

## **TOOL # 3D: CHECKLIST FOR DECIDING PAYMENT STRUCTURE**

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## Overview

The objective of this tool is help the ULB decide the payment structure for the contract, for each of the activities covered within the contract. The payment structure includes milestones and schedule of making payments. The key determinants of the payment structure are the frequency, timelines, cost and output expected from each of the activities that is outsourced to the private sector operator.

## How to use this tool

- The checklist considers the nature of the various activities within the contract. For each of the activities, the checklist provides a list of questions that the ULB must consider to make the decision.
- **Inputs:** To answer the questions the ULBs must consider the preliminary project assessment report that defines the nature of each of the activities within the scope of IFSM
- Based on the inputs selected by the ULB in the checklist, the recommended source of revenue will be displayed at the end of the checklist.

## Checklist

**Given the agreed upon contract with the contractor, consider the following activities to be completed as part of the project:**

- a. Scheduled/ regulated emptying of septic tanks/ pits
- b. Emergency emptying of septic tanks/ pits
- c. Refurbishment of septic tanks/ pits
- d. Construction of Treatment Plant
- e. O&M of Treatment Plant
- f. Other

The following set of question must be answered for all activities selected above:

### **Project Activity**

1. What is the frequency of the activity?
  - a. One time
  - b. Recurring or regular
2. Are the outputs for the activity clearly defined? E.g., septic tanks/ pits /Treatment Plants to clean
  - a. Yes
  - b. No
3. Are the total costs for the activity known?
  - a. Yes
  - b. No
4. Are the timelines for the delivery for each outputs clearly defined?
  - a. Yes
  - b. No

The recommended payment structure is below:

Activity (within the contract)	Suggested Payment Structure	Rationale
Refurbishment of septic tanks	<i>Fixed fee per unit</i>	<ul style="list-style-type: none"> <li>Refurbishment is a one-time activity in which the cost per tank is known, but the number of tanks is not - hence a fixed fee per refurbished tank should be paid</li> </ul>
Regular cleaning of septic tanks	<i>Recurring fixed fee</i>	<ul style="list-style-type: none"> <li>The number of tanks to be cleaned and the schedule is typically well determined</li> <li>Hence, it is an ongoing activity for which a fixed monthly fee is paid given based on fixed schedule and regular reporting</li> </ul>
Emergency Cleaning of septic tanks	<i>Fixed fee per emptying service</i>	<ul style="list-style-type: none"> <li>This is a one-off activity, and can be provided by the ULB itself</li> <li>Should be kept high as a deterrent for users to not opt out of regulated services</li> </ul>
Construction of STPs	<i>Overall fixed fee</i>	<ul style="list-style-type: none"> <li>Construction of STPs is a one-time activity.</li> <li>Since the design is specified by the ULB, the costs would be well known. Hence, an overall fixed fee can be given</li> </ul>
O&M of STPs	<i>Recurring fixed fee</i>	<ul style="list-style-type: none"> <li>O&amp;M of STPs is an ongoing activity for which the costs and procedures are well defined, for which recurring, time based fixed fee can be paid</li> </ul>