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Piloting results-based financing for container-based sanitation services in Cap-Haitien, Haiti

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**EQUITABLE AND SUSTAINABLE WASH SERVICES:
FUTURE CHALLENGES IN A RAPIDLY CHANGING WORLD**

**Piloting results-based financing for container-based
sanitation services in Cap-Haitien, Haiti**

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Canada & Haiti

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Introduction and objectives

DINEPA, the Haitian sanitation authority, is piloting a results-based financing (RBF) framework to achieve its directive of eliminating open defecation and increasing access to safely managed sanitation. RBF is the disbursement of funding tied to the achievement of specific results (National Audit Office, 2015a, 2015b). The framework is to be financed from the proceeds of the US\$125mn Inter-American Development Bank (IDB)-funded projected “*Water supply sanitation and hygiene project in urban, peri-urban and rural areas in Haiti’s Grand North region*” implemented by DINEPA. Development banks can use RBF in the water and sanitation sector as a bridge to longer term and sustainable public and private sector financing (Convergence, 2019, 2021).

DINEPA has partnered with Sustainable Organic Integrated Livelihoods (SOIL) to develop a contractual arrangement to implement the RBF pilot and expand SOIL’s household container-based sanitation (CBS) service EkoLakay in Haiti’s Grand North region. SOIL is a non-profit research and development organization that uses circular design to make sanitation more affordable and sustainable in low-resource settings (McNicol, *et al.*, 2020). The proposed objectives of the contract are to incentivize an increase in households safely served through the EkoLakay service and to reduce the required subsidy per household. This partnership will be financed through an international financing institution, serving as a model for how to build a bridge to public sector financing in fragile states.

Methodology

Designing an achievable and measurable outcome payment metric is a crucial component of RBF contracts (Howard & White, 2020; Trémolet, 2011). DINEPA proposed two outcome payment metrics: 1) additional number of households benefitting from the EkoLakay service and 2) additional tons of waste safely treated. These metrics incentivize both the objectives of the DINEPA-SOIL contractual arrangements and DINEPA’s overarching directive. SOIL pursued a “cost-plus” approach to calculating the payment per outcome unit, such that the payment per unit is equal to the revenue gap per unit i.e. so that SOIL breaks even. To calculate the revenue gap, SOIL undertook financial modelling using historical financial and operational data.

Analysis and results

Based on SOIL’s financial modelling, the calculated revenue gap and proposed outcome payment metrics are US\$25 per additional household per month plus \$297 per additional ton of waste safely treated in the first year of the RBF contract. This outcome payment decreases each year due to economies of scale and improved operational efficiencies (Table 1). DINEPA allocated US\$1.05mn for the RBF pilot. Based on the financial modelling and proposed incentive amount, expansion of the EkoLakay service would absorb this funding by 2 ½ years after the contract start date. During this timeframe, the service would grow 2.5-fold and the cost recovery of operations would increase from 15% to 41%.

Table 1. Proposed structure of outcome payments calculated via a cost-plus approach					
Proposed structure	Year				Unit
	1	2	3	4	
Growth in EkoLakay	25	17	11	13	USD/net additional new household in service/month
Growth in Waste Treatment	297	291	266	231	USD/net additional ton of waste treated by service/month

In addition to delivering increased impact efficiently, this pilot aims to demonstrate the transformative potential of RBF to scale off-grid safely-managed sanitation service provision through an efficient funding mechanism which creates positive incentives for service providers while putting in place the necessary structures for future public private partnerships. Within 2 ½ years, RBF outcome payments phase out reliance on external grants and donation for ongoing operational costs and can be used offset ongoing capital investments.

Conclusion and recommendations

This RBF partnership will support expansion while decreasing the average subsidy required per household for access to safely managed sanitation. Provided that outcomes are satisfactory, DINEPA has committed to seeking additional external funding to continue this financing RBF arrangement. In the longer term, DINEPA will transition to funding sanitation through tariffs and taxes.

The increased interest in RBF for CBS represents a shift away from the unrealistic expectation that sanitation expenses be covered by user fees, particularly in impoverished communities. While ensuring citywide safe sanitation will ultimately require governments to provide recurrent subsidies for service providers, RBF can incentivize improved cost recovery and increasing scale efficiently.

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Contact details

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