

Structuring Output-Based Aid (OBA) Approaches in World Bank Group Operations

Guidance Note for Staff ¹

I. INTRODUCTION

1.1 Objectives and Scope

This Note provides guidance to task teams on key design and operational procedures for structuring Output-Based Aid (OBA) approaches. While Bank-financed OBA projects can occur within the Bank's two main forms of lending—investment and development policy², this Note focuses on investment operations, reflecting Bank experience to date.³

1.2 What is OBA?

OBA is the use of explicit, performance-based subsidies to complement or replace user fees. It involves the contracting out of basic service provision (e.g., infrastructure, health, education) to a third party—such as private companies, non-governmental organizations (NGOs), community-based organizations (CBOs), and possibly even a public service provider — with subsidy payment tied to the delivery of previously specified outputs (e.g., per network connection, or per kilometer of road constructed or maintained).

Examples of possible OBA applications include payment of subsidies tied to:

- Number of new connections made, when the goal is to expand access to network services;
- Verified household consumption, equivalent to the difference between a life-line tariff (paid for by the household) and the full tariff;
- Achievement of positive externalities (e.g., subsidies for sanitation disbursed against the achievement of specific environmental targets); and
- Targeted disadvantaged groups (e.g., voucher-based support to allow consumers choice of a provider), when the goal is to enhance competition and performance between service providers.

¹ This note has been developed jointly by staff from Procurement Policy and Services Department (OPCPR), GICT Policy Division (CITPO), Loan Department (LOA), and Infrastructure Economics and Finance Department (IEF), and reflects inputs from several staff in the World Bank Group. For additional guidance, the technical background materials used for this Note are indicated in Annex IV.

² Investment, or project, lending refers to programs where specific goods and services are allocated for well-defined purposes. Development policy-based lending refers to a variety of results-based budget support forms in which funds disbursed are not linked to actual expenditures, but to verified outcomes in the context of poverty reduction programs.

³ As OBA approaches are incorporated into development policy-based lending programs, this Guidance Note will be revised accordingly.

1.3 What do Bank-financed OBA operations support?

The adoption of OBA approaches fits in well with the Bank's results-based agenda to improve the delivery of and access to basic services.⁴ OBA approaches are already being used in a variety of forms in over 50 Bank-financed projects.⁵ These projects, which mainly involve relatively small, rural greenfield operations, are using the Bank's investment lending instruments. However, with the Bank's new result-based Country Assistance Strategy (CAS) framework, it is envisaged that development policy-based lending instruments could also be used to support OBA approaches.

The challenges ahead for Bank staff are to scale up projects from small rural communities to larger rural as well as urban and peri-urban areas.⁶ To meet these challenges, the Bank has eased previously identified operational constraints to structuring operations that incorporate OBA mechanisms. These include, for example, adjustments to enable OBA schemes to be structured with incumbent providers (since many of the poor communities fall under the jurisdiction of existing providers or concessionaires), and for Bank participation in pooling arrangements and sector-wide approaches (SWAs).⁷

1.4 What are the main challenges in structuring Bank-financed OBA schemes?

Three factors are of particular relevance for the successful design of an OBA project:

- (a) *Reconciling the Bank's requirement that investment lending needs to be "expenditure-based" with the "performance-based" nature of OBA.* This factor is addressed in Section II.
- (b) *Linking payments to outputs actually delivered.* This factor is addressed in Section III; and
- (c) *Mitigating the payment risk.* This factor is addressed in Section IV.

Procurement and disbursement implications arise from these design factors. Specifically, Bank policies require that financial/disbursement and procurement assessments shall be conducted (by Bank specialists) to determine the arrangements and capacity of both the service provider (systems, personnel, bidding processes, and control environment), and of the government counterpart (selection of output-criteria, preparation of bidding documents, output verification and monitoring, and disbursement and auditing of the OBA payments).⁸

1.5 Are there resources available for OBA project preparation?

A number of technical assistance facilities—funded by bilateral and multilateral donors—can help Bank staff during project preparation. These facilities can also test pilot approaches on a

⁴ See, *Private Sector Development Strategy: Directions for the World Bank Group*, April 9, 2002.

⁵ Annex I contains a list and description of these projects.

⁶ For further information on current Bank policy and strategies, see, *Output-based aid Approaches Utilized in the World Bank Group: Update Note*. Global Partnership on Output-Based Aid (GPOBA), Infrastructure, Economics and Finance Department, World Bank, October 2005.

⁷ A Working Group on Output-Based Disbursement is exploring options to expand the scope of output and performance-based approaches within the recently created performance-based lending instruments. For an initial assessment, see, *Output-Based Disbursement: Concept and Proposals* (July 2004).

⁸ In conducting these assessments, staff should follow the procedures and guidance provided in the OPCS Operational Memorandums for procurement and financial management capacity assessments, dated July 15, 2002 and October 15, 2003, respectively.

small scale prior to the approval of a broader Bank-funded program. The Global Partnership on Output-Based Aid (GPOBA)—a multi-donor facility established within the Bank in 2003—supports the preparation of OBA approaches. GPOBA pilots OBA projects and related activities to identify and disseminate lessons on the design and implementation of OBA schemes. GPOBA is also able to fund the subsidies payments related to pilot projects. In addition to GPOBA, other multi-donor facilities—for example the Public-Private Infrastructure Advisory Facility (PPIAF)—can provide support for the development of policy and regulatory environments required to implement OBA transactions. For further reference, visit www.gpoba.org and www.ppiaf.org.

II. RECONCILING “EXPENDITURE-BASED” AND “PERFORMANCE-BASED” LENDING REQUIREMENTS

OBA approaches can be structured either for greenfield projects, or for the expansion of existing services or networks. Under both OBA schemes, the service provider receives only the payment agreed to for the specified outputs – regardless of the actual cost.

In some cases, this may create tensions with Bank policies that require evidence that the unit price for the desired output (e.g., per network connection, or per kilometer of road constructed or maintained) is expenditure based and represents a reasonable, economic, and efficient cost. Reconciling these tensions depends on the type of OBA approach used in a particular project. The approaches can largely be classified into one of two categories:

- OBA through competitive selection of service providers; or
- OBA through direct arrangements with incumbent service providers.

2.1 OBA with competitive selection of service providers

Bank-financed instruments can be readily applicable in situations where an OBA subsidy is structured as part of a private infrastructure arrangement where there is no existing provider (greenfield projects). This has been the most common use of OBA to date, and the most straightforward to implement. For these projects, conforming OBA schemes to Bank lending requirements requires careful attention to the Bank procurement policies.⁹

2.2 Procurement processes acceptable to the Bank

Following paragraph 3.13(a) of the Bank’s procurement guidelines, the award of infrastructure concessions or similar arrangements (with or without OBA components) needs to be based upon International Competitive Bidding (ICB) procedures acceptable to the Bank. The procurement guidelines distinguish the ICB procedures for selection of the concessionaire from the ICB procedures for the procurement of goods, works, and services by the concessionaire after the concession has been awarded. If the concessionaire is selected through an ICB procedure acceptable to the Bank, it is free to use its own procedures to procure the goods, works, and services required.

⁹ See, The World Bank. 2004. *Guidelines for Procurement under IBRD Loans and IDA Credits*. Washington, D.C.: The World Bank.

Many OBA projects are small, often rural pilots involving local or regional service providers, and thus better suited for National Competitive Bidding (NCB). The Bank procurement guidelines allow for this option.¹⁰ Simpler procurement procedures may also be applicable to projects that involve the participation of communities, NGOs or local labor or know-how. The Bank provides an expedited review of the applicable regulations and bidding documents normally used in the country, and the modifications are reflected in the legal agreements.¹¹

By using these procedures, the OBA project will meet the expenditure-based requirement for subsidy disbursements without the need for further evidence of output costs.

2.3 Bidding documents for OBA schemes

The Bank does not have standard bidding documents (SBDs) or model contracts specifically designed for infrastructure concessions, licenses or OBA schemes. Implementing agencies, under Bank guidance and assistance, may either adapt existing Bank standard prequalification and bidding documents or other internationally utilized formats to the particular needs of each project, or design project specific bidding documents.¹² Two Bank documents in particular may be suitable for an OBA project:

- In December 2002, the Bank issued “*Sample Bidding Documents for the Procurement of Non-Consultant Services*.” This document allows for: (i) advance payment for mobilization; and (ii) progress payments against milestones or percentage of completion of the services, pursuant to performance indicators.
- In September 2005, the Bank issued “*Sample Bidding Documents for the Procurement of Works and Services under Output- and Performance-based Road Contracts*”. This document provides an alternative to the traditional methods of procuring road reconstruction, rehabilitation and maintenance. This document aims to fit the specific nature of Performance-based Management and Maintenance of Roads (PMMR), but it is also suitable for the procurement of works and services under longer-term “Design-Build-Operate-Maintain (DBOM)” contracts for roads.

The following table provides some examples of compliance requirements which can be included in the bidding documents:

Table 1: Examples of Compliance Requirements in Bidding Documents

Bolivia – Rural Cellular Telephony Services (2005)	Bidding Documents of the International Public Tender, Technical Specifications, Locality List, Economic Offer Form, Presentation Letter, Identification of the Bidder, Statement, Seriousness of Offer Guarantee.
Uganda – Internet PoPs (2004)	Subsidy Proposal Form, Bid Security Form, Form of Letter requiring compliance with License, Application for Spectrum Frequency, Compliance Checklist, Draft of Proposed Service Agreement and Draft License.
Nepal – Rural Telecommunications (2003)	RTS Subsidy Proposal Form, Bid Security form, Performance Guarantee Form, Draft of Proposed License, Compliance Checklist.

¹⁰ *Idem*, paragraph 3.3.

¹¹ *Idem*, paragraph 3.17.

¹² Annex III provides a sample of various bid evaluation and qualification criteria successfully applied in Bank projects.

Nicaragua – Public and Cellular Telephony (2005)	Information of the Bidder, Information of the Consortium, Economic Offer Form, Technical Specifications Checklist, Qualifications of the Bidder, Seriousness of Offer Guarantee, and Country of Origin Statements.
Mozambique – Power Systems (2004)	Model Contract Agreement, Key Performance Indicators, License Agreement
Paraguay – Water Systems (2004)	Bidding Offer, Qualification Information, Letter of Acceptance, and Model Contract Agreement.
Chad – Roads Management and Maintenance (2000)	Invitation for Bids, Instructions to Bidders, Bidding Data, General Conditions of Contract, Specific Conditions of Contract, Environmental Conditions of Contract, Bill of Quantities, Technical Specifications and Drawings, Sample Annexes and Guarantees, Criteria of origin relating to the supplies, work and the services for markets financed by the Bank.
Cambodia – Water Systems (2003)	Invitation for Proposals to Bidders, Proposal Data Sheet, Design and Construction Contract, and Operate Agreement.

2.4 Award Criteria

There are various criteria for the award of contracts using OBA schemes. The most commonly used are:

- Least-cost connection bid with a fixed subsidy. This was the modality used in the first go-round in the Paraguay Water System Project (2004).
- Lowest subsidy proposal. In this case, the connection or the service fees are fixed by the regulator or the government and award is made to the bidder requesting the lowest subsidy. These were the criteria used for the second go-round of the Paraguay Water System Project (2004).
- Greatest coverage provided with a fixed subsidy. In this case, the contracting entity establishes a fixed subsidy amount (either for the whole project or per group of localities), which acts as a cap. The winning bidder is the one offering the highest level of coverage of the service to be provided. This method was used in the Bolivia Telecommunications Project (2004).

2.5 OBA with incumbent providers

The second OBA approach involves arrangements with a public or private-sector incumbent to complement finance for the expansion of existing services (i.e., new connections in low-income areas within or beyond the perimeter of an existing concession). There are both design and operational challenges with this approach, all related to the appropriate risk transfer, the lack of competitive pressure to reduce costs, and procurement issues.

OBA approaches involving incumbents can be implemented in Bank-financed projects, provided that the incumbent, to the Bank's satisfaction, is able to determine that the desired output is expenditure-based and represents a reasonable, economic, and efficient cost. This can be verified by structuring a negotiation with the incumbent based on either: (i) incumbent's use of competitive procurement procedures —when it chooses to outsource the

provision of inputs (e.g., works, goods or services) to third party suppliers;¹³ or (ii) established standard unit prices.

2.6 Incumbent's procurement procedures acceptable to the Bank

OPCS issued an Operational Memorandum, which clarifies the conditions set in Paragraph 3.13(b) of the procurement guidelines for the expansion of existing facilities by an incumbent service provider not selected through internationally competitive bidding procedures.¹⁴ This OM allows the incumbent to use its own procurement systems to procure goods and works, provided the Bank, prior to contract negotiations, carries out an up-front assessment of the incumbent's capacity and practices (e.g., competitive bidding or other methods deemed to satisfy the requirements of efficiency, economy, and transparency).

2.7 Establishing a standard unit price

An OBA scheme may alternatively be negotiated with an incumbent based on standard unit prices. The initial concept involves a simulation of the outcomes found through competitive bidding, using highly comparable market data on the cost of providing the service.

Disbursing against standard costs in investment projects is acceptable under the Bank's existing policies provided that (i) the documentation of the expenditures underlying the outputs is auditable so that the amounts disbursed can be compared with actual expenditures; (ii) the standard costs meet a reasonable test of economy and efficiency; and (iii) the procurement procedures used for contracting the expenditures are acceptable to the Bank. The key issue for the Bank is the absence of guidelines on acceptable methods for setting standard costs. For some outputs, this can be done through analysis of actual market prices or surveys of competitively bid contracts. For others, standard costs have to be "built up" on the basis of known input prices. In either case, the challenge is to produce—and update—standard costs that meet not only a basic standard of economy and efficiency but also transparency and fairness.

The use of standard unit prices has not been implemented to date as part of Bank operations. A working Group on Output-Based Disbursements is exploring arrangements on a pilot test basis. Possible applications under consideration include situations where there is an incumbent not selected through competitive bidding, or when an unsolicited bid has been put forth by a service provider.

III. LINKING PAYMENTS TO OUTPUTS ACTUALLY DELIVERED

¹³ A variation of this approach may occur when no outsourcing of inputs is involved: the incumbent either itself or through subsidiaries is a supplier of the required inputs for the project. The Bank procurement guidelines do not cover such situations. Nevertheless, staff should ensure that the expenditure-based principles of efficiency, economy, and transparency remain applicable. As practice evolves, the Bank may provide further guidance on this.

¹⁴ See, OP/BP 11.00. *Operational Memorandum on the Application of Paragraph 3.13 of the Procurement Guidelines to Cases Involving Incumbent Concessionaires*. OPCS, October 14, 2005. This document is provided in Annex II.

The link between payments and performance or service delivery is the defining characteristic of an OBA scheme. The choice of the appropriate payment mechanisms is critical. This is dependant on (i) the type of of OBA subsidy; and (ii) the definition of the outputs against which subsidies will be paid. Both need to be factored into the OBA design from the outset so that payments match the Bank’s project disbursement periods.

3.1 Type of OBA subsidy and disbursement period

Generally, OBA schemes operate on three types of subsidies: (i) one-off; (ii) transitional or time-bound; and (iii) ongoing.

One-off subsidies are used for connections with user fees covering longer-term operation and maintenance costs. Disbursements for this type of subsidy can be made during the time frame of a Bank investment project cycle (typically a five year implementation period). These have been the most common under Bank-financed OBA schemes.

Transitional subsidies are used to ease the transition to full cost recovery tariffs. Ongoing subsidies are linked to a sustainable source of funding such as general tax revenues, earmarked tax revenues, or explicit cross-subsidies. Both subsidies require longer disbursement periods. Investment lending policies do not always offer the desired flexibility to finance these schemes. Development policy-based lending instruments —i.e., DPLs, PRSCs or APLs— are more suitable and adaptable vehicles for these longer-term lending commitments.¹⁵

3.2 Definition of outputs

In addition to the subsidy life span, outputs specified under OBA schemes should thus be as close to the desired outcome as possible. User’s affordability, service delivery sustainability, and local needs and circumstances determine what outputs can feasibly be targeted.

OBA contracts feature payment schemes in various tranches that:

- Link payments to measurable indicators of compliance with specified network rollout or service quality standards;
- Specify the unit price of the output to be invoiced by the service provider, the performance parameters, and the monitoring system which will be utilized to measure quality standards over the life of the contract; and
- Include incentives or premiums for higher quality level of outputs, where appropriate (this may be particularly important for OBA schemes involving the delivery of water or electricity connections).

3.3 Output verification and payment schemes

Payment to service providers is generally made using one of the following procedures:

¹⁵ For additional guidance of these and other tools used in development policy-based lending, see OPCS, *Good Practice Note on Results in Development Policy Lending* (June 2005); and *Poverty Reduction Support Credit: A Stocktaking* (April 2005).

- Upon presentation of an output report and invoice that have been verified and approved for payment by the government’s monitoring unit or independent verification agent. This method has the advantage of ensuring that only verified outputs are paid to service providers. Depending upon the sector, verification may have to be physically inspected in the field by qualified technicians or engineers and can take 30 - 60 days; or
- Upon presentation of the output report and invoice without prior verification of outputs. Outputs are verified subsequently by the government’s monitoring unit or an independent verification agent and adjustments, if any, are made to future payments. This method has the advantage of speeding up payments to the service provider and provides reasonable control over adjustments, provided the billing periods (and therefore adjustment of previously paid invoices) are not too far apart, and the verification of outputs is carried out in a systematic manner.

Table 2: Examples of Different Payment Schemes in OBA Projects

Pure milestone—Uganda telecommunications project (2004)	Pure output-based—Mozambique electricity project (2003)	Combined ^a —Nicaragua telecommunications project (2004)
<p>25% at contract Signing. Milestone: Execution of Service Agreement and issuance of License to Service provider.</p> <p>55% at 6 months after Contract Signing. Milestone: Network must be service ready and tested in all the Mandatory Service Areas in the Designated District</p> <p>20% at 12 months after Contract Signing. Milestone: Continuous and ongoing provision for a period of six months of the Mandatory Service Areas in the Designated District in accordance with this Agreement.</p>	<p>Installments will be paid by the Trust Agent 30 days after submission of the Connection Report (every trimester) and claim for payment, with exception of the last installment, which will be paid 60 days after submission of the Connection Report and claim for payment.</p>	<p>20% of the subsidy at the approval of Engineering Plans and Detailed Schedule.</p> <p>30% of the subsidy when 50% of radiobases are installed and when 50% of payphones are set into commercial operation.</p> <p>30% of the subsidy when the Launching Act is subscribed (service fully operational).</p> <p>20% of the subsidy 18 months after Contract Signing at First Inspection.</p>

Source: Contracts for the Uganda, Mozambique, and Nicaragua projects.
a. Milestone and output-based components.

IV. MITIGATING THE PAYMENT RISK

Recent changes to the Bank’s disbursement policies have increased flexibility for the use of existing funded mechanisms available under Bank loans/IDA credits. These mechanisms, discussed below, should provide sufficient assurance to the service provider that the funding will be available and that payments will actually be released upon achievement of the specified outputs.

4.1 Use of Bank disbursement mechanisms

OBA disbursements can be made following standard Bank practice for investment projects: namely, to the traditional special account; or to an appropriately controlled government project or operating account, possibly used solely for service provider payments. An application of these project account mechanisms to OBA schemes would operate as follows:

- The government prepares a Bank Withdrawal Application requesting the Bank to advance funds into a project deposit account equal to the service provider's connection plan for the next two periods (for example, the next two semesters). The Bank processes the request and transfers the funds to the deposit account.
- Periodically (monthly or quarterly) the service provider submits invoices to the government for connections or other outputs produced (or mobilization advances or progress payments) with a projection of outputs (billings) for the following two periods (semesters) based on its work plan. The government verifies the outputs, and makes payments to the service provider from the deposit account.
- The government prepares and sends to the Bank a Withdrawal Application to document the expenditures paid to the service provider and to request a Bank disbursement to increase the deposit account to the amount needed to cover the latest forecast.

4.2 Use of escrow agents

In countries where governments have failed to make required payments to service providers, it may be necessary to provide additional payment assurances and pass control of the payment account and output verification to an independent third party. An alternative third-party controlled account which may be used is the escrow agent, in which an appointed intermediary holds funds until certain conditions have been met.

The escrow model provides payment assurance to service providers over a reasonably long horizon under the following conditions:

- Financial resources have been advanced to the escrow account (funded); and/or
- All financing is from the Bank (and/or other international donor agencies) and therefore not contingent upon the availability of counterpart funding or all counterpart funding has been advanced to the escrow account; and
- Financial resources are controlled by an independent party with specific rules for making payment; and
- Acceptance of output and approval of payment has been contracted with an independent party.

The "Escrow Agent" model could be structured as follows:

- The government contracts an escrow agent to receive and disburse Bank funds on terms consistent with those described in the project's legal agreement and in the service provider contract bidding documents.
- The government prepares a Bank Withdrawal Application requesting the Bank to advance funds to the escrow agent equal to the service provider's connection (output) plan for the next period (six to 12 months, as necessary, as per the service provider's contract). The Bank processes the request and disburses the funds to the escrow agent. The service provider invoices the government. If approved by the independent party, the escrow agent

would make the payment and the government would request the Bank to replenish the escrow account.

Although the disbursement mechanisms described above should mitigate the payment risk, service providers may still require additional assurances. For example, contracts are partially financed with counterpart funding that may not be available and might prohibit making payments to service providers with Bank resources. The implementation of fiscal (budget) controls by the government could also prevent payment even when financial resources are available. The Bank can offer credit enhancement of OBA schemes through its guarantee instruments to address these constraints.¹⁶

V. CONCLUDING SUMMARY

Structuring OBA schemes under investment lending operational policies requires task teams to focus on three considerations:

Reconciling “expenditure-based” with “performance-based” requirements

- For greenfield projects, task teams should follow the Bank procurement guidelines for the competitive selection of the providers.
- For projects with an incumbent, task teams should follow Operational Memorandum on the Application of Paragraph.13 of the Procurement Guidelines to Cases Involving Incumbent Concessionaires.

Linking payments to outputs actually delivered

- Define the life span of the subsidy vis-à-vis the project’s disbursement period. One-off subsidies have been the most common under the regular Bank investment lending disbursement periods. For transitional subsidies (which have a duration of more than 5 years) task teams should be encouraged to use development policy-based lending instruments such as APLs, which provide the necessary adaptability to address longer-term disbursement commitments.
- Define outputs as close to the desired outcome as possible. User’s affordability, service delivery sustainability, and local needs and circumstances determine what outputs can feasibly be targeted.
- Link payments to measurable indicators of compliance by the service provider.

Payment risk

- Funded disbursement mechanisms such as the withdrawal application or an escrow agent are available, and should provide sufficient payment guarantees to service providers.

¹⁶ For additional guidance on non-funded mechanisms, see, Von Klaudy, Stephan. 2005. *Output-Based Aid and Disbursement/Financial Management* at www.gpoba.org.

ANNEX I: World Bank-financed OBA Projects

Country	Project and TTL	Type of OBA approach	Subsidies
WATER & SANITATION			
Armenia	Yerevan Water and Sanitation Project (P095156) Paul Kriss	Help ensure water and sanitation services are affordable for Yerevan's poorest citizens, after introduction of O&M cost recovery tariffs when a new operator takes responsibility for the city's water and wastewater services. <i>Design stage</i>	\$4.2 m GPOBA
Cambodia	Provincial and Peri-Urban Water and Sanitation Project P073311 P084167 Luiz Claudio Martins	In four towns, OBA-type contracts are awarded to expand access of basic water and sanitation services. Replication in other towns is underway. <i>Tendered stage</i>	\$3.1 m IDA grant
Guinea		Water lease with a tariff transition subsidy. One of the first known OBA-type projects in water. Payment based on revenue billed and collected. (No longer in effect) <i>Tendered stage</i>	Approx. \$16.9 IDA
Morocco	Morocco Rural Water and Sanitation Project (P086877) Marie-Laure Lajaune	Project aim is to increase rural population access to potable water supply and safe sanitation, and to improve hygiene practices and to promote long term sustainability of the RWSS sector. <i>Design stage</i>	est. \$ 1 m (expected application to GPOBA)
Pakistan	Punjab Urban Water and Sanitation (P094270) Andrea Rizvi	The Government of Pakistan intends to design financing mechanisms that are linked to the actual outputs of WSS utilities. <i>Design stage</i>	
Paraguay	Fourth Rural Water Supply and Sanitation Project (P039983) Maria Araujo	Objective of the project is the rapid increase of water supply and sanitation coverage in the rural areas of Paraguay by means of new water systems and expansion of production, storage, and distribution systems of existing systems. <i>Tendered stage</i>	slightly less than \$1 m for all three phases for 5000+ connections
Philippines	LGU Urban Water and Sanitation Project APL2 (P069491) Luiz Tavares	The project aims to assist the La Union Province in attracting a private operator to take over an existing provincial water supply system as (previously operated by a water district) as well as to achieve a rapid expansion of the existing distribution network through house connection, partly to low income households. <i>Design stage</i>	est. \$2.3 m IBRD in OBA payments
Senegal	Senegal Onsite Water and Sanitation	Funds will be used to support an output-based component of the Senegal Long Term water	est. \$1.1 m GPOBA est. \$1.425 m IDA

Country	Project and TTL	Type of OBA approach	Subsidies
	Project (P095587) Sylvie Debomy	project aimed at expanding access to on-site sanitation by helping to offset the cost of facilities demanded by households. <i>Design stage</i>	
Vietnam	Ho Chi Minh City Targeted Service Expansion through Water Loss Reduction (P097670) Bill Kingdom	The Government has recognized the benefits of introducing private sector participation in the reduction of non-revenue water, while increasing connections to the poor. <i>Design stage</i>	est. \$4.35 m GPOBA
ENERGY			
Armenia	Armenia Heating and Gas (P095329) Ani Balabanyan	Subsidies to finance connections of the poorest urban households in Armenia to the gas network. <i>Design stage</i>	\$2.62 m GPOBA
Bolivia	Decentralized Infrastructure for Rural Transformation (P073367) Supplemental Funding project (P088817) Dana Rysankova	Increasing access in poorer, more remote areas by offering OBA subsidies to new providers of solar photovoltaic units and cellular phones. Supplemental project will improve micro-financing arrangements. <i>Advanced design (tendering process)</i>	\$ 20 m IDA
Mozambique	Energy Reform and Access Project (P069183 and P084151) Wendy Hughes	Expand coverage through subsidies for connections with the support of several bilateral and multilateral donors, and pilot OBA in Northern Inambane <i>Tendering process</i>	\$1.4 m (IDA) 3,500 connx @ \$400
Nicaragua	Offgrid Rural Electrification (P073246). Clemencia Torres	To support the sustainable provision of electricity services and associated social and economic benefits in selected rural sites. <i>Some tendering</i>	\$12 m IDA \$4 m GEF
Peru	Peru Rural Electrification (P090116 (IBRD)) (P090110 (GEF)) Susan Bogach	Objective of the project is to increase access to efficient and sustainable electricity services in rural areas of Peru. <i>Design stage</i>	
Philippines	Private Sector Participation in the Provision of Power Supply to Missionary Areas (SPUG) (P090238) Sanjay Grewal	GPOBA is funding the review and design of model Power Supply Agreements (PSAs) and is assisting in the design of subsidy arrangements, as well as advising the Government on working with and preparing the local electricity cooperatives regarding sector restructuring and reform. Bidding process under way. <i>Tendered</i>	
Senegal	Rural Electricity	The project aims to support the improvement in	\$15m IDA, \$3m GEF

Country	Project and TTL	Type of OBA approach	Subsidies
	Service Project (P085708) Michel Layec	the living conditions of rural Senegal. The project has 4 components: OBA type capital subsidies, institutional capacity building, project implementation communication and monitoring, and sustainable wood-fuels supply management and inter-fuel substitution.	
Senegal	Electricity Project (SENELEC) P073477 Michel Layec	The proposed \$100 million IDA APL will support the delivery of quality electricity services in SENELEC areas and will promote private sector participation in the country's electricity sector.	approx \$5m
Tajikistan	Pamir Power Project (P069183) Wendy Hughes	Objective of the project is to improve reliability, and enhance the quality of electricity supply in Gorno Badakshan Autonomous Oblast region, through private sector involvement, in a financially, environmentally, and socially sustainable manner <i>Tendering stage</i>	\$9 - \$10 m (IDA/Swiss)
TELECOM			
Algeria	ICT Development Support (P075664) Yann Burtin	The project's objective is to create an enabling environment to improve access to efficient and affordable ICT services, facilitate private sector growth in the ICT sector, improve competitiveness of national firms and enhance the efficiency of the delivery of government services.	
Chile	Infrastructure for Territorial Development (P076807) Nicolas Peltier	The objective of the project is to increase access to telecommunication to marginalized areas.	
Ecuador	Power and Communications Sectors Modernization and Rural Services Project PROMECA (P063644) Susan Bogach	Project will support the Government's efforts to deepen reforms in the telecommunication and electricity sectors, by strengthening regulatory institutions and improving environmental management of the sectors' activities.	est. \$23 m IBRD est. 2.84 GEF grant
Guatemala	Guatemala Telecommunications P088652 (GPOBA) P088195 (PPIAF) Robert Stephens	Objectives of the project is to assist the efforts of the Government of Guatemala to develop and implement a more comprehensive, effective and sustainable strategy for the telecommunications sector that will foster increased private sector investment in rural and peri-urban areas. <i>Advanced design, tendering process</i>	\$29.5 m IDA
Mongolia	OBA Pilot project of Universal Access Strategy (P092965)	The proposed pilot projects will constitute a first step towards implementation of this universal access strategy. A universal service license will be awarded to the operators who meet the technical	290,000 GPOBA

Country	Project and TTL	Type of OBA approach	Subsidies
	Dolma Norbhu	requirements. <i>Design</i>	
Mozambique	Mozambique Communication Sector Reform Project (P073479) Natasha Beschormer	Objective of the project is to support improved access to and quality of efficient and affordable communications services by creating an enabling environment for competition and private participation in sectors deemed critical to facilitate national and regional market integration.	est. \$3 m
Nepal	Nepal Telecommunications Sector Reform Project (P050671) Ritin Singh	Objective of the project is to support telecommunications sector reforms to increase access by developing a competitive and liberalized market structure and enable the private provision of telecommunication infrastructure and services in rural areas. <i>Tendering stage</i>	est. \$12 m IDA
Nicaragua	Telecommunications Reform (P055853) Eloy Vidal	Project aims to support the reform of the telecommunications sector, including new legal and regulatory framework, capacity building to the regulator and privatization of an incumbent <i>Design stage</i>	est \$1 m
Nicaragua	Rural Telecommunications project (P089989) Eloy Vidal	Project objective is to improve access to and use of telecommunications in rural areas for rural businesses, governments and communities.	
Nigeria	Privatization Support Project (P070293) Peter Mousley	Objective of the project is to support transparent and effective implementation of the Federal Government of Nigeria's privatization program through expanded private investment and improved efficiency in productive sectors and in infrastructure.	est. \$4 m
Peru	Provision of Private Telecommunications Services in Rural and Peri-Urban Areas (P082034) Robert Stephens	Building upon (the non-Bank) Peru project that uses 'least subsidy' bidding approach. Private telecommunications operators bid for the minimum government subsidy they require to provide pay phone service in targeted rural areas.	
Peru	Expanding Rural Telephony (P088652) Robert Stephens	Objective of the project is to improve telephone access to the rural poor through a least-subsidy approach in which telecommunications operators bid for the minimum government subsidy they required to deliver pay phone service in targeted areas.	
Samoa	Telecommunications and Postal Sector Reform Project (P075739) Carlo Rossotto	Objective of the project is to assist the Government of Samoa in improving the telecommunications sector performance by enhancing information and technology.	
Swaziland	Energizing Rural	The project will build on the existing momentum	

Country	Project and TTL	Type of OBA approach	Subsidies
	Transformation (P077179) Malcom Cosgrove-Davies	towards commercially oriented service provision through the support of existing actors such as the Swaziland Electricity Board, by doubling electricity access to rural and peri-urban customers through grid extension, independent grid-networks and solar PV.	
Tanzania	Energizing Rural Transformation (P078090) Arun Sanghvi	The project GEF grant will support putting in place a functioning conducive environment and commercially oriented, sustainable service delivery of rural/renewable energy and information and communication technologies (ICTs).	
Uganda	Energizing Rural Transformation (P069996) Arun Sanghvi	The Uganda Energy for Rural Transformation Project includes an innovative OBA component for mainly public phones based on cellular technology, as well as Internet Points of Presence. First known OBA project in ICT sector in Africa, and follows model of using World Bank financing as initial seed money into a universal service fund, which can then become sustainable through regular contributions by private operators with no need for public funds.	Est. \$6 m
TRANSPORT			
Argentina	National Highway Asset management (P088153) Maria Silva	The project is developed based on National Highway Rehabilitation and Maintenance Loan to incorporate approximately 15,000km of additional road into CREMA arrangements.	
Argentina	Provincial Road Infrastructure Project (P070628) Maria Silva	Project aims at improving the reliability of essential road assets that facilitate access of provincial production to the markets and the efficiency of their management.	
Argentina	National Highway Rehabilitation and Maintenance (P052590) Juan Gaviria	Objective of the project is to stabilize the condition of the non-concessioned national road network and to increase the participation of the private sector in road rehabilitation and maintenance services..	
Brazil	Federal Highways Project (CREMA) (P055950)	Performance based contracts for rehabilitation and maintenance with intentions of successful results.	
Burkina Faso	Road Sector Support Project (P074030) Moctar Thiam	Output and Performance-based Contract (OPCR), formerly known as Performance based contracts for the Management and Maintenance of Roads (PMMR), involving OBA and regional private companies.	
Cape Verde	Road Sector Support Project (P087004 and P088645) Andreas Schliessler	Output and Performance-based Contract (OPCR) formerly known as Performance based contracts for the Management and Maintenance of Roads (PMMR), involving OBA and regional private companies.	Approx \$6.9 million (300 km at \$480/km/mo for 4 years)
Chad	National Transport Program Support Project	The OPCR-type \$11.5 million contract covers the management, maintenance and rehabilitation during the 4 year period.	Approx \$10.1 million (440 km at \$480/km/mo for 4 years)

Country	Project and TTL	Type of OBA approach	Subsidies
	(P035672) Andreas Schliessler	<i>Tendering stage</i>	years) IDA
Chad	OBA in Road Network Management and Maintenance (P035672 and P088645) Andreas Schliessler	Output and Performance-based Contracts (OPCR) , building on first OPCR-type arrangement in Chad (see P035672) <i>Design stage</i>	Approx. \$13.8 million (600 km at \$480/km/mo for 4 yrs)
Madagascar	Transport Infrastructure Investment Project (P082806 and P088645) Andreas Schliessler	Management and maintenance of roads involving OBA and regional private companies. Three separate OPCR-type contracts.	Approx. \$27.6 million (1200 km at \$480/km/mo for 4 yrs)
Paraguay	Road Maintenance Project (P082026) Andrea Pizaro	Output and Performance-based Contract (OPCR) formerly known as Performance based contracts for the Management and Maintenance of Roads (PMMR), involving OBA and regional private companies. Pilot performance based road rehabilitation and maintenance contracts in Paraguay. <i>Design stage</i>	
Tanzania	Transport Sector Project. PMMR (P055120) Dieter Schelling	Objective of the project is to remove constraints to transport services on road network and to strengthen the management and implementation capacity of TANROADS. Building on Chad experience. <i>Design stage</i>	Approx. \$27.6 million (1200 km at \$480/km/mo for 4 yrs)
Uruguay	Transport Project II (CREMA) (P049267) Jose Irigoyen	Objective of the project is to increase efficiency in the provision of transport services and maintenance of road infrastructure through performance-based contracts and strengthen road sector management.	
Yemen	Second Rural Access Project (P085231) Jean-Charles Crochet	Output and Performance-based Contract (OPCR) formerly known as Performance based contracts for the Management and Maintenance of Roads (PMMR), involving OBA and regional private companies	
HEALTH			
Democratic Republic of Congo	Contractual Approach for Improving Health Services Delivery in the Democratic Republic of Congo (P088751 and P089946) Eva Jarawan	Objectives of the project are to rebuild agricultural production, rehabilitate and reconstruct critical infrastructure, restore essential social services, and strengthen capacity of government regarding development programs. Exploring OBA approaches.	Approx. \$42 million (to finance 8 contracts to provide health support to 67 health zones)
India	Rajasthan Health	Objective of the project is to increase access to	

Country	Project and TTL	Type of OBA approach	Subsidies
	Systems Development Project (P050655) Sadia Chowdhury	health care services by the poor and improve the quality of health care services through institutional development. <i>Design stage</i>	
Rwanda	Comparison of two health OBA schemes in Rwanda (of Second Poverty Reduction Strategy) (P092944 and P093479) Miriam Schneidman	The Government of Rwanda has asked the WB for assistance in the preparation of a Poverty Reduction Support Credit. The Government would like to carry out a comparative analysis of two promising 2-year old OBA schemes. <i>Design stage</i>	est. \$3m
Uganda	Uganda Health Project (P083361) Tonia Marek	Exploring use of output-based aid approaches to improve performance and targeting. <i>Design</i>	est. \$6m
MULTI-SECTOR			
Cape Verde	Multi-sector OBA initiative (P092818) Lorenzo Bertolini	Improve affordability of basic services and help smooth the transition to cost-recovery tariff levels. <i>Design stage</i>	None designated so far. MCC may get involved
Bangladesh	Social Development Fund (P084014) Meena Munshi	IDA credit to support the provision of basic services to selected districts in Bangladesh and to promote innovative approaches to meeting infrastructure needs through the local private (for-profit and not-for-profit) private sector. <i>Design stage</i>	

ANNEX II. OM on the Application of Paragraph 3.13 of the
Procurement Guidelines to Cases Involving Incumbent Concessionaires

THE WORLD BANK / IFC / MIGA

OPERATIONAL MEMORANDUM

OP/BO 11.00

DATE: November 7, 2005

TO: Staff Recipients of the Operational Manual

FROM: James W. Adams, Vice President and Head of Network,
Operations Policy and Country Services

EXTENSION: 34084

SUBJECT: **Application of Paragraph 3.13 of the Procurement Guidelines to
Cases Involving Incumbent Concessionaires**

1. In response to questions from clients and Bank staff, this Operational Memorandum clarifies the conditions for application of Paragraph 3.13 of the Procurement Guidelines when a concessionaire or entrepreneur (private or publicly owned) already exists.
2. Paragraph 3.13 of the Procurement Guidelines establishes that for projects procured under a BOO/BOT/BOOT, concessions or similar type of private sector arrangement:
 - (a) if the concessionaire or entrepreneur is selected under ICB procedures acceptable to the Bank, it shall then be free to procure the goods, works, and services required for the facility and to be financed by the Bank using the concessionaire's own procedures as defined in the PAD and the Loan Agreement; and
 - (b) if the concessionaire or entrepreneur is not selected as set forth in (a) above, the goods, works, and services to be financed by the Bank shall be procured in accordance with ICB procedures as defined in the Guidelines.
3. To expand existing systems when there is an incumbent concessionaire or entrepreneur,¹ the following considerations apply:

(a) The incumbent concessionaire or entrepreneur shall be a privately owned company or a government-owned company complying with Paragraph 1.8 (c) of the Guidelines.

(b) The Bank shall carry out an up-front assessment of the procurement capacity and of the procurement practices and procedures used by the concessionaire or entrepreneur in its normal business.ⁱⁱ

(c) The Bank may accept the procurement procedures of the concessionaire or entrepreneur if they do not grant preference to contractors of the concessionaire's or entrepreneur's group of shareholders, and if they result in

- (i) fair competition to bidders;ⁱⁱⁱ
- (ii) economy (lowest cost);
- (iii) efficiency (satisfactory quality); and
- (iv) transparency.

(d) The Bank may conduct post reviews as frequently, and to the extent and depth, as it may consider necessary to satisfy itself that the procurement capacity of the concessionaire or entrepreneur has not diminished below the level accepted by the Bank, and that the procurement actions carried out by the concessionaire or entrepreneur have followed the concessionaire's or entrepreneur's procurement procedures that were accepted by the Bank.

4. Questions related to this memorandum may be addressed to Patricia H. de Baquero, ext. 32868..

i This does not apply to "greenfield" projects.

ii In making this assessment, staff use a process similar to that described in the [Guidance Note: Procurement Capacity Assessment](#), dated July 15, 2002.

iii The process must be open competition; however, economic considerations may limit competition to national bidders when appropriate.

ANNEX III: SAMPLE OF BID EVALUATION AND QUALIFICATION CRITERIA

Bolivia - Rural Cellular Telephony Service (2005)	Bidding to be evaluated by Groups. Amount of requested subsidy must not be higher than the subsidy offered per Group. The winning bidder will be: (a) In the case of only one offer, the respective bidder, and (b) where there is more than one offer, the winning bid will be the one that offers the highest amount of coverage in terms of inhabitants with the subsidy indicated for each Group.
Model clause:	<p><i>"The bidding will be assessed by Groups: La Paz (Group 1), Cochabamba (Group 2), Oruro (Group 3), Potosí (Group 4), Santa Cruz (Group 5) y, Chuquisaca y Tarija (Group 6). First, it will be verified that the amount of requested subsidy in the Offers that are presented is not higher than the amount of subsidy offered per each Group, according to Annex ET-5 "Subsidy Amount Offered per each Group", of Section III – Technical Specifications. In case an Offer for a Group is higher than the amount of the subsidy that is offered, the Financial Proposal for such Group will be disqualified. The following selection criteria will be applied to the offers that match the offered subsidy amount: (a) For those Groups in which there is only one qualified offer, the contract will be awarded to the Bidder that presented such proposal. (b) For each Group in which there is more than one qualified Offer, the winning proposal will be the one that offers the largest amount of inhabitants to be covered with the service with the subsidy indicated for each Group in Annex ET-5 "Subsidy Amount Offered per each Group" of Section III – Technical Specifications.</i></p> <p><i>In case of a tie, the Group will be awarded to the Bidder that offers the highest number of optional facilities, according to Clause 2.6 of Section III – Technical Specifications."</i></p>
Uganda - Internet POPs (2004)	The Designated Districts for which a Qualified Proponent has proposed the lowest Subsidy will be awarded to the Qualified Proponent.(i) in the order of preference indicated by the Qualified Proponent on its Subsidy Proposal Form; and (ii) up to a maximum limit of 10 Designated Districts for any single Qualified Proponent.
Model clause	<p><i>"UCC plans to execute a Service Agreement and issue a Licence to the Service Provider proposed by each Qualified Proponent that has proposed the lowest Subsidy for one or more of the Designated Districts, subject to the rules and limitations specified in this RFP."</i></p> <p><i>"The Designated Districts for which a Qualified Proponent has proposed the lowest Subsidy will be awarded to the Qualified Proponent:</i></p> <p><i>(i) in the order of preference indicated by the Qualified Proponent on its Subsidy Proposal Form; and</i></p> <p><i>(ii) up to a maximum limit of 10 Designated Districts for any single Qualified Proponent, subject to section 44 (e)."</i></p>
Nepal - Rural Telecommunications (2003)	Qualified applicants will be evaluated according to proposed RTS subsidies.
Nicaragua - Public and Cellular Telephony (2005)	Bidders must present an offer that is equal or less than an established amount for two groups of localities (Pacífico and Oriente). The lowest combination of offers will be selected by the Contractor. Technical, operational, and financial criteria will also be assessed. The winning bidder has to have two years of experience operating cellular networks.
Mozambique - Power Systems (2004)	Evaluation will be based on four criteria: Technical (10 points), Commercial (10 points), Personnel (10 points) and Tariff (70 points). Final awarding of the contract depends on lowest tariff subject to a fixed subsidy per residential connection.
Model clause:	<p><i>"The evaluation will score proposals against four parameters:</i></p> <ul style="list-style-type: none"> <i>· Technical</i> <i>· Commercial</i> <i>· Personnel</i> <i>· Tariff</i> <p><i>The total score for each bidder will the sum of scores under each criterion. The bidder with the highest score will be recommended as the winning bidder to be invited for contract negotiations."</i></p>
Paraguay - Water Systems (2004)	Private operators would be invited to bid on the fee they would charge users up front to connect to their system. The bidder that was both responsive to the technical requirements and offered the lowest connection fee would be declared the winner. Once selected, operators could charge users for the connection fee in installments at a defined interest rate. Operators would recover their costs from the connection subsidy (paid by SENASA) and the connection charge and tariff (both paid by users). Each town would have the right to reject the winning bid if it considered the connection fee too high.Offer must conform to conditions specified in bidding documents (10 year experience in managing complex water systems, a required volume of business and working capital of US\$120 000).
Chad - Roads Management and Maintenance (2000)	Contract awarded to lowest price for the execution of the service and offer that conforms to conditions specified in bidding documents .
Cambodia - Water Systems (2003)	Contract awarded to lowest bid for subsidy and offer that conforms to conditions specified in bidding documents (actively engaged in the business for at least 3 years and comply with a certain level of required turnover).

ANNEX IV: Technical References

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