

# Microfinance for Sanitation

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POLICY BRIEF



## Summary

This policy brief highlights the Sanitation and Hygiene Applied Research for Equity (SHARE) Consortium's contribution to the knowledge base on microfinance for sanitation. The brief defines sanitation microfinance and summarises research conducted in India and Tanzania. It then discusses the research gaps that still exist and provides recommendations for improving policies and programmes on microfinance for sanitation globally.

## SHARE Consortium

The Sanitation and Hygiene Applied Research for Equity (SHARE) consortium seeks to contribute to achieving universal access to effective, sustainable and equitable sanitation and hygiene by generating, synthesising and translating evidence to improve policy and practice worldwide.

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## Background

Since its inception, microfinance has grown to become a global movement which aims to offer financial inclusion to low-income populations. Microfinance in its modern form began in the 1970s in Bangladesh (Trémolet et al., 2015). Microfinance institutions (MFIs) with good knowledge of local communities provided small loans for income-generating activities at lower interest rates than traditional lenders, and with minimum collateral requirements. Over time, these services expanded to include loans, savings, insurance, and payments, and microfinance rapidly expanded in low and middle-income countries (Trémolet et al., 2015). Many institutions began offering microfinance services, ranging from commercial banks to non-governmental organisations to cooperative banks (Beck, 2015). According to the Consultative Group to Assist the Poor, MFIs reach more than 152 million borrowers globally (Subasinghe, 2011).

While microfinance was initially perceived as a very successful initiative, it is not a silver bullet to poverty alleviation. A funding crisis that occurred in India in 2010 had ripple effects on MFIs around the world, creating financial uncertainty amongst microfinance investors and institutions (Trémolet et al., 2015). In addition, several academic papers have reported mixed impacts of microfinance initiatives, which contributed to reduced confidence in its effectiveness (Banerjee et al., 2013).

### Sanitation microfinance

While microfinance has typically been associated with income-generating activities for small-scale entrepreneurs, programmes have more recently used microfinance to link loans to household and commercial sanitation. Sanitation microfinance, unlike most other types of microfinance, is not income-generating. Instead, it is ‘income-enhancing’: while a loan for a toilet may not directly generate income, it can reduce a family’s medical expenses and increase productivity, which leads to long-term savings.

Microfinance could help to promote access to sustainable sanitation services in two key ways. At the household level, it could assist families to manage the costs of investing in household sanitation solutions (such as latrines and septic tanks) which improves affordability of investments and is predicted to lead to increased savings over time. At the business level, microfinance could support the development of a broad range of sanitation service providers including communal toilet block operators or pit latrine emptiers (Trémolet, 2013). Using Trémolet’s (2015) definition, sanitation microfinance is:

**Provision of microfinance to either households or small businesses so as to enable them to invest in sanitation services.**

## What we know

Sanitation microfinance has not been extensively explored. A literature review funded by the Bill and Melinda Gates Foundation in 2008 identified several countries, including India, Benin, Zambia and Uganda, that were using microfinance for sanitation (Mehta, 2008). Mehta estimated the potential size of the water and sanitation microfinance market to be about \$12 billion in loans between 2004 and 2015, and concluded that sanitation microfinance has huge growth potential.

## Narrowing the Evidence Gap

Recognising the significant evidence gaps in the sector, SHARE launched a research project in 2010 to explore the potential role microfinance could play in accessing improved sanitation. The project, led by Trémolet Consulting, was conducted in three phases over four years, and focused on two countries with different levels of experience in sanitation microfinance: India and Tanzania.

### Phase One

The first phase of research was a desk-based review carried out in 2010 to map out existing global experiences with sanitation microfinance. This review was heavily influenced by Mehta's 2008 study. It found that the most significant work was taking place in India, and confirmed that microfinance sanitation experiences were very limited and most initiatives had failed to be scaled up.

### Phase Two

The second phase of the project focussed on India and Tanzania as case studies, and sought to identify the factors of success and failure for sanitation microfinance in both settings.

### India

It has been estimated that 35.5% of India's total population had access to improved sanitation facilities (WHO/UNICEF Joint Monitoring Programme, 2010), but this figure does not take into account the urban-rural divide, as only 24% have access to improved sanitation in rural areas. These low levels of improved sanitation made India a good case study to explore sanitation microfinance. The research, which was conducted between May - June 2011, aimed to evaluate existing experiences in the sanitation microfinance sector. During this time, researchers identified relevant organisations providing microfinance for sanitation (and water), interviewed a selected number of these, and then conducted research and further interviews with two MFIs in the state of Tamil Nadu. This study found that sanitation microfinance is a relatively recent development in India, but high demand exists for "toilet loans" among the population (Trémolet and Kumar, 2013).

While demand for sanitation microfinance was generally high, the research also identified factors that may constrain it. Villages not exposed to hygiene awareness campaigns had lower levels of demand for sanitation loans. Coordinating sanitation microfinance

promotion with hygiene awareness campaigns was therefore considered vitally important. It was also noted that while sanitation loans are an effective way to help the poor access improved sanitation, they may not be appropriate for the 'ultra-poor'.

During the microfinance crisis in 2010 and 2011, commercial banks in India typically saw sanitation microfinance as risky since it is not income-generating. Other types of institutions were able to expand into this market segment. For example, NGOs working in water and sanitation were able to diversify and develop microfinance activities, and some well-established MFIs developed water and sanitation financing activities. To date, only one Indian MFI called Guardian specialises solely on water and sanitation (Trémolet and Kumar, 2013).

## Tanzania

With only 13.1% of the population having access to improved sanitation in Tanzania, and only 7.9% in rural areas (WHO/UNICEF Joint Monitoring Programme, 2010), researchers wanted to explore existing microfinance sanitation experiences, as well as evaluate the potential for this market. Researchers interviewed MFI representatives, sanitation sector actors and funders.

They found that the sanitation microfinance market in Tanzania has to date been fairly limited. Many participants seemed supportive of microfinance as a tool, yet sanitation microfinance has been confined to pilot programmes with no scale-up strategy (Trémolet and Binder, 2013).

Several key challenges have prevented programmes from achieving scale. Firstly, there is little financial expertise, as water and sanitation NGOs with no previous microfinance experience have principally been introducing these pilot programmes. Secondly, existing MFIs have little appreciation for sanitation financing, both for household-level and for sanitation entrepreneurs. Thirdly, microfinance clients are apprehensive to receive a loan for sanitation services and products that are not perceived as income generating, and therefore cannot directly contribute towards debt repayment.

While the potential market for sanitation appeared to be large, very few examples of sanitation microfinance had been used in practice. Lessons had been extracted from experiences in India and researchers evaluated their applicability to the Tanzanian context. The study concluded with recommendations to develop sanitation microfinance and leverage private financing to achieve the country's ambitious goals for expanding access to improved and sustainable sanitation.

## Phase Three

The final phase of the study consisted of an action research project exploring how financial institutions could provide services for sanitation. This research was conducted in Tanzania between December 2013 - January 2015, led by Trémolet Consulting in partnership with MicroSave Consulting Ltd and WaterAid.



Figure 1: SanFin Approach [Source: Trémolet and Mansour, 2014]

## More research is still needed

SHARE's contribution to the field of sanitation microfinance is notable - in recent years, the field has become better documented and more organisations are actively becoming involved in financing for sanitation (Trémolet et al., 2015). Other organisations are building on this work, for example, Water.org released a toolkit in 2014 based on its experience in India and Kenya (Trémolet et al., 2015). However, more research is required to further understand both the demand and supply side of sanitation loans (Trémolet et al., 2015).

On the demand-side, we need to better understand who contracts loans as well as the impact that microfinance has on customers. Questions around who is included and excluded from microfinance sanitation also remains unclear.

On the supply side, research is required to explore whether suppliers perceive sanitation finance products and institutions as 'good for business'. If the sub-sector contributes positively, financial institutions are more likely to continue providing services (Trémolet et al., 2015).

Finally, conducting further action-research projects to assess how improving access to microfinance and mesofinance can contribute to the development of sustainable sanitation services.

## Recommendations

**1****Governments should incorporate microfinance into broader sanitation strategies**

Microfinance for sanitation can only be effective when there is established demand for sanitation services, or when it is closely coordinated with efforts to stimulate demand for sanitation (Tremolet et al., 2015).

**2****Donors should actively engage and support sanitation financing institutions**

Encouraging financial institutions to offer water and sanitation financial ‘products’ is often preferable to training NGOs to provide this type of support. Providing smart subsidies to financial institutions in the form of training and capacity building is encouraged.

**3****Implementers should identify institutions willing to develop sanitation microfinance**

Deliberate efforts are needed to identify and support willing institutions. Evidence suggests that smaller financial institutions with social missions are more willing to adopt sanitation finance, but will need additional support.

**4****Governments, donors and implementers should engage the private sector to encourage a learning culture on sanitation microfinance**

Learning platforms such as technical working groups should be established and supported so they can become self-sustaining (Tremolet et al., 2015). Communities of Practice can also be used at global and country levels to create spaces for sharing experiences, advice and lessons learned.

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# Building knowledge. Improving the WASH sector.

The Sanitation and Hygiene Applied Research for Equity (SHARE) consortium seeks to contribute to achieving universal access to effective, sustainable and equitable sanitation and hygiene by generating, synthesising and translating evidence to improve policy and practice worldwide. Working with partners in sub-Saharan Africa and Asia, two regions with historically low levels of sanitation, SHARE conducts high-quality and rigorous research and places great emphasis on capacity development and research uptake.

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