



Results-Based Financing (RBF) Energising Development (EnDev) Partnership

Key Facts

The Energising Development (EnDev) partnership pilots a **results-based financing (RBF)** scheme offering **incentive payments to private sector market actors** in the low-carbon off-grid energy sector in developing countries. Payments are made against pre-specified results achieved in delivery and sustainable operation of modern energy technologies and/or services. The goal of the facility is to boost energy access markets, support private companies in the whole value chain and to remove temporary financial barriers.

Objectives

The key objective of the RBF is to **overcome market failures** constraining private sector delivery of distributed renewable energy systems providing modern energy services to the poor. By doing so, the RBF facility within EnDev aims at contributing to achieve results in the following areas:

- improved access to energy services via low-carbon technologies,
- mitigation of tCO₂e through the implementation of these services,
- creation, expansion or improvement (of efficiency and distribution chains) of enterprises providing energy products and services, as well as employment,
- leverage private investment in decentralised renewables.

On the conceptual side, the facility aims at finding out if the RBF concept applied within EnDev can present an efficient and value-for-money approach in promoting low-carbon energy access in developing countries, draw conclusions from lessons learnt and develop recommendations for future applications of RBF interventions in the field of energy access.

Concept

Being a relatively new instrument in the energy access sector, the RBF approach applied within EnDev is about developing and testing viable business models that employ financing as a performance incentive rather than a traditional lump sum loan payment. **The key feature is payment upon delivery of results.** Private participants are expected to take the full risk until the moment of delivery of the contracted results.

RBF intends to **reduce or mitigate commercial market failures**, however not in the sense of large scale capacity building or policy support but by providing financial incentives to the private sector to overcome typical, but temporary, market development risks.

This is intended to **(i)** help move (energy service and product) suppliers - and sector financiers, where possible - along the learning-experience curve and **(ii)** help move products along the cost reduction curve faster than they would normally have moved (if at all in light of market barriers) – for example via economies of scale or scope, investment in more efficient production, or bulk purchase and distribution.

The financial incentives are therefore a temporary measure aimed at transforming the market and lifting it onto an efficient and self-sustaining level through mitigation of market and growth barriers.

Approach

RBF types to determine and deliver incentives to the recipient can vary from advanced market commitments (AMCs) to auctions or output-based aid (OBA) and others. However, structurally all RBF projects adhere to the following **key principles**:

- Delivery of pre-agreed results is only broadly defined to encourage product and service innovation, and giving flexibility to service providers.

Funded by:



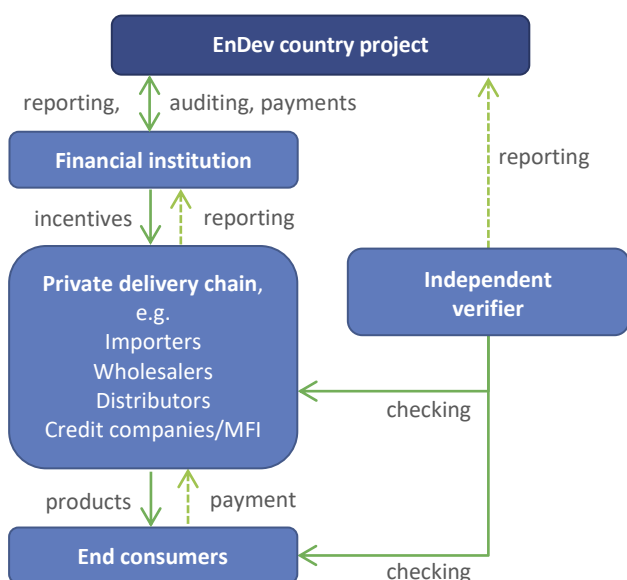
Coordinated by:



- All eligible service providers are able to participate on a competitive basis.
- Monitoring and verification systems, including fraud mitigation measures, function as the trigger for disbursement.
- Disbursement of funds is contingent on the delivery of pre-determined, verified results.

The **key actors** commonly involved in an RBF scheme are the following:

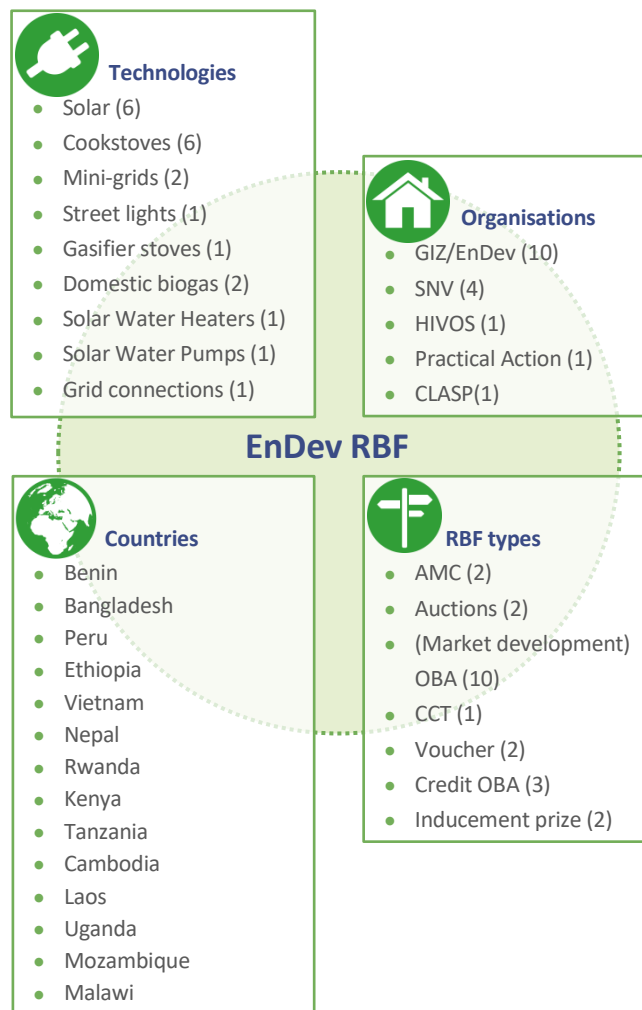
1. EnDev as the main project implementer and provider of incentives;
2. a financial institution, supporting the management of the RBF mechanism and responsible for the administration of the incentive disbursement procedures;
3. an independent verification agent, who will verify claimed results by the private sector to trigger disbursements;
4. the private sector as provider of the clean energy product or service and recipient of the RBF incentives out of which RBF is built up.



Portfolio

The RBF facility encompasses **17 projects in 14 countries** in Africa, Asia and Latin America covering a wide range of technologies. RBF projects are integrated as much as possible into the regular EnDev interventions within a certain country. The projects were selected in three proposal rounds in 2013 and 2014, with the first two tranches

implemented in a country, while projects of the third tranche have a regional or sectoral focus.



Learning and Innovation

Examining new approaches, EnDev's RBF window serves as an incubator for ideas, for creativity and for developing new types of RBF instruments. In terms of learning, first experiences show that market intelligence is one of the most important first steps in the design of any RBF scheme to ensure that specific opportunities and bottlenecks are fully considered as RBF is part of a market development system designed to be **responsive to a unique market context**. A favourable business environment is therefore desirable as the strength of market and actors strongly determines the RBF position in the system. This includes alignment and a coordinated approach with government and other development partners.

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