



Photo credit: EMW Cambodia

Financing sanitation: Finding a middle path to reach the poor

Learning Brief from the East Asia Regional Learning Event

Trends in sanitation financing

Sanitation financing has shifted between different extremes over the last few decades. Since the 1980s and earlier, toilets were provided to the poor by the public sector or civil society organisations (CSOs), often with a full subsidy, assuming that access to the ‘hardware’ would change behaviour. However, growing concerns about the costs and ineffectiveness of this approach, particularly at scale, prompted new thinking.¹

Emerging from the Bangladeshi context in 2000, community-led total sanitation (CLTS) reframed approaches to sanitation with a core focus on **empowerment and behaviour change**.² However, recent studies show that a lack of adequate access to technical expertise or materials is resulting in slow or non-existent movement up the sanitation ladder,³ and questions have arisen about whether the extreme stance of ‘no subsidy’ is appropriate in the context of the human right to sanitation.⁴

Following this was the emergence of ‘**sanitation marketing**’ in the sector,⁵ initially with a focus on ‘no subsidy’ since it was perceived to distort the market and be at odds with a market-based approach. However more recently, various organisations have been experimenting with carefully combining market-based approaches with targeted mechanisms to support the poor and disadvantaged. Several CSOs working in South-East Asia as part of the CS WASH Fund are combining approaches and presented these at the East Asia Regional Learning Event (EARLE).

There is increasing agreement within the sector that a ‘middle path’ to sanitation financing is needed.

Taking a middle path means *using the market to the extent possible*, and, where needed, to carefully apply *subsidies or other forms of pro-poor support*, while avoiding and mitigating to the extent possible.

FAST FACTS



The ease of doing business varies greatly between South-East Asian countries, making the context more or less conducive to market-based sanitation approaches.



Cambodia has the highest number of micro-finance borrowers out of all the South-East Asian countries represented at the EARLE.



The poorest quintile have lowest access to sanitation and the least ability to pay; targeted pro-poor financing can ensure greater equity in sanitation access.

What's happening in sanitation financing in South-East Asia?

There are many different types of market-based approaches and financing mechanisms to reach the poor and disadvantaged. No financing mechanism is perfect, and all must be carefully monitored for potential perverse incentives. Three key considerations in applying a financing mechanism are:

- cost-effectiveness of the financing mechanism
- potential for market distortion
- potential for cheating or perverse outcomes

Below are six approaches shared by CSOs at EARLE and considerations for implementation.

1. Flexible payments or payment by instalments

One common and simple form of financing used by CSOs and others is simply offering flexible payments or payment by instalments, either to all customers, or to targeted low-income or disadvantaged customers. In this scenario the supplier of the latrine needs to have sufficient cash flow, adequate accounting systems to track payments, access to customers to enable instalments to be paid and recourse mechanisms for the supplier if the buyer does not pay.

2. Upfront discounts for the poor

Discounts for the poor (22% or 55% of latrine price and installation depending on poverty status) are provided by iDE in Cambodia. Its advantages are its simplicity, in that it is provided as an upfront discount for targeted customers, and the latrine is sold *at the same time* as non-discounted toilets by the same seller at the same event. In Cambodia iDE have been able to take a clear approach to targeting, by using the existing widely understood and accepted nationwide government IDPoor system to identify subsidy recipients.



Photo credit: Paul Crawford

3. Loans to households

Loans are a common financial mechanism to support the poor and disadvantaged to gain access to sanitation. In Vietnam East Meets West (EMW) and other CSOs offer loans through state social policy bank (Vietnam Bank for Social Policy), and SNV facilitates access to low interest credit channels within banks.

In Cambodia iDE have been facilitating a micro-finance loan (in combination with, or separate to discounts for the poor) implemented together with sanitation marketing. This approach builds on the existing micro-finance industry through partnership, and in doing so provides additional technical skills to complement iDE's skills. Loans are made available to all, however to date the loans are being taken up by non-poor customers. Hence micro-finance has limitations in providing for the poorest and most disadvantaged. Since sanitation does not directly generate income, paying back loans can be problematic.

4. Consumer subsidy and performance-based incentives

EMW have been implementing an approach in three countries that includes a consumer subsidy (as either a rebate or an upfront discount) plus performance-based incentive payments paid on an output basis (OBA) to government staff and community-level agents who mobilise household investment. This is paid per new latrine installed for low-income households after verification of new toilets. The approach requires a robust system of verification and for EMW this has involved verifying 30% of all latrines installed - this was important in addressing the potential for cheating. The total cost of the OBA approach was USD 50 per latrine (including consumer subsidy for the low income household, incentives, and EMW staff time).

The East Asia Regional Learning Event (EARLE) was a gathering of over 85 participants from Cambodia, Indonesia, Laos, Myanmar, Timor-Leste and Vietnam where CS WASH Fund Projects are being implemented by East Meets West (EMW), International Development Enterprises (iDE), Plan, Save the Children and WaterAid. It provided a forum to improve the effectiveness and sustainability of projects through peer-to-peer learning and strengthen relationships between CSOs and change agents. It was held in July 2016 in Vietnam.

5. Cooperatives as a source of financing for enterprises

Cooperatives are supporting sanitation enterprises in Indonesia in the project implemented by Plan Indonesia. Cooperatives in Indonesia are a type of micro-finance institution, using funds from their investors and cooperative members to give loans. The cooperative assists micro-enterprises run by poor people to establish or expand their business as sanitation enterprises, as they often don't have access to banks or loans due to bureaucracy and required collateral. Cooperatives are legal entities and have a strong base of poor household members. Providing loans to households is currently viewed as too risky for the cooperatives. The potential for group loans is being explored as a mechanism to reach poor households.

6. Community revolving funds

Another type of approach is revolving funds for households, used by EMW and SNV in Vietnam, and proposed by Save the Children for use in Myanmar. An initial investment, either from an external agency (such as a CSO, or from within a community) is used to establish a fund offered to different community members, who must pay back a loan on an agreed basis. In Myanmar, the revolving fund approach is already being used in other sectors and hence is familiar to those who need to manage it. There is potential for revolving funds to struggle if households are not able to pay back the funds borrowed. In Myanmar this risk is mitigated by close-knit community relationships whereby no one would be comfortable to not repay their loan.

Beyond financing- other forms of pro-poor support

While this brief is focused on examples of financing mechanisms to reach the poor and disadvantaged, it is also important to mention that there are other approaches to addressing affordability challenges such as:

Low-cost toilets and cheaper products. For example, WaterAid Timor-Leste are trialling the light-weight plastic American Standard 'Sato' toilet bowl from Bangladesh which is easier to transport to remote locations.

Community assistance and support. For example, often community members are mobilised to provide support to poor and disadvantaged households, either through providing labour and non-monetary support, or through pooling finances.



Photo credit: Paul Crawford

Research on the impact of combining OBA and SanMark

EMW undertook research with World Bank Water and Sanitation Program (WSP) on the effect of OBA subsidies combined with sanitation marketing (SanMark) on latrine uptake among rural populations in Cambodia. This research revealed that for reaching the poorest households (IDPoor), the combination of SanMark and OBA subsidy achieved better results than either approach used alone. There was a much smaller gain in the case of near-poor households, which needs to be weighed up with the additional costs incurred by adding OBA to SanMark⁷.









One last word - context matters!

It is critical to tailor sanitation approaches, including pro-poor financing mechanisms or other support, to each country and local context. As mentioned above, the ultimate question concerns how to make best use of scarce resources, and what mix of approaches is needed in each context. Some countries have clear poverty targeting mechanisms and others do not. Some countries face specific logistical challenges in reaching poor and disadvantaged households. Conducting formative research and situational analyses is critical in better understanding the context.

Additional tools

-  Enterprise in WASH research: www.enterpriseinwash.info including working papers and learning briefs for CSOs
-  Micro-finance data: Mix Market www.themix.org/mixmarket/countries-regions/east-asia-and-pacific
-  World Bank World Bank Doing Business Data www.doingbusiness.org

Additional resources

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