

Output-Based Aid in Fragile and Conflict Situations



Photo courtesy of Chris Warham

Throughout the world, poverty is increasingly concentrated in countries and regions affected by fragility and conflict, which intensify already acute challenges to development. Fragility and conflict can range from persistent domestic or cross-border violence to vulnerability in the face of natural disasters or extreme weather events related to climate change, such as flooding or droughts. Where development has taken place, conflict and environmental disaster can strip years off these gains, and recovery is hampered by political instability, low government capacity, and the destruction of assets and infrastructure. The provision of basic services can support stabilization and lessen the impact of fragility and conflict on people's lives. Output-based aid (OBA), which ties subsidy payments to the achievement of agreed upon outputs, improves access to basic services for the poor. This note discusses the challenges of service delivery in fragile and conflict-affected situations (FCS), and considers how OBA approaches can be most effectively utilized in FCS.

The Challenges of Service Provision in FCS

There are now 33 situations on the World Bank Group list of FCS, and it is estimated that the share of global poor living in FCS will at least double by 2030*. Numerous pockets of insecurity and violence, such as large slum areas, exist around the world in places not officially considered FCS but which are beset by many of same problems. Newly fragile areas may emerge with little warning due to conflict, natural or manmade disasters, or other factors, and countries or regions can experience successive shocks. Liberia, for example, was recovering from a fifteen-year civil war when it was hit by the Ebola crisis. The Philippines had suffered decades of civil conflict when the country was struck by Typhoon Yolanda in 2013, which killed thousands of people.

Service provision in FCS faces particular challenges. Systems for identifying and targeting those most in need

are usually non-existent. Populations are often displaced from their homes or on the move. Capital funding, technology, equipment, and skilled management tend to be lacking, while poor infrastructure and weak governance result in an absence of quality control and accountability. An often high risk of corruption distorts incentives for service delivery. Service providers are reluctant to take risks in such unstable and volatile environments, and few providers will have the resources or incentives to reach poor communities. Where some level of services are available, tensions and violence between conflicting groups can hamper their equitable provision.

OBA is a results-based financing (RBF) mechanism for improving basic infrastructure and service provision that can be used effectively to reach poor populations. To date, grants totaling \$140.8 million have been made to 14 OBA projects in FCS; many other FCS projects that blend instruments have used OBA principles in project components.

Designing OBA projects for FCS

Experience has shown that OBA approaches in FCS work best in countries or regions that have begun to show signs of recovery, in which a level of stable governance exists and government institutions are gradually increasing in legitimacy. It is key that authorities have committed to broader investment or reforms for the sector. The presence of a trusted local entity is crucial—within the government, or in a semi-autonomous body, NGO or other institution—to manage implementation, even if additional capacity building is needed. The broader the base of local support, the better chance the project will have to succeed in the event of changes in personnel or circumstances, a probable occurrence in FCS. Finally, though there may be dire needs in every sector, focusing on the most basic services, rather than on higher value infrastructure services, will help to ensure that even if there are changes in the political or security situation, the need for the service is likely to remain.

In complicated, volatile and unpredictable environments, simplicity and flexibility are critical in all components of project design, from targeting to implementation to verification. Not every potential situation or roadblock in FCS can be foreseen, but a thorough political economy analysis, conducted as a first step to determine a country's suitability for an OBA project, lays the foundation for design. Such a study analyzes the political situation and the particular effects of conflict and violence, and assesses local priorities, current sector policy and the legislative context. It can identify reliable project partners and appropriate funding channels, and estimate risks and risk-tolerance levels for implementers and service providers. In FCS, where personnel change frequently, donors sometimes have longer institutional memory than local

bodies. Engaging with donors from the beginning of the design process enables benefiting from lessons learned and ensures that new interventions complement, rather than duplicate, existing work.

Targeting: FCS are likely to have few or no existing mechanisms, such as reliable registration or tax systems, that can function as tools to target specific populations, including poor households. Therefore, straight geographic targeting for OBA projects in FCS is often the simplest and best approach, especially for reaching the poor. Specific groups can be identified within these populations where relevant (eg, within health schemes, women and children may be targeted). Any targeting mechanism should take into account the fluid context, being realistic about what is achievable and providing for a greater-than-normal margin of error. Careful monitoring should be ongoing, along with a willingness to adapt targeting mechanisms as needed.

Risk Transfer: A key component of OBA is the transfer of performance risk to the service provider. Inputs are pre-financed by service providers and OBA subsidies are not paid out until pre-specified outputs are delivered. However, service providers in FCS are sometimes unable to carry the full pre-financing risk, and flexibility may be required in order to ease this burden, particularly for small operators. Solutions for partial risk transfer include phasing subsidy payments over time by linking them to intermediary milestones, and providing micro-credit to small-scale providers. In Liberia, a project to subsidize the connection of 80,000 of Monrovia's poorest people to the electricity grid required no pre-financing from Liberia Electricity Corporation, the grant recipient and service provider. Instead, the corporation is operating under a management contract with an international private operator, Manitoba Hydro International.

Implementation: OBA projects in FCS are usually restricted in the choice of service providers. Any existing service delivery tends to be fragmented and inequitable. International providers may have a limited presence and be reluctant to engage, while NGOs or local providers may be present but unprepared to take on OBA contracts or respond to incentives. It is therefore essential to be innovative and creative in identifying service providers, and OBA projects in FCS have relied on a variety of service providers, including NGOs, government institutions, municipalities, and local private sector actors filling the gap left by weak or non-existent public sectors.

Where capacities or institutions do not exist, an OBA scheme can facilitate their establishment. In Cambodia, the Rural Electrification Fund was set up for the purpose of the OBA project in order to channel financing to private energy providers. The establishment of the fund was seen

as critical in avoiding corruption; having demonstrated success, it is now used to channel other types of financing as well.

Flexibility is also possible in relation to service providers meeting targets. A pilot project in solid waste management is underway in the West Bank, where fluctuating tensions and periodic, unpredictable restrictions on movement result in variations in the ability to move goods and deliver services. A catch-up mechanism is built into the project design, so that if municipalities fail to meet their targets during one period, they can make up the deficit in a succeeding period.

Even with flexibility built in, however, restructuring in FCS is sometimes necessary. Institutional weakness, economic vulnerability, insecurity, and political instability have all played a part in the need to restructure OBA projects for positive results. An energy project to provide biogas plants in Nepal began in 2007 in the wake of a decade-long civil war. But continuing instability, rising fuel prices, and a weak private sector meant that targets had not been met by the project's initial closing date in 2010. However, a significant improvement in the political situation had occurred by then, and the project was restructured—subsidies adjusted, difficulties faced by service providers addressed, and the closing date extended. The revised project resulted in the installation of 27,139 biogas plants, an achievement of 98 percent of its revised target.

Technical assistance: As institutional capacity in FCS tends to be low, sustained technical assistance (TA) should be employed throughout the project cycle and targeted at key fragilities. While TA is normally financed in an input-based manner (entities are paid to deliver capacity-building services), there are innovative ways of employing TA in FCS. In Liberia, Manitoba Hydro International is providing TA to Liberia Electricity Corporation in a partly output-based manner: the electricity company will forfeit success fees and incur non-compliance penalties if certain performance results, such as connection targets, are not achieved.

Strong TA can help to discourage corruption. A project in Cambodia to expand access to basic water and sanitation services was halted and restructured following a case of corruption involving a private water operator. The redesigned project included measures to minimize the risk of corruption (addressing areas such as procurement, financial management, ethical conduct for staff, and sanctions). It was determined that stronger TA for local operators in World Bank procurement procedures and bid preparation from the project's inception could have reduced the potential for corruption.

Verification: The use of an independent verification agent (IVA) is a core component of OBA projects. IVAs certify that service providers are delivering contractual outputs



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and that agreed standards of service are being achieved. While verification mechanisms in FCS should be kept as simple as possible, it may be necessary to complement the use of IVAs with multi-layered verification systems involving different stakeholders, particularly where risk of corruption is high and accountability is low. An OBA health sector project in Burundi—a country wracked by decades of conflict—utilized a multi-faceted verification system involving civil servants; personnel contracted by NGOs; provincial and national committees composed of members of government and civil society; external agencies; and local community organizations. This relatively complex system yielded positive results, and Burundi's Ministry of Health is making performance-based financing an official policy.

Although verification is focused on results, close and ongoing monitoring throughout the project cycle means that necessary correctives can be made before the point of final verification. It is worth noting that because IVAs tend to be less willing to work in high-risk areas, more time than usual may be needed to source qualified and committed IVAs and, if feasible, to develop capacity with existing entities to reliably and affordably serve this key function. In an OBA project in Kenya supporting microfinance for community-managed water systems, close work with the IVA built in-house capacity to manage a supervisory role within the project. Where there is a scarcity of qualified local firms to serve the IVA function, a qualified consultant can fill the IVA gap temporarily; if no suitable local firm exists, a consultant can act as IVA throughout the project.

Scaling up: The sustainability and scaling up of projects in FCS depend on the capacities of governments and other authorities, and the presence of institutions and regulatory frameworks able to support a results-based approach. Projects that rely heavily on government systems can be relatively difficult and move more slowly, but any

impacts achieved will be embedded in local structures and therefore more likely to last, as local capacity is increased and governments see better results for the money they spend. OBA schemes have been extended or scaled up, or have led to the adoption of results-based management of services, in Liberia, Nepal, Yemen, Chad, and Burundi.

Conclusion

Basic service provision in FCS can support stabilization and conflict-mitigation by strengthening civic engagement, rebuilding public trust in government institutions, and reducing tensions and grievances between groups over services.

Experience with OBA in FCS has shown that fragility factors are not necessarily the best indicators of a project's eventual success. Quality of design and flexibility, along with solid, targeted technical assistance throughout the

project cycle have proved stronger predictors. Projects have been successfully implemented in situations where there was ongoing violence or unrest, while corruption, lack of rule of law, and institutional weakness have worked against project success. OBA is most likely to be effective in countries or regions showing signs of recovery, where government institutions are relatively stable and gradually increasing in legitimacy. When such an enabling environment exists, OBA is one mechanism that can contribute to broader efforts at breaking cycles of fragility and violence through providing basic services to the poor and increasing accountability among providers.

References

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