

Citywide Inclusive Sanitation: Resource Planning and Management

Responsibility, accountability, and resourcing

To achieve the SDGs and to support safe, healthy urban living environments, sanitation services must be organized into public service systems. Citywide Inclusive Sanitation (CWIS) systems are expected to advance the outcomes of **safe, equitable, and sustainable services** for all users in a city. To achieve these outcomes at scale, the inherent failures associated with sanitation service markets must be corrected by publicly organized sanitation service systems. For systems to function safely, at scale, over time, and inclusively, they must be organized to support three functions: **responsibility, accountability, and resource planning and management (See Box 1).**

Scarce global finance for urban sanitation makes its efficient use an imperative. Effective resource management and planning is critical to enable finance to be mobilised, well targeted, and accounted for. The enabling environment to support resource management and planning includes a combination of clear policies and mandates, transparent decision-making, and strong accountability systems. To provide some initial insights into these issues, a desk review was undertaken of over forty urban sanitation investments in twenty-eight countries across Africa, Asia and Latin America.

This is one paper in a series of three that will present the role of each CWIS function, how they tend to be implemented or overlooked, and how they interact with the other functions. These are initial framing publications, to be followed by longer publications centred around in-depth case studies.

Citywide Inclusive Sanitation as public service

Formal urban sanitation systems by and large focus on financing and managing piped sewerage infrastructure. In many urban contexts, these sewer systems are missing entirely; where they exist, they reach limited areas of the city, do not serve vulnerable informal communities, and are threatened by climate change, age, and inadequate or inconsistent water or energy supplies. Meanwhile, non-sewered sanitation systems (based around pit latrines, septic tanks or container-based solutions) are generally treated as a household responsibility to be addressed by private sector product and service providers.

But safe inclusive urban sanitation fundamentally protects the public goods of public health and the environment, irrespective of the hardware used to meet that need. The uncoordinated market actions of private sector and household decision-makers in aggregate will fail to protect

public health, safety, or inclusivity outcomes. Allocating subsidized public finance to a narrow market segment has often led to use of public funding that is both inefficient and inequitable, as it disproportionately excludes the poorest from the benefit of public subsidies. So there is an urgent need for institutional systems that incentivize city-level improvements in safe containment, emptying, transportation and treatment of fecal waste, including mechanisms designed explicitly to reach the poorest with equitably financed safe services and which protect the health and environment of the most vulnerable communities.

Recognizing sanitation as a public good does not imply that the public sector has sole responsibility. The private sector can play key roles within a publicly managed system. In fact, a well-structured and regulated sector can increase business opportunity and incentivize innovation to meet health and inclusivity goals.

Box 1: Key requirements for CWIS

As noted above, Citywide Inclusive Sanitation is fundamentally dependent on three things: clear responsibilities, strong accountability, and fit-for-purpose resource planning and management:

- **Clear responsibilities are necessary:** otherwise, who is to be held accountable for ensuring public goods and services are delivered? Particularly in the case of non-sewered sanitation, we often see fragmented and unclear mandates, with no single entity clearly responsible for ensuring that a city's sanitation (sewered and non-sewered) is functioning effectively and inclusively. Understanding the limits of responsibility is equally important: often public authorities are expected to act on social needs that are beyond the scope of their legal mandate.
- **Strong accountability is necessary:** mechanisms need to be in place to ensure that the mandated authorities are meeting the requirements of their mandate. The simplest model is regulation of subnational utilities by an independent national regulator. But depending on who has the mandate, other mechanisms for ensuring accountability may be applicable.
- **Fit-for-purpose resourcing is necessary:** mandated institutions can't meet their mandated requirements in the absence of mechanisms for ensuring the necessary financial resource. This is not just about sufficient finance: it's about well-designed and transparent processes for allocating finance based on agreed priorities and modalities, which are informed by data and tracked to ensure outcomes are achieved.

Figure 1: Financing Framework Development and Planned Outcome.



Resource Planning and Management: a framework for analysis

Well-articulated financing frameworks provide a strong foundation for investment

A robust financing framework is a key tool in mobilizing, planning and management of resources used to deliver urban sanitation services. By clearly setting out financing principles and articulating how financing decisions are made, financing frameworks can guide how central governments secure and allocate resources to sanitation authorities. Consistency and transparency in those decision-making processes enable greater integrity in financing processes, and support the appropriate use of resources, and the delivery of sustainable and scalable financing models. Preconditions to developing a financing framework include universal access targets and clearly articulated sector priorities. Financing frameworks also require the engagement of a range of stakeholders to inform the understanding of the financing landscape and risks, and to participate in the decision-making related to financial needs and allocations.

Financing frameworks are made up of several elements, but within a robust financing framework one can find principles on the use and flow of resources, pro-poor policies and tariff structures, and cost-recovery approaches. Other guiding documents include investment and financing plans, which consider available finance and human resource capacity. Ideally these would be built 'bottom up' from plans developed by local authorities and/or utilities. Financing plans, where allocation criteria are clearly set out, can result in more transparent and data-driven decision-making, and better monitored investment outcomes. Stronger monitoring has the potential to lead to investment effectiveness gains and more equitable outcomes.

Investments in national system soft infrastructure must accompany hard infrastructure

Planning for long-lasting services requires identification and estimation of the costs of delivering urban sanitation services, beyond hardware and labour inputs. Some progress has been made in identifying and allocating resources for operation, maintenance, and asset renewal costs, but there is also a need to identify and finance national soft infrastructure and lifecycle costs of operating those systems. The sector lacks examples and clear costings of the investments required to establish and maintain national system infrastructure to support service authorities, such as financial planning, management information systems, customer billing, and regulatory systems.

Public finance should be at the centre of a balanced financing mix

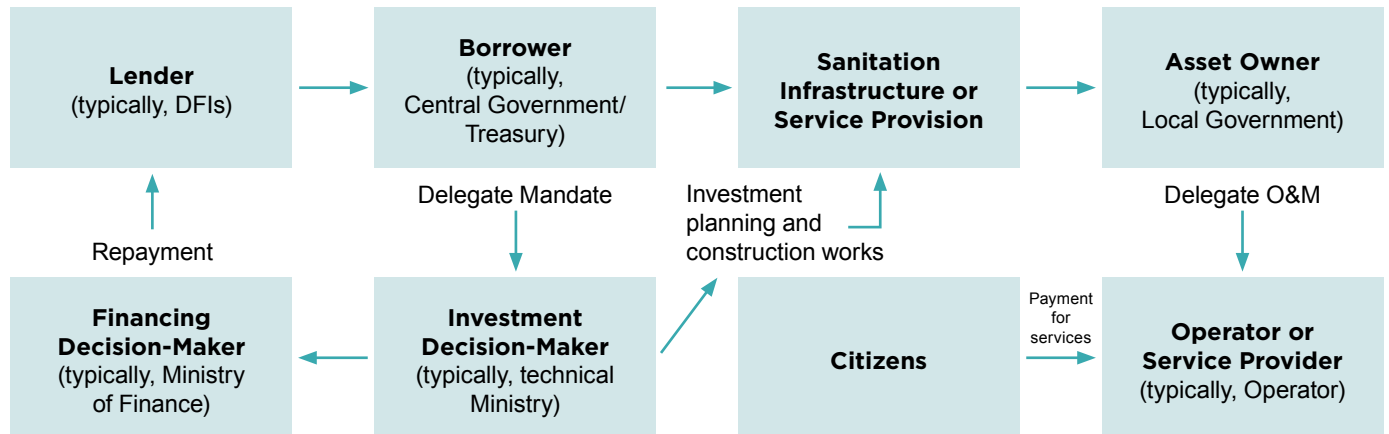
Developing countries finance the lifecycle costs of urban sanitation services through a combination of tariffs, taxes, and transfers (3Ts). While investment in urban sanitation from government taxes is justifiable due to sanitation services being a public good, evidence shows that governments allocate limited budget to this area. Despite being widely adopted in sector policies, total cost recovery through tariffs is difficult to achieve when full lifecycle and wider system costs are considered. Hence finance from development partners (grants and loans) remains the most significant source of finance for urban sanitation. However, there is an increasing consensus that resources should be leveraged to access finance from the private sector. Well-informed use of limited public finance, in tandem with appropriate mandates, accountability frameworks and resource management integrity controls, allow public finance to crowd in private finance rather than crowd it out. The balance of investment across the 3Ts is impacted by a country's context, including the clarity of the financing framework, and the alignment between investment and financial decision-making and service delivery mandates.

Financing mechanisms need to be tailored to fit what is permissible and desirable in different contexts

The legal, policy and institutional arrangements that shape the service delivery sector also shape the range of relevant financing mechanisms. For example, whether local governments are permitted and encouraged to borrow market finance, or to keep the money they raise from taxes. Analysis of country and context specific mandates and accountability structures (see typologies set out in the other papers) provides a useful framing to review the strength of financing frameworks and the appropriateness of different financing mechanisms. A significant challenge that urban sanitation services face is that financing decisions, investment decisions, asset ownership and operations often sit with different stakeholders, as set out schematically in Figure 2 (Page 3). Typically, the borrower is the national government, with the financing decision-maker the Ministry of Finance and the investment decision-maker the responsible "technical" ministry. The asset owner is often the local government, with a utility acting as the service provider. In different contexts these roles are played by different actors, in varying combinations, but this provides a useful framework for further analysis.



Figure 2: Illustrative example of financing and investment decision-making.



Resource Planning and Management: key opportunities and ways forward

Effective resource planning requires alignment of responsibilities, decision-making and incentives

Multiple organizations that participate in or depend on financing decisions need to collectively review and shape critical national finance decisions, including asset holders, investors, authorities, lenders, and various ministries. Often this process is opaque or ad hoc, with financing and investment decision-making not aligned with service delivery mandates, resulting in a mismatch between the incentives acting on different entities. This mismatch increases with the greater “distance” between service providers and financing decisions. Initial evidence from our review of urban sanitation investments suggests that having the financing and investment functions housed within a national ministry does not favour the autonomy and professionalization of decision-making. Where responsibility rests with a national authority, a predetermined multi-stakeholder group can support decision-making, such as in Burkina Faso, where a multistakeholder mechanism reviews sector progress and new financing commitments. Where responsibility for urban sanitation service provision has been devolved to a lower tier of government, ‘bottom-up’ planning and allocation of finance forces financing agencies to play a supportive role to service providers.

Weak monitoring limits understanding of investment effectiveness and creates risk for investment integrity

Our initial analysis of urban sanitation investments has highlighted the weaknesses in the monitoring of sector investments. Linkages between investments disbursed and results are often weak, with a focus on outputs, while access to and effectiveness of planned services often go untracked. This is compounded by the mismatch between financial decision-making and service provision, which can result in a lack of good quality and transparent investment data, and a lack of accountability for outcomes. This lack of transparency impacts the ability to hold financiers and mandated institutions to account. Aligning long-term plans and finance increases accountability, using tools such as economic regulation and a mix of positive and negative incentives. Effective monitoring also enables the review of

the sustainability and scalability of financial investment. This supports better analysis of the balance of finance between the 3Ts: for example, the viability of long-term public investment, or of dependence on external finance. In turn, this can provide greater clarity on the scalability of financial frameworks, and on mechanisms to widen and strengthen services.

Full cost recovery is infeasible: well-designed public finance crowds in private finance and benefits the poor

Moving beyond a financing approach centred around full cost recovery through tariffs is critical if countries expect to advance toward the SDGs. It is especially true if the service authorities are to transition investment plans and service systems to engage in fundamentally new and different lines of service; if they are to address the expansive non-sewered communities as customers with basic and immediate service needs; if the poorest are to be reached equitably; and if cities are going to be supported to cope with climate change. A greater contribution from the ‘tax’ element of the 3Ts is required and justified based on the rationale of the wider societal benefits of improved sanitation.

Increases in finance from taxes need to be accompanied by greater fiscal decentralisation to empower those mandated to deliver services and the requisite integrity measures to manage allocation, expenditure, and results of investment. Greater fiscal decentralisation can, for example, facilitate the required innovation in tariff systems and cross-subsidy models, which could both increase income and underpin a service provider’s ability to access commercial finance. However, the misalignment of responsibilities and incentives risks encumbering the transition to more localized financing mechanisms. For local governments and utilities there are few incentives to pursue a better balance of public and commercial finance when development finance is available. In the same way, development banks currently do not have sufficient incentives built into their lending operations to promote this transition.





Image: Faecal sludge management in Ethiopia. Credit: Chris Terry.

Commercial finance presents an opportunity, provided barriers can be overcome

Potential commercial investors need to be convinced of the opportunity and business case for providing investment financing into the urban sanitation sector. Local government's ability to access commercial finance in developing countries is often hampered by existing institutional frameworks that prevent such borrowing, and by poor creditworthiness of local government entities. While the former issue can be addressed through amendments to policies and regulations, the latter is likely to require improvements to corporate governance and fiscal sustainability of service providers that must be actively reinforced by central governments and regulators. This includes enforcement of government agencies' utility bill arrears and effective due diligence on the commercial viability of taking on additional debt. The extent to which commercial finance is accessed is also impacted by the maturity of local financial markets and professionalism of staff to implement the financing function effectively and establish alternative financing mechanisms. As with public finance, well-structured concessional development finance can be used to crowd in private finance, by making loans more affordable for local government and utilities and reducing risk for investors.

“ When financing and investment decision-making is not aligned with service delivery mandates, this results in a mismatch between the incentives acting on different entities.

Concluding remarks

Efficient, effective resource planning and management is essential to expand urban sanitation services and increase the equity of coverage. The sector's approach to resource allocations needs to shift to identify and plan the financing of national soft infrastructure and lifecycle costs of operating sanitation systems. A clear financing framework is required that sets out financing principles and institutional arrangements, and aligns investment and financing decision-making with mandates for service provision. To enable this, countries' institutional arrangements should support autonomy of action, professionalizing the planning and implementation of investments and improving accountability for how funds are spent with transparent reporting on investment decision processes, expenditures, and outcomes.

CITYWIDE INCLUSIVE SANITATION SERIES