Key messages

• Targeting the poor opens a funding gap
• The response is not only financial:
  – Step 1: better project design to reduce costs
  – Step 2: smarter finance to increase leverage (e.g. micro-finance)
  – Step 3: additional well-designed funding
• The knowledge-base on targeting is increasing: the debate has been clarified (for example WSSCC Subsidy Primer) and we have data on the effectiveness of some interventions (for example WSP/WB Study on Sanitation Financing at household level)
• More data is needed but there are frameworks and typologies which can be used in the analysis
• Development Banks and others have a role to play in experimenting (piloting) new approaches and a duty to carry out more and better monitoring and evaluation (tracking targeted interventions)
The sanitation value chain

Providing facilities and services for the poor requires attention to the entire sanitation value chain:

Onsite sanitation

On- and off-site sanitation with downstream collection, treatment and re-use/disposal (on-site does not equal 'pro-poor')

The scale and relative importance of each cost-element is determined by the context (institutional and technical) but every solution requires adequate capital and recurrent funding

The funding gap

<table>
<thead>
<tr>
<th>COSTS</th>
<th>SOURCE OF FUNDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintenance and operating costs</td>
<td>Household recurrent payments</td>
</tr>
<tr>
<td>Capital costs</td>
<td>Household capital investment</td>
</tr>
</tbody>
</table>

FUNDING GAP
Interventions to reduce funding gap:

1. Lower cost technology

- Maintenance and operating costs
- Capital costs
- Household recurrent payments
- Household capital investment

COSTS | SOURCE OF FUNDS | COSTS
---|---|---
LOWER COST TECHNOLOGY
FUNDING GAP

SOURCE OF FUNDS
Household recurrent payments
Household capital investment

COSTS | SOURCE OF FUNDS | COSTS
---|---|---
Interventions to reduce funding gap:

2. Micro-finance
Interventions to reduce funding gap:

3. Public funding or subsidies

Sources of funding:
- Development Bank concessionary funding
- Government own resources
- Commercial financing

Lowering costs through technology

- ‘On-site' is not synonymous with ‘cheap’: In dispersed rural communities recurrent costs may be low (ie cost of moving a light weight superstructure). In urban areas recurrent costs high for both on-site and off-site systems.
- Availability of low cost options reduces financial barriers for poor people and means service providers may be more willing to serve them.
- Investments in trunk facilities can be designed to encourage increased access through the use of appropriate technology.
- Corollary: where low-cost appropriate options are not permitted/ used it is unlikely that poor people will gain access; investments in trunk infrastructure are likely to be wasted.
Micro-finance

- Use of public funds to provide subsidies and guarantees to micro-finance institutions who can then lend money to households
- Leaves households in control of decisions about the types of goods and services to be provided
- Does not distort the supply-side market for goods and services
- May stimulate the micro-finance sector in general
- MFIs may also provide additional services such as micro-savings and micro-insurance

Targeted public funding (subsidies)

- *What is funded?* Which parts of the value chain need most funding; upfront policy and promotional investments, capital investment, recurrent operational costs.
- *Who receives the funds?* Households, communities or service providers?
- *When are funds released?* Upfront payments which cover costs of inputs or ex-post payments which reward successful delivery of goods and services.
### Targeted public funding (subsidies)

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

### WSP/WB Sanitation Financing Study

Comparative review of approaches to financing on-site sanitation at household level based on a set of common indicators

- **Impact on sustainable access to services**: did the project contribute to increasing access to sanitation?
- **Costs**: are the costs of the resulting sanitation facilities reasonable and affordable by the beneficiaries?
- **Effectiveness in the use of public funds**: were public funds used in a way that maximized impact?
- **Poverty targeting**: did the program seek to target the poor and was the program effective at doing so?
- **Financial sustainability**: could the approach be sustained over time without the need for external support?
- **Scalability**: could scaling-up the approach to cover those who are not yet covered be done at a reasonable cost?
Case studies

- **Bangladesh** (DISHARI) – software support (CLTS) combined with hardware subsidy for hardcore poor in rural areas
- **India** (TSC in Maharashtra) – CLTS with reward linked to output and hardware subsidy for hardcore poor in rural areas
- **Vietnam** (3 cities sanitation project) – revolving fund mechanism with subsidized loans in urban areas
- **Senegal** (PAQPUD) – partial hardware subsidy in urban areas
- **Mozambique** (PLM) – partial hardware subsidy in urban areas
- **Ecuador** (PRAGUAS) – partial hardware subsidy in rural areas

Characterising the approaches

<table>
<thead>
<tr>
<th>Public funds as % total investments in Household Sanitation</th>
<th>Hardware subsidies as % of Public Funds</th>
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<td></td>
<td>50%</td>
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<td></td>
<td>100%</td>
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</tbody>
</table>
Effectiveness in use of public funds

Leverage ratio
$ private money invested / $ public funds spent

“Bang for the buck ratio”
Number of facilities / USD 1000 public funds invested

Accessibility for the poor

Hardware costs as % average hh income
HH investment as % average hh income
Hardware costs as % below poverty line hh income
HH investment as % below poverty line hh income
Vietnam: Sanitation Revolving Fund

- **SRF component in WB-financed sanitation project**
- **Loans to low-income households to build sanitation facilities**
  - Small loans (average USD 145, covering 65% of investment costs) at subsidized rate (equivalent to USD 6 or 3% hardware costs)
  - Managed by well-established MFI (Women’s Union)
  - Savings-and-Credit groups established at neighborhood level
  - WB & other donors contributed USD 3mn in initial seed financing + tagged onto a broader project including hygiene & demand promotion
- **Results**
  - Initial capital revolved more than twice in 3 years, then transferred to local municipality to be revolved further; 100% repayment rate
  - Leveraged private funds: up to 25 times public funds provided initially
  - Extreme poor excluded but alternative solutions considered

Maharashtra: “enhanced” TSC

- **TSC (Total Sanitation Campaign)**: nation-wide program funded by Government of India, with State-by-State variations
- **Implementation in the State of Maharashtra**
  - Based on CLTS: mostly demand creation and community mobilisation
  - NGP: rewards to villages for reaching ODF status (USD 1,250 to 12,500, depends on village size) - must be spent on sanitation improvements
  - Annual follow-up with regular cleanliness campaigns
  - Small hardware subsidies for poor households (USD 24 per toilet or about 22% hardware costs) - paid after village has reached ODF status, referred to as “incentives” (i.e. OBA principle)
- **Results**
  - Rapid coverage increases (1mn facilities / year in State) with initiatives to increase its sustainability
  - High leverage (about 10) - Credit, where introduced, has sped up sanitation adoption
Advice to Development Banks

• Develop a more comprehensive view of the sanitation sector during the project design process.
• Understanding why poor people cannot access sanitation will inform better interventions and encourage DBs to attract and blend different types of finance for an entire program
• Design and roll-out of more performance- and output-based tools
• Deliver support to micro-finance institutions including financing for initial start-up costs of MFIs willing to get involved in the water and sanitation sector and seed financing
• Improve the design and effectiveness of monitoring and evaluation frameworks to focus on sustainable access for poor people

Thankyou:

KfW Water Symposium “Financing Sanitation”
October 8-9, 2009
Frankfurt, Germany

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