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**Misaligned funding incentives are critical: Analysis
of sanergy sanitation service characteristics in Kenya**

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Introduction

The misalignment of stakeholders' incentive to fund sanitation services is one of the reasons for the persisting funding gaps across the sanitation value chain (Trémolet, 2011). Despite the increased funds allocated toward sanitation services in low-and middle-income countries, progress is slow towards universal safely-managed sanitation. This is due to the inefficient and biased allocation of financial resources toward the capital costs of large infrastructure such as faecal sludge (FS) and wastewater treatment plants, leaving behind aspects of the service chain such as FS collection and transport, which have a higher proportion of operational costs (Mumssen, Saltiel and Kingdom, 2018).

Stakeholder's incentives to provide services are shaped and perpetuated by the prevailing social norms, and political dynamics in a context as the perceived costs and benefits of providing these services at an institutional and personal level are relevant to each stakeholder (Ostrom, *et al.*, 2002). Batley and Harris argue these factors are 'a product of the service itself' and they suggest it is crucial to first understand the characteristics of the service and explore how they influence the institutional and political dynamics of organisations and, in turn, the incentives of the stakeholders (Batley and Harris, 2014, p.7). This paper investigates the incentives of sanitation stakeholders and their causal relationship with the service characteristics of the different types of sanitation services across the service chain.

Methodology

We utilise the case of Sanergy, a social enterprise in Nairobi, Kenya, to demonstrate the relationship between service characteristics and the stakeholders' incentives to fund the various sanitation services. We conducted a theoretical analysis using Batley and McLoughlin service characteristics framework that establishes the connection between the economic (nature of good and market-related such as monopolistic tendency) and non-economic (task-related and demand-related characteristics such as provider autonomy) characteristics and their effects on the institutional incentives to provide public services (Batley and McLoughlin, 2015). The analysis provided insights about the potential conflicting incentives and future fundings gaps across the service chain and the causal relations with the political and social norms in the county were discussed further in a series of semi-structured interviews with Sanergy, Nairobi County Government and key WASH and political economy experts in the sector.

Results and discussion

Sanergy provides three faecal sludge management services: containment under the brand/franchise Fresh Life Toilets (FLT), transport and collection, and treatment and reuse. Each of the sub-services has a different service model and therefore has different characteristics. For example, the FLT offers a private good that is visible to the user and he/she can attribute its success or failure to the providers. These characteristics suggest the FLT can incentivise the users to pay for it. Hence, the operators of the FLT and Sanergy would continue to

provide/fund it. Other characteristics related to the provision arrangements of the service also impact incentives. The contracts between Sanergy and the operators balance the incentives between them to provide quality service by allowing the FLT operator to be autonomous but also accountable to Sanergy. In contrast, the characteristics of the FS collection and transport provide fewer incentives for the users and the operators of FLTs to fund it since it is not purely private, not visible, nor attributable service and hence, not marketable. Similarly, the FS treatment service is a public good of low visibility despite being a ‘noisy’ large infrastructure due to its highly technical nature, the involvements of several stakeholders and the poor information sharing with the public.

Although this might sound like a straight forward economic analysis of sanitation services, the service characteristics and the stakeholders’ incentives are subjected to various factors. Firstly, the characteristics can be altered by, for instance, putting contractual arrangements. Sanergy were able to improve the marketability of the collection and transport service by making it a private good tied to the operation of the FLTs. Secondly, the social, political and institutional dynamics change how the stakeholders interact with the characteristics. This is particularly the case in the public’s sector incentives to fund sanitation. Sanergy aims to receive result-based financing from Nairobi County Government, and understanding the position of the government towards Sanergy’s service would aid in planning long-term sustainable and affordable service. The county’s incentives to fund Sanergy service is influenced by its political agenda and the power dynamics with the other stakeholders and therefore, the choice to fund a public of private good is subjected to the county’s interest to either fund a targeted service and receive political support from people receiving the support (the users of the FLTs) or to fund non-excludable service and guarantee universal access to the publicly-funded service. Further interrogation of stakeholders’ incentives to fund services would offer various approaches to match their incentives with the different components across the sanitation service chain and hence promote more commitment and involvement from the various stakeholders to ensure a sustainable funds allocation.

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