FINANCING OPTIONS FOR SANITATION IN SMALL TOWNS AND URBAN AREAS

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OUTLINE

- Range of Costs
- What is to be financed?
- Cost Sharing arrangements
- Financing Options for Sanitation

RANGE OF COSTS

Smits and Fonseca (2007) looked at a range of costs, namely:

1. Capital investments in fixed assets (CapEx) – this is the cost of hardware investment in pumps, pipes, latrines, etc.;
2. Operating and minor maintenance expenditures (OpEx) – the annual operation and minor maintenance costs, such as the costs of diesel or electricity for pumping, costs of operational staff, small replacement parts – usually required to be paid by beneficiaries;
3. Capital maintenance expenditures (CapManEX) – the full depreciated replacement costs – rarely taken into account in investment decisions;
4. Direct support costs – the software costs (training, facilitation, community mobilisation, hygiene education, etc.) associated with the implementation and maintenance of hardware;
5. Indirect support costs – the costs that fall outside the direct system, but which are needed at higher levels of scale, such as training by districts, development of water resources management plans, etc.

WHAT IS TO BE FINANCED?

- **Individual toilets**-Individual toilets are the most affordable solution -to-day costs are generally low (water, paper and soap), but the costs of emptying full pits and septic tanks and disposing of the sludge are higher
- **Shared toilets or sanitation blocks**-Lack of space in low-income urban areas often makes the construction of individual household toilets impossible. Toilets may be shared by several households who pay recurrent fees to use these facilities.
- **Conventional sewage-** require by far the highest level of capital investment. Connection fee to be paid up front and recurrent costs paid monthly, at times up to 10% of household income.

COST SHARING ARRANGEMENTS

The Draft final National Water Sanitation Policy 2004 recommended the following cost sharing arrangements for Sanitation capital expenditure:

Agency	Rural	Small	Urban
Federal Government	50%	50%	30%
State Government	25%	30%	60%
Local Government	20%	15%	10%
Community	5%	5%	nil

FINANCING OPTIONS FOR SANITATION-1

Tremolé et al. (2007) identified five innovative approaches to finance sanitation in poor urban areas can be characterised by:

1. Low-income groups having information about various options;
2. Users and communities deciding for themselves;
3. Finance schemes acknowledging the need to cover soft costs (training, advocacy, knowledge) and hard costs (infrastructure);
4. The involvement of the local private sector;
5. The main source of finance continuing to be user fees (in order to be sustainable);
6. Breaking barriers to extend the service to unserved inhabitants.

FINANCING OPTIONS FOR SANITATION-2

There are several potential mechanisms available at the local level.

1. **Grants:** resources that do not require repayment or compensation. Very competitive because of limited resources of development partners. **Case study**: EU-WSSSRP III. Limited amount of resources of the international donor.
2. **Loans**: in contrast to grants, loans have to be repaid. Examples are microcredit and revolving fund schemes. Loans have hidden charges.
3. **Group saving schemes**: offer loans with special characteristics (interest only loans to cover the administrative costs, and with no collateral required).

FINANCING OPTIONS FOR SANITATION-3

4. **Federal Govt. budgetary appropriations:** First problem is that sanitation is in competition with other important sectors like education, defence, agriculture, health, etc. Moreover, inside the water and sanitation sector, the current lack of priority accorded to sanitation can harm sanitation allocations.

6. **LGA revenues:** Local revenue sources are being used to a limited extent for sanitation.

7. **Donor funds (state agencies/international NGOs):** donor funds from state agencies and international NGOs. Some don't have absorption capacity, which means that they may not be able to use the funds they receive efficiently

FINANCING OPTIONS FOR SANITATION-4

8. **North-south solidarity funds** (city twinning): a form of international tax transfer from local taxpayers in a developed country to a local authority in a developing country.

9. **Private Investments**: small-scale entrepreneurs financed by loans or financed by their own sources of finance.

   There is a case study of the Cattle market in Mubi where up to Ten thousand naira (N10,000.00) is generated as revenues on market days from use of the partially functional public latrine in the market

Source: IRC (2010). Sanitation Services for the Urban Poor: Partnerships and Governance. The Hague, The Netherlands

SHIT BUSINESS IS GOOD BUSINESS: THIS MAN MAKES N10,000 DAILY FROM MANAGING SHIT IN MUBI CATTLE MARKET


To you it may be "Shit"
To us it is "MONEY"
"Shit Business is Serious Business"
DMT