



## CASE STUDY 32: BOLIVIA – SHS MEDIUM-TERM SERVICE CONTRACTS

<b>Barriers</b>	Low affordability and willingness to pay
<b>Instrument</b>	Medium-Term Service Contract awarded through competitive tender for lowest level of subsidy (Output Based)
<b>Application</b>	n/a
<b>Amount</b>	n/a

### PROJECT BACKGROUND AND OBJECTIVES

The Decentralised Energy for Rural Transformation Program (ERTIC/IDTR) started in late 2003, with an objective to increase access in rural areas to electricity, information and communication services, by using innovative, decentralised public-private business models. This program includes output-based subsidies for Medium-Term Service Contracts aimed at SHS market development, and will be competitively tendered.

The Medium-term Service Contract (MSC) is a new model for PV market development that balances providers' wish to minimize risk exposure with the government's desire to maximize control. In all service areas, exclusive access to project subsidies ends four years after installation, at which time users and suppliers may "graduate" to open competition.

### INSTRUMENTS USED

The MSC is awarded to local or international private companies through a competitive tender process. To minimize subsidies that the Government must pay private providers, each MSC area was awarded to the qualified bidder promising to service the largest number of users at a given total subsidy per area, with well-defined and ambitious performance indicators. Price caps were set to prevent monopoly pricing, while minimum user requirements per area were fixed to prevent excessive unit subsidies.

The SHS was installed and serviced by the qualified private sector operators, who would work via networks of local micro-enterprises installing systems, selling spare parts and appliances, implementing after sales maintenance services, answering additional service calls, and developing their local markets via promotion and training.

The subsidies provided by the Project will facilitate an accelerated sustainable market development, allow a positive return for operators (in spite of the very low user density in rural Bolivia) and close the affordability gap between rural users' willingness to pay and SHS costs. The types of subsidies provided are:

- Direct up-front Output Based Aid (OBA) customer subsidies on the initial investment cost, paid to the supplier on the basis of actual installations;
- OBA service quality subsidies, paid to supplier against installation and service performance targets;
- OBA market development service subsidies, paid to the supplier against training of local technicians, yearly visits, users training, etc.; and
- Indirect market development subsidies (aggressive overall promotion activities, support to the formulation of business development strategies, training and/or technical assistance).

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## INSTITUTIONAL ARRANGEMENTS

The ERTIC Program and the Medium Term Service Contracts are financed by the IDA of the World Bank. Locally, the program is technically coordinated by the Program Coordination Unit (UCP) of the Ministry of Electricity and Alternative Energies of the GOB. The World Bank has provided technical support promoted capacity building and will coordinate the payments of output-based subsidies.

## OUTCOMES

In 2005, 14 MSCs were successfully bid out to private service providers to minimize the subsidies paid against an ambitious set of provider obligations. The tender resulted in a 25-percent gain in number of new users. After an initial delay, implementation started in July 2006, and more than 1,000 SHS were installed by December.

### Further reading

Bolivia, Ministry of Public Works and Services, Decentralized Infrastructure for Rural Transformation Program (“ERTIC”), 2004 – click [here](#)

GPOBA, Output-Based Aid in Bolivia: Balanced Tender Design for Sustainable Energy Access in Difficult Markets, 2007 – click [here](#)