

# KfW Water Symposium 2009

## Financing Sanitation

### Session 2

#### Targeting the Poor with Facilities and Improved Services

#### Keynote Speakers:

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## 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:

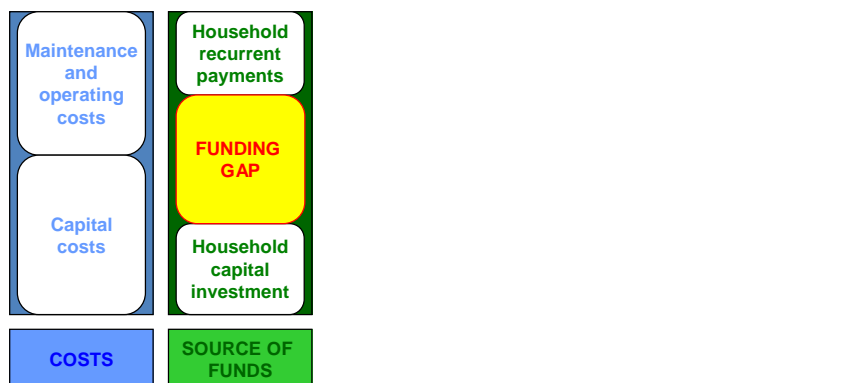


On- and off-site sanitation with downstream collection, treatment and re-use/ disposal (on-site does not equal 'pro-poor')



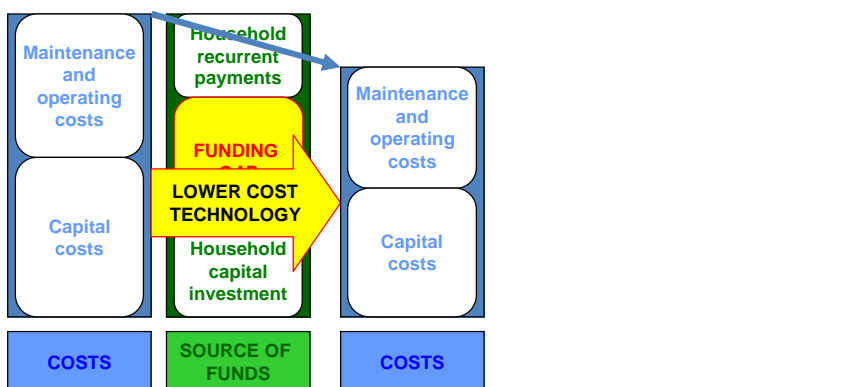
The scale and relative importance of each cost-element is determined by the context (institutional and technical) but every solution requires adequate capital and recurrent funding

## The funding gap



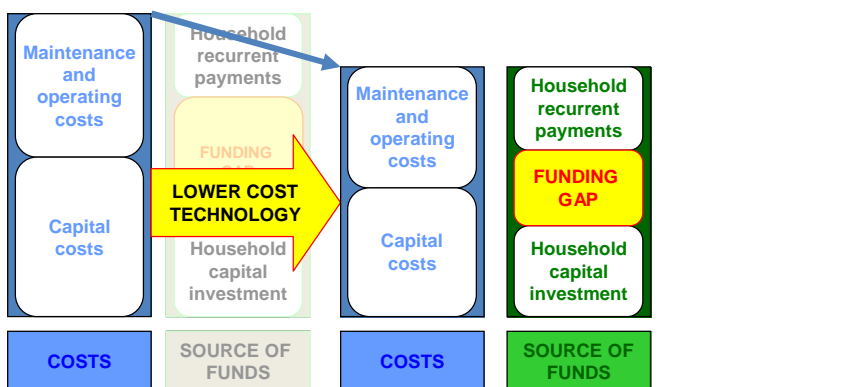
## Interventions to reduce funding gap:

### 1. Lower cost technology



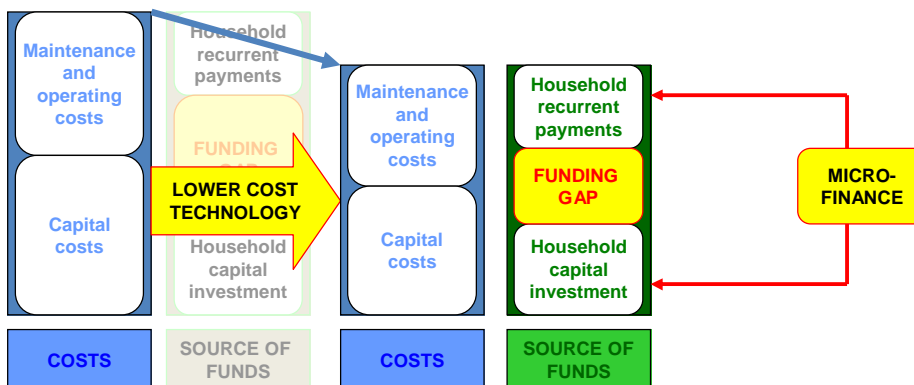
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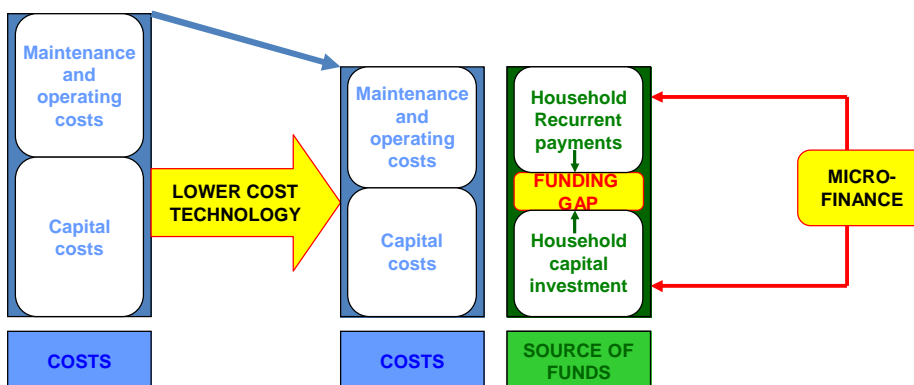
## Interventions to reduce funding gap:

### 2. Micro-finance



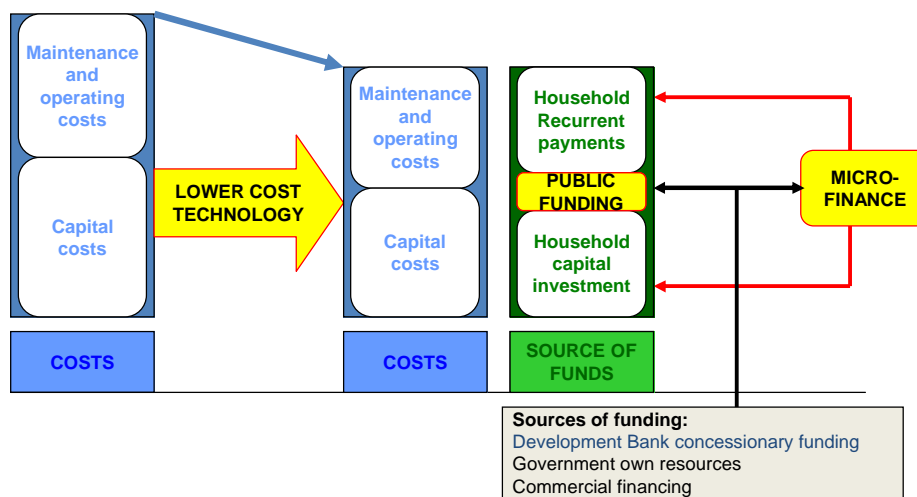
## Interventions to reduce funding gap:

### 2. Micro-finance



## Interventions to reduce funding gap:

### 3. Public funding or subsidies



## 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

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- 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)

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- **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)

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

## WSP/WB Sanitation Financing Study

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

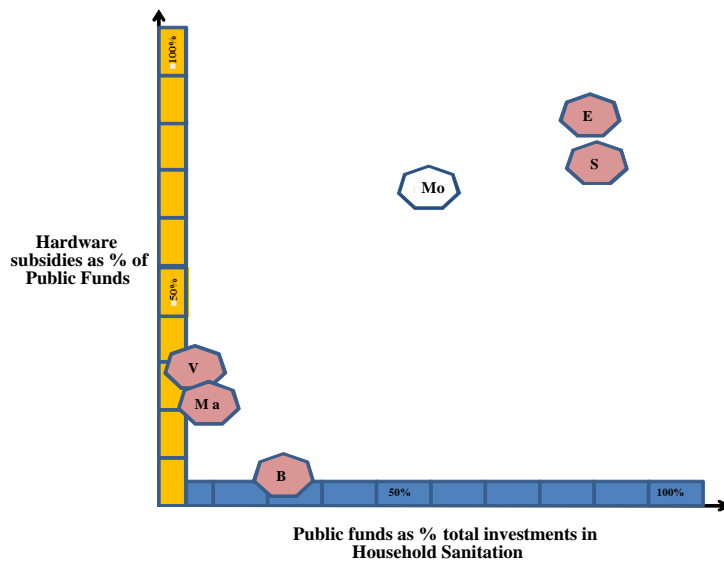
- **Impact on sustainable access to services:** did the project contribute to increasing access to sanitation?
- **Costs:** are the costs of the resulting sanitation facilities reasonable and affordable by the beneficiaries?
- **Effectiveness in the use of public funds:** were public funds used in a 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

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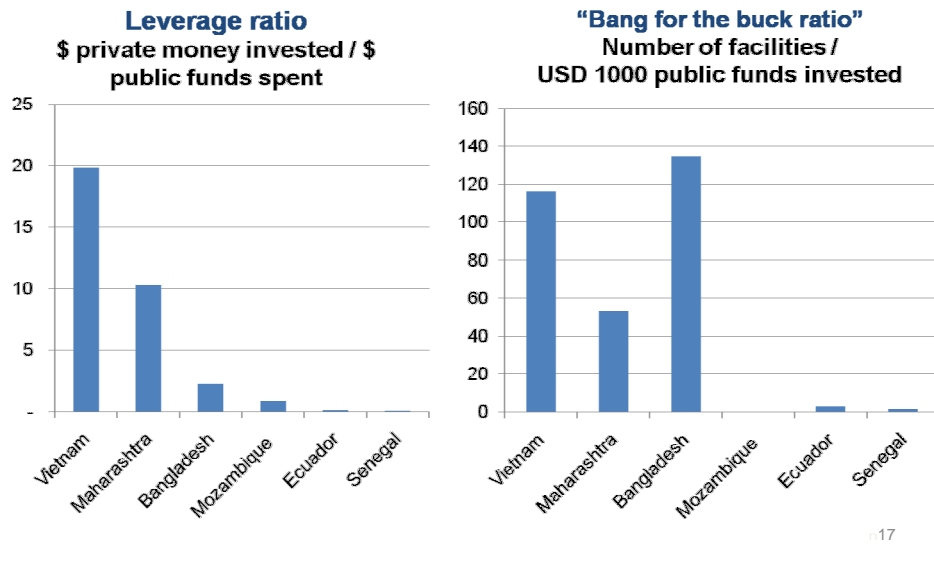
## Characterising the approaches



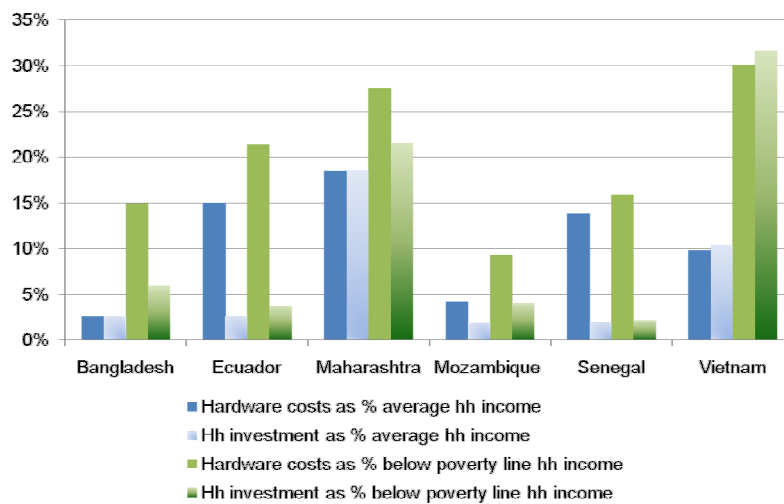
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## Effectiveness in use of public funds



## Accessibility for the poor



## 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

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