OBA for sustainable sanitation

Sophie Trémolet, Stockholm, 9th September 2010
Project objectives
- Explore the potential for OBA for sustainable sanitation services
- Assist with testing those approaches in a few countries

Key messages
- OBA for sanitation appears to have potential although it has been under-utilized so far
- OBA could
  - Improve the targeting and efficiency of subsidy delivery
  - Act as a lever for broader sanitation sector reforms
- OBA for sanitation is no panacea
  - There are implementation constraints… and ways to alleviate those
  - Does not detract from much needed broader reforms
The context

- Strong rationale for sanitation subsidies

- Issues with current subsidy delivery mechanisms
  - Lack of clarity about who should be financed
    - Fragmented responsibilities for sector supervision
    - Fragmented responsibilities for service delivery, weak operators (both financially and operationally)
  - Lack of clarity on what funds should be used for
    - Evidence of “wasted” hardware subsidies, insufficient focus on software
    - Mis-allocation of funds across the value chain: “too much” for wastewater treatment rather than access
    - On-site sanitation: households supposed to be main investors but get limited public support, despite strong externalities
    - Insufficient focus on environmental impacts of poor sanitation
The OBA approach

What is OBA?

- **Targeted performance-based grants** to help cover the gap between what the user can afford and the cost to the provider
- OBA “payments” to service providers **after pre-identified outputs have been delivered and verified independently**

- OBA part of a **broader framework of Results-Based Financing** (including CCTs, COD, performance-based financing)

- OBA **used to various degrees in a wide range of sectors** (roads, telecoms, health, education, electricity, water…)

How OBA differs

**Inputs** (such as materials)

**Service Provider**

**Outputs** (Services for End Users)

**Tradational Approach**

**Government purchases specific “inputs”, builds assets and contracts out or provides services itself**

**Output-Based Approach**

**Inputs** (such as materials)

**Service Provider**

**Outputs** (Services for End Users)

**Commercially Structured Finance**

OBA reimburses the service provider after the delivery of outputs
Limited use of OBA for sanitation

- A number of sanitation programs have performance-based elements without being “labelled” OBA
  - TSC campaign in India: subsidies to BPL HH after village becomes ODF
  - PLM in Mozambique: payments to workshops per slab sold / latrine built
  - PRODES in Brazil: linking payment to volume of wastewater treated

- **GPOBA has two ongoing sanitation projects in its portfolio**
  - OBA project in Senegal built on existing subsidy scheme, slow to start
  - OBA in Morocco: success, GoM requested scaling-up to IBRD

- **Key questions**
  - What explains such limited use?
  - At which step of the value chain can OBA financing be provided and can service delivery be packaged?
  - What other components (e.g. support services to SSIPs, micro-finance, etc) may be required to improve chances of success of OBA schemes?
The sanitation “value chain”

**Value chain**

- **Demand creation**
- **Collection**
- **Transport**
- **Treatment**
- **Disposal / Re-use**

**Types of services**

- **On-site with reuse**
- **On-site w/o reuse**
- **Partial on-site treatment**
- **Decentralised treatment facilities**
- **Treatment Plants**
- **Sewer connections**
- **Re-use** (energy, agriculture)

**Main actors**

- **Local governments**
- **CBOs, NGOs**
- **Households (investors)**
- **Masons**
- **Utilities**
- **Pit-latrine emptiers** (manual emptying, trucks, etc)
- **Utilities (sewers)**
- **Local governments**
- **SSIPs**
- **Local governments**
- **Local farmers, etc..**

**MDG focus**

- **Promote sanitation, create demand, community organisation**

**Environmental focus**

- **On-site with reuse**
- **Partial on-site treatment**
- **Re-use** (energy, agriculture)

**Environment**
Potential packaging

MDG focus
- Demand creation
- Collection
- Transport
- Disposal / Re-use

Environmental focus
- Treatment
- Sewer connections
- PRODES (Brazil)
- Gharbeya (Egypt)
- Sri Lanka

MDG focus:
- Promote sanitation, create demand, community organisation
- NGP awards (India)
- PLM (Mozambique)

Environmental focus:
- Payments to pit latrine emptiers
- Partial on-site treatment
- Treatment plans
- Payments for re-use
- Re-use sludge (energy, agriculture)

Potential packaging:
- On-site with reuse
- On-site w/o reuse
- Decentralised treatment facilities

Payments to pit latrine emptiers:
- Re-use sludge (energy, agriculture)
## Examples of services & output indicators

<table>
<thead>
<tr>
<th>Value chain</th>
<th>Services</th>
<th>Output indicators</th>
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<tbody>
<tr>
<td>Demand promotion</td>
<td>Sanitation marketing</td>
<td>Number of households who build/rehabilitate a latrine following demand promotion</td>
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<td>Social mobilisation, triggering</td>
<td>Number of villages/communities becoming ODF</td>
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<tr>
<td>Collection/access</td>
<td>Build on-site sanitation facilities</td>
<td>Number of facilities built and still operating x-month down the line</td>
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<td>Build and operate public toilets</td>
<td>Number of toilet blocks in disadvantaged areas (used/paid for)</td>
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<tr>
<td>Transport</td>
<td>Transport pit waste to designated points</td>
<td>Volume of waste transported to and disposed in designated locations</td>
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<td>Build and operate transfer stations</td>
<td>Number of transfer stations built and in function x-year down the line</td>
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<tr>
<td>Treatment</td>
<td>Build, maintain and operate WWT plants</td>
<td>Volume of waste collected and treated to required standard</td>
</tr>
<tr>
<td>Disposal/reuse</td>
<td>Build and maintain biogas facilities</td>
<td>Volume of productive agricultural input generated and sold to farmers</td>
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### Potential challenges and solutions (1)

<table>
<thead>
<tr>
<th>Common challenges</th>
<th>Potential solutions</th>
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<tbody>
<tr>
<td>• Service providers unable to mobilize pre-financing</td>
<td>• Combine OBA schemes with access to finance, such as through micro-finance</td>
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<td>• Service providers lack skills/experience to fulfill performance monitoring requirements</td>
<td>• Split the service providers’ remuneration between an up-front payment (“block grant”) and a performance-based payment</td>
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<td>• Financing access to sanitation is the “first mile” of adequate sanitation services: subsidies may be needed to develop the entire system.</td>
<td>• Package the services in order to attract larger operators, with better access to finance</td>
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<td>• Package the services so as to combine services to poor customers with services with less risky sources of revenue</td>
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### Potential challenges and solutions (2)

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</table>
| • Measuring sanitation outputs may be more difficult, and therefore more costly than in other sectors | • Methods to reliably measure behavior change associated with sanitation have been developed  
• An allowance for potentially higher costs for performance verification need to be built-in |
| • The subsidy per household required tends to be higher than for other services    | • Keep conveying the message that even if costs investment are high, benefits to society are also very high! |
| • Demand for sanitation services unpredictable  
• Households do not invest or skimp on quality of on-site sanitation solutions      | • Conduct thorough demand assessment studies as part of the design of the scheme (with adequate funding)  
• Communication to increase awareness, sanitation marketing                          |
| • Unwillingness-to-pay (or to charge) for sewerage services                        | • Build sewerage tariff increases as a condition for subsidy release }

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### Potential challenges and solutions (3)

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<td>Viability in question following end of pilot project</td>
<td>Set up a domestic OBA sanitation facility in the form of a “challenge fund” to provide regular flows of subsidies</td>
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<td>Available public subsidies are limited</td>
<td>Keep building the case to attract additional public funds to sanitation</td>
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<td>Identify alternative financing sources, including:</td>
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<td>- Cross-subsidies from other users or services (e.g. water)</td>
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<td>- Direct contributions from sectors benefiting from improved sanitation (e.g. hotels)</td>
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<td>- Value generated from re-use</td>
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Community toilets: Nairobi (Kenya)

NCWSC receives OBA subsidy to part finance capex for sanitation in informal settlements through Ablution blocks and sewer network intensification. Balance capex through user contribution +NCWSC share

WSUP Technical Assistance and Implementation partner

NCWSC pre finances assets through internal resources/local borrowings

Community pays service connection charges of approx Ksh 39,000 per block + Tariffs

Community Sanitation Facilities

Sewer Line intensification in slums

Independent Verification Agent

Disbursement upon verified output
In 1999: <½ sewage volume collected, <1/3 collected volume treated

ANA (National Water Agency) created in 1997, initiated PRODES program with objective to create incentives to invest in WWT
- Build new plants
- Enlarge/improve existing ones (higher-end treatment, new units)

History of wasted investment in WWTs: provide subsidies only for investments that works

OBA/PRODES: deliver subsidies based on reaching performance standards (e.g. payment per volume of treated sewage) rather than up-front based on works budget
- Incentive to use cheaper and more cost-effective options
- Incentive to maintain good operational performance
- Funds transferred to escrow account: not used if utility not performing

Results
- 2001-2009: 42 projects, reduced pollution for 6 million people
- ANA invested € 60 mn, utilities (public & private) € 184 mn