

Helpdesk Research Report: Output-based aid in water and sanitation

Date: 14.08.2011

Query: Please identify, review and synthesise the literature on the effectiveness and risks associated with using output-based aid (OBA) in states with weak capacity to incentivise rural water and sanitation services. Specific issues of interest are the extent of adoption, practical challenges for implementation, evidence of sustainable improvements in service delivery, and exit strategies for donors.

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1. Overview

Output-based aid (OBA) is one of a range of results-based financing approaches which aims to improve development outcomes by linking the disbursement of aid money to achievement of specified outputs by service delivery partners.

There is considerable experience with OBA in the transport sector and in Latin America, but very little experience and evidence in the water and sanitation sector. Most OBA projects in water and sanitation are relatively small pilot projects which are still in their early stages, and the sector makes up only 3% of all World Bank OBA.

The principal challenges facing output-based aid projects in water and sanitation in fragile states are:

- Specifying outputs

- Monitoring and evaluation
- Weak public and private sector capacity
- Access to private sector funding
- Transaction costs and scaling up
- Performance risk

Because there is little experience in using OBA in water and sanitation, there is limited evidence of effectiveness in the sector. The World Bank reports that OBA projects in general are more successful than other aid projects, but there is also evidence from the health sector that while OBA can successfully achieve short-term objectives, it has not demonstrated long-term sustainability. Long-term sustainability of OBA in the water and sanitation sector appears doubtful, primarily because user fees appear unlikely to be able to cover operating costs. OBA does appear to be quite effective in targeting aid to the intended beneficiaries.

2. Extent of adoption

Definition

Output-based aid is one of a range of results-based financing approaches which includes performance-based contracting, conditional cash transfers, performance bonuses, and cash-on-delivery aid (Mumssen et al. 2010: 3-4). These approaches attempt to resolve the principal-agent problem, which occurs when one actor (the principal) needs to rely on the services of another (the agent) even though the interests of the two parties are not exactly the same. The approaches use different ways of aligning the parties' interests by linking development outcomes sought by the principal to the profit motive of agents (Eldridge and Palmer 2009: 161). Different approaches are appropriate to address different constraints; the OECD (2010b: 64) suggests that OBA in the water sector is most appropriate for addressing: (1) affordability constraints at the household level and (2) limited availability of funds for domestic operators and small-scale water service providers.

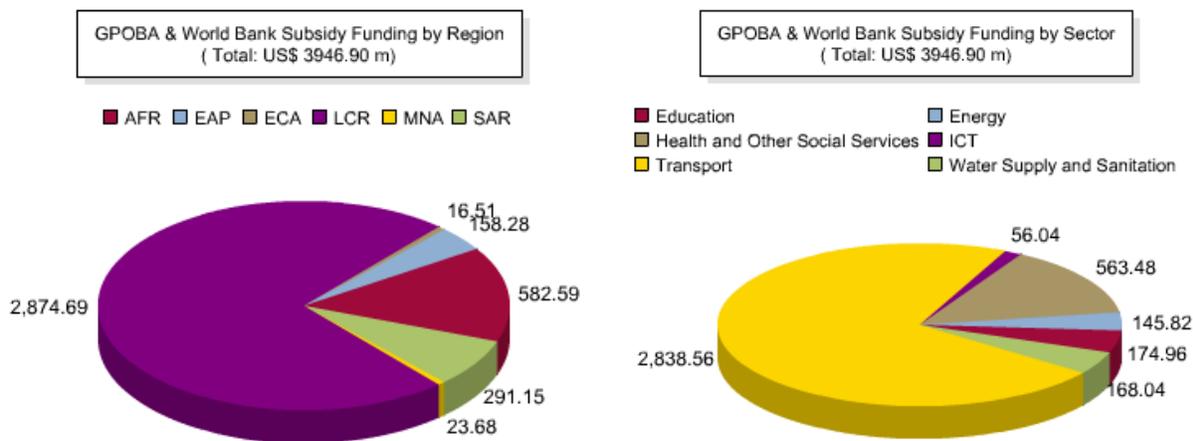
Output-based aid “ties the disbursement of public funding in the form of subsidies to the achievement of clearly specified results that directly support improved access to basic services”. (Mumssen et al. 2010: 4) Rather than paying for the construction of infrastructure (e.g. water treatment and distribution facilities), the donor pays for the delivery of specified outputs (e.g. functioning water taps in homes) and in principle it is up to the implementing partner to deliver these outputs in the most efficient way. The service provider bears the performance risk and only receives full payment after delivery of the agreed service is independently verified. OBA schemes sometimes involve ongoing subsidies to support the long-term delivery of services, but in water and sanitation the most common approach is a one-off subsidy to connect poor households to the water and sewer network. (OECD 2010a: 155) Payments may follow different routes, such as from donors to governments, from higher levels of government to lower levels and to individual facilities or projects, and from governments or donors to non-state providers. The implementing agent in most OBA schemes is a private enterprise, but could also be a public utility, NGO, community-based organisation, or publicly owned company. (IDA 2009: 2)

Activity in all sectors

OBA has a history that can be traced back to the 1960s, but it was launched in its current form by the World Bank Group’s 2002 Private Sector Development strategy (IDA 2009: 1). The Global Partnership on Output-Based Aid (GPOBA) was formed in 2003 as a multi-donor partnership administered by the World Bank “to test OBA with a view to mainstreaming it within the World Bank Group as well as within other development organisations”. (OECD 2010a: 153)

There were about 32 OBA projects in 2002-03 worth a total of US\$1.5 billion, which grew by late 2009 to 131 OBA projects worth US\$3.5 billion in the World Bank Group and at least 66 OBA schemes outside the World Bank Group. (Mumssen et al. 2010: 13) These projects are estimated to reach about 61 million beneficiaries. (OECD 2010a: 153) Geographically, most OBA spending takes place in Latin America and the Caribbean (72%), and by sector most spending is on transport (73%). (GPOBA 2011) “The use of OBA in fragile states remains limited – except in the health sector, which has used OBA in a number of post-conflict situations”. (OECD 2010a: 158)

Output-based aid funding by region and sector (combined GPOBA and World Bank funding)



(Figures from GPOBA 2011, <http://www.oba-data.org/index.cfm?page=charts>)

Activity in water and sanitation

There is limited experience in OBA in the water and sanitation sector, and most projects are relatively small pilot projects and still in their early stages. (OECD 2010a: 153; Trémolet and Evans 2010: 11; Mumssen et al. 2010: 67) This is in part because OBA is linked to public-private partnerships, but the role of the private sector in water supply has been limited “especially after the retreat of international private water companies from developing countries after the 1990s”. (Mumssen et al. 2010: 67) The OBA approach has also been criticised as being overly complex and involving relatively high transaction costs which makes it difficult to scale up beyond the pilot stage. (OECD 2010b: 78)

The GPOBA actively promotes water and sanitation projects (42% of GPOBA funding) but in the World Bank, which channels a much larger amount of funds, the sector only makes up 3% of total OBA. When GPOBA and World Bank funding are combined, water and sanitation makes up only 4% of the total.

(GPOBA 2011) Mumssen et al. (2010: 67) identified 31 water and sanitation projects inside the World Bank Group (including GPOBA) and one outside, most of which were one-off subsidies for access to water, such as piped-water schemes.

3. Challenges and risks

Specifying outputs

Setting targets can often cause distortions and unintended consequences. “Once a social or economic indicator is made a target for the purpose of monitoring social or economic policy, it often appears to lose the information content that would qualify it to play such a role. It no longer represents what the government is attempting to measure. Performance targets for health service delivery such as immunization rates and trained female birth attendants have been chosen because they are thought to reflect the overall fitness of the system to attend to the needs of maternal and child health. The danger is that, once selected as targets for PBP, they cease to reflect this broader system goal and just become a measure of the ability of an organization either to meet this specific target, or fool the purchaser into believing that they have done so.... More easily quantifiable measures of performance may often dominate over measures of quality of performance... Performance targets may also inappropriately skew a provider’s focus. If a variable such as community participation or coordination with the Ministry is not factored into the assessment of performance because it is difficult to measure, it may be neglected despite its importance... Performance targets that are difficult to quantify may also be neglected because they detract from the ability in the short term to deliver on specific targets”. (Eldridge and Palmer 2009: 164)

In water service delivery, indicators of performance may include number of connections made (such as household or community taps), water consumption per household, water quality, availability of back-up sources and storage, number and proportion of households served, expenditure per household, user satisfaction surveys, and information about tariffs and operating costs. Minimum water needs are fairly low (WHO regards 20 litres per day as a minimum for health) but households can use much more if it is available. Quality requirements vary by use and most uses do not require potable water. (Mumssen et al. 2010: 76; Kaplan 2010: 2) It should be noted that water does not disappear when used but changes quality and may be re-used multiple times for different purposes. (Kaplan 2010: 2) Consideration should also be given when specifying outputs to the range of possible combinations of formal and informal service delivery, such as household piped connections, public standpipes, cistern trucks, and community wells. (Kaplan 2010: 3)

In sanitation, there is a lack of clarity about where in the sanitation system investment is needed. Sanitation is multi-faceted and relatively complex, with many different activities (demand promotion and behaviour change, collection/access, transport, treatment, disposal/re-use) undertaken by different actors, and all of the links in the chain need to work in order to produce a working sanitation system. (Trémolet and Evans 2010: 4-8) In particular, while water projects are generally dealing with the “last mile” needed to connect neighbourhoods to existing network mains, sanitation projects are generally dealing with the “first mile” and have to construct not only the local access but the rest of the collection and disposal system as well. (Trémolet and Evans 2010: 16)

Monitoring and evaluation

In principle, “by paying for verified outputs, OBA internalises the monitoring of results” and increases accountability for donors and governments. (OECD 2010a: 157) However, capacity to monitor OBA schemes is often limited, especially in the countries where OBA is needed most. (Kumar and Mugabi 2010: 3) In general, performance based financing “heightens the need for adequate systems for monitoring and evaluation of service delivery,” and it is often the case that the capacity is lacking so “donors may have to create an extra layer of bureaucracy” to carry this out. (Eldridge and Palmer 2009: 165)

In the water sector, outputs mainly consist of functioning household, yard tap or kiosk connections to the network. (Kumar and Mugabi 2010: 2) Most projects are verified by hiring independent local consultants. In some cases, donors may play a larger role in the monitoring and verification process, especially for projects involving small local providers or those that otherwise have weak capacity, and if monitoring is to generate lessons for scaling up water schemes, government entities should also be involved. (Mumssen et al. 2010: 76; Kumar and Mugabi 2010: 2) For example, in a project in Uganda, the verification agent reports to the Ministry of Water and Environment. (Mumssen et al. 2010: 76) In Morocco, operators provide reports that are independently verified by random on-site inspections; quarterly indicators include number of connections made, number of households served, uptake rates, water consumption per household, expenditure per household, collection rates, while annual reports include average tariffs, unit costs, and service satisfaction surveys. (Mumssen et al. 2010: 76)

In sanitation work, behaviour change is a key variable which often makes outputs and outcomes difficult to measure and hard to attribute to interventions. “Methods to measure behavior change from sanitation interventions have been developed in recent years and can be used, however outputs may be comparatively harder to measure than for other sectors thereby increasing the costs of performance verification”. (Trémolet and Evans 2010: 16)

Weak public and private sector capacity

There is often a great need for capacity-building of service providers, including management and administration capacities such as billing, marketing, financing, and procurement. (Kumar and Mugabi 2010: 3; OECD 2010a: 159) This is especially true when small-scale and local providers are involved. (Kumar and Mugabi 2010: 3) OBA has the potential to enhance efficiency by focusing on performance, but it “may not be suitable if local capacity or the institutional environment, or both, are too weak”. Furthermore, “[t]he negative impact of this poor capacity can be amplified by a complex and unpredictable political economy where competition for rents and influence can undermine service delivery. In addition, providers may be concerned that the weak institutional framework will make the contracting process difficult, time-consuming and uncertain, and that payments will be delayed. This will put them at financial risk as contractors rely on government’s capacity to manage and effectively monitor OBA mechanisms (for instance, NGO contracts). In these circumstances – and like other contracting out arrangements in fragile states – OBA may not be suitable”. (OECD 2010a: 158)

“Providing targeted training, hiring independent verification agents, and involving NGOs in community outreach and private administrators in managing OBA funds are all solutions being used to ease capacity constraints”. (Kumar and Mugabi 2010: 3)

Access to private-sector financing

Access to finance is a major hurdle for output-based aid. Service delivery partners must be able to access private sector financing to start up projects, which can be a real constraint. (OECD 2010b: 78; Trémolet and Evans 2010: 14-15) “In the water sector, where service providers tend to be small local operators, NGOs, and community organizations, poor access to finance can limit their ability to pre-finance outputs”. (Kumar and Mugabi 2010: 2-3) Private financing is also constrained by the fact that the revenue stream leading to repayment of loans is limited to user fees, which are generally quite low (OECD 2010a: 157) particularly in water and sanitation.

Some approaches that are being tried to overcome this obstacle include:

- Formal financial instruments such as guarantees. “There has been limited experience with this in the water sector, though a few guarantees and lines of credit to the banking sector are being tested in different settings”. (Kumar and Mugabi 2010: 3) However, loan guarantees are not consistent with the OBA objective of shifting risk from the donor to the service provider.
- Release some of the aid funds early as an up-front payment (“block grant”) or according to certain milestones, as long as performance risk can remain mostly with the service provider. (Kumar and Mugabi 2010: 3; Trémolet and Evans 2010: 16) In post-conflict settings, “contracting out health services to private or non-profit providers generally involves a combination of block grants in the form of advance payments to allow start-up where payments are not directly tied to changes in outputs, and a performance-bonus based on key indicators”. (OECD 2010a: 158)
- Combine OBA subsidies with micro-finance from development-oriented financial institutions. Kenya’s K-Rep Bank has piloted this for the water sector and is considering extending the approach to sanitation. (Trémolet and Evans 2010: 15; OECD 2010b: 80)

Obtaining financing for sanitation projects can be especially problematic. Financing needs to support all of the links in the sanitation chain, but instead tends to be delivered to utilities and local government for treatment and disposal operations, rather than supporting household access to sanitation facilities. (Trémolet and Evans 2010: 9-10) “Experience has shown that financing has often failed to achieve the objective of increasing sustained access to services”. (Trémolet and Evans 2010: 10) “Many households do invest in latrines themselves and use pit-latrines emptying services where available, but when they are cash-constrained and paying for such services proves unaffordable, they may skimp on quality or dispense with accessing those services... Conducting demand studies prior to designing the financing scheme and allocating substantial amounts to demand promotion activities would therefore be essential for the success of OBA schemes”. (Trémolet and Evans 2010: 13)

Transaction costs and scaling up

Output-based aid “has a reputation for complexity and high transaction costs, which means that in most cases OBA mechanisms have been difficult to scale-up”. (OECD 2010b: 17-18) In particular, sanitation projects tend to be small-scale and in Sri Lanka it was found that the costs of delivering services were small compared with the costs of putting the project together. (Trémolet and Evans 2010: 16)

One approach that is being considered is to establish funds (like Universal Service Funds in the telecommunications sector) or national facilities that “could provide OBA subsidies to targeted communities on an on-going basis rather than as one-off projects” (OECD 2010b: 80) or “roll out OBA schemes in a number of locations throughout a given country thereby spreading the initial costs of defining the OBA financing mechanism”. (Trémolet and Evans 2010: 16) Such facilities could carry out project and provider selection and contract monitoring in-country rather than involving an international institution. (OECD 2010b: 17-18) A trial is underway in Honduras of a facility that will operate like a challenge fund and will offer pre-financing services where needed, but it is still too early to assess the results. (OECD 2010b: 80)

Performance risk

One of the main purposes of OBA (and other forms of performance-based funding) is to transfer risk from the payer to the service delivery partner, providing “assurance and evidence to the donor that funds have been used for the intended purpose, as well as giving incentives to the contractor to operate efficiently and transparently”. (OECD 2010a: 159) The degree of risk shifted depends on the ability of the service provider to obtain private financing until donor payments are disbursed; “ultimately, access to finance will determine how much performance risk is reasonably shifted to the provider”. (OECD 2010a: 157)

Although this shift in risk increases accountability for providers and for donors, contract theory suggests that this should result in the payer incurring a higher cost to compensate the provider for taking on the added risk. (Eldridge and Palmer 2009: 165) No evidence appears to be available to confirm whether this has actually happened, and it is also possible that “efficiency of providers may improve to a point that outweighs this extra cost”. (Eldridge and Palmer 2009: 165)

Transferring risk to the provider is “reasonable if the factors influencing the achievement of performance targets are within the control of the provider, or if the payment would have been a small bonus above the required funds for service delivery. However... conditions vary considerably. Achievement of targets is also to some extent dependent on who defines the performance targets and on what factors determine whether or not those targets can be met. For instance, it is easier to meet performance targets such as adequately filled posts in relatively accessible and secure districts of Afghanistan than in those that are less well appointed” (Eldridge and Palmer 2009: 164)

4. Effectiveness

The use of OBA in fragile states remains limited, and in particular OBA projects in water and sanitation are generally pilot projects in early stages, so there is limited evidence about the effectiveness of the approach.

World Bank Implementation Completion Reports and Independent Evaluation Group outcome ratings indicate that in general, OBA projects score significantly better than other projects, “on average half a category higher than traditional projects”. (Mumssen et al. 2010: 15-16) However, it must be noted that nearly three-quarters of these projects are in the transport sector, and it is not necessarily the case that success in one sector can be replicated in other sectors.

There is some evidence that OBA has “improved operational efficiency” and “demonstrated efficiency gains through competition in most sectors when competitive pressures have been applied in the selection of the OBA service provider.... The focus on outputs rather than inputs should lead to innovations that translate into future efficiency gains, as has been seen in the ICT sector and to some extent in roads”. (OECD 2010a: 157)

In the health sector, there is some evidence that OBA has been successful at leading to “quicker and more comprehensive coverage in post-conflict countries compared to building up an input-based health system... particularly for services that are easy to deliver and measure”. (OECD 2010a: 158-159) A more comprehensive study of results-based financing (not specifically OBA) in the health sector suggests short-term success “for simple and distinct, well-defined behavioral goals”, but except for conditional cash transfers there is “very limited evidence of the effects of results-based financing in low- or middle-income countries” and on the other hand there is evidence of undesirable effects including motivating unintended behaviors, distortions, gaming the system, widening the gap between rich and poor, and dependency. (Oxman and Fretheim 2009: 70)

Targeting

“In order to focus subsidies on the poor, OBA projects often rely on geographic targeting, i.e. they target areas where the poorest are concentrated and where there is little risk of including beneficiaries who are not considered deserving”. Some projects also use self-selection and means-testing to improve targeting. (OECD 2010b: 76) OBA projects in the water sector are usually aimed at connecting users to the water supply network, which makes them “inherently pro-poor because the poor are the most likely to lack connections to the supply network... These water projects are usually small scale and located in geographic areas where the poorest groups are concentrated”. (Mumssen et al. 2010: 69) “The process of output verification can also provide an additional check on the targeting of subsidies and is helping provide early evidence that OBA schemes are reaching the poor”. (OECD 2010a: 157)

- In the Philippines, for example, the Manila Water Supply project uses a combination of geographic targeting and means-tested targeting. The project targets communities that are officially certified as “indigent” as per standardized means proxy tests indicating that a majority of households fall under the national poverty line. (OECD 2010b: 76)
- “The India Improved Rural Community Water in Andhra Pradesh project successfully combines three major targeting mechanisms – geographic, means tested and self-selection – and is highly effective in reaching the poor. To target individual beneficiaries in the villages, the project uses the government’s ‘white ration card’, a system that entitles low-income individuals to obtain basic commodities (such as rice or flour) at a reduced price”. (OECD 2010b: 76)

5. Sustainability

In the water and sanitation sector, most OBA projects are one-off subsidies for establishing household or neighbourhood connections to water and sewer networks, rather than long-term funding for operation and maintenance which is more common in some other sectors.

In the short term, most of the promised funds are disbursed upon project completion, but some funds are generally withheld for several months in order to ensure that installed systems are robust. For example, in the Vietnam Rural Water project 20% of payment was held back for six months (Mumssen et al. 2010: 72; OECD 2010b: 75-76); a project in Jakarta held back 25% of payment for three months (Mumssen et al. 2010: 72); and a project in Nepal will withhold 20% of payment for six months. (Saito and Dueñas 2011: 2)

Longer-term sustainability is still unclear. Most OBA projects in water and sanitation are small-scale pilot programmes and are still in early stages, so there is insufficient hard evidence about whether OBA schemes are more or less sustainable than input-based schemes. (OECD 2010a: 157)

It is clear that donors hope to cover long-term operation and maintenance by user fees: “OBA payments should only complement and never substitute for user tariffs as the main source of service providers’ revenue” (OECD 2010b: 74; see also Kumar and Mugabi 2010: 2) However, “access to clean drinking water is so essential that governments often intervene to depress tariffs in the interest of making water affordable to all”. (Kaplan 2010: 3) This means that in poor countries, water tariffs are generally too low to recover the investment in infrastructure – but raising rates would make service unaffordable, defeating the purpose of the project. (Mumssen et al. 2010: 74)

Charging for sanitation is even more difficult: “households are often reluctant to pay for sanitation services, as they do not perceive their immediate benefits.... Given that the sector receives comparatively little political attention, public funding also tends to be limited compared to the size of existing needs”. (Trémolet and Evans 2010: 4)

An alternative approach being explored is the design-build-lease (DBL) model. In this approach, most of the financing is provided up front by the donor, and “the operators need to repay the loan via payment of a lease fee intended to cover the initial capital outlay. The World Bank has experimented with these models in the Philippines, Indonesia and Cambodia. In Cambodia, for example, the design-build lease approach provides long-term financing and technical assistance to entrepreneurs willing to build and operate systems in small towns. The entrepreneurs need to finance only 10% of the initial capital costs up-front and then pay the rest of the capital costs put up by the Government of Cambodia in the form of a lease payment. In that way, they benefit from the very advantageous borrowing rates of the Government, which passes on long-term financing at terms comparable to what it receives from the World Bank... The incentive to provide services over the long-term is strong, since they need to generate sufficient revenues in order to pay the lease payment every year”. (OECD 2010b: 78)

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7. Additional information

Selected websites visited

Global Partnership on Output-Based Aid, www.gpoba.org

Center for Global Development, www.cgdev.org

Organisation for Economic Cooperation and Development, www.oecd.org

Ingentaconnect, www.ingentaconnect.com

About Helpdesk research reports: GSDRC reports are normally based on 2 days of desk-based research. Helpdesk reports are designed to provide a brief overview of the key issues and a summary of some of the best literature available. External experts in the subject are contacted during the course of the research, and those able to provide input within the short time-frame are acknowledged.

Table 1: Using OBA for sanitation: common challenges and potential solutions

<i>Common challenges</i>	<i>Potential solutions</i>
Sanitation financing challenges	
Households either do not invest in or skim on quality of on-site sanitation solutions	<ul style="list-style-type: none"> • Conduct thorough demand assessment studies as part of the design of the scheme • Allocate funding to demand promotion activities
Demand for sanitation services unpredictable	
Unwillingness-to-pay (or to charge) for sewerage services	<ul style="list-style-type: none"> • Build sewerage tariff increases as a condition for subsidy release • Introduce cross-subsidies from water services
Available public subsidies are limited	<ul style="list-style-type: none"> • Build the case for sanitation investment to attract additional public funds • Identify alternative financing sources, including: <ul style="list-style-type: none"> ○ Cross-subsidies from other users or services ○ Direct contributions from sectors benefiting from improved sanitation (e.g. hotels) ○ Value generated from re-use
OBA-related challenges	
Service providers may not be able to mobilize financing to pre-finance investments	<ul style="list-style-type: none"> • Combine OBA schemes with access to finance, such as through micro-finance • Split the service providers' remuneration between an up-front payment ('block grant') and a performance-based payment • Package the services in order to attract larger operators, with better access to finance • Package the services so as to combine services to poor customers with services with less risky sources of revenue
Service providers may not have the necessary business and management skills to meet reporting and performance verification requirements	<ul style="list-style-type: none"> • Provide business support services and assistance to formalize the services
The viability of the schemes may be in question once the initial source of subsidy, provided within a pilot OBA scheme, stops	<ul style="list-style-type: none"> • Set-up a domestic OBA sanitation facility in the form of a 'challenge fund' with a secure source of subsidies to provide ongoing subsidies
"OBA for sanitation" related challenges	
Measuring outputs may be more difficult, and therefore more costly than in other sectors	<ul style="list-style-type: none"> • Methods to reliably measure behavior change associated with sanitation have been developed • An allowance for potentially higher costs for performance verification need to be built-in
Sanitation projects tend to be small, especially when compared to the transaction costs of developing and implementing OBA financing	<ul style="list-style-type: none"> • Set-up a domestic OBA sanitation facility which can 'roll-up' a given OBA subsidy scheme and thereby spread the initial design cost
Financing access to sanitation is the 'first mile' of adequate sanitation services: subsidies may be needed to develop the entire system.	<ul style="list-style-type: none"> • Package OBA payments and contracts in a way that incentivizes sustainable service delivery alongside the entire sanitation value chain.
The subsidy per household required tends to be higher than for other services	<ul style="list-style-type: none"> • Convey the message that even if costs investment are high, benefits to society are also very high
<i>(From Trémolet and Evans 2010: 18)</i>	

Table 2: Pre-conditions for deciding the suitability of OBA

- Market structure and experience: transparent competitive processes and a minimum market of service providers with the technical capacity to sustainably deliver the services; financial and operational autonomy and/or access to commercial debt to take on financial and performance risks of delivering the outputs; and corporate governance and commercial orientation.
- Minimum legal and contractual requirements to support the development, monitoring and adjustment of contracts.
- Institutions that are able to enforce service provider obligations and to handle legal recourse/appeal for non-compliance with legal contracts and agreements.
- A regulatory framework that ensures minimum access and service levels for the poor.
- Proper tariff and subsidy policies to align incentives.
- Sector policies that include (1) service quality standards for specific categories of users; (2) provisions for the use of subsidies/grants to make services affordable to the poor; and (3) the participation of beneficiaries in the planning, design and service delivery.
- Clear government commitment and priorities (e.g. commitment to channelling sector funds through OBA to achieve sector goals)
- Local agencies capable of performing policy making, regulation, service delivery and oversight.
- An entity with adequate independence and capacity to verify outputs against the performance standards (or possibility for hiring an independent verifier).
- Capacity to target poor beneficiaries accurately using appropriate methodologies (e.g. means-testing, geographic targeting, self-selection) so that subsidies benefit the intended recipients (e.g. lower income households).
- Sources of funds that have been agreed in advance (e.g. sector funds, or donors willing to contribute).

(Source: OECD 2010a: 156)