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Incentive design for results-based financing – rather art than science?

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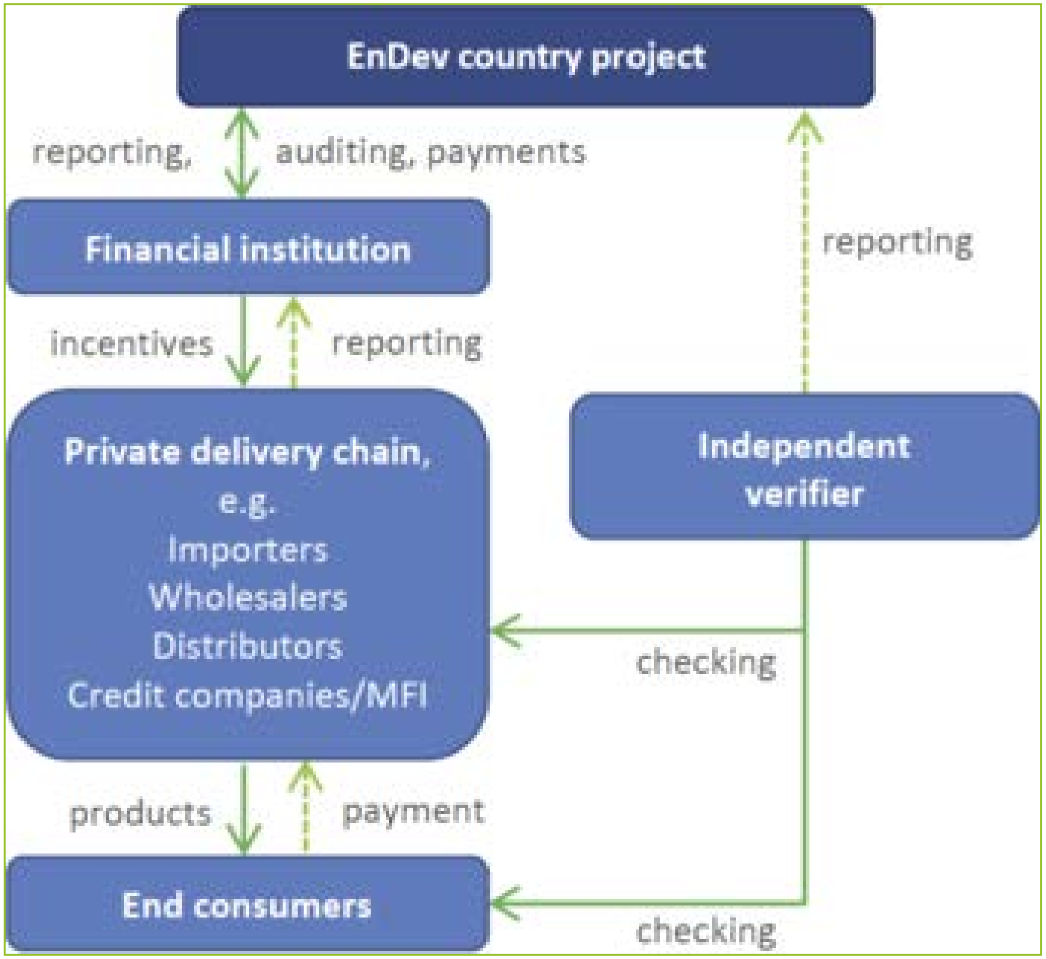
Results-Based Financing for Low Carbon Energy Access Facility (RBFF)

- Distribute modern (long lasting and affordable) energy services/systems to the poor
  - **through (developing) different, viable business models**
    - **based on financial performance incentives**
- Key feature is *payment upon delivery*
  - **Private sector takes the full risk until the moment of delivery of the contracted results, e.g.**
    - **number of households provided with access to energy**
    - **cubic metres of biogas produced**
- Aim is to
  - **mitigate market and growth barriers**
  - **transform the market *and* lift it onto an efficient and self-sustaining level**

Approach

- Integrate RBF projects into regular EnDev Interventions
- Types to determine and deliver incentives to the recipient vary
  - **from advanced market commitments to auctions or output-based aid**
- All eligible service providers are able to participate on a competitive basis
- Delivery of pre-agreed results is only broadly defined
  - **to encourage product and service innovation and give flexibility**
- Disbursement of funds is contingent on the delivery of pre-determined, verified results.
- Monitoring and verification systems function as the trigger for disbursement.

EnDev RBF project set-up



Source: GIZ, 2018, p. 5

RBF Outcomes until Mid-term Evaluation in December 2017

- 1.5 mio people gained access to clean energy services at the cost around EUR 12/per person
- 395,500 devices were sold (solar systems, cookstoves and biogas digesters)
- 890 kW total installed renewable energy capacity (picoPV, solar lightning and mini-grid)
- Emission reductions equivalent to 5.2 million t CO_2 were achieved (over lifetime of sold products)
- 1 EUR spent leveraged 3,6 EUR of private investment
- 3,500 jobs have been created (nearly 1,200 for women)

Pre-project Temporary Barriers to Market Uptake

Supply: working/growth capital and business capacity limitations

Service providers:

- Know-how and risk-taking?
- Staff?
- Investments?
- Supply chains?-
- Participation in tenders and biddings?

Demand: access to financing and cultural and awareness barriers (rather unfocussed):

- Appealing products?
- Affordable prices?

Temporary Barriers to Market Uptake – overcome?

Supply: working/growth capital and business capacity limitations

<u>Service providers:</u>

- Know-how and risk-taking? - Partially
- Staff? - Yes
- Investments? – Working capital: yes, growth capital: no
- Supply chains? - Yes
- Participation in tenders and biddings? - Partly

Demand: access to financing and cultural and awareness barriers

- Appealing products? - Yes
- Affordable prices? - Partially

But … new, limiting factors are arising

Businesses so far still pick low-hanging fruit

- **Very few local distributors serve the more difficult and remote markets**
- **Last mile distribution remains problematic**
- **(Rural) Poor are not targeted**
- **Households or other energy users are not directly incentivized**
- **No significant price drops for products**
- **MFI-oriented projects have not enough uptake yet to remove the affordability barriers**

Conclusions

- Temporary barriers on the supply side are tackled with varying results
  - **Some success in access to financing and investment capital**
  - **Some success in building up business capacity**
- Barriers on the demand side were partially removed although no specific strategy was targeting them

- But:
  - **Barriers are dynamic. As soon as one barrier is removed, the next limiting factor can be identified.**
  - **Therefore projects need to be constantly analysing the market state and adjust their range of activities.**

Thank you for your attention!

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