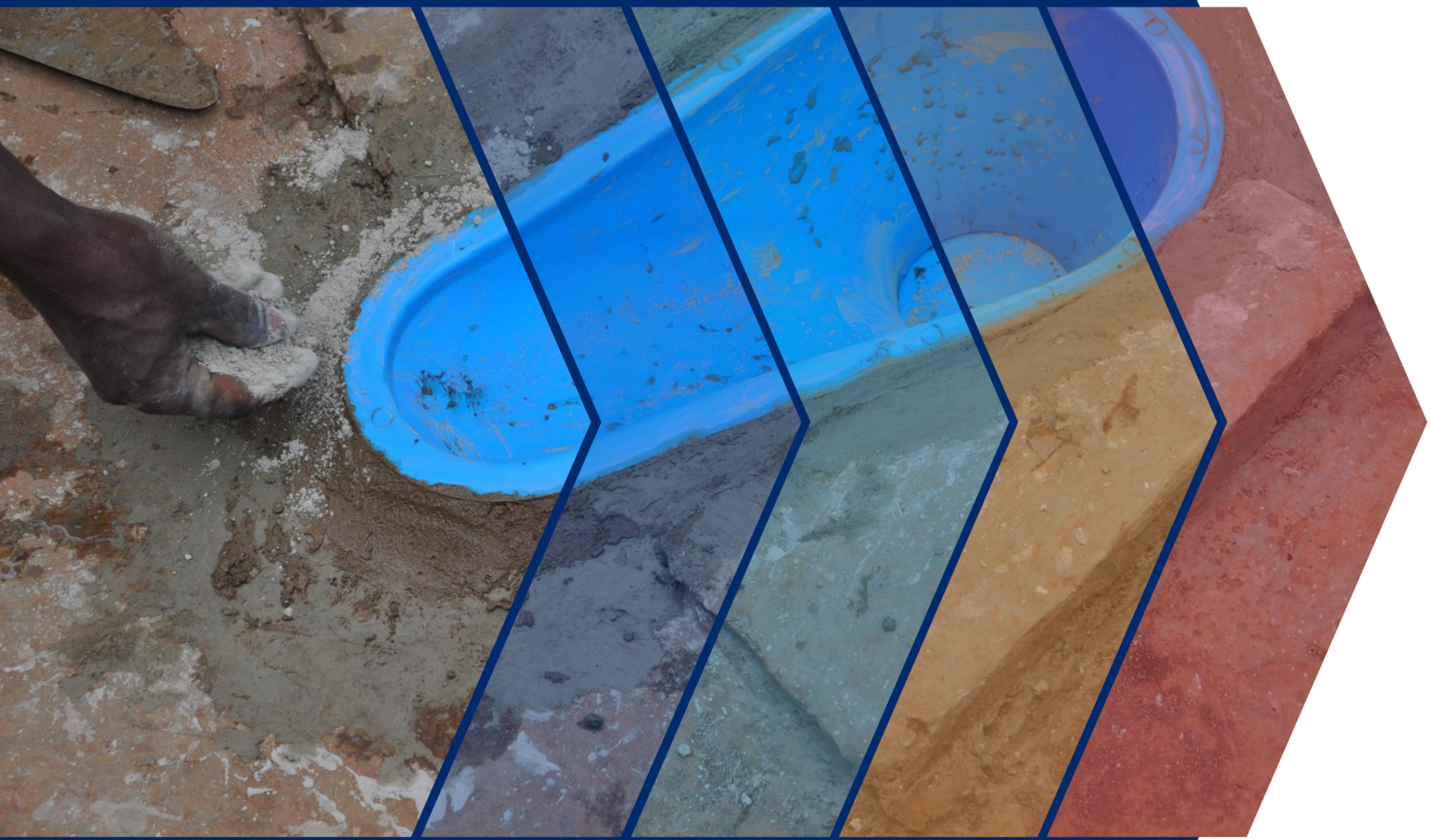
USAID Transform WASH

Financing for Improved Sanitation: Case Study from SNNPR, Ethiopia



Learning Note, October 2017

Table of Contents

About USAID Transform WASH

USAID Transform WASH aims to improve water, sanitation and hygiene (WASH) outcomes in Ethiopia by increasing access to and sustained use of affordable, quality WASH products and services, with a substantial focus on sanitation.

It does so by transforming the market for WASH: stimulating demand at the community level, strengthening supply chains and building the enabling environment for a vibrant private market.

USAID Transform WASH is a USAID-funded project implemented by PSI in collaboration with SNV, Plan International, and IRC. The consortium is working closely with government agencies - including the Ministry of Health, the Ministry of Water, Irrigation and Electricity, the National WASH Coordination Office and sub-national governments.

This learning note summarizes a study commissioned to map examples of public-private collaboration in consumer sanitation markets from around the world. The aim of the study was to identify lessons learned and provide a framework for understanding public-private collaboration, which can be used to consider potential strategies and activities that facilitate growth of sanitation markets.

This learning note can be downloaded at www.ircwash.org

Author: Abinet Kebede (IRC WASH) and Dejene Kumela (SNV)

Reviewer(s): John Butterworth and Erick Baetings (IRC WASH)

Editor: Peter McIntyre

Design and layout: Tereza Nega

Citation: Kebede, A, and Kumela, D, 2017. *Financing for Improved Sanitation: Case study from SNNPR, Ethiopia.* USAID Transform WASH Learning Note. IRC WASH, Addis Ababa.

1. Introduction

Significant numbers of households have gained access to self-constructed basic latrines in rural areas after the Ministry of Health introduced Community Led Total Sanitation and Hygiene (CLTSH). However, most of these latrines fall short of fulfilling the minimum standards for improved sanitation.

The National Sanitation Marketing Guideline aims to guide the design, implementation, monitoring and evaluation of sanitation marketing initiatives. It seeks harmonization of demand and supply for improved sanitation and hygiene facilities and to create a conducive enabling environment for the private sector to get involved in the sanitation business.[i]

The guideline encourages microfinance institutions to provide loans to provide loans to small businesses (supply chain actors) engaged in sanitation and to households. It furthermore encourages development partners and Government to encourage the finance sector to mobilize resources for sanitation and to make financial products available for sanitation and to provide technical support to the MFIs so that the private sector can play a key role in upgrading technology options and sanitation marketing.

USAID Transform WASH supports the Government of Ethiopia to initiate and implement sanitation marketing and market development activities. As the project recognizes the need for innovative financing products, a financing study was carried out in in the Southern Nation, Nationalities and Peoples Region.

What this study set out to achieve

The main objective of the study was to assess the scope and potential role of formal and informal financing institutions to finance improved sanitation and to identify possible financing models for businesses and households. The specific objectives were to:

1) Generate evidence about the existence and performance of sanitation financing options for enterprises and consumers in rural and semi-rural areas;
2) Identify possible intervention mechanisms and systems for financial institutions in sanitation financing;
3) Prepare preliminary models for sanitation financing options.

The study identified financing institutions and other stakeholders that can support the project's sanitation marketing activities in the Southern Nation, Nationalities and Peoples Region (SNNPR). The study also identified a number of potential financing models for businesses engaged in sanitation marketing and for consumers interested to acquire improved sanitation products and services.

The study consisted of secondary data collection (documents, publications and websites), and interviews with key stakeholders in USAID Transform WASH intervention zones of Sidama, Wolaita and Hadiya.

Box 1: Formal, semi-formal and informal financial institutions

Formal financial institutions
The formal sector includes financial institutions that are set up with a legal status and engaged in the mobilization of savings and provision of credit such as banks, insurance companies and microfinance institutions. These institutions are regulated and controlled by the National Bank of Ethiopia (NBE). In 2016, there were 35 microfinance institutions (MFIs). Despite remarkable growth, they were able to meet less than 20% of the demand for financial services. Lack of access to foreign capital and donor funding has hampered the ability of MFIs to scale up[ii].

Semi-Formal financial institutions
Saving and Credit Cooperatives (SACCOs) provide financial services for their members. SACCOs are expected to play an active role in development and poverty alleviation. Interest is higher than charged by commercial banks but lower than MFIs and very much lower than moneylenders.

Informal financial institutions
Informal institutions have limited resources but are often the only available source of finance[1]. **Moneylenders** charge up to 10.5% per month. **Iqqub** (Rotating Saving and Credit Associations) members contribute weekly or monthly and draw lots with the winner receiving the total sum. This continues until every member has won. **Iddir** provides mutual aid and financial assistance for people united by ties of family or friendship, neighborhood or ethnicity. **Village Saving and Credit Associations (VSLAs)** provide a safe place to save money, access small loans, and obtain emergency insurance. Many women benefit from membership of VSLAs.

Factors that have limited the role of financial institutions include, lack of understanding of WASH issues and markets; a perception of sanitation as high risk and low return on investment; lack of risk sharing mechanisms; and inadequate engagement between the WASH sector and MFIs[iii].

2. Sanitation financing case studies

The Southern Nations, Nationalities and Peoples Region (SNNPR) is divided into 15 zones and four special woredas. In the Transform WASH zones of Hadiya, Sidama and Wolaita, latrine coverage has exceeded 86%. Almost 30% of households have improved sanitation facilities. The Regional Health Bureau plans to create sanitation marketing centers in each of 40 woreda[iv].

Previous interventions in the region

Dugna Fango woreda

Dugna Fango woreda in Wolaita zone has been Open Defecation Free (ODF) since 2014. Improved sanitation coverage has reached 40%. The woreda Health Office with People in Need (PIN) integrated financing options into a sanitation marketing pilot project in nine kebeles for businesses to produce and market concrete slabs.

Box 2: Policy and regulatory framework

The 2015 **Health Sector Transformation Plan** (HSTP) set impact targets for hygiene and environmental health by 2020, with sanitation marketing as a priority[v].

The **Hygiene and Environmental Health Strategy** (2005) set the strategic approach, including production and marketing of appropriate and effective products[vi]. The Ministry of Health sets indicators for the number and spread of sanitation marketing centers.

The **National Sanitation Marketing Guideline** (2013) aims for an enabling environment in which consumers have access to affordable and improved sanitation and hygiene products and services based on their needs and preferences, supplied by a sustainable private sector[1]. The guideline sets roles and responsibilities for health and WASH structures and for microfinance institutions.

Associations were trained in business management and production skills. Sales agents were identified and trained in each kebele and enterprises were linked with MFIs for loans. PIN provided materials and a 4,500 ETB (US$ 165) business startup grant to each enterprise, and a sales and product demonstration shop in each kebele.

However, the businesses were not sustainable. One association sold 10 slabs in two years. PIN reported that a majority of households were not interested in loans for sanitation. The project has phased out.

Boloso Sore woreda

In Boloso Sore woreda in Wolaita zone the woreda government, International Medical Corps (IMC) and the Micro and Small Enterprise Development Office trained two associations of local masons and artisans to produce and market concrete slabs at a fixed price.

IMC provided equipment, training and technical support to the associations. IMC also deposited 130,000 ETB (US$ 1,100) with Omo MFI as seed money to provide loans to businesses and households. Sales agents and health extension workers stimulated demand. However, production has stopped. Only two businesses and five consumers took loans and the businesses were not viable due to low sales volumes.

Households expected a free slab; enterprises expected profitable sales; the MFI expected to provide loans and be repaid; and the NGO and woreda government expected an increase in improved sanitation. They were all disappointed.

Aleta Chuko woreda

Aleta Chuko woreda in Sidama zone has latrine coverage of more than 90%. However, only one in nine households has an improved latrine. In 2013, iDE Ethiopia selected and trained enterprises in three kebeles to produce and sell concrete slabs at a fixed price. Sales agents were paid commission to stimulate demand and collect orders from households. Although the pilot project has ended, five businesses are still producing concrete slabs and between them sold 1,235 slabs during the past three years.

Following its initial success, iDE has now extended the project to four woredas in Wolaita zone. Financing options have now been included with iDE providing seed money to Omo MFI so that producers can borrow 15,000-20,000 ETB (US$ 550-735). Households can also obtain loans if they organize themselves into groups.

Boditi Woreda

Vision Fund MFI in Boditi branch recently began providing loans to residents for latrines and showers and private water supply connections. The maximum loan is 10,000 ETB (US$ 365) with repayment expected within one year. The interest rate is 15%, which is 4% less than for non-WASH loan products.

Loans were made possible after Vision Fund signed a MoU with Water.org. The loans are targeted mainly at middle-income groups as it is expected that these groups will be able to repay the loans in time.

Water.org provided a "smart subsidy" for the MFI to conduct a feasibility study to understand consumer demand. The focus is on peripheral areas of towns where WASH infrastructure and services are low and new houses are being built. So far, demand has been promising.

Water.org is also working with two other MFIs and a fourth is showing interest.

Lessons drawn from the case studies

General

- *Project activities should be aligned and integrated with government strategies and plans.*
- *Market based initiatives should focus on improving or strengthening demand, supply and finance and interventions should be based on a good understanding of current challenges.*
- *Finance initiatives should focus on system building as well as of developing the capacity of individuals.*

Finance institutions

- *Financial institutions have a poor record in providing credit for WASH products.*
- *Most finance institutions are reluctant to develop sanitation related financing products and services as they perceive it too risky.*
- *Lack of working capital (liquidity) is a big constraint for MFIs.*
- *Little or no engagement between key WASH sector actors and MFIs means that nothing is changing.*
- *The government and development partners are failing to tap the potential of SACCOs and Cooperative Unions to provide financial services.*
- *Businesses report that MFI loan processes are time consuming.*
- *Many small businesses have limited business skills which impacts on their ability to run successful business and to negotiate and obtain loans.*
- *Most newly established businesses have abandoned production, as the businesses were not viable.*
- *Supporting well-established businesses is expected to result in sustainable supply.*

Opportunities

- *The high levels of unmet demand mean that sanitation marketing has a bright future. Furthermore, the National Sanitation Marketing Guideline provides ample space for engaging producers and microfinance institutions.*
- *The SNNPR Health Bureau has signed a MOU with key stakeholders including finance institutions for the implementation of the Sanitation Marketing Guideline.*
- *There are 4,238 SACCOs and 28 savings and credit cooperative unions in the region that, with proper guidance and support, could become a reliable source for financing the WASH sector.*

3. Innovative financial models

In this section, four different sanitation financing models are presented with the aim of engaging existing finance institutions in financing sanitation products and services. These models are expected to reduce transaction costs and risks that finance institutions may encounter in their pursuit to provide reliable and viable financing services to businesses and households. The models focus mainly on local small businesses and rural households.

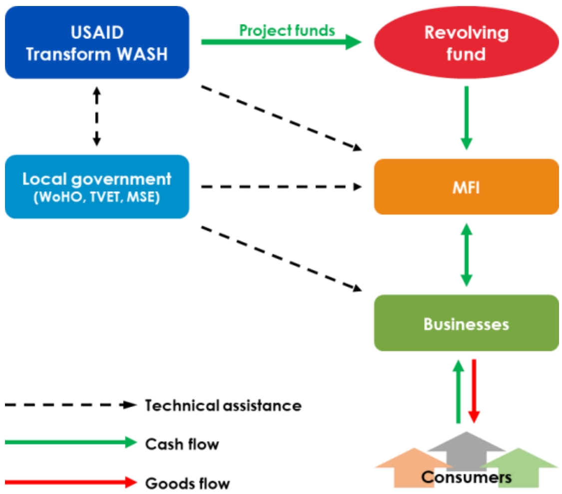
The four models require further consideration especially in relation to the required governance (who is responsible for what) and the long-term sustainability of the models beyond the life cycle of the USAID Transform WASH program.

Financing model for businesses through MFIs

Local small-scale sanitation businesses have limited financial capacity. Loans would allow them to purchase a wider range of inputs and gain economies of scale, and to hold stock for households to access. These businesses require a loan that may vary between ETB 15,000 to 40,000 (US$ 550-1,500).

In theory, MFIs have the potential to meet this demand. To solve liquidity problems and reduce risks, Transform WASH should allocate seed money as a revolving fund to MFIs as shown in Figure 1. This will provide an opportunity for the project and Regional Health Bureaus to shorten bureaucratic processes and negotiate interest rates and repayment mechanisms.

Figure 1. Business financing through MFIs



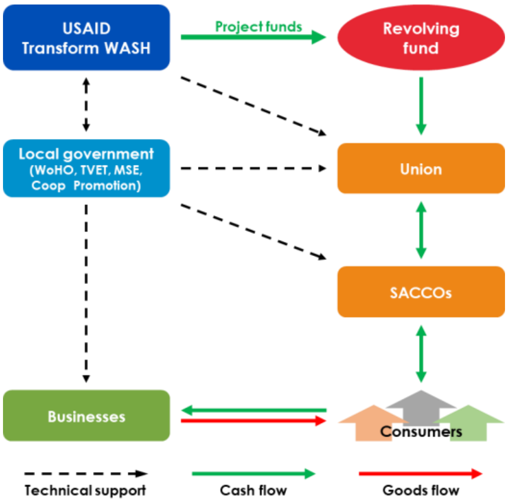
Financing models for households

Taking into account the existing sanitation products and services in rural areas, the average loan size per household could range from ETB 800 to 2,000 (US$ 30-75). Such loans could be provided by SACCOs, or by Village Savings and Loan Associations (VSLAs).

Household loans provided by Cooperative Unions and SACCOs

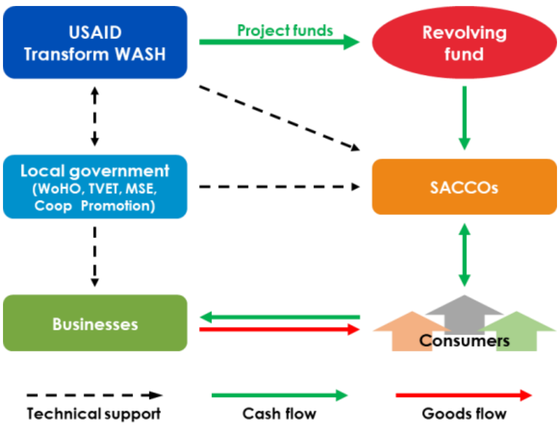
In this option (Figure 2), Transform WASH allocates a revolving fund to Cooperative Unions, which would then be able to disburse funds to member SACCOs. The SACCOs would then be in a position to provide credit services to their members (households).

Figure 2. Household financing through Unions and SACCOs



Alternatively, (Figure 3) Transform WASH could consider providing revolving funds directly to SACCOs.

Figure 3. Household financing through SACCOs

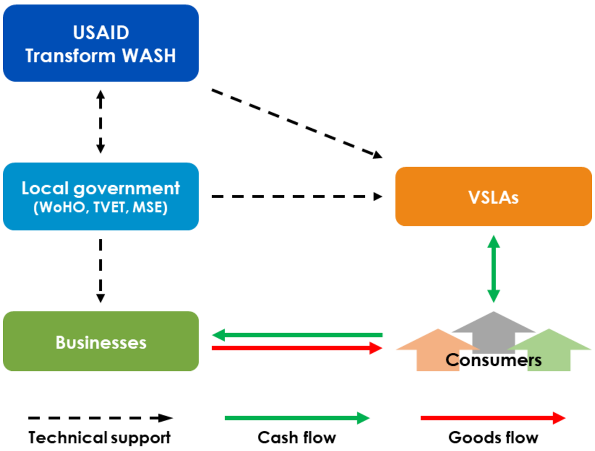


Household loans provided by VSLAs

Another alternative financing model identified is through the formation of Village Saving and Lending Associations (VSLAs). These VSLAs would have the specific objective of financing sanitation products and services.

In this option, Transform WASH would play a crucial role in setting up, organizing and training sanitation-specific VSLAs, and in providing ongoing support during the first year of operation. An alternative is to support informal Rotating Saving and Credit Associations (ROSCAs) better known as Iqqub in Ethiopia.

Figure 4. Household financing through VSLAs



4. Outstanding learning questions

This study has helped to obtain a better understanding of prevailing challenges and opportunities relevant for strengthening financing mechanisms for improved sanitation.

As a direct follow up to this study, the four identified financing models will be further developed and tested in SNNPR during 2018. The testing will be done by applying the project's action research approach. The following learning questions, which were not addressed by the study, will have to be answered during the action research.

Learning questions

1) The most important question that needs to be answered refers to the potential sustainability of the suggested financing models. For that reason, functioning governance models will have to be developed for each of the models. The aim of a governance model is to provide clarity on roles and responsibilities, alignment, oversight, control and accountability mechanisms, and other compliance requirements.

2) There are also questions remaining about willingness and ability to pay for improved sanitation.

   - What are the types of sanitation and hygiene related products and services households are willing to pay for and how much are they willing to pay for them?

   - How much can households afford for improved sanitation based on their purchasing power? Who can afford to construct an improved toilet and who can obtain a loan and afford to repay a loan from a financial Institution? Consumer segmentation is to be carried out based on ability to pay considerations. What proportion of the population (the bottom of the pyramid) will require other types of (financial) support?

3) How effective are VSLAs in financing sanitation considering that in general only small amounts are saved? Can the ROSCA philosophy be applied to sanitation specific VSLAs?

4) How cost effective are the different models? Do the benefits (and an increase in sanitation supply chain transactions coupled with an increase in access to improved sanitation facilities) outweigh the costs to the program? Which of the models are ready for replication at scale by Transform WASH and by others?5) The allocation of seed money or revolving funds by Transform WASH to MFIs is a measure to get them onboard. What if there is no Transform WASH to put in the seed money? What alternatives could be considered if these models are to go to scale?

Abbreviations

CLTSH Community-led Total Sanitation and Hygiene
ETB Ethiopian Birr
HSTP Health Sector Transformation Plan
iDE International Development Enterprises
IMC International Medical Corps
MFI Microfinance institution
MoU Memorandum of understanding
NBE National Bank of Ethiopia
NGO Non-governmental organization
PIN People in Need
RHB Regional Health Board
ROSCA Rotating Saving and Credit Associations
SACCO Saving and Credit Cooperative
SNNPR Southern Nations, Nationalities and Peoples Region
US$ United States of America dollar
VSLA Village Saving and Credit Association
WASH Water, sanitation and hygiene

---

[i] Federal Democratic Republic of Ethiopia, Ministry of Health (2013) National Sanitation Marketing Guideline https://www.cmpethiopia.org/media/national_sanitation_marketing_guideline_20132

[ii] MF Transparency (2011) Country Survey Ethiopia

[iii] Water.org (2014) Ethiopia Water Credit Market Assessment

[iv] SNNPR Health Bureau DPHP Core Process HEH 2009 EFY Performance Report

[v] Federal Democratic Republic of Ethiopia, Ministry of Health (October 2015) Health Sector Transformation Plan

[vi] Federal Democratic Republic of Ethiopia, Ministry of Health (December 2016) Hygiene and Environmental Health Strategy