The challenge of financing sanitation

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1. Back to basics:
   • Why is it hard to finance sanitation?
   • Financing sources

2. Key challenges for financing sanitation at:
   • Global level
   • Sector level
   • Household level

3. Outstanding issues in household financing: introduction to an ongoing WSP sanitation financing study
Why is financing sanitation a challenge?

- **PPP (Polluter Pays Principle)** should apply but sanitation is often difficult to charge for:
  - High costs to recover: key driver of tariff increases in European Union
  - Basis for charging can be problematic: small surcharge is usually applied to water bill, but what if not metered? Or not connected?

- For **on-site sanitation**, most governments are reluctant to finance something they see as a private investment:
  - If they decide to do it, they usually get it wrong (“subsidy over-kill”)

- For **piped sanitation**, external benefits from sanitation (public health, environment) provide a rationale for public subsidies based on “incidence of benefits” rule
# Financing sources for sanitation

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<tr>
<th>Source of funds</th>
<th>Types of financing mechanisms using those funds</th>
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| Users of the service (private)      | ● *(on-site solution)*: household invests in its own facilities and pays directly for operating and maintenance costs  
● *(network-based solution)*: tariffs (connection charges, volumetric tariff) paid to service provider. This may include some cross-subsidies between rich and poor users or existing and new customers.                                                                                             |
| Tax payers (public)                 | ● % public subsidy for hardware or software  
● Subsidized credit to households for investment in their own facilities  
● Subsidized loans to service providers (public or private)  
● Community-level rewards (e.g. grants to local govt, TSC)                                                                                                                                                                                                                     |
| External sources (NGOs, INGOs, philanthropic organisations) | ● Grants to government (central or local) to merge with public funds (with use of financing mechanisms as above)  
● Grants directly to users or service providers (e.g. OBA)  
● Subsidized credit to government, users or service providers |
Financial challenges at global level

Costs of meeting sanitation MDGs (GWP estimates)

- $17bn annually required for basic sanitation / $16bn annual finance gap
- $70bn annually required for wastewater treatment / $56bn annual finance gap

What needs to be financed to meet the MDGs?

- Sanitation promotion activities
- Household, institutional and community sanitation for safe excreta and sullage disposal
- Wastewater management

The MDGs are focused on expanding access but sustainable sanitation calls for more resources:

- Cannot stop at providing latrines - access should be considered within an integrated sanitation cycle (i.e. with necessary downstream activities, such as collection, transport and treatment of the waste generated)
- Need to finance initial capital costs as well as ongoing operating costs
Can ODA make a difference?

ODA financing to sanitation is not tracked but what is sure is that there’s not enough of it

- ODA to watsan has increased since 2001 (total annual = $6.2bn in 2005/06)
- Difficult to separate water from sanitation in ODA tracking systems
- Still too much is allocated to water: example of WB budget:
  - Less than half watsan budget spent on sanitation, of which 71% is spent on sewers and wastewater treatment – i.e. Not targeted on the “poorest”

- Initiatives such as Global Sanitation Fund welcomed but too small:
  - Launched in 2008 - Aims to disburse about $100mn/ year to selected countries (about $1 to 2mn per year per country)
  - Compare with Global Fund to fight Aid, TB and Malaria: $11.4bn approved funding since its creation in 2002!
Sector challenges: whose sector?
Financing challenges at sector level

- **Institutional fragmentation of the sector** means it is difficult to track how much is spent and even more difficult to budget for increased funding.

- **Sanitation tends to be lumped with water** (the two services are usually managed together, when in fact, there are few economies of scale or scope in managing them jointly).

- **Financing goes through the water utility**, which often does not prioritize sanitation (water takes the lion share).

- **Sanitation finance is often project-driven and focused on inappropriate investments** (such as large scale wastewater treatment plants as opposed to household investment).
Govt financing: insufficient, inappropriate

- Government financing to the sanitation sector is insufficient (often less than 10% of the total water budget) and allocated in a non transparent and unpredictable way
- In some countries, availability of funds is not the main issue but rather what to do with available funds (e.g. Tanzania)
- Since most supply-side programs (with massive investments in subsidized latrines) have failed, national and local governments often have no clear idea about what constitutes “a good sanitation project that is worth investing in”
- A demand-side response is needed to get households to invest in sanitation but uncertainty on how to trigger it

⇒ Making more finance available is not sufficient – we need to know better what to do with it
Challenges with household financing

- **Focus on household level justified:** where families are most exposed and most diseases get transmitted

- **Common criticisms of hardware subsidies:**
  - Hardware subsidies are provided without appropriate accompanying measures (hygiene education, training, demand promotion)
  - **Subsidy is captured by those who need it less** (better off, politically connected), plus risk of corruption or even theft
  - **Use of inappropriate technologies and over-inflated design:** costs of replicating or extending the program are far too high
  - **Facilities are not used or used for other purposes** (chicken coop, storage)
Technology choice has a substantial impact on overall program costs.

Cost estimates exist but are often unreliable.

On-site sanitation is the solution of choice for poor countries but:

- Don’t be too prescriptive about the actual solution – need to offer choice
- Simplified sewerage may be an attractive alternative in urban areas, still unexplored in SSA
Outstanding questions in hh financing

- How much does providing access really cost, i.e. once all cost components are taken into consideration (hardware and software)?

- Should the public sector support household investment in sanitation facilities? If yes, what should such public support entail? Does it entail providing subsidies or facilitating access to finance via the establishment of credit schemes for example?

- Should hardware subsidies be provided or should subsidies be entirely focused on promoting demand for the facilities or supporting the supply side of the market? If hardware subsidies are provided, what is the most appropriate rate of subsidy and means of delivery depending on the circumstances?

- What are innovative mechanisms (such as credit or revolving funds) that can be used in order to promote household sanitation financing?
WSP Sanitation financing study

**Africa**
- Senegal (PAQPUUD) – partial hardware subsidy in urban areas
- Mozambique (PLM) – partial hardware subsidy in rural areas

**Latin America**
- Ecuador (PRAGUAS) – partial hardware subsidy in rural areas

**Asia**
- Vietnam (3 cities sanitation project) – partial hardware subsidy combined with a revolving fund mechanism in urban areas
- Bangladesh (DISHARI) – no hardware subsidy (but 100% software subsidy) in rural areas (CLTS)
- India (Maharashtra) – CLTS with reward linked to output in rural areas
Preliminary findings

- Hardware subsidies are not necessarily something of the past, as long as they are designed appropriately
  - Subsidies should be clearly targeted, demand-based and temporary
  - E.g. output-based aid subsidies, giving incentives to private providers to deliver the product before receiving the subsidy

- Demand promotion and community mobilization may achieve the required results but their full costs need to be taken into account to enable comparisons

- Credit mechanisms can help with mobilizing financing at household level
Areas for future research

Many gaps remain in our understanding

- Evaluating financing needs
- Estimating actual costs
- Mapping out sources of finance
- Identifying appropriate and efficient financing mechanisms