

Presentation from the

Workshop on Innovations for Scaling up to Citywide Sanitation

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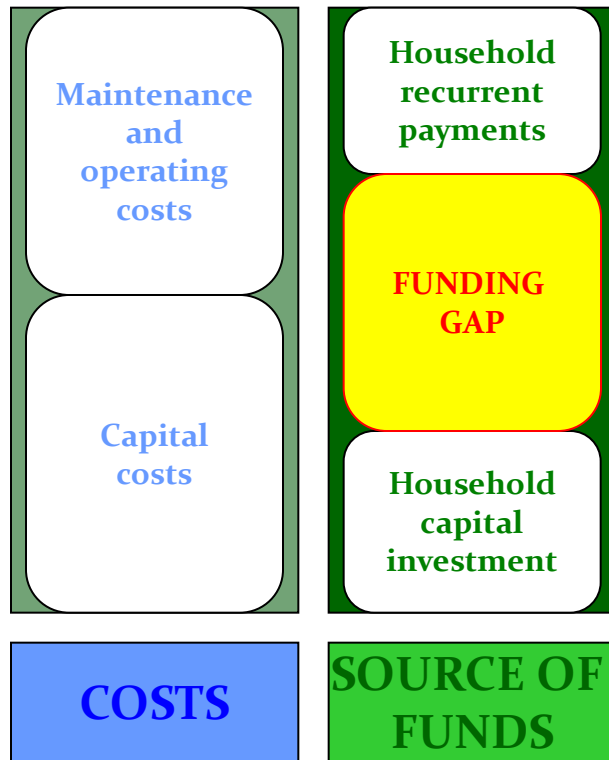
Sanitation Financing and New Business Models

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17th October 2012

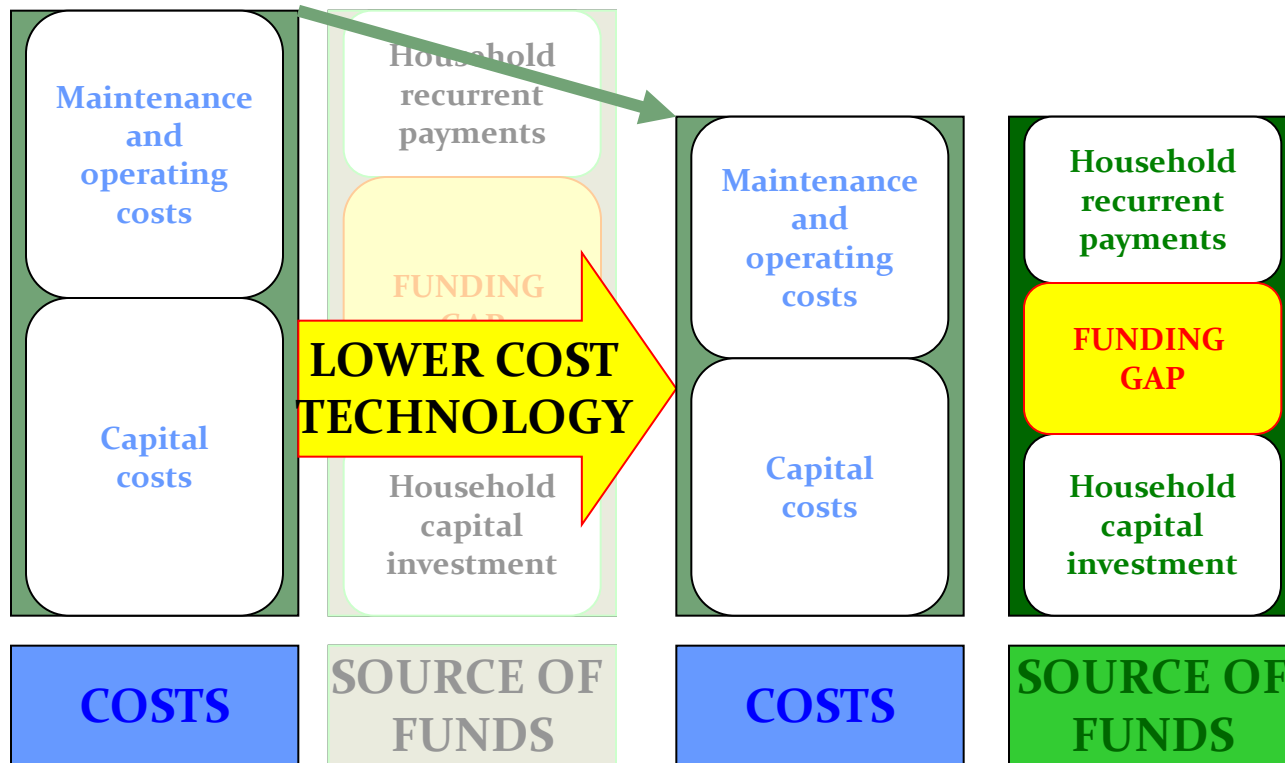


The funding gap



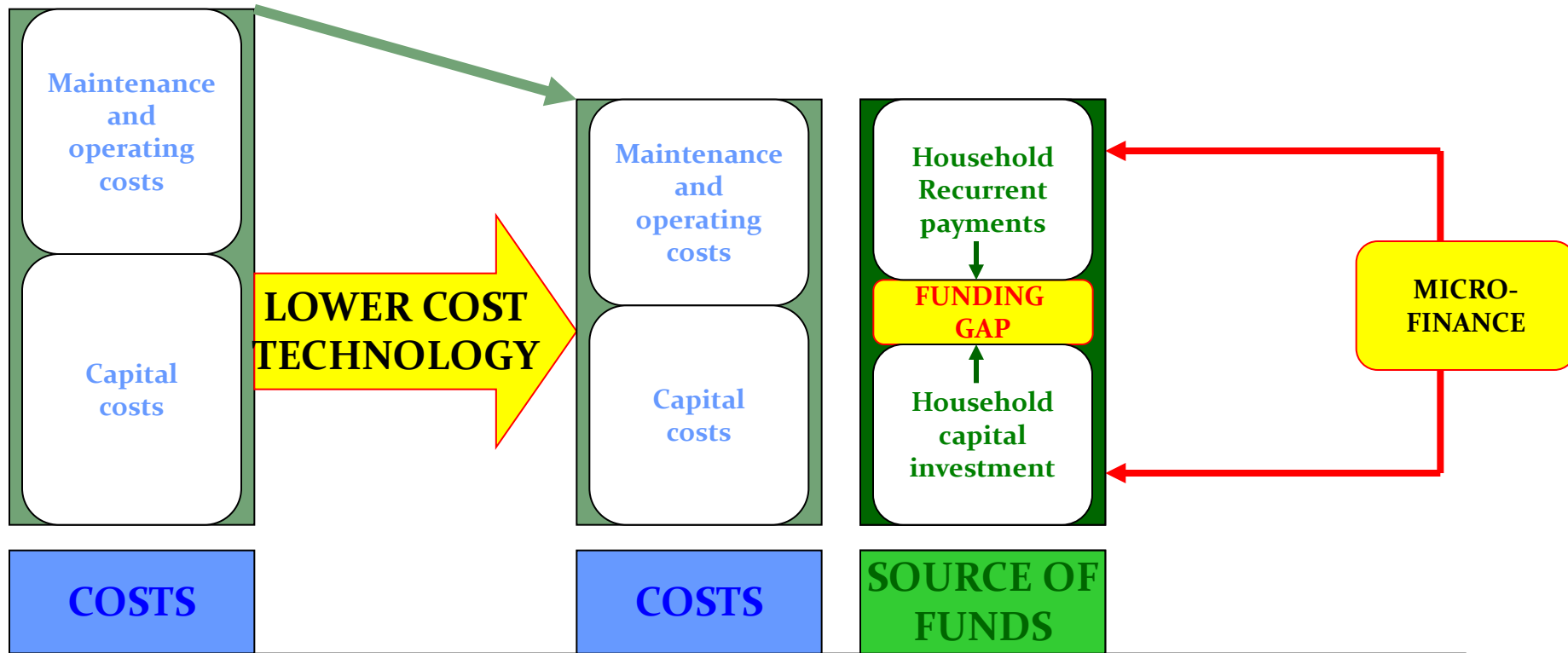
The funding gap

1. Lower-cost technology



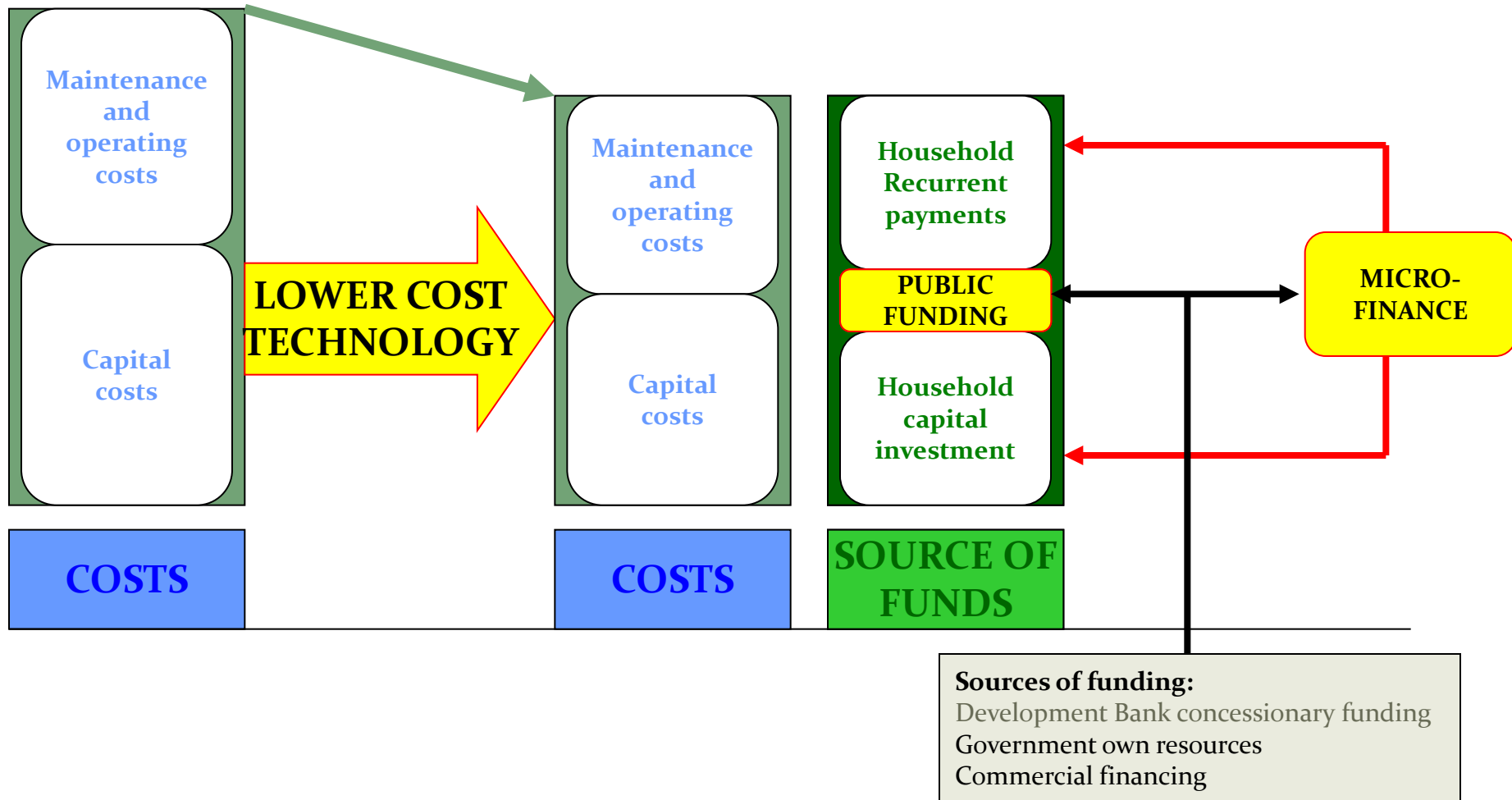
The funding gap

2. Micro-finance



The funding gap

3. Public subsidies



Targeted public funding (subsidies)

Recipient	Household	Community	Local Government and/ or Service provider
What Financed?			
Hardware costs (private)	<p>Direct or infrastructure subsidies for household facilities</p> <p>Ex-post infrastructure subsidies – usually in cash to reimburse part- or full-cost of household facilities</p> <p>Connection subsidies for networked systems.</p>	<p>Payment of part- or full- cost of community infrastructure</p> <p>Ex-post performance awards for achieving sanitation targets (such as ODF).</p>	<p>Intergovernmental transfers to finance provision of household facilities and/or networked services (ie trunk sewers/ WWTPs) or community services (ie public toilets).</p> <p>Ex-post output-based subsidies for services delivered to poor households.</p> <p>Ex-post performance awards for achieving sanitation targets (such as ODF).</p>
Hardware costs (public and shared)			
Software costs		<p>Ongoing financing made available to communities or via NGOs etc to support management of community facilities including Business Development Services</p>	<p>Intergovernmental transfers for on-budget funding of software activities by government staff.</p> <p>Ex-post output-based subsidies for services delivered to poor households.</p> <p>Ex-post performance awards for achieving sanitation targets (such as ODF).</p>
Operational costs	<p>Consumption subsidies (reduced user fees) – usually in urban areas.</p>		<p>Operational subsidies to service providers to fill the gap between operational costs and revenue where consumption subsidies exist.</p>

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What is Output-based Aid?

- OBA is also known as “performance-based aid” or “results-based aid” (in the health sector).
- It is part of a broader donor effort to ensure that aid is well spent and that the benefits go to the poor.
- One of a ‘family’ of Results-based financing mechanisms
- **OBA links the payment of aid/ subsidy to the delivery of specific services or “outputs.”**



Characteristics of OBA interventions

- Service delivery is (often) contracted out to a third party, usually a private firm, which receives a subsidy to complement or replace the user fees.
- The service provider is responsible for “pre-financing” the project until output delivery.
- **The subsidy is performance-based, meaning that most of it is paid only after the services or outputs have been delivered and verified by an independent agent.**
- The subsidy is explicitly targeted to the poor (e.g., by focusing on areas in which poor people live).



OBA and Government funding

OBA

- External funds flowing to government on the basis of services delivered

Inter-gov
transfer

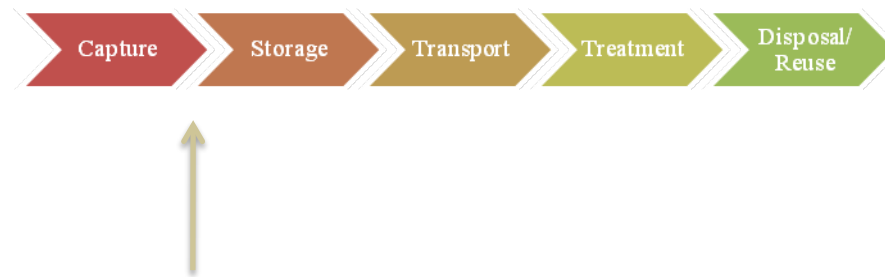
- Conditional Grants/ transfers between different levels of government dependent on performance

Contracts

- Performance-related contracting OR
- Performance-related public-service agreements



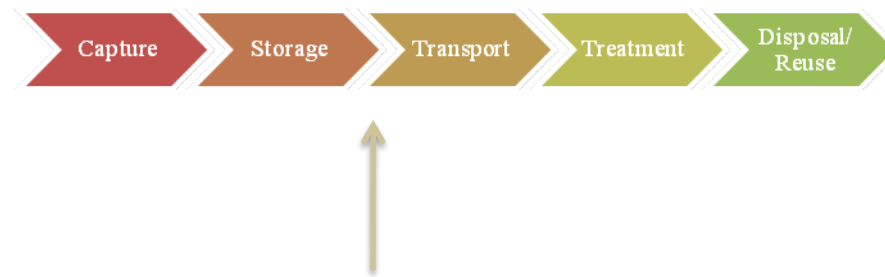
Sanitation and OBA/ CG/ Contracts



Payment to household
or service provider for
building a working
toilet/ making a
connection

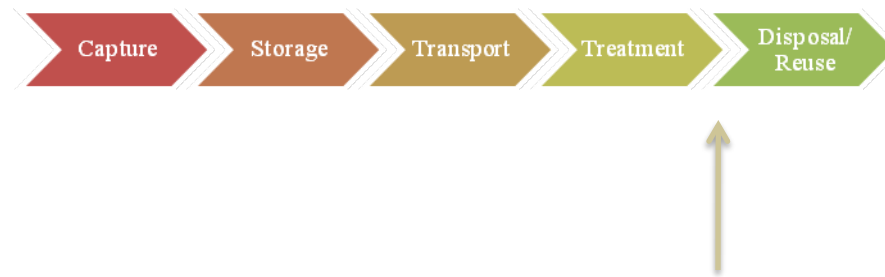


Sanitation and OBA/ CG/ Contracts



Payment to service provider for building a working network with house connections and appropriate treatment facilities for example a Settled Sewerage Project or a DEWATS plus SSS

Sanitation and OBA/ CG/ Contracts



Payment to septic-tank emptier for proper disposal at agreed location



Sanitation and OBA/ CG/ Contracts



Payment to WWTP operators based on the amount of waste treated and quality of treatment OR a DEWATS-based system



Example 1: Gharbeya - Egypt

- Objective – increase access/ connectivity to WWTPs
- Performance-based contracts to operate existing treatment plants.
- Remuneration based on
 - Volume of faecal matter entering the plant (from network *and* onsite collection) and
 - Quality of effluent
- Incentive to rapidly increase connection rates and get the plants operating
- Incentive to construct and operate facilities for septage arriving from on-site tanks and *pay* for its delivery



Example 2: Prodes (Brazil)

- In 1999: $<1/2$ sewage volume collected, $<1/3$ collected volume treated
- ANA (National Water Agency) created in 1997, initiated PRODES program with objective to **create incentives to invest in WWT**
 - Build new plants
 - Enlarge/improve existing ones (higher-end treatment, new units)
- History of wasted investment in WWTs: provide subsidies only for investments that works

OBA/PRODES : deliver subsidies based on reaching performance standards (e.g. payment per volume of treated sewage) rather than up-front based on works budget

Incentive to use cheaper and more cost-effective options

Incentive to maintain good operational performance

Funds transferred to escrow account: not used if utility not performing

Results

2001-2009: 42 projects, reduced pollution for 6 million people

ANA invested €60 mn, utilities (public & private) €184 mn



Example 3: Colombo, Sri Lanka

- Objective: improve Level of Service and environmental outcomes
- Like many cities, there are:
 - areas with networks,
 - areas without networks that could be included in the network
 - Areas without networks that cannot be included in the network and where people rely on poor-quality septic tanks
- One-off output-based subsidies to lower costs of connections to existing networks
- One-off output-based subsidies to lower costs of building new networks (mostly decentralised)
- Operational subsidies to make on-site systems work



Example 3: Colombo, Sri Lanka

- Combined capital and operational subsidies to improve operation of on-site systems in targeted areas
- Performance payments are based on the number of households who sign up for the area-based service, quality of service and linking emptying to proper disposal
- HH with onsite systems pay a monthly fee and can have their latrines emptied on demand
- ALL waste evacuated from the area has to be delivered to the designated site (Chhitti system)
- Challenges: shift in thinking so that on-site services can be valued equally with networked services (payment through the water bill).



Example 4: Ho Chi Minh City

- Performance-related contract to reduce unaccounted-for water
- Linked OBA payment when the water saved was used to connect *poor* customers
- One big advantage in HCMC was the availability of good maps, a reliable customer database, universal metering and a reasonably reliable targeting mechanism



OBA/ Conditional Grants and Performance-related contracts

- ADVANTAGES:

- Funds are only spent if services are delivered (“leakage” is generally avoided)
- Operators have strong incentives to keep costs as low as possible consistent with delivery of the service
- Innovation is encouraged because the type of infrastructure does not have to be specified
- Reveals the real costs of sanitation

- DISADVANTAGES

- Reveals the real costs of sanitation!!
- Some prefinance may be needed
- Capacity to ‘verify’ results may be limited





Thankyou

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