

A Snapshot of the OBA Universe | Lars Johannes, Luisa Mimmi, and Yogita Mumssen

Development practitioners are acutely aware of the need to find more effective ways to improve basic living conditions for the poor, as traditional approaches of delivering public support have not always led to the results intended. Output-Based Aid (OBA) is a results-based instrument that is being used to improve the delivery of basic infrastructure and social services to the poor, often through public-private partnerships. This note provides an overview of the use and performance of OBA based on the World Bank study “Output-Based Aid: Lessons Learned and Best Practices” (Mumssen, Johannes and Kumar 2010).



Photo courtesy of the World Bank

What is OBA?

Output-Based Aid (OBA) is a results-based mechanism that is increasingly being used to deliver basic infrastructure and social services to the poor. The concept was introduced in the World Bank Group in 2002 through the Private Sector Development Strategy and more formally in January 2003. At that time, the Global Partnership on Output-Based Aid (GPOBA) was established by the UK's Department for International Development (DFID) and launched as a World Bank-administered pilot program to test the OBA approach.

How does OBA fit with other results-based mechanisms?

Figure 1 provides a broad depiction of some instruments that may be categorized as results-based financing (RBF) approaches, which includes OBA among others. A distinctive feature of the OBA approach is that outputs are defined as closely to the desired outcome or impact as is contractually feasible. For example, an output might be the installation of a functioning household connection to the electricity network. In some cases, an output might

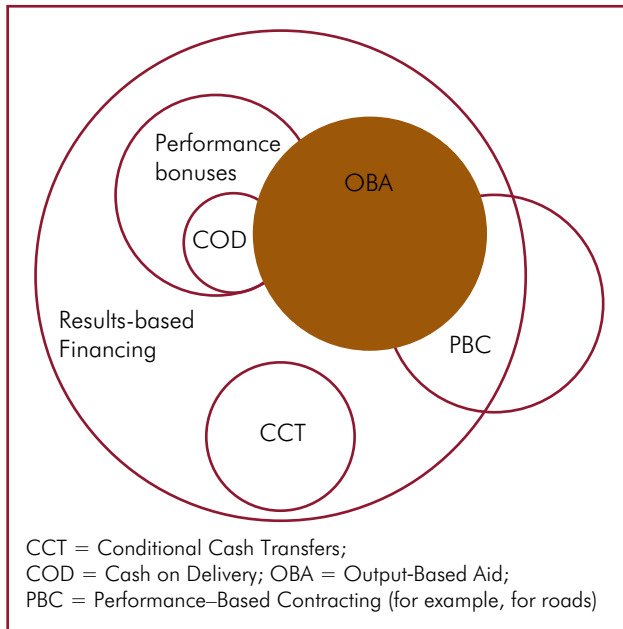
also include a specified period of electricity delivery demonstrated through billing and collection records.

Additionally, OBA ties the disbursement of public funding in the form of subsidies to the achievement of clearly specified results that directly support improved access to basic services. Neither performance contracts nor subsidies are new. However, outputs in OBA schemes are generally more narrowly defined than benchmarks in traditional performance arrangements, which in some cases may be input oriented. OBA refines the targeting of subsidies by bringing them together with performance-based arrangements through the explicit linking of subsidy disbursement to the achievement of agreed outputs.

The OBA spectrum encompasses diverse schemes (or combination of them) such as performance-based contracting (as in road projects) or voucher schemes (especially in health and education). Vouchers, paid either to users or to competing service providers, are typically tied to the provision of health care or education to beneficiaries who are disadvantaged or live in under-served areas. Conversely, some other RBF mechanisms, for example conditional cash transfers, and possibly cash on delivery, do not meet the definition of OBA. In the case of CCTs, despite the link to specific social development goals, the subsidy design does not involve the service providers through binding contracts that transfer some of the performance risk to them.

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Figure 1. RBF Mechanisms



Source: Authors' representation

Increase in use of OBA

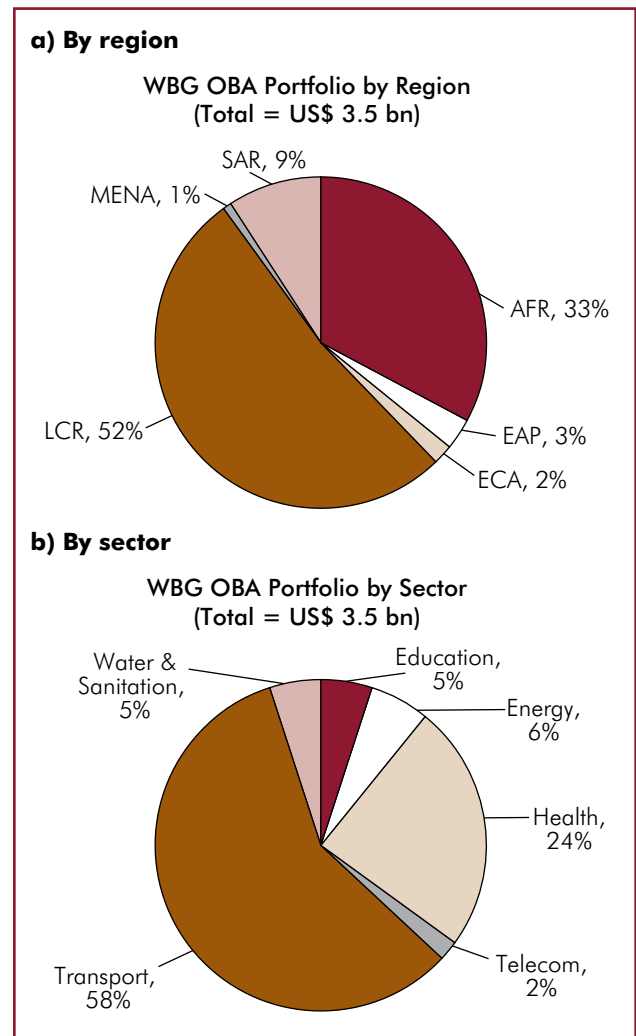
There has been a nearly fourfold increase in the number of OBA projects in the World Bank Group (WBG)—from approximately 32 at the time of the official launch of OBA in 2002–03, totaling US\$1.5 billion in funding,¹ to about 131 projects with a total value of about US\$3.5 billion in subsidies (excluding the US\$2.8 billion subsidy funded by recipient governments). See Figure 2.²

Several factors appear to be contributing to this increase, including the following:

- An increased emphasis on results and accountability by donors and governments, including the WBG results agenda
- An explicit recognition that well-designed subsidy schemes are an integral part of a pro-poor infrastructure and social services delivery strategy
- A recognition that for public-private partnerships to be successful, specific attention needs to be paid to pro-poor service delivery

Projects identified outside the WBG were overwhelmingly in the ICT, transport, and off-grid energy sectors and predominantly in Latin America and the Caribbean. Most WBG OBA projects are currently in Africa, in part because of recent piloting efforts by

Figure 2. Volume of OBA Subsidy (in Terms of US\$ Value) by Sector and Region in the WBG



Source: GPOBA database

GPOBA, and in Latin America and the Caribbean, where the first OBA pilots in almost each sector were initiated.

Although the OBA portfolio has been growing substantially, to put this growth in context, at about 3 percent in total, OBA is only a small share of the World Bank portfolio. The largest share of OBA projects was 9.1 percent of funding volume in the ICT sector, followed by health (7.1 percent) and transport (3.6 percent).

This relatively low percentage is partially explained by the fact that OBA is not fully mainstreamed yet, but there are also other contributing factors. Whereas the WBG's OBA portfolio includes only projects that aim at increasing household access to basic services, the overall portfolio includes projects financing large

upstream investments, wider sector-reform programs, and analytic and advisory activities. Moreover, the overall WBG portfolio obtained from the WBG Business Warehouse database includes subsectors such as mining, railways, ports, or nutrition—for which no OBA projects have been identified.

It is worth highlighting also that most OBA projects identified within the ICT sector are funded through Universal Access and Service Funds (UASFs) raised by local governments rather than by donors like the WBG. Therefore the corresponding funds do not add up to the total WBG funding for OBA projects (beginning in the late 1990s, but mainly since 2001 and 2002, 15 operational funds in developing markets collected a total of approximately US\$6.2 billion from operators).

Funding OBA

Funding for OBA schemes has come from the World Bank, GPOBA, other donors such as the German development bank KfW (Kreditanstalt für Wiederaufbau), and governments themselves using, for example, tax revenues and cross-subsidies collected from users. The World Bank is the biggest donor with over US\$3.3 billion committed to fund subsidies to 80 projects.³ Many of the first projects were in the Latin American region and in the roads and ICT sectors. Subsequent roads and ICT schemes have built on the lessons from these schemes (with varying degrees of success) and expanded into other regions so that a substantial number of roads and ICT schemes now exist in regions such as Sub-Saharan Africa.

Projects in countries eligible for funding from the International Bank for Reconstruction and Development (IBRD) tend to be larger than those in countries that are clients of the International Development Association (IDA), with the 29 percent of projects located in IBRD countries accounting for more than half of OBA subsidies. A number of projects have also received substantial amounts of complementary subsidy funding from the recipient governments worth a total of US\$2.8 billion. Nearly 8 of every 10 dollars of this complementary funding came from IBRD governments. The bulk of this government funding has been in the transport and health sectors, accounting together for 88 percent of funding. Including government co-financing, the total OBA subsidy portfolio for WBG projects is about US\$6 billion.⁴

The remaining 51 projects of the WBG portfolio either have received funding or are in the process of being funded by GPOBA. GPOBA was originally intended to help assist in preparing OBA projects and to document

and disseminate the lessons learned. In 2005, through an additional contribution from DFID, GPOBA became able to fund actual subsidy schemes. These funds galvanized the development of more than 40 projects, which are mostly being implemented or awaiting imminent agreements for grants. An additional 11 projects have received or are receiving GPOBA technical assistance funding. New donors have since joined GPOBA, including the Netherlands' Directorate-General for International Cooperation (DGIS), the Australian Agency for International Development, the Swedish International Development Cooperation Agency, and the IFC (International Finance Corporation).

GPOBA has to some extent focused on designing and developing OBA schemes in areas where OBA has been less tested, for example in IDA countries and, in particular, the water and sanitation sector. Two-thirds of the GPOBA projects are in IDA countries, and they account for over three-quarters of GPOBA funding volume.

Applications of OBA subsidy design mechanisms

OBA schemes normally apply performance-based subsidies in three ways: one-off subsidies such as connection subsidies, transitional tariff subsidies that taper off as user contributions increase, or ongoing subsidies. The subsidy design chosen will depend on factors such as the sustainability of the funding source, the capacity for administering the subsidy scheme, the type of service to be subsidized, and the extent to which the service provider is willing and able to be paid over time.

One-off subsidies are the most common application of OBA approaches and usually involve capital subsidies for access to a given service. Most OBA schemes in water, energy, and telecommunications rely on one-off subsidies enabling initial access, partly because OBA is targeted to the poor, and the poor are usually not connected to network services in the first place so often cannot benefit from ongoing or transitional tariff subsidies.

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 or willing to pay and the cost-recovery level (for example, the long-run marginal cost) of the tariff. The subsidy is transitioned out after a specified time (for example, months or years) as the user contribution increases (and possibly as tariff levels required for cost recovery decrease with efficiency gains).

Ongoing subsidies normally fund the provision of basic services or maintenance in OBA projects in roads, health, and education. OBA road maintenance schemes require ongoing subsidies for the life of the road, often funded through road funds. OBA health schemes, to ensure continued access to care for the poor, often channel subsidies in an ongoing manner through health care providers as they deliver agreed services, such as well-child visits, over a defined period.

Initial evidence on success of OBA

OBA projects are delivering results:

- The 89 projects for which data is available⁵ are expected to reach 61 million planned beneficiaries.
- So far, 17.4 million people are verified to have benefited from OBA projects.
- The closed projects for which information is available have reached 16 percent more beneficiaries than planned.
- In OBA, transport projects have rehabilitated and maintained 87,591 kilometers of roads or are in the process of doing so.

In both the overall outcome ratings of the World Bank Implementation Completion and Results Reports (ICRs) and the Bank's Independent Evaluation Group outcome ratings, OBA projects with ICRs available at the time of the review score, on average, higher than traditional projects. Results are similar for ratings of the quality at entry and quality of supervision of projects that are assessed by IEG. For OBA projects, quality at entry is rated highly successful or successful in 77 percent of cases, and quality of supervision is rated highly successful or successful in 100 percent of cases.

About OBA Approaches

OBA Approaches is a forum for discussing and disseminating recent experiences and innovations in supporting the delivery of basic services to the poor. The series focuses on the provision of water, energy, telecommunications, transport, health, and education in developing countries, in particular through output-, or performance-, based approaches.

Conclusion

OBA, like other RBF instruments, aims to enhance the effectiveness of public funding. As the demand for development to be more accountable grows, it is probable that OBA will become more relevant as an approach to improving the delivery of basic services to the poor. Although the use of OBA is not yet fully mainstreamed, the WBG is considering reforms to its investment lending products which could allow wider and more effective use of RBF instruments. Further, in countries such as the Philippines and Uganda, GPOBA is exploring the possibility of scaling up OBA in the water and sanitation sector, based on lessons and best practices from existing pilot schemes. Practitioners can also build on the success of OBA projects to date by continuing to monitor the existing portfolio, sharing lessons across RBF initiatives, and gathering results from impact evaluations currently underway.

References

Mumssen, Yogita, Lars Johannes, and Geeta Kumar. 2010. *Output-Based Aid: Lessons Learned and Best Practices*. Washington, DC: World Bank

- ¹ At the time of the Private Sector Development Strategy and the creation of GPOBA, only 22 OBA projects of a total value about US\$100 million were identified, but further research has identified 11 more projects and substantially more OBA funding.
- ² The figures used reflect projects identified through September 30, 2009.
- ³ This total excludes projects with GPOBA subsidy funding or technical assistance.
- ⁴ This sum does not include the approximately US\$6 billion identified as collected through universal access and service funds, as discussed in chapter 3 of Mumssen, Johannes and Kumar 2010.
- ⁵ Data on the number of beneficiaries are not readily available for public access projects that provide service to an entire population and whose use is not exclusive. Such projects are mainly found in the ICT and transport sectors.

The case studies have been chosen and presented by the authors in agreement with the GPOBA management team and are not to be attributed to GPOBA's donors, the World Bank, or any other affiliated organizations. Nor do any of the conclusions represent official policy of GPOBA, the World Bank, or the countries they represent.

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The Global Partnership on Output-Based Aid