



A Paradigm Shift in Development Financing for Tangible Results: The Move to Outcome Models

The Case of Sanitation in Asia

Cost Curves

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Overview

- Why do we need a new paradigm?
- What opportunities sanitation offers
- How 'cost curves' help garner collaboration
- Pilot project proposal



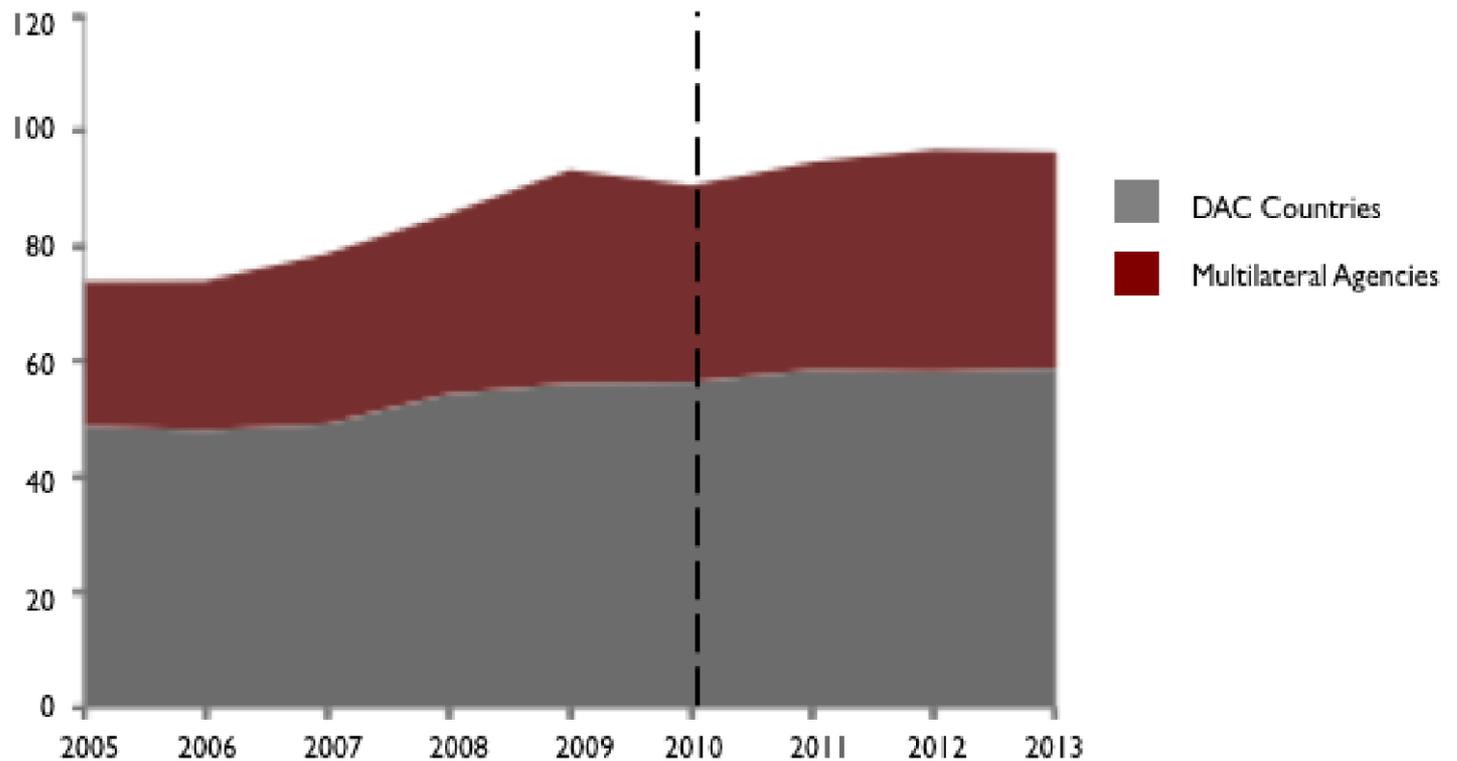
Why we need a new paradigm

Let us remember Millennium Development Goal eight - to call into being, beyond governments alone, a global partnership for development, and together harness the energy, the ideas and the talents of the private sector, consumers, NGOs and faith groups, and citizens everywhere"

Gordon Brown with UN Secretary General Ban-ki Moon - 2007

Inadequacy of Development Financing

- The limit of traditional development funding: economics, demographics





Inadequacy of Development Financing

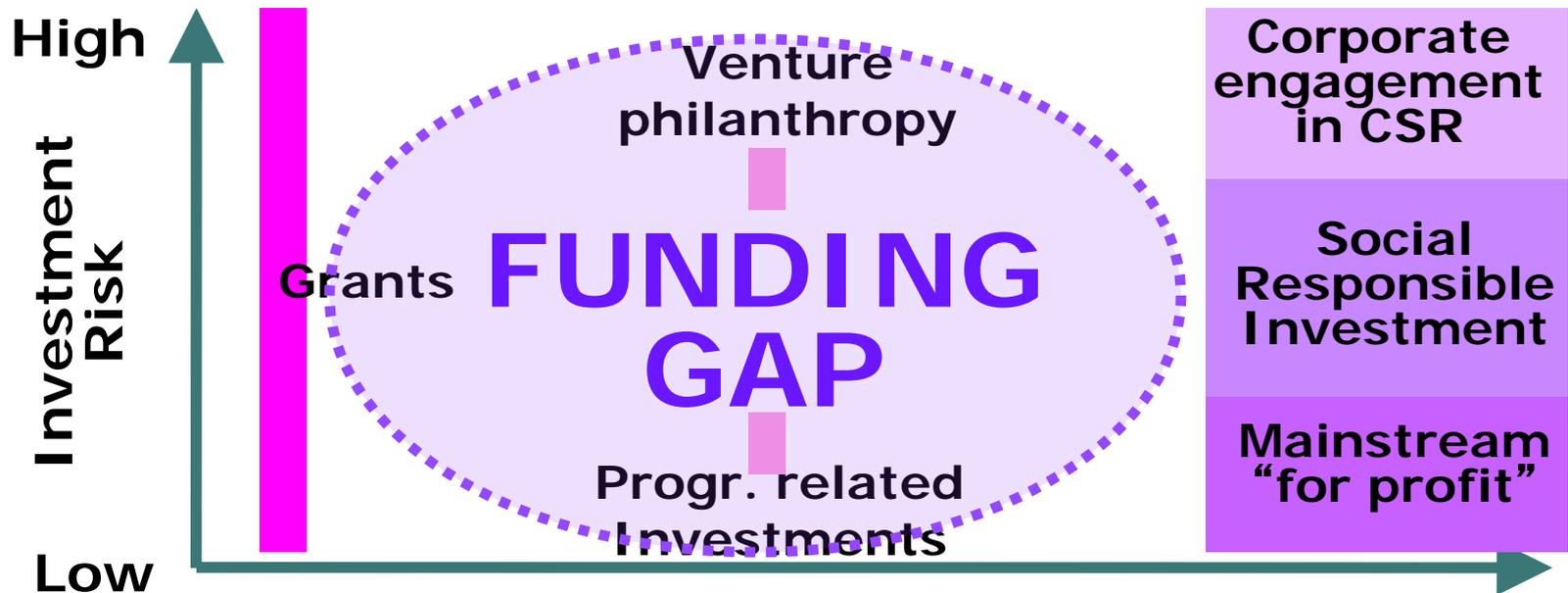
- The crisis of the current paradigm of development aid
 - Focus on delivering infrastructure, not leaving in place a sustainable system
 - Corruption inherent in the system
 - Intuitively solutions need multi stakeholder actors
 - Hurdles remain for private sector
 - Lack of investment in civil society
 - Focus on Tangible measureable outcomes



Inadequacy of Development Financing

- The enormous unfinished agenda
 - MDGs were just the start
 - Continued challenges such as energy, food, climate change, pollution, peace keeping
 - Cost of Externalities to Global GDP to rise sharply
 - Discussions on what will supersede the MDGs (“post-2015”) have started in earnest

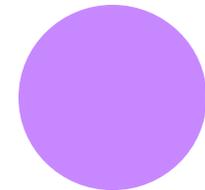
Inadequate funds and mechanisms to fill funding gap in “social markets”



NO
return

BELOW MARKET
return

MARKET
return



Grants: \$400 billion

Social Resp. Inv: \$ 4 trillion



A New Paradigm has to:

- Release supply-side constraints
 - Encourage scale to reduce unit costs
 - Loan financing to bring in players
 - Enable partnerships and collaboration
- Cause social movements
- Capture externalities
- Incentivise economies of scale
- Distribute the benefits: equity focus

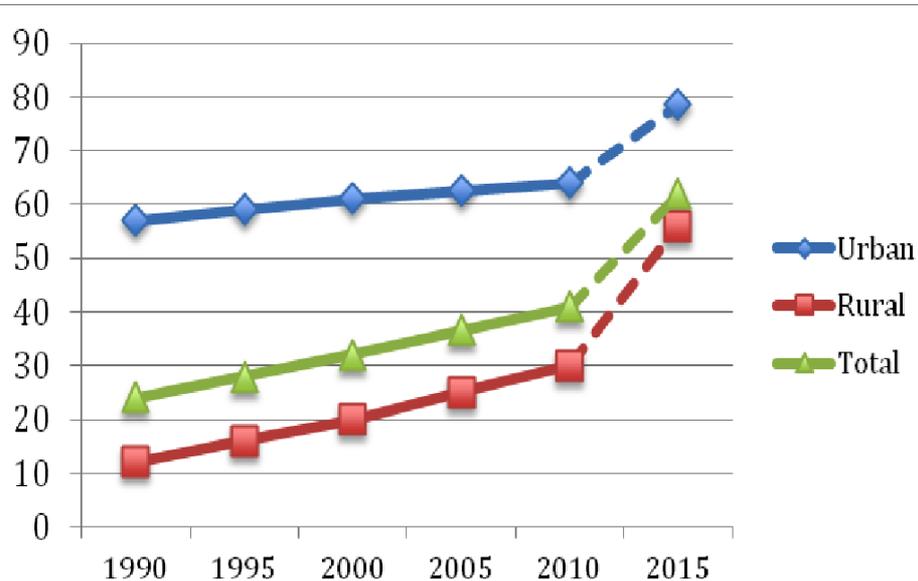


What
opportunities
sanitation offers

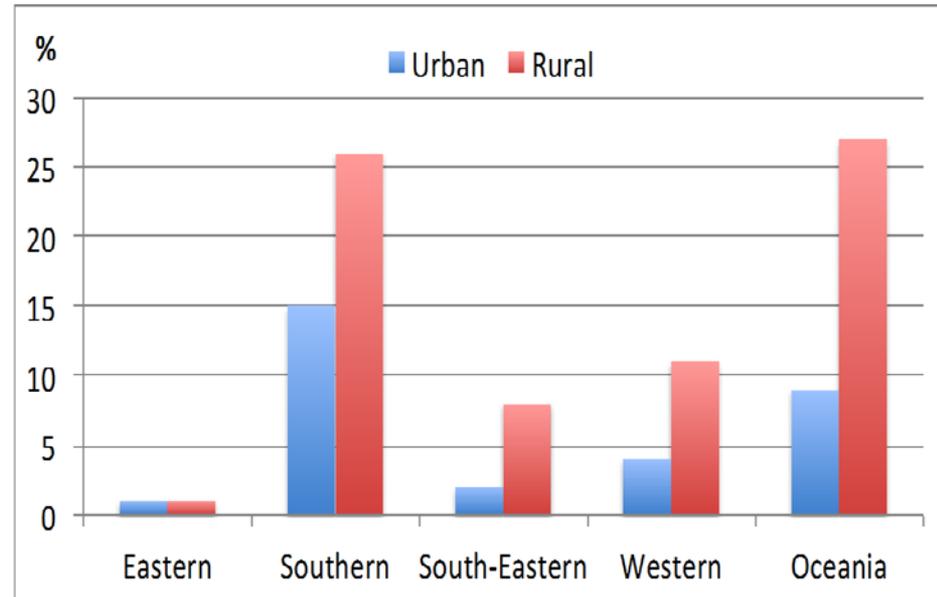
Sanitation is a global development priority but it has fallen short

- In Asian regions, considerable work still needed to meet MDG target
- Additional 1 to 1.5 billion Asians do not have functioning sanitation service chain

Progress needed to meet MDG (Asia)

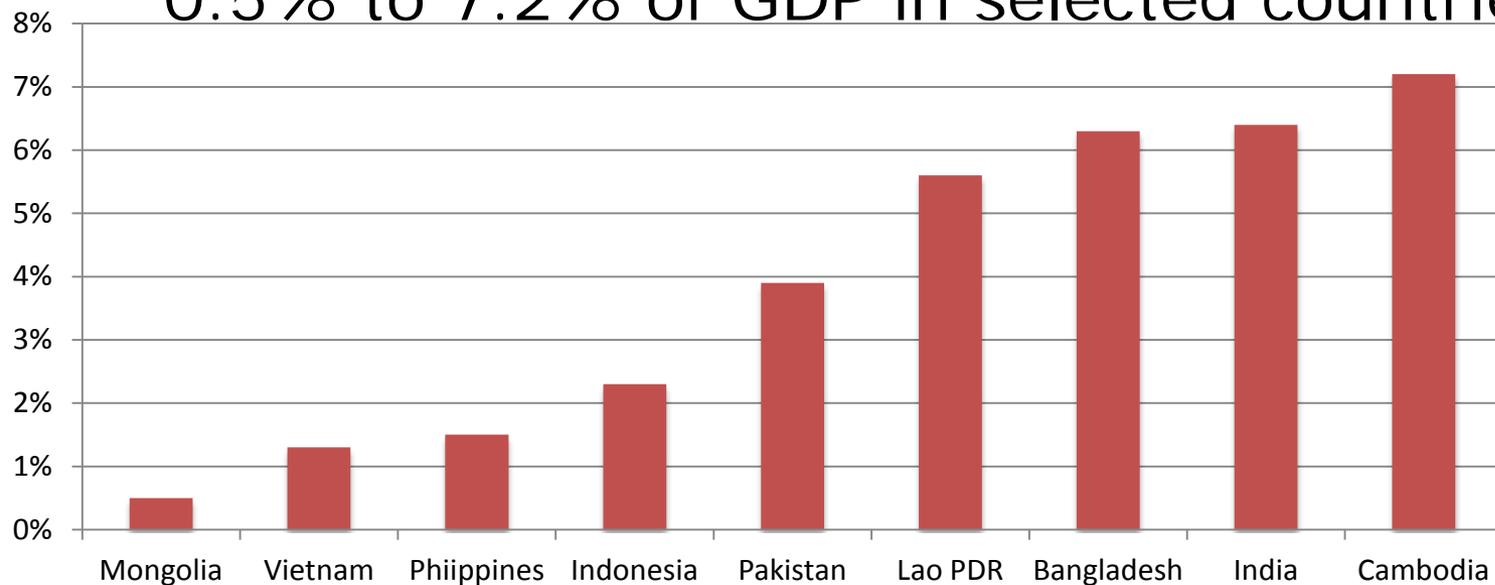


Gap per sub-region, to meet MDG



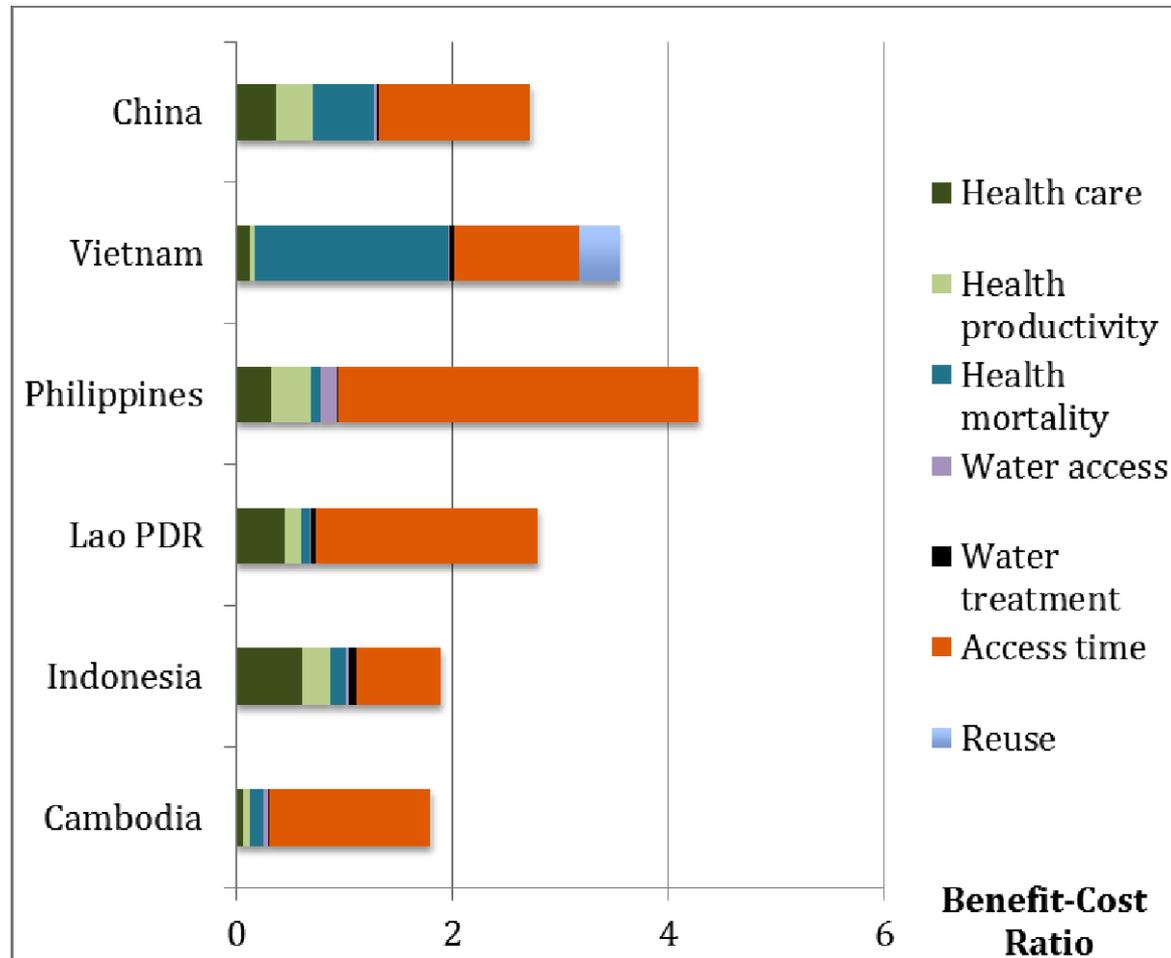
Poor sanitation has major social and economic impacts

- Improved WASH can avert 15% of the burden of disease in 32 of the worst-affected countries
- Economic costs of inadequate sanitation vary 0.5% to 7.2% of GDP in selected countries



Source: WSP

Cost-benefit studies show high rates of return to sanitation in urban areas



Business opportunities abound in sanitation, but remain largely untapped

- The costs of universal sanitation is approx. US\$ 30 billion per year in Asia, but the market is a multiple
- Business lines include:
 - Municipal financing.
 - Housing / mortgage financing.
 - Entrepreneurs / private sector.
 - Consumables and corporate engagement.
 - Public toilets.
 - Energy, fertilizer and the carbon market.

Globally, and increasingly in countries: enabling environment for change

- Global accepted data set on sanitation coverage (WHO/UNICEF JMP)
 - Sanitation definitions well understood
 - Draws on reliable and national data sets
- Sector 'inputs' now widely reported
- Not a politically intractable issue like water resources and carbon are
- Plethora of international initiatives (Hashimoto, UNSGAB, SWA, Human Right)
- Post-2015: focus now on the other half



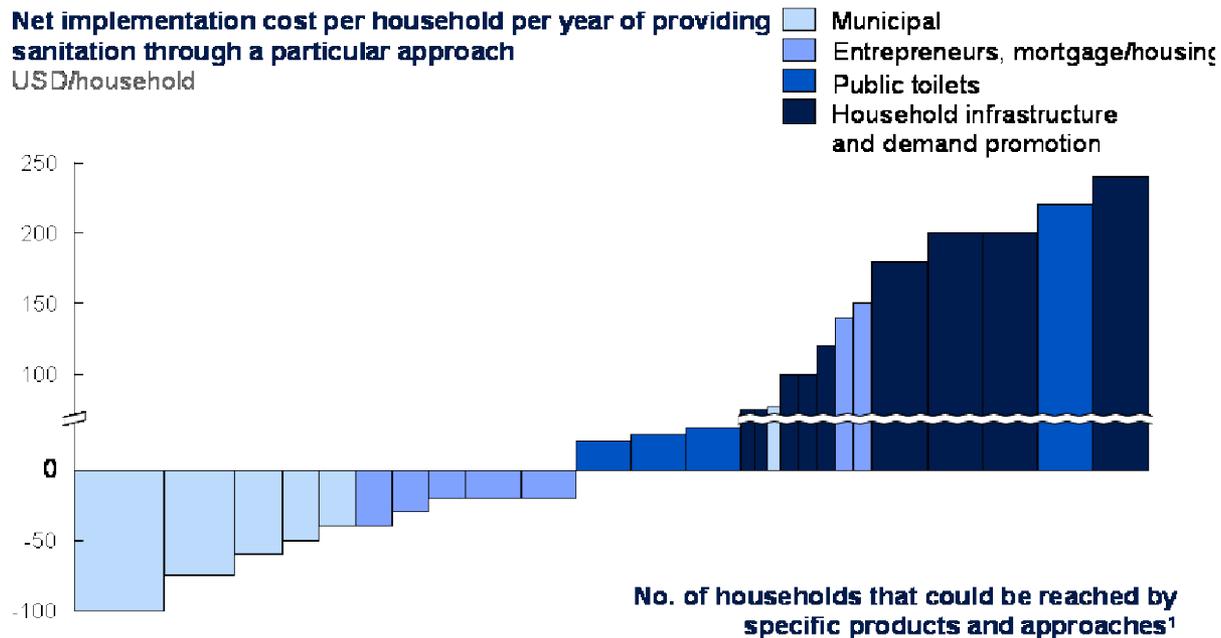
How 'cost curves' help garner collaboration

Value Proposition – Cost Curves

- Initially assess (1) current volume and value per market segment and (2) potential value under currently-available innovations

Illustrative sanitation cost curve

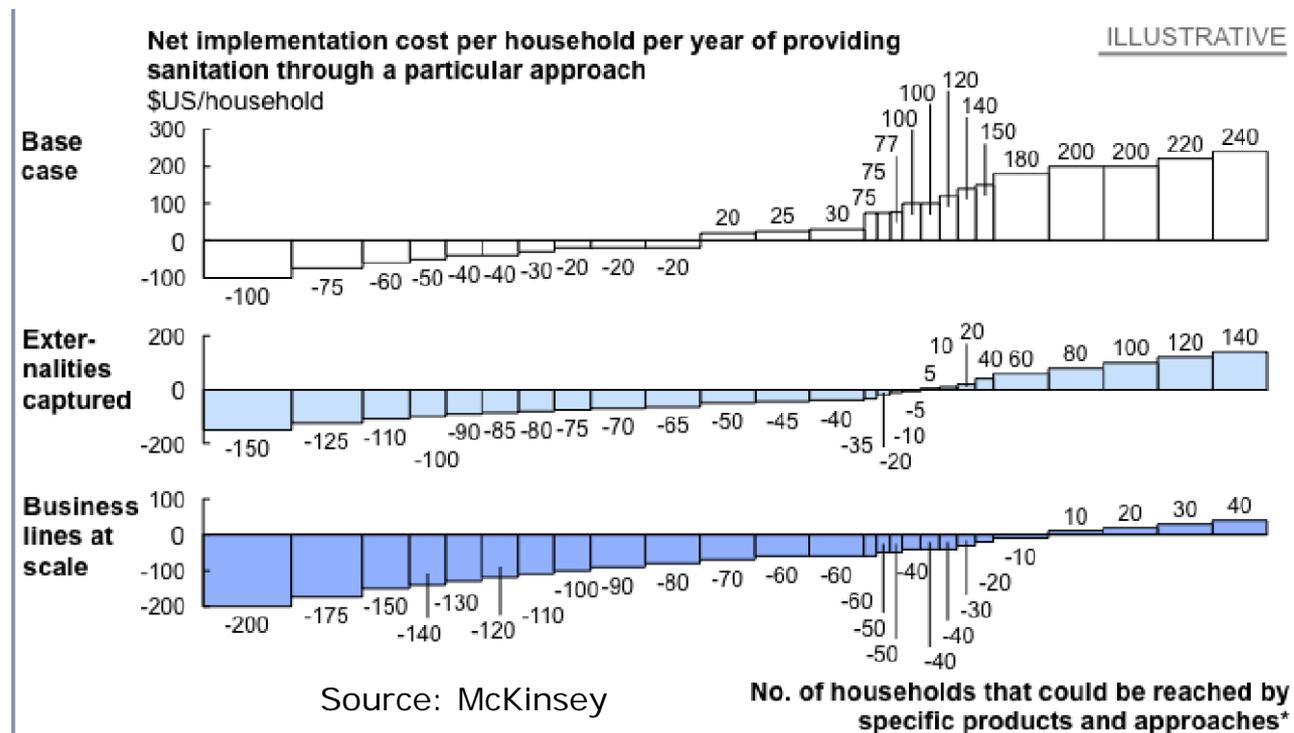
Net implementation cost per household per year of providing sanitation through a particular approach
USD/household



1 Width of column indicates potential market size

Value Proposition – Cost Curves

- Then assess external value inherent in services, shifting the cost curve (middle graphic)
- Exit strategy / business lines at scale further shifts cost curve (bottom graphic)



Financing Mapping

Financing vehicle		Municipal financing	Housing / mortgages	Private providers	Consumables	Public toilets	Resource reuse
Loan / equity	Guarantees	\$x billion y million served	\$x billion y million served				
	Equity investments	\$x billion y million served					\$x billion y million served
	Mezzanine	\$x billion y million served	\$x billion y million served				\$x billion y million served
	Public debt	\$x billion y million served	\$x billion y million served			\$x billion y million served	
	Corporate debt	\$x billion y million served	\$x billion y million served				\$x billion y million served
	Micro-credit			\$x billion y million served			
Grant financing	Foundations			\$x billion y million served		\$x billion y million served	\$x billion y million served
	Venture philanthropy			\$x billion y million served		\$x billion y million served	
	ODA	\$x billion y million served	\$x billion y million served	\$x billion y million served			\$x billion y million served
	Corporate social responsibility				\$x billion y million served	\$x billion y million served	\$x billion y million served

Source: McKinsey / WSFF



Pilot project proposal



Pilot project aims

- The aim of the project proposal is to successfully implement the outcome-based financing model at local scale in 1-2 high potential sites in Asia.
- These first experiences enable a learning process and the establishment of tools and key partnerships for scale-up.
- Structure as modular and replicable (“A tool kit”)



Country selection

- Major need for investment in urban sanitation
- Enabling environment for change
 - Priority from national government
 - Knowledge of economic impacts / market potential
 - Active local private sector, at different scales
 - Strong civil society and social entrepreneurs
- Attractiveness for international investors
 - Extent of foreign businesses
 - Ease of doing business
 - Willingness of key guarantor players to engage



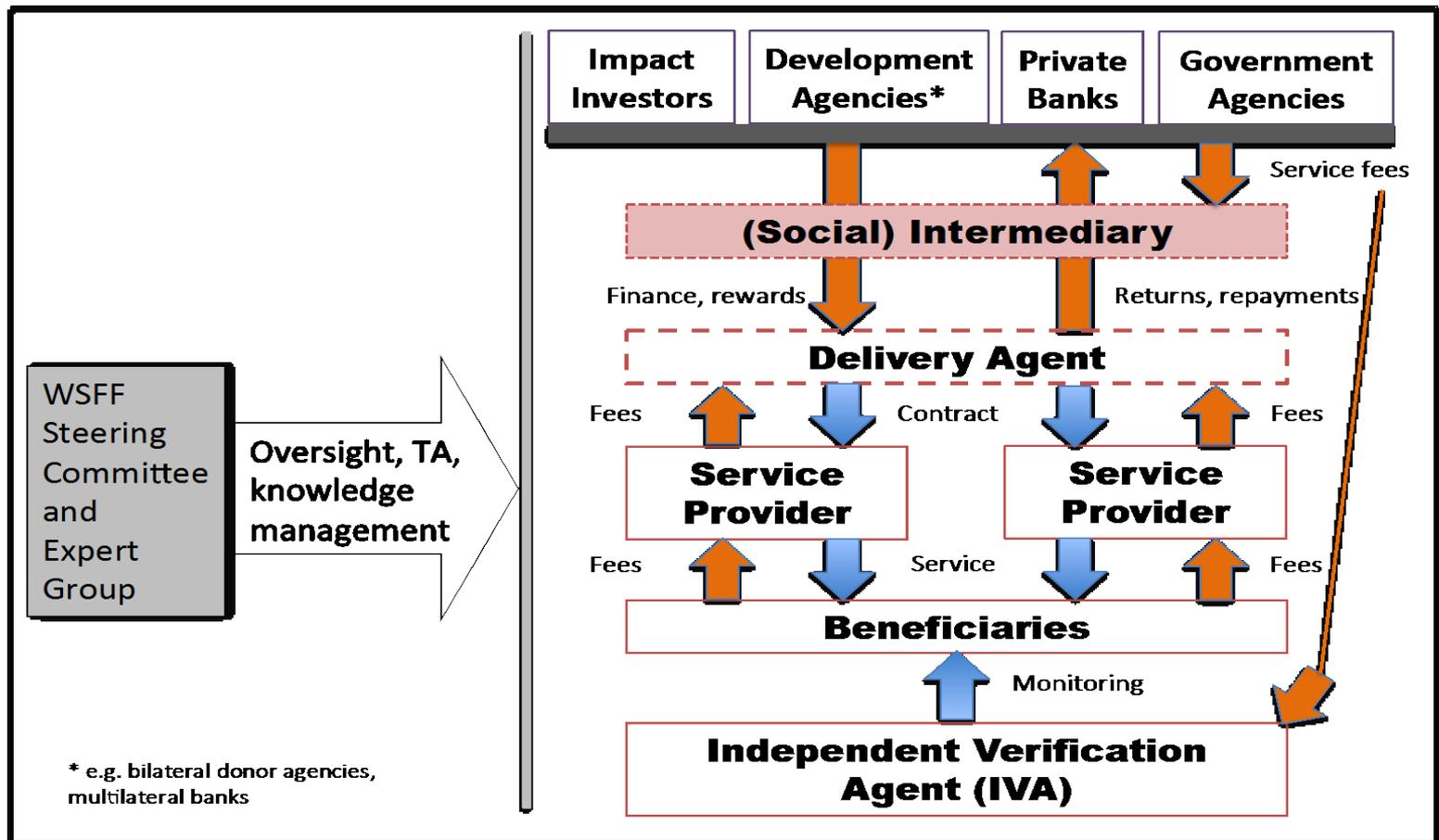
Analytical Phase

Each of the following elements:

- Market and economic analyses
- Institutional and legal arrangements
- Identifying innovation
- Dialogue on financing options
- Pilot test planning

Set-Up Phase

Establish who plays each role





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<http://www.sanitationfinance.org/>

UNESCAP: financing of concept paper
and project proposal