

# Smart Subsidies

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Cambodia is in the process of defining guidelines about Smart (hardware) Subsidy for Rural Sanitation. As part of that process, we participated in a WaterAid-convened sector discussion about how these guidelines should look like (26<sup>th</sup> May). Based on an RRTS literature review (Rushed Rather Than Systematic), Andrés presented some key ideas about smart subsidies, summarised here:

## Background to Smart Subsidies

Subsidies are needed to overcome the barriers to sanitation faced by the poorest...

Subsidies are one of the strategies to overcome barriers poor and vulnerable houses face for accessing sanitation. Others include reducing cost (SanMark for cheaper toilets, more efficient supply chains, bulk orders...), promote solidarity (rich help the poor as in CLTS), spreading the investment (micro-finance, revolving funds, savings...). These are important, but experience shows they are not sufficient to reach the poorest households with hygienic and sustainable toilets.

...but involve a series of risks.

Smart subsidies implies there are stupid subsidies, too. Indeed, hardware subsidies have traditionally had negative effects, including (1) a shift the programme focus from behaviour change to construction of toilets and (2) neglecting household's preferences, behaviours and capital, both leading to poor construction, lack of ownership and low usage of many times unwanted toilets. Also, subsidies can (3) create dependency, reducing household's initiative to build and (4), limit innovation and the development of a local private sector, slowing down the overall extension of coverage. Finally, many times subsidies (5) end up benefiting or being captured by non-poor and (6) make programmes so expensive that they become unsustainable or not scalable, so in the end they won't really contribute to reaching the poorest.

Smart subsidies help the poor access sanitation while avoiding those risks.

Smart subsidies are designed in a way that reaches the poor while avoiding as much as possible the related risks. This includes looking into these characteristics of (hardware) subsidies: flat rate / weighed; in cash / in kind (materials) / integrated in a loan, voucher or rebate; upfront / after construction or use (conditional); to households / to service providers; etc.

## General criteria for smart subsidy design

Smart subsidies need to:

- 1) Have clear goals

Beyond reaching the poorest, smart subsidies may intend to ensure environmental protection, achieve certain outcomes (eg Open Defecation Free status), etc. This needs to be taken into account in the design.

- 2) Minimise negative effects on demand

Risks of slowing down coverage need to be addressed, making sure subsidies don't interfere in market dynamics. Clear, simple eligibility criteria that are stable are important avoiding unintended incentives for non-eligible households to wait.

- 3) Ensure ownership

Risks of low ownership arise when subsidies become a standalone or the key driver of a project or programme, which should be avoided. All the other strategies to overcome barriers mentioned earlier need to be considered. Flexibility for households to choose design of toilets is also important. Another option is to introduce some sort of conditionality that ensure real demand from households.

- 4) Reach the poorest

Subsidies need to be well targeted towards the poorest, based on information systems that are reliable. They need to bridge the gap between the cost and households' ability to pay. It is very likely that despite all of that some things go wrong, so regular monitoring and course correcting is paramount.

