Findings from Hygiene and Sanitation Financing Study in Lao PDR

October 2012

INTRODUCTION

In Lao PDR, poor sanitation and hygiene causes at least three million disease episodes and 6,000 premature deaths annually. Diarrheal disease – which is closely associated with poor sanitation and hygiene – is in fact tied with pneumonia as the second largest killer of children under five. Poor sanitation also contributes significantly to water pollution, adding to the cost of accessing safe and clean drinking water. The consequences go even further. A recent study by the World Bank’s Water and Sanitation Program (WSP) found that in 2006, the country lost an estimated LAK1.9 trillion (US$193 million) due to poor sanitation and hygiene, equivalent to 5.6 percent of Gross Domestic Product (GDP). Strengthening planning and accelerating progress in sanitation and hygiene could yield substantial benefits, not just for the economy but by prolonging life and improving the future for the people of Lao PDR.

In Laos, very little information is available on how much money is being spent on sanitation and hygiene, by which entities, for what purposes, or in what locations. There is also little information on who benefits from this expenditure.

This study aims to present an overview of the current status of sanitation and hygiene financing and to provide useful information and recommendations that can help strengthen planning and accelerate progress in sanitation and hygiene.

This Research Brief summarizes the main findings of the study in Lao PDR.

METHODOLOGY

This study estimates the sources and uses of financing for basic sanitation and hygiene in a single “focus year” 2008/09 – clearly expenditure may differ in other years, but this year provides a useful overview of the current situation. In addition, the study takes an in-depth look at a) a project funded by the Asian Development Bank called Northern and Central Regions Water Supply and Sanitation Sector Project, and b) a program financed by the Danish Red Cross, to see how funds for sanitation promotion have been deployed and consider what lessons there might be for resource allocation in the sector as a whole. Together, these provide a snapshot of donor support to the sub-sector, since the former is a large urban

Key messages

• Household financing accounted for more than half of total expenditure on domestic sanitation in 2008/09; only 18 percent of new construction was subsidized by government or donors.

• The sanitation sub-sector is heavily dependent on donor support, but there is no mechanism in place for coordinating government and donor resources.

• The cost of building an improved latrine is currently high, making it unaffordable to most low income households.
project (although the term “urban” has no strict definition in Lao PDR) coordinated by an international financial institution, while the latter is a small rural program undertaken by an international NGO. Importantly, both organizations had data readily available.

The study team visited the provinces of Oudomxay (including Houn and Xay districts) and Savannakhet (including Champhe and Atsaphangthong districts). Oudomxay, in the north, was chosen because it has some designated poor districts and several active sanitation-related projects: not only the ADB-funded project but also UNICEF and JICA programs supporting school sanitation and NGO projects including one by the Lao Red Cross. Savannakhet, a southern province, has the second largest city in Lao PDR and is more prosperous overall than Oudomxay, though it has a significant number of poor rural communities and a number of development partners supporting water and sanitation projects. It therefore offered the potential to examine rural sanitation projects and see how donor coordination works at provincial level.

**KEY FINDINGS**

1. **Sector funding**

The study investigated not only total expenditure in recent years but also the sources and uses of funds, and considered how changes in sector financing might help to speed up progress towards national goals. It found that government allocations to the sub-sector are very limited, and minimal funds are allocated for sanitation and hygiene promotion at community level. This means that the National Centre for Environmental Health and Water Supply (Nam Saat) has targets to meet, but almost no resources for meeting them. Ministry of Health funding accounted for just 1 percent of total government spending in 2007/08 (see Figure 1) and, within this constrained budget, sanitation was not treated as a funding priority, regardless of the targets adopted by government. Total national spending on sanitation stood at just US$5.9 million in 2008/09 (see figure 2), of which only 12.5 percent came from government and was spent entirely on salaries and administration. Roughly 52.2 percent was spent by household on hardware, and 35.3 percent by development partners: two thirds of it on sanitation hardware and one third on software (personnel, administration, communications, logistics etc.). The level of private sector contribution could not be determined but was evidently very low, probably less than 2 percent. If current approaches to sanitation promotion are continued, annual expenditure would need to increase roughly 2.5 times to achieve 60 percent coverage by 2015, and by 4 times to reach 70 percent (see Figure 3).

*Laos PDR Ministry of Finance, Official Gazette 2009*
2. Sector planning and coordination
At the time of writing, no strategy is in place for meeting national or international sanitation goals in Lao PDR, nor is a national monitoring framework that tracks both government and development partner activity in the sector. This makes sector planning and coordination very difficult, since donor funds are allocated through a variety of mechanisms and at various levels, with little predictability as to the total funds that will be available in each province each year. Having said this, a new rural water supply and sanitation sector strategy is being developed in 2012 as a multi-stakeholder initiative and this should help to improve both the efficiency and effectiveness of resource allocation in the sector.

3. Established approaches to sanitation promotion
Of the 47 poorest districts in the country, development partners are supporting sanitation and hygiene promotion in just over half, and most projects operate on a fairly small scale, covering only selected villages rather than entire districts. Typically these projects support the installation of a single technology option: the pour-flush toilet with a soak pit lined with three concrete rings. This design is very popular, but also fairly expensive: over US$100 if a durable super-structure is used.

This approach to sanitation promotion has three critical weaknesses:

- it is too expensive to scale up;
- it creates community expectations of external support, reducing the motivation of householders to build latrines at their own expense; and
- it makes it very difficult for private masons and suppliers to generate business since their products are not subsidized.

In remote locations, where many of communities are poor, the cost of installing improved sanitation is even higher due to the problem of materials supply. Seasonal limitations in water supply can also affect the viability of pour flush toilets.

In contrast to this constraint, a very encouraging finding of the study was that households with the necessary resources are willing to pay for good quality toilets. Household financing is in fact the main reason that coverage is, slowly, increasing.

Only 18 percent of household latrine construction in 2008/09 was subsidized, with the vast majority funded from households’ own resources. Three quarters of these household-built latrines costing around LAK2.3 million (US$318), and one quarter spent around LAK5.5 million (US$614) (see Table 1). These are substantial sums and such toilets would only be affordable to middle- and high-income earners; for large numbers of poor households to build their own facilities, more affordable technology options would need to be available.

RECOMMENDATIONS
With nearly half the population lacking adequate sanitation, the challenge facing Lao PDR is daunting, but there are steps that government and development partners could take to make the national targets achievable.
Some proposed key actions include:

1. Give sanitation higher priority on the national development agenda and within national rural water and sanitation strategy, which is currently under revision.

2. Allocate operational resources so that Nam Saat field staff can actively promote sanitation and hygiene at community level.

3. Establish a government-led national working group on water supply and sanitation with government and development partner representation. Not only could this improve sector coordination; but it would also help to ensure that donor support is aligned with government and priorities.

4. Promote and enable increased household financing of latrine construction through information and education, marketing, technical support and attractive financing options.

5. Reduce dependency on hardware subsidies, which have proved ineffective in creating the demand for toilets and in any case cannot be offered on a large scale due to the cost. Instead, develop and promote a range of affordable technology options for improved sanitation.

6. Find a more cost-effective approach to sanitation promotion that can be scaled up district-wide. With this in mind, extend ongoing work by Nam Saat, WSP, SNV and other development partners in Lao PDR to introduce Community-Led Total Sanitation, which offers the potential for eradicating open defecation across entire community without the use of hardware subsidies.

**TABLE 1: CALCULATION OF HOUSEHOLD EXPENDITURE ON LATRINE CONSTRUCTION FY08/09**

<table>
<thead>
<tr>
<th>Total household contribution (all hardware)</th>
<th>Estimated average cost of latrine and superstructure including labor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of HH building subsidized latrines</td>
<td>Percent  LAK USD</td>
</tr>
<tr>
<td>1,900</td>
<td>18.3  635,000* 74*</td>
</tr>
<tr>
<td>Number of HH with medium-cost, non-subsidized latrines</td>
<td>7,838  75.7  2,725,000 318</td>
</tr>
<tr>
<td>Number of HH with high-cost, prestige latrines</td>
<td>622  6.0  5,500,000 643</td>
</tr>
</tbody>
</table>

* Represents cost of superstructure only; development partner subsidies for substructure are included among development partner contributions.

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WSP is a multi-donor partnership created in 1978 and administered by the World Bank to support poor people in obtaining affordable, safe, and sustainable access to water and sanitation services. WSP’s donors include Australia, Austria, Canada, Denmark, Finland, France, the Bill & Melinda Gates Foundation, Ireland, Luxembourg, Netherlands, Norway, Sweden, Switzerland, United Kingdom, United States, and the World Bank.

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