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SuSanA's Thematic Discussion Series

The Thematic Discussion Series is an initiative from SuSanA to engage actors from interconnected areas of expertise in discussions which are organised and focused on a thematic area, and led by experienced practitioners of the field. Each thematic discussion will be held for 3-4 weeks on the SuSanA Discussion Forum platform. The discussion is guided and led by thematic leads, who will provide background information on the topic, respond to and lead the ongoing discussion with the support of a coordinator. More information can be found at www.susana.org/resources/thematic-discussion-series.

sustainable sanitation alliance

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Urban Sanitation Finance: From Macro to Micro Level

This thematic discussion addressed the role of finance for achieving successful sanitation outcomes for urban areas. In particular, the role of taxes both at the national and local level was examined, microfinance models for households and small businesses were evaluated and the question of how cities can achieve full cost recovery of sanitation services by blending different forms of finance was discussed. Moreover, participants highlighted how the different levels can come together to sustainably finance every part of the sanitation chain. Finally, they located finance within the broader eco-system that is required to achieve sustainable sanitation outcomes.

From 23 June to 21 July 2015, sanitation finance at the macro, meso, and micro level was discussed on the SuSanA Discussion Forum. The discussion was led by sanitation finance experts Catarina Fonseca, IRC and Guy Norman, WSUP (Theme I); Sophie Trémolet and Goufrane Mansour, Trémolet Consulting (Theme II); and Antoinette Kome, SNV and Kumi Abeyuriya, ISF-UTS (Theme III).

Theme 1: Public Finance (June 23 to July 16)

Topic 1: Public Finance at National Level (June 23 to July 3)

Topic 2: Public Finance at Local Level (June 26 to July 16)

Theme 2: Microfinance (June 30 to July 10)

Theme 3: City Level Sustainable Cost Recovery (July 9 to July 21)



Source: Sanitation chain icons taken from <http://www.sanitationwindow.com/sanitation-value-chain>

The discussion started out by looking at public finance through taxes at national level. Participants engaged in the question of why we actually need the national level, i.e. domestic public finance for sanitation, took a look at the current levels of domestic finance at national level and proposed suggestions for how to successfully advocate for improved tracking and monitoring of government expenditures for sanitation.

Continuing the discussion on taxation, topic two of "Theme 1: Public Finance" focused on local taxation. While many issues regarding the need for the use of taxes to finance sanitation apply to both national and local taxes, the debate on local taxes focused on the particular benefit of collecting taxes at the local level and discussed in closer detail how (local) taxes can be used to finance sanitation.

From the macro level, the discussion moved to the micro level by taking a closer look at the issue of micro-finance. Approaching the topic of the role of households and small businesses in financing sanitation, the discussion started out by analysing the relevance of microfinance for financing sanitation before looking at the field of microfinance in closer detail and what it comprises. Focusing on microfinance institutions (MFIs) in particular, participants discussed their role and what motivation they might have to offer sanitation loans. Finally, Forum Members debated what it would take to develop the microfinance market for sanitation beyond piloting.

Financing sanitation at the city level, finally, focused on the question how cities can blend different sources of finance to achieve sustainable full cost recovery for the sanitation services they provide. Looking at different sources of finance and how the challenge of financing up-front investment and securing funds for the full-life cycle can be achieved, this part of the discussion encouraged participants to think about new and creative ways to bring together different sources of finance to cover the three dimensions of sustainable full cost recovery: finance for sanitation services for (1) the entire city and its population; (2) the entire sanitation value chain; and (3) the full life-cycle.

How these three levels come together and interconnect is outlined in the subsequent section before addressing challenges and opportunities for sanitation beyond finance. The summary ends with some food for thought from the discussion leads. A list of contributors can be found on the last page.

The following is a synthesis of the posts published during the discussions. The synthesis does not necessarily reflect all the viewpoints expressed in the discussion nor can it take up every issue raised during the four weeks of debate. If you are interested in participants' postings in closer detail, please refer to the weekly summaries that were compiled for each topic or the respective discussion thread on the SuSanA Discussion Forum.

Macro Level: Domestic Public Finance

Funds derived from taxes raised at the national or local level are understood as domestic public finance. Domestic public finance, i.e. general taxation, can provide funds to finance sanitation services. Let's take a closer look at what participants regarded as the argumentative basis for its use, its potential as well as the challenges associated with it:



Source: www.irwash.org

Why do we actually need national level, domestic public finance, for sanitation?

Sanitation is a public (health) issue

Water and sanitation services are enshrined in the Human Rights to Water and Sanitation and it is the government's responsibility to provide these services. Especially for the vast majority of the poor, public finance is always necessary in order to achieve a basic level of sanitation service – and the main source of public finance is taxation. The same is true for financing larger infrastructure – and the institutions that go with it.

Sanitation services cannot be (expected to be) paid by private households

The construction of toilets can be financed at household level (although there are known issues and obstacles in slum and densely populated areas). However, households cannot be expected to pay for investment in the infrastructure for excreta collection, waste disposal and treatment, as these are issues of public infrastructure requiring public investment for a public good that go beyond urban household responsibility. The same is true for the capacity building of government at city level for sanitation. Also, in places where pit latrines are too expensive to reach everyone, public sanitation is needed and must be publicly financed.

Using tax money for sanitation has certain advantages and is necessary at times

Using taxpayer money is the most efficient and most sustainable way forward. Taxation forms a very critical part in an accountability feedback system between government and population. Finally, redistributive taxation is needed in countries with high levels of inequality.

Urban sanitation is not a local issue to be solved by a few pennies

Instead, urban sanitation is the responsibility of government and requires leadership and appropriate long-term finance.

What are current levels of domestic finance at national level?

Current public expenditure in sanitation is extremely small. Bangladesh, for instance, spends only 0.06 per cent of its GDP on sanitation (figures from 2012), Bolivia 0.2 per cent. Furthermore, it is often almost impossible to obtain reliable figures, given a lack of financial data that is publicly available.

How to successfully advocate for improved tracking and monitoring of government expenditure for sanitation?

Participants agreed that national expenditure on sanitation needs to be tracked and the data made available to improve transparency and monitoring in the WASH sector in order to hold countries accountable to their commitments. There are several tracking and monitoring systems that are noteworthy, for example the UN-Water Global Analysis and Assessment of Sanitation and Drinking-Water (GLAAS) TrackFin initiative. Moreover, under the PAS Project at CEPT University in Ahmedabad, India, performance assessment systems have been set up in three Indian states. The systems use standardised service indicators agreed upon at the national level. Overall, however, information on expenditure remains elusive. A Strategic Partnership for lobbying and capacity building to make available sanitation expenditure data is currently being developed by IRC, Simavi, Wetlands and Akvo in cooperation with the Dutch Ministry of Foreign Affairs, which is set to start in 2016. It is a lobby and advocacy partnership, which aims to strengthen the capacities of civil society organisations at national and international level to lobby for transparency in budget allocations and expenditure tracking among others.

Why local taxes matter?

As Guy Norman highlighted in his opening post for the discussion on local taxation, local taxes for sanitation are certainly not uncontroversial. While there are arguments that can be made against them, a strong case can also be made in favour of local taxation as became apparent in the course of the discussion:

- Presently, in many countries, local taxation only generates very small amounts of money
- Municipalities that raise local taxes are often bloated bureaucracies with corruption problems so taxes are not spent efficiently
- Theory suggests that local taxation should not be redistributive
- Local taxation can help build the social contract between local government and its citizens
- Local taxes can provide a source of revenue that bridges various types of funding
- Successfully collecting local taxes can build a municipality's credibility in order to access donor funding
- If the local level is responsible for funding, chances increase that decisions about priorities are made according to the real needs of the people

Defining "urban" in Urban Sanitation Finance:

The term "urban" refers to densely populated areas and "urban sanitation" encompasses the whole system from safe containment, collection, and transport to treatment and safe disposal or reuse of human waste. Looking at urban sanitation thus means looking at small towns, peri-urban areas but also slums within urban centres. Talking about financing urban sanitation in turn involves much more than talking about financing the technologies, but also needs to address the institutions – public and private – that need to be in place to provide a sanitation service – not just a toilet.

What are local taxes?

A tax is an obligatory payment, not directly related to a service one receives. Local taxes for urban sanitation could include: (i) a sanitation tax raised by the municipality, (ii) a sanitation tax collected through water bills (= sanitation surcharge), and then disbursed either by the municipality or directly by the utility, (iii) a sanitation tax component raised by some other means, e.g. as a component of property tax, (iv) general non-earmarked local taxes which are then allocated to sanitation.

Timing Mismatch

The beneficiary population is not able to pay all the costs upfront and thus requires an "investment."

Revenue Mismatch

The costs exceed affordability.

Underwrite funding

Financiers may require their funding to be underwritten by an external revenue source, given that the project carries significant risk until the infrastructure has been built, has begun to operate and revenue collection has reached a steady state.

Finance/financing source:

Where the money can come from (e.g. government, bank, ODA).

Financing mechanism:

How the money can come from a source (e.g. grant, loan, tariff)

Financing scheme:

Combination of financing mechanisms that are put together to finance a project

Trade:

A Controversial Revenue Stream

The 3Ts (tariffs, taxes, transfers) are widely accepted as a path to finance sanitation. The fourth T - trade - constitutes a recent addition to the 3Ts that adds resource recovery as an additional revenue stream. Promoting the 4Ts as a way towards sustainable full cost recovery, however, is not commonly accepted within the field of sanitation finance. Whether trade is a useful addition to the 3Ts was also a matter of controversy among our discussion leads. Catarina Fonseca cautions against adding trade to the 3Ts as it constitutes a source of funds while tariffs, taxes, and transfers are funding mechanisms. Adding trade to the original 3Ts would thus result in a mix-up of terminology. In addition, there is no evidence to support extending the 3Ts by the fourth T trade, Fonseca warned.

The use of (local) taxes

Taxes can be used to finance three major types of expenditures:



Locally raised money should be used for recurring costs, so local taxes are appropriate for paying the on-going O&M and asset management costs of treatment facilities.

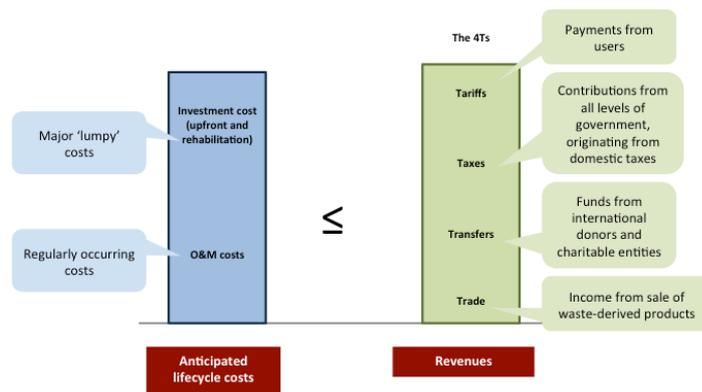
In addition, taxes can be used to



Meso Level: City Level Sustainable Full Cost Recovery

In many countries, the responsibility for urban sanitation lies with local governments or local utilities. They are faced with the challenge of achieving full cost recovery for sanitation services so that sustainability for these services is guaranteed.

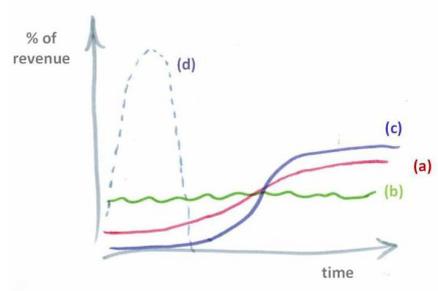
For sustainable long-term sanitation services, the revenues should match or exceed the financing requirement over the lifecycle of the sanitation service.



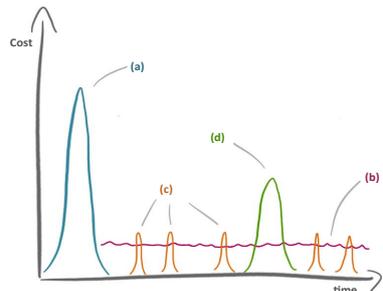
Financing up-front investment and securing funds for the full-life cycle as major challenges

The main challenge for cities is how to finance up-front investment (e.g. treatment) if revenue streams are uncertain, given that revenues through tariffs, taxes, and trade take time to develop. In order to guarantee sustainable service systems, grants should not be solely relied upon as such a strategy poses the risk that consequently there is not sufficient incentive to develop revenue streams for O&M, let alone rehabilitation. It is not only about securing up-front investment but also about covering the full life-cycle costs.

The timing mismatch between the various revenues on the one hand and the various expenditures on the other becomes apparent when looking at the following two graphs:



Timing of Revenue Streams
 (a) Revenue from **tariffs** paid by users for sanitation services
 (b) Revenue from government (local, national) raised from **taxes**
 (c) Revenue from **trade**, i.e. revenue from the sale of products made out of waste, such as fertilizer or energy ("reuse")
 (d) Revenue from **transfers** of overseas development aid via the national government to local levels or from grants



Timing of Expenditures
 (a) Large upfront costs for the initial investment infrastructure
 (b) Ongoing costs for operating services
 (c) Larger intermittent maintenance requirements
 (d) Large costs for asset renewal as infrastructure elements approach the end of their lives.

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Source: *Water 21* (September 2012)

Case Study: Dumaguete City, Philippines

Institutional arrangement: Public sector partnership between local government unit and water district

Septage Treatment Technology: Non-mechanized – sewage lagoons at wetland cells

Tariffs and Fees: 2 pesos per cubic metre of water consumed

Source flow: septage only

From: Robbins, D et al. "Sludge Management in developing countries: experiences from the Philippines." *Water 21* (December 2012). p. 22.

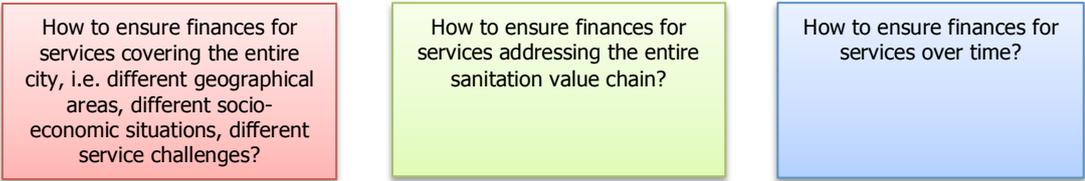
Public sector involvement in sludge collection/transport

As one participant noticed, the public sector must be in a position to obtain revenue from sludge removal and transport services (as it is possible to make a profit by providing these services) if they are to have any chance of breaking even or making a profit overall. As studies confirm, people are willing to pay for septage removal and transport out of their immediate neighbourhood but they will not pay directly for treatment – both for septage management and solid waste management. Yet as septage treatment is a public good, the costs for it must be met by the public sector even though it will operate at a loss. Providing regular desludging on the other hand requires an increased number of collection trucks as well as planning that raise the question of funding yet again.

Sustainable full cost recovery requires finding the right balance between the lifecycle costs and the possible lifecycle revenues from the 4 "T"s. This raises the following questions:

- (1) How to support local governments and/or utilities to blend different sources of finance to improve or set up urban sanitation services in their city?
- (2) How to overcome challenges accessing re-payable finance for urban sanitation?
- (3) How to combine the 4 "T"s in order to finance sanitation services?

The three dimensions of sustainable full cost recovery



Blending different sources of finance to achieve sustainable full cost recovery

By blending different sources of finance, (full) cost recovery can be achieved, i.e. through a combination of public financing (taxes), tariffs from user services, transfers from overseas development aid (ODA) and/or other socially motivated/charitable entities (and potentially through "trade" of waste-derived products).



With regard to **tariffs**, around 1 USD per month per family is needed to achieve full cost recovery for small to medium-sized programmes comprising 5,000 to 25,000 households if scheduled desludging is a given. While most people can afford this, the question is whether they are willing to pay.

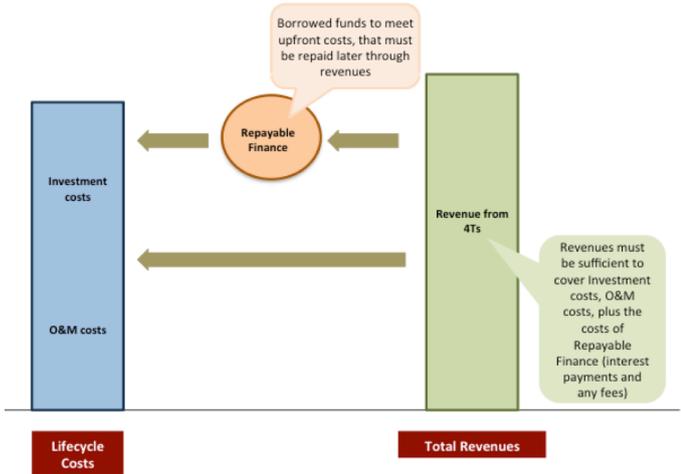
Taxes form another building block of sustainable full cost recovery, yet the ability of municipalities to collect their own taxes is limited (see section on taxes, particularly local taxes).

Transfers can come in the form of overseas development aid (ODA).

With regard to **trade**, it does not matter significantly if financial returns from reuse/"trade" are small, if they still contribute to the overall financial balance. In fact, the potential of revenue from "trade" might increase in the future as sanitation waste streams offer a significant alternative source of agricultural nutrients, which will become increasingly important.

Commercial loans and bonds are another means to fund the large up-front investment for sanitation services. However, there are many challenges to municipalities gaining access to this kind of repayable finance, such as regulatory restrictions, difficulty for lenders to assess their creditworthiness, and financial market conditions.

Repayable finance can provide access to large upfront capital at the time when it is needed.



Micro Level: Microfinance

Is selling debt to households ethical?

Given that the average microfinance interest rate is currently over 25 per cent, can microfinance loans be seriously promoted as a path for the poor to improve sanitation? Addressing the question, discussion leads Goufrane Mansour and Sophie Trémolet stressed that while loans for sanitation might not be “income-generating”, they can be “income enhancing” as having adequate toilets can free up a considerable amount of time that can be used for productive activities. While high interest rates constitute a worry that applies to microfinance in general, microfinance for sanitation nevertheless constitutes a pragmatic solution. In current circumstances, where access to finance is limited, households either build no toilets (defecate in the open or use public toilet blocks) or build very flimsy ones which do not last and do not provide hygienic protection, privacy and safety. As few countries have the means to massively subsidise sanitation (and for those who have done so, it has often failed), new ways to facilitate access to finance must be explored. Micro-credit is not the only option, but it is one that is growing and has the potential to grow further, the experts stated.

Microfinance addresses the question of how households and small businesses can invest in sanitation and the sanitation sector, respectively. For households, the costs of building an improved latrine can represent a substantial part of their annual income. Similarly, sanitation service providers, such as pit-latrines emptiers, are faced with funding constraints when purchasing equipment or securing working capital. For both groups it appears essential to facilitate access to finance.

This raises the following questions:

- Why do initiatives to facilitate access to sanitation for the multitude of actors involved in sanitation still operate at a relatively small scale?
- Is there a role for financing instruments to help households and small businesses invest in the sanitation sector? Is it primarily useful in urban areas? Is it fair that households need to borrow at relatively high interest rates?
- Can microfinance play a role? What are the specifics?
- How can microfinance successfully fulfil its role in the sanitation sector?

Why is microfinance a topic worth discussing?

Access to sanitation can have beneficial health impacts and contribute to net income as households save on health expenditures. In many urban areas, this also means savings for households on payments for community toilets. Given that public funding alone will most likely be insufficient to deliver sustainable sanitation services and given that the full costs of toilets cannot be provided by government programmes or donors, the role of financing instruments to help households and small businesses invest in sanitation becomes pertinent. Without access to credit for purposes such as latrine construction, sanitation access will remain a problem.

Microfinance: Not only MFIs or loans

Microfinance is not only an issue of small credit but can include things such as (1) savings, (2) insurance, (3) remittances and (4) community funds for example. Also, microfinance constitutes more than just loans from microfinance institutions (MFIs) or NGO-MFIs. Rather, access to credit for households for sanitation facilities can also come from other sources, such as (1) commercial banks (public sector or private), (2) the cooperative sector (societies/banks), (3) local revolving funds, (4) self-help groups, and (5) crowdfunding platforms, for instance. However, the MFI approach is the most researched/documentated approach to date.

The Role of MFIs

The role of MFIs depends on the approach chosen. Among those mentioned in the discussion are the following:

- Seed funding can be channelled through microfinance institutions
- Grant funding can be blended with commercial funds to reduce borrowing costs
- Development banks can set up funds earmarked for MFIs to extend sanitation loans
- “Hybrid” NGOs-MFIs
- MFIs can provide bridge finance

Development banks setting up funds earmarked for MFIs to extend sanitation loans

In this model of blending public and private funds, Sophie Trémolet suggested during the discussion that public funds should be used for setting up the facility, sensitising the financial managers to the needs of the sanitation sector and providing a subsidy for poorer households to reduce investment costs. Interest rates, on the other hand, should be maintained at market rates in order not to distort the market in the long run.

Hybrid” NGOs-MFIs

“Hybrid” NGO-MFIs are chosen by many development programmes with the objective that such a model can take advantage of the access to finance options from the MFI operation after the development programme has come to a close. NGO-MFIs are also favoured as they fit well with development programme requirements. Moreover, these NGO-MFIs are often recipients of multi-donor funds that are tailored to offer subsidised financial schemes. An advantage of such NGO-MFIs is that they can use their core-funding generated from micro-finance operations to keep their programme capacities alive. Disadvantages, on the other hand, include potential operation mix-ups that can result in compliance chaos, as one participant noted. Also, there is the concern that they might confuse loans with hand-outs and are thus less successful.



Source: Trémolet Consulting

Are MFIs interested in sanitation loans? Why should they be?

Attracting new customers

MFIs seem to be willing to go beyond their traditional sectors to reach new markets considering the growing competition and are thus using WASH lending for other long-term gains. MFIs approach WASH loans in a fashion that expands their client base for more “profitable” loans: As the average WASH loan is much smaller than the typical income-generating loan, MFIs offering WASH loans are likely to attract first-time borrowers since the amount to be repaid is not as intimidating.

Existing lending portfolio can be used

Provided that MFIs understand the sanitation business, they can lend to well-organised sanitation businesses from their existing lending portfolio – i.e. they do not have to create a separate product.

Positive impact on local perceptions of MFIs

Lending for “social causes” such as water and sanitation – basic human needs – seems to have a large positive impact on local perceptions of an MFI.

Why are initiatives to facilitate access to sanitation still at a relatively small scale? What will it take to develop the market beyond piloting?

Several reasons were given during the discussion why microfinance initiatives to facilitate household access to sanitation are still at a relatively small scale:

- As sanitation loans to date are still very small, it does not make sense for the MFI to scale at the rate a development partner focused on WASH is interested in.
- MFIs have their own strategic priorities that may not include WASH at the top. Thus, WASH is competing with other social interests.
- It is not quite clear yet whether WASH loans are actually financially viable for the partnering MFIs.

Given these reasons, the experts predict that huge efforts over time are needed to develop the market beyond piloting. On the supply side, capacity building for MFIs is needed; on the demand side, households have to receive assistance in order to understand and assess their financing options.

Macro/Meso/Micro: Interconnections

Macro, meso, and micro level must each fulfil their part in achieving successful sanitation outcomes. Moreover, as the thematic discussion progressed, participants repeatedly emphasised that the three levels of finance interconnect, which is also highlighted by the repeated referrals to the other discussions over the course of the four weeks. Participants in the thematic discussion highlighted the following convergences:

Sanitation sector requires public and private sector involvement

The sanitation service sector requires both private and public sector involvement. As participants stressed, there is a place for private sector operators, however, it is the public sector’s task to make sure that services are provided for all and that everyone is in compliance. In the case of sludge removal and transport services, both sectors can play a role. While the public sector must be in a position to obtain revenue from these services, this does not mean that it has to provide these services themselves. Instead the public sector can either (1) levy licensing charges on private contractors or (2) contract private sector operators to provide services on behalf of the statutory service provider.

The design of public finance influences sanitation finance at micro level

The success of sanitation finance at micro level depends on how public finance is designed to leverage other funds. This in turn requires designing new programs that aim to leverage funds as well as advocating for policies that will attract adequate attention for sanitation. Such steps would help incentivise financial institutions to lend for sanitation. For MFIs to have policies in place that enable these institutions to have sanitation included in their social performance assessment would also be beneficial.

The 4 “T”s: Blending Funds to Achieve Sustainable Full Cost Recovery

Combining different sources of finance to achieve (full) cost recovery through a combination of public financing (taxes), tariffs from user services, transfers from overseas development aid (ODA) and/or other socially motivated/charitable, and ‘trade’ income from sale of waste-derived products entities highlights how the different levels come together to achieve sustainable models to finance sanitation.

Some microfinance models blend public and private funds

As seen in the section on microfinance, certain microfinance approaches blend public and private funds. In the case of “hybrid” NGO-MFIs, these are often recipients of multi-donor funds that are tailored to offer subsidised financial schemes. Similarly, in the case where development banks set up funds earmarked for MFIs to extend sanitation loans, public and private funds are also blended.

Why does microfinance for sanitation work better* in India than in other countries?

This issue was addressed repeatedly during the discussion on microfinance and the following reasons were provided:

- 1) An abundance of MFIs and NGOs with a microfinance arm has created healthy competition between these organisations that use sanitation loans as a way to create a link with customers.
- 2) There is a political environment in which sanitation has been declared a priority.
- 3) Indian households are familiar with taking, managing and reimbursing loans.
- 4) Microfinance in India is extended by professional MFIs rather than as an add-on to a sanitation project run by an NGO (the latter being less successful with loan collection).

*It has to be noted that India still has huge sanitation problems. Also, microfinance for sanitation activities are still small compared to the size of the market (60% of the population remains without a toilet)



Source: Flickr/SuSanA



Source: Flickr/SuSanA

South Africa's "Toilet Election"

"There are indications that South Africa's countrywide local election of May 2011 has been entrenched in contemporary historical consciousness as 'the toilet election.' [...] At centre stage of the media focus were some 2 000 water-based, but unenclosed, toilets in the Makhaza suburb of Cape Town's Khayelitsha township and Viljoenskroon's Rammulotsi township in the rural Free State Province. [...] The toilets conveyed a sombre message – the callous disregard, in some quarters of South African society, for the plight of less privileged people on the fringes of the country's urban conurbations. An everyday necessity like a toilet – associated with a sanitary domestic life-style – became a conduit in the public eye for comprehending just how important it was to respect an individual's privacy. Since the local election, the government's planners have attempted to address the issue. In fact, sanitation has become part of a new strategy aimed at making the country a better place for its people."

From: Tempelhoff, J. "From Makhaza to Rammulotsi: Reflections on South Africa's 'toilet election' of 2011." *Historia* 57.1 (2012): 82-112. 82.

On-site sanitation

While responsibility of financing and investing in on-site sanitation is often given to site owners, it is not only a private matter. Problems on the plots like leaky pits and tanks, pits/tanks not being accessible and buildings codes being violated constitute a major source of pollution which does not only affect plot owners but become a public concern and thus are not only a private matter. In these cases, it is reasonable to think that on-site sanitation should not be funded entirely by tariffs (paid for by service users) as this model does not result in satisfying sanitation outcomes.

Beyond Finance: Challenges & Opportunities

Providing sanitation services is complex. As participants highlighted, there are a great many interwoven factors that need to be simultaneously addressed – financing is just one of them. Sustainable full cost recovery is necessary but not sufficient for effectively providing long-term sanitation services. The following (broader) issues were addressed during the discussion.

Mindset

Successfully providing sanitation services requires that people are aware that urban sanitation is a collective responsibility and that it needs to be addressed collectively, i.e. both by public officials and households. This requires building a collective consciousness around sanitation and a critical mass desiring change. This is an essential step that cannot be bypassed or neglected. Only once this push for sanitation exists, can any financing model be successful.

Political Will & Leadership

Political will or the lack thereof tremendously affects sanitation success. The role of politics with regard to sanitation efforts played out on two levels during the discussion:

Sanitation affected by political cycles

In developing countries, public finance cannot be considered a stable and continuing source of funding due to disbursement issues but also because it is used to influence election results and thus might increase in the run up to an election but dry up quickly thereafter. However, this also provides an opportunity: recently it has been shown that sanitation has become an election tool which provides opportunities for civil society to call for transparency of existing funds and more appropriate budgets for urban sanitation.

Communication with politicians/elites

As participants stressed, communication with politicians/elites must be improved to guarantee that sufficient funds for sanitation are mobilised and urban sanitation projects are realised. This includes presenting (economic) arguments and evidence in favour of sanitation services convincingly. For those working on the technological end of sanitation, it also means thinking about ways to get the message across to those outside of the immediate technical field.

Financial Literacy

Financial literacy is needed at all levels. In order to be able to achieve sustainable full cost recovery for sanitation services, cities and local governments need to be knowledgeable about different financing sources, financing mechanisms and financing schemes. It is imperative to identify the most cost-effective sanitation solutions on the basis of life-cycle analysis, taking into account all costs incurred and revenues generated over the total lifespan of an investment. This requires training of personnel and capacity building.

Yet financial literacy is not only required on the meso and macro level. Households have to receive assistance in order to understand and assess financing options. Similarly, capacity building is needed for MFIs to gain knowledge about the special demands of the sanitation sector. Finally, NGOs have to become literate regarding financing options in order to assess the right path for financing sanitation on the micro level.

Good Governance

Factors that broadly relate to good governance have to be taken into account.

Management

Effective management, administration and decision-making processes are needed to achieve sanitation outcomes efficiently. Once achieved, good practices and processes need to be maintained to avoid backsliding. Effective management extends to the efficient collection of taxes as well as the efficient utilisation of available funds. Finally, good management practices are those that try to achieve gradual steps of improvement without losing sight of the ultimate goal of full sanitation services.



Source: Flickr/SuSanA

Institutional Set-up

The success of local taxation depends on the administrative and fiscal systems in place. The degree of decentralisation affects local taxation measures. In centralised systems, all revenue basically goes to the central budget and is then transferred to local entities. As Guy Norman argued during the discussion on local taxation, in cases where centralisation of public revenue management is extreme, it should be viewed as flawed instead of being accepted uncritically. Rather than being considered a valid choice by the government, it should be seen as a model that needs to evolve. Even in a relatively centralised system, some degree of local control over tax revenues is essential for effective city management.

Breaking the vicious cycle of distrust, unwillingness to pay and poor services

Participants in the discussion repeatedly pointed to the following vicious cycle: users will only pay for a system that works, but how can a system that is worth paying for be developed with no money? Several suggestions for breaking the cycle were made:

Incentives

People need to be motivated to pay. Motivation can include (1) negative incentives (e.g. the threat of regulatory enforcement actions or fines), which, however, are often ineffective and (b) positive incentives. Positive incentives should be built into every aspect of septage management programmes. As sanitation expert Antoinette Kome argued, the urban sanitation sector ultimately requires a combination of stick and carrot. Local governments should work on smart enforcement and incentives for users and service providers, and national governments should use stick and carrot to motivate local governments to make progress on sanitation.

Services have to be improved first

As several participants argued, in order to overcome the deep distrust that many citizens have in their government, transparency, integrity and trust are critically important for the relationship between service providers and users. As an important step in this direction, services should be provided first and only on this basis should tax collection be mobilised to keep the services going. This means that there is the need for national and local governments to make the capital investment to improve sanitation and for these investments to be written off without the expectation that users or reuse/resource recovery will pay back the capital, participants stressed. Investment that "stretches" to initially subsidise O&M is also required as are international transfers.

→ Appropriate eco-system is needed

Overall, participants emphasised that an appropriate eco-system is needed, comprising awareness, technology options, finance options, etc. Finance is just one part, albeit an important one. A holistic approach is needed that both develops demand for sanitation and strengthens the supply side in order to reduce the financial burden for households and the costs for building latrines.

Food for Thought

The next five years are critical for sanitation

A complete transformation of the water and sanitation sector is needed as well as a transformation of how it is financed. Something has to be done about finance in particular, as the current model of WASH financing based on charity and aid is incapable of delivering universal access to services. In order to bring us to full coverage within the 15-year time frame of the SDGs, the next five years are critical for various reasons, Catarina Fonseca argued.

Redistributive government finance has to be increased

Local Taxation is in many contexts a key element of sanitation finance. Development agencies should be striving to increase redistributive government finance for urban sanitation, be it from central or local government. Donor finance is not a sustainable solution, market finance is not going to resolve the sanitation problems of dense urban habitats and not facing up to the challenge of supporting public finance solutions will simply contribute to continuing failure.

Learning about and creating alternative solutions to financing sanitation

More piloting and documentation of different financing models and under different conditions have to be done. There is a need for gathering and sharing learning around these alternative solutions to facilitate access to finance. This is not only true for the micro level but also relevant for the city level where creative new ways of "balancing" of expenditure (cost) and revenue (finance) have to be found.

After all, sustainable full cost recovery is not a new and radical idea: Public hospitals and schools are routinely financed through combinations of tariffs, taxes and transfers (the 3 "T"s) in most places. Is this accepted with regard to hospitals and schools because we recognise that hospitals and schools provide enormous public benefit and that these services are too costly to be financed through affordable and equitable user fees/tariffs? Can we say the same about sanitation?

Financial Analysis

The "Interactive Septage Management Toolkit" provides helpful support for analysing finances for septage management. You can download it under: watsanexp.ning.com



Source: Flickr/SuSanA

The next five years are critical

"The next five years need to be used to generate national leadership, building the necessary alliances, creating the required capacity, testing the models and tools and above all securing the financing (and developing the financing mechanisms) that will, over the subsequent 10 years bring us to full coverage."

From: Fonseca, C. and Moriarty, P. "We only have five years to achieve clean water and safe toilet for all." *Guardian* 1 July 2015.

Event Announcement

"Scaling-up sanitation microfinance: what will it take?" 2015 Stockholm World Water Week, 27 August, 11-12:30. Organised by Trémolet Consulting, et al.

Event Announcement

"Primary research around public finance for WASH: ways forward." UNC Water & Health Conference, October 26-30. Organised by Public Finance for WASH initiative.



Source: Flickr/SuSanA

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The following contributors made one or more posts on the forum. There were over 60 posts made by the participants during the three-week period. The contributors are listed in order of first posting.

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To contact the thematic leads, coordination, or participants, please either join in the discussion or contact SuSanA through email at: info@susana.org

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The Thematic Discussion Series Hosts

The Thematic Discussion Series on urban sanitation finance was organised and hosted by the Sustainable Sanitation Alliance (SuSanA) on the SuSanA Discussion Forum Platform.

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