

Financial Feasibility Analysis of the Reuse of Human Waste Business Model in the Cape Coast Metropolis in Ghana

Joshua Aboah^{1*} Solomie Gebrezgabher² Miranda P.M. Meuwissen¹

1. Business Economics Group, Wageningen University 6706 KN Hollandseweg 1, the Netherlands

2. International Water Management Institute, West Africa headquarters PMB CT 112, Cantonments, Accra
Ghana

* Email of the corresponding author: joshaboah@gmail.com

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Abstract

The financial viability of waste management schemes in Ghana have been reported to be rare. Hence prior to upscaling the pilot reuse of human waste business model to a commercial phase, analysis of the viability of the up scaled business model is essential. Thus this study seeks to analyse the financial feasibility of upscaling the reuse of human waste business model in Ghana. Data originate from the pilot project in Accra, extended with expert elicitation. The NPV and IRR were used as decision criteria for Public Private Partnership (PPP) and Private Scenarios. The Spearman rank correlation coefficient was used to identify input variable which had most impact on NPV. Economic and simulation results reveal higher probability of financial feasibility in the PPP Scenario. Outcomes are useful for policy makers to jointly steer urban waste management and farmers' needs in the area of sustainable soil management.

Keywords: faecal sludge, excreta pellets, waste, agriculture

1. Introduction

Human excreta have been used in many countries as a good and cheap source of nutrient to enrich the soil. In Ghana, the use of human excreta as a source of nutrient in farming dates back to the early 80s. Its prominence in recent times is seen in the peri – urban agriculture sector due to its nutritional content, cheap cost and safety of usage (Danso et al., 2005). Contrary to this prominence, majority of human excreta are still treated as waste in Ghana. The management of this waste, although not effective, puts a lot of pressure on government's budget (Cofie et al., 2005). Composting is seen as a key step towards tackling waste management problems in Ghana. According to Cofie et al. (2005), farmers in Ghana are willing to use compost from different waste as soil nutrient supplement. However, the success stories of planned waste collection, treatment and reuse are few and often of small scale, hardly viable and seldom surviving their pilot stage.

Studies conducted in Ghana by Cofie et al. (2005) and Murray et al. (2011) on the reuse of human excreta have been geared towards the technical aspect of improving the nutritional composition. These studies have led to the development of fortified excreta pellets, the so called 'Fortifer' by the International Water Management Institute (IWMI) in Ghana. This is viewed as user-friendly, nutritionally enriched and economically assessable to farmers. The fortifer business model which falls within the broader resource recovery and reuse business model is seen as a sustainable way of tackling the waste problem and at the same time as a cheap source of nutrient supply for farmers.

Before this product is rolled out on a commercial phase, a comprehensive investigation into the financial aspect of running such a business model in Ghana and its social acceptability is imperative. Thus, investigations into the financial feasibility of the production of the fortified excreta pellets is crucial before it is up-scaled on a commercial phase. However, studies targeted at the financial aspect are few. An initial attempt to assess the financial feasibility of solid waste composting in Ghana by Cofie et al. (2005), employed a cost versus willingness to pay analysis to conclude that financial feasibility of this business model was unlikely. Although these results give a fair idea about the prospects of the viability of the business model, it incorporates a wider look at municipal solid waste. This study on the other hand, focuses on the fortified co-compost from municipal solid organic waste and faecal sludge. In addition, widely acceptable financial methods of assessing profitability of a business like the net present value and internal rate of return are used.

Thus, the main aim of the study is to assess the financial feasibility including uncertainty of the net present value of the reuse of human waste business model in the Cape Coast metropolis in Ghana to help provide more information for both public and private investors in resource reuse business models.

The remainder of the study is organized into sections 2, 3 and 4. The methods are discussed in section 2. In

section 3, the results are presented. Finally, the results are discussed and conclusions drawn in section 4.

2. Methods

This section covers the types of data collected, the methods of data collection and the empirical methods used to analyse the data.

2.1 Data collection

A mix of primary and secondary data were used in this study. Data were collected from pilot project in Accra, extended with expert elicitation. Data on revenues from faecal sludge disposal were obtained from the Cape coast metropolitan waste department in Ghana. Data on technical parameters such as the ratio of formulation of raw materials, labour, types of equipment and the inputs used for the production process were obtained from the pilot project. Secondary data on both technical and financial parameters were gathered from published literature about the fortifer pilot project and other similar co-composting schemes in Ghana. Data on the cost estimates for machines and other equipment were quoted based on the commercial selling rate from the website of manufacturing companies. The selling price of the fortifer was based on the market price of a substitute good, NPK, which is the most used fertilizer in Ghana. Hence, the market price of the NPK was used as the selling price for the fortifer. For projections on annual costs and output price growth, data were retrieved from the yearly consumer price index published by the country's statistical service and annual gazetted publication of the bank of Ghana.

Data sourced using expert elicitation were the specification and cost of land and the building of the composting facility. Data on the land specification and cost were gathered from Ogloo consult, a local real estate company. Data on the composting facility were sourced from a local expert in building, construction and quantity surveying. The estimations of the composting facility was adapted from the building specifications for co-composting by Rottenberger et al. (2006).

2.2 Empirical method

The net present value (NPV) and internal rate of return (IRR) were used as the valuation criteria for the financial feasibility. The formula for the NPV and IRR are given in equations 1 and 2 respectively.

$$NPV = -C_0 + \sum_{t=0}^n \frac{C_t}{(1+r)^t} \quad (1)$$

Where C_t is nominal net cash flows, C_0 is initial investment, r is nominal rate of return, t is time (in years) and n is duration of the project.

$$IRR = -C_0 + \sum_{t=0}^n \frac{C_t}{(1+r)^t} = 0 \quad (2)$$

From equation 1, the probability of making a loss can be estimated when $NPV < 0$. The initial investment (C_0) consists of cost items comprising the cost of building the composting facility, faecal sludge treatment site, land, equipment for composting, furniture and fixtures, computer and data handling devices and initial marketing cost. The annual net cash flows (C_t) = total annual revenue – total annual cost – corporate tax. The corporate tax (t) is calculated as

$$t = t_c * (R - C - Ca) \quad (3)$$

Where t_c is the corporate tax rate, R is the total revenue, C is the total cost and Ca is the annual capital allowance. A corporate tax rate of 10% is applicable to agro related processing companies as per the taxation laws of Ghana. For waste processing companies, the government of Ghana gives a tax holiday of 7 years, hence taxation was deductible in year 8 onwards. An aggregated inflation rate was assumed based on the consumer price index (combined average of the food and non-food groups) from year 2005 – 2012 of Ghana's statistical. The base rate of 16% set by the Monetary Policy Committee of the Bank of Ghana was used as discount rate (r). A project life cycle of 15 years was considered. The input variables, key assumptions and taxation incorporate in the financial feasibility analysis are presented in table 1.

2.3 Scenario and sensitivity analyses

The financial feasibility analysis was considered under two scenarios, the Public Private Partnership (PPP) and Private Scenarios. In the PPP scenario, there exist a collaboration between the local authority (i.e. metropolitan assembly) and a private firm, hence both parties contribute to the business model. In the private scenario, the private firm is autonomous in running the business model, hence all costs incurred and revenues accrued go to the private firm. The difference in the two scenarios arise from the initial cost outlay and the revenue from the faecal sludge disposal fees. In the PPP scenario, the metropolitan assembly incurs the cost of land and

construction of the faecal sludge dewatering site, hence they receive the revenue from the disposal fees. The private firm in this scenario incurs the rest of the initial outlay cost such as building of the composting plant, equipment, furniture and fixtures and the recurring costs.

The sensitivity analyses was carried out to determine the effects that changes in parameters had on the NPV. This identifies the project's most important and sensitive parameters. Prior to performing the sensitivity analyses, a preliminary analysis was performed to identify the input parameters that may be important to explore more fully. This was done by ranking the input parameters based on their impact on the NPV and IRR using the Spearman rank. This ranking was used as the basis of selecting the input parameters incorporated in the sensitivity analyses.

3. Results

The economic results for the two scenarios of the business model are shown in table 2. All the items presented (i.e. total revenue, total revenue and operating profit) in exception of total investment are presented as average of 15years. *From the results, it is evident that the private scenario of the upscale business model has a higher initial investment cost compared to the Public-Private Partnership. Both Public-Private Partnership scenario and the Private scenarios had positive mean NPV of GH¢ 118,855 and GH¢ 106,847 respectively and IRR (i.e. 22%) greater than the discount rate of 16%. However, the Public-Private Partnership scenario had a higher IRR of 23%.*

The simulation results for the two scenarios as presented in table 3, show that there is approximately 48% chance of financial viability for both scenarios when an annual average sales volume is 10% of the production volume. The IRR of both scenarios also affirm that the business model is financially viable, because both scenarios have IRR higher than the discount rate of 16%. However, the probability of making losses for the Public-Private Partnership scenario (i.e. 52.9%) was a little lower than Private scenario (53.2%) when the NPV is used as the decision criterion. The results of the minimum and maximum NPV affirms the fact that Public-Private Partnership has a higher financial viability compared to the Private scenario.

Prior to the sensitivity analyses, a preliminary analysis was conducted to identify the input parameters which had more impact on the NPV based on the Spearman correlation coefficient rankings. The annual sales volume was ranked as the input parameter with the highest impact on the NPV for both scenarios. The results show a perfect spearman correlation between annual sales volume and NPV (i.e. correlation coefficient of 1). The annual cost growth rate had a negative spearman correlation of -0.02 and -0.03 for the public-Private Partnership scenario and the Private scenario respectively. Hence, for the sensitivity analyses, the percentage of the assumed most likely annual sales volume was changed to 15% and 5% to see the impact on the NPV and IRR. The simulation results for the NPV and the economic results for the IRR of the sensitivity analyses are presented in table 4. The simulation results of the sensitivity analyses show that at an average annual sales volume of 5%, the PPP scenario will still earn an IRR equal to the discount rate of 16%. However, with the same annual sales volume, the private scenario will be earning less than the discount rate of return.

4. Discussion, conclusion and recommendations

Two different scenarios of the reuse of human waste business model used in this study arise from the level of public authority involvement in the business model. The public authority's involvement considered in this study are the provision of land and the ownership of the faecal sludge dewatering site. The results from this study reveal that at an average annual sales volume of 10%, the business model under both scenarios has close to 50% chance of been financially feasible. This result also show that an investor has about 50% chance of making loss. However, since the annual growth rate of cost and revenue does not have more impact on the NPV compared to the sales volume, investors have a higher chance of gaining from their investments when an increase in sales volume is targeted. The results of the Spearman rank and sensitivity analyses confirms this assertion. The tentative constant annual sales volume of 10% makes the analyses a cautiously optimistic one which implies that the chances of financial feasibility can be higher than the estimated. Another factor which influence the financial feasibility of the business model is the selling price of the fortifer product. In this study, the market price of a substitute good (i.e. NPK) was used instead of a higher price which was reported in the willingness-to-pay study conducted on the fortifer product. This gives management more room for exploring the different price options, which will be a competitive tool for a new product such as the fortifer.

The results from this study resonates with the conclusion drawn by Harper (2004) that individuals and municipalities seeking to venture into composting business could cover their operating costs and earn some surplus for a production capacity of 1000 tons a year.

The first conclusion drawn from the results of this study is that the overall shift towards a cost recovery

orientation in the waste management sector is attainable and upscaling the fortifer business model has high potential of financial viability when sales volume increase. Secondly, the public sector involvement will increase the financial feasibility of the business model.

From the conclusions, it is recommended that the policies on waste management should be geared at reusing waste in a more sustainable way. Additionally, the public sector should not relegate the management of the sanitation sector entirely to the private sector. The public sector should be actively involved in cost recovery schemes in collaboration with private investors. Finally, it is recommended that further research be conducted on the socio-economic impact of the business model on the livelihood of the people.

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Table 1 Parameterization of input variables

	unit	Reference
TECHNICAL		
Ratio of combination of faecal sludge and solid organic waste	1:3	Nikiema et al., 2013
Annual dewatered faecal sludge produced from five 240m ² drying beds.	260tons	Steiner et al., 2002
Annual volume of fortifier produced (Capacity of composting facility)	1040 tons	Nikiema et al., 2013
Duration for annual recurring marketing cost (radio advertisement)	6 months	Author
RECURRING COST		
Annual marketing cost (radio advertisement are spread throughout the year for a duration of six months)	GHC170 per month	Author
Production cost ^a	GHC 404	Nikiema et al., 2013
Distribution cost	GHC 44 per ton	Fuentes et al., 2012
REVENUE		
Selling price (retail price of NPK)	GHC1.43 per kg	MoFA, 2012
Disposal fees (for dumping off faecal sludge on drying beds. Weekly average of 5 trips)	GHC20 per trip	Author
INITIAL OUTLAY		
LAND (7000 metres sq.) ^b	Unit GHC	Most likely 9,310
BUILDING		
Faecal sludge treatment site ^c	GHC	27,836
Composting facility (see appendix A and B)	GHC	80,914
EQUIPMENT, VEHICLE & MACHINE		
Grinder (SL-60 Capacity of 1-1.5T/hr.)	GHC	10,100
Shredder (HMC-40 compost shredder machine. ISO9001:2000)	GHC	10,100
Mixer (Organic fertilizer compost mixer. Capacity of between 1T.hr.)	GHC	12,118
Pelletizer (KPL-400 fertilizer pelletizer. capacity of 1.2 -2.5 T.hr.)	GHC	10,100
Dryer (LGZ-12 fertilizer pellet drying machine of diameter 1200mm)	GHC	12,118
Packaging Machine (TSE-G-50 compost packaging machine with a capacity of 3-5 bags/min)	GHC	18,180
Tools (shovel, head pan, wheel barrow, hose)	GHC	440
		380
		500
		Triangular
		Author
a. Production cost includes raw materials, utilities like electricity and water wages, packaging material		
b. Commercial land standard specifications of 100 m*70 m. The total land size for the composting facility is 1000 m sq. (see appendix A) and 5 drying beds is 1200 m sq.		
c. 5 drying beds with a bi-weekly capacity of 6 tons and an annual capacity of 260t TS FS		
The exchange rate used to convert parameters from dollars to Ghana cedis is of \$1 = GHC 2.2, based on Bank of Ghana, exchange rate in September, 2013		
Sieve (ZSG1237 compost linear vibrating sieve. ISO 9001:SGS)	GHC	3,030
Truck (K2700 /K3000 models capacity of ≤ 5 tons, 2.7 (J2) diesel engine)	GHC	44,339
Vehicle (4WD , pickup double cabin, diesel engine , 8-valve)	GHC	70,573
OFFICE FURNITURE AND FIXTURES		
office furniture (desk, swivel office chair and side chairs, book shelf, drawer)	GHC	4,000
Air conditioner	GHC	4,000
COMPUTER AND DATA HANDLING		
Printer (HP office jet - wireless duplex, print scan copy, fax, web toner)	GHC	599
Computer (PC - intel core I 3-2120, 500GB SATAIII)	GHC	2,500
INITIAL MARKETING COST		
Advertisement ^d	GHC	60,380
ASSUMPTIONS		
Annual cost and output price growth rate	%	12.53
		0.99
Annual sales volume in tons	tons	104
		0
		1040
		Inv. gauss
		Triangular
		BoG, 2013
TAXATION		
Capital allowance		
(i)Building structures and works of a permanent nature other than those in minerals and petroleum exploration	Straight line basis	10%
(ii)Plant and machinery used in manufacturing sector	Reducing balance	30%
(iii)Equipment, office furniture and fixtures	Reducing balance	20%
Corporate tax rate for agro- processing companies in other regional capital (excluding Tamale, Wa, Bolgatanga)		10%
Tax holiday for waste processing companies		7 yrs.
Project life cycle		15 yrs.
Discount rate		16%
		Steiner et al., 2002
		BOG, 2013

d. 3 months TV promotional documentary and 6 months of radio adverts and 10 tons test promos – Author's assumption based on commercial rates for national broadcasting company.

Table 2 Economic results of the two ownership scenarios of the business model*

	Public – Private Partnership	Private
Total investment	335,412	372,558
Annual sales revenue	1,506,155	1,506,155
Annual disposal revenue	-	13,488
Total revenue	1,506,155	1,519,643
Annual Production cost	1,073,666	1,073,666
Annual Marketing cost	52,915	52,915
Annual Distribution cost	43,522	43,522
Total variable cost	1,170,103	1,170,103
Depreciation	18,252	20,107
Total fixed cost ^a	22,360	24,837
Total cost	1,210,715	1,215,047
Operating profit ^b	295,440	291,108
Mean NPV ^c	118,855	106,847
IRR (%)	23	22

a. Fixed cost comprise of cost of land, building composting facility and faecal sludge treatment site, equipment, initial marketing cost, furniture and fixtures

b. Average of 15 years

c. Discount rate of 16% for 15 year duration

* The figures are expressed in Ghana cedis

Table 3 Simulation results for the two ownership scenarios of the business model

	Public-Private Partnership	Private
NPV(GHS '000)		
Min	-2,689	-2,592
Max	4,641	4,505
Mean	119	108
5 th percentile	-1,944	-1,952
95 th percentile	3,032	3,041
Probability (NPV < 0) (%)	52.9	53.2
5000 @Risk iterations		

Table 4 Results of the sensitivity analyses varying in sales volume

	Public-Private Partnership		Private	
	15%	5%	15%	5%
% most likely sales volume				
NPV(GHS '000)				
Min	-2,572	-2,515	-2,483	-2,514
Max	4,656	4,696	4,654	4,753
Mean	234	2	224	-9
Probability (NPV < 0) (%)	50.3	55.5	50.5	55.6
IRR (%)	30	16	28	15
5000 @Risk iterations				

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