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INSTITUTE FOR SUSTAINABLE FUTURES



## SUPPORTING THE POOR TO ACCESS SANITATION IN BOKEO PROVINCE, LAOS



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# Supporting the poor to access sanitation in Bokeo Province, Laos

Prepared for: PLAN LAOS AND PLAN AUSTRALIA

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# 1 INTRODUCTION

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*In an environment of scarce public money the question is not about hardware subsidies but about the best possible allocation of public funds*

WSSCC, 2009, p6

## 1.1 BACKGROUND

Internationally, there has been debate over the last decade about effective ways to increase access to sanitation as a basic human right and essential service to support public health. Within Laos, a similar debate is underway, with a history of provision of hardware subsidies through public or non-governmental organisation funding, and more recently a shift towards demand-driven approaches to motivate household investment and market support to enable more efficient, affordable supply of sanitation products.

Plan began working in the Lao WASH sector in 2010, piloting Community Led Total Sanitation (CLTS) to create community demand for toilets. In 2011-12, government and Plan staff conducted CLTS activities in 35 villages and schools in Phaoudom, Paktha, and Mueng in Bokeo Province. After seven months, eight villages reached 100% coverage. Overall, there was a 24% increase in coverage and reported use across all communities.

Costs for building toilets were perceived as an inhibiting factor among some villages however, and in 2011, Plan conducted a sanitation survey in nine villages in the target districts to ascertain attitudes and behaviours among the villagers and a basic supply chain survey. A price range of LAK 200,000 – 300,000 (USD 25-38) per toilet unit was identified to be acceptable by many villagers, though not all could afford this price. The Bokeo Provincial Health Department (PHD), responsible for sanitation services in the province, encouraged Plan to develop targeted support for the poorest households.

This report details findings of research to underpin the design of this targeted support. The intent was to develop a 'smart' subsidy design that could achieve effective targeting and would avoid undermining the demand-driven CLTS approach and market response.

Plan's approach to supporting communities to improve sanitation includes a focus on ending open defecation, generating demand for improved sanitation and ensuring households have accessibility to durable and desirable sanitation goods and services. To help achieve this, Plan has been an early adopter of the CLTS approach, and CLTS remains a key component for many of Plan's WASH programs throughout Asia and Africa. Whilst Plan has had extensive global success at generating demand for improved sanitation through CLTS, Plan recognises the need to explore complementary approaches that could more effectively support the poorest of the poor to access sanitation. This is particularly important in areas, such as Bokeo Province, Laos, where remote communities are located and have a limited commercial sector.

Whilst the focus of this document is on Bokeo Province, the discussion herein may be used as a reference by government and non-government stakeholders in Lao PDR that



aim to improve access to sanitation, especially for the poorest and most vulnerable members of Lao society.

## 1.2 METHODOLOGY

Background literature was consulted, and consultations undertaken in Vientiane, Houay Xay and Phaoudum District including two villages, Had Mouk and Had Kham (see Figure 1).

Stakeholders consulted included National Centre of Environmental Health and Water Supply, (Nam Saat), World Bank Water and Sanitation Program SNV, UNICEF, CARE, Bokeo Provincial Health Department, Lao Women's Union, the Vice-Governor Phaoudum, Phaoudum District WASH team and local hardware suppliers.

At community level a community meeting was held followed by separate consultation with women and men in and eleven household interviews spanning different wealth classes and including those currently with and without access to sanitation in the form of a household toilet. All participants were informed of the purpose of the consultation towards improving sanitation approaches and ensuring they effectively reach the whole community.



**Figure 1: Village and household environments in Had Mouk and Had Kham**



## 2 EFFECTIVE USE OF PUBLIC FINANCING FOR SANITATION

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This section provides background to the international and Lao context on effective use of public financing to support expansion of access to sanitation for the poor. Such background is critical to designing a sound approach to targeting the poor for Plan in Bokeo, as activities undertaken by NGOs impact on the approaches of government and other sector actors. Ideally Plan's approach will provide direction in terms of best practice models that may be adopted and scaled-up.

### 2.1 INTERNATIONAL CONTEXT

#### 2.1.1 The subsidy debate

The subsidy debate has dominantly revolved around an interpretation of 'subsidy' to mean a hardware subsidy only. During 2005-2010 there was significant discussion in the sector about the limitations of hardware subsidies in both effecting sanitation behaviour change and with regard to their cost-effectiveness. Various evaluations highlighted the ineffectiveness of upfront hardware subsidy approaches and many sector actors moved to promote incentives for collective behaviour change.<sup>1</sup> The development of CLTS and within it, promotion of a non-subsidy approach has influenced many development actors to reduce or eliminate hardware subsidies, however questions are increasingly arising about the equity outcomes associated with this and other current approaches.

To open out the options for how the poor, and others, may be supported to achieve access to sanitation and changed behaviours, it is important to recognise that the term 'subsidy' is wider than 'hardware subsidy', and that all forms of support to generate access to sanitation, including support for software aspects (such as CLTS processes) are a form of 'subsidy'.

More recent literature calls for a shift from the question of subsidy or no-subsidy to the question of "what form and level of public funding makes sense in a specific context"<sup>2</sup> and – what is "the best possible allocation of public funds to the entire sanitation value chain".<sup>3</sup> This requires developing financing arrangements that have high leverage ratios (i.e. ratio of privately invested funds versus public funds) so as to "allocate scarce public resources

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<sup>1</sup> Willetts, J. Wicken, J and Robinson, A (2009) Meeting the Sanitation and Water Challenge in South-East Asia and the Pacific, Synthesis Report on the Sanitation and Water Conference 2008

<sup>2</sup> Tremolet, S., Kolsky, P and Perez, E (2010) Financing Onsite Sanitation for the Poor. Six country comparative review and analysis, Water and Sanitation Program WSP Global Practice Team, January 2010

<sup>3</sup> WSSCC 2009 Public funding for sanitation, the many faces of sanitation subsidies Prepared by Barbara Evans, Carolien van der Voorden and Andy Peal; p6



to well-targeted interventions for the poorest".<sup>4</sup> However it is critical that such financing approaches avoid distorting the market.<sup>5</sup>

## 2.1.2 Are the poor being reached?

An important question in deciding on appropriate use of public funding, is how to ensure all segments of the population are reached. It appears that current approaches to sanitation are potentially not adequately reaching the poor.

In a study by WSP, across four different sanitation approaches examined in Cambodia, few programs were successful in achieving collective sanitation outcomes and the author noted that "*the population segment that practice open defecation in the program communities is largely made up of poor households*".<sup>6</sup> An independent review of a large-scale NGO fund also questioned complete adherence to a no-subsidy CLTS approach since monitoring visits revealed that the poor may have been excluded by this approach.<sup>7</sup>

In Cambodia, a review of sanitation marketing approaches described enterprises were only managing to mobilise 'early adopters' to purchase latrines, and led to enterprises expanding geographically and a pattern of 'wide but shallow' market penetration.<sup>8</sup> When non-toilet owners were interviewed, 93% responded with 'no money/too poor' as their primary reason. The latrine being marketed was USD 35, which was equivalent to 25% of the monthly consumption of households in the poorest quintile. The review concluded that there was a need to explore other mechanisms to increase the poor's affordability to obtain a toilet.<sup>9</sup> Related literature based on Cambodia's experience also concludes that "many challenges remain, including understanding how the poor can participate in a new sanitation marketplace."<sup>10</sup> Similarly, in Vietnam a recent study of a sanitation marketing approach showed that there was a lower rate of uptake during a pilot project of poor households as compared with non-poor and the report noted that a financing strategy for the poor was missing.<sup>11</sup>

In conclusion, it appears that it is justifiable to trial a targeted subsidy approach for the poorest in Bokeo Province. This in line with recent literature that maintains that,

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<sup>4</sup> Tremolet, S (2012) Pathfinder Paper- Sanitation Markets Using economics to improve the delivery of services along the sanitation value chain. December 2012; p3-4

<sup>5</sup> WSSCC (2009) WSSCC 2009 Public funding for sanitation, the many faces of sanitation subsidies Prepared by Barbara Evans, Carolien van der Voorden and Andy Peal; p7

<sup>6</sup> Robinson (2012) Sanitation Finance in Cambodia, Water and Sanitation Program Guidance Note 67393, February 2012, pviii

<sup>7</sup> Willetts, J., Bailey, B. and Crawford, P. (2012) Independent Completion Review for the AusAID Civil Society Water, Sanitation and Hygiene Fund

<sup>8</sup> Pedi, D., Kov, P and Smets, S (2012) Sanitation Marketing Lessons from Cambodia: A Market-based Approach to Delivering Sanitation, Water and Sanitation Program Field Note, October 2012

<sup>9</sup> Pedi, D., Kov, P and Smets, S (2012) Sanitation Marketing Lessons from Cambodia: A Market-based Approach to Delivering Sanitation, Water and Sanitation Program Field Note, October 2012

<sup>10</sup> Pedi, D et al. (2011) The 'hands-off' sanitation marketing model: emerging lessons from rural Cambodia, 35<sup>th</sup> WEDC Conference Loughborough, 2011

<sup>11</sup> Sijbesma, C., Truong, T.X. and Devine, J.(2010) Case Study on Sustainability of Rural Sanitation Marketing in Vietnam, Water and Sanitation Program Technical Note, April 2010





“[h]ardware subsidies should not be dismissed off-hand as they can have a critical role to play to overcome affordability constraints for the poorest households”.<sup>12</sup>

## 2.2 LAO CONTEXT

### 2.2.1 Investment in sanitation

The recently approved Lao PDR National Plan of Action for Rural Water Supply, Sanitation and Hygiene proposes a set of targets for 2011-15 (for discussion and approval by the Government) which include the following:

- By 2015, the improved sanitation access for rural areas has been increased by 22 per cent to 60 per cent as compared to 38 per cent in 2008 (JMP 2010)
- By 2015, the improved sanitation access among poor populations (lowest quintile) in rural areas has been increased by 25 per cent to 32 per cent as compared to 7 per cent in 2006 (MICS-3)
- By 2015, improved sanitation facilities are being used by 90 per cent of the members of households with sanitation facilities

However reaching these targets will require increased investment. Sanitation, historically, has been underfunded in Lao PDR. Nam Saat has responsibility for rural sanitation, but is reported to have few resources to meet them. Ministry of Health funding accounted for just 1% of total government spending in 2007-08 and within this sanitation wasn't treated as a priority.<sup>13</sup> Total spending was US \$5.9m in 2008/9, of which 12.5% was government funding.<sup>14</sup> The National Plan of Action indicates that total spending on sanitation is at an annual average of 22 billion Kip (US\$2.7 million) with the Government contributing about a fifth of this investment, mainly through recurrent staff costs in the rural water and sanitation sector. Households and development partners contributed the remainder. According to the National Plan of Action, an estimated 20 per cent of the Government contribution was devoted to sanitation and hygiene promotion (1 to 1.3 billion Kip [US\$ 120,000-160,000]). If there is a continuation of current approaches, annual expenditure would need to increase roughly 2.5 times to achieve 60% coverage by 2015, and by 4 times to reach 70%.<sup>15</sup>

It is therefore critical to consider how to leverage household investment. In 2008/9 only 18% of toilets were subsidised, yet most household investments by middle and high income earners and were between USD 318-614 per toilet.<sup>16</sup> The question that remains is how to ensure affordable products for lower income earners, and how to ensure the poor are not excluded receive sufficient support.

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<sup>12</sup> Tremolet, S (2012) Pathfinder Paper- Sanitation Markets Using economics to improve the delivery of services along the sanitation value chain. December 2012; p33

<sup>13</sup> WSP (2012) Findings from Hygiene and Sanitation Financing Study in Lao PDR October 2012

<sup>14</sup> *ibid*

<sup>15</sup> *ibid*

<sup>16</sup> *ibid*



## 2.2.2 Supporting equity

The National Plan of Action principles include a focus on equity as follows: “*all rural people have equal access to improved water services and sanitation facilities, and receive hygiene behaviour change promotion*”. And as described above, one of the proposed targets concerns the poorest quintile.

The action plan, which focuses dominantly on motivating households to invest in latrines, however, leaves room for the use of direct subsidies for households defined as ‘poor’ or ‘vulnerable’ (see Box 1) which is what is proposed in this document.

### Box 1: Discussion of use of household subsidies in the National Plan of Action

This National Plan of Action moves away from and does not support the use of (financial and hardware) subsidies for household sanitation.

This is because their use has been found to distort the sanitation sector, in that villages and households delay constructing and improving their sanitary situations as they are relying on the state or other actors to provide for them.

Direct subsidies should only be considered for use if needed to target villages and households defined as being ‘poor’ (PM No. 285/PO, dated 13/10/2009) or ‘vulnerable’ (single parent households, disabled supported elderly households).

For this study, various stakeholders in the WASH sector at national level were consulted about their views on how to reach the poor. Stakeholders provided useful background on their own attempts to reach the poor, including through the use of loans of moulds to private sector (SNV), full subsidies to all community members (CARE), hardware subsidies to motivated households (UNICEF) and support for affordable products (WSP). None of the approaches were considered completely successful and scalable, and there was recognition that market-based, behaviour change focused approaches and subsidy approaches are in tension with one another.

The over-riding view was that much work had been done to shift away from a blanket subsidy approach in Laos and towards uptake of approaches such as CLTS and sanitation marketing. Hence, it was felt that any trial of a subsidy for the poor should be attempted with caution and with clearly defined parameters. It was agreed that taking forward the trial smart subsidy approach as a well-monitored ‘learning experience’ would allow it to feedback and inform on-going discussions at national level.

## 2.2.3 Status of private sector in sanitation

The status of the private sector in sanitation in rural areas is under-developed. Most products are imported rather than made in Laos and supply chains beyond district centres are limited. WSP undertook a study in 2012,<sup>17</sup> and as a part of this developed two

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<sup>17</sup> WSP (2012) Development and marketing of affordable technology options for sanitation in lao PDR. Prepared by Danielle Pedi, Michael Hahn, Champak Nanthavong and Somphao Bounnaphol



products, a pour-flush (retail price of 375,000LAK/USD 47) and a waterless latrine (basic model retail price of 100,000LAK/USD 12.50 or with tiles 155,000LAK/USD 19.42) (see Figure 2). This work provides a foundation for the government and other agencies to build on, and demonstrates the potential costs for durable latrines at affordable prices.



**Figure 2: Sanitation products developed in southern Laos, WSP 2012**

## 2.3 BOKEO PROVINCE

Bokeo is in Lao PDR's northwest, and is an ethnically diverse mountainous area. The local economy is based on seasonal farming of lowland and upland rice cultivation as well as maize, bamboo and limited livestock production, generally all operating at a subsistence level. District centres have a limited number of hardware suppliers and transport of goods is undertaken by boat or by roads, though the roads can become impassable in the rainy season (May-October). Plan works in three districts in this province: Phaoudom, Paktha, and Mueng Districts.

The Vice-Governor of Phaoudum noted that they are one of the 47 poor districts of Laos, with 83 villages total, 43 of which are poor, which means they are in remote rural areas with limited road access, electricity and education, in short, are not 'developed'. And the head of planning, for PHD Bokeo noted that: "*The villages are very poor, we still need hardware subsidies*". Government poverty information indicates that there are 4,715 poor families across the province and 4,366 poor families across the 3 districts in which Plan works.

Descriptions within villages of what 'poverty' means included:

- "*People with a lack of rice are considered poor, especially if they have many children*" (men in Had Mouk)
- "*those who are poor might have enough food but no money*" (women in Had Mouk)
- "*Last year I had 80 sacks of rice*" (equivalent to 400,000kip/month) (male household interviewee classed as 'poor')
- "*for the really poor, they don't have money to live, maybe to feed themselves but not other money*" (women in Had Kham)
- "*not enough food, if they have to borrow to buy food*" (men in Had Kham)

The consultations shed light on whether the government poverty line offers an appropriate cut-off to define those who can and can't afford sanitation. In Had Mouk it was reported that there were 34 families classified as poor using government records from a total of 132



households. Within this community, one household interviewee noted his thoughts about affordability: *“it might be hard, some don’t have money to buy, they don’t have money for other things. There are probably about 10 families who don’t have. Also, there are those with money who don’t do it. Lots of families within the village who have money but don’t do it”* In Had Kham, the government poverty information noted 62 households, with 41 described as ‘poor’. However when the village gave a description he noted *“10 households as well-being, medium as 14, poor as 28 households”*, the men’s focus group noted about 25 households as ‘poor’, and women noted that about 10 households really could not afford to purchase materials for toilets. It therefore appears that the actual poverty level at which a household may not be able to afford a toilet is likely to be below the official poverty line.

Consultations also helped verify whether poor households were building toilets as part of the current CLTS approach. Across the two communities visited, despite asking to visit a sample that included ‘poor households with a toilet’, none of the selected interviewees with toilets were actually poor in terms of the characteristics described below. Yet several poor households were visited that did not have toilets. This points to the disparity within communities and demonstrates that the poor may be being excluded by current approaches.

Plan’s experience has also shown the possibility that poorest within a community have been challenging to reach through the CLTS, however further data collection and analysis is needed to verify this point. A small sample surveyed in June 2013 indicates mixed results. For instance, In Huaykoun (in Phaoudum) there are 56 poor households, most of which do not have toilets, and since triggering none of the poor households have built toilets. In contrast, in Phiengtheung (also in Phaodoum District), there are 35 poor households, all of which built dry latrines following CLTS, resulting in ODF status in 2013. And similarly in Houymaisang (in Paktah), all 14 poor households built toilets following CLTS. A remaining question in the latter two cases is the longevity of self-built toilets with local materials. Overall, this data points to the need to await more details analysis in August 2013 to better understand if the poor in Bokeo are really being excluded with Plan’s current approach, and if not, the need for the smart subsidy, or the degree to which a smart subsidy is applied and focussed towards the poorest, should be reconsidered.

The range of prices paid for toilets in the two communities was as follows:

- Had Mouk: mostly 500,000-600,000Kip (USD 70-75), and one household who paid 365,000 Kip (USD 45)
- Had Kham: 500,000-750,00Kip (USD 70-95) for ‘a nice one’ and 250,000Kip (USD 30) for a ‘less nice one’

Transport costs varied from 50,000-100,000Kip (USD 7-8). Many families had previously paid 40,000 (USD 6)Kip for toilets provided by Red Cross toilet in the past (around 2007).



## 3 FACTORS AFFECTING SUBSIDY DESIGN

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### 3.1 CRITERIA FOR A 'SMART SUBSIDY'

Design of a 'smart subsidy' needs to take into account both current and future considerations, as well as potential unintended outcomes that will inevitably occur in addition to intended outcomes.

Plan set the following goals for the smart subsidy:<sup>18</sup>

1. Provide potentially higher ODF coverage through lowering toilet costs to the most vulnerable households (poorest) while minimising potential market distortions
2. Accommodate current government mandate to provide services to the poorest households (according to government poverty assessments) while ensuring full government participation in the overall WASH program including meeting ODF targets as set out in the National Plan of Action for Rural Water Supply, Sanitation and Hygiene.

Drawing on the literature<sup>19</sup> and factors within the local context, the following criteria were developed to guide the design of the smart subsidy in Bokeo:

1. **Practicable and suitable for the local context** (factors including culture, availability of microfinance, current role of private sector and product availability)
2. **Optimises use of public funds** (minimum % public funds as a proportion of the cost of sanitation adoption)
3. **Costs are affordable for beneficiaries** (beneficiaries able to cover remaining costs beyond that provided by the subsidy, and sufficient members of the population targeted to ensure the near-poor can also afford toilets)
4. **Ensures effective targeting of the poor** (appropriately targets the poor and is effective in doing so)
5. **Financially sustainable** (government could support the approach in the long-term without external support)
6. **Scalable** (the design and management are possible at much larger scale; the financial approach could be scaled up across the country at a reasonable cost)
7. **Incentivises desired behaviour change** (supports long-term behaviour change outcomes to use and upkeep sanitation facilities)
8. **Aligns with broader project approach** (avoids undermining motivation of non-targeted households, supports and avoids undermining suppliers and market development)
9. **Maintains accountability and decision making at lowest level** (ensures targeting, implementation and monitoring occur at lowest possible level)

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<sup>18</sup> Plan 2013 Proposing 'Smart' subsidies in Bokeo, Laos, April–June 2013, Consultant's Terms of Reference (TOR)

<sup>19</sup> Tremolet et al., 2010; WSSCC, 2009 WSSCC 2009 Public funding for sanitation, the many faces of sanitation subsidies Prepared by Barbara Evans, Carolien van der Voorden and Andy Peal



### 3.2 CHOOSING THE TYPE OF SUBSIDY

A range of types of subsidies are described in the literature, with varying advantages and disadvantages. Design of a 'smart subsidy' involves considering issues in the local context in choice of subsidy, and 'designing-in' mitigating strategies for any disadvantages.

Table 1 below describes a range of potential subsidies that could be used to target the poor, their relative pros and cons in relation to the criteria above as described in the literature, and examples of where they have been used.

Subsidy type	What would it involve?	Advantages	Disadvantages	Example of its use
Direct subsidy – cash or vouchers	Payment direct to targeted households as cash or voucher to be spent on specified sanitation products or services	Empowers targeted households  Stimulates market development	Expensive and complex to administer, potentially causing issues for scalability  Potentially only viable when bundled with other social services	Vouchers have reportedly used within a program at scale by BRAC in Bangladesh however not evaluation is available concerning the results.
Hardware subsidy	Public sector (or NGO) provision of sanitation products to targeted households, usually with some input (cash/labour) from households	Enables targeted poor households access to sanitation	Often expensive with limited reach, not financially sustainable  Stifles market development  Can skew or fix technical design at 'high-cost' end	Bangladesh DISHARI: upfront in-kind hardware subsidy targeted to poor (covering 42% of hardware costs)
Subsidies to small-scale suppliers/services	Funding for training, product development business development services (for artisans and/or suppliers), providing credit or moulds or transport subsidies, could reward sales to the	Potential to support affordable products for all (not just targeted households)  Supports broader	Relies on interest and capacity of small-scale providers  May have a slow effect where private sector development is	Mozambique Improved Latrines Program: software support to suppliers and output-based subsidy for each toilet or



	poor	market approach	limited  Risk of failure of some providers resulting in lost investment	slab sold (40-60% of hardware costs)
Cross subsidies	Transfers in cash or labour from richer to targeted poor households	May be efficient at targeting and allocating resources	May still result in exclusion of some poor and vulnerable	
Output-based subsidies	Subsidies paid after an outcome is achieved (eg ODF, toilet use etc.)	Prevents wastage of public money  Encourages efficiency and accountability	Investments must be pre-financed and this may exclude the poor  Complex to administer	Maharashtra, India Total Sanitation Campaign: outcome-based hardware subsidy for poor households (covered 22% of hardware costs)
Subsidised credit	Bank guarantees or low interest loans to poor households	Supports market development	Requires competent micro-finance providers  Can be complex to administer	Vietnam Sanitation Revolving Fund; access to credit at subsidised interest rates on loans for hardware (accounted for 3% hardware costs)

**Table 1: Types of subsidies (adapted from WSSCC, 2009 and Tremolet et al., 2010)**



The rationale a direct subsidy in the form of vouchers is shown below in Table 2.

Subsidy type	Decision taken and rationale
Direct subsidy – cash or vouchers	<p><u>Chosen subsidy approach.</u> Vouchers were chosen over cash as it was considered not possible to ensure ‘cash’ was spent on sanitation products.</p> <p>Considered to align with a focus on sanitation market development and avoids distorting the market.</p> <p>Ideally there would be an existing social service onto which it would be possible to add the sanitation subsidy, however consultations reported minimal government support provided to the poor (only eye surgery, occasional food rations etc.) and no systematic on-going targeting of this group by other government programs.</p>
Hardware subsidy	Avoided due to bypassing and stifling market development, since market development is an important aspect being implemented alongside the subsidy for the near-poor and non-poor
Subsidies to small-scale suppliers/services	Was considered not able to adequately target the ‘poorest’ and also that even lower priced sanitation products than are currently available were found to still be out of reach for the poorest.
Cross subsidies	Community members agreed that it might be possible for money to be loaned between households that are related and part of a family, but that a wider system of cross-subsidy would be unlikely to work.
Output-based subsidies	The proposed vouchers may be provided on an output-basis (see Section 4.3) and an additional output-based subsidy at community level to promote and maintain ODF status was suggested (see Section 4.6)
Subsidised credit	In Bokeo there are no available providers of this service for households to access. The only potential source identified that might support subsidised credit is use of the Village Development Fund to provide loans to households was discussed and represents a potential option to bring into discussion with communities during CLTS and post-triggering, particularly to support the near-poor who may have cash-flow issues but otherwise are capable of affording a latrine. Currently these funds are not available to all community members (only those who have contributed) and usually for income generation purposes. Hence it would require detailed discussion to make these funds available to support latrine construction, but otherwise represents a viable ‘local’ solution.

**Table 2: Rationale for chosen subsidy approach for Bokeo**





## 4 COMPONENTS OF A 'SMART SUBSIDY' FOR BOKEO

The design of the subsidy is explained within the following sections, which deal with targeting, vouchers and preconditions to receive them, roles and responsibilities of Plan and government, agreements with suppliers, broader incentives and support, monitoring and implications for scale up.

### 4.1 TARGETING THE POOR

According to Decree on Poverty and Development Standards for 2012-2015, the Lao government defines poor 'villages' and poor 'families' (see Box 2). For the purposes of targeting the poor within communities that Plan are working, it is the poor households that are of interest.

The proposed approach to targeting comprises two levels of decision-making:

1. Use of government poverty data to decide on relative allocation of subsidies to different communities. Those communities with a higher proportion of poor families will receive a higher number of subsidies, proportional to the number of poor families. Relative transport costs could also be included here, with those communities with higher transport costs receiving greater support.
2. At community level, a facilitated community decision-making process to decide on who will receive the subsidy

#### Box 2: Specification of poverty standards (Government of Lao PDR 2012)

**Article 3 Benchmark for Calculating Poverty Standards:** The benchmark for calculating poverty standards is calculated as the average income per person per month in monetary terms, irrespective of gender and age, taking the kip as the main currency, and specified as follows:

- National average = 192,000 kip/person/month
- Rural average = 180,000 kip/person/month
- Urban average = 240,000 kip/person/month

**Article 4 Poverty Standards for Families:** Families classified as being *poor* must have a lower average income per person per month in kip than the standard specified in Article 3 of this Decree.

Families not classified as being *poor* are those which are free of poverty.

The number of subsidies available will depend on the final decision regarding the subsidy amount. Currently \$20,000 is budgeted to support the subsidy. If the subsidy is set at \$20, then 1,000 subsidies can be provided, which covers, for instance, 36% of the total 2782 families considered to be poor in Phaoudum based on government data. A lower subsidy (for instance \$15) could reach correspondingly more families (see Section 4.2 for discussion on voucher amount).

The proposition to undertake actual decision-making about who receives the subsidy to community level came from the District Vice-Governor of Phaoudum. He indicated that: *"If support some and not others, our experience is that this can create conflict within the village. Therefore we should ask villages to select the households, to decide who should*



*get support, get it signed by the village authority, and avoid selecting ourselves.*” This approach corresponds with international experience, whereupon maintaining decision-making (and therefore also accountability) at the lowest level is expected to reduce corruption and increase responsibility at local level.<sup>20</sup> A further factor supporting community decisions on who receives the subsidy is the trustworthiness of government poverty data. The Vice-Governor mentioned that this poverty information is updated annually in March, and *“has 60-80% accuracy and some mistakes, but is useful data for planning”*.

To operationalise this selection process at community level, Plan will need to:

- Collaboratively decide on criteria to be followed in the selection process – criteria should include vulnerability criteria to ensure older people living alone, widows and people with a disability are included as well as those who are ‘income’ poor.
- Design a facilitated process and guidelines for community level, including suggested roles and responsibilities for government staff, Plan staff, Laos Women’s Union staff, village leadership and the CLTS committee, and provide training on this process.
- Decide on timing of this process relative to existing implementation activities (potentially as part of post-triggering)
- Consider how to include mobilisation of local level support for the near-poor at the same time as this process which only targets the poorest and most vulnerable. For instance suggesting communities consider provision of loans from Village Development Funds to near-poor households or other forms of support to enable the whole community to reach ODF.
- Pilot this process in a small number of communities and refine it before wider roll-out in a whole district

An additional consideration is transport costs. Since transport costs may cause purchase by targeted families to still be prohibitive, consideration should be given to potential for an additional ‘transport’ subsidy to be provided over and above the vouchers. This transport subsidy would be set at a rate proportional to the transport costs from the nearest supplier. Before this aspect is pursued, Plan should analyse the variation in transport costs (single delivery and bulk) to decide on the merit and feasibility of such an approach. Costs would include distance and mode of transport to nearest market centre with available products.

## 4.2 VOUCHERS

As described earlier in Section 3.2, a voucher which can be redeemed at given suppliers was decided upon. Vouchers would be issued to women of the targeted households and

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<sup>20</sup> Choden, T. and Levaque, L (2010) Pro-poor support mechanisms to accelerate access to improved sanitation for all in rural Bhutan, SNV Bhutan and Halcrow, G (2012) personal communication



redeemed for sanitation hardware materials at local supply stores in each district (maximum of 1 voucher per household).<sup>21</sup>

**Women as voucher recipients:** Women were chosen as recipients of the voucher in response to women's identified inherent motivation regarding sanitation across many countries<sup>22</sup> and following a successful example in Vietnam of an output-based subsidy that was offered to 'poor women'.<sup>23</sup> The assumption is that providing the voucher to women will support their voice in household decisions towards constructing a toilet. This is supported by the fact that during fieldwork, both women and men confirmed that household decisions about toilet construction were made jointly by women and men. However, there is a small risk that a male household member would either not support the materials to be purchased, or would not ensure that the materials are used for the intended purpose. Such risks should therefore be considered in how the subsidy is monitored.

**Time-limited voucher:** It was decided that the voucher should be time-limited, and therefore that it must be redeemed by October or November of the year that a triggering process is held (usually in December - February).

**Voucher amount:** Plan proposed that the voucher be worth USD 20 or LAK 150,000. This value covers: *the costs of 1 bag of cement, rebar, vent-pipe section and toilet bowl*. The vouchers, however, would be redeemable for any toilet construction-related materials needed so those using the vouchers have a choice on what components they desire or need, and households could supplement it with additional money to allow a better facility to be built. Additional costs of superstructures and pit linings are the responsibility of each household.

The above pre-supposes a pour-flush toilet. The dry toilet product developed by WSP in southern Laos costs USD 12.50. This facility is upgradable to a pour-flush latrine at a later stage, and therefore may represent a more appropriate level at which to set the subsidy. However, this product is not currently available in Bokeo, hence investigation must be undertaken to understand what it would take to have such a product made available on the market in Bokeo, and in what time-frame.

**Potential subsidisation of transport costs:** As mentioned above, further analysis is needed to determine whether subsidisation of transport should be included in certain circumstances, and the best way of coordinating this with the household level vouchers.

**Purchase in Lao versus Thailand:** One risk or complication regarding the use of vouchers is that many families reported that they purchased their latrine in Thailand rather

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<sup>21</sup> In an output-based subsidy approach used in Vietnam by East Meets West Foundation, women were targeted for the subsidy due to their inherent interest in sanitation, and because it helped increase their negotiating power to improve sanitation facilities for the family.

<sup>22</sup> Willetts, J. Bailey, B and Crawford, P (2012) Independent Completion Report for the AusAID Civil Society Water, Sanitation and Hygiene Fund

<sup>23</sup> This approach was implemented by East Meets West Foundation as part of AusAID's Civil Society Water, Sanitation and Hygiene Fund evaluated in 2012.



than Laos since they are cheaper. For example, women in Had Kham responded to a question about why they did not purchase latrine materials in Phaoudom with: “*but it would be expensive- a pan is 250000 in Thailand and 3-400,000 here*”. When bought as a single item, no tax needs to be paid, however if suppliers bring in several, they must pay tax, which increases the sale price in Laos. Obviously suppliers involved in providing vouchers can only be Lao providers, and hence it will be important to discuss pricing of their products with them, to ensure they remain relatively competitive with prices in Thailand.

### 4.3 PRE-CONDITIONS TO RECEIVE VOUCHERS

Setting pre-conditions for a community to receive a subsidy is a means of giving it an ‘output-based’ aspect, and incentivising behaviour change.

Two possible arrangements were decided to be most promising, with the final decision still to be made based on the pros and cons described below (see Table 3 below).

Approach	Pros	Cons
1. Immediately after triggering (upfront)	<p>Allows the targeted households to mobilise immediately when there is enthusiasm after triggering.</p> <p>Allows potential for bulk transport of materials/products from suppliers combining both voucher and cash purchases.</p>	<p>Doesn't incentivise behaviour change or have any ‘output-based’ aspect to the subsidy (unless combined with a collective reward for ODF to the community)</p>
2. After 50% of those without toilets at triggering have built toilets.	<p>Incentivises community behaviour change, ensures that the community is on-track towards achieving ODF and has demonstrated progress.</p>	<p>Poor households may have to wait (in the case that it takes a long time for others in the community to mobilise and build their toilets)</p> <p>Reduces the possibility of arranging bulk transport of materials/products from suppliers combining both voucher and cash purchases.</p>

**Table 3: Options for pre-conditions for receipt of voucher**

Another variation is that the vouchers would be provided after ODF had been achieved (for instance, similar to the Total Sanitation Campaign in India), however this was decided by Plan staff to be less appropriate since it required poor households to build toilets twice, and it was also obvious during community visits that there was a low level of knowledge or acceptance of dry sanitation options.



For the first approach as an upfront subsidy, it was proposed that this should be combined with a reward to the community for collective sanitation behaviour change, which could either be used for any type of community investment, or for sanitation (for instance supporting the near poor, public toilet facilities, school facilities etc.). This is the approach used in the Total Sanitation Campaign in India<sup>24</sup> and is discussed further below.

## 4.4 ROLES AND RESPONSIBILITIES

It is proposed that Plan assume a dominantly oversight, support and monitoring role to the subsidy implementation rather than direct implementation. This will test the model in a realistic setting in terms of its viability for scaling up.

Consultation with the Provincial Health Department (PHD) confirmed their interest in seeing a smart subsidy provided to poor households. The role of the PHD or implementing management committee (IMC- see Plan Design 2012-2016) would be expected to include:

- Assist in establishment of an agreement between PDH/DHOs and district suppliers of sanitation products
- Potential contribution of their budget towards the subsidy, and undertake budgeting/planning for future roll-out of this subsidy more widely
- Oversight of DHO roles

Consultation with the Provincial Lao Women's Union (LWU) verified that they were interested to play a role in administration of the subsidy: "*I believe that we could do this well if we have the budget. We can reach the groups, we have reach to the village level*" (Director, Bokeo LWU). It was also noted that there was interest in potential for an MOU between Plan and LWU: "yes, it is important, if it is possible, women are important in social development". Working closely with LWU would avoid adding to the District WASH Team's existing workload, however should be further negotiated and discussed at district and provincial level. The proposed role of the LWU includes the following:

- Oversight of the village selection process of targeted households
- Issuing of the vouchers to targeted households
- Setting up agreements with suppliers
- Issuing of lists of eligible households to suppliers
- Payment to suppliers on receipt of vouchers – with timing and terms of payment to be decided upon in agreement with suppliers

Finally, it is proposed that Plan implement the approach in one district only to commence with. This will allow important learning on what works and what doesn't to be taken into account before wider implementation. It is proposed that this district be Phaoudum for the following reasons. Phaoudum has the lowest toilets coverage, the largest numbers of poor

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<sup>24</sup> Tremolet, S (2012) Pathfinder Paper- Sanitation Markets Using economics to improve the delivery of services along the sanitation value chain. December 2012; page 34



households, and a stronger supplier base than the other districts. In addition, Plan's planned human resources are greater in Phaoudom as compared with the other districts.

The resource requirements for Plan will likely include an additional staff member (since current roles already have existing task allocations) for a period of three to six months. Several tasks are involved in the 'set-up' of all the arrangements and development of processes for selection, supplier agreements etc. (see Section 4.9).

## 4.5 AGREEMENTS WITH SUPPLIERS

All government-registered hardware suppliers in the district will be invited to participate in the program. Interviews with two suppliers in Phaoudom indicated strong interest to play a role in such a program. Suppliers also indicated their relationship with other suppliers: "*[T]hese three to four shops... we all know each other... and sell at the same price. We have a close relationship*". The program will therefore need to ensure that all suppliers are treated in an equitable manner to support on-going good relations between suppliers.

Suppliers that decide to participate will be asked to sign an agreement outlining the terms of the program, which then made them 'accredited' for this program. These terms and conditions might include the following:

- Guarantee of product quality
- Amenability to bulk delivery arrangements
- Price guarantee
- Basis on which payments will be made
- Guarantee to provide materials only to eligible households on list or prescribed intermediary (eg. A CLTS committee member managing a bulk delivery)

Before commencement of the program, a survey should be conducted covering all relevant items and their prices for each supplier (and in Thailand) and used as the basis for agreements with suppliers.

Suppliers will be provided orientation about the subsidy objectives and procedures, and will also be encouraged to participate in the broader program including sanitation marketing initiatives. If transport is to be subsidised then this will need to be included within negotiations and agreements with suppliers.



## 4.6 BROADER INCENTIVES AND SUPPORTS

During development of the subsidy approach, it was recognised that there is a need to 'incentivise' all parties who play a role in supporting behaviour change and uptake (both of the subsidy itself and of sanitation more widely).

Suggestions were made for Plan to examine additional appropriate forms of incentive or reward for:

- CLTS committee members (who might play roles in organising bulk purchases, supporting the targeting/selection process)
- Any proposed LWU roles (for instance in administration of the vouchers)
- ODF reward for collective behaviour change (as mentioned above, ensuring a community level reward that is additional to the targeted subsidy is likely to support collective behaviour change. Plan should consider both a reward for achieving ODF, and also potentially an annual award for maintaining ODF. Without this focus on long-term behaviour change and follow-up, results from CLTS are more likely to slip. An example of such rewards provided by NEWAH in Nepal (see Box 3)).

### Box 3: NEWAH's approach to rewarding ODF

#### Distribution of Prizes and Letters of Appreciation after Declaring Open Defecation Free Area

The community will be awarded from District Development Committee, Village Development Committee and NEWAH by recognizing their works after they declare open defecation free village. They will receive cash and letter of appreciation. The cash prize award from NEWAH will be equal to 40 percent household of not having permanent and hygienic latrines as per the following guidelines:

- One household @ Rs. 2,500 for distance, which need walking less than one day in hilly projects.(round trip)
- One household @ Rs. 3,000 for distance needing more than one day walk in hilly projects.(round trip)
- One household @ Rs. 3,500 for walking two or more days in hilly projects.
- One household @ Rs. 3,000 of Terai projects (Projects using rings).

It is recommended that Plan follow up on these other forms of incentives in parallel to development of the targeted subsidy and consult with government and other stakeholders about their potential implementation.

## 4.7 MONITORING

Any system to provide a subsidy requires close monitoring to ensure transparency. In this case, where a new approach is being trialled (alongside CLTS and sanitation marketing), it is even more critical that strong monitoring is put in place both to ensure risks associated with offering a subsidy are monitored, as well as to enable learning about the best arrangements that can support effective implementation of the subsidy.

Beyond the monitoring described below (See Table 4) there may be a case to ensure a communication channel for complaints, to allow a clear recourse if there is a suggestion of impropriety. Such complaints could arise from community level or from suppliers.



What needs to be monitored	When and how	By whom
Whether targeted households redeem their vouchers	During normal quarterly monitoring (# redeemed/#allocated)  Monitoring through suppliers (# redeemed/#allocated)	District WASH Team
Whether targeted households construct (and use) their latrines	During normal quarterly monitoring (#built/#vouchers allocated)	District WASH Team
Whether near-poor households <sup>25</sup> are building toilets and whether their attitude has been adversely affected by the subsidy or not	During normal quarterly monitoring (qualitative- informal interviews/discussion)	District WASH Team
How progress towards ODF is affected by the subsidy	Comparison of previous rates of achievement of ODF versus those after implementation of the subsidy (trend of #new toilets/month following triggering)	Plan
Adherence of suppliers to their agreements, experience of the suppliers from their perspective	Meetings with suppliers on a quarterly basis (qualitative- informal interviews/discussion)	Plan
Gender dynamics around voucher provision to female household member	Interviews with a sample of households to check on household decision making processes and any issues arising	
Efficiency of administration of the subsidy (time/resources required, auditing of accounts, timeliness of agreements and payments etc.)	These aspects of the subsidy should be reviewed on a 6-monthly basis.	Plan

**Table 4: Proposed monitoring arrangements**

<sup>25</sup> For example households that are also on government poverty list but are not receiving the subsidy





## 4.8 IMPLICATIONS FOR SCALE-UP OF THIS APPROACH

As mentioned earlier in this summary report, it is important to consider potential for replication of scale-up at the outset rather than later on. Major issues that require consideration are as follows:

- **Financial sustainability:** Cost required to scale-up the subsidy approach, including all administrative costs as well as for the subsidy itself (described in more detail below)
- **Capacity requirements:** Human resource requirements for scale-up would need to be factored in, in relation to district WASH teams and LWU roles
- **Leverage capacity of the overall approach** (combination of CLTS, sanitation marketing and the subsidy for the poor) in terms of % public funds to reach sanitation outcomes (discussed further below)
- **Pragmatics** as regards whether budget could be allocated at the central level and earmarked for a subsidy, and whether there are any procurement requirements that would preclude the proposed type of agreements proposed with suppliers. Nam Saat indicated that if quantities purchased are high from a given supplier, it is possible a tender process would be required, which is might not work easily with the proposed approach- this issue requires further investigation
- **Lessons learned** as regards the risks and any unintended consequences need to be captured as an integral part of Plan's approach and fed into national and provincial level planning processes
- **The need for consensus** on targeting tools and assessment criteria to be agreed (ideally) at a national level. This could include the government poverty list (households and villages), analysis of poor who have and don't have access to improved sanitation to date, assessing transport costs etc. Undertaking the proposed approach in Bokeo will contribute significantly to informing the evidence based for such decisions.

Scale-up of the approach across Bokeo Province has the following financial sustainability implications. These should be taken into consideration in designing an approach which can be used throughout Bokeo or in other provinces. The following calculations represent a maximum, since they are based on numbers of poor without recognition of those poor who already have toilets:

- **Cost of the vouchers:** There are 30,190 households in Bokeo Province, of which 4,715 are considered 'poor' according to government assessments. If it were assumed that all of these households required a subsidy, then a voucher of USD 20 for all of these households would cost USD94,300, and a voucher of USD15 would cost USD70,725, just for the voucher only (this cost does not include implementation costs). A more refined calculation that includes the number of poor who already have toilet facilities (built on their own or through subsidies in the past) however it is challenging to obtain accurate information to permit this calculation.
- **Cost of implementation of the subsidy and broader CLTS process:** A rough estimate was made of about USD 5-6 per household required to support



implementation of the subsidy (including set-up costs, monitoring, DHO and LWU roles). Implementation across the province might be expected to cost between USD 20,000- USD 30,000 to cover all poor in Bokeo Province. Assuming implementation of the subsidy would occur in tandem with continuation of the CLTS approach by district WASH teams with Plan support, an additional USD 6-7 per household (assuming households of approximately 6 members).

As mentioned earlier in this report in Section 2.1, an important question for consideration is the most efficient use of public funds towards achieving an outcome of long-term behaviour change, something the traditional blanket direct hardware subsidies has not delivered effectively. Investment in behaviour change as part of any approach to increasing access to sanitation is critical.

Leverage in the use of public funds is described below in Table 5. This table compares the proportion of public and private contributions towards achieving sanitation outcomes. In the two variations of a smart subsidy, the proportion of the 'poor' households (according to government poverty assessment) in Bokeo (16%) is taken as the proportion of households receiving the subsidy. From Table 5 it is clear that use of CLTS alone provides the greatest leverage of public funds, however the use of a smart-subsidy for the poor (set at either USD 15 or USD 20) are still relatively cost-effective as compared with the use of hardware subsidies whereupon households contribute only 20% of the costs.

**Table 5: Leverage in use of public funds for different sanitation approaches**

	Public funds (USD per household)	Household contribution (USD per household)	total cost of sanitation access (USD)	leverage (% public funds per sanitation access)
CLTS	7 <sup>1</sup>	25 <sup>2</sup>	32	22%
CLTS + USD 20 smart subsidy (for 16% poor)	11 <sup>3</sup>	21.8	33	34%
CLTS + USD 15 smart subsidy (for 16% poor)	10	22.6	33	31%
hardware subsidy (LRC) <sup>4</sup>	28	7	35	80%

<sup>1</sup> Based on actual costs for 35 villages in which Plan supported CLTS processes during 2011-2012, including government per diem costs, transport, learning materials, ODF celebration costs, does not include initial CLTS training of facilitators

<sup>2</sup> Average cost per unit for toilets in 35 villages where CLTS was conducted during 2011-2012

<sup>3</sup> Based on above calculations for the cost of implementation of the smart subsidy, including both the subsidy as well as its cost of implementation in combination with CLTS across both poor and non-poor households

<sup>4</sup> Costs as provided by Lao Red Cross, these were costs incurred by EU



## 4.9 IMPLEMENTATION STEPS

The following steps consolidate areas that remain for decisions in finalising the design of the subsidy and actions towards its implementation.

Make key remaining decisions:

- Decide on subsidy amount (USD20 or USD 15)
- Decide if subsidy includes transport or not (if so, also decide on village allocation formula, and on whether it will be added to voucher 'amount' or administered at village level)
- Decide on which pre-conditions to receive voucher (see p18 for details)

Undertake set-up arrangements:

- Follow up with provincial analysis / inventory determining the number of poor households with access to improved sanitation to date, which will inform the appropriate scope and range of target beneficiaries and costs and will ensure that the program is based on a strong evidence base
- Engage with PHD to discuss proposed smart subsidy arrangement (following decisions above) including discussion of implications for scale-up and best use of public sector financing
- Engage with wider WASH stakeholders regarding proposed approach and mitigating any undesirable implications for others working with non-subsidy approaches
- Engage with LWU to agree on their involvement and role (described on p19)
- Develop community selection process (see p16 for details)
- Develop supplier agreements and terms and conditions, and address price differences with Thailand (see p20)
- Integrate proposed monitoring with existing monitoring and schedule any additional requirements

