

# Presentation

Presentation from the 2009 World Water Week in Stockholm  
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**WORLD**  
in Stockholm,  
August 16–22, 2009 **WATER**  
**WEEK**



# The Debate on Subsidies in Sanitation Programmes

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# Conclusions



- There is **no single 'right' answer** to the design of financing arrangements for sanitation.
- Highest **priority for public funds** should be for the various components of "software"
- **Objectives vary**, with national priorities, with geography, with social conditions and health conditions and over time.
- The design of financing arrangements (including subsidies in all their forms) should be based on **sound empirical evidence and clear policy objectives**.
- Investing in this type of **informed policy debate up front** may result in a much more efficient use of scarce public funds and ultimately, better access to sanitation for all.

# Roles & Objectives of Subsidies



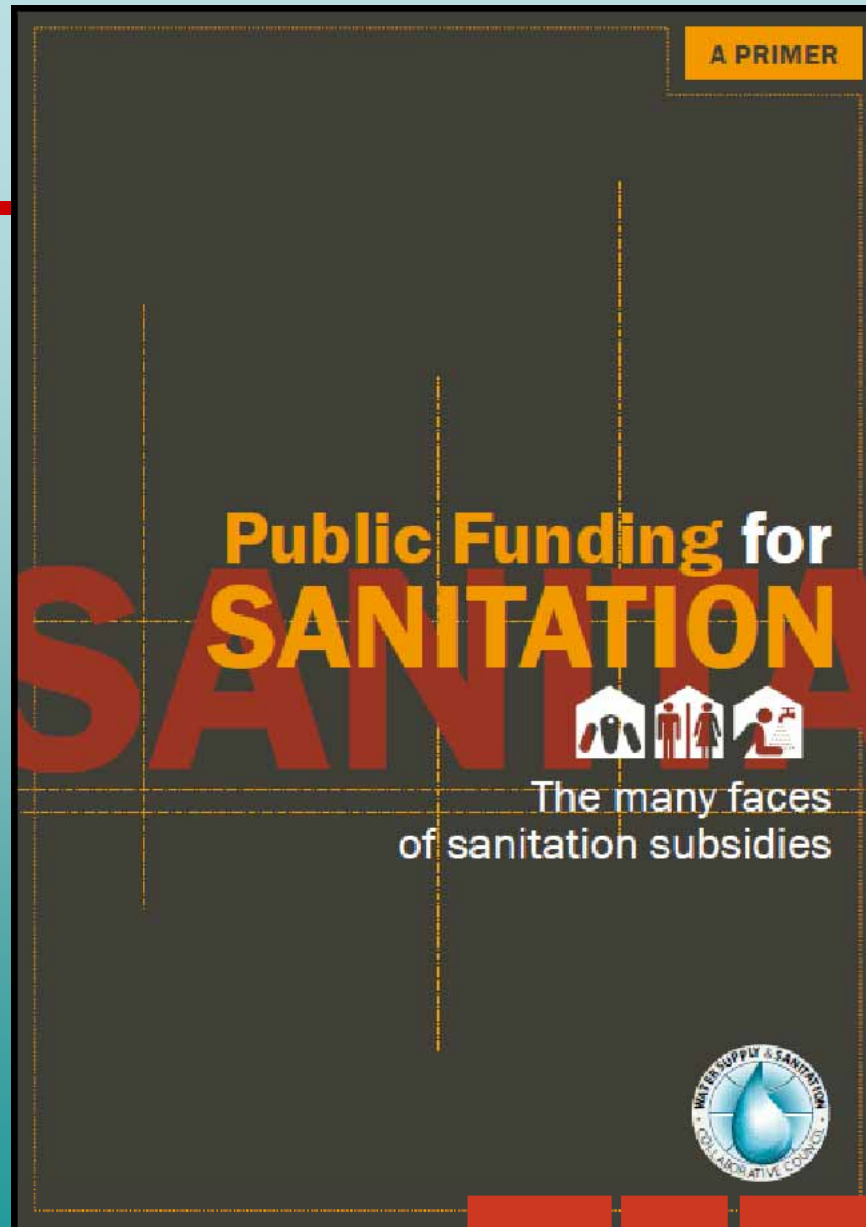
- **Rarely defined clearly:**
  - Both **Explicit** and **Implicit**
- **Economic and environmental:**
  - Better health (lower medical costs etc)
  - Increased productivity (& education)
  - Cleaner environment (less downstream costs)
- **Political and social:**
  - Dignity and Equity (eg rural v urban)
  - Empowerment, development spin-offs
  - Votes (and other rent-seeking)
- **Other:**
  - Not create dependency
  - Not compromise long term future arrangements.

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ELEMENT OF A SANITATION PROGRAMME	NATURE AND INCIDENCE OF BENEFITS	POTENTIAL RESOURCES FROM		
		Household/ community	Market-based resources (private and borrowing)	Public
ENABLING ENVIRONMENT	Largely public due to improved efficiency of public spending  Helps to leverage household and market-based resources			Government funds (mainly national) and some international support
PROMOTING HYGIENE BEHAVIOURS	Public and private due to community-wide health benefits and improvements in health at the household level  Helps to leverage uptake of sanitation		Some private resources from soap manufacturers and suppliers	Government funds (local) and NGO/donor projects  Local funds for health extension workers, promotion etc.
SANITATION MARKETING	Largely public due to increased demand, greater uptake and supply of more appropriate sanitation technologies		Some private resources from sanitary-service suppliers (i.e. for advertising, R&D, etc.)	Government funds (central and local) for enterprise development etc.  Local funds for health extension workers, promotion etc.
COSTS OF PUBLIC INFRASTRUCTURE AND SERVICES	Locally public - health benefits to wider community, improved school attendance and attainment	User charges for public/community sanitation and for access to e.g, urban sewerage	Some private funds for investments in pay-to-use public facilities, etc. ; market-based borrowing may be possible for public facilities (Build, Operate, Transfer schemes (BOTs) and concessions etc.)	Central/ local government funds for sewerage, school sanitation, hospitals, clinics etc.
COSTS OF PRIVATE INFRASTRUCTURE AND SERVICES	Blend of private benefits to households (improved health and convenience) and public health benefits from no open defecation	Household and community capital and operational costs	Borrowing from MFIs/housing finance organizations may be available	Central/local government funds may be available

# Unintended & Undesirable Consequences



- Emphasis on toilet construction without accompanying hygiene promotion - leading to limited health benefits;
- Heavily subsidised toilet construction -> unused toilets, low health benefits and passive attitudes of "beneficiaries" (clients? customers?);
- Once-off prizes for total coverage -> false claims, unsustained behaviour change and low health benefits;
- Sub-economic sewerage tariffs -> poor maintenance and environmental degradation;
- **Heavy subsidies until the budget ran out** -> leaving many without similar assistance and no incentive to use their own resources.

# Some principles for smart subsidy design



## Subsidies should:

- achieve the intended policy outcome
- reach the intended target groups
- be financially sustainable
- be implemented in a clear and transparent manner.

Source: WSSCC/WHO (2005) Sanitation & Hygiene Promotion: Programming Guidance

# Range of subsidies



- Direct subsidies
- Infrastructure subsidies (private facilities)
- Infrastructure subsidies (public facilities)
- Connection subsidies
- Operational subsidies
- Subsidies to small scale operators
- Cross subsidies
- Consumption subsidies
- Output-based subsidies
- Regulatory subsidies
- Subsidised credit

# Successful strategies?



## Examples of a carefully designed and managed financing regime:

- confining support to the software aspects eg demand promotion, awareness of hygiene practices, improving supply chains etc;
- charging city dwellers a more cost-reflective tariff with rebates for the very poor
- confining special support to the very poorest while encouraging all others to invest from their own resources (Methods for successful targeting?).

# Targetting Options



- **Means targeting**
  - National definitions and data (eg Maharashtra)
  - Local & community definitions and decisions (eg Madagascar, Cambodia, Bangladesh, Nepal, Vietnam, Senegal)
- **Geographic targeting**
  - National decisions (eg Vietnam, Senegal, Ecuador)
  - Rural, peri-urban, suburbs of cities
- **Service provider subsidies**
  - eg Mozambique, Senegal
- **Self-selection**
  - Low level of service (eg Mozambique)
- **Gender led targeting**
  - Supporting womens self-help groups (eg Nigeria).

# Conclusions (1)



- Sanitation services and sanitation improvement programmes generate **both private and public benefits**
- Public funds should **maximise public benefits** and not private items that can be funded by other means
- Any proposal to use subsidies should be **located within a larger** funding and subsidy **strategy**
  - linking budgets to objectives and projected outcomes
  - ensuring the minimum of unintended or undesirable consequences.

# Conclusions (2)



- **No single 'right' answer** for design of financing & subsidies
- Highest **priority for public funds** is for "software"
- **Many different objectives** of sanitation programmes
- **Be clear on policy objectives** and design financing arrangements (including subsidies) accordingly
- Starting with an **informed policy debate** can produce more effective use of scarce public funds
- and **better results** – more rapidly reaching all those people we seek to help.