Learning Brief

Uganda Sanitation for Health Activity (USHA)

Addressing the household liquidity gap through sanitation financing

Overview

- USHA commissioned a Rural Households and Institutional Survey which revealed that limited access to financing, especially for poorer rural households, can impede access to improved sanitation as seasonal incomes and/or little to no savings means they are unable to pay for improved latrines.
- Banking and financing options in Uganda consists of bank services (11%), formal non-bank services 47%, and informal services (56%) though approximately 22% are financially excluded. Most households access these services in combination.
- USHA partnered with several financial institutions and linked them to households to provide loan financing so that the households could improve sanitation and pay over a longer period of time that matched their income flows. The majority of households USHA targeted for sanitation improvement were either financially excluded or used formal non-bank or informal financial services.
- Innovative community financing initiatives to support households to gain access to improved sanitation were important for the much poorer and vulnerable households that could not access or obtain financing from banks and other financial institutions.
- Lower-level community based financial service providers had aspects of community mobilization embedded within their operations. This was critical for sanitation promotion, which requires significant mobilization efforts.

Key Lessons

- Sanitation promotion and marketing requires strong linkages between financing institutions, value chain actors, sales agents, and local leaders.
- Community-based financial institutions may be better suited for rural and low-income households.
- Financing does not completely solve affordability. The poorest households cannot afford basic sanitation even with financing, reflecting the need for a level of subsidy.

This brief documents USHA's work to bridge the household liquidity barrier to sanitation improvement.

Background

In 2019, the USAID Uganda Sanitation for Health Activity (USHA) commissioned the Rural Households and Institutional Survey (RHIS) to understand the uptake and scaling of basic sanitation in Uganda. According to the survey, the sanitation market in Uganda faces barriers at the customer (household), entrepreneur, enterprise, and the business environment levels. Further analysis of the barriers identified Key Intervention Themes (KITs), which led to the development of the National Sanitation Marketing Guidelines for Basic Sanitation (approved in March 2022).

About USHA

USHA is a USAID funded five-year project (2018– 2023) implemented by Tetra Tech with partners SNV USA, Sanitation Solutions Group, FSG, and BRAC. USHA works in 20 districts in three regions in Uganda implementing contemporary and integrated WASH interventions to increase access to sustainable water and sanitation products and services.

USHA outputs:

1. Increased household access to sanitation and water services
2. Key hygiene behaviors at home, school, and health facilities adopted and expanded
3. Strengthened district water and sanitation governance for sustainable services.

According to the guidelines, key household barriers include inadequate income, inadequate and seasonal savings, and unwillingness or inability to obtain loan financing, among others. Addressing these requires supporting financial institutions to develop loan products (or adapt existing ones) to make them more user-appropriate and responsive.

Uganda's Financial Landscape[1]

Uganda's financial landscape is varied and consists of bank services (commercial banks, credit only institution and micro-deposit institutions), formal non-bank services (mobile money, pension funds, SACCOs, microfinance institutions, insurance schemes, cooperatives, and capital markets), and informal services (village savings and loan associations, burial societies, money lenders and other social groups). The survey indicated that households do not use these services exclusively but rely on these in combination to secure necessary financing to invest in sanitation and other household needs. According to the survey, 11% of rural Ugandans use bank services in addition to non-formal and informal services. According to a survey conducted by Finscope in 2018, 93% of respondents with bank accounts also use mobile money; 38% use pension funds, SACCOs and MFI services; and 8.5% use insurance, pension funds and capital markets. Moreover, 88% of respondents with bank accounts also use informal financial

[1] https://fsduganda.or.ug/finscope-2018-survey. FinScope is an official survey undertaken every 5 years to assess access to and use of the available financial services options by households

services, including savings groups/VSLAs, ROSCAS, burial societies and money lenders. In terms of borrowing, 78% borrow from savings groups/VSLAs, with only 19% borrowing from banks.

While 58% of adults use nonbank formal services, only 18% exclusively use these services, with 36% also using informal services and 4% also using bank services. Of the 56% of adults who use informal services, only 20% use the informal services exclusively, with 36% also using non-bank formal services. Over 7 million adults (22%) are financially excluded, with no access to any form of financial services. This group represents Uganda's lowest income levels, and significant changes are needed on both the demand and supply side of financial services to reach them.

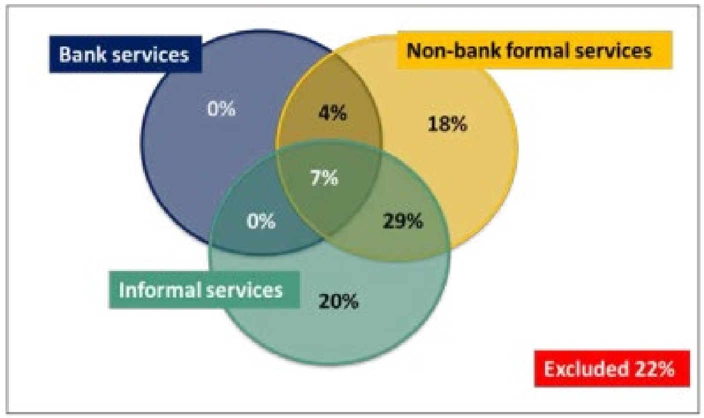
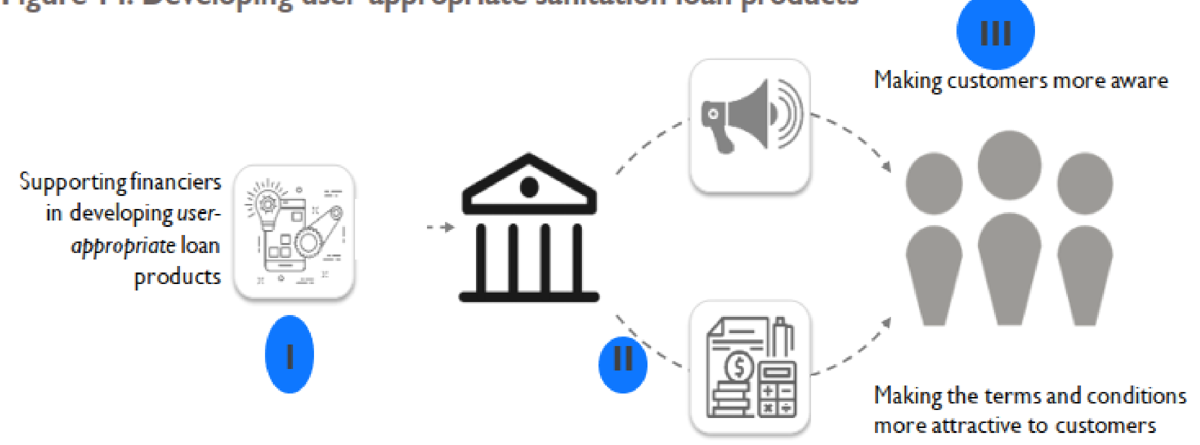


Figure 1: Uganda's Financial Landscape and Usage - 2018

USHA Interventions to Bridge the Household Liquidity Barrier

USHA adopted a facilitative approach to market-based sanitation to engage lending institutions, entrepreneurs, households, and other value chain actors across the sanitation to catalyze financing and investments in improved sanitation. Unlocking household sanitation financing opportunities requires identifying and supporting financial service providers to offer loan products that are appropriate and accessible. This involves careful consideration of loan terms and conditions such as applications processing and tracking fees, loan insurance, and collateral requirements, as well as access requirements like application processes and fees, minimum savings, and passbook charges. Financial institutions also need to make customers (households) aware of these options and requirements through community mobilization and promotional campaigns.

Figure 14: Developing user-appropriate sanitation loan products



To address the access barriers to finance, USHA focused on financial service providers that already served rural and peri-urban areas, as well as rural growth centers. These communities are characterized by low seasonal incomes and savings, largely from agricultural production and trade. Consequently, many households cannot afford to invest outright in the construction or upgrade of latrines and are either reluctant or unable to secure loan financing due to insufficient and irregular cashflows, or for fear of losing their assets pledged as collateral should they default on payments.

Working with Commercial Banks

In March 2019, USHA sought collaboration with four commercial banks: Post Bank Uganda, Finance Trust Bank, Opportunity Bank Uganda Ltd and Centenary Bank Uganda Ltd. These banks started out as microfinance institutions with deep rural reach and active WASH loan portfolios. Within several months, USHA signed Memoranda of Understanding (MoU) for collaboration with Opportunity Bank, Finance Trust Bank, and Centenary Bank. The banks were supposed to promote their loans during triggering meetings, assess loan applicants and disburse loans to qualifying households. USHA trained bank staff on market-based sanitation and the network delivery model and introduced the banks to grant-funded Sanitation Promoters for referrals to households in need of sanitation loans and invited the banks to promote and advertise their loan offerings during community triggering events.

Figure 3: USHA Bank Collaborators

Despite the collaboration with USHA, the commercial banks struggled to issue new loans to rural households as small-value sanitation loans generally carry higher administrative costs and the banks lacked the necessary capacity to undertake household visits to confirm latrine construction estimates. Moreover, the banks expressed limited understanding of what was required to undertake loan assessments for households with irregular or seasonal incomes. The banks were also reluctant to ease their collateral requirements, while households struggled to reconcile securing low value loans with collateral requirement risks.

Working with Formal Non-Bank Institutions (SACCOs and Microfinance Institutions)

To expand sanitation financing opportunities for rural households, USHA reached out to 16 formal non-bank community-based financial institutions in districts and sub-counties that have no bank branches for collaboration on sanitation loans to qualifying households. USHA applied a due diligence tool to 11 Savings and Credit Cooperative Organizations (SACCOs) and two microfinance institutions (MFIs) to assess their governance, management, systems, product offerings and delivery. Five organizations that met the minimum acceptable score (75%) were invited for collaboration, with USHA signing MoUs with them in October 2019.[2] Given their member-based service delivery model, USHA provided training in sanitation, the network delivery

[2] House of Hope SACCO, Nazigo SACCO, Mateete SACCO, Kibinge Coffee Farmers Cooperative and Rural Development Foundation (RDF) – an MFI.

model, member/community triggering, as well as opportunities for loan financing to the board members and staff. USHA also provided the partner financial institutions with promotional materials including pictorial catalogs for the optimized latrine products, pullup banners, tear drops, brochures, and flyers, as well as megaphones to support with mobilization and promotion. The training ended with member/community mobilization and triggering, as well as promotion and sale of the optimized latrine products. These partners opted for a modified delivery model – where they would directly provide improved sanitation products to their members in addition to the loan referrals from the Sanitation Promoters in the priority sub-counties. USHA also provided performance-based grants to three of the institutions to help reduce access charges, such as membership fees, minimum savings requirements, and loan application and processing fees. The grants helped de-risk the extension of loans to rural households while also enabling the households to access critical finance.

Figure 4: Training for Masons from partner financial institutions - Masaka

USHA trained masons seconded by the partner financial institutions on the USHA optimized latrine product offerings. The trained masons were provided with slab-casting molds and protective wear, in addition to technical and pocket guides for improved latrine construction.[3] The training also included a field practicum, where they constructed the optimized latrine products for selected households within the communities.

Bridging Connections Between Households and Financial Institutions

One of the challenges USHA found is that many lending institutions do not understand the opportunities within certain communities and have limited access to them. To address this, USHA connected grant-funded Sanitation Promoters to financial institutions as well as helped the financial institutions liaise directly with potential customers.

Referrals from Grantee Sanitation Promoters

In the selected priority sub-counties, Sanitation Promoters and Loans Officers from partner financial institutions attended community triggering meetings to promote sanitation loan offerings, explain the borrowing terms and conditions, and the processes and timelines. The loans officers also helped interested households to complete membership and loan application forms.

[3] Overalls, gumboots and protective hard hats

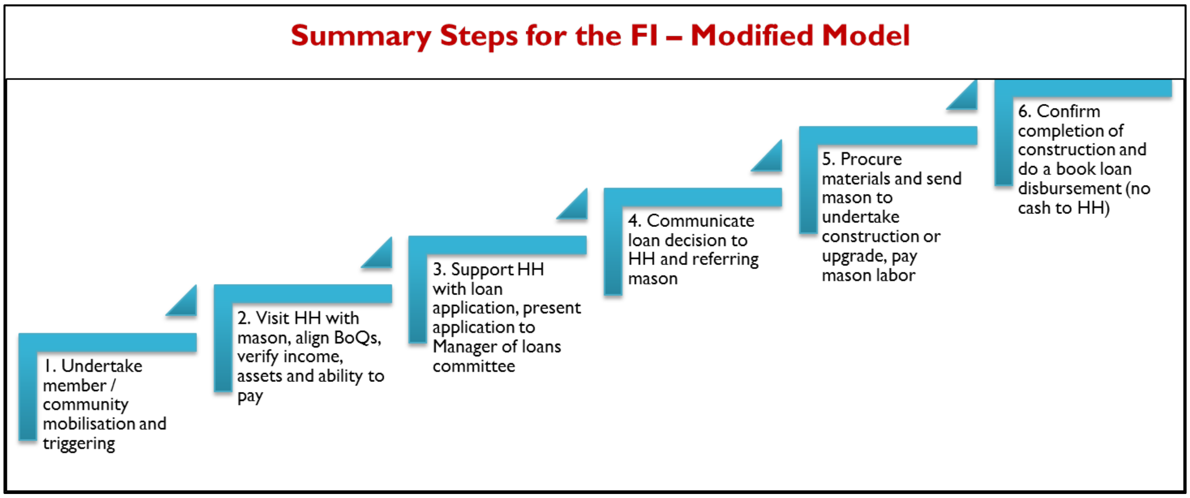


Figure 5: Key activities and steps for sanitation loans

Sanitation Promoters also referred households interested in loan financing to the financial institutions for further follow up and action, and to trained masons to help them understand their construction and material needs and costs to prepare bills of quantities, which are used to support the loan application.

Credit officers also visited the household applicants to confirm latrine needs and assess income, assets, and ability to pay. The credit officers also confirmed any available materials which would offset the loan amounts. The credit officers submitted all information with their recommendation to the loans/credit committee for a decision. Upon approval of the loan, the mason supported the household to buy the materials and construct the latrine. Once the construction was complete, the mason notified the Sanitation Promoter who inspected the completed latrine and to inform the credit/loan officer to issue final payment to the mason.

The Modified Delivery Model

USHA also worked with financial partners to directly liaise with local communities and their members in locations where there were no Sanitation Promoters. The financial institutions promoted improved and optimized latrine products, provision of loans to qualifying households, as well as construction/upgrade of latrines within these communities. The financial institutions worked with Local Council Leaders to mobilize communities to participate in triggering meetings where bank representatives and local stakeholders discussed sanitation conditions and required improvements. With the aid of the pictorial ABS boards, the lending institutions describe latrine products and the types of loan financing available. Households interested in a loan were introduced to masons to help with latrine choices and prepare costed BoQs. Upon approval of the loan, the mason and household are notified to commence work.

Financial partners uploaded their progress onto the USHA database using tablets/smartphones, including pictures and GPS coordinates of the constructed latrines. On a monthly basis, these partners reported on their work against the milestones in their grant contracts, which were reviewed and confirmed by the USHA Sanitation Business Development Specialist, Private Sector Development Advisor as well as the Monitoring, Evaluation and Learning Advisor. Upon approval of the report, the financial institution partner was paid based on the milestone deliverables. In addition to the performance-based grants, USHA staff, including the Sanitation Business Specialists and Private Sector Development Advisor, provided regular technical backstopping to support mobilization campaigns, strengthen linkages with the grantee staff and local leaders, as well as with other value chain actors like hardware stores – through regular all-actor meetings.

During implementation, more than 600 qualifying loan applicants were not able to access loans due to liquidity constraints faced by the partner financial institutions. The liquidity squeeze was due to slower loan repayments and lower saving deposits due to effects of Covid-19.

Milestone No.	Milestone Requirements	Target	Achievements by Total and District/Branch	Percentage Achieved
2	**62 sanitation loans disbursed** (Evidenced by copy of the loan or disbursement ledger, with details of name and amount of loan	62	Overall Achieved: 48 Sembabule Mateete 38 Sembabule Nabitanga: 0 Kyabi:4 Lwebitakuli: 6 Kinoni:0	Overall Achieved: (AA/62) = 72.5%
	60latrines constructed or upgraded (Clear photos of constructed and upgraded latrines uploaded onto ONA. A minimum of one photo shall be uploaded per latrine)	60	Mateete:43 Nabitanga: Kyabi: Lwebitakuli:06 Kinoni: 01	Overall Achieved: (AA/60) = 81.6%
	250new members mobilized (Copy of the membership register showing new members for the quarter)	488	Mateete: 230 Nabitanga: 147 Kyabi: 66 Lwebitakuli: 13 Kinoni: 32	Overall Achieved: (AA/250) = 195%

Overall Results and Impact

USHA's facilitative approach to market-based sanitation helped address critical gaps in financing for improved sanitation in rural Uganda. Facilitating interactions between financial institutions, masons, and households yielded a better understanding of sanitation needs, financing gaps, and the types of lending products that were necessary to help close these gaps. In doing so, secondary benefits were also generated for masons and local businesses. These results and impacts are elaborated below.

Improved Sanitation for investing Households: A total of 1,267 sanitation loans were disbursed, with a combined loan value of just over UGX 1 billion (USD $267,200). Of these, 839 were to new members who joined the financial institutions to benefit from the sanitation loan, while 428 were to pre-existing members, and supported the construction of 592 new latrines, upgrades to 736 latrines, and improved sanitation for 6,640 people. The household repayment rate was approximately 92%.

Increased incomes and business opportunities for value chain actors: The trained masons and pit-diggers who actively participated also reported increased earnings. Some used the earnings to invest in additional assets and education. The participating hardware stores also reported increased business opportunities and additional income stream from the sale of construction materials. The trained masons also gained new skills in building optimized, modern, and less expensive latrine options.

A new product for the financial institutions: Although all the partner financial institutions have home improvement loan products, the sanitation loan provides them with opportunity to attract new members. The partners reported a total of 1,937 new members over a 12-month period.

Partner Financial Institution and Location – District(s)	New Members Recruited (Number)	Number of Loans Disbursed (New & Old Members)
HOUSE OF HOPE SACCO, Namutumba	432	137
KIBINGE Farmers Cooperative Sembabule	75	1
MATEETE SACCO, Sembabule	488	115
NAZIGO SACCO, Kayunga	350	134
RURAL DEVELOPMENT FOUNDATION – Masaka and Kyotera	573	880
Total	1,937	1,267

Mariam Nakabugo and Hellen Ajiambo are two female masons in the Nazigo SACCO in Kayunga District. They both hold a trade certificate in brickwork and masonry from local technical institutions and underwent the Activity's four-day mason training on improved sanitation.

Mariam supported the construction or upgrade of 37 latrines. She is currently enrolled for a diploma course at the Elgon Vocational Training Institute.

Hellen has constructed or upgraded over 34 latrines and uses her earnings to meet personal needs and to support her single mother and four siblings with food and other basic needs. She is thankful for the new skills the training provided and is regularly called upon to lead latrine construction including for non-loan customers.

Summary Results from Partner Financial Institutions

	Latrines constructed	Latrines upgraded	Total Latrines	Loans Disbursed	Loans Disbursed (UGX M)
HOUSE OF HOPE SACCO, Namutumba	139	22	161	137	96.4
KIBINGE SACCO, Sembabule	1	0	1	1	1.3
MATEETE SACCO, Sembabule	36	16	52	115	108.7
NAZIGO SACCO, Kayunga	27	183	210	134	113.8
RURAL DEVELOPMENT FOUNDATION - Masaka	95	53	148	127	104.5
RURAL DEVELOPMENT FOUNDATION - Kyotera	294	451	745	753	578.1
Grand Total	592	736	1,328	1,267	1,002.8

Challenges and Lessons Learned

Challenges

- In the beginning, loan proceeds were disbursed directly to borrowing household to make purchase decisions. However, there were several loan diversions where borrowers used all or portions of the loan proceeds for other purposes. This resulted in no latrines being constructed or incomplete construction. The financial partners mitigated this challenge by adjusting the terms of the loan, including overseeing construction and disbursing the loan after completion of the works.

Key Lessons

- Sanitation promotion and marketing requires strong linkages between financing institutions, value chain actors, sales agents, and local leaders. Community based financial institutions with regular contact with members and linkage to local value chain actors and local leadership structures provide an opportunity for improving household sanitation, especially for households that are constrained by liquidity. Moreover, the regular interaction also provides opportunities for collective action.
- Community-based financial institutions may be better suited and interested in lending to rural and low-income households. However, community-based financial institutions, such as SACCOs, MFIs and other regulated providers, may be more readily available and interested in lending to rural and low-income households. Focusing on community-based financial institutions, USHA facilitated 1,200 loans worth $267,000. Large banks can play a key role in providing safe custody of savings and access to larger amounts of loan capital for the lower-level financial institutions.
- Financing does not solve affordability as the poorest households cannot afford basic sanitation, even with financing, indicating that subsidy is needed at some level. Access and loan uptake-related charges are high and present a barrier to poorer households that are unable to pay cash

for their sanitation investments. These barriers drive the cost of borrowing by 6%-12%[4] before interest is considered and present a bottleneck. There is an opportunity for government and the development partners to intervene in this space by offsetting a portion of the additional cost of borrowing.

Nazigo Board Members and Staff after training

Mateete Board Members and Staff after training

Board members and staff of RDF after the training

USHA Contact
Samuel Mutono, Chief of Party
Phone: +256 (0) 3922 5528 Email: Samuel.Mutono@uganda-sanitation.org
Plot 12A, Farady Road, Bugolobi, Kampala

AUTHORS: William Kabugo Mugerwa

CONTRIBUTORS Sam Bahame (RDF), Flavia Nakalungi (Mateete SACCO, Richard Kigenyi – Nazigo SACCO: REVIEWERS: Samuel Mutono, Diana Keesiga, Basil Mahayni, Alex Smith

EDITOR: Dennis Alioni

[4] Membership fees typically average 1-2%, shares – 2-3%, passbook charges – 0.5 – 1%; minimum shares – 2.5% - 3%; loan application – 1%, loan tracking 2%, loan insurance 1-2%