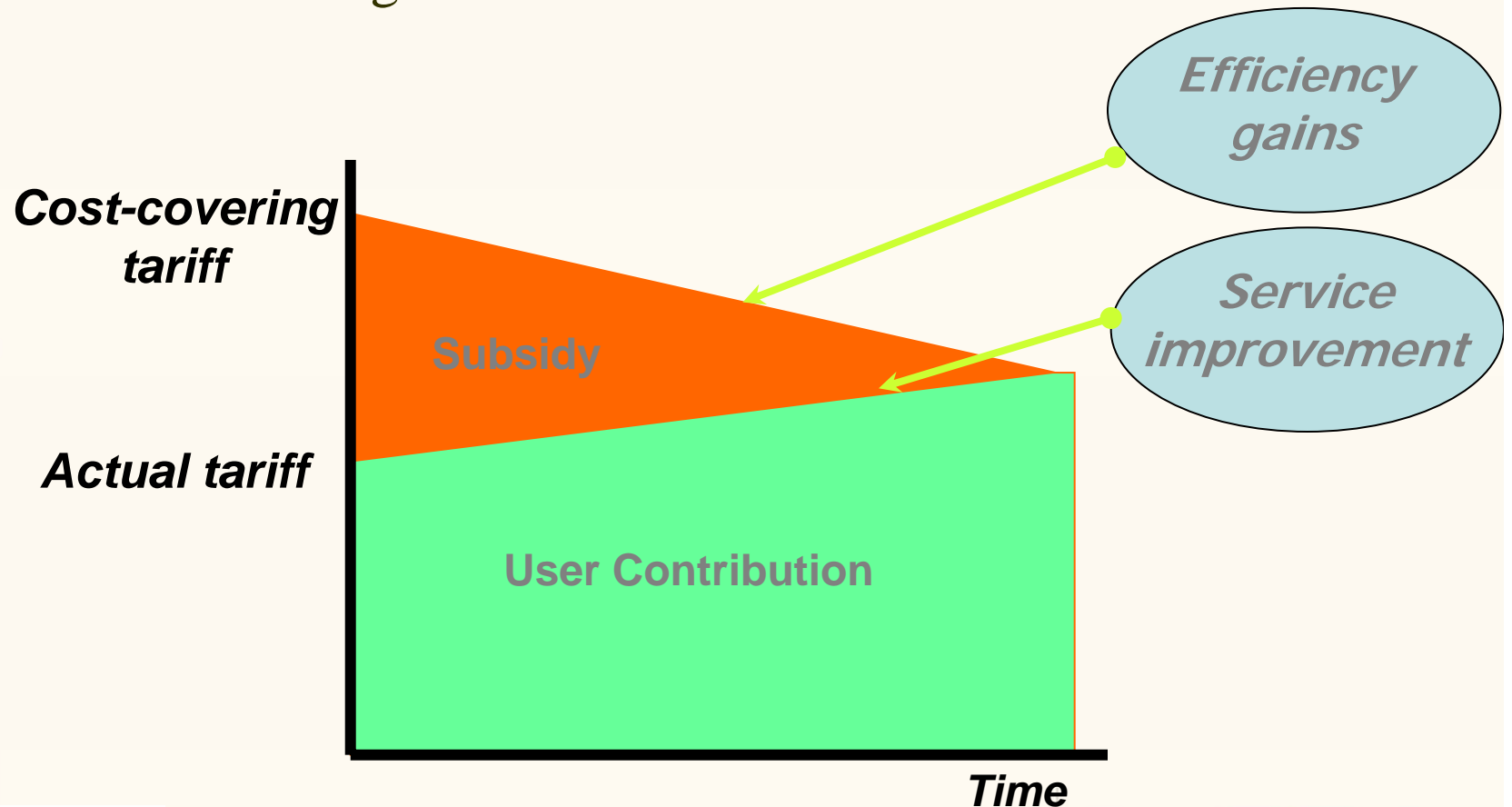


Examples of subsidy arrangements

- **one-off subsidies**, for example to expand access through new connections, and/or
- **transitional subsidies** to cushion the move to cost recovering tariffs, and/or
- **ongoing subsidies** to targeted groups, such as low income consumers, for instance through delivery of payment to an operator of the difference between a life-line tariff and the full tariff.

OBA model for Transition Subsidies

Time-bound subsidies might be used to ease the transition to cost-covering tariffs



Cambodia OBA Water Project

- Civil war and social disruption: piped water supply covering only 1/3 of the population
- Communities relying on self-provision as well as increasing number of unlicensed private providers (including small networks)
- Customer studies show higher level of satisfaction in areas run by small private providers



The OBA model for subsidizing coverage expansion

- Traditional *input-based* approach: donors funding to subsidize civil works to connect new households
- Potential shortcomings:
 - Targeting ?
 - Efficiency: competitive bids, but demand-driven ?
 - Sustainability?



The Cambodia Water PSP scheme (15 years)

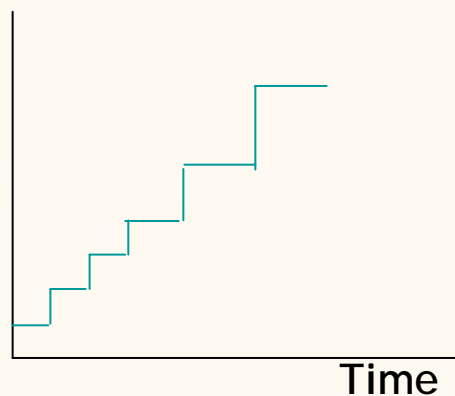
- 19 cities transferred to private operator under a *Design-Build-Lease* (DBL):
 - Non targeted subsidies through IDA credit (\$27M) for Capex
 - Lease payment to Government
- 4 towns operated under OBA arrangement:
 - Targeted subsidy to connect the poor through IDA grant (\$3M)
 - 2 operators



Cambodia: DBL versus OBA

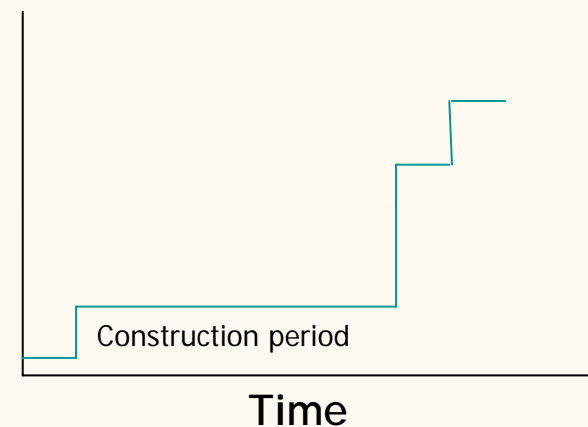
DBL & OBA: private constructor is involved in future operation (demand & design risks)

DBL Disbursement



OBA Disbursement

10 % of contract price



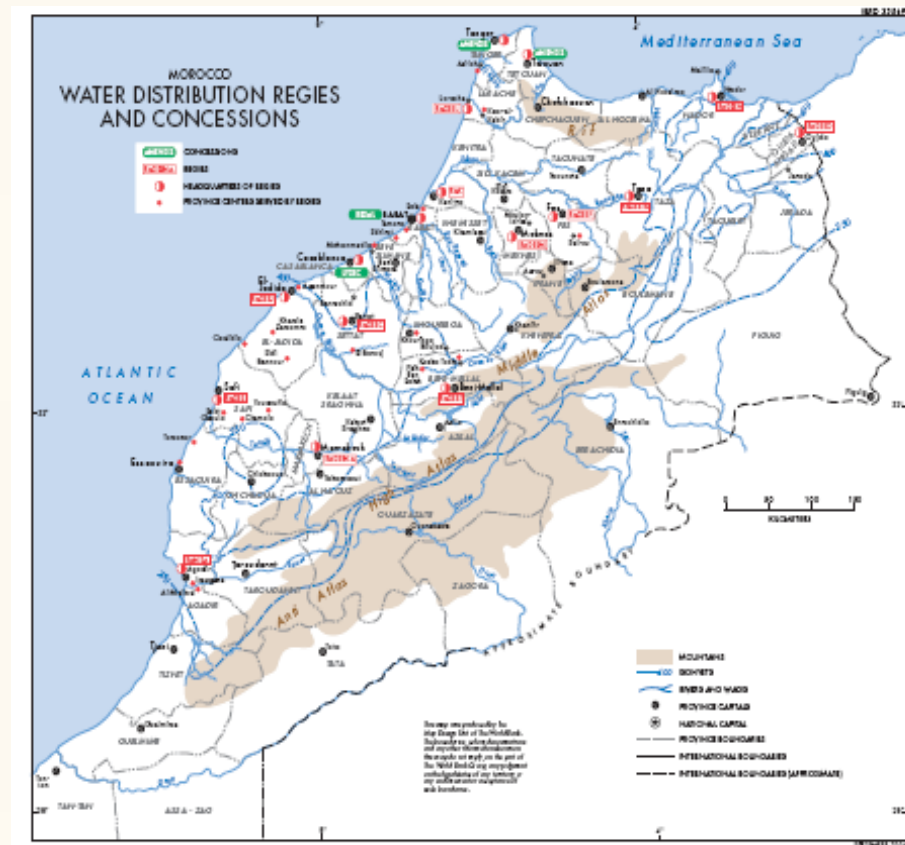
OBA: 10% upfront, rest after connection

OBA scheme targets the poorest households

Morocco – Access to Services (INDH) pilot

Government objective:
improve of access to
services for peri-urban
slums under the national
INDH program

GPOBA pilot:
Two existing concessions,
Morocco and Tanger,
one public utility in
Meknes; envisaged
national scale up



Morocco – Access to Services (INDH) pilot

- Government is grant recipient, Bank disbursement on outputs (OBD), through direct payment to service providers
- Set of unit prices based on independent benchmarking exercise, differentiated by utility, by service, by geography:

US\$	per water connection connection	per sewerage
LYDEC	162	401
AMENDIS	163	462
RADEM (urban)	158	869
RADEM (rural)	591	n

- Payments constitute 23-72% of total estimated efficient cost

Global Partnership on Output-Based Aid (GPOBA)

GPOBA is a multi-donor trust fund facility established in 2003 by DFID and the World Bank to:

- **Support** the design, implementation and evaluation of pilot OBA projects for the delivery of infrastructure and social services (e.g. design of model contracts, administrative arrangements, consensus and capacity building),
- **Disseminate** emerging lessons on issues relating to the role and application of OBA approaches (e.g. publications, workshops, conferences),
- And more recently (late 2004), to provide **direct funding for the subsidy component** of OBA projects via grant financing. The ability to fund subsidies during the early (relatively high risk) years of OBA projects will improve the options for long-term funding sources to the provision of public services in poor communities.

Other Examples: The OBA Record

- Approximately **30** known (mostly World Bank-driven) initiatives thus far
- 8 projects in the water sector at various stages of design and implementation
- Most projects have involved one-off connection subsidies

How could we use OBA?

- The main constraint with OBA is that service providers need to pre-finance investment (they take performance risk):
 - An issue for public utilities
- But if 3-4 year local loans are available...
- E.g. Coverage expansion project

Global Partnership on Output-Based Aid (GPOBA)

For more information, visit:

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