Results-Based Finance for Last Mile Infrastructure

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Challenge 1: How can countries incentivize public and private providers to reach the last mile, extending basic infrastructure services to the urban and rural poor?

Limitations may include:

- Misallocation of resources to reach the poorest
- High cost of access (e.g., household connection)
- Resources spent do not lead to desired results
What is Results-based financing?
Definition and characteristics

Results-based financing (RBF):
A financing arrangement in which part of the payments are contingent on the achievement of pre-defined and verified results (outputs, outcomes and/or impact).

- Accountability
- Innovation and Efficiency
- Using Incentives to Serve the Last Mile
- Targeting of Payments
- Results Verification and Monitoring
The use of RBF is rapidly expanding
Over $25 billion of development spending has been tied to results
Theory of Change for RBF (WASH infrastructure example)

Donors use conventional, input-based lending

Provider receives money up front

Provider turns money into outputs

Donors use Results-Based Financing

- More effective transformation of inputs into outputs through:
  - Increased accountability
  - Freedom to innovate
  - Ability to profit
  - Enabling private participation

Provider motivated by promise of payment for results, and finds capital to deliver outputs

Facility (public water point, latrine, ...)

WASH service (improved water supply, ...)

Health benefits, time savings, lower prices...

Provider more likely to deliver desired outputs at desired quality

More, or better, facilities

Increased WASH service coverage, or better quality

Better results in health, time savings, prices...

Delivery of outputs is verified

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Challenge 2: How to “maximize finance for development” to bridge the financing gap to meet the infrastructure needs of developing countries?

Challenge 3: How to ensure the poorest communities benefit from these investments?
Using RBF to Maximize Finance for Development for the Poor

**Results-based financing** can act as a catalyst to unlock additional resources (public or private) for development projects, while ensuring social inclusion.

**RBF value add to blended finance investments:**

- Reduces repayment risk/ mobilizes capital
- **Inclusion of poor and vulnerable populations** (“the last mile”)
- Complements other de-risking financial instruments
- Flexible design/ applicable to multiple sectors
Case Example:
Bangladesh OBA Sanitation Microfinance Program

**Context:** Open defecation free; 60% access to improved sanitation

**Challenge:** Gap between government funds and investment requirements to meet SDG target

**WBG engagement:** Sanitation market development, engagement with MFIs, HHs, construction firms

**Development objective:** Increase access to hygienic sanitation facilities for low-income households in rural areas using sanitation loans
Case Example:

Bangladesh OBA Sanitation Microfinance Program

- **Ministry of Finance**
  - Grant agreement
- **Palli Karma-Sahayak Foundation (PKSF)**
  - Uses own capital for wholesale lending to MFIs and reimburses household subsidy payment when construction verified
- **Microfinance Institutions**
- **Rural Households**
  - Lends to households for toilet construction, subsidizing a portion of the capital cost
- **Local Construction Firms**
  - Builds toilet
- **SME loans**
  - Provides training and certification program, in addition to access to SME loans
- **Bangladesh OBA Sanitation Microfinance Program**
Engagement Areas

1. **Technology Innovation in Verification Practices**
   Use of embedded Management Information Systems (MIS), smart metering, remote sensing and data management

2. **Programmatic Technical Assistance Development for Establishing Synergies with Private Service Providers and Lenders**
   Addressing capacity building needs, ease of reaching new customers, creditworthiness of service providers, and targeted analysis on the cost and affordability of service delivery

3. **Innovative Financing for Scalable and Outcome-focused Solutions**
   Development of facilities with local lenders to address working capital constraints and credit risks perceptions, incentive schemes and provision of viability gap funding with last mile outcome-focused targeting
Thank you!