Inclusive Urban Sanitation Stories

Financing incentives for improved access to safe household sanitation in Northern Uganda

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Figure 1 – Beneficiary household sanitation facility in Apac Town Cluster. Source: GIZ – Sanitation for Millions.

Summary

Sanitation funding gaps continue to exist while households lack finances that would facilitate the uptake of safely managed sanitary facilities. To bridge this funding gap and increase household access, alternative financing mechanisms must be sought. The Ministry of Water and Environment (MWE) and the Deutsche Gesellschaft für International Zusammenarbeit (GIZ) under the Sanitation for Millions project is implementing a blend of financing instruments targeted at increasing access to safely managed sanitation in Northern Uganda towns. Provision of emptiable toilets at household level aims to guarantee a feasible faecal sludge management system.

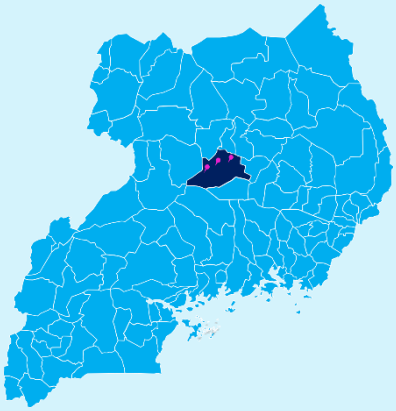
Partnering with the local governments of Apac, Aduku and Ibuje in Northern Uganda, under the national town sanitation planning framework, a series of assessments and pilot projects that build successful evidence towards safely managed urban sanitation in Uganda with varying financing mechanisms have been implemented.

This case study highlights the results-based financing mechanism that has triggered the private sector, access to credit through financial institutions and infrastructure subsidy to incentivise uptake from lower segment households. Lessons drawn are meant to support further development of models that can support scale up of improved sanitation across Uganda and other developing countries.

Overview

Geographical information

Country: Uganda
Town Cluster: Apac (Apac Municipal Council, Aduku and Ibuje Town Councils)
Town Cluster population: 45,000



Problem

- Small and medium towns in Uganda are growing rapidly and the sanitation systems are still predominantly unsafe with unlined pit latrines whose faecal sludge is not emptiable.
- Toilets that fill up are abandoned, and new ones hastily constructed adjacent creating dense unhealthy neighbourhoods.
- Faecal sludge treatment plants are being constructed around the country but are running at sub-optimal capacities as demand for toilet emptying is low.
- Close to 70% of populations in the project areas predominantly belong to lower-middle- and lower-income groups and lack the financial means to up-grade to emptiable toilets.
- Emptiable toilets are deemed expensive and accessing loans from commercial banks is prohibitive for most of the population.

Solution

- Financial incentives to households catalyse private capital that would have not been spent on sanitation improvement.
- Financial incentives in the form of targeted subsidies to households have the potential to partially off-set the cost of emptiable toilets.
- Off-setting 35%-55% of toilet cost considerably increases the household's ability to up-grade to emptiable toilets.

Problem

Uganda in the recent years has made good progress towards improving faecal sludge management in urban settings. These improvements have mainly focused on developing faecal sludge emptying and transportation and increasing the number of treatment plants in the country. Albeit these efforts, the demand for faecal sludge emptying and treatment remains low and there is a growing concern that the faecal sludge treatment plants (FSTPs) are operating at lower potential than the designed treatment capacities. The main reasons for low demand for faecal sludge emptying are: (a) a majority of toilet containment (pit latrines) are not emptiable; and (b) lack of financial liquidity at the household level to upgrade to emptiable sanitary systems, (c) lack of financing options catering to the middle and low-income household segments that would enable the upgrade of emptiable sanitary systems thus undermining the progress towards safely managed urban sanitation in Uganda.

Furthermore, the sanitation service chain[1] is increasingly being recognized globally as a public good in consideration of its effects on water resource protection and human health and should be adequately reflected in the Uganda water policy guidelines, which is currently not the case. Investment in safe containment[2] of faecal sludge is a household responsibility as per Uganda water policy guidelines. Despite intensified engagement from local authorities with communities to change sanitation behaviours and encourage upgrades to private infrastructure, service levels have been stagnating for several years now.

In Apac, Aduku and Ibuje, and other towns across the country, the primary reason for the low demand is that safely emptiable toilets are still widely considered to be expensive[3]. Many landlords and householders avoid the costly substructures designed to ensure the safe collection, containment and emptying of faecal waste.

A typical lower-middle- to low-income quintile, which is 70% of the population in the project area have little money to spare after covering necessary day-to-day expenses. Furthermore, formal loans are difficult to access as conditions, such as the need for a 20% down-payment for construction, are prohibitive and interest rates exceptionally high (20–25% per annum). Thus, uptake of formal lending is generally low in Uganda, with most people preferring to borrow from social relations or savings groups (53% and 46%, respectively). Furthermore, only 58% of Ugandan adults have access to formal financial services, and just 3% use banks for loans[4]. This

[1] Safely managed containment, emptying, treatment and disposal/reuse.
[2] Lined pit latrines that facilitate faecal sludge emptying and or sealed septic tanks with baffles.
[3] 1.5 million UGX (405 USD) for single stance, single lined pit latrine.
[4] Demis, 2019, Finscope Survey Uganda Report 2018.

project, covering three towns of Apac, Aduku and Ibuje in Northern Uganda, looked at ways to reduce the financial gap at a household level to upgrade sanitation facilities to emptiable toilets.

Solution

The GIZ in partnership with the MWE and local governments of Apac, Aduku and Ibuje towns, piloted a three-tiered approach that put vulnerable households firmly at the centre of the financing mechanism (Figure 2). This approach comprised (a) a subsidy for low-income households with a focus on the substructure, (b) access to tailored credit solutions for middle-income households were targeted with loans from financial institutions, and (c) results-based incentive payment for service providers to stimulate their participation in the sanitation market.

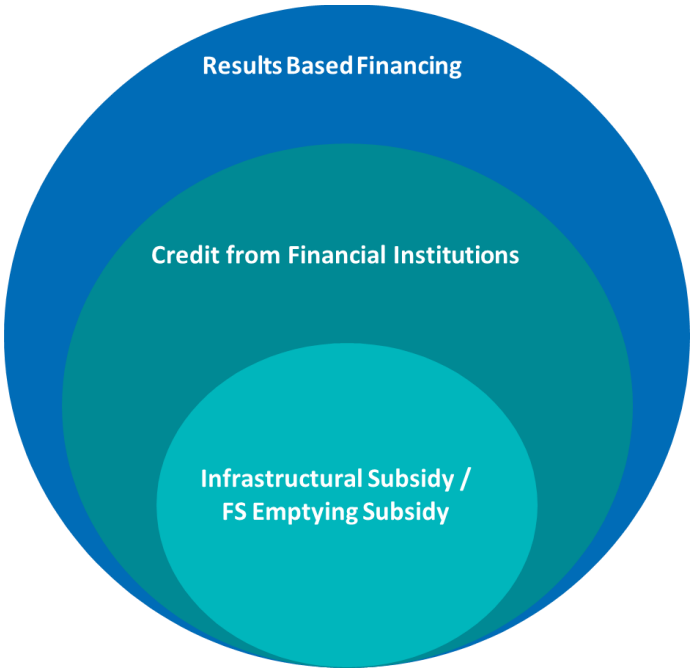


Figure 2 – Financing mechanism adopted by the project.

Results-based financing (RBF)

This is a way of offering an incentive for small local businesses to construct improved toilets to the minimum standards in line with the local authorities' sanitation by-laws. The RBF programme partnered with seven locally based construction businesses. The households and landlords or institutional customers would be liable for all associated costs of constructing their new toilet facilities, and where necessary they can draw on financial support from financial institutions. In approximately half a year period of implementing the approach, over 180 households improved their sanitation facilities with support from a financial institution, of which 50% were female-headed homes or homes where the females were decision makers. A key factor for success was the independent verification to ensure adherence to the minimum standards. A toilet catalogue

conforming to the standards was designed and provided to the masons and other private sector actors. Figure 3 shows the RBF process that was used during this implementation.

Figure 3 – Results-based financing model for Apac Cluster towns.

Credit through financial institutions

Whilst the RBF mechanism focused on service providers, their customers were offered the option to access credit through Sanitation for Millions partner financial institutions Caritas Fort Portal Sacco, PostBank and Centenary Bank and domiciled Village Savings and Loan Associations (VSLAs) within the town cluster. The emphasis was on negotiating credit options that would be available specifically for funding toilets, with manageable terms for the borrower and addressing the perceived credit risks. Furthermore, Caritas Hewasa, via their church-based Savings and Credit Cooperative (SACCO) offered quick, small loans with simplified condition to customers that did not qualify for the credit worthiness verification for commercial banks.

Infrastructure subsidy

Based on the results of the previous pilots, it was ascertained that affordability of toilets by the lower household segment remained challenging and a major barrier to uptake. A subsidy model for low-income households was then piloted to increase the uptake. The scheme was based on stringent eligibility and selection criteria that considered the capacity to complete the superstructure, proof of land ownership crucial for permanent toilet construction, and a recommendation from the local chairperson and religious institution. The applications for improved toilets under the subsidy approach was more than double the earmarked number of 50 toilets under the pilot. A total of 118 applications were received for consideration. This indicated that there was demand created by the financial incentives that were offered. Figure 4 illustrates the construction of toilet substructures in Apac. Additionally, it was observed that of the final

number of households selected, only 5% applied for loans with SACCOs to build the superstructure. It was generally acknowledged that the substructure promotional incentive was a significant support to offset the cost (35–55%) of new and safely managed toilets which were deemed expensive.

Figure 4 – Construction of toilet substructures at a household in Apac. Source: GIZ – Sanitation for Millions.

Lessons learned

The evidence from the project indicates that sanitation financing via commercial financial means is still in developing in Uganda and can only cater to middle and higher-income groups. The unaffordability of loans is particularly severe in Uganda: the high costs of lending and stringent collateral security requirements are significant barriers to Water, Sanitation and Hygiene (WASH) loans for low-income groups and only a selected few are eligible to be creditworthy. There is need to build capacity of commercial lenders on Sanitation needs so that this knowledge can improve the lending climate.

The financing instruments tested followed processes that were spearheaded by the local authorities. The toilet minimum standards and toilet designs were adopted by the technical and political departments. The physical planning and building approval committees have since reviewed and updated the minimum standards. Although they particularly appreciate the

substructure incentive for households, the local authorities lack funds to allocate for future years and remain dependent on external resources.

Incentivizing the low to middle-income households is crucial if safely managed sanitation is to be accessible. A study and policy brief has been prepared that proposes potentially viable models that the WASH sector can test based on the primary learnings highlighted.

Infrastructure subsidies have potential to increase demand for safely managed sanitation as offsetting the cost reduces the burden on households and incentivizes them to construct standardised emptiable toilets. By subsidising between 30–40% of the toilet costs, households did not need any further financial support to opt for an improved and emptiable toilet. Thus, financial incentives have the potential to unleash private funds that would otherwise not be spent on sanitation.

The targeting of financial incentives should not be limited to the most vulnerable households, but also be expanded to lower-middle and lower-income groups to demonstrate scale, which is crucial for sanitation business to be viable. Furthermore, programming financial incentives to lower-middle income groups initially could have a ripple effect on the lower-income populations.

Useful links

https://www.sanitationformillions.org/wp-content/uploads/2022/06/GIZ2021-en-increasing-access-to-safe-sanitation-and-hygiene-innovative-financing.pdf

https://www.sanitationformillions.org/wp-content/uploads/2022/08/Factsheet-Sanitation-for-Millions-Uganda.pdf

https://www.sanitationformillions.org/wp-content/uploads/2022/06/2021-success-stories-and-lessons-learned.pdf

Further reading and references

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About the author

Felix Twinomucunguzi holds a PhD (Civil and Environmental Engineering), MSc Resources Engineering, MMS Project Planning and Management and BSc Civil Engineering. He serves as an Assistant Commissioner in charge of urban sanitation in the Ministry of Water and Environment, Uganda.

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Fred Nuwagaba (Deutsche Gesellschaft für International Zusammenarbeit – GIZ Sanitation for Millions) is a civil engineering professional with over 20 years of practice. Fred possesses extensive experience in planning, development and strategic coordination of implementation of social services physical infrastructure projects including urban water, sanitation provision. Currently he is a country manager for the global GIZ Sanitation for Millions programme in Uganda. The programme promotes access to improved safe sanitation and hygiene in Ugandan cities.

Joan Asiimwe (Deutsche Gesellschaft für International Zusammenarbeit – GIZ Sanitation for Millions) is an advisor for faecal sludge management and innovative financing for urban sanitation. She has 12 years of experience in the sanitation sector and is currently testing a range of financing instruments and faecal sludge management business models.

Prit Salian (I-San Consulting) is an inclusive urban sanitation expert with more than 15years experience in sanitation planning, financing and policy.

About the institution / organisation

Deutsche Gesellschaft für International Zusammenarbeit – GIZ Sanitation for Millions

Sanitation for Millions Sanitation for Millions is a GIZ programme commissioned in 2016 by the German Federal Ministry for Economic Cooperation and Development (BMZ) as a multi-donor programme to contribute to safe and adequate access to sanitation. It considers the entire sanitation chain and applies sustainability criteria to ensure long-lasting results in line with the Sustainable Development Goals, in particular SDGs 6, 4 and 3. The programme operates worldwide, focusing notably on the needs of disadvantaged and vulnerable groups such as children, women and girls, indigenous communities, refugees and internally displaced people, as well as persons with disabilities. sanitationformillions.org; www.giz.de

Ministry of Water and Environment

The Ministry of Water and Environment is the lead government agency with the overall responsibility of the development, managing, and regulating water and environment resources in Uganda. https://www.mwe.go.ug/

About the IWA Inclusive Urban Sanitation Initiative

IWA's Inclusive Urban Sanitation initiative responds to a huge and growing public need - safe sanitation in combination with access to safe drinking water and hygiene underpins good health. The aim of this initiative is reshaping the global urban sanitation agenda by focusing on inclusive sanitation service goals--and the service systems required to achieve them - rather than the traditional singular focus on expanding sewer networks and treatment works. This forms part of IWA's larger agenda to promote inclusive, resilient, water-wise, and sanitation-secure cities.

About the Inclusive Urban Sanitation Stories

The Inclusive Urban Sanitation stories are documenting some of the policies, practices, and approaches that demonstrate how stakeholders especially those in urban areas (e.g., public sector, operators, academics, regulators, and other key actors) are taking part or contributing to Sustainable Development Goal 6 which require water and sanitation concepts and norms to look beyond technology and the usual focus on building infrastructure. Increased focus is on safety, inclusion, environment, public health, and multiple technology solutions tailored to different geographies and socio-economic contexts for building climate-resilient cities. The stories aim to inspire urban stakeholders to discuss ways for advancing inclusive urban sanitation, especially in low- and middle-income countries.