

Costing and financing of small-scale water and sanitation services

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Background

- Significant proportion of the pan-European population rely on small-scale water and sanitation services
- Insufficient funding remains a serious issue for countries to achieve their national WASH targets (UN-Water GLAAS, 2019)
- Small-scale water supply and sanitation services face a dual financial challenge
 - Unmet financial needs to cover expansion and improvement of services
 - Limited possibility to cover operation and maintenance costs
- Caused by:
 - Inherently limited economies of scale
 - Lower political and financial priority
 - Less well-developed institutional, regulatory and financial framework that governs these systems
 - Limited insight into current financial situation of such supplies, as shown in the GLAAS survey

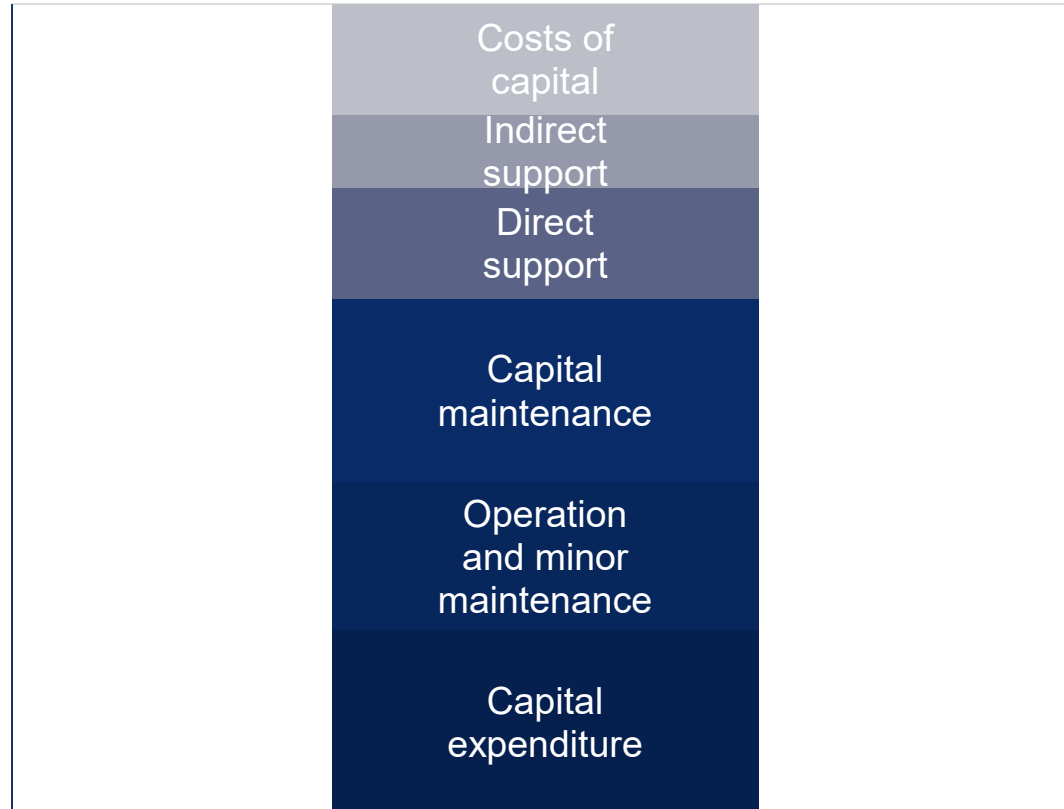


Scope

- This document:
 - Extension and improvement of small-scale systems requires financing strategies that recognise their specific needs and challenges
 - Key concepts and terminology related to the costs and financing of small-scale drinking-water and sanitation services
 - A discussion on the challenges related to their financing
 - A broad framework to identify strategies and options for addressing these challenges



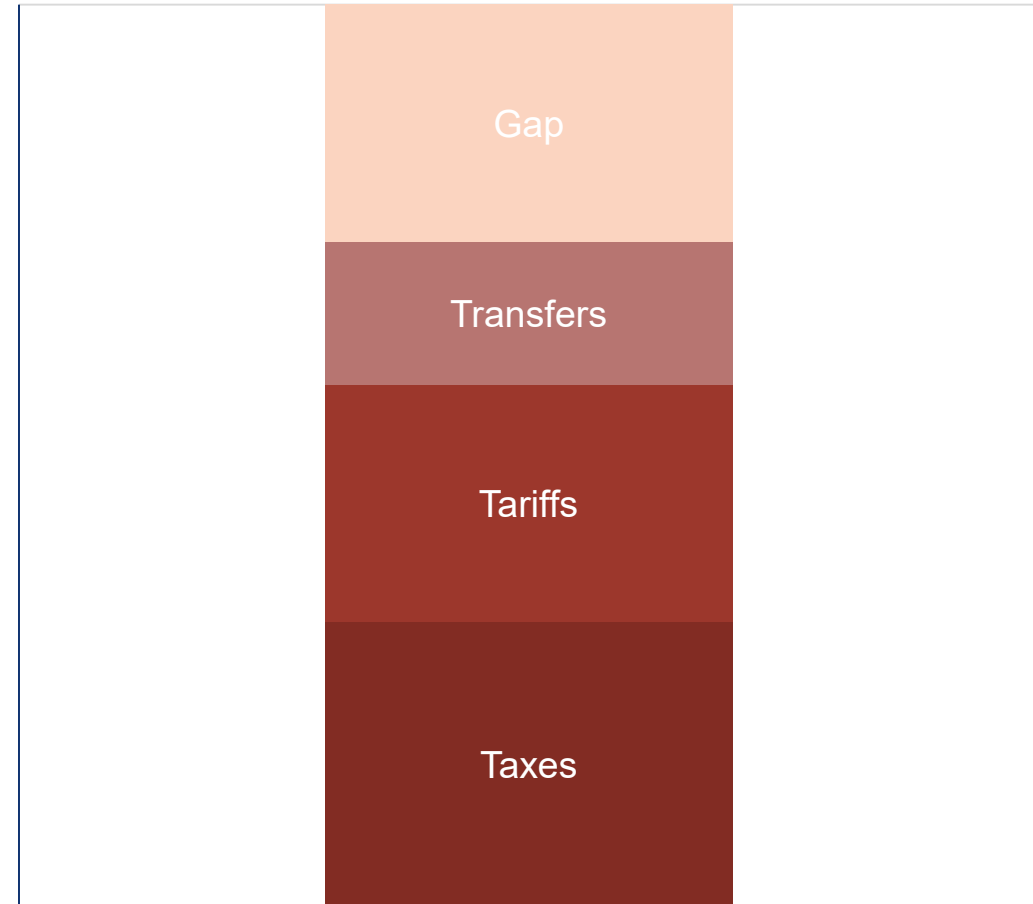
Key concepts: life-cycle costs...



Cost categories



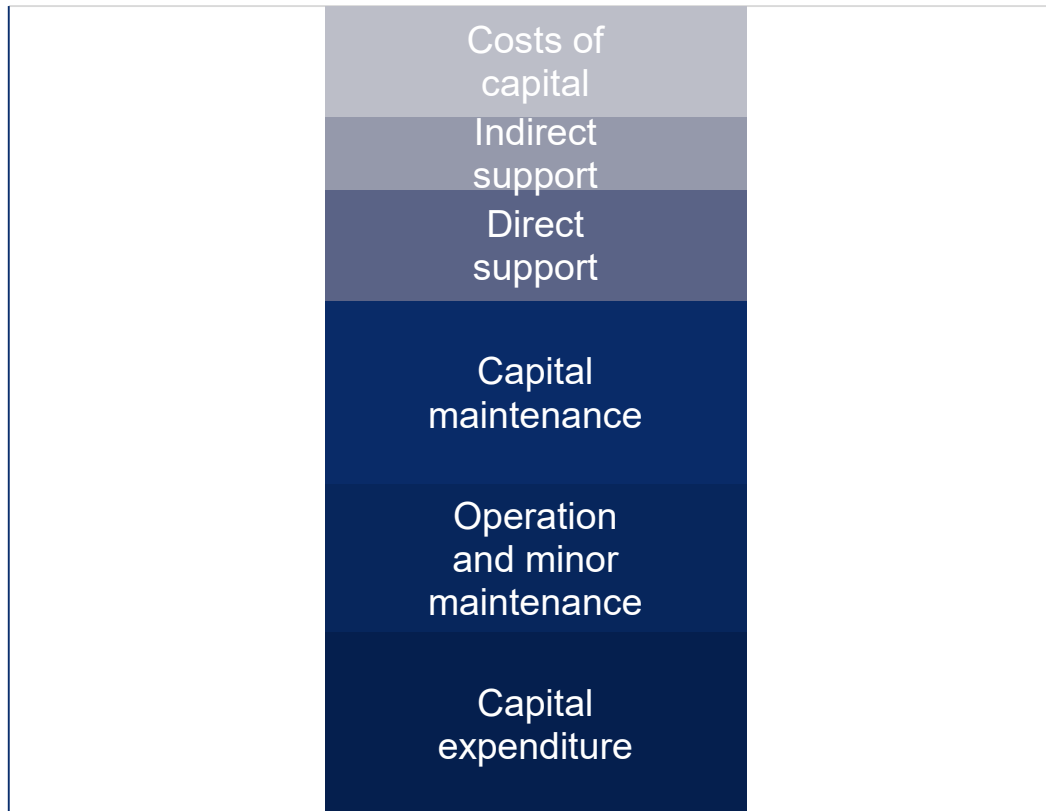
..., the 3Ts as sources of finance,...



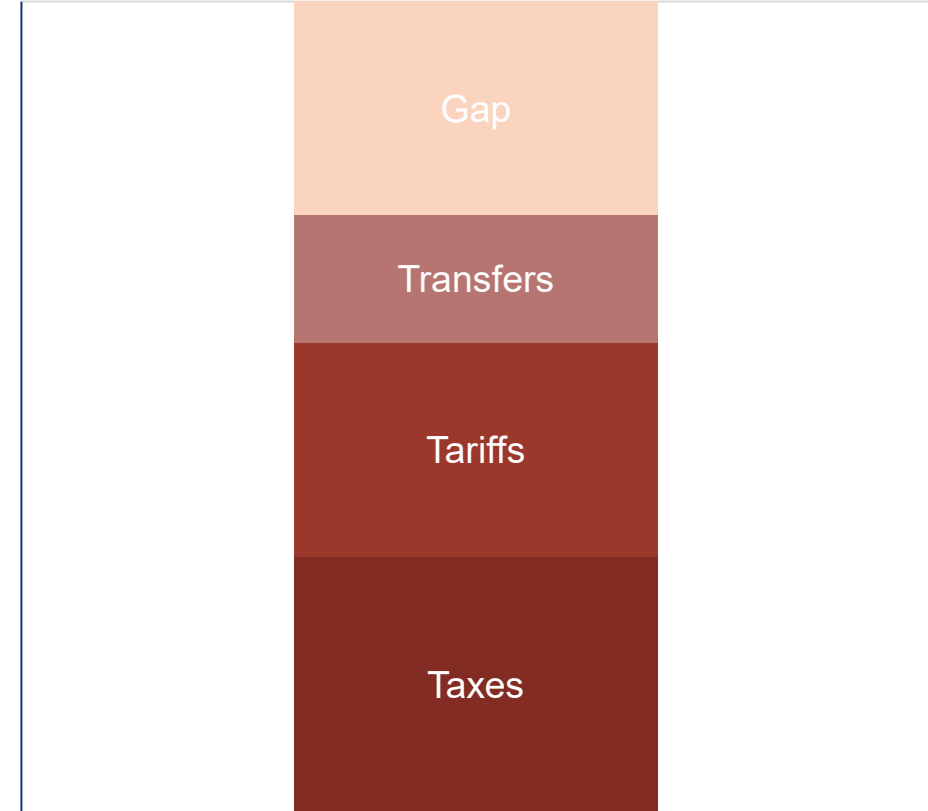
Sources of finance



...and possible gap between them



Cost categories



Sources of finance



Methods for quantifying costs and finance

- Life-cycle costs assessment: five-step approach to identifying and quantifying the various life-cycle costs for a specific area
 - Define the area as unit of analysis
 - Time-frame and periodicity of the assessment
 - Collect and compile information on each of the cost categories, each of which may require different methods
 - Add estimates of missing data, from modelling or reference costs, for expected or achieved levels of service
 - Process data into comparable units
- Assessing sources of finance
 - Define spatial and temporal units in same way as for costs
 - Define and identify the financial flows behind each of the T's, each from a number of sources
 - Quantify the financial flows, using different methods and estimation
 - TrackFin as standardised methodology for this



Strategies for reducing the gap

- Reducing the costs, whilst still reaching the same level of service
 - Efficiency improvements
 - At some point it goes at expense of service level
- Increasing one or more of the sources of finance
- Using repayable finance to fill the gap now, and pay back later
- These strategies can be applied – to different levels of extent - to each of the life-cycle cost categories



Overview of strategies

Cost category	Current source of finance	Options to reduce financial gaps
Capital expenditure	<p>Taxes</p> <p>Transfers in some countries</p> <p>Tariffs in form of household own investments</p>	<ul style="list-style-type: none"> - Increasing the local tax base for drinking-water and sanitation - Create challenge funds for small-scale systems - Access long term loans through aggregation and inter municipal cooperation - Support by Municipal Development Funds - Incentives for household investments
Operational and maintenance and capital maintenance expenditure	<p>Tariffs ideally cover OpEx and (part of) CapManEx. Where that is insufficient, taxes are used to fill the gap</p>	<ul style="list-style-type: none"> - Clarify or update tariff policy and legislation - Increase revenue from tariffs, within affordability parameters - Provide financial incentives linked to performance indicators - Decrease costs by preventive maintenance
Direct and indirect support costs	<p>Mainly taxes</p>	<ul style="list-style-type: none"> - Evidence-based advocacy for increased public expenditure - Increase efficiency by collaboration and cooperation - Provide capacity building on a regular basis to district and municipal staff



Conclusions: towards an overall finance strategy

- Many of the individual strategies are interlinked, and may reinforce each other
- Therefore need for an overall finance strategy:
 - Assessment of the current costs and sources of financing of drinking-water and sanitation services
 - Analysis of the gap
 - Identification of the specific options to reduce the financial gap
 - Sequencing and relations between the specific options, and the upfront investments required to reach them
 - Responsibilities and commitments for implementation
- Ideally, financing for small-scale systems should be an integral part of an overall WASH sector finance strategy, as it cannot be addressed separate from larger systems

