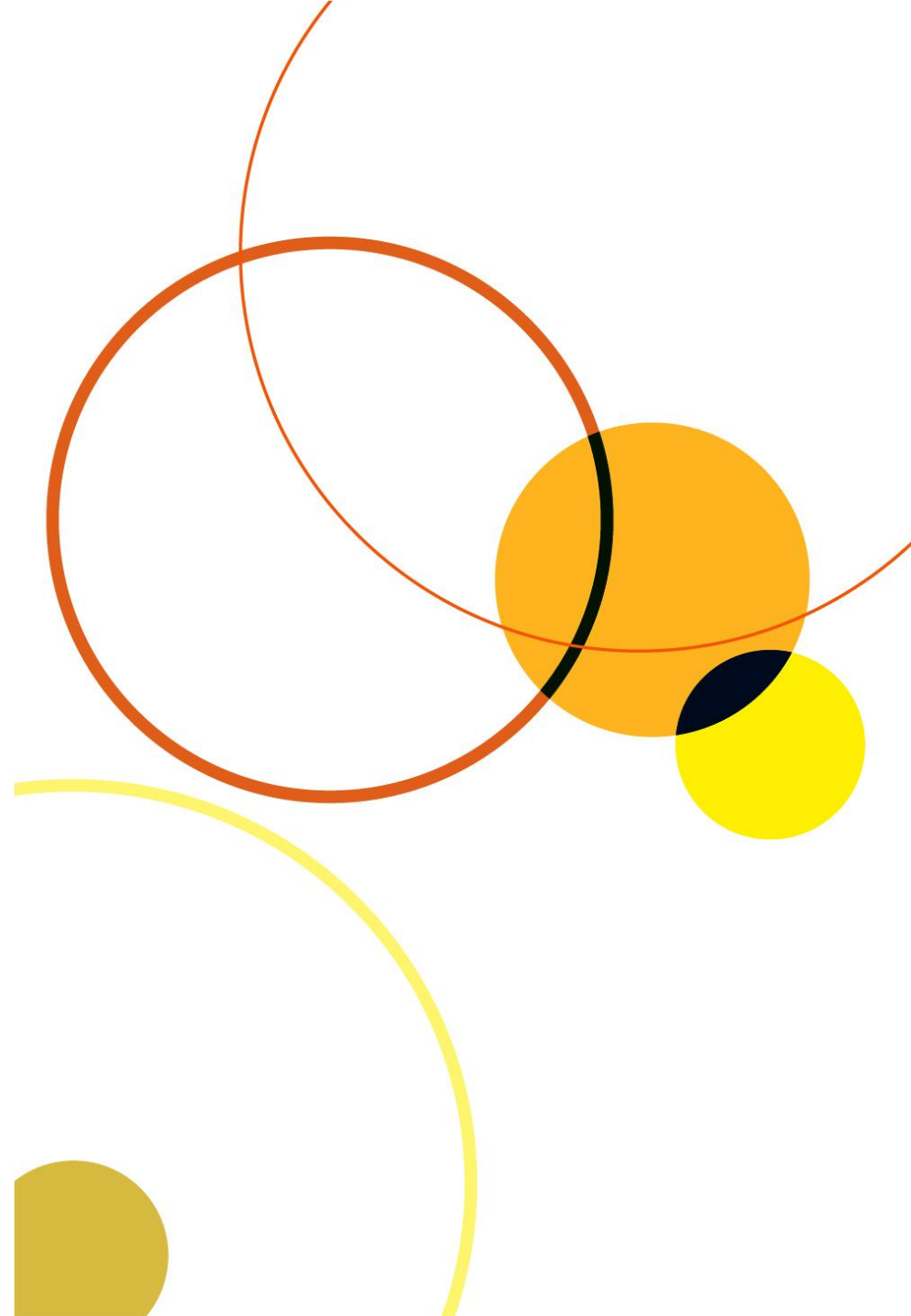


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Results-based financing in the energy sector: incentives and sustainability

Report prepared for OECD/DIE technical workshop on results-based funding

20th May 2014



Introductions



ESMAP is a global technical assistance program administered by the World Bank and situated in the World Bank's Sustainable Energy Department in Washington, DC. ESMAP's program includes both regional and country-focused activities implemented by the regional units of the World Bank, and global initiatives managed by the ESMAP core program unit. The ESMAP core unit of about 25 staff is responsible for the day-to-day management of the program, following the strategy laid out in ESMAP's Business Plan as approved by the CG. The unit comprises teams working on energy access, clean energy, energy efficient cities, energy assessments and strategy, results-based approaches for energy sector development, gender, small island developing states, communications, and monitoring and evaluation.



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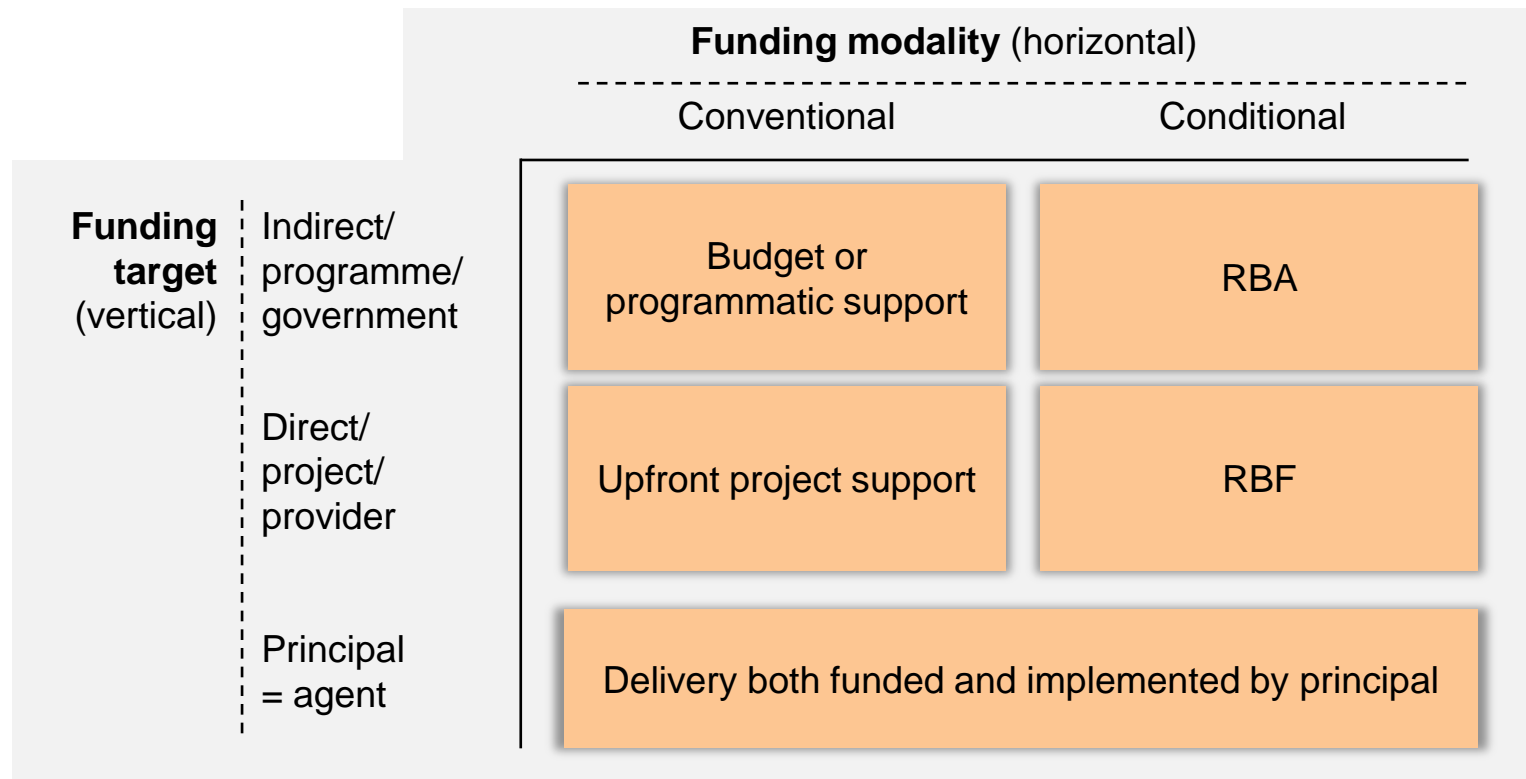
RESULTS-BASED FINANCING IN THE ENERGY SECTOR An Analytical Guide



The choice of whether and how to use a results-based approach involves a horizontal (modality) and a vertical (target) question

These considerations will often intertwine

Figure 1. Instruments can be placed on a horizontal and vertical dimension

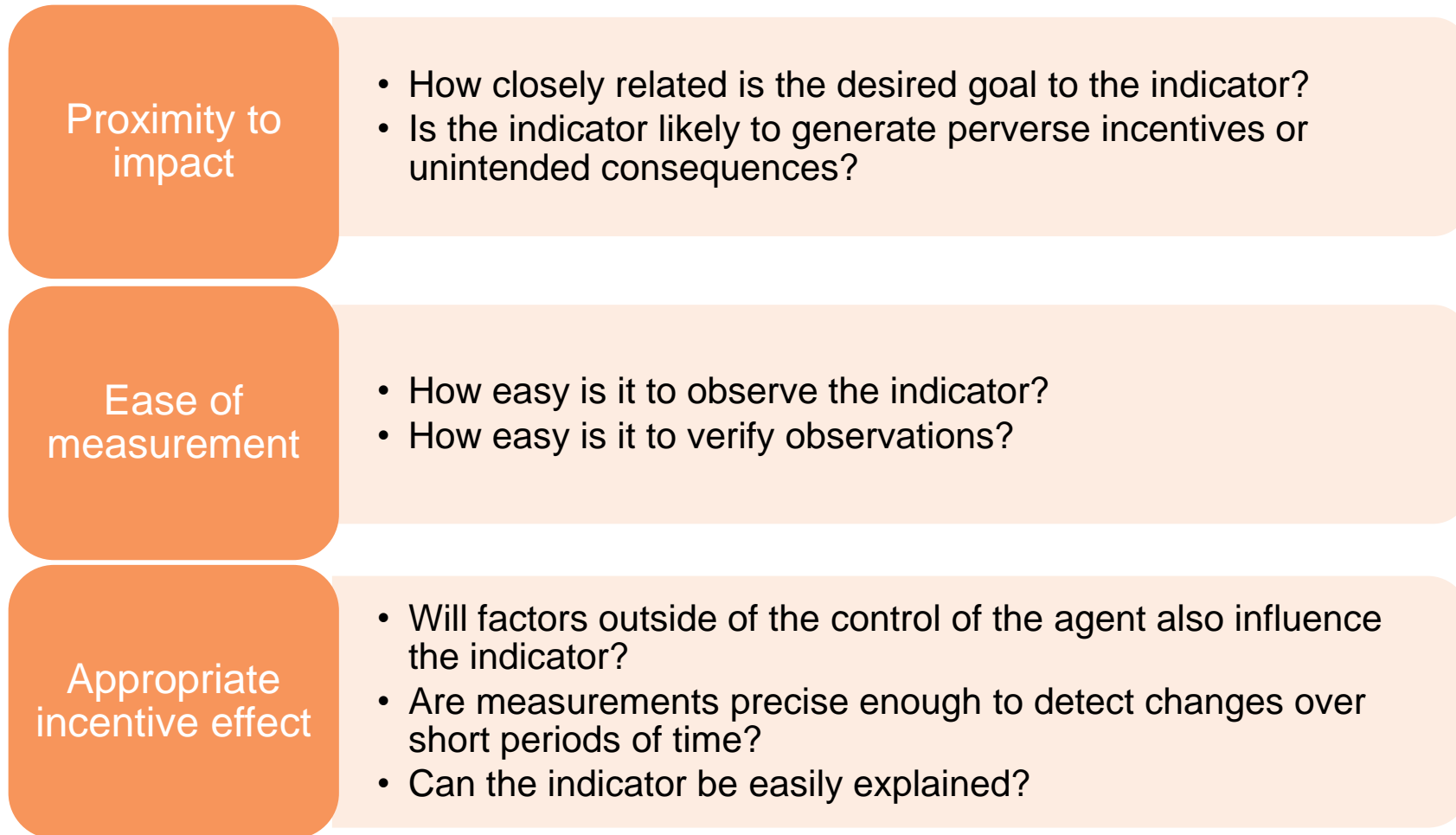


Source: Vivid Economics

The ‘horizontal’ modality question involves balancing the incentive effects with 2 other considerations

It must be close to impact, easy to measure and provide an appropriate incentive effect

Figure 2. Three key factors to consider when adopting a conditional approach



The ‘appropriate’ incentive requires the balance of stronger incentives with greater risk

Figure 3. Stronger incentives and more risk for agents are two sides of the same coin



Source: Vivid Economics

5 key factors that can influence the risk/incentive trade off

1. the extent to which the agent can control the risks that are shifted onto them
2. the ease with which both parties can observe the relevant results ('clear line of sight')
3. the length of time that the agent needs to bridge with finance until he receives the results-based payments
4. the cost base of the agent varies according to the quantum of results delivered
5. the additional investment required to deliver the results does not entail a significant proportion of the agent's (potential) resources

Balancing the incentive effect with other considerations: biogas digestors in Ethiopia

Figure 4. Stronger incentives and more risk for agents are two sides of the same coin

	Number of installations	Number of installations provided by BCEs	Use characteristics
Proximity to impact	Does not measure use; including availability of appliances and application of bio-slurry	Increases emphasis on private sector, but does not include use or guarantee commercial sustainability	Captures appliance and bio-slurry use, possibility of adding incentive for injera mitad
Ease of measurement	Monitoring framework is in place, independent verification through CSC	Monitoring framework is in place, independent verification through CSC	Measured by CSC within planned extension of the monitoring framework
Appropriate incentive effect	Easy to explain and can be measured at monthly intervals	Easy to explain and can be measured at monthly intervals	Measured less frequently; requires greater pre-finance
Suitable result?	✘	?	✓

Source: Vivid Economics

The risk/incentive trade off will also influence the vertical question

But other factors are also important

risk/incentive characteristics

- some agents will have much better access to finance or be able to control the results better
- does risk increase or decrease with greater scale?
 - diversification benefits but less ability for agent to control

other factors

- significant externalities would support RBA approach
 - leakage risk associated with REDD+
- significant economies of scale would support RBA

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Company Profile

Vivid Economics is a leading strategic economics consultancy with global reach. We strive to create lasting value for our clients, both in government and the private sector, and for society at large.

We are a premier consultant in the policy-commerce interface and resource and environment-intensive sectors, where we advise on the most critical and complex policy and commercial questions facing clients around the world. The success we bring to our clients reflects a strong partnership culture, solid foundation of skills and analytical assets, and close cooperation with a large network of contacts across key organisations.

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