Innovative Financing Scoping Study for the Social Sector in Uganda

Second Deliverable: Sector Analysis Report

Nairobi, 23 April 2020
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Nutrition focus group key takeaways: What are the biggest constraints in the nutrition sector?

- Need to strengthen the M&E systems for nutrition
- Local government capacity constraints
- Funding competition from other health docket
- Heavy reliance on development partners

Sanitation focus group key takeaways: What are the biggest constraints in the sanitation sector?

- Cross ownership and policy challenges
- Systemic waste management constraints within urban sanitation
- Sustainability constraints within rural sanitation
- Limited funding constraints

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List of Acronyms

AGRA  Alliance for a Green Revolution
CIFF  Children Investment Fund Foundation
COHA  Cost of Hunger in Africa
CLTS  Community Led Total Sanitation
GAIN  Global Alliance for Improved Nutrition
GAMA  Greater Accra Metropolitan Area
GoU   Government of Uganda
HNP   Health, Nutrition, and Population
JWESSP Joint Water and Environment Sector Support Program
KNP   Karamoja Nutrition Program
MFI   Micro Financing Institutions
MoFPED Ministry of Financing, Planning and Economic Development
MoES  Ministry of Education & Sports
MoH   Ministry of Health
MoWE  Ministry of Water & Environment
NDP   National Development Plan
OBA   Output Based Aid
ODF   Open defecation free
P4P   Pay 4 Performance
RBF   Results-Based Financing
RMNCAH Reproductive Maternal Neonatal Child and Adolescent Health
SDG   Sustainable Development Goals
SSIP  Strategic Sector Investment Plan
SUN   Scaling Up Nutrition
UGX   Uganda Shilling
UNAP  Uganda Nutrition Action Plan
UNICEF United Nations Children Fund
USAID United States Agency for International Development
USF   Uganda Sanitation Fund
WASH  Water, Sanitation and, Hygiene
WFP   World Food Programme
WSS   Water Supply and Sanitation
I. Executive summary

This document details the findings from the second phase of the innovative financing study commissioned by the United Nations Children Fund in Uganda, (UNICEF) and the Government of Uganda (GoU). The finding of this document builds on the first phase of this study that established nutrition and sanitation as sectors with the most promising opportunities for an innovative financing modality. Within this phase, the Instiglio team sought to further evaluate the key intervention areas in which an innovative financing modality would be applied, and the potential value that would be gained through this modality.

An analysis of the nutrition sector identified two key intervention areas, stunting in children under five, and high prevalence of anemia in children and women. Almost one-third of children under 5 years in Uganda are stunted. Stunting increases with age, peaking at 37% among children 18-35 months. Stunting is greater among children in rural areas (30%) than urban areas (24%) with some regional variations. Anemia, which reflects several micronutrient deficiencies, infections and, even genetic traits in malaria-endemic areas, affects more than half of children under 5 years and 1 in 3 women. In the assessment of sector level readiness, the most pressing challenges identified were the relatively weaker coordination mechanisms, fragmented monitoring and evaluation systems, human resources constraints, and competition for financing resources within the health sector.

Despite these challenges, nutrition demonstrated potential for an innovative financing instrument to add value in two main ways. First, the sector demonstrates potential to enhance cost-effectiveness and impact. Innovative finance has a high potential to address the identified challenges within nutrition by offering clear mechanisms to improve cost-effectiveness, in terms of incentivizing greater coordination, efficiency and local adaptation of interventions, providing flexibility for local adaptation, and drawing attention to results articulated by the national results framework. However, improved coordination of different stakeholders would be a prerequisite for an innovative financing modality. The nutrition sector has experienced challenges in coordinating nutrition programming. This is a challenge experienced by both from the government and development partners. Difficulties in resolving coordination constraints can lead to costly delays and limited results from an innovative financing modality.

Secondly, there is high potential to attract additional private sector resources within nutrition. The two key intervention areas within nutrition are strong candidates to crowdfund new financial resources and build on top of previous sectoral experiences with innovative financing. Globally, there has been substantial and sustained increment in high-level commitment for nutrition. For example, among blended finance instruments targeting the SDG goal Zero Hunger encompasses 21% of the transactions with investor from philanthropic funds, banks, and commercial funds. Within Uganda, the government is already working with private investors and NGOs to deliver market-based solutions in nutrition that are sustainable and affordable. Additionally, the nutrition sector is very familiar for innovative financing instruments. In Uganda, various result-based finance arrangements have been structured in the last years in the sector of health which include outcomes related to nutrition.

Within the sanitation sector, the two key intervention areas identified were systemic management of waste in urban centers and sustainability within the initiatives introduced in rural areas. The population is rapidly increasing in urban areas, and the rise of both formal and informal settlements is necessitating a sanitation management approach that incorporates the entire sanitation service chain. Conversely, communities in rural areas have for the most part been introduced to community-led sanitation measures with encouraging uptake, but challenges remain on the long-term sustainability of sanitation initiatives put in place. In the assessment of sector level readiness, national level governance and ownership between the lines ministries with mandate in sanitation and financial underfunding to accomplish the 2030 targets in urban and rural sanitation are the main challenges.

Similar to nutrition, sanitation demonstrates high potential for an innovative financing instrument to add value. The first area in which such an instrument could add value, is in enhancing cost-effectiveness and impact. Compared to nutrition, innovative financing has a high potential to address the identified challenges within sanitation. While a national policy has not been articulated, regional authorities exhibit relatively higher coordination both within government mechanisms and with development partners and other private partners. An innovative financing instrument can build on top of these existing mechanisms of coordination and the clear set of indicators and targets established by the government. This sector also exhibits opportunities to focus efforts on further-reaching outcomes, which would improve overall impact, not only to the sector but to other areas including nutrition and education. Furthermore, establishing a results-orientated and measurement framework may also strengthen the M&E practice of the sector.
Secondly, there is high potential to attract additional private sector resources within sanitation. The two key intervention areas within sanitation are strong candidates to attract new financial resources and leverage the private sector under the leadership of GoU or a committed development partner. The GoU has experience with private operators providing water and sanitation services, and these operators can be incentivized to bring their capacity toward sanitation solutions. According to the OECD, the sector is globally attractive for impact investors and blended finance, especially in areas involving infrastructure or health outcomes. Blended finance was reported to redirect 7% of the transactions to water and sanitation, and 11% to infrastructure projects (not related to energy) like large infrastructure projects in sanitation, in 2018¹. Also, Innovative instruments have been successfully applied to sanitation programs in the world and in Uganda, providing significant learnings that can be leveraged upon.

The recommended sector for further investigation in subsequent phases of the study

Both nutrition and sanitation evidence pressing and relevant programmatic challenges, as well as potential to attract new financial resources. However, applying an innovative financing modality within sanitation could lead to potentially higher marginal gains. Although nutrition remains a viable candidate, Instiglio recommends sanitation as the area to move forward in for a first order intervention. This is because, assuming that sectoral issues are managed through complementary strategies, an innovative financing instrument that engages the private sector will end up adding more value precisely where multiple stakeholders are not engaged, and where funding levels are lower. The need for innovation and engagement of the private sector is greater in sanitation. Further, while the potential implementation costs of an innovative financing instrument in terms of building up M&E systems, and supporting implementation is greater, there are likely to be stronger lines of accountability and institutional ownership at sub-national levels, depending on the intervention opportunity selected. Finally, the effect of COVID-19 presents new opportunities and establishes new priorities. We anticipate that while stakeholders may have shied away from sanitation for being seen as a riskier area of focus in normal times, the current epidemic has highlighted even more acutely the need for water, sanitation and hygiene, which we anticipate will generate greater interest to find innovative and cost-effective ways to expand sanitation.

The next phase of the study will continue to investigate the potential ways in which an innovative financing modality would be applied within the sanitation intervention areas, systemic management of wastes in urban sanitation, and sustainability of initiatives within rural sanitation.

¹ Organization for Economic Co-operation and Development Blended Finance Report, 2018
2. Introduction

Instiglio was commissioned by the United Nations Children Fund (UNICEF) and the Government of Uganda (GoU) to conduct an innovative financing Scoping Study. This study aims to inform the GoU and UNICEF of the best opportunities for using Results-Based Financing (RBF) as an innovative financing tool to achieve success in Uganda’s social sectors. The Scoping Study will determine whether the Ugandan context is appropriate for this type of financing and provide an assessment of potential sectors and interventions for this type of financing.

The outputs of the Scoping Study will lay the initial foundation that could lead to implementing future innovative financing work in Uganda, highlighting at an early stage the key opportunities and challenges for the process ahead. Should potential suitability be found to explore innovative financing in Uganda’s social sector, the Scoping Study could help to inform the complex technical design of potential future innovative financing implementation.

The figure below illustrates the phases of the Scoping Study and their respective outputs (note: this document is the primary output of Phase 2, Sector analysis: Identification of thematic areas for an innovative financing approach).

Figure 1: Scoping Study Phases

<table>
<thead>
<tr>
<th>October</th>
<th>January</th>
<th>April</th>
<th>May</th>
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<tbody>
<tr>
<td>Phase 1</td>
<td>Phase 2</td>
<td>Phase 3</td>
<td>Phase 4</td>
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<tr>
<td>Objective setting</td>
<td>Sector analysis: Identify thematic areas for innovative financing approach</td>
<td>Assessing potential intervention areas and viable innovative financing modality</td>
<td>Innovative financing strategy</td>
</tr>
<tr>
<td>• Inception report including literature review, methodology, and detailed plan of action.</td>
<td>• Briefing on key sectors and thematic areas for innovative financing approach and innovative financing modalities.</td>
<td>• Brief on assessment of innovative financing constraints in Uganda and best-fit innovative financing modality.</td>
<td>• Validation workshops and meetings with UNICEF and GoU. • Final report of innovative financing recommendations in Uganda.</td>
</tr>
</tbody>
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1.1 Phase 1 summary findings

A high-level analysis of the social sector in Uganda revealed that the nutrition and sanitation sectors possess the greatest potential for innovative financing. In the first phase of the scoping study, a two-step framework was utilized to establish where the greatest need for innovative financing is, and the potential for innovative financing to complement already existing initiatives or fill in remaining gaps.

Within the first step, most areas within the social sector demonstrated a need for innovative financing. In the second step however, preliminary analysis suggested that nutrition and sanitation are currently the most viable areas based on already existing activity by the GoU and other funders, and remaining gaps that could be addressed through innovative financing.

A deeper analysis of the above is contained within the first deliverable, The Innovative Financing Inception Report.

2.2 Phase 2 Briefing overview

Instiglio wrote this Briefing between February 10, 2020 – April 17, 2020. This Briefing presents our analysis of Uganda’s nutrition and sanitation sectors and offers initial recommendations on focus areas, populations, and innovative financing considerations for validation in the next phases of the Scoping Study. For additional context, we present the guiding objective and methodology of the Briefing.

Objective: The second phase of the Scoping Study, aims to identify priority areas, target populations and innovative financing modalities that could potentially be applicable. This includes an initial recommendation of areas to focus on, and an illustration of potential innovative modalities that would be applied, subject to validation in the next phase of this study.
Methodology: Instiglio gathered the baseline information for this phase through a desk-based literature review, from February 3, 2020 to the submission of the first draft of this Briefing on April 10, 2020. Key stakeholder interviews were also conducted, both remotely through skype calls, and during a February 10-14, 2020 field trip to Kampala, Uganda. Additionally, the Ministry of Financing, Planning and Economic Development (MoFPED) and UNICEF also organized a consultative forum for nutrition and sanitation stakeholders to brainstorm on the greatest challenges within their respective dockets that could be addressed by innovative financing. A summary of discussions and stakeholders that participated in the forum is listed in Appendix 1 and 2.

Consultations were conducted with key partners including the Ministry of Financing, Planning and Economic Development (MoFPED), Health (MoH), Education and Sports (MoES), Water and Environment (MoWE), World Food Program (WFP), various service providers and UNICEF. UNICEF guided the Instiglio team on the preliminary list of stakeholders to consult and supported in organizing meetings during the field trip. A list of stakeholders consulted is also included in Appendix 3.

2.3 Phase 2 Briefing methodology

Building on consultations and discussions with the various stakeholders, the key challenges facing sanitation and nutrition were analyzed by the Instiglio team. Challenges were analyzed at two levels; 1) at the level of key interventions, as these are the key challenges to be addressed through an innovative financing modality, and they are the ones that directly affect the Ugandan population; and 2) at sector level as these challenges would need to be addressed by complementary strategies before the application of an innovative financing modality.

The situation analysis contained within section 3 of this briefing elaborates the key intervention areas, as identified through stakeholder consultations and literature review. Additionally, sector level challenges were analyzed within three broad categories, to develop a view of the extent to which they could potentially limit the application of an innovative financing modality. These three categories are illustrated below:

![Framework to map out sector readiness in nutrition and sanitation](image)

**Governance:** Challenges and opportunities in defining, measuring, and incentivizing expected outcomes in sanitation and nutrition

*Key questions answered:* Are there national indicators to measure expected sanitation and nutrition outcomes? Are these indicators used by all stakeholders? Are indicators measured consistently? Is there clear ownership of outcomes and measurements? Are there accountability mechanisms in place?

**Service Delivery:** Challenges faced in the provision of nutrition and sanitation services

*Key questions answered:* What are the main challenges in provision of sanitation and nutrition services? Is GoU infrastructure and human resources adequate? Do other stakeholders have programs that facilitate service provision? What systems are currently available to facilitate service provision? What other factors affect effective service delivery? Are there coordination mechanisms for multisector interventions?

**Financing:** Financing challenges within nutrition and sanitation

*Key questions answered:* How much funding is allocated by GoU towards nutrition and sanitation? Do other stakeholders also provide funding? Do all key priorities receive funding? Is the total amount of funding to different priority areas adequate?

Section 4 of this briefing further narrows down on the potential value-add of an innovative financing modality to key intervention areas identified in section 3.

As a first step within section 4, the Instiglio team investigated the viability of innovative financing modality to address identified challenges within intervention areas. To enhance cost effectiveness, an innovative financing modality would need to demonstrate three drivers of impact: a) drawing adequate focus and attention to achieving results; b) improving
coordination and alignment; and c) increasing accountability to drive service delivery to maximize flexibility to achieve results². The three main drivers of impact explored at this stage, and their corresponding questions, are illustrated below:

Figure 3: Framework to evaluate potential for innovative financing to address key intervention areas

<table>
<thead>
<tr>
<th>Ability to address identified key intervention areas</th>
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<tr>
<td><strong>Is there potential for innovative financing to:</strong></td>
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<tr>
<td><strong>Enhance the focus and attention to achieving results?</strong></td>
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<tr>
<td><strong>Key questions to be answered:</strong> Are there areas with demonstrated results? Do those results have an impact on the target population? Are the results achieved likely to be sustainable? Is there a possibility of building on previous results?</td>
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<tr>
<td><strong>Improve coordination and alignment across stakeholders?</strong></td>
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<tr>
<td><strong>Key questions to be answered:</strong> Who are the known stakeholders? Are known stakeholders pursuing similar outcomes? Is there a possibility of incentivizing stakeholders to pursue common outcomes? Which outcomes should be prioritized to facilitate coordination and alignment?</td>
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<tr>
<td><strong>Increase accountability of those responsible for service delivery?</strong></td>
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<tr>
<td><strong>Key questions to be answered:</strong> Who are the stakeholders responsible for service delivery accountable to? To what extent are service delivery providers held accountable for results? What role does the government play in service delivery?</td>
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As a second step within section 4, the Instiglio team analyzed the extent to which sector level challenges would limit the application of an innovative financing modality.

As a third step within section 4, Instiglio analyzed the potential for an innovative financing modality to crowd in additional resources within the identified intervention areas. These resources include funding and novel players, such as the private sector.

Figure 4: Framework to evaluate the potential of innovative financing to attract additional resources within key intervention areas

² A practitioner’s guide to Results-Based Financing: Getting to Impact, Instiglio and World Vision, 2017
Is there potential for innovative financing to attract additional financial capabilities

<table>
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<tr>
<th>Latent private sector capabilities that can be further leveraged through innovative financing.</th>
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**Key questions to be answered:** Do private sector players with the capacity to deliver social outcomes exist? Are there private organizations, companies, or non-governmental service provider and operators that could be diverted into delivering social outcomes?

<table>
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<th>New funding sources that can be involved in innovative financing instruments</th>
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**Key questions to be answered:** What are the new kind of finance sources that can be explored in the intervention areas? Are impact or blended funding facilities available in the sector areas?

<table>
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<th>Existing track-record of innovative financing in the sector</th>
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**Key questions to be answered:** What are the experiences with instrument of innovative financing in the selected sectors? Is there any evidence of success of crowding additional financial resources into these sectors through innovative financial instruments?

Section 5 then concludes on the findings of section 4, while section 6 then illustrates potential application of an innovative financing modality, and potential stakeholders within the ecosystem that could be involved to deliver efficiency gains and additionality. The proposed innovative financing modality also takes the identified gaps into consideration and proposes solutions that would involve a wide range of public and private sector stakeholders.
3. Nutrition and sanitation situation analysis

3.1 Section summary

This section details the nutrition and sanitation situation analysis to identify key intervention areas that could potentially be prioritized by a potential innovative financing instrument; and to highlight the principal challenges to be overcome within each sector to successfully implement such an instrument. Therefore, for each sector, the situation analysis first identifies the key intervention areas that are being prioritized in the sector and where a potential innovative financing instrument could further support. This supports the further exploration of innovative financing within each sector. Second, the analysis assesses the sector's readiness to improve results, by analyzing sector level challenges along the dimensions of governance, delivery, and funding, discussed in figure 2 above. We also analyze whether these challenges can reduce the feasibility and/or effectiveness of innovative financing instruments. Sector-level challenges are important to consider as they highlight the sector’s readiness to achieve results and points to areas of improvement necessary to facilitate the implementation of innovative financing. We analyze the sector-level challenges using the framework in figure 2 presented on page 8 of this document. A short summary of the analysis for both nutrition and sanitation follows, with the detailed findings elaborated in section 3.2 and 3.3.

A) Nutrition summary

Key intervention areas

Our analysis identified two intervention areas where innovative financing’s premise of improved results and increased financing can have the biggest marginal impact.

1. **Stunting in children under 5** is one of the nutrition-related outcomes that demonstrates the highest impact on the health and economic capacity of Uganda’s population. While Uganda has made significant progress towards alleviating malnutrition and is currently on track to meet the under 5 wasting and under 5 overweight global targets, almost one-third of children under 5 years in Uganda are stunted.

2. **High prevalence of anemia** in women and children is another critical outcome that has long term impact on the health and productivity of the Ugandan population, with more than half of children under 5 and 1 in 3 women affected. Anemia, if left unchecked can affect cognitive development in the short run, and in the long run affect the economic productivity of the population.

Sector level readiness

We identified the principal sector-wide challenges that are currently impeding the delivery of results in the above areas of intervention and analyzed their relevance and implications for a potential innovative financing instrument.

1. **Sector-level challenges**
   a. **Sector level challenge 1: Governance**

   The government’s systems for monitoring and evaluation of key outcomes are weak and the sector-wide practice of monitoring and evaluated across partners is fragmented and inconsistent across different programs. This limits overall understanding of the effectiveness of different programs, limits continuous progress tracking and limits the understanding of what gaps are being filled or left behind. The government has made some progress by articulating outcomes and indicators to track malnutrition, particularly for children and women of reproductive age, but monitoring and evaluation challenges remain. Multiple programs with fragmented monitoring and evaluation systems and limited government visibility on all nutrition initiatives running in the country limit the efficiency of existing programs. Building the government’s M&E systems represents a real opportunity for efficiency at multiple levels: with better government systems, partners will not need to build a new system for each program that is bound to lead to low sector-wide coherence, funding can be efficiently allocated over time to programs that work better, and partners will have the opportunity of building upon locally grown and comprehensive evidence.
b. Sector level challenge 2: Service delivery

In terms of service delivery effectiveness, the sector has two major challenges in delivering programs.

First, within government, human resource capacity constraints are a challenge in service delivery within nutrition. Efforts by the government and other stakeholders have kept the country on track to meet the nutrition outcomes. However, there is a risk of not achieving some of the defined outcomes like the reduction of stunting and anemia, due to human resource capacity constraints in local government. The attention of community workers and government officials is drawn towards other perhaps more pressing health outcomes, limiting the bandwidth dedicated to nutrition.

Second, the above government capacity constraints lead to weak coordination mechanisms across the multiple development partners in the nutrition sector. The government’s principal delivery coordination mechanisms suffer from resourcing constraints, which means that partners do not easily feed into a clear and government-led framework of where and at what level to deliver to fill outstanding gaps. As a result, partners revert to their own gap analyses, their theories of change, and their institutional mandates, strengths and preferences to define their areas of support. This makes the engagement of partners particularly costly, the definition and launch of new programs particularly time-consuming as they navigate coordination and additionality considerations and exposes the sector to risks of duplication. Therefore, strengthening the government’s delivery coordination mechanism is another area that could significantly impact the efficiency of the overall sector’s delivery.

c. Sector level challenge 3: Financing challenges

The current funding gap in nutrition is estimated at UGX 2.2 trillion. The financing mandate of nutrition primarily sits with the health sector in Uganda whose allocation in FY 2019/20 was UGX 2.6 billion, 44.89% of the national budget. Interviews with nutrition and health experts in Uganda indicate that nutrition must compete for already limited funding with other dockets in the health sector as priority is given to curative measures over preventative measures. Hence, there is an opportunity to explore additional sources of funding such as innovative financing to fill this funding gap.

2. Implications for innovative financing

Below we summarize the four take-aways regarding the implication of these challenges for a potential innovative financing instrument.

- Given the high stakes it puts on results, innovative financing instrument will require either building a new and potentially costly monitoring and evaluation system tailored for the instrument or leveraging the existing systems that UNICEF is rolling out. An alternative route, which would be potentially equally costly and more time-consuming, but more impactful in the long run, would be to build up the government’s systems and staff up their M&E teams focused on nutrition.

- The innovative financing project should avoid depending on government capacity for delivery purposes, as they are likely going to be strained. Therefore, delivery should mostly leverage private sector capabilities, which include commercial companies, non-profit service providers, and social enterprise acting in the broad nutrition space or with capabilities to offer to the sector.

- However, the innovative financing project, would benefit greatly from connecting to the Office of the Prime Minister (OPM) which is the nutrition coordination body of the government. Where possible, including measures that strengthen the capacity and reach of the OPM within nutrition would help in the future scale-up or sustainability phases of the project.

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• Finally, given that funding is insufficient compared to the size of the needs, there should be a prioritization of innovative financing instruments that are able to crowd in new funding and promote more sustainable business models.

Therefore, implementing an innovative financing instrument in nutrition would require additional resources in M&E, capacity-building support for the government, and should prioritize leveraging private sector delivery capabilities as well as crowding in new and more sustainable forms of private capital to lift the resource constraints.

**B) Sanitation summary**

**Key intervention areas**

Our analysis identified two intervention areas where innovative financing’s premise of improved results and increased financing can have the biggest marginal impact.

1. **Systemic management of waste in urban centers.** The population is rapidly increasing in urban areas, and the rise of both formal and informal settlements is necessitating a sanitation management approach that incorporates the entire sanitation service chain. Inadequate management of sanitation in urban and peri-urban areas experiencing rapid growth will lead to higher incidences of preventable diseases such as diarrhea, malaria and typhoid, increasing morbidity and mortality rates and diminishing the economic capacity of the population.

2. **Sustainability within the initiatives introduced in rural areas.** Communities in rural areas have for the most part been introduced to community-led sanitation measures with encouraging uptake, but challenges remain on the long-term sustainability of sanitation initiatives put in place. For instance, constraints remain on how households and communities can maintain and upgrade basic sanitation facilities, and how to drive long term usage and behavior change. This negates gains made in sanitation in the long run, leaving rural communities more vulnerable to hygiene related diseases. This ultimately raises the financial burden associated with managing these diseases, reducing the financial resources allocated to other priorities including economic activities, facilitating good nutrition and education.

**Sector level readiness**

We identified the principal sector-wide challenges that are currently impeding the delivery of results in the above areas of intervention and analyzed their relevance and implications for a potential innovative financing instrument.

1. **Sector level challenges**

   a. **Sector level challenge 1: Governance**

   Ownership and disarticulation between line ministries is also a challenge in sanitation. Ownership is not clearly distributed among the multiple line ministries with mandates in sanitation. The sanitation docket is shared by the MoWE, MoH and MoES. In some instances, stakeholders reported that this led to unclear distinction between the roles and responsibilities of each one thus leaving programmatic gaps at a national level. However, at sub - national level, there is a relatively defined demarcation of responsibilities between rural and national water and sanitation authorities.

   b. **Sector level challenge 2: Service delivery**

   Weak coordination issues between the line ministries (but high coordination from central to local implementation) results in allocation of fewer government human resources specifically to implementation of sanitation strategies hence limiting the service delivery capacity.

   c. **Sector level challenge 3: Financing**

   Overall, funding remains a challenge across the country for sanitation. Funding levels for sanitation are not adequate to achieve the set outcomes. Funding for Sanitation and hygiene is said to need between 5 and 9 times the current levels
in order to achieve national and SDG targets by 2030\textsuperscript{6}. However, based on the challenges articulated by stakeholders, a uniform fundraising approach for sanitation is not likely to yield optimal results. The identified challenges within sanitation therefore indicate that there is a need for specific financing strategies that recognize and account for the differences between rural and urban areas. These financing strategies need to demonstrate the ability to draw in additional funding to meet the current sanitation deficit.

**Implications for innovative financing**

Below we summarize the four take-aways regarding the implication of these challenges for a potential innovative financing instrument.

- Given the current low policy articulation in sanitation, a financial instrument should look for specific opportunities that can attract different stakeholders in addition to the government but with the capacity of long-term commitment, like the private sector.

- An innovative financing strategy would require independent and time-intensive coordination, which would include additional convening and engagement with sector stakeholders to better position the innovative financing instrument. However, the already coordination mechanism -successful in water management activities, and the defined expected outcomes set up by the MoWE might facilitate a coordination mechanism in specific interventions.

- Given constrained government-led delivery, delivery should intensively leverage private sector capabilities, which include commercial companies, non-profit service providers, and social enterprises acting in the broad sanitation space or with capabilities to offer to the sector. Nevertheless, government should be engaged in other to secure long term sustainability.

- Finally, given that funding is insufficient compared to the size of the needs, there is a need to prioritize innovative financing instruments that are able to crowd in new funding and promote more sustainable business models.

Overall, given the relatively lower capabilities and funding levels in sanitation, innovative financing can have a big marginal impact.

While, our initial analysis also suggests that a national - level innovative financing strategy may be more costly to set up, implement, monitor and sustain given the relatively weaker policy engagement, a more targeted strategy addressing outcomes either within urban or rural sanitation remains viable. It can respond to existing indicators prioritized for by the government, and support in the development of new, sustainable delivery channels.

### 3.2 Detailed nutrition situation analysis

**Malnutrition is a global issue that undermines development.** While improvement has been seen in global malnutrition rates, it has been slow and uneven. Wasting, stunting, underweight, and deficiencies in vitamins and minerals are the four broad forms of malnutrition. The Global Nutrition Report indicates that 22.2\% of children globally are stunted, 7.5\% are wasted while 5.6\% are overweight\textsuperscript{7}. Additionally, there is the potential to tackle malnutrition given strong political will, better data, and knowledge on what policies work. For instance, global efforts to fight malnutrition such as SUN Initiative and the 1000 Days Initiative, have been substantial as demonstrated by numerous initiatives and commitments. This is timely given the UN Decade of Action on Nutrition 2016-2025 and alignment with the Sustainable Development Goals.

**Locally, GoU emphasizes the need to focus on nutrition in the country’s Vision 2040 national strategy.** Nutrition is highlighted as a key to unlocking high quality standards of living. Uganda’s Vision 2040 target is to reduce prevalence of stunting among children under 5 to 0\% by 2040\textsuperscript{8}. The second National Development Plan (NDP II 2015/16-2019/20) which is a national medium-term plan highlights human capital development as essential for

\textsuperscript{6} Financial assessment of the WASH sector in Uganda 2019 (ICR, 2019).


accelerating wealth creation and employment while enhancing competitiveness. Currently, development of the third National Development Plan is underway (NDP III 2020-2025), and one of its objectives is to reduce prevalence of under 5 stunting from 28.9% to 24%.

To implement Vision 2040 and the NDPs, GoU launched its multi-sectoral Uganda Nutrition Action Plan (UNAP) in November 2011 whose goal is to improve the nutrition status of all Ugandans, with special emphasis on women of reproductive age, infants, and young children. The next iteration of the UNAP is in development. The goal of the UNAP II is “to end food insecurity and all forms of malnutrition in children under 5 years of age, adolescent girls, pregnant and lactating women including older persons by 2030”. UNAP aligns with the vision of the National Nutrition Policy to have a well-nourished healthy and productive population effectively participating in the socio-economic transformation of Uganda.

Multiple government stakeholders support the implementation of nutrition in Uganda. Nutrition in Uganda is primary coordinated by the Office of the Prime Minister. The Ministry of Health, Ministry of Education & Sports, Ministry of Agriculture, Animal Industry & Fisheries and, Ministry of Gender, Labor & Social Development all share responsibility in the nutrition sector. This is due to the cross-cutting nature of nutrition.

Key intervention areas within nutrition

Our analysis identified two intervention areas where innovative financing’s premise of improve results and increased financing can have the biggest marginal impact.

1. The first nutrition-related outcome identified is the prevalence of stunting in children under five years. Uganda has made significant progress towards alleviating malnutrition and is currently on track to meet the under 5 wasting and under 5 overweight global targets. However, almost one-third of children under 5 years in Uganda are stunted. Stunting increases with age, peaking at 37% among children 18-35 months. Stunting is greater among children in rural areas (30%) than urban areas (24%) with some regional variations. The prevalence of wasting among children nationally under 5 years is 4%. Immediate causes include poor dietary intake, disease burden and physical inactivity. Immediate causes are majorly driven by underlying causes at the household and community level which include poor water, sanitation, hygiene and food safety; inadequate health services; inadequate care and feeding practices and behavior; insufficient supply and access to healthy foods and sedentary lifestyle and behaviors.

2. The second nutrition-related outcome is prevalence of anemia in children under five years and women of reproductive age. Anemia, which reflects several micronutrient deficiencies, infections and, even genetic traits in malaria-endemic areas, affects more than half of children under 5 years and 1 in 3 women. The prevalence of anemia is higher among younger children (age 6-23 months) than older (age 24-59 months) children, with a peak prevalence of 78% among children age 9-11 months which can be associated with poor complementary feeding practices. Moreover, even though coverage of iron supplementation for pregnant women (for at least 90 days) increased from 4% in 2011 to 23% in 2016, anemia prevalence has increased in women from 23% in 2011 to 32% in 2016. Causes of malnutrition at all levels must be tackled simultaneously in order to achieve sustained improvements in nutrition outcomes and hence the need for a multi-sectoral approach. Consultations during the innovative financing forum show that increasing efforts towards food fortification and strengthening food management systems at the community level can prove beneficial towards fighting malnutrition.

Sector level readiness

We identified the principal sector-wide challenges that are currently impeding the delivery of results in the above areas of intervention and analyzed their relevance and implications for a potential innovative financing instrument.

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10 USAID (2010). The analysis of the nutrition situation in Uganda
11 USAID (2018)
Sector level challenge 1: Governance

There is a need to strengthen the monitoring and evaluation systems for nutrition. Consultations with multiple stakeholders indicated that there was significant activity and funding towards nutrition in Uganda. However, while national outcomes were known by all, there was little evidence of consistent use of a common monitoring and evaluation framework. Deliberate structures for funding and reporting in nutrition are essential in tackling the problem of low enforcement and integration of set nutrition action plans.

National systems to manage data collected and coordination mechanisms for nutrition are not robust despite the outcomes being clearly articulated. This is partly due to capacity constraints where government officials tasked with managing existing coordination structures such as the UNAP Secretariat and District/sub-county Coordination Structures have too many additional mandates. Further, manual data entry and translation at facility and community level increases the time taken to collate data and increases the likelihood of errors and misreporting. Other coordination platforms such as the SUN Business Network, SUN Academia and Research Network and the Civil Society Network have not been fully rolled out. Additionally, development partners that complement services provided by the GoU have developed standalone metrics and systems that do not feed into the defined national systems. This translates to poor national evidence on nutrition outcomes, especially in far-to-reach areas.

Sector level challenge 2: Service delivery

Human resource capacity constraints in local government also hinder execution and attainment of nutrition targets. Discussions with stakeholders revealed human resource challenges, particularly, limited number of community health workers, and very low government staff to population ratios. This challenge leads to reduced service delivery reach and quality, especially for nutrition interventions. Capacity of community health extension workers and village health teams is also strained by high disease burden, which leads to low prioritization of nutrition by health workers, which is seen as a less pressing need. For instance, the Reproductive, Maternal, Newborn, Child and Adolescent health score card has only one indicator on nutrition, in comparison with the full block of indicators related to other health aspects. This is said to inadvertently encourage health workers to focus on other areas with more indicators.

Furthermore, there is weak coordination across the development partners in nutrition, which leads to limited visibility on all nutrition initiatives running in the country. Multiple development partners, cover supplementation in rural areas and refugee districts. While development partners share information and collaborate in the delivery of some interventions, there is currently no defined national strategy or approach, that all the interventions feed into, leading to a potential risk of overlaps and unsustainable solutions. This makes the engagement of partners particularly costly, the definition and launch of new programs particularly time-consuming as they navigate coordination and additionality considerations and exposes the sector to risks of duplication.

Sector level challenge 3: Financing

At a national level, nutrition faces funding competition from other health dockets in Uganda. Interviews with nutrition and health experts in Uganda indicate that nutrition must compete for already limited funding with other dockets in the health sector. Consultations with stakeholders reveal that one reason for this is that curative healthcare is prioritized over preventative healthcare under which nutrition falls in. The Cost of Hunger in Africa (COHA) study in Uganda (2013) presented malnutrition to be associated with 15% of all under five mortalities. The total losses in productivity attributed to childhood malnutrition were estimated at approximately Uganda Shillings (UGX) 1.9 trillion ($899 million). Additionally, the current funding gap in nutrition is estimated at UGX 2.2 trillion. 13

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The financing mandate of nutrition primarily sits with the health sector in Uganda whose allocation in FY 2019/20 was UGX 2.6 billion, 44.8% of the national budget\(^{14}\). Hence, there is an opportunity to explore additional sources of funding such as innovative financing to fill this funding gap.

### 3.3. Detailed sanitation situation analysis

**Multiple social and economic losses arise where sanitation is not optimal.** Poor sanitation and hygiene entrench the cycle of poverty and disease (for instance, diarrhea, cholera, typhoid, stunting and lowered immunity to malaria), slows development, entrenches slums, and, makes cities less attractive places to work, live, and invest in\(^ {15}\). In Uganda, diarrhea, often caused by poor sanitation, is one of the top three causes of death in children, killing about 33 children per day. Diseases directly and indirectly attributable to sanitation and hygiene are not only life threatening, but also contribute to poor cognitive development and school performance. **Economic losses for premature deaths associated to poor sanitation and hygiene are estimated at US$147 million each year in Uganda** including children and adults\(^ {16}\). Thus, adequate sanitation measures will improve both the health of the Ugandan population and, directly and indirectly contribute to the economic stability and growth of the country.

**Ensuring availability and sustainable management of water and sanitation for all is both a global and Government of Uganda goal.** Access to water, sanitation, and hygiene (WASH), as articulated in the Sustainable Development Goals plays a foundational role in the achievement of health, equity, gender, equality and education goals of a country\(^ {17}\). The government of Uganda has also acknowledged the importance of water and sanitation on the well-being of the citizens in the Vision 2040 and in the National Development Plans. Uganda’s vision 2040 targets national water coverage at 100%, sanitation (improved toilets) at 80% and, hygiene (hand washing) at 90%. In the same direction, the recent draft of the NDP III shows a growing interest and focus on sanitation and hygiene. In fact, while the NDP II did not have specific targets on sanitation and hygiene, the NDP III draft aims at 85% of water coverage in urban areas, 100% of water coverage in urban areas, and 40% of sanitation (improved toilets) and 50% hygiene (hand washing) at the national level by 2025.

**Key intervention areas within Sanitation**

Our analysis identified two intervention areas where innovative financing’s premise of improve results and increased financing can have the biggest marginal impact.

1. **The most impactful outcome to achieve within sanitation, triggered by urbanization, is the systemic management of wastes.** While sanitation measures remain largely household and community driven across the country, urbanization triggers a need to consider systemic management of wastes. To date, the GoU has given strong emphasis to eradicating open defecation, and to encouraging people to invest in safe containment systems. Grant funding to local governments to support community-led total sanitation (CLTS) and home improvement campaigns, is spurring sanitation improvement on a significant scale. However, as the pace of urbanization picks up in Uganda and the scale and density of urban settlements rise, local authorities and the ministries that support and service these areas will need to give greater attention to safe management of wastes beyond the on-site facilities of individual users\(^ {18}\). Most urban sanitation initiatives are currently focused on Kampala, where the Kampala Capital City Authority (KCCA) is working with various partners to tackle sanitation challenges that are compounded by extensive settlements in swampy areas and flood plains. Other smaller initiatives identified aim to expand access to improved sanitation facilities and address fecal sludge management across the sanitation service chain\(^ {19}\).

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\(^{15}\) World Bank (2018). *Policy Note: Reviewing Sanitation in Uganda to Reach Sustainable Development Goals.*

\(^{16}\) Uganda Water and Sanitation Program research (2019).

\(^{17}\) United Nations (2019).


\(^{19}\) interviews with WASH stakeholders on sanitation in urban areas. (2020)
2. **The second critical outcome is the sustainability within the initiatives introduced in rural areas.** Rural sanitation initiatives are driving progress with minimal funding, but sustainability challenges remain. Most rural sanitation initiatives identified currently are community and home improvement campaigns led by district health and water officials, supported by village health teams. Many are delivering good results with very modest spending. Sustainability challenges are found in two aspects, first, usual one-fit solutions in sanitation do not sustain in rural areas. Although, communities show openness and willingness to adopt new interventions, the different geographic and socio culture features in the rural settings have stopped interventions that at the beginning looked successful. For example, the construction work of latrines can be seriously affected by environmental conditions, conducting to backsliding. Second, for the interventions that seems to work, additional money is needed to support medium-and long-term sustainability strategies, e.g., behavioral campaigns and mitigation of environmental and socio-economic shocks\(^{20}\).

**Sector level readiness**

We identified the principal sector-wide challenges that are currently impeding the delivery of results in the above areas of intervention and analyzed their relevance and implications for a potential innovative financing instrument.

**Sector level challenge 1: Governance**

Ownership and disarticulation between line ministries is also a challenge in sanitation. At least three ministries have mandates in sanitation, however the responsibilities and therefore accountability for the performance is not clearly distributed. The sanitation docket is shared by the Ministry of Water and Environment, the Ministry of Education, and the Ministry of Health. In some instances, stakeholders reported that this creates gaps in policy and programmatic aspects. This can make an intervention time consuming, as well as present additional complexities for the engagement of new stakeholders into a multi-stakeholder disarticulated sector.

**Sector level challenge 2: Service delivery**

Coordination challenges between the line ministries, in addition to the above ownership challenges, creates service delivery problems, although mitigated by high coordination in the implementation of programs from the central ministries to the community level. The main consequence of the coordination challenges between the line ministries is that fewer government human resources are properly allocated along the chain of service delivery, therefore slowing and decreasing the service delivery capacity. **In sanitation**, only 28% of the urban and 17% of the rural populations have access to individual basic sanitation facilities. This translates into only 19% of Uganda’s population having access to basic sanitation services, which is an increase of just 3 percentage points since 2000\(^ {21}\). This presents as slow growth rate when compared to the other East African countries whose average increase is 10%.

**Sector level challenge 3: Financing**

**Overall, funding needs for sanitation and hygiene remain high; additional funding is needed to attain global and national targets.** The Water and Environment Strategic Sector Investment Plan (SSIP) for the 2015/16-2019/20 period, in alignment with Uganda’s Vison 2040 and the NDP III, establishes the priorities, targets, and funding strategies related to water, sanitation, and hygiene. Funding for Sanitation and hygiene is said to need between 5 and 9 times the current levels in order to achieve national and SDG targets by 2030\(^ {22}\). For example, improved sanitation is estimated to need additional 226 Billion UGX (USD 60 Million), and safely managed sanitation is said to need 1,079 Billion UGX (USD 288 Million) per year between 2013 and 2030.

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\(^{21}\) Joint Monitoring Program (2017).

4. The potential value-add of innovative financing to key intervention areas

4.1 Section summary

This section explores if an innovative financing modality has the potential to: 1) address identified key intervention areas and 2) attract additional resources to complement existing funding or fill gaps where funding and programs do not exist, to solve identified challenges. This is the second part of our methodology explained on page 9 and 10 of this document. This section is divided into three parts. Section 4.2 evaluates the potential for innovative financing to address identified key intervention areas, while considering the impact of sector level challenges. Section 4.3 evaluates the extent to which innovative financing could potentially attract resources that complement existing programs and/or fill gaps, within the shortlisted challenges, subsequently enhancing additionality. Section 5 following then provides a summary of the key intervention areas demonstrating the highest innovative financing potential, based on the analysis within this section.

As a first step, each section introduces the concepts within innovative financing that enable analysis of the challenges, and then delves into the analysis of the identified challenges within nutrition and sanitation detailed in section 3.

The first level analysis conducted in section 4.2 below indicated that the key intervention areas in sanitation demonstrate the highest immediate potential for an innovative financing modality to facilitate cost-effectiveness and impact gains. These two intervention areas are systemic waste management in urban centers, and enhancement of sustainability of rural sanitation initiatives. The second level of analysis in section 4.3, also indicated a relatively higher potential for innovative financing to attract additional resources to solve these two areas within sanitation.

4.2 An evaluation of the ability of innovative financing to address identified challenges

The strategic direction set by the government through the National Development Plans creates an opportunity to apply innovative financing within the social sector. NDP II notes that effective implementation of the national plans and achievement of set objectives can only come about through strengthening and maximizing institutional synergies amongst both public and private stakeholders to achieve efficiency in resource use. It therefore emphasizes the need to have a well-coordinated and strategic partnership within the government and the private sector, development partners, the civil society, and other non-state actors. The draft NDP III continues to build on this multisectoral approach with more defined objectives and programs that drive collaboration and efficiencies across multiple stakeholders. The plan also highlights the importance of exploring other sources of funding to deliver on set objectives. Innovative financing with a focus on results, as elaborated below, supports the collaboration of multiple actors to achieve a specified outcome.

Innovative financing has been suggested in recent years as a viable approach to incorporate efficiency and unlock new investment streams into social sectors23. In addition to research on the viability of innovative financing in social sectors, consultations with experts in the nutrition and sanitation sector24 indicated the importance of domestic and international financing approaches that support and incentivize achievement of the ultimate social outcomes by multiple players. Such approaches would require all involved stakeholders have a view of the outcome, and an understanding of their role in achieving the set outcomes. An innovative financing instrument, when applied correctly, provides the ability to link innovative integrated approaches by both public and private sector players to results that lead to the achievement of the ultimate social outcomes.

Innovative financing, particularly when it focuses on results, as used within this brief, refers to a financing arrangement in which payments are contingent upon the achievement of predefined results, which are usually verified by an independent evaluator. Typically, this arrangement involves multiple stakeholders to facilitate the achievement of results. In the Ugandan context, an innovative financing arrangement of this nature can mean, for example, that a development agency (a funder) makes payments to a nonprofit organization (a service provider) only after it delivers reduced malnutrition rates (a predefined result). The nonprofit organization could deliver

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24 Findings from the Innovative Financing Forum held in Kampala, Uganda on February 12, 2020
this result through its uniquely defined strategy, including partnerships with private companies to provide nutrition solutions.

**Innovative financing is however not the ultimate solution to all social challenges.** When deciding whether to engage with innovative financing, a key consideration is if the selected innovative financing modality will introduce efficiencies in solving the identified challenges within nutrition and sanitation, thereby leading to greater overall impact.

### 4.2.1 Innovative financing potential to enhance cost-effectiveness within service delivery

**When designed well, innovative financing provides the right mix of incentives and flexibility to address key intervention areas and deliver socially meaningful results.** This helps service providers to better serve the target populations and achieve more impact with the same amount of funding.

Illustrating the ability of innovative financing to improve efficiency, consider improvements in health services following an innovative financing project in the Democratic Republic of the Congo. An impact evaluation showed that health facilities receiving payments for predetermined health services and quality indicators provided comparable or better services and quality of care than health facilities in control districts, despite lower levels of external financing. Further, the study found that participating health facilities increased their revenues from user fees, reflecting patients’ views that the quality of care was better in these facilities than in the control ones. Moreover, revenues grew without increasing out-of-pocket health spending of the poorest 25% households.

The experience of innovative financing points to three principal conditions that drive impact:

- **Enhancing focus and attention to actual results: You cannot manage what you do not measure.**

  To pay for results, there must be regular measurement and tracking of results, supported by a strong data system. Regular measurement and tracking of results will enable continuous feedback on the impact trajectory of the innovative financing instrument. Employing this new level of data-driven insight is an essential input for dynamic performance management (i.e., program adaptation to achieve greater results). A well-designed innovative financing instrument will embed the measurement and tracking of results, drawing attention to areas that have actual results, the impact of the results on the target population, and the sustainability of those results.

  An example of the importance of a focus on results and a strong data system in supporting performance improvement comes from the first Development Impact Bond (DIB) in India. This innovative financing instrument provided Educate Girls (EG), an education service provider, with rigorous impact evaluation reports on a yearly basis. In addition, the organization built a performance management system to collect real-time data on the impact of their program on girls’ enrolment and children’s literacy. The feedback loops prompted important improvements in the design and delivery of the program. For instance, when mid-year data showed some students lagging behind in English literacy, EG started to invest more in improving the teaching skills of the EG volunteers and restructured classroom time to include greater exposure to English. Consequently, EG not only closed the learning gap, but generated greater learning gains in English than in the other subjects.

- **Improving coordination by aligning incentives to the welfare of the target population: What gets rewarded, gets done.**

  By tying funding to agreed-upon results, innovative financing aligns the objectives of the different stakeholders with the outcomes that enhance the welfare of the target population. Thus, an innovative financing instrument financially rewards service providers for achieving the set social outcome, rather than for meeting any other stakeholders’ interests. This arrangement ensures that the stakeholders directly involved in service provision are explicitly guided by the welfare of

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25 Approximately US$ 2 per capita per year in participating districts and approximately US$ 9 to 12 in control districts.

26 Soeters et al. (2011).

27 Adapted from Perakis & Savedoff (2015)
the population, actively monitoring and managing external risks. Many service providers then experience a mindset shift where they start viewing the target population to be served as clients.

For example, while conducting an education innovative financing program in India, Educate Girls (EG) faced a unique challenge when they discovered that some villages did not have upper primary schools where girls aged 11 to 14 could attend. In order to attend school, girls in those villages had to travel long distances to the closest school. Capacity concerns arose and it became apparent that it would not be possible to enroll many of these girls. Driven by the incentive to improve beneficiary welfare, EG quickly devised and implemented a strategy to provide continuity through distance education or open schools. Under a more typical program (i.e., not innovative financing), many service delivery providers might have instead written this challenge off as an unexpected external factor.

c. Providing flexibility to maximize results: Improving performance is more likely where focus and accountability is on results, not activities.

An innovative financing instrument that holds stakeholders accountable for results, not activities, offers the space for adapting and iterating program design and delivery practices. A well-designed innovative financing instrument tightens the control on the achievement of results; allowing funders to relax their control over activities and grant service providers the flexibility and freedom to pursue a range of strategies to achieve greater impact. Service providers are free to invest in necessary overheads, to monitor and adapt their program to changing contexts, and to experiment with new delivery strategies without lengthy funder consultations or approvals.

For instance, consider an innovative financing agreement in a poverty graduation program in Uganda and Kenya that aims to increase beneficiary income. In this agreement, the service provider gives small seed grants to the target population, together with business-related services and trainings, to help them launch a new business as a means to improve income. Funders pay US$ 1 for every US$ 1 increase in the income of the target population. The design of the innovative financing agreement allows the service provider to adapt its program without the funder’s approval. Taking advantage of this flexibility, and propelled by data-driven insights, the service provider is tripled the size of its seed grants to further increase its impact on income and interim results indicate that entrepreneur income has doubled from 35% to 70%.

In the application of an innovative financing instrument focused on results, the extent to which these three conditions are present, or could be effectively introduced indicates the potential of the instrument to drive efficiency and impact gains. The greater the presence of these conditions and/or ability to create these conditions, the higher the potential of the innovative financing instrument to support effective, more impact creating solutions.

4.2.2 Assessing the viability of innovative financing to enhance cost-effectiveness within nutrition and sanitation

The Instiglio team therefore assessed potential of innovative financing to enhance the cost-effectiveness of delivery in the identified intervention areas within nutrition and sanitation. As elaborated in section 3.2.1 above, an innovative financing modality is most effective where it is possible to further draw attention to results, where alignment of incentives for delivery partners can improve the quality of the delivery, and where interventions need to be significantly and repeatedly adapted to complex local context to achieve outcomes.

Value proposition of innovative financing instruments that tie funding to results in Nutrition

To unpack the value proposition present within nutrition, we discuss common interventions and delivery modalities, and then analyze whether and how those can benefit from innovative financing’s three key value propositions described above.

Common interventions: Interventions for tackling the prevalence of stunting in children under 5 years and the prevalence of anemia in children and women usually involve a combination of nudging the production and provision of

28 Data and approach from Village Enterprise’s Development Impact Bond, recently concluded in Kenya and Uganda.
micronutrient supplementation, Iron and Folic acid tablets, and educational content to women and children. It also involves tricky behavior-change components to promote change in areas such as diversified dietary intake, exclusive breastfeeding, as well as adherence to antenatal, perinatal and postnatal care.

**Common delivery modalities:** The most effective programs working at larger scale, especially for stunting, involve multiple partners working across several sectors. For instance, some delivery organizations specialize on agricultural interventions that fortify staple foods with essential nutrients or promote the production of nutrient rich food, others establish supply chains for supplements, other organizations and community health workers focused on the maternal health aspects, and others focus on the pure behavioral aspect of changing habits, diets, uptake of tablets, and shifting norms in communities. In other words, a large and complex system of delivery requires coordination, appropriate dosage and alignment for outcomes to be achieved. If any one aspect is not delivered in synchronization with others, results may be affected.

**Analysis of the potential value-add of innovative financing:**

Our analysis of the sector’s interventions and delivery modalities reveals that nutrition can leverage all three benefits of innovative financing in terms of its potential to improve cost effectiveness.

✓ **Drawing attention to results:** The inclusion of clear and appropriate measures of performance can promote faster progress on the national goal of improving nutrition outcomes. Given the relative ease of measuring stunting, it will be easier to draw attention to the ultimate outcome in stunting, compared to anemia.

a. Potential to tie programs to national outcomes and targets in both intervention areas: There is a national target to reduce the prevalence of child stunting in children under 5 years from 29% to less than 19.8% under UNAP II. This presents a clear goal around which predefined outcomes for nutrition programs to reduce prevalence of stunting in children in rural areas. Similarly, UNAP II establishes the goal of reduce the prevalence of anemia in children under five years from 53% to 24.5% and from 32% to 11.5% for women of reproductive age. This provides an opportunity to easily connect an innovative financing instrument’s results framework to the national one established by GoU.

b. Outcomes and relevant proxies can be easily measured for stunting but would be harder to measure and incentivize for anemia. There is an established and easy way of measuring stunting itself, as well as a broad set of easily measured intermediate outcomes such as dietary diversity, nutritional status, measurement of micronutrient rich cropping for assessing the likelihood of stunting. On the other side, measuring anemia may be more costly and intrusive as it requires a complete blood count. This may require tying funding only to a series of more measurable proxies or intermediate outcomes and outputs, which reduces the ability to completely fix any existing coordination and incentive alignment issues.

✓ **Coordination and incentive alignment:** below, we highlight different ways in which innovative financing can incentivize greater cost-effectiveness, which we believe to be the principal contribution of innovative financing in nutrition:

a. Incentivizing collaboration and coordination: Given that achieving nutrition outcomes of reducing stunting and anemia require incentivizing multiple service providers and actors to coordinate their interventions, a financing instrument that conditions funding of all providers to a single ultimate set of outcomes can serve as a powerful motivator for coordination, collaboration and gains in the collective impact of organizations to move from a siloed activity mindset to an outcomes mindset.

b. Incentivizing efficiency gains: Some aspects of nutrition interventions such as the production and delivery of micronutrients involve setting up efficient distribution channels, finding ways to efficiently nudge production and delivery agents to introduce micronutrients. Efficiency-linked incentives are known to be particularly effective in driving value-for-money in such logistically heavy interventions, where outputs are easily measured and incentivized, without concerns for perverse incentives.
✓ **Flexibility:** Innovative financing can also provide much needed flexibility, but those benefits will increase and be particularly useful at larger scale as programs tackle a larger diversity of communities, local norms and habits, different production and distribution capabilities and circumstances, etc.

a. *Adapting behavioral interventions to community needs:* Nutrition programs, especially aspects that focus on complex behavioral change, will benefit from the flexibility that innovative financing offers. While the provision of micronutrients and educational content can be relatively 'straight-forward' as long as financing and delivery capabilities are in place, programs are often more challenged on the behavior-change aspects, which require adaptation to local context, norms and culture, and the development of a 'client-centered' mindset in delivery that pushes front-line workers in programs to go beyond delivering a set of activities but rather problem-solving their way to the behavioral outcome at the community and even household-level.

b. *Leveraging new and different ecosystem features and partners:* Larger scale or nationwide programs that operate across different regions of the country, can use the flexibility afforded by innovative financing to leverage different regional features to engage different distribution channels, different partners from NGOs to community organizations in more remote communities, in search for efficiency.

**Key take-aways:**

1. Innovative financing instruments have a strong technical value proposition in nutrition, offering clear mechanisms to improve cost-effectiveness, in terms of incentivizing greater coordination, efficiency and local adaptation of interventions, providing flexibility for local adaptation, and drawing attention to results articulated by the national results framework.

2. The benefits are likely to be larger with scale and within programs that involve multiple service providers and implementing partners.

3. The benefits are likely to be larger in programs targeting the reduction of stunting, versus for those focused on reduction of anemia, giving a slight preference for stunting interventions in this part of the analysis.

**Value proposition of innovative financing instruments that tie funding to results in Sanitation**

To unpack the value proposition present within sanitation, we discuss common interventions and delivery modalities, and then analyze whether and how those can benefit from innovative financing’s three key value propositions described above.

**Common interventions:** Interventions for improving waste management in urban areas and promoting Open Defecation Free (ODF) communities in rural areas both involve a combination of hardware and behavioral-change interventions. Systemic waste management in urban areas involves high engagement from the government or a committed partner either in the direct provision of the public services, e.g., construction of infrastructure, or in supervising and contracting private operators to temporary cover the provision of the services. Market based initiatives are also present with small local entrepreneurs tackling different aspects of the value chain. In rural areas, common interventions focus on awareness and creation of demand for sanitation services, for example through communication campaigns, as well as construction of basic sanitation facilities.

**Common delivery modalities:**

The most effective programs working at larger scale in sanitation involve national or development partners in the lead and local governments and NGOs in the implementation across several channels like public spaces -schools and hospitals- as well as community, household and individual interventions. The government, private contractors and development partners also deliver services on the basis of temporal interventions in urban areas. Some delivery channels, particularly in rural settings, work with leaders of the community creating community absorption, while others work in the schools with construction of facilities and demonstration of behavioral changes.
Analysis of the potential value-add of innovative financing:

Our analysis of the sector’s interventions and delivery modalities reveals that sanitation can leverage all three benefits of innovative financing in terms of its potential to improve cost effectiveness.

✓ Drawing attention to results: Building on top of the existent set of outcomes and indicators in the sector, innovative finance can facilitate the alignment of stakeholders towards critical outcomes, for example in the soft components of sanitation as well as highlight the inclusion of outcomes and indicators to better track interventions in the rural population.

a. Potential to introduce a greater focus on measurement and tracking of results in the sector:
   i. There are nationally defined outcomes for urban sanitation. Local authorities in urban sanitation also have mandates that support the achievement of these outcomes. However, stakeholders indicated that while some measurement of results was in place, not all results by different initiatives and programs were captured consistently. This provides a viable starting point to design an innovative financing modality that enhances the measurement and achievement of results by multiple stakeholders.

b. Managing the balance between hardware and software:
   i. Urban sanitation outcomes, as defined by the government, lean heavily towards provision of infrastructure. While this remains important, clear articulation of objectives that support the maintenance of the infrastructure would further strengthen urban sanitation service delivery. An innovative financing modality can potentially draw attention to the use and maintenance of sanitation facilities, further improving the final benefits to the target populations.
   ii. Stakeholders indicated that behavior change interventions receive higher focus within rural sanitation. However, communities still face challenges in setting up durable sanitation infrastructure to enable sustained behavior change. An innovative financing modality can support in drawing attention to both areas, ultimately driving up the sustainability of rural sanitation initiatives.

c. Drawing attention to longer-term outcomes in rural sanitation: Innovative financing could support the increased alignment of the different stakeholders involved in rural sanitation on long term sanitation outcomes that directly target the welfare of the rural population. This could potentially be done by designing payments and incentives measures that encourage a longer-term view, e.g. continued use and maintenance of a latrine, as opposed to short term measures e.g. building a latrine.

d. Outcomes are particularly easily measured for waste management but can be subject to reporting biases in the case of ODF achievement and rural sanitation. Waste management can be measured by volume of waste collected and recycled for instance. On the other hand, measuring sanitation in rural areas require tracking several household-level or school-level hygiene practices and behaviors, which is more costly and may suffer from reporting biases, and can potentially be easily gamed when incentives are attached to these measures.

✓ Coordination and incentive alignment: below, we highlight different ways in which innovative financing can incentivize greater cost-effectiveness, which we believe to be the principal contribution of innovative financing in sanitation:

a. Incentivizing collaboration and coordination between providers of hardware and software of sanitation: Although stakeholders report that the sector is fairly well coordinated, we believe that is principally a statement that the sector is small, and players are aware of each other’s work. However, we observed that in both waste management and rural sanitation, there is a lack of coordination between actors working on the hard aspects (collection, processing of waste, or provision of toilets, sanitation facilities, etc.) and the soft or behavioral aspects (such as littering behavior, hygiene behavior, hand-washing, demand for and use of sanitation facilities when available, etc.). As a result, the ultimate outcome of improved sanitation often falls short. Creating an overarching results framework to which both aspects of delivery can be held to, can increase collective impact.

b. Incentivizing efficiency gains: there are opportunities for efficiency gains in the logistical aspects of waste management in urban settings, as well as in the efficient production and distribution of sanitation facilities and
their efficient maintenance. These are all interventions that involve repeated processes where outputs can be easily measured and incentivized, to achieve efficiency gains.

✓ **Flexibility:** Innovative financing can also provide much needed flexibility in driving sustainability for rural interventions and scalability for urban interventions. In the rural context, adaptation to local environment is a key for success, while in the urban context, alternative distribution channels and new partners can be attracted.

a. **Adapting behavioral interventions to community needs in rural sanitation:** Rural sanitation programs, which tend to focus on behavioral change, will benefit from the flexibility that innovative financing offers to adapt interventions to local context, norms and culture. Theoretically, waste management can also engage behavioral interventions, especially around littering and other citizens behaviors, but it seems this is not the immediate area of focus in Uganda’s urban areas.

b. **Leveraging new and different ecosystem features and partners:** Programs that cover large urban areas with different population characteristics (e.g. affluent regions, urban poor regions etc.) can use the flexibility afforded by innovative financing to leverage different regional features to engage different distribution channels, different partners from NGOs to community organizations, in search for efficiency and effectiveness.

**Key take-aways:**

1. Our analysis shows that sanitation would also benefit from the key value propositions of innovative financing in improving cost-effectiveness, in terms of improving coordination and drawing greater attention to results that are currently under-prioritized.

2. Drawing attention to results would be a key mechanism of impact of the innovative financing instrument in sanitation. There are opportunities to focus efforts on deeper outcomes as well as longer-term outcomes, which would improve the overall impact within the sector. Furthermore, establishing a results-orientated and measurement framework may also strengthen the M&E practice of the sector.

3. The benefits within sanitation are also more likely to be larger with scale and within programs that involve multiple service providers and implementing partners.

**4.3 Innovative financing potential to attract additional private sector resources.**

In this section, we applied the last part of the analysis framework presented in section 1.3 (further illustrated in figure 5 below) to identify the potential of innovative financing to attract additional resources to solve the key intervention areas in nutrition and sanitation. Private funding sources, as used here, refer to private organizations that can contribute new capabilities, and private funders and investors who can expand the financial resources going towards our key sectors.

*Figure 5. Criteria to assess the potential to attract private sector resources*
To gauge the extent to which latent private sector delivery capabilities could be further leveraged through innovative financing, the Instiglio team assessed whether there was an existing presence of private sector players in Uganda and other countries or regions with similar contexts. This provides a reference point on the size and capacity of the private sector in those areas. To determine the potential to introduce new funding sources that can be involved in innovative financing instruments, the team conducted a high-level investigation on the existence of funders within Uganda and other similar contexts. Further, a high-level identification of past or existing experiences in the sector was conducted to provide an indication of readiness for innovative financing and offers a foundation for learning from and improving these instruments. In the next phase of the scoping study, this assessment will narrow down into the specific selected area to collect a more detailed landscape of the innovative financing environment in Uganda.

The section below provides a high-level evaluation of the two sectors based on the above assessment criteria.

**Table 1: A summary assessment of innovative financing potential to attract additional resources within the key intervention areas**

<table>
<thead>
<tr>
<th>Latent private sector capabilities that can be further leveraged through innovative financing</th>
<th>New funding sources that can be involved in innovative financing instruments</th>
<th>Existing track-record of innovative financing in the sector</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Nutrition</strong></td>
<td><strong>Sanitation</strong></td>
<td><strong>Education</strong></td>
</tr>
<tr>
<td>Private companies and NGO’s have shown interest in market-based solutions to improve the health of nutritionally vulnerable populations. NutriGreens and Nutreal are examples of private sector participation in micronutrition and supplementation within Uganda. Also, there are local manufacturers already involved in food fortification e.g. Mukono Industries, BIDCO Uganda and Food and Mo. that could potentially be incentivized to develop pro-poor food fortification and micronutrient supplementation.</td>
<td>Private sector participation in the provision of sanitation services in Uganda is heavily supported by private operators. This includes public toilet operation and fecal sludge management (FSM) services in urban areas. There are over 40 non-governmental and community-based organizations operating within Uganda’s urban sanitation sector. Stakeholders indicated the existence of Not</td>
<td>Sanitation as part of the WASH portfolio has successfully closed numerous innovative financial instruments in the globe including Africa and Uganda. WASH projects with more than 7% of blended finance transactions going directly towards water and sanitation. In addition, the Emerging Africa Infrastructure Fund, Climate Investor One, has also demonstrated interest towards</td>
</tr>
<tr>
<td>Among blended finance instruments targeting SDG goals, Zero Hunger, which indirectly addresses nutrition, encompasses 21% of the transactions with investors from philanthropic funds, banks, and commercial funds. Nutrition is also an attractive sector for social investment, evidenced by global interest and initiatives like the Power of Nutrition (PoN), one of the global financing mechanisms launched with a focus on “innovative” financing features, through leveraging and deploying resources for nutrition in new ways.</td>
<td>There are many innovative financing instruments in the water and sanitation sector globally, and within Uganda. To illustrate, In Uganda, SNV successfully run a four-year result-based financing program in sanitation using including hard and soft components of sanitation. Similarly, Nepal and the World Bank ran the Output-Based Aid for Municipal Solid Waste Management in 2011, a</td>
<td></td>
</tr>
</tbody>
</table>

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[29](https://www.convergence.finance/blended-finance#market-size)
Latent private sector capabilities that can be further leveraged through innovative financing

New funding sources that can be involved in innovative financing instruments

Existing track-record of innovative financing in the sector

<table>
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<th>Existing track-record of innovative financing in the sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>for Profit entities in rural areas, as well as small private enterprises providing sanitation hardware e.g. satopans.</td>
<td>water and sanitation related innovative financing projects.</td>
<td>pay for results approach in peri-urban areas in Nepal[30]. Other organizations such as Water.org has piloted two iterations of a unique WASH-focused innovative financing mechanisms.</td>
</tr>
</tbody>
</table>

Key takeaways

**Sectoral conditions in Nutrition make the two program areas strong candidates to leverage the private sector and crowdfund new financial resources.** Globally, there has been substantial and sustained increment in high-level commitment for nutrition. Among blended finance instruments targeting SDG goals, Zero Hunger encompasses 21% of the transactions with investor from philanthropic funds, banks, and commercial funds. [31] Global Commitment towards funding in nutrition has also been demonstrated by the numerous of initiatives, declarations, frameworks and publications developed across multiple stakeholder groups such as the UN Decade of Nutrition Initiative, the creation of global funding organizations for nutrition and, the Bill and Melinda Gates Foundation report on ‘Good Food is Good Business’[32]. Within Uganda the government is already working with private investors and NGOs to deliver market-based solutions in nutrition that are sustainable and affordable. Additionally, the nutrition sector is very familiar for innovative financing instruments. In Uganda, various result-based finance arrangements have been structured in the last years in the sector of health which include outcomes related to nutrition.

The sectoral conditions in sanitation make the two program areas favorable for innovative financing, under the leadership of the government or a committed donor to leverage the private sector and build on top of previous sectoral experiences with innovative financing. The GoU has experience with private operators providing water and sanitation services, in particular water operators can be incentivized to bring their capacity toward sanitation solutions. The sector is globally attractive for impact investors and blended finance, especially in areas involving infrastructure or health outcomes, - Blended finance is reported to redirect 7% of the transactions to water and sanitation, and 11% to infrastructure projects (not related to energy)[33] like large infrastructure projects in sanitation. Also, Innovative instruments have been wider applied to sanitation programs in the world, some indicative examples are the Nepal Output-Based Aid for Municipal Solid Waste Management, this scheme bridged the gap between the cost of delivering improved solid waste management services, such as capital costs and operations and maintenance costs, and the revenues that municipalities can collect for these services. Another example in Uganda is the successful experience of SNV with a Result Based finance program over a four-year period.

Below are details for the four program areas identified

**1. Prevalence of stunting in children under 5 years, in rural areas**

*Latent private sector capabilities that can be further leveraged through innovative financing*

The private sector in Uganda can be leveraged as a key stakeholder in providing nutrition related solutions through innovative financing. Interest and action from many NGOs and private companies show that there is significant

[31] https://www.convergence.finance/blended-finance#market-size
opportunity for use of market solutions to improve the health of nutritionally vulnerable populations. Market solutions are not new in the region, for example NutriGreens Ltd and Nutreal Ltd have shown the successful potential of market-based initiatives in the sector. NutriGreens Uganda, an already existing and potentially sustainable market driven approach that could address the low production of micronutrient rich foods is the adoption of a private sector led micronutrient innovation, currently being piloted in Kampala. Another example of a market-based solution to address micronutrient deficiency is the Super Kawomera instant porridge flour. This product was developed through collaboration between the Ugandan National Agricultural Research Organization (NARO), a private processor – Nutreal Ltd, University of Goettingen and, Hohenheim University. The Super Kawomera nutritionally balanced to contribute to the nutritional requirements of women of reproductive age and children below five years and affordable to a wide range of consumers. Within the region, Gain Nutrimark South Africa project to reduce the prevalence of stunting through addressing the problem of micronutrient deficiencies can serve as an example. GAIN worked with local private sector partners to create, distribute, and market the products which expand the availability of affordable complementary feeding products to 1.8 million local children. While there are lessons to be learnt from this project, the same market based rational can be applied in Uganda.

New funding sources that can be involved in innovative financing instruments

There is high latent potential to utilize innovative financing instruments through nontraditional funding sources to alleviate micronutrient deficiencies in Uganda. There has been important progress in raising the profile of nutrition on the global development agenda, and in making the case for increases in new financing for nutrition. For instance, in 2015, three financing mechanisms with a nutrition focus were created, namely Power of Nutrition, the Global Financing Facility and, UNITLIFE. These three organizations have a focus on “innovative” financing features, through leveraging and deploying resources for nutrition in new ways. Firstly, PoN multiplies contributions from each new investor by a guaranteed four times. The full amount is directed to nutrition interventions on the ground – not to overheads or operating expenses. Secondly, UNITLIFE leverages new resource flows through national-level micro levies on oil and other commodities to finance nutrition-focused interventions in the Africa. It uses digital innovation to collect voluntary micro-donations from non-state actors like customers at the time of a purchase. Lastly, the Global Financing Facility leads an evidence-based process, with partners, to prioritize and jointly invest in cost-effective interventions and the elimination of nutrition bottlenecks. GFF supports the ministries of Finance and Health in their efforts to use current resources more efficiently and in increasing domestic resource mobilization over time. These are examples of new and innovative funding sources that can be used to disseminate more efficient and effective solutions to the problem of micronutrient deficiency in children under 5 years.

Existing track-record of innovative financing in the sector

Use of innovative financing to address nutrition related outcomes is not a novel concept, many funding organizations have taken this route in different nutrition projects to address prevalence of stunting in children under five. Within the region in Tanzania, a Result Based Financing program which financially rewards health workers and facilities for reaching a series of qualitative and quantitative targets is an example of this. The RBF scheme has also led to measurable advances in many rural districts of Tanzania. This adds on to the existing track record of innovative financing to reduce prevalence of stunting in children under 5 years.

2. Prevalence of anemia in women and children

Two key interventions to lower the prevalence of anemia in women and children are: 1) the increase in iron uptake and stores; and 2) the reduction of iron losses through infection. An initial assessment of innovative financing potential to attract additional resources for this nutrition-related outcome presents as follows:

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34 Global Alliance for Nutrition (2017). Leveraging popular brands to bring better nutrition to South Africa.
Latent private sector capabilities that can be further leveraged through innovative financing

Innovative financing can potentially be used to leverage the private sector to play a key role in reducing prevalence of anemia in Uganda while still making profits through market-based solutions. Manufactured quality fortified foods have strong potential to contribute to preventing malnutrition. Existing food producers and manufacturers already involved in biofortification are indicative of the existence of a healthy private sector with independent capacity and market knowledge to address market-based solutions for nutrition if the right incentives are present. For instance, the Mukono Industries, Bidco Uganda, and Food and Mo are food manufacturing companies in Uganda at the forefront of food fortification strategies. More food manufacturing companies could potentially be incentivized to develop pro-poor food fortification products (e.g. through funding production and sale of products in smaller sizes available in multiple geographies). Combining this with specific demand creation strategies among rural populations e.g. through communication and messaging of the benefits of the products can create new markets for these manufacturers, while meeting nutritional needs. When demand is high enough, manufacturers will have a self-sustaining business model that would not require additional fund injections. Additionally, NGOs are playing a key role in nutrition which point towards the readiness for more private sector involvement. One such effort is the Meals for Nutrition for biofortified solutions in Uganda involving Harvest Plus (an NGO) and World Vision to reduce micronutrient malnutrition and improve dietary intakes of vitamin A and iron for 65,000 households in 4 districts of Uganda by 2021.

New funding sources that can be involved in innovative financing instruments

Given the latent interest in nutrition sector from the global community, there is potential to draw in additional funding through innovative financing in Uganda by aligning funder interests and priorities to nutrition-related outcomes to prevent anemia in women and children. Nutrition is an attractive sector for social investment, like evidenced by global initiatives. We believe that the Global Alliance for Improved Nutrition and, the Bill and Melinda Gates foundation can be leveraged to crowd in new funding in Uganda. GAIN is a Swiss based foundation that tackles human suffering caused by malnutrition. An example of crowding in new funding through non-traditional ways through GAIN is the Nutritious Food Financing Facility (N3F). This is a collaboration between GAIN and Incofin Investment Management (Incofin IM) to increase the availability of safe, nutritious foods among low income populations in Sub-Saharan Africa by providing financing and technical to Small and Medium Sized Enterprises (SMEs), which produce and distribute most of the locally produced nutritious food. N3F will be funded through a combination of public and private funding which is expected to attract USD 50M of blended sources of capital. Secondly, the Bill and Melinda Gates foundation has presented significant interest in nutrition through continued partnership with GAIN. In 2018, the ‘Good Food is Good Business’ report by the foundation which identifies five innovative opportunity zones for creating affordable and nutritious foods in lower income markets given proper investment in the food industry.

Existing track-record of innovative financing in the sector

The use of innovative financing to alleviate challenges related with nutrition through programs in Uganda is evident. The Maternal and Child Health Services Improvement project funded by the World Bank is an example of such programs. Its objective is to scale-up and institutionalize RBF to improve utilization of essential health services with a focus on reproductive, maternal, newborn, child, and adolescent health services in target districts. Additionally, within nutrition, the Global Financing Facility (GFF) focuses on innovative financing instruments to provide nutrition solutions for reproductive, maternal, newborn, child and adolescent health outcomes (RMNCAH). With ongoing projects in Cameroon, Congo and Kenya that incorporate innovative financing to achieve expected outcomes.

3. Systemic management of waste in urban centers

Latent private sector capabilities that can be further leveraged through innovative financing

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37 Sweet Potato Knowledge (2017). Meal for Nutrition, MENU.
In addition to ongoing government led initiatives, several non-governmental service providers are present in urban centers, with approaches that could be potentially viable for use within an innovative financing modality. Initial research suggests that there are over 40 non-governmental and community-based organizations operating within Uganda’s urban sanitation sector. One such example, as cited by the World Bank, is Water for People. This service provider is pioneering innovation in several areas to support better fecal sludge management. In the Northern Region it has worked with local and international partners in an attempt to develop viable service chains to small scale sludge treatment works in Lira and Kitgum. In Lira it has recruited, trained, and supported local youths to develop a small manual sludge emptying business using a Gulper, and provided a pedal tricycle to haul filled barrels to a small treatment site 10 km west of the town. Service providers with innovative approaches such as these that have the potential to develop viable commercial sanitation businesses, can be incentivized within an innovative financing modality. Also, the Kampala Fecal Sludge Management project has mapped, trained, and involved a wide range of formal and informal private operators to scaled up services and support the sustainability of a service on demand.

Private operators are already present in the operation and maintenance of water piped infrastructure and they could be incentivized to also address sanitation and hygiene services. Historically the government of Uganda has encouraged private operators to supply services as a temporal solution. The consequence of this, however, is that private sector is not engaged as a long-term partner for local government. Operator contracts are short in duration and limited in scope, both geographically and in terms of private sector responsibilities. “This severely limits opportunities or incentives for private sector investment to enhance service quality or drive up performance”. An innovative financing instrument could support the longer-term engagement of these private operators.

New funding sources that can be involved in innovative financing instruments

There is also potential for an innovative financing facility to introduce new funding sources in the systemic management of waste in urban centers. Building on the already existing coordination by the stakeholders in urban sanitation, traditional donors have recently engaged in financing large sanitation infrastructure projects like the Water Management Development Project (2013-2018), the Kampala Sanitation Project and the Lake Victoria WatSan project (Phase 1: 2012-2018 and phase 2: running from 2018 to 2023). There is an opportunity to engage the government in larger projects such as these to support long-term sustainability and impact of these projects. Features of innovative financing can attract other donors and investors towards this kind of investments by mitigating the financial risks, while allowing the government to keep the lead and the long-term responsibility.

Existing track-record of innovative financing in the sector

The Sustainable Sanitation & Hygiene for All Results program (SSH4) implemented in Uganda, Kenya, Mozambique, and other countries by SNV, successfully used a component of result-based financing. In Uganda, the program achieved all the expected outcomes; for example, open defecation rates fell from 16% to 7% over the four-year period of the program.

4. Sustainability of rural sanitation initiatives

Latent private sector capabilities that can be further leveraged through innovative financing

There is potential for an innovative financing modality to enhance the existing ecosystem, improving the sustainability of rural sanitation initiatives. At the rural level, community led approaches have been the most widely used to facilitate the achievement of sanitation outcomes. In addition to government initiatives, some service providers are supporting communities to set up and maintain sanitation facilities at a household and community level. For example, to drive

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40 Based on research conducted by the Environmental Policy Group on civil society participation in urban sanitation and solid waste management in Uganda, 2010.
42 Kampala Fecal Sludge Management, improving fecal sludge management for on-site sanitation, 2019.
43 UNICEF. 2019. The state of wash financing in eastern and southern Africa Uganda country level assessment.
44 Self-reported assessment from SNV in-country team
sanitation behavioral change, a rural based non-governmental organization, the Water Trust, works at community level, supporting the formation of community self-help groups that not only finance critical well maintenance to keep water flowing, but also provide a safe place to save and take out loans in rural unbanked communities. The Trust also trains the groups on how to promote good community hygiene and sanitation practices and ensures that each self-help group allocates a portion of their savings towards set-up, use and maintenance of sanitation facilities. Incorporating service providers such as the water trust into an innovative financing modality would enable the creation of demand for sanitation goods and services and potentially develop a wider reaching, and longer-term market for the same.45

**New funding sources that can be involved in innovative financing instruments**

Further, there is potential for an innovative financing facility to crowd in additional resources to facilitate sustainability of rural sanitation initiatives. As enterprises within the rural community would be the last mile providers of sanitation goods and services, there exists potential to attract local, unconventional funders such as microfinance institutions. The design of the innovative financing modality would clarify to such institutions how any funding they would provide would be recovered. Other funding types, for instance grants, that could potentially be required to support market development would also be defined. Experiences in other context have shown success of market based initiatives, with the center planning of the government or a committed donor; that is the case of Cambodia: Sanitation Marketing Scale Up, Funded by the BMGF, World Bank, Stone Family Foundation, AusAID, Trip Advisor Foundation and the Lead Implementer: iDE Cambodia, which demonstrated that developing markets for sanitation is able to contribute to significant increases in latrine coverage. Another example is the ‘Peru: Creating Sanitation Markets’, funded by World Bank and aimed at the market promotion of sanitation for population at the bottom of the pyramid; it pays special attention to the active involvement of the domestic private sector (large-scale providers, microfinance institutions, and community based microenterprises) in sanitation supply, and enhances public awareness of sanitation as a business opportunity that also benefits local opportunities for development.

**Existing track-record of innovative financing in the sector**

The international experience shows that a combination of financial efforts must be in place to address rural settings. For example, in Bihar, rural India, the creation of a market-based initiatives was possible after segmenting, characterizing, and matching different financial needs with the right financial options. The comprehensive approach includes grants for the poorest, subsidies, and flexible loans for other segments of the population as well as support to the supply side and the financial institutions.

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45 Other preliminary service providers identified include: 1) Ryan’s Well Foundation working with Ruhinda Women Integrated Development Foundation as a service provider to build wells, latrines and improve handwashing; and 2) The Sanitation Solutions Group Sanitation Solutions Group (SSG), a market-based sanitation firm that was founded in August 2014 with the overall objective of providing affordable sanitation products and services to households and communities in Uganda.
5. Sector analysis conclusion

In this section, we summarize the commonalities and differentiating factors identified in the course of the previous sections, ending with a conclusion on where to focus the innovative financing instrument.

Commonalities

Our analysis shows that the two sectors have many points in common:

- **Impact**: Poor nutrition and poor sanitation have large negative impact on citizens of Uganda, especially in rural areas, and especially the most vulnerable, children and women. Sanitation is one of the top three causes of death in children in Uganda, killing about 33 children per day. Diseases directly and indirectly attributable to sanitation and hygiene are not only life threatening, but also contribute to poor cognitive development and school performance. Nutrition-related factors contribute to about 45 percent of child deaths under age 5 globally. Among undernourished children who survive, more than one quarter suffer from stunted growth, which can impair neurological development and learning.\(^{46}\)

- **Cost-effectiveness considerations**: Evidence shows that highly cost-effective interventions can be deployed in both sectors that can reduce mortality and morbidity. In fact, Givewell’s yearly search for the most cost-effective interventions consistently highlight nutrition and sanitation interventions as some of the most cost-effective strategies to fund to save lives and reduce morbidity. Last year, 7 out of the top 16 charities Givewell selected were delivering nutrition or sanitation interventions. In Uganda’s resource-scarce environment, both sectors provide some of the best opportunities to maximize impact per dollar spent.

- **Largely insufficient funding**: Nutrition and sanitation are both massively under-funded areas of service provision, with close to zero government budget, and variable donor contributions, which are still pale in comparison to the need.

- **Complex delivery**: In both sectors, achieving outcomes require careful superposition and coordination of behavioral interventions around community norms and habits with the distribution and maintenance of products (micronutrient supplements, tablets, etc. for nutrition, and sanitation facilities, chlorine dispensers, etc.). To add to complexity, in absence of funding, programs resort to creative and community-driven approaches such as influencing crop production or creating village savings groups, which are unfortunately less scalable.

- **Innovative financing can offer newer, more scalable, more sustainable and effective pathways to results**: Our analysis in sections 4.2 and 4.3 shows that both nutrition and sanitation programs stand to benefit from the common value propositions of innovative financing. First, if well designed, innovative financing can significantly increase the cost-effectiveness of sectoral programs. Second, there is a potential to stimulate the latent potential of multiple private delivery organizations with private capital, which can attract new resources and scale up programming in the sectors. There is the promise of more cost-effective programs delivered at larger scale in a financially more sustainable manner.

Differentiating factors

Our analysis also shows some differences, which are worth considering. However, there are three differentiating factors that suggesting a narrowing down to sanitation in subsequent phases of the report.

- **Government leadership and engagement**: While government engagement at national level is higher within nutrition, as evidenced by the presence of a coordinating body in the office of the prime minister, at regional level,

\(^{46}\) https://www.gatesfoundation.org/what-we-do/global-development/nutrition
interviews with stakeholders indicated that sanitation has more clearly defined roles and responsibilities. Therefore, an innovative financing instrument either within urban or rural areas, which would sit at a sub-national level, could potentially have a higher level of government leadership and engagement.

- **Funding levels from donors:** Although funding levels are very low in both sectors, donors have funded more in nutrition than in sanitation. However, sanitation is likely to have a greater potential marginal impact with additional, focused funding.

- **Maturity of the ecosystem:** Nutrition is ahead in terms of programs and the number and size of the current implementing partners compared to sanitation. Nutrition has also benefitted from a large track-record as well, providing a slightly more mature sector. However, coordination issues continue to detract from potential gains, with large funders e.g. GAIN withdrawing programming from the sector, due to limited evidence of impact. Sanitation does not currently demonstrate a large number of programs, implementing partners and robust measurement systems. This would make it be more costly to institute measurement practices and systems necessary for the implementation of an innovative financing instrument that focuses on results. However, lessons learnt from the nutrition sector could potentially reduce this cost and point to the best approaches to sustainably engage stakeholders within the sanitation sector.

**Conclusion on where to focus the innovative financing instrument**

While nutrition remains a viable candidate for an innovative financing instrument, we recommend the sanitation sector for a first order intervention. This is because:

- An innovative financing instrument that engages the private sector will end up adding more value precisely where multiple stakeholders are not engaged, and where funding levels are lower. The need for innovation is greater in sanitation.

- While it is potentially more costly to implement innovative financing in sanitation in terms of building up M&E systems, and supporting implementation, there are likely to be stronger lines of accountability and institutional ownership at sub-national levels, depending on the intervention opportunity selected.

- The effect of COVID-19 presents new opportunities and establishes new priorities. We anticipate that while stakeholders may have shied away from sanitation for being seen as a riskier area of focus in normal times, the current epidemic has highlighted even more acutely the need for water, sanitation and hygiene, which we anticipate will generate greater interest to find innovative and cost-effective ways to expand sanitation.

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47 Stakeholder feedback from GAIN representative
6. Potential applications for an innovative financing instrument: Illustrations in the two key intervention areas within sanitation

This section provides a high-level illustration of how an innovative financing modality could potentially be applied within the two key intervention areas in sanitation using as examples well known programs in Uganda. The purpose is to offer a sense of how an innovative financing instrument could leverage on latent private sector capabilities and attract new funding sources to strengthen existing programs.

Sanitation Project 1: Strategic Towns Water Supply and Sanitation project

This is an investment project aligned to Uganda’s Joint Water and Environment Sector Support Program (JWESSP 2018-2023) and is being implemented by government sector departments. The program goal is to increase access to clean water and sanitation services in several major urban centers by 2023. As such, it could be a contributor to the first intervention area identified in sanitation, systemic management of waste within urban and peri-urban areas.

Local existing approach and potential within an innovative financing instrument

One of the major approaches of this program is training of locals within the town on appropriate urban sanitation mechanisms such as masonry and mechanic artisans for construction of sanitation facilities and waste management. It is expected that at least 20 percent of those trained must be women. An innovative, local market driven approach, the Diamond Approach, involving enterprising local businesses to achieve this objective was tested in Rwenzori Region. Approaches like the diamond approach have the potential to unlock latent private sector capabilities and introduce new funding sources when applied within an innovative financing instrument as illustrated below.

**Figure 6: Local existing approach in urban sanitation: The Rwenzori Diamond illustration**

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### Local existing approach and potential within an innovative financing instrument: The Rwenzori Diamond illustration

**Background**

The Rwenzori Urban Sanitation and Waste programme was active in the Rwenzori region between 2011 and 2015 and was implemented using the Diamond Approach. This approach encourages and supports building local partnerships and cooperation with local authorities for scalable and sustainable provision of services for all. The programme particularly focused on 4 municipalities in Uganda: Fort Portal, Kyenjojo, Kamwenge and Kyegegwa Town councils. The main aim of the program was to facilitate services provision by private sector entrepreneurs in emptying pit latrines. An initial grant was provided for the construction of fecal sludge disposal and treatment lagoons to make the final disposal less costly for the pit emptiers due to lower transportation costs. HOFOKAM, a Ugandan microfinance institution was part of the consortium implementing the program. It provided loans to both the private sector (the pit emptiers) as well as to households. The program started connecting clients to HOFOKAM for WASH loans in its promotion and awareness campaigns. This resulted in 20 small enterprises taking out loans. The program also focused on the creation of a market for the local entrepreneurs by carrying out different activities, such as:

- Production of Sanitation and Waste promotional materials
- Conducting home visits and inspections for promoting improved hygiene and sanitation
- Follow-up on action plans developed during the community triggering sessions
- Carrying out enforcement operations for the existing sanitation laws and regulations
- Use of the media to create demand for sanitation products and services
**Results achieved**

The program enhanced the business and marketing capacity of the local entrepreneurs. Specifically, the program supported 3 types of entrepreneurs: constructors, pit emptiers and managers of public toilets. The business capacity development was executed by a local business consultant USSIA. The business consultant followed the Diamond Approach to:

- Identify and assess (new) WASH entrepreneurs
- Conduct business training and provide hands-on support
- Conduct an exchange visit for the entrepreneurs
- Provide marketing, linkage and support supervision to the sanitation entrepreneurs

**Potential within The Diamond approach**

Innovative financing could incentivize greater results from business consultants such as USSIA to build the capacity and stimulate demand for sanitation products. Additionally, funding flows through microfinance institutions can facilitate initial, low cost credit facilities to entrepreneurs, enabling them to service multiple locations and obtain economies of scale.

**Considerations when implementing this approach at a larger scale**

- There is potential to increase efficiency by using standard proven approaches and products, and innovations geared towards lowering costs within the sanitation ecosystem.
- Initial funding and outreach efforts would be required to further develop local demand and citizens who are willing to pay for WASH services.
- There is potential to attract diversified funding from impact investors such as the Water Credit as the involvement of the private sector demonstrates sustainability.

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**Global existing approach and potential within an innovative financing instrument**

As the Strategic Towns Water Supply and Sanitation project is focused on urban sanitation, an innovative financing approach rolled out in Ghana that brought in additional funding from Micro Finance Institutions could potentially be applied to stimulate demand and make the sanitation ecosystem self-sustaining. This is illustrated below.

*Figure 7: Global existing approach in urban sanitation: Ghana Urban Sanitation illustration*

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**Global existing approach and potential within an innovative financing instrument: Ghana Urban Sanitation Output Based Aid Approach**

**Background**

In Ghana, output-based aid (OBA) was used to improve affordability for households in crowded low-income areas of the Greater Accra Metropolitan Area (GAMA) to invest in improved household toilets. OBA was provided as a subsidy to reduce the upfront cost for toilets and stimulate demand, which in turn made it more attractive for financial institutions to enter this market.

**How the output-based aid approach worked**

The project sought to facilitate private investment in improved sanitation. Technical assistance was provided to (i) build the capacity of small and medium enterprises to supply toilets; (ii) help develop the market for financing household sanitation investments; and (iii) support financial institutions interested in partnering with the project to develop suitable savings and loan products.

While the initial interest by both enterprises and households was high, there was low uptake in the initial pilot of the approach. Further analysis revealed that homeowners were reluctant to borrow for an investment that does not generate income. Likewise, MFIs were accustomed to lending for income-generating businesses and lacked experience with home improvement loans and perceived them as high-risk ventures.
Two measures were taken to stimulate demand for toilets and for borrowing, where necessary: (i) the subsidy was raised to 70 percent, accompanied by publicity that the cost of toilets had been reduced; and (ii) the local government undertook stricter enforcement of by-laws requiring each house to have a toilet, reminding registrants to keep paying and periodically imposing fines to pressure homeowners to comply.

Steps to make the supply of financing more accessible included: (i) workshops with micro finance institutions to ascertain their concerns and inform them about successful experiences in other countries with lending for sanitation investments; (ii) providing data on toilet registrants showing that the majority had micro and small businesses that would make them suitable clients of MFIs; (iii) signing a memorandum of understanding with interested financial institutions; (iv) providing technical assistance in developing savings and loan products suitable for sanitation investments; and (v) getting local authorities to sign up homeowners for a savings or loan program to complete their payments.

Progress to date

- Lowering the cost of the toilets by increasing the subsidy rate immediately affected the willingness to pay of the target population, with the number of installations increasing to 270 percent. This increase was facilitated by engaging larger contractors who were better able to clear the backlog of orders and service the increase in demand. Larger contractors were also better than the smaller suppliers at marketing to mobilize additional beneficiaries in the areas where they were operating.
- The demand stimulus also attracted financial institutions to enter this market. Previously, the only loans available for toilets were through NGOs and MFIs with a social orientation. These depended on grants and low-cost funds to make toilet loans available at below market interest rates. The project sought to mobilize financial institutions able to commercialize lending for toilets on a larger scale. Market information showing that most registered project beneficiaries had micro and small businesses made them attractive to MFIs as an entry point to gain more potential clients for their normal business of savings and loans for income-generating activities.

Lessons learnt while implementing this approach

- The partial OBA grant for toilet installations was the primary instrument to leverage savings from households by making the cost more affordable.
- The grant was also the instrument to leverage commercial finance from the MFIs by keeping the loan size low enough for beneficiaries to qualify for credit.
- The initial 50 percent subsidy by itself was insufficient to generate adequate demand to reach project targets.
- Demand accelerated in response to a combination of (i) raising the subsidy; (ii) marketing; and (iii) increasing enforcement of regulations.

Considerations when implementing this approach in the Ugandan context

- Although the project provided technical assistance to the small suppliers that initially came forward to implement the project, engaging larger contractors was critical to be able to install larger numbers of toilets in a timely manner and to achieve economies of scale through bulk installations in a given area in order for costs to fall over time. Reducing costs is important both to phase out subsidies and to make toilets more affordable to households that do not qualify for subsidies.
- To apply a similar innovative financing approach in Uganda, the initial price point for sanitation equipment would need to be low enough to be affordable at household level. This would potentially involve grant fund injections to Micro Finance Institutions to facilitate lower cost loans to the private sector. As demand accelerates, this funding source would no longer be required.

Impact investors in the water and sanitation sector, such as WaterCredit and WaterEquity, could be potential funders for an Output Based Aid approach.

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Sanitation Project 2: Uganda Sanitation Fund Program. (USF)

Identified challenges that could be addressed through innovative financing

This government run program, targets 5.6 million people in over 9,000 villages, to live in open defecation free environments, and to adopt good hygienic practices\(^49\). Key indicators tracked include the number of people with improved toilets, the number of people living in open defecation free environments and the number of people who wash their hands with soap. The program focus goes beyond attaining an open defecation free environment and the USF is embedded in the government-led campaign to address wider environmental home improvement such as hygienic kitchens, animal pens, rubbish pits, drying racks and clothes lines, clean homes and compounds and safe water supply.

Local existing approach and potential within an innovative financing instrument

A core constraint that was cited by various stakeholders within this program is the limited funding available to drive the attainment of set outcomes. An already existing and potentially sustainable market driven approach that could address the low funding available through community led activities is the Village Partnership Model, currently being implemented by The Water Trust.

Figure 8: Local existing approach in rural sanitation: The Water Trust illustration

Local existing approach and potential within an innovative financing instrument: The Water Trust Uganda

Background

The Water Trust is an independent Non-governmental organization, operating in Uganda. They are involved in the rehabilitation and maintenance of sanitation facilities, as well as sanitation behavioral change activities.

To drive sanitation behavioral change, they work at community level, supporting the formation of community-self-help groups that not only finance critical well maintenance to keep water flowing, but also provide a safe place to save and take out loans in rural unbanked communities. The Trust also trains the groups on how to promote good community hygiene and sanitation practices.

Potential within The Water Trust approach

By supporting communities to pool funding collectively, households and communities are able to purchase sanitation equipment e.g. Sato pans. This stimulates demand and where demand is high enough, it presents a viable employment opportunity for local artisans. The Water Trust also trains the local artisans on how to build high-quality sanitation products and they establish linkages between the self-help groups and artisan.

Progress to date\(^50\)

- There have been 120 self-help groups trained within the two districts where the Trust operates
- The annual savings and interest per group amounts to approximately USD 1,500
- There has been 93% functionality of water points with a self-help group

Lessons learnt

- Rural communities have the potential to jointly generate funding for sanitation products.
- Maintenance and accountability over community water and sanitation facilities e.g. a well is greater where community members have formal groupings.
- A community self-help group approach would not be suitable where populations are likely to migrate from one area to another.

\(^50\) The Water Trust 2019 annual report
Considerations when implementing this approach at a larger scale

- Financial incentives could be provided to service providers such as The Water Trust to support the formation and strengthening of self-help groups that fund and oversee sanitation service delivery across multiple rural districts.
- Micro Finance Institutions with a social orientation e.g. BRAC Uganda Bank Limited and microfinance institutions could be potential funders within this approach.

Global existing approach and potential within an innovative financing instrument

As this program is focused on rural sanitation, an innovative financing approach through a local microfinance institution to enable rural and peri-urban communities to set up sustainable water and sanitation points could potentially be applied to mitigate funding gaps. A pay for results approach with local financing institutions in Kenya, that has potential to be adapted to the Ugandan context is illustrated below:

Figure 9: Global existing approach in rural sanitation: Kenya Rural Sanitation illustration

Global existing approach and potential within an innovative financing instrument: Kenya Rural Sanitation Illustration

Background

In 2007, the World Bank launched a pilot with K-Rep Bank, a Kenyan commercial bank specializing in microfinance lending, to incentivize rural and peri-urban communities to access loan financing to rehabilitate and expand small piped-water systems.

How the innovative financing approach worked

Under the Maji ni Maisha loan program, investment projects of up to $200,000 that had potential to cover operational costs and partially repay loans were identified. Qualifying communities contributed 20 percent of project cost up front, and K-Rep Bank financed 80 percent through a medium-term loan.

On achieving pre-agreed targets, an output-based grant of up to 40 percent of project cost was awarded to communities that successfully implemented subprojects. Communities repay the remaining loans over five years through operating revenues from water sales. Technical assistance was provided to develop bankable loan applications and supervise project implementation. The program was scaled up with support from the European Union.

Progress to date

- By 2012, some 35 communities had borrowed $3.4 million from K-Rep Bank, raised $1.2 million of equity, and accessed output-based grants of $2.8 million, which enabled provision of access to 190,000 people.
- Participating communities reported an increase in productivity, including supplementary income from micro-level animal husbandry and vegetable farming.
- It was estimated that every $1 invested in the subprojects yielded economic benefits of $3 to $4

Considerations when implementing this approach in the Ugandan context

- Financial instruments that mitigate lender credit risk and improve financial viability would help encourage both borrowers and lenders and kick-start the flow of commercial finance. In Kenya, the use of partial credit guarantees, and output-based grants were instrumental in accessing commercial finance and making pro-poor investments viable.
- There would be a need for strong technical assistance to assess the financial viability and technical feasibility of investment projects, improve the bankability of utilities, and supervise project implementation was essential in providing additional reassurance to lenders.
- Sufficient scale of customers who are willing and able to pay for the services on offer is critical for revenue generation.
- Socially oriented microfinance institutions and non-governmental organizations such as BRAC and Caritas could potentially service such an arrangement in Uganda.
7. Next phase objectives and expected outputs

Below we provide more detail on our proposed steps to build on the findings in this Sector Analysis Report in the next phase whose key objective is to **assess the two intervention areas identified within sanitation, narrow down to one intervention area, and identify a viable innovative financing modality applicable within the selected area**.

Given that success of an innovative financing strategy depends primarily on the quality of service provision, the decision of where to focus will be primarily driven by an analysis of the capabilities of potential service providers to deliver innovative and cost-effective solutions. Therefore, as a first step, this analysis will consider capabilities present from private sector companies, social enterprises, and non-governmental organizations that are currently operating in Uganda. We propose to enumerate these capabilities through a representative map that identifies private sector companies, social enterprises and NGOs who offer a relevant product or service and outlining the different approaches they could bring into an innovative financing instrument. We will also assess the willingness and ability of potential organizations identified above to engage in an innovative financing modality within the two intervention areas. We will also identify the potential barriers to engagement that these organizations would face, proposed solutions and requirements to engage them

Secondly, we will evaluate what form of financing would best support the strongest capabilities available, and the availability of this financing. For instance, if many strong social enterprises are present, availability of impact investors as a source of funding would be investigated. To determine financing availability, we will consider whether the funders would be able and willing to finance initiatives in Uganda. As with the potential service providers, we will also outline potential barriers to engagement that funders may face in engaging with an innovative financing instrument within the two intervention areas.

Thirdly, we will provide a recommendation on the intervention area to focus on based on where the capabilities and potential financing are highest for further validation with UNICEF. Upon agreement on the intervention area to focus on, the Instiglio team will then move to the fourth step.

The fourth step within this phase will be narrowing down on a best – fit innovative financing modality. Within this step, we will define preliminary parameters for the innovative financing modality. These parameters include instrument size, target population, measurement indicators. These parameters will be developed collaboratively and will be validated through deep consultations with UNICEF and GoU.

At the end of the phase, the envisioned output will be a brief that provides an assessment of innovative financing constraints and the best-fit innovative financing modality for the recommended intervention area within sanitation in Uganda.
Appendix 1: Innovative financing forum: focus group discussion notes

Nutrition focus group key takeaways: What are the biggest constraints in the nutrition sector?

**Need to strengthen the M&E systems for nutrition**
- Work plans presented to the budget & monitoring team show unclear outcomes and targets in nutrition.
- There is poor enforcement and integration of set action plans.
- There is a need for a deliberate structure and funding for nutrition coming from the government.
- Guide setting of outcomes and targets along NDP III and UNAP 2.

**Local government capacity constraints**
- Lack of capacity in local government to specifically focus on nutrition.
- Nutrition is multisectoral and this often leads to reduced attention when teams have more pressing mandates.

**Funding competition from other health docket**
- Lack of adequate funding in nutrition compared to other health docket despite growing political will to support nutrition.
- There is poor coordination of funding received.

**Heavy reliance on development partners**
- Over reliance on the donor community: Nutrition has become a donor driven program over years and there is a need to address the fact that more than ¾ budget comes from donor partners.
- Corporate partners do not clearly see how can have a sustainable business within the nutrition sector and therefore support only through corporate Social Responsibility.

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**Additional Stakeholder views:**
- Consider food systems management and investments
- Think more creatively to solving this problem, for example the creation of a food and nutrition council.
- There are 7 billion dollars are required to meet the global funding gap in nutrition.
- There is a need to design innovative financing projects that are wholistic especially for cross-cutting areas.
- There is an opportunity to take advantage of existing initiatives within other social sectors.
- Engaging the private sector in delivering sustainable solutions to nutrition is crucial to success.

Sanitation focus group key takeaways: What are the biggest constraints in the sanitation sector?

**Cross ownership and policy challenges**
- Sanitation policies do not provide clear definitions on ownership and responsibilities. Sanitation and hygiene initiatives are spread across multiple ministries and agencies.
- There are weak multi sectoral linkages. Sanitation programs do not consider other complementary programs e.g. in nutrition.
- The effect of sanitation is not measured across sectors.
- Sanitation and hygiene contribution to GDP/GNP is not visibly evident.
- There are human resource constraints in terms of capacity and champions.
- There is lack of cultural buy-in and interest from external stakeholders.
Systemic waste management constraints within urban sanitation

- High infrastructure costs for waste management systems.
- Changes in project funding modalities there is a move from grants to loans with strong focus on infrastructure.
- Limited public messaging at a national level.
- Accurate and timely data for decision making is not available to all parties.

Sustainability constraints within rural sanitation

- Limited private sector involvement as there are no incentives to be in sanitation.
- Limited business cases within sanitation.
- High infrastructure costs for basic sanitation facilities e.g. construction of improved toilets.
- Weak institutional arrangements leading to limited collaboration by different actors.

Limited funding constraints

- There is limited government funding for sanitation as sanitation funding is not a key budget priority.
- There are overall high infrastructure costs in both rural and urban areas.

Additional notes:

- There is a need to research further: take advantage of new, motivating innovations not connected to work on the ground.
- Climate resilient designs with local government would prove useful.
## Appendix 2: Innovative financing forum: attendance list

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<td>UNICEF Uganda</td>
<td>WASH Head</td>
<td><a href="mailto:ssingh@unicef.org">ssingh@unicef.org</a></td>
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<td>Name</td>
<td>Organization</td>
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<td>14</td>
<td>Robert Ackatia-Armah</td>
<td>United Nations World Food Program</td>
<td>Head of Nutrition</td>
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<td>15</td>
<td>Timothy Stephen Williamson</td>
<td>World Bank</td>
<td>Consultant</td>
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