

GPOBA

The Global Partnership on Output-Based Aid

Annual Report 2008



Supporting the delivery of basic services in developing countries

GPOBA

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World Bank

1818 H Street, NW

Washington, DC 20433

Website: www.gpoba.org

E-mail: gpoba@gpoba.org

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Message from the Program Manager

This Annual Report, our second, gives an overview of what the Global Partnership on Output-Based Aid (GPOBA) is doing to increase access to basic services for the poor and to improve the delivery of services that exhibit positive externalities, such as improvements in health and reductions in CO₂. The report explains the concept of output-based aid (OBA) and why it is needed; describes GPOBA's activities in support of OBA, including grant agreements for subsidy funding, technical assistance, and dissemination; provides data on GPOBA's activities and finances; and identifies lessons and challenges for future and ongoing OBA projects.

This year GPOBA more than doubled its portfolio of signed grant agreements to US\$72 million, with new projects aimed at increasing access to essential services such as clean water for low-income families in Cameroon, Mozambique, and Uganda, and health-care services for poor mothers in Yemen. In Nepal, a new GPOBA grant is co-financing the installation of biogas plants in remote areas, supporting the government and other donors' efforts to bring affordable energy to poor households and to reduce carbon emissions and deforestation.

Most of GPOBA's projects were launched only recently, but we already have achievements to report. In Colombia, a project funded by GPOBA has connected over

30,400 poor households to natural gas supply, making cooking safer and energy more affordable. A gas and heat supply project in Armenia has provided access to heating for 2,300 poor households. Another GPOBA grant has allowed 22,300 people living in remote areas of Mongolia, including herder communities, to gain access to telephone and Internet services. A project in Morocco has funded water and sanitation connections for over 8,800 inhabitants of Casablanca, Meknes, and Tangiers. And a project in India has provided public access to clean water for 12,000 poor people in rural areas. These are just a few examples of how OBA can help improve service delivery for the poor.

GPOBA would not be able to deliver these results without the support of our donors. Sincere thanks to all of them, and especially to the Finance, Economics and Urban Department of the World Bank which hosts GPOBA's Program Management Unit.

The views expressed in this report represent those of the GPOBA Program Management Unit and should not be attributed to any one of the GPOBA partners.



Patricia Veevers-Carter
Program Manager

Overview

Many poor people in developing countries continue to lack access to basic services. Nearly 75 percent of Sub-Saharan Africans and 50 percent of South Asians, or 1.25 billion people, do not have access to electricity. Despite progress since 1990, around 884 million individuals still lack access to safe drinking water and 2.5 billion individuals lack access to basic sanitation. In South Asia and Sub-Saharan Africa, less than 50 percent of births are attended by skilled health staff. These problems affect poor people's health and well-being, and limit their opportunities for development.

One way to improve delivery of basic services to the poor is through output-based aid

(OBA), an innovative financing mechanism first introduced in 2000. Also known as “performance-based aid” or “results-based aid” (in the health sector), OBA is used in cases where poor people are being excluded from basic services because they cannot afford to pay the full cost of user fees such as connection charges. OBA links the payment of aid to the delivery of specific services or “outputs,” thus ensuring that aid is transparent and the service provider is accountable for results (see Box 1).

In 2003, the World Bank and the UK's Department for International Development (DFID) set up the Global Partnership on Output-Based Aid (GPOBA) to fund, design, demonstrate, and document OBA approaches. Now in its fifth year of activity, GPOBA has a portfolio of active OBA pilot projects totaling \$72 million in the water and sanitation, energy,

Box 1: What is output-based aid?

What is OBA?

- Output-based aid (OBA) is an innovative approach to increasing access to basic services—such as infrastructure, healthcare, and education—for the poor in developing countries.
- OBA is used in cases where poor people are being excluded from basic services because they cannot afford to pay the full cost of user fees such as connection fees.
- OBA is also known as “performance-based aid” or “results-based financing” (in the health sector). It is part of a broader donor effort to ensure that aid is well spent and that the benefits go to the poor.
- OBA projects can have positive externalities, such as improvements in health and reductions in CO₂.

How does OBA work?

- Unlike traditional approaches, OBA links the payment of aid to the delivery of specific services or “outputs.” These can include connection of poor households to electricity grids or water and sanitation systems, installation of solar heating systems, or delivery of basic healthcare services.
- Under an OBA scheme, service delivery is contracted out to a third party, usually a private

firm, which receives a subsidy to complement or replace the user fees.

- The service provider is responsible for “pre-financing” the project until output delivery.
- The subsidy is performance-based, meaning that most of it is paid only after the services or outputs have been delivered and verified by an independent agent.
- The subsidy is explicitly targeted to the poor (e.g., by focusing on areas in which poor people live).

How does OBA contribute to aid effectiveness?

- Knowing who will provide and who will receive the subsidy and what it's for helps ensure *transparency*.
- Payment on output delivery *shifts performance risk* to the provider by making him accountable.
- Having a fixed subsidy provides incentives for *innovation and efficiency*.
- Contracting out of service delivery provides an opportunity to mobilize **private sector finance and expertise**.
- The focus on outputs means that OBA schemes internalize *tracking of results*.

health, and telecommunications sectors in 17 countries. Four other donors have also joined the program: the Australian Agency for International Development (AusAID), the Dutch Ministry of Foreign Affairs (DGIS), the International Finance Corporation (IFC), and the Swedish International Development Cooperation Agency (Sida).

Since its creation, GPOBA has been working to build up a body of experience on OBA and to share the lessons learned with the development partners. This report presents the highlights from fiscal 2008 (July 1, 2007 to June 30, 2008), identifies lessons and challenges going forward, and presents GPOBA's financial statement for fiscal 2008 (see Annex 1).

Mid-term review

GPOBA's fifth year was an occasion for taking stock and determining priorities for the future. During the year, DFID commissioned an independent mid-term review of GPOBA carried out by Ernst and Young. The review was generally positive and concluded that:

- The concept of OBA is more widely known within the World Bank
- OBA is now being integrated within large World Bank loan programs
- GPOBA has been able to stimulate very high levels of demand for its support
- Projects are being carefully targeted to the poor
- A much wider donor grouping has been attracted to support GPOBA
- New and innovative approaches to OBA are being successfully piloted
- Significant involvement has been secured from the private sector

As a result of this review, GPOBA developed a Vision Statement setting out the

program's goals for the next five years. The Vision Statement says that OBA will be mainstreamed with development partners (including governments of developing countries, international financial institutions, bilateral donors, and private foundations), with mainstreaming defined as OBA being used on a regular basis in project design. GPOBA will remain a multi-donor global program housed in the World Bank Group, with an enhanced number of donors, and will act primarily as a center of OBA expertise by 2013. This vision provides the framework for GPOBA's activities going forward.

Support from donors

Following the positive mid-term review of GPOBA, the program received several pledges of additional support this year. In December 2007, Sida joined GPOBA with a contribution of \$6.9 million. In January 2008, AusAID pledged an additional \$33.3 million to the program and in May, IFC contributed a further \$25.5 million. This brought total donor funding including contributions and pledges to \$179.3 million as of June 30, 2008 (see Annex 1). DFID has indicated that it will make a significant additional contribution to GPOBA in fiscal 2009, as has Spain which would be supporting GPOBA for the first time.

¹ By the time of publication, AusAID had fulfilled this pledge with a contribution of \$A 35 million, of which the first tranche (US\$4.2 million) was received in July.

GPOBA Activities

GPOBA continued to deliver three types of support for OBA approaches in fiscal 2008: grants for OBA subsidy funding, technical assistance, and dissemination. This section reviews these activities, together with the project results and GPOBA's collaboration with other development partners.

Grant agreements signed

In 2005, DFID and the World Bank decided that GPOBA should be able to provide grant financing for OBA subsidies, in addition to the funding it was already providing for technical assistance and dissemination. GPOBA signed its first grant agreement in April 2006 for a gas and heat supply project in Armenia in the amount of \$3.1 million. As of June 30, 2008, GPOBA has signed 19 grant agreements for a total of \$72 million, expected to benefit around 2.9 million people. A table giving details of these projects can be found in Annex 2.

Ten of GPOBA's nineteen grant agreements were signed in fiscal 2008, for a total of \$41.7 million (see Table 1). These projects are expected to impact directly around 2 million poor people. GPOBA continues to focus its operations on the poorer countries and all but one of the new grant agreements are in International Development Association (IDA) or IDA blend countries, which will receive 97 percent of the funding (see Figure 1). Five projects are in Sub-Saharan Africa, which will receive 57 percent of the funding; the others are in East Asia (three), South Asia (one), and the Middle East (one) (see Figure 2).

In terms of sectors, seven out of ten projects signed this year are in water and sanitation (with 63 percent of the funding), two are in health, and one is in energy (see Figure 3). The water and sanitation projects include a grant agreement for \$6 million signed with Mozambique's Water Supply Assets and Investment Fund (FIPAG) to increase piped-water access for an estimated 468,000 people, and OBA schemes in Cameroon, Indonesia, the Philip-

Table 1:
Grant agreements signed in FY08

Country	Project Name	Grant Amount (US\$m)	Number of people benefiting	Average subsidy per person (US\$m)
Cameroon	Cameroon Water Affermage contract – OBA for coverage expansion	5.25	240,000	21.88
Indonesia	Expansion of Water Services in Low income areas of Jakarta	2.57	56,000	45.95
Mozambique	Mozambique Water Private Sector Contracts – OBA for coverage expansion	6.00	468,543	12.81
Nepal	Biogas Support Programme	5.00	261,000	19.16
Philippines	Manila Water Supply	1.05	37,600	27.93
Senegal	On-Site Sanitation Project	5.76	135,900	42.41
Uganda	Reproductive Health Vouchers in Western Uganda	4.30	255,000	16.86
Uganda	OBA in Kampala – Water Connections for the Poor	2.53	409,000	6.18
Vietnam	Vietnam Rural Water (EMW)	3.00	150,000	20.00
Yemen	Yemen Safe Motherhood Program	6.23	80,000	77.90
Total		41.7	2,093,043	19.92

Figure 1:
Grant Agreements Signed in FY08: Share of Funding by IDA, IDA Blend or IBRD Country

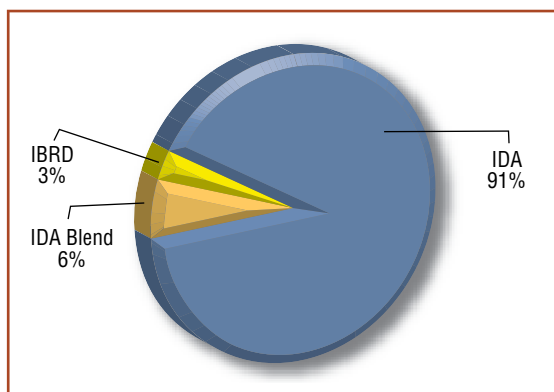


Figure 2:
Grant Agreements Signed in FY08: Share of Funding by Region

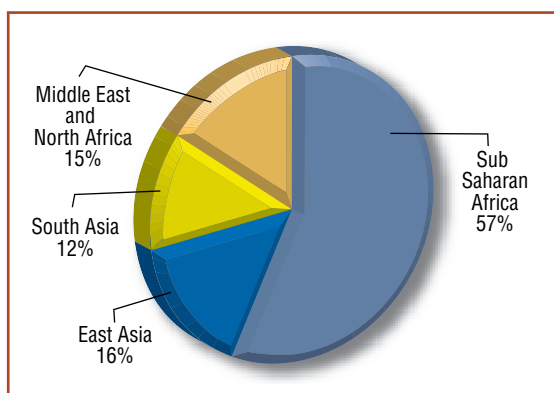
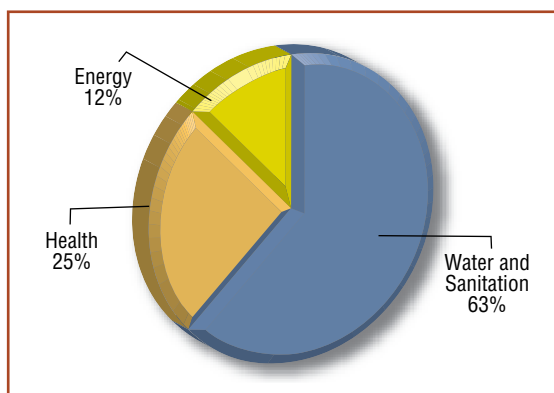


Figure 3:
Grant Agreements Signed in FY08: Share of Funding by Sector



piners, Senegal, Uganda, and Vietnam. The two grant agreements in the health sector are for Uganda (reproductive health) and Yemen (safe motherhood). A grant agreement for \$5 million signed with the Government of Nepal will help to bring environmentally friendly and affordable energy (biogas) to an estimated 260,000 people in remote rural areas.

As shown in Table 1, the average subsidy amount for the grant agreements signed in fiscal 2008 is \$4.17 million and the average subsidy per beneficiary is \$19.92. Experience has shown that subsidy requirements tend to vary among sectors, with projects in health and energy often requiring higher subsidies per capita than projects in water and sanitation or telecommunications. Variations in subsidy level also reflect differences in country and local circumstances, and in the nature and scope of the services provided. Among the seven water and sanitation projects signed this year, the average subsidy per beneficiary is \$17.47; the project with the lowest average subsidy per person (\$6.18) is also in this sector. By comparison, the average subsidy per beneficiary is \$19.16 for the energy project and \$13.43 for the two health projects, with the highest average subsidy per person (\$77.90) in a health project.

Project results

With most of GPOBA’s 19 grant agreements only recently signed or in the early stages of implementation, it is too early to report on final outcomes, such as improvements in health. However, as of June 30, 2008, the first five projects signed by GPOBA are all disbursing based on verified outputs:

- Armenia Access to Gas and Heat Supply for Poor Urban Households;
- Colombia Natural Gas Distribution for Low-income Families in the Caribbean Coast (see Box 2);
- India Improved Rural Community Water in Andhra Pradesh²;
- Mongolia Telecom Project (OBA Pilot Project of Universal Access Strategy) (see Box 3);
- Morocco Urban Water and Sanitation.

² Disbursements against the first batch of verified outputs for this project were still being processed as of June 30, 2008.

Box 2: Bringing natural gas to Colombia's poor

Natural gas connections can bring substantial benefits to poor households in Colombia. Compared with other fuels typically used for cooking, natural gas is safer, cleaner, and less expensive. But even though gas is more affordable, connection fees can put the cost of switching to this fuel out of reach for poor families.

Building on an earlier small-scale program funded by the Dutch government, GPOBA has provided a \$5.1 million grant for an output-based subsidy scheme to connect up to 35,000 poor households in underserved areas to the nation's natural gas distribution network.

Working with Promigas, Colombia's largest gas transmission and distribution company, the project is installing a gas connection and a gas stove in each participating household. GPOBA's grant of \$141 per household covers about 38 percent of the \$370 cost of a new connection. Regional distribution

companies provide financing over a six-year period to help families cover the remaining cost of the connection.

To ensure that money spent delivers tangible benefits to those in need, GPOBA has made funding contingent on i) proof that each household belongs to one of Colombia's two poorest socioeconomic strata; ii) certification and inspection of the new connections; and iii) proof that newly connected households have obtained (and paid for) service for at least three months.

As of June 30, 2008, 30,412 new natural gas connections have been constructed, verified, and successfully billed for three months—representing more than \$4.92 million in GPOBA subsidies. The switch to natural gas for cooking purposes will enable participating families to save about half a month's income each year.

Source: OBAApproaches no. 17, "Output-based aid in Colombia: Connecting poor households to natural gas service," Cleddan Mandri-Perrott & Dominic Patella, November 2007

Box 3: Expanding telecom services to rural areas of Mongolia

Access to telecommunications services has been extremely limited in the remote and sparsely populated areas of Mongolia. Several factors have conspired against achieving universal access on a purely commercial basis—the country's vast and challenging geography, the nomadic lifestyle of the rural population, government ownership and incumbent control of the long-distance transmission network.

To finance network expansion into rural areas, the country set up a universal service obligation fund to which operators would contribute a 2 percent levy on their taxable income starting in 2007. This fund was set up with the assistance of the World Bank through grants from the Public-Private Infrastructure Advisory Facility (PPIAF) and GPOBA. IDA also provided seed financing of \$5.5 million for the initial universal access subsidy projects.

Two pilot OBA projects, supported by a \$259,400 GPOBA grant, were designed as first steps in rolling out a universal access program. The projects aimed to provide public access telephones for herder communities in Arkhangai and Bayankhongor, and mobile voice and Internet services for the public and schools in Tariat soum (county) in Arkhangai.

The competitive bidding processes for these pilots resulted in fully compliant bids below the estimated maximum subsidies. The winning bidder for the herder

network pilot, one of Mongolia's leading VSAT operators with existing rural services, offered to provide two additional service points and to install portable VSAT terminals that could be moved between summer and winter grazing areas. The winning bidder for Tariat soum center wireless network, the country's leading GSM mobile operator, required only 25 percent of the maximum subsidy allowable and the project was able to launch an additional tender for similar services in another soum with the savings.

The pilots have provided important knowledge about rural demand for better communications services and allowed the testing of technical and commercial solutions that can be adapted to local conditions, including a nomadic population. And the experience appears to have helped accelerate even commercial expansion by all the country's licensed operators.



Source: OBAApproaches no. 18, "Output-based aid in Mongolia: Expanding telecommunications services to rural areas," Andrew Dymond, Sonja Oestmann, and Scott McConnell, February 2008

In total, GPOBA projects have disbursed \$7.9 million based on independently verified outputs as of June 30, 2008. Advances have been provided to six projects, amounting to \$1.5 million, which will be disbursed by the fiduciary agent based on verified outputs, or for the hiring of consultants, such as the independent verification agent (see Table 2).

The progress on disbursements is encouraging as typically projects take at least a year to implement before the first outputs can be delivered and verified. It is also a big increase compared to one year ago, when disbursements totaled only \$1.7 million. The five projects that are disbursing against verified outputs have benefited more than 235,000 people so far (see Table 3).

Also in 2008, the first OBA facility supported by GPOBA was launched as part of the Honduras extension of water services project. This project benefits from a grant of \$4.44 million and \$155,000 in technical assistance from GPOBA. The new facility will enable the grant

recipient, the Honduran Social Investment Fund (Fondo Hondureño de Inversión Social – FHIS), to finance OBA sub-projects aimed at improving access to water and sanitation services for up to 40,000 low-income households.

Commitments and eligibility

Before a grant agreement can be signed, the project proposal has to go through an approval process involving an independent Panel of Experts. The process is in two stages:

1. **Eligibility:** an initial assessment to ensure that the project meets GPOBA’s eligibility criteria, which include the country and sector, project sustainability, and the number of poor people expected to receive services, among other considerations³.

³A full list of the eligibility criteria can be found in GPOBA’s Operating Principles and Annexes, available at <http://www.gpoba.org/docs/OP121106.pdf>.

**Table 2:
Disbursements as of June 30, 2008 (in US\$)**

Country	Project Name	Advances	Disbursements against verified outputs	Total disbursements
Armenia	Access to Gas & Heat Supply for Poor Urban Households in Armenia		1,982,823	1,982,823
Bolivia	Decentralized Electricity for Universal Access	50,000		50,000
Colombia	Natural Gas Distribution for Low Income Families in the Caribbean Coast		4,922,246	4,922,246
Honduras	Extension of Water and Sanitation Services in Low income areas of Honduras	200,000		200,000
India	Improved Rural Community Water in Andhra Pradesh (*)	6,610		6,610
Kenya	Micro-finance for Small Water Schemes	300,000		300,000
Mongolia	Mongolia OBA Pilot Project of Universal Access Strategy		257,335	257,335
Morocco	Morocco Urban Water and Sanitation		737,980	737,980
Senegal	Senegal On-Site Sanitation Project	558,192		558,192
Uganda	OBA in Water Supply in Uganda’s Small Towns and Rural Growth Centers	373,418		373,418
Total		1,488,220	7,900,384	9,388,604

(*) Disbursements against the first batch of verified outputs for this project were still being processed as of June 30, 2008

Table 3:
Outputs delivered as of June 30, 2008

Country	Project Name	Output Description	Verified Outputs	Number of beneficiaries
Armenia	Access to Gas & Heat Supply for Poor Urban Households in Armenia	Households with access to heating either through individual connection or through local boiler systems	2,344	9,517
Colombia	Natural Gas Distribution for Low Income Families in the Caribbean Coast	Households with gas connection	30,412	182,472
India	Improved Rural Community Water in Andhra Pradesh	Villages with UV water purification system providing public access to clean water	4	12,000
Mongolia	Mongolia OBA Pilot Project of Universal Access Strategy	1) Public access telephone network for herder community 2) Wireless network for soum	1 public access telephone network 2 wireless networks	22,300
Morocco	Morocco Urban Water and Sanitation	Households with water and sanitation connection	1,764	8,820

2. **Commitment:** a review of the project to determine that it is ready for implementation and that in its final form it meets the eligibility criteria.

In fiscal 2008, the Panel of Experts approved three projects for eligibility, in Ethiopia (water), Liberia (energy), and Yemen (water). The Panel of Experts also endorsed eight projects for commitment for a total subsidy amount of \$30 million. Grant agreements were subsequently signed for three of these projects in the water sector in Cameroon, Uganda, and Vietnam (see Table 1). Of the other five projects, which represent a total subsidy amount of \$19.2 million, two are in Sub-Saharan Africa in the energy sector and three are in the East Asia region in the telecom and water and sanitation sectors.

Altogether, as of June 30, 2008, there are 37 projects involving subsidy funding in GPOBA's portfolio at different stages of the approval and implementation process, including 11 at the commitment stage and 7 at the eligibility stage (see Table 4).

Technical assistance

Technical assistance has been a core GPOBA activity since the program was created in 2003 and constitutes a separate funding window in the GPOBA budget, supporting the de-



An Ethiopian girl carries water on her back because her family does not have a household water connection

Table 4:
Portfolio of projects involving subsidies as of June 30, 2008

Portfolio Status	Projects	Subsidy Funding (US\$m)	People Benefiting
Grant Agreement	19	71.96	2,891,758.00
Commitment	11	45.85	3,230,581.00
Eligibility	7	28.75	977,000.00
Total	37	146.56	7,099,339.00

sign, implementation, and evaluation of OBA projects. It can be a stand-alone activity or it can accompany GPOBA subsidy funding. As of June 30, 2008, GPOBA has provided a total of \$11.12 million for technical assistance activities.

In fiscal 2008, GPOBA approved seven technical assistance activities amounting to \$1.15 million (see Table 5). The largest amounts went to support the design of an OBA scheme in the wastewater sector in Sri Lanka (\$250,000) and

to help set up two stand-alone OBA facilities for the water and sanitation sector in Mexico and Brazil (\$350,000 and \$180,000 respectively). GPOBA expects to use technical assistance increasingly to help developing countries set up OBA facilities from which they will be able to fund various OBA projects in a particular sector.

Collaboration with development partners

In addition to governments of countries where GPOBA projects are under design or implementation, GPOBA collaborated with many development partners in fiscal 2008. GPOBA continues to enjoy a close relationship with IDA and is working with a number of other partners, notably the Community Development Carbon Fund, the European Union, the Global Environment Facility, the Multilateral Investment Guarantee Agency, the Private Infrastructure Development Group, and the Water and Sanitation Program.

One example of this collaboration is the Reproductive Health Services in Western Uganda project. Through this project, GPOBA is helping Germany's KfW to expand its health voucher scheme for rural and poor peri-urban

Table 5:
Technical assistance approved in FY08

Country	Project	Purpose	Amount (US\$)
Brazil	Brazil Water and Sanitation Design of Innovative OBD Schemes for Water Supply and Sanitation Projects	OBA facility	180,000
Cambodia	Cambodia Rural Telecommunication Access Project	OBA design (supplemental funding)	92,000
Ethiopia	Access to water for low income communities	Project preparation	200,000
Honduras	Extension of Water and Sanitation Services in Low income areas of Honduras	OBA facility (supplemental funding)	46,738
Mexico	OBA National Wastewater Sector Facility	OBA facility	350,000
Nigeria	Pre-paid Health Scheme Pilot in Nigeria	Target population study	35,706
Sri Lanka	Colombo Wastewater	OBA design	250,000
Total			1,154,444

populations in the greater Mbarara region of Uganda. The project will increase women's access to trained medical professionals throughout pregnancy and provide subsidized treatment for sexually transmitted diseases (STD), benefiting up to 255,000 poor Ugandans. GPOBA is providing a \$4.3 million grant for the project which KfW will implement. Another partner, the Uganda branch of Marie Stopes International, will be the Voucher Management Agency for the project and provide expertise in areas such as obstetric care, STD, and clinical training.

Monitoring and evaluation

Monitoring and evaluation (M&E) is an important part of GPOBA's efforts to define and verify OBA standards. The program's M&E activities focus primarily on GPOBA-funded projects – both those which receive subsidy funding and those which only receive technical assistance. GPOBA also monitors World Bank Group OBA projects that are independent of GPOBA and, to a lesser extent, non-Bank projects. GPOBA collects and analyzes data on the following aspects:

1. **Project design:** Includes definition of outputs, payment triggers, financial sustainability/tariffs, and targeting.
2. **Project implementation:** Includes results of bidding (where applicable), delivery of outputs and disbursement of funding (GPOBA subsidies, user contributions, government or other donor co-financing).
3. **Project results:** Includes intermediate outcomes such as improved access and, where feasible, final outcomes or impacts, such as improved health. Where data is available, compares OBA projects with input-based projects to see if they result in the benefits assumed to be associated with an output-based approach (e.g., improved targeting, increased innovation/efficiency, private sector leveraging).

In fiscal 2008, GPOBA began to implement impact evaluations for two projects that have signed grant agreements and are about to begin roll-out. Priority was given to projects where grant recipients support the evaluation and comparisons with input-based approaches are feasible:

- **Kampala Water Connections for the Poor:** This evaluation will compare the impacts of the use of yard taps, traditional water kiosks, and prepaid meters on the health and welfare of households. It will include a comparison with an input-based project implemented by the same provider and funded by KfW.
- **Reproductive Health Vouchers in Western Uganda:** This evaluation will look at whether working with a small-scale private provider under an output-based arrangement can significantly increase the use of reproductive health services. As all beneficiaries have access to the existing public healthcare system free of charge, the evaluation will implicitly allow for comparison of OBA to existing input-based approaches.

For the last three years, GPOBA has provided progress reports on individual projects to the donors every six months to inform them of results and lessons learned. In May 2008, as results started to become clearer, GPOBA provided its first consolidated semi-annual monitoring report to the donors, covering not only the progress of individual projects but also the wider challenges and lessons learned (see below). GPOBA also formalized its existing M&E and reporting procedures in a framework document for ease of reference.



Biogas project in Nepal

Dissemination and outreach

Enhancing dissemination—and communication more broadly—is essential to help GPOBA achieve the goals of mainstreaming OBA in development finance and becoming a center of expertise on OBA. While the donors and project partners know GPOBA well, many lack precise information on program activities, as well as the tools they need to integrate OBA approaches in their project funding. Meanwhile, knowledge of GPOBA’s activities among the wider development community is limited, due in part to low media and Internet coverage.

GPOBA has begun to step up its efforts to address these needs. In fiscal 2008, the program allocated more resources to communication and developed a strategic communication plan for the next three years. The plan includes actions to improve the visibility and profile of GPOBA, increase dissemination of lessons learned, and develop project stories and multimedia outreach. A key element of the plan is a training and capacity building program for the development partners, to be designed and piloted in fiscal 2009.

In terms of print publications, GPOBA published four new papers in its “OBApproaches” series this year, providing succinct analyses of the Colombia Natural Gas and Mongolia Telecom projects (Boxes 2 and 3), OBA and corruption (Box 4), and performance-based contracting in the health sector in Africa (Box 5). GPOBA’s first Annual Report provided an overview of GPOBA’s activities since the program’s inception five years ago. A working paper on OBA in Cambodia, released in April 2008, looked at the experience to date of getting private operators and local communities to help deliver water to the poor.

In terms of broader outreach, GPOBA continued to use its website (www.gpoba.org), press releases, and quarterly newsletter to communicate with development partners and the media, in both donor and developing countries. GPOBA staff also multiplied face-to-face contacts, participating in over 30 conferences and workshops worldwide, and introducing OBA to development partners from Gabon to Kazakhstan.

Box 4: Using OBA to reduce the impact of corruption in infrastructure

Corruption in infrastructure leads to big losses. Estimates of the share of construction spending lost to bribe payments around the world range from 5 percent to more than 20 percent. Theft of construction materials can also cause economic damage: for instance, building a road with insufficient materials shortens its life and reduces the benefits to consumers. Beyond poor-quality construction, corruption can encourage the construction of the wrong infrastructure—white elephant projects for which there is no demand, constructed solely to extract rents.

Why is output-based aid a useful tool for reducing the impact of corruption on infrastructure development? The main reason is that, under an OBA scheme, outputs are predetermined at a given price and payments are made only after delivery is veri-

fied, thus ensuring that corruption does not derail delivery of expected results. Moreover, in contrast with inputs, outputs are by definition relatively easy for everyone to monitor—and results are therefore transparent and measurable.

Another important reason is that OBA approaches often use competition and base it on the lowest subsidy required to deliver the pre-specified outputs. This helps minimize the corruption that can fester in situations where accountability is lacking and monopoly power is combined with discretion to choose among projects, designs, or bidders. OBA approaches also allow auditors and stakeholders time to uncover malfeasance before funds are disbursed. As a result, the risk to service providers from behaving corruptly lasts longer and can result in nonpayment for sunk investments.

Source: OBApproaches no. 16, “Output-based aid in infrastructure: A tool for reducing the impact of corruption,” Yogita Mumssen and Charles Kenny, August 2007

Lessons and Challenges

The concept of OBA—payment upon results—is simple, but designing and implementing OBA schemes can be complex, as GPOBA’s experience is beginning to show. Viable OBA schemes require reliable and motivated service providers (private or public); tariffs that cover at least operation and maintenance costs; and an effective method for targeting the subsidies to the poor. Moreover, OBA projects, like most projects in the infrastructure sectors, rely on clearly defined rules of engagement and a sound regulatory environment.

GPOBA’s Annual Report 2007 identified some initial lessons and challenges of OBA projects, including the need to design and apply OBA schemes flexibly, according to the local context, the importance of building the capacity of local implementers (be they private or public), and the challenge of providing the right incentives in OBA schemes involving public service providers⁴. During fiscal 2008, GPOBA began supervising its first projects, which deepened its understanding of OBA schemes and helped to identify additional success factors. Many of the lessons gathered relate to the early stages of project implementation; more lessons will be compiled and analyzed as the GPOBA portfolio matures. This section presents some key issues.

but green field projects tend to take longer. This is due to a variety of factors (which may or may not be unique to OBA). Many projects use competitive bidding to select the service provider. Monitoring and output verification systems can take time to set up. Project uptake may involve awareness-raising among beneficiaries. Institutional factors, such as a change of responsible ministry, can cause delays in some projects. Furthermore, projects involving small-scale service providers or community organizations can require extensive capacity building. But given that OBA is about reaching the poor and unserved, GPOBA considers it worthwhile investing time and effort in this type of pilot.

Leveraging other sources of finance

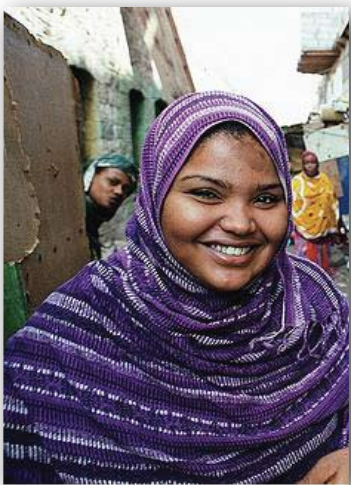
For the 19 grant agreements signed for a total of \$72 million in GPOBA grant funding, an additional \$134 million has been leveraged from other sources such as user contributions (\$11 million), private sector investment (\$67 million), and co-financing from governments and other donors (\$56 million). For every \$1 in GPOBA funding, \$1.87 has been contributed by other sources (not taking into account demonstration effects, which can also lead to leveraging). One clear lesson to have emerged is that leveraging of private finance is linked to tariff reform. Ultimately, the service provider must be able to recoup its costs through the tariff and so the extent to which private finance can be leveraged is limited by the tariff level.

Incentives for efficiency, quality, and innovation

Competitive bidding can lead to increased efficiency—usually expressed as a decrease in unit costs. The Mongolia telecom project offers an example of a competitive bidding process that produced efficiency gains and innovation (see Box 3). Furthermore, quality standards need to be carefully defined and penalties established for not achieving them, especially since a degree of freedom is allowed under an output-based approach. This is one of the key challenges

Project implementation

Based on its experience to date, GPOBA estimates that it takes on average 12 months after grant signing for outputs to be delivered and the first OBA payments to be made. Projects that build on existing pilots or work with entities that already provide the service to be subsidized are usually able to deliver outputs in less than 12 months,



Young women in Yemen will benefit from an OBA scheme promoting safe motherhood

⁴ The GPOBA Annual Report 2007 is available at <http://www.gpoba.org>.

in “getting it right” with an OBA design: not micro-managing and monitoring inputs, but still ensuring value for money.

Access to finance

A big challenge for projects involving smaller service providers and public sector utilities is the ability to pre-finance investments that can only be recuperated after outputs have been achieved. This implies that the service provider must either fund the proposed outputs through its own financial resources or seek external funding through local commercial banks. This is sometimes a challenge, as local banks and other financial institutions may have little or no

experience in lending to sectors such as infrastructure development or health. Furthermore, many infrastructure projects, even small-scale ones, require loans with longer tenures than many banks are used to giving.

GPOBA is exploring innovative financing solutions to ease access to finance and make these projects work, including:

- Providing capacity building for small local service providers and local banks.
- Making some payments for intermediate outputs or project roll-out milestones. This can ease project fund flow constraints until the prescribed output is achieved and thus

Box 5: Performance-based contracting in health in Africa

In developing countries, poor people often lack access to quality health care, not just because of lack of funding but also because resources are allocated inefficiently. Results-based approaches such as performance-based contracting are one way to address this problem. Performance-based contracting gives service providers the freedom to take decentralized decisions on how to provide services. It also provides an incentive to use resources in an efficient way as it shifts performance risks to service providers by, for example, reimbursing them for interventions performed.

A recent GPOBA paper reviewed the experience of three performance-based contracting projects in the health sector in Africa:

- In **Rwanda**, a GPOBA grant funded a review of two pilot schemes supported by international NGOs, in order to inform the design of a national performance-based financing model.
- In **Uganda**, the Ministry of Health and the World Bank, with funding from CIDA, undertook a study to determine whether private not-for-profit (PNFP) providers would respond positively to performance-based contracts.
- In the **Democratic Republic of Congo**, an IDA-financed multi-sectoral emergency project used performance-based contracts with NGOs to develop and support services in 85 Health Zones.

The three projects achieved some encouraging results, such as increases in assisted deliveries and measles immunization, and improvements in health workers' performance. Service providers in the results-based schemes showed improved performance compared to providers funded on an input basis. In two of the three countries (Rwanda and the Democratic Republic of Congo), performance-based contracting in the health system is now being scaled up to the national level.

What remains to be determined is the relative importance of performance-based project design compared to other factors, such as increased public resources (Democratic Republic of Congo) or the introduction of community-based health insurance (Rwanda). In Uganda, it was unclear whether block grants with performance bonuses were more effective than block grants alone. Upcoming impact evaluations in Rwanda and the Democratic Republic of Congo may provide some answers.



Source: OBAApproaches no. 19, “Performance-based contracting in health: The experience of three projects in Africa,” Lars Johannes, Patrick Mullen, Peter Okwero, and Miriam Schneidman, April 2008.



Community water project in Andhra Pradesh
(before and after)



reduce the amount and tenure of pre-financing required.

- Phased in roll-out of outputs linked to a revolving loan facility which is replenished by the subsidy payment once the first phase of outputs has been delivered.
- Working with local banks to extend loans to service providers with little or no credit rating by using the grant agreements as a form of security for the loans.
- Working with funding and guarantee agencies.

Examples include the Kenya Microfinance for Small Water Schemes project which uses a microfinance bank as the grant recipient and administrator. Under the Extension of Water and Sanitation Services in Low-income Areas of Honduras project, local banks have been prepared to extend loans to service providers

with little or no credit ratings, based on the security that if the service provider achieves the pre-agreed outputs, payments will be made by GPOBA. This allows the service providers to create a relationship with local banks, which could lead to future lending.

Foreign exchange risk

Many GPOBA grants are denominated in US dollars while expenses are incurred by service providers in local currency. This poses a challenge given the US dollar depreciation over the past year and its potential effect on reducing the actual monies to be received as a grant. GPOBA is exploring this issue further in order to limit any negative impacts on project beneficiaries.

Mainstreaming OBA

Mainstreaming OBA with the development partners poses specific challenges, as it involves both a change of paradigm (from input to output) and an adaptation of governments' existing systems. For instance:

- Additional capacity building and intensive dissemination will be needed to help governments and other donors participate in and manage OBA schemes.
- When using government systems, output verification and monitoring will most likely be the responsibility of a unit within a government ministry, as opposed to the responsibility of an independent verification agent who reports directly to GPOBA. This

will have implications for transparency, efficiency, and cost.

- Unit costing will need to take into account regional and local variations, and a single national average unit cost may not be appropriate.

Governments seeking to create an OBA facility will need to develop the rules associated with the facility, such as criteria for project eligibility, economic and financial assessment of projects to be funded, screening of eligible projects, rules for service providers, and so on. Furthermore, they will need to adequately staff such a facility.

Looking to the Future

GPOBA's Vision Statement sets out the program's goals for the next three to five years: to mainstream OBA with the development partners and become a center of OBA expertise. In line with these objectives, GPOBA will focus on using technical assistance and strategic communications to define and verify OBA standards on what works well, disseminate OBA experiences and best practice, and promote OBA strategically to development partners. GPOBA will also refine its administrative arrangements in order to become a more user-friendly program and ensure maximum success of mainstreaming.

In terms of subsidy funding, the priority will be to develop further OBA projects in the more mature sectors, such as water and sanitation, energy, and health, with support for telecoms only on an exceptional basis. GPOBA will test OBA in less mature sectors such as public transport, education, and solid waste on a case-by-case basis. The program will concentrate on low-income countries, particularly in Sub-Saharan Africa and Asia-Pacific, and projects that involve other development partners and where funding can

be leveraged from other donors. GPOBA will support both private sector and public sector operations, and will endeavor to ensure that these operations are linked to sector reform and are sustainable after the GPOBA subsidy has been phased out.

In all these activities, GPOBA will continue to focus on using OBA approaches to improve access to basic services for those who need them most: the poor.



Rural water project in Vietnam

Annex 1: Financial Statement

GPOBA derives its resources from donor contributions which are channeled through trust funds administered by the World Bank Group. The World Bank Group recovers a small charge for costs associated with this task. GPOBA's finances are subject to the World Bank Group's annual "single audit" exercise for all trust funds. As part of this exercise, the GPOBA program manager signs a trust fund representation letter attesting to the correctness and completeness of the financial process for all GPOBA trust funds. GPOBA's budget and accounting processes are aligned with the World Bank Group fiscal year, which runs from July to June.

Contributions received

As of June 30, 2008, GPOBA's donors have pledged a total of \$179.3 million to the program, of which \$138.6 million (77 percent) has been received (Table A1). In fiscal 2008, GPOBA received a total of \$57.9 million in cash from its donors. This was 75 percent more than the \$33.0 million received in fiscal 2007. The increase was due in part to a \$25.5 million cash contribution from IFC and to contributions from AusAID and Sida, GPOBA's newest donors (Table A2). Most of the donor contributions (79 percent) have been allocated to subsidy funding for projects (Table A3).

Subsidy funding

In fiscal 2008, GPOBA signed 10 new grant agreements for subsidy funding with donor

Table A1:
Donor Contributions to GPOBA (All Activities) in US\$m

Donors	Pledged	Received	To Be Received
DFID	50.3	47.7	2.6
IFC	60.5	60.5	0.0
DGIS	28.3	19.0	9.3
AusAID	33.3	4.5	28.8
Sida	6.9	6.9	0.0
Total	179.3	138.6	40.7

funding totaling \$41.7 million. This is a 38 percent increase compared to fiscal 2007 when the total was \$30.3 million. All the donors provided funding for projects except AusAID, which is expected to begin financing projects in fiscal 2009 (Table A4).

GPOBA actual program expenditures

GPOBA's actual program expenditures totaled \$3.3 million in fiscal 2008, down from \$4.0 million in fiscal 2007 (Table A5). Expenditure on technical assistance decreased by almost half, although it still accounted for 42 percent of fiscal 2008 expenditures, while expenditure on the portfolio (preparation and supervision) doubled compared to fiscal 2007. These trends reflect GPOBA's shift in focus toward the delivery of subsidy funding projects. Expenditure on program management remained constant.

Table A2:
Receipt of Donor Contributions (in US\$m)

Donors	FY04	FY05	FY06	FY07	FY08	Total
DFID	2.5	3.4	6.8	21.7	13.3	47.7
IFC	0.0	0.0	35.0	0.0	25.5	60.5
DGIS	0.0	0.0	0.0	11.0	8.0	19.0
AusAID (*)	0.0	0.0	0.0	0.3	4.2	4.5
Sida	0.0	0.0	0.0	0.0	6.9	6.9
Total	2.5	3.4	41.8	33.0	57.9	138.6

(*) FY08 contribution received in July 2008

Table A3
Donor Contribution Per Funding Window (in US\$m)

Technical Assistance	Dissemination & Program Management	Subsidy Funding	Admin/Fees	Total
20.1		142.0	17.2	179.3

GPOBA's new emphasis on dissemination and M&E contributed to an increase in Center of Expertise expenditures this year, a trend that is likely to continue in the future. Technical as-

sistance activities are also expected to increase again as GPOBA promotes the development of OBA facilities to be funded by developing country governments.

Table A4:
GPOBA Subsidy Funding (Grants Signed) in US\$m

Donors	Subsidy Funding		Total
	FY08	FY07	
DFID	8.7	9.4	18.1
IFC	13.3	17.7	31.0
DGIS	17.4	3.2	20.6
AusAID	0.0	0.0	0.0
Sida	2.3	0.0	2.3
Total	41.7	30.3	72.0

Table A5:
GPOBA Actual Program Expenditures in US\$m

	FY08	FY07
Program Management	0.8	0.8
Center of Expertise	0.3	0.2
Technical Assistance	1.4	2.6
Portfolio (Preparation/Supervision)	0.8	0.4
Total	3.3	4.0

Annex 2: GPOBA Portfolio of Signed Grant Agreements

GPOBA Portfolio of Signed Grant Agreements as of June 30, 2008

Country	Project Name	IDA	Grant Amount (US\$m)	Number of people benefiting	Average subsidy per person (US\$)	Grant Signing Date	Description
Armenia	Access to Gas & Heat Supply for Poor Urban Households in Armenia	IDA Blend	3.10	32,000	96.88	04/28/06	The objective of this project is to improve access to gas and heating services for eligible households in urban multi-apartment buildings. This project will subsidize new service connections for 17,000 poor Armenian households.
Bolivia	Decentralized Electricity for Universal Access	IDA Blend	5.18	45,000	115.00	06/26/07	This project will lead to direct connections and affordable access to electricity in rural areas of Bolivia. The objective is to extend electricity access to at least 7,000 poor Bolivian households and micro-enterprises in remote rural areas benefiting some 35,000 Bolivian citizens.
Cameroon	Cameroon Water Affirmage contract – OBA for	IDA	5.25	240,000	21.88	04/07/08	This project will subsidize the cost of new connections to piped water for low- to middle-income households coverage expansion currently without access.
Colombia	Natural Gas Distribution for Low Income Families in the Caribbean Coast	IBRD	5.10	210,000	24.29	05/19/06	The objective of this OBA scheme is to connect an estimated 35,000 families to the natural gas distribution network along the Colombian Caribbean Coast.
Honduras	Extension of Water and Sanitation Services in Low income areas of Honduras	IDA	4.44	240,000	18.50	06/19/07	The objective of this project is to develop an output-based facility aimed at establishing an efficient and transparent mechanism for financing infrastructure in water and sanitation projects in Honduras. This project is expected to bring improved access to water and sanitation services to approximately 40,000 households.

Continue on next page

GPOBA Portfolio of Signed Grant Agreements as of June 30, 2008 (continued)

Country	Project Name	IDA	Grant Amount (US\$m)	Number of people benefiting	Average subsidy per person (US\$)	Grant Signing Date	Description
India	Improved Rural Community Water in Andhra Pradesh	IDA Blend	0.85	75,000	11.33	05/16/07	The objective of this project is to provide safe drinking water to poor inhabitants of the coastal area of Andhra Pradesh through, inter-alia, development of approximately 25 community water supply schemes. The project will benefit around 75,000 poor people in various districts of Andhra Pradesh.
Indonesia	Expansion of Water Services in Low-income Areas of Jakarta	IDA Blend	2.57	56,000	45.95	11/01/07	The aim of this project is to bring water services to communities in low-income areas of Jakarta by funding one-off connection subsidies for an estimated 11,630 poor households.
Kenya	Micro-finance for Small Water Schemes	IDA	1.15	60,000	19.19	12/06/06	The objective of this project is to increase access to and efficiency in water supply services for the poor in rural and peri-urban areas of Kenya through investments in around 21 community water projects.
Mongolia	Mongolia OBA Pilot Project of Universal Access Strategy	IDA	0.26	22,315	11.62	05/19/06	The aim of this project is to pilot a program to provide telephony services to herder communities, benefiting around 20,000 herders, and telephony and internet services to around 2,315 residents of Tariat and Chuluut soum centers.
Morocco	Morocco Urban Water and Sanitation	IBRD	7.00	56,000	125.00	01/29/07	The objective of this project is to promote, following an output-based approach, the connection to water and sanitation services of around 11,300 low-income beneficiary households selected in disadvantaged peri-urban and rural neighborhoods of Casablanca, Tangiers, and Meknes.

Continue on next page

GPOBA Portfolio of Signed Grant Agreements as of June 30, 2008 (continued)

Country	Project Name	IDA	Grant Amount (US\$m)	Number of people benefiting	Average subsidy per person (US\$)	Grant Signing Date	Description
Mozambique	Mozambique Water Private Sector Contracts – OBA for coverage expansion	IDA	6.00	468,543	12.81	04/03/08	This project aims to provide subsidized water connections for domestic consumers in Maputo, Beira, Nampula, Quelimane, and Pemba. This project will construct around 30,000 shared yard taps which will benefit up to 468,000 people.
Nepal	Biogas Support Programme	IDA	5.00	261,000	19.16	10/04/07	The aim of this project is to subsidize approximately 37,300 biogas plants for rural Nepalese households to increase access to clean and affordable energy for cooking and lighting.
Philippines	Manila Water Supply	IBRD	1.05	37,600	27.93	10/19/07	This project will seek to provide affordable piped potable water to poor households in the eastern portion of the National Capital Region (“NCR”) and most of the Province of Rizal.
Senegal	On-Site Sanitation Project	IDA	5.76	135,900	42.41	07/06/07	This subsidy scheme aims to help offset the cost of new sanitation facilities for an estimated 15,100 poor households.
Uganda	Reproductive Health Vouchers in Western Uganda	IDA	4.30	255,000	16.86	10/23/07	This project will increase Ugandan women’s access to trained medical professionals throughout pregnancy and provide subsidized treatment to patients with STDs.
Uganda	OBA in Kampala – Water Connections for the Poor	IDA	2.53	409,000	6.18	02/28/08	This OBA scheme will provide for a one-off connection subsidy to partially fund the cost of new domestic metered connections. The project envisages making about 19,000 new yard tap connections and about 800 new public water points over a period of three years.

Continue on next page

GPOBA Portfolio of Signed Grant Agreements as of June 30, 2008 (continued)

Country	Project Name	IDA	Grant Amount (US\$m)	Number of people benefiting	Average subsidy per person (US\$)	Grant Signing Date	Description
Uganda	OBA in Water Supply in Uganda's Small Towns and Rural Growth Centers	IDA	3.21	55,000	58.31	02/12/07	This project seeks to increase access to sustainable water supply services for the poor living in selected small towns and rural growth centers. It is expected to provide improved water access to around 55,000 people.
Vietnam	Vietnam Rural Water (EMW)	IDA	3.00	150,000	20.00	11/30/07	This project aims to bring safe water services to an estimated 30,000 poor families in rural Vietnam.
Yemen	Yemen Safe Motherhood Program	IDA	6.23	80,000	77.90	06/10/08	The objective of the project is to provide sustainable maternal health services, including up to 40,000 safe child births, to poor women of reproductive age (15–49) in Sana'a, Yemen.
Total			72.0	2,888,358	24.92		

How to contact GPOBA

Mail:

World Bank
Attn: GPOBA
Mailstop: MC4-413
1818 H Street, NW
Washington, DC 20433, USA

Email:

gpoba@worldbank.org

Website:

www.gpoba.org



Buitenlandse Zaken
**Ontwikkelings
samenwerking**



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The Global Partnership on Output-Based Aid

Supporting the delivery of basic services in developing countries