

USAID Transform WASH

An Assessment of Sanitation Financing Options for Enterprises and Households



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Table of Contents

Copyright and Publisher.....	3
Abbreviations	4
1. Background	5
2. Study methodology	6
3. Consumer financing	6
VSLA approach	6
Challenges facing the VSLA approach	8
Alternative approaches	9
4. Enterprise financing	10
MFIs and SACCOs	10
Challenges in financing enterprises.....	11
Alternative approaches	12
5. Lessons learned and recommendations	12
Consumer financing	12
Enterprise financing	14
References.....	15

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

Transform WASH achieves this by transforming the market for low-cost quality WASH products and services: stimulating demand at the community level, strengthening supply chains, and improving the enabling environment for a vibrant private market.

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

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This learning note summarizes the findings of a study undertaken of the financing approaches used under the USAID Transform WASH activity, which was conducted to better understand their performance and how they compared to other viable approaches.

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Abbreviations

ETB	Ethiopian Birr (US \$1 ≈ 36 ETB)
HEW	Health Extension Worker
MFI	Microfinance Institution
MoU	Memorandum of Understanding
PSI	Population Services International
SACCO	Savings and Credit Cooperative
SNNPR	Southern Nations, Nationalities, and Peoples' Region
VSLA	Village Savings and Loan Association
WASH	Water, Sanitation and Hygiene

1. Background

A lack of access to financing options remains a major challenge in Ethiopia to scaling up basic sanitation in households. Many consumers face financial constraints and are unable to cover the full cost of sanitation products (such as concrete or plastic slabs), especially outside of the harvest season. However, such households can generally afford periodic, smaller payments over a period of time.

Similarly, many local enterprises that wish to offer sanitation products and services to their customers lack the capital to purchase raw materials in bulk, to invest in production facilities and marketing activities, or to offer credit terms (e.g. installment payments) to their customers. In Ethiopia, financial institutions capable of providing credit to consumers and enterprises are currently hard to access, charge relatively high interest rates, and do not typically offer any sanitation-focused loan products (Kebede and Kumela, 2017).

Experience from other countries suggests that scaling up sanitation is easier when marketing models include affordable consumer financing. For instance, research conducted in Cambodia found that only 12 percent of households were willing to buy a latrine at full market price, while 50 percent were willing to buy when offered credit (IDinsight, 2013). Such an increase in demand can start a 'virtuous circle': increased demand leads to an increase in sales volume, which in turn reduces retail prices, which then further stimulates demand. Increased demand also helps sanitation enterprises generate higher revenues, which improves the business case for finance institutions to provide loans to businesses that offer

sanitation products and services. Millions of households in Ethiopia lack access to improved sanitation, a huge untapped market for sanitation products, and hence for sanitation-related loan products.

USAID Transform WASH, a USAID-funded five-year activity led by Population Services International (PSI), has been supporting the development of sanitation markets in peri-urban and rural Ethiopia since 2017. To help households access affordable financing for sanitation-related purchases, Transform WASH has established almost 300 village saving and loan associations (VSLAs) in four regions¹ by the end of 2019. Transform WASH also is working with microfinance institutions (MFIs) and savings and credit cooperatives (SACCOs) to encourage them to provide loans to sanitation enterprises. This is being done through a capacity-building effort and by providing capital to MFIs to establish revolving funds for sanitation.

This learning note summarizes the findings of a study undertaken of the financing approaches used under the USAID Transform WASH activity, which was conducted to better understand their performance and how they compared to other viable approaches.² This learning note provides an overview of the key findings of that study with the aim of informing and improving consumer and enterprise WASH financing options in Ethiopia.

The study had the following objectives:

- (i) Describe Transform WASH financing approaches for both households and enterprises and assess their suitability, performance and scalability.

¹ Amhara, Oromia, SNNPR and Tigray

² The basis for this learning note is the action research report "Enterprise and Household Sanitation Financing Options - Experience from the USAID Transform WASH Activity" (Aboma, 2020).

- (ii) Review other examples of sanitation financing approaches from inside and outside Ethiopia.
- (iii) Recommend ways to increase access to affordable financing and strengthen the approaches of Transform WASH.

2. Study methodology

The research followed a mixed study design involving both quantitative and qualitative methods. Primary data were collected from households, VSLAs, sanitation-related enterprises, MFIs, SACCOs, district health offices, district offices of the Micro and Small Enterprise Development Agency, and non-governmental organizations. Data was obtained from three woredas in three regions: Gozamen woreda in Amhara region, Wondo woreda in Oromia region, and Aleta Wondo woreda in SNNPR. Data collection took place in late 2019 and included a structured household survey involving 133 VSLA members,³ six focus group discussions (FGDs), and semi-structured interviews with 48 key informants. Transform WASH monitoring data was also reviewed and analyzed.

Information on alternative financing practices was collected through literature review and from non-governmental organizations and MFIs supporting other market-based sanitation interventions.

3. Consumer financing

VSLA approach

The consumer financing mechanism implemented by USAID Transform WASH is based on the VSLA approach, which has been successfully employed in a variety of countries and contexts. Under Transform WASH, VSLAs were established within communities by 15 to 25 households that

Box 1: How the VSLA approach works

A typical VSLA consists of about 20 members, each of whom contribute around 10 ETB per week. The VSLA sets a service fee amount (say, 10 percent of the loan) and a typical repayment period of three months. To demonstrate how the approach works, we will assume that member households all take loans of 880 ETB to purchase a new slab and to pay for its installation.

Year 1: After an initial period of three months, a new VSLA has accumulated (from member deposits) capital of 2,400 ETB. At this point its first two loans of 880 ETB can be disbursed. After another three months, the borrowers would each have paid back 968 ETB (880 ETB plus 10 percent service fee). The VSLA's capital would then be 4,976 ETB (six months of savings plus 176 ETB service fee). At this stage, five more loans of 880 ETB can be made. After another three months, VSLA capital should be 7,816 ETB, and eight loans of 880 ETB could then be disbursed. By end of the first year, 15 out of 20 households would have been able to access a loan to invest in improved sanitation.

Year 2: The VSLA continues collecting monthly contributions and providing sanitation loans to its members. By the end of the second year, all households would have been able to improve their sanitation facilities. Further, capital of more than 20,000 ETB (US \$555) has been accumulated which can be borrowed to the VSLA members (at a relatively low service fee of 10 percent) to make further investments to their sanitation facilities, or to be used for other purposes.

³ Selection of VSLAs was purposive and included VSLAs that performed well and those that performed less well. The VSLA members interviewed were selected randomly from the VSLAs in the study locations.

knew and trusted each other (see Box 1). The VSLAs' purpose is to offer a way for households to save money safely while offering an opportunity to access loans to finance installation (or upgrading) of household sanitation facilities. VSLA members periodically make deposits which are kept in a locked cash box. Deposits are often fairly small, typically around 10 to 20 Ethiopian Birr (US \$0.25 to 0.50) per week.

In return for participating in the savings program, members can apply for loans with 'service charges' of between 2 and 10 percent, which is lower than interest rates offered by MFIs.⁴ The loans usually need to be repaid within three months. Loans from the VSLA can be used to purchase sanitation products offered by the local private sector supplier (who also typically has been trained and supported by Transform WASH) but also other purposes. If a member moves to another place, the money paid to the VSLA can be claimed back as per the VSLA's bylaws.

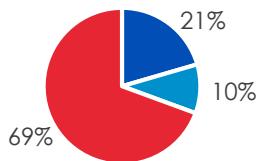
Transform WASH recruited volunteer facilitators and provided them with a three-day training on how to establish VSLAs within their communities. Each facilitator is expected to train five VSLAs. The VSLAs were given cash boxes, registry and accounting books, and an administrative manual during the training. Each VSLA establishes its bylaws and forms a committee comprised of six or seven of its members, who in turn is responsible for collecting member savings and keeping them safe, managing the record-keeping process, and administering loans to members. To further strengthen the VSLAs, Transform WASH staff provided a two-day training for two committee members (from all existing VSLAs) to emphasize the

importance of improved sanitation and to enhance financial literacy.

By the end of 2019, Transform WASH had facilitated establishment of 292 VSLAs with a total of 5,280 members in eight woredas (out of 41 intervention woredas). While this is a significant number of VSLAs, with respect to the total population of those woredas, only about two to three percent of households had joined a VSLA. The number of VSLAs would need to expand greatly to reach the entire population in need of sanitation-related loans.

Project monitoring data indicated that total VSLA savings had reached close to one million ETB by the end of 2019 (approximately 3,000 ETB per VSLA, or US \$84). However, only about one-third of VSLA capital had been disbursed as member loans. The apparent reason for this was that the loans tend to be taken more frequently in the post-harvesting season when households have more disposable income available to pay back a loan within three months. Another factor was likely inexperience on the part of the VSLA committees, who may have been uncertain regarding loan disbursement procedures. It is also possible that record-keeping by VSLAs was incomplete, or that they may not have been keeping records of loans taken out for purposes other than for sanitation products. Project monitoring data already indicate that about one-third of VSLA loans are taken out for purposes other than for purchase of sanitation products (Figure 1).

⁴ VSLAs under Transform WASH do not charge interest, but instead levy a 'service charge'. The service charge is intended to add to the savings of the group (i.e. to keep up with inflation), and no expense or salary is paid to the VSLA committee.



- Sanitation loans
- Non-Sanitation loans
- Not loaned

Figure 1: Disposition of VSLA capital as of late 2019

Data collected during this study, through a structured household survey, shows that almost all interviewed VSLA members reported being able to access a loan from their VSLA (97 percent), that more than half have taken a loan from the VSLA in the past (59 percent, average amount 880 ETB) and that most of the members (87 percent) who borrowed money used it to improve their sanitation facilities. However, the household data also show a wide variation across kebeles (villages) in the study area, in terms of the proportion of households reporting that they had taken VSLA loans (from 7 to 100 percent), and the proportion of households that reported using the loan for sanitation product purchase (67 to 100 percent). These survey results provide further evidence that VSLAs have a significant amount of capital that is sitting idle and which could be disbursed as loans. The household survey data are consistent with VSLA records and show that up to one-third of loans are being used for non-sanitation purposes.

In Gordana and Dobe kebeles of Aleta Wondo woreda (in SNNPR), the local government has been conducting its own sanitation campaigns, and, consequently, this has resulted in higher consumer demand for sanitation products. Results from FGDs indicate that in these areas, the VSLAs have disbursed more loans to their members compared to other VSLAs (Figure 2). Another 'bright spot' was a specific VSLA in SNNPR whose facilitator also happened to own a business that

offers sanitation products and services; her additional motivation made this VSLA a high performer in disbursement of sanitation-related loans.

FGD data also indicated that loan repayment rates were initially fairly low; however, as the intervention matured, payback rates increased substantially. Repayment rates on VSLA sanitation loans now exceed 90 percent, including payment of service charges.

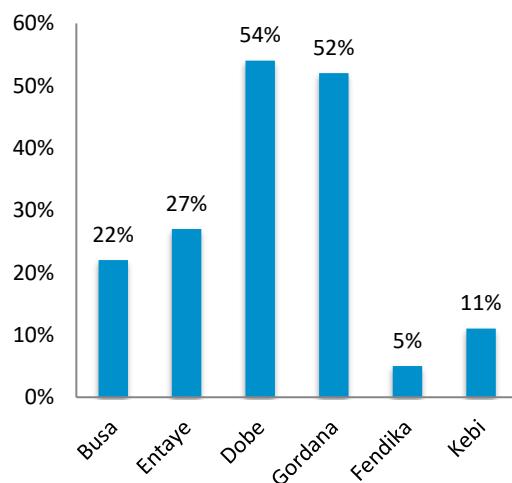


Figure 2: Proportion of VSLA members taking VSLA loans in selected villages (FGD data)

Challenges facing the VSLA approach

Although VSLAs are recognized internationally as a suitable approach to improve access to affordable loans, four main challenges need to be addressed in how they are implemented in Ethiopia:

Recordkeeping. Field observations indicated that records kept by many VSLAs did not accurately reflect the actual amounts saved, disbursed as loans, or repaid by borrowers. To engage better-qualified VSLA facilitators would require additional training and possibly financial incentives (facilitators are volunteers under the current model). This would add cost to the approach which would need to be recovered – either by using service

charges to pay VSLA facilitators or through subsidies from the government or other support agencies. Without resolving this challenge in a cost-effective manner, the VSLA model may struggle to reach greater scale. Weak facilitation is a reason for the relatively low number of loans being disbursed and has already led to the dissolution of some VSLAs.

Sanitation-focused loans. The VSLAs were established primarily to finance improvements in household sanitation facilities and to help stimulate the sanitation market. However, there is no mechanism in place to ensure that the loans are focused on sanitation. Overcoming this challenge may require additional demand-creation activities targeting VSLA members. Other potential approaches include carrying out public meetings at which group commitments are made to improve their sanitation facilities.

Repayment period. The current loan repayment period is relatively short (three months). In areas with seasonal (e.g. agricultural) income, most VSLA members only want to access loans during harvest time when they are better able to repay them. This is another reason for the relatively low number of loans being disbursed. Timing of loan disbursement and length of the repayment period are important factors to be considered in any household credit program.

Barriers to participation. Forming a VSLA requires that a group of households within a community see value in the process and that they sufficiently trust each other. Unfortunately, this system may exclude the poorest households from participating (as other households may not trust their ability to contribute savings or repay loans). There may be other factors that could

result in some groups or community members being excluded from this model.

Alternative approaches

Iqub model. An iqub is an indigenous Ethiopian financing mechanism that is widely used and well-accepted in the country. An iqub is formed by a group of households who pool their funds to address financial shortages. The loan process operates on a rotational basis, and borrowers are determined randomly from the pool of members by lottery. If members pay about 50 ETB per month, and there are 12 members, each household would receive 600 ETB once during the following 12 months. An iqub does not build up joint capital and does not allow flexibility in the loan amounts received by members. However, an iqub is less complex than a VSLA, does not levy any service fees, and generally does not require much training or supervision. The relatively small contributions paid over a longer period makes iqubs more suitable for poorer households. USAID Transform WASH could consider establishing a sanitation-focused iqub model as an additional approach to augment the VSLA model.

MFI and SACCOs. Where available, these could prove suitable for sanitation consumer financing. A pilot project,⁵ which supported MFIs and SACCOs to develop and test WASH loan products for households, resulted in promising commitments from both of these types of financial institutions and low default rates on the loans. However, MFIs and SACCOs lack a group commitment to improve sanitation, and the thresholds for accessing loans and the interest rates are higher than in VSLAs. Nevertheless, if strong MFIs or SACCOs are available, they are viable options to be considered. With these types of institutions, loans for entire groups of households could be processed

⁵ Implemented by Water.org in several regions (Amhara, Oromia, SNNPR and Addis Ababa)

at the same time, greatly speeding up the effort to improve sanitation in a community. And loan administration would be handled by professionals rather than by volunteer committees.

Another advantage of MFIs and SACCOs is that private sector sanitation businesses can be paid directly by the finance institution, eliminating (or greatly reducing) the use of loans for non-sanitation purposes. For instance, one project activity in Ethiopia worked with MFIs⁶ to provide in-kind loans to households instead of cash (the borrowers received all construction materials for the installation of an improved latrine). The households then hired an artisan to construct the toilet and paid the construction material costs to the MFI as per the loan agreement.

4. Enterprise financing

MFIs and SACCOs

Transform WASH has worked with MFIs and SACCOs to stimulate their interest in providing affordable financing to businesses that sell WASH products and services. To complement this, the project also has trained entrepreneurs about financing options and helped them learn the process of securing loans, in addition to developing business plans that describe how the loans will be used to expand their businesses and increase profits.

During early phases of the project, Transform WASH found that there was less capacity for enterprise financing available at regional and district levels than expected. As a result, Transform WASH had to engage constructively with the finance sector as a key ingredient of sanitation market development. Between 2017 and 2019, Transform WASH engaged with Omo Microfinance (operating in

SNNPR) and Menkorer SACCO (operating in Amhara), signing trilateral memoranda of understanding (MoUs) with the MFIs and their respective regional health bureaus.⁷ The MoUs specify the terms of the enterprise sanitation loan products. Transform WASH provided seed money (as earmarked ‘revolving funds’) to Omo Microfinance and Menkorer SACCO to disburse as loans to businesses that offer sanitation products and services.

The project's revolving funds allowed the finance institutions to provide preferential treatment to qualified businesses, such as favorable interest rates and repayment terms. For example, the agreement with Omo Microfinance specifies that they charge an interest rate of 10 percent (plus a two percent service charge) as compared to other loan products offered by MFIs whose rates typically range from 18 to 20 percent. Loans must be repaid in full within one year (in four installments).

The results of the work with MFIs and SACCOs have been mixed. Omo demonstrated a high level of commitment, and 14 out of 23 Transform WASH business partners in SNNPR had accessed loans by the time of this study. On the other hand, over the same period, Menkorer SACCO had not disbursed any sanitation-related loans. This study found that the better performance of Omo Microfinance might be explained by the more active engagement through training and awareness creation by Transform WASH beyond the provision of capital for the revolving fund.

Owing to the relatively limited time working with MFIs and SACCOs, Transform WASH has not yet determined whether these finance institutions will ultimately be successful with sanitation enterprise loans or not. However, the experience to date

⁶ Agro-dealers took on the role of MFIs in this project implemented by Catholic Relief Services in Ethiopia

⁷ At the time this study was carried out, discussions between Transform WASH and the Oromia SACCO were at an advanced stage, but the MoU had not yet been signed.

does at least suggest a growing interest on the part of MFIs and SACCOs for financing of such businesses. Nevertheless, this study found that the MoUs signed with financial institutions are quite detailed and rigid and do not provide much room for financial institutions to innovate and test loan products on their own.

Anecdotal evidence collected in this study suggests that enterprises that accessed credit were able to increase their production volume and profit margin (see Box 2). There were no reports of default on any of these loans, though one of Omo's branches reported experiencing some repayment delays (also related to the borrowers' seasonal agricultural income cycles).

Challenges in financing enterprises

Microfinance institutions play a crucial role in key aspects of national economic development and are expected to improve quality and accessibility of their services over the coming years. With respect to working with businesses that offer sanitation products and services, there are still several challenges that, if addressed, could help expand the sanitation market by greatly increasing access to affordable enterprise credit:

Accessibility. There is still a major need to strengthen the awareness and interest of the finance sector in Ethiopia to invest in WASH-related businesses. Sanitation financing options are still limited and likely not to be available in non-intervention areas.

Profitability of WASH enterprises. There are still only a limited number of businesses in Ethiopia that offer access to affordable sanitation products and services. While demand for such products is growing, few consumer financing options continue to limit the market size. Further, regulatory control of product pricing leads to low

Box 2: Example of a small enterprise sanitation loan in SNNPR

Lema opened his business in June 2018 following a technical training provided by USAID Transform WASH. Previously, he had been working as mason. He obtained a one-year loan of 15,000 ETB as start-up capital from Omo Microfinance at 12 percent interest, which he invested in purchase of a mold and a first batch of raw materials for producing concrete slabs. He could not have covered these expenses otherwise. He also hired three sales agents (paid on commission) to promote his latrine slabs house-to-house and engaged two semi-skilled assistants on a temporary basis for concrete slab production. He is now able to produce about five slabs per day.

Lema manufactured and sold more than 250 toilet slabs over the past 18 months with growing sales volumes. The price of the slabs was initially 450 ETB (increased to 500 ETB after the first year due to inflation). He generated revenue of over 100,000 ETB during this period. Currently, Lema is making efforts to pay back the loan and interest, however with some delay to the initially agreed repayment schedule.

profit margins and an increased number of WASH businesses going out of business, and the government's emphasis on unemployed youth to start new sanitation businesses has not succeeded in forming strong and sustainable enterprises.

Loan agreement terms. MFIs and SACCOs perceive the repayment terms (10 percent interest plus 2 percent fees) to be unfavorably low, which reduces their drive and commitment. However, sanitation-related businesses often are not used to borrowing and believe that these loan

costs are quite high. Proof of the business case to borrow money at the current interest rate is needed for both MFIs and entrepreneurs.

Alternative approaches

A deeper, more active engagement with the finance sector could prove more effective over the long term than providing seed capital under MoUs to generate enterprise loans quickly. A recent Water.org project in Ethiopia focused on providing a range of technical support to finance institutions as well as other interventions, which ultimately resulted in six financial institutions integrating WASH credit products into their loan portfolios. The project's supported activities included training, awareness raising, and supportive supervision for finance institutions; media engagement and trainings for journalists; organizing regional discussion forums for key stakeholders; advocacy with members of parliament; and carrying out experience-sharing visits within and outside of Ethiopia.

Action research from a project implemented in Tanzania revealed the importance of carefully identifying the finance institutions willing to develop sanitation microfinance, actively engaging and supporting financing institutions and encouraging the development of a learning culture on sanitation microfinance (Trémolet, 2015).⁸ Based on the insights from the action research, capacity building was provided for the MFIs which helped them better understand and carry out their roles, including the development of sanitation-focused loan products.

5. Lessons learned and recommendations

Consumer financing

VSLAs, as implemented by USAID Transform WASH, are an appropriate mechanism to promote and increase household savings and to generate small loans to help with the purchase of improved sanitation products. Overall, around two-thirds of VSLA loans were used to improve sanitation facilities, and repayment rates were generally good. However, VSLAs have a significant amount of capital that is sitting idle, which could be disbursed as loans.

VSLAs are a new concept to rural residents in Ethiopia, so close support and monitoring are required to ensure VSLA members understand the process adequately. VSLA committees, which are comprised of volunteers, were often found to be underperforming, leading to fewer loans being disbursed than expected, and in some cases to disbanding of the VSLA entirely. Another challenge is that there is no mechanism in place to ensure VSLA loans are used to improve sanitation facilities rather than for other purposes.

The following actions are recommended to improve the effectiveness of VSLAs for their stated purpose:

- Strengthen collaboration between health extension workers, sales agents, and VSLAs to increase demand for improved sanitation. For example, HEWs and sales agents could attend VSLA meetings to promote or demonstrate sanitation products and services offered by the local private sector.
- Recognize that VSLA capital is community money and its use will

⁸ The project was implemented by the Centre for Community Initiatives (CCI) and the Ecumenical Church Loan Fund (ECLOF).

- ultimately be determined by individual members. A functioning VSLA is a valuable asset, even if not all of its loans are used for sanitation.
- Build VSLA capacity and provide regular support and monitoring to ensure the savings are properly recorded, loans are dispersed regularly, and the service fees are correctly administered. After Transform WASH activities have been phased out, VSLAs with strong capacity are more likely be sustained.
- Explore suitable ways of incentivizing VSLA facilitators to improve their performance. To be scalable, the incentives should not rely upon external funding. Use of (a portion of) loan service fees might be an option.
- Consider revising VSLA bylaws to make repayment schedules more flexible and better aligned with seasonal income. For example, loan repayment periods could be shorter during the post-harvest season, and longer during the slack season when households receive little income.

Alternative financing mechanisms could also be explored to resolve some of the shortcomings of the VSLA approach:

- The *iqub* approach offers some advantages in that its administration is relatively straightforward and average monthly payments from members are smaller than for a VSLA. However, *iqubs* are primarily associated with general financial need rather than addressing a specific issue, such as sanitation. Furthermore, *iqubs* do not provide a savings system. Establishing a sanitation-focused financial movement based around the *iqub* model would likely require innovation and experimentation, and an extensive mobilization effort involving community facilitators and leaders and HEWs, among others.

- Another option would be to establish household-oriented sanitation credit programs through rural SACCOs and MFIs. These institutions have significant capital resources and would not require household savings programs or member contribution systems to offer sanitation loans to households (or groups of households). Loans could also be channeled directly to businesses to facilitate product purchase and to avoid redirection. However, the relative absence of SACCOs and MFIs at the community level (and/or their lack of interest to engage in consumer financing) and their higher interest rates might limit their suitability.

It is important to note that all of the consumer financing programs reviewed in this study tend to exclude the lowest socioeconomic groups. These households are unable to save (or repay) the amount required to participate. Reaching these groups with a household sanitation financing program will likely require additional investigation and innovation.

Smart or targeted subsidy programs are options to reach the poor more effectively, though research and testing will likely be required to develop the socioeconomic information and administrative approaches needed to make such a program successful without distorting markets (Andres et al., 2019). Effectively targeting the poor with smart subsidy programs or other approaches will likely require demographic research to establish criteria for identifying those households that qualify for subsidies, as well as those that might not require subsidies but are otherwise excluded from accessing loans for other reasons, such as community or trust-related issues, gender and ethnicity.

Enterprise financing

MFIs and SACCOs are probably the best options for financing businesses that market sanitation products and services in the Ethiopian context. Engagement of these types of finance institutions through the USAID Transform WASH project (including provision of capital for revolving funds) has led to an increased interest on the part of MFIs and SACCOs to provide financing to such enterprises. However, the scale of these efforts is still relatively small and have mainly been confined to areas where market-based sanitation programs have been introduced. To scale up access to sanitation enterprise financing, the following are recommended:

- Allocate sufficient resources to engage with MFIs and SACCOs when setting up and strengthening sanitation-related businesses in new districts. It is likely that, otherwise, no options will be in place for such enterprises to access loans to scale their offerings.
- Support MFIs and SACCOs to understand better the sanitation market through market research and to develop new financial products to meet the increased demand. This could involve training and technical support, development and pilot-testing of new loan products, and provision of capital for revolving funds. Finance institutions perform better when encouraged to conduct their own research and analysis of sanitation markets and to design specific loan products for the sector.
- Encourage the Government of Ethiopia to allocate funds for MFI loans to businesses that aim to grow their sanitation portfolio, to design appropriate mechanisms to finance such businesses through rural SACCOs, and to establish performance targets

as was done to stimulate loans to the agricultural sector.

This study found anecdotal evidence that enterprises accessing credit to expand their sanitation portfolios were able to increase their production and income. However, the sustainability of businesses could be a challenge – especially unemployed youth supported by the government to start new sanitation businesses, which had not succeeded at forming strong and sustainable operations. To increase business creditworthiness and therefore to improve the attractiveness for MFIs to offer sanitation-focused loan products, the following activities are recommended:

- Support enterprises that offer sanitation products and services to develop compelling business cases to secure loans from financial institutions. This might include documentation of consumer demand and preparation of business plans that show how revenue will be generated to repay the loans.
- Review current price-setting practices for sanitation products and services, with the aim of helping sanitation businesses set prices more effectively so as to ensure adequate profit margins. Regulatory control of product pricing, while intended to help keep sanitation products affordable, can end up doing more harm than good (enterprises become frustrated with low profits and lose interest in the portfolio).
- Strengthen demand creation activities. The stronger the demand for sanitation products, the stronger the business case for entrepreneurs.
- Document success stories from different parts of Ethiopia, including any information related to how sanitation loans helped scale up businesses and increase profitability.

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