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

**Service providers:**
- 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!