THE CHALLENGE OF FINANCING SANITATION
For Meeting the Millennium Development Goals

Increasing recognition on how sanitation directly impacts on health, improved living conditions, education outcomes and poverty reduction has intensified the advocacy for markedly improved sanitation access. The inclusion of direct sanitation targets in Millennium Development Goals (MDGs) and an understanding that improved sanitation is essential to achieving targets for health, education and environmental sustainability has given further impetus addressing the challenge of financing scaled up sustainable sanitation.

Sanitation in this context refers to the immediate household and community need for human excreta management required for privacy, healthy living conditions and a clean environment. On a wider scale, it also encompasses wastewater and solid waste collection, treatment and disposal. This summary outlines the key issues and steps in developing a public finance strategy for sanitation to meet the MDGs.

Conventional public finance in sanitation in the past had generally focused on subsidies for household and public toilets, and grants for urban sewerage and solid waste systems. Traditionally the approach to providing access to sanitation had been supply driven and focused on financing the building of toilets, installing sewerage networks and constructing treatment facilities. Most global finance estimates to meet the sanitation MDGs by 2015 are calculated using this approach. According to the Global Water Partnership the required annual expenditure to meet the sanitation targets is USD 17 billion for basic sanitation and USD 70 billion for wastewater treatment, and the annual finance gaps are estimated to be USD 16 billion and USD 56 billion respectively.

A review of emerging thinking and practice suggests that a shift in sanitation financing is required from financing ‘subsidies and grants for sanitation facilities’ to funding ‘sanitation promotion and leveraging resources’. A key concern among decision makers is the growing evidence that supply driven approaches to build more toilets with household subsidies are not effective in terms of sustainability, partly because users actual needs are not taken into consideration. This leads to a situation where the sanitation facilities are unwanted, inappropriate and unused. There are plenty of examples from different countries of unused facilities, toilets being used for storage in rural areas, households not connecting to sewerage systems and treatment plants that fail to treat sewage. This has led to a search for an

From Funding Grants and Subsidies to Financing Sanitation Promotion and Leveraging Resources
Current Financing Arrangements in Sanitation

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Focusing Government Funds on Sanitation Promotion

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1 This summary is based on a paper commissioned by Norwegian Minstry of Environment and prepared by Meera Mehta and Andreas Knapp of the Water and Sanitation Program Africa (WSPAF). However, the views expressed here are the responsibility of the authors and do not necessarily reflect the views of the Norwegian Ministry of the Environment. Copies of the full paper are available from the website of the Norwegian Ministry of Environment or the WSPAF.
appropriate sanitation promotion strategy that recognizes both the demand and supply sides within a marketing approach. In financing, the past reliance of governments on household subsidies for toilets tended to ignore or even ‘crowd out’ household resources. This outlook has changed in recent years and there is increasing recognition of the possibility of greater household and community resources through full or partial cost sharing for toilets, user fees for public toilets, and sanitation-related taxes or surcharges. Possibilities of market based resources are also being explored.

The differing needs of various sanitation sub-sectors means that sanitation promotion relating to demand and supply of sanitation is situation specific. Promotion can also support leveraging of market based and local government resources:

- Rural sanitation requires a focus on demand promotion and developing effective supply channels
- Urban informal settlements need promotion to resolve the tenure issues, backed by community mobilization and facilitation of NGOs and small private service providers in sanitation supply
- Urban wastewater and solid waste promotion implies a focus on commercial project development for market based resource mobilization, backed by ‘polluter pays’ type of charges
- In all these sub-sectors, promotion also includes advocacy with national/local governments

The review of emerging global experience shows that while the critical need for sanitation promotion is universally accepted, there is still no consensus on the right approach and strategy. In addition, the focus has been mainly on innovations although a few emerging experiences point to possible approaches for accelerated and large scale implementation to achieve country or citywide coverage.

Experience suggests that the immediate focus for leveraging needs to be on household and community resources, with market based resources mobilized only in the medium to long term. As the benefits of on-site sanitation are mainly private or localized at community level, leveraging greater household and community resources makes economic sense. This does however require public policies to create a ‘financing space’ through appropriate demand promotion, and to facilitate access through credit particularly micro or housing finance. Actual examples demonstrating success in leveraging household and community resources for sanitation can be found in countries as diverse as India, Lesotho, Vietnam, Bangladesh, Pakistan and Burkina Faso.

While recent experience, such as in Mexico, Brazil and India, suggests potential opportunities for leveraging market based resources through private sector investments or market borrowing, considerable capacity building for borrowers is required for wider adoption of this option. In addition, both national and local government resources need to be leveraged through advocacy and appropriate fiscal incentives.

Emerging practice from several countries and cities provide potential directions for scaling up:

- **Sanitation within a Sectorwide Approach (SWAp)** is applied countrywide. Scaling up is built into the approach as it uses government administrative and fiduciary systems. SWAps for water and sanitation are being developed in Uganda and Tamil Nadu (in India)
- **National Sanitation Programs** are being developed in Bangladesh and India through total sanitation campaigns. These are community led and use a people centered approach with local governments and NGOs, or as in Lesotho with limited subsidies and private sector involvement
- **Citywide scaling up for basic sanitation** is practiced in Ouagadougou, Burkina Faso through sanitation promotion funded through a local sanitation surcharge. In Pune, India, community toilets are funded through local authority’s own resources and managed by communities and NGOs

Implementation of this shift in sanitation policy at scale can be achieved in practice by evolving an appropriate public finance strategy that supports sanitation promotion and focuses on leveraging resources. There are six critical elements that require attention in its design:
SUMMARY

i. **Consensus Building on Approach:** Arriving at a local consensus on the methods and approach to be used in sanitation promotion and for leveraging resources

ii. **Clarity in Institutional Mandates:** Determining institutional mandates across ministries and at different levels of government

iii. **Sources and Allocation of Financial Resources:** Identifying all potential sources of finance, both public and non-public, and their use and appropriate mix in relation to incidence of benefits and costs

iv. **‘Fundable Activities’ and Financing Mechanisms:** Identifying activities to be funded, related financing mechanisms for flow of funds to create reliable and predictable cash-flows, provide fiscal incentives for promoting sanitation with local governments and ensure appropriate targeting of needed subsidies and grants

v. **Addressing Tradeoffs in Public Allocation:** Determining tradeoffs in allocation of public funds to appropriate sanitation activities

vi. **Monitoring and Continuous Feedback:** Designing performance monitoring framework that allows measurement of cost-effectiveness, benefits and implementation processes, and application of mid-course corrections

Key challenges to be addressed by national and local decision makers in developing a public finance strategy for sanitation are: institutional fragmentation, trade-offs in the allocation of public resources, and long-term commitment. Examples from case studies all show the advantages of appointing a lead institution and champion, and the importance of clarifying institutional roles and mandates, especially in the context of decentralization. Potential trade-offs in the use of public resources need to be assessed between basic sanitation in rural and urban areas and urban sewerage and citywide comprehensive slum upgradation, as well as between curative versus preventative health. Country and city governments are urged to prioritize sanitation through long-term political commitment translated to financial support through public funds.

The role of global and regional support agencies is critical for: advocacy, support through a continuing review and dissemination of global experiences, and funding the initial steps in developing a public finance strategy. Besides providing advocacy and technical design support, global and regional support agencies need to ensure a continuing review and dissemination of global experiences. They have an important role to play in filling critical knowledge gaps related to the cost-effectiveness of various methods of sanitation promotion in different country and local contexts, and in the development of performance monitoring frameworks for sanitation. Donor funding to facilitate initial steps in developing a public finance strategy can be critical and they need to follow this through by creating incentives and opportunities for focusing on sanitation promotion and leveraging additional resources. The role of private financing institutions and NGOs in this process is important for mainstreaming innovations in government strategies.