

WATER, SANITATION, AND HYGIENE FINANCE (WASH-FIN)

The PARC Program –Blended Finance to Upgrade
Senegal’s Private Sanitation Exhauster Truck Fleet



DECEMBER 2022

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Cover photo: The Senbus exhauster truck on display at the 9th World Water Forum in Dakar, Senegal, 2022.

Photo credit: USAID'S WASH-FIN Senegal

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DISCLAIMER

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ACRONYMS AND ABBREVIATIONS

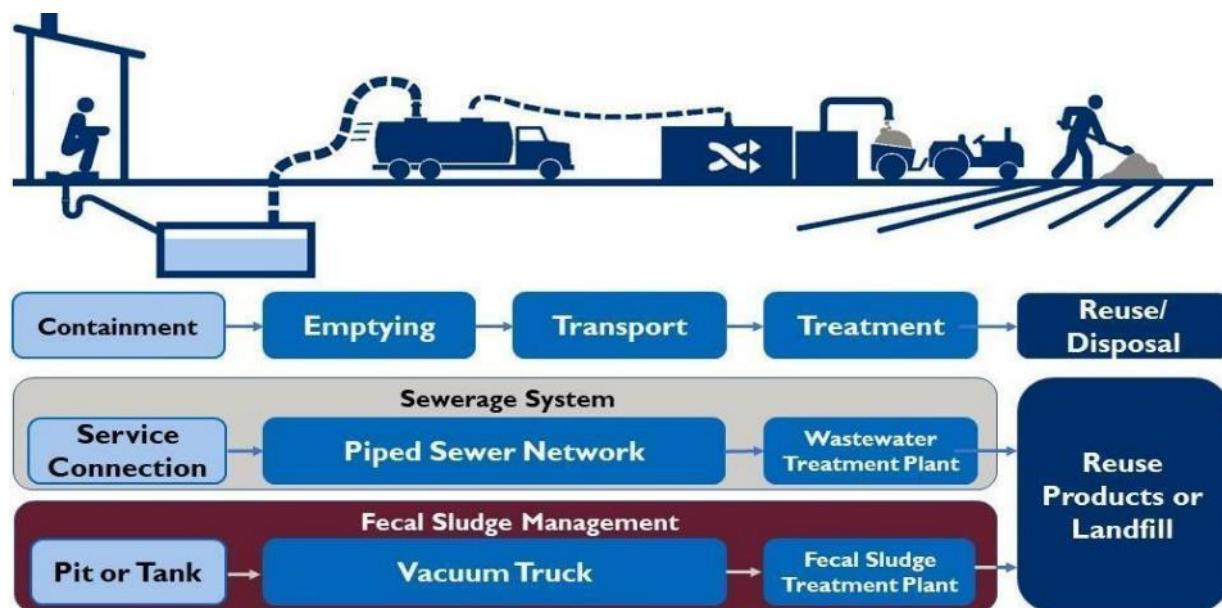
AAAS	<i>Association des Acteurs de l'Assainissement du Sénégal</i> (Association of Sanitation Actors)
BMGF	Bill and Melinda Gates Foundation
BNDE	<i>Banque Nationale pour le Développement Économique</i>
DER/FJ	<i>Délégation Générale à l'Entreprenariat Rapide des Femmes et des Jeunes</i> (General Delegation for Rapid Entrepreneurship for Women and Youth)
GoS	Government of Senegal
ONAS	<i>Office National de l'Assainissement du Sénégal</i> (National Sanitation Agency)
OSS	On-Site Sanitation
PARC	Programme d'appui au renouvellement des camions de vidange (Exhauster Truck Rapid Acquisition Program)
PSMBV	<i>Programme de Structuration du Marché des Boues de Vindage</i> (Market Structuring of Fecal Sludge Management Program)
SENBUS	Senbus Industries
SMEs	Small to Medium-Sized Enterprises
SSP	Sanitation Service Provider
UNICEF	United Nations International Children's Emergency Fund
USAID	United States Agency for International Development
US\$	United States Dollar
WASH	Water, Sanitation and Hygiene
WASH-FIN	Water, Sanitation, and Hygiene Finance

INTRODUCTION

In Senegal, much of the population still lacks access to sanitation services. During the period from 2013 to 2018, the Government of Senegal (GoS) reported an increase in sanitation access from 61.7 percent to 74 percent in urban areas, and from 38.7 percent to 50.7 percent in rural areas.¹ As of 2019, UNICEF estimated the government budget gap for water, sanitation, and hygiene (WASH) at US\$756 million per year, of which US\$329 million is needed for safely managed sanitation.² A joint report by UNICEF and the World Health Organization further noted that Senegal's 2016 national budget for sanitation was US\$87 million—far below what is needed.³ The GoS has recognized this shortfall and encouraged private sector investment, but financing still lags far behind the need.

Sewered sanitation systems are expensive to build, operate, and maintain, and often physically impractical to incorporate into built-up and rapidly expanding cities. As such, households and businesses tend to rely on On-Site Sanitation (OSS) systems such as pit latrines or septic tanks, which require periodic emptying. The GoS has embraced OSS and Senegal is one of the few countries that has successfully created a structured market to contract with private sanitation service providers (SSPs). Contracted providers use exhauster trucks to empty septic tanks and latrine pits and transport waste to treatment plants or other safe disposal sites (Figure 1). However, demand for fecal sludge emptying and treatment has increased due to a rapidly growing urban populations and services have not kept pace with this demand resulting in a service deficit to achieve the GoS goals of universal access. There is therefore, a need for additional public funding to support the ecosystem of SSPs, and additional sources

FIGURE I: THE SANITATION SERVICE CHAIN



Source: Adapted from Bill & Melinda Gates Foundation (2012), Water, Sanitation & Hygiene Strategy Overview, and USAID (2021), Water and Development Technical Brief 5, Urban Sanitation Services.

1 Republic of Senegal (2018). Ministry of Economy, Finance and Planning, 2018 Joint Annual Review.

2 UNICEF (2019). Financing drinking water and sanitation. Presentation to the Ministry of Water and Sanitation, Republic of Senegal (in French).

3 UN-Water and World Health Organization (2017). Financing Universal Water, Sanitation and Hygiene Under the Sustainable Development Goals: UN-Water Global Analysis and Assessment of Sanitation and Drinking-Water 2017 Report.

of private finance available to SSPs for expansion and efficiency improvements. However, there are significant challenges for even the better-performing SSPs to obtain financing to purchase new equipment and grow their businesses. Commercial banks do not typically have significant portfolios of loans to small to medium-sized enterprises (SMEs) such as SSPs, as larger businesses have historically been considered to be more reliable and attractive borrowers. This reality is particularly pronounced in the sanitation sector, since SSPs tend to be informal and lack the accounting and reporting capabilities required to access commercial finance. This can create a catch 22 where the challenges of meeting market demand will persist unless SSPs receive the financing required, but without the finance, they will not be able to grow and develop in response to demand.

This brief describes how USAID's Water, Sanitation, and Hygiene Finance (WASH-FIN) program worked to address this challenge. Building on previous efforts by the GoS and development partners, WASH-FIN engaged partners to support the development of a sanitation truck fleet renewal program known as Exhauster Truck Rapid Acquisition Program (Programme d'appui au renouvellement des camions de vidange, or PARC Program). This initiative resulted in the design of an innovative financial mechanism for SSPs to replace old and inefficient exhauster trucks via a lease arrangement and the manufacturing of a prototype exhauster truck adapted to the local context. In addition to increasing the availability of trucks for small businesses, the PARC program is supporting the introduction of new, modern vehicles into Senegal that will reduce sanitary risks, improve service delivery efficiency, and reduce greenhouse gas emissions. As leasing is a common financial instrument in most economies, there are attractive prospects for replication in other country contexts.

PROFILE OF SANITATION BUSINESSES AND FINANCING CHALLENGES

Most of Senegal's sanitation operators use old, inefficient exhauster trucks and report spending more than half of their income on vehicle repairs. A WASH-FIN assessment found that trucks were 28 years old on average, and that operators faced business difficulties due to frequent breakdowns and the costs associated with these fuel-inefficient vehicles.⁴ The assessment further revealed a range of difficulties SSPs face in accessing the financing required to run their businesses; while 73 percent of SSPs reported their businesses to be profitable, these SSPs also reported that access to finance was a major and persistent challenge.⁵ Poor access to finance for efficient and reliable equipment limits not only the SSPs' current operations, but also their potential to grow their businesses to keep pace with market demand. The assessment identified three key factors that constrain SSPs' access to finance:

- Commercial bank and other investors' general lack of knowledge of the sector and its potential as one that can generate commercial returns on investments,
- Business informality and a lack of reliable and certified financial statements, which creates difficulties in presenting operators' revenue and cash flow to banks and investors, and;
- Operators' general lack of understanding of financial instruments and a short-term mindset that results in a preference towards paying cash for less expensive, used equipment, coupled with investors' lack of interest in financing used equipment of uncertain reliability and value.

⁴ A separate analysis funded by AFD using data from the WASH-FIN 2018 FSM study indicated a potential for annual per truck savings of US\$2,500 to US\$5,100 in fuel costs, and US\$1,200 on repairs and maintenance in local currency equivalent (presented at the Feedback Workshop for the AFD funded Study of Technical and Financial Support Needs of Industrial Establishments and Emptying Companies in Dakar, December 2019).

⁵ USAID's WASH-FIN Senegal (July 2019). Cohort Two Sanitation Service Provider Assessment. (Internal Report).

Low access to finance means that even sanitation operators that understand the benefits of new, more efficient exhauster trucks and are interested in purchasing this equipment often cannot do so.

THE ROAD TO THE PARC PROGRAM

The GoS, development partners, and the private sector have been partnering to address SSP challenges since 2011, when the National Sanitation Agency (ONAS) launched the Market Structuring of Fecal Sludge Management Program (*Programme de Structuration du Marché des Boues de Vindage*, or PSMBV) with support from the Bill and Melinda Gates Foundation (BMGF).⁶ PSMBV took a multi-pronged approach to creating a market for sanitation services and stimulating the growth and development of private SSPs. Across a range of ecosystem elements, the BMGF program provided technical and financial support and engaged partners to strengthen the involvement of the private sector across the sanitation service chain (Figure 1).

Among other activities, PSMBV supported implementation of a call center for SSPs to receive requests for service from customers, a mobile payment mechanism to facilitate payment, and a communications program to strengthen demand.⁷ The program also included an access to finance component by establishing a guarantee fund intended to assist sanitation operators obtaining commercial loans. PSMBV facilitated mobilization of FCFA 800 million (US\$1.6 million) from ONAS and a local bank, *Banque Nationale pour le Développement Économique* (BNDE) to create a partial credit guarantee that would be available in the event of default.⁸ The PSMBV set up a steering committee for the loan program and maintained formal guidelines for operator eligibility. In doing so, the guarantee and technical assistance helped 29 operators finance the purchase of imported, second hand exhauster trucks by sharing the financial risk with the financial institutions. Although the PSMBV was successful in structuring the market and mobilizing finance, there was still a recognized need to bring more funding into the sector and private finance remained critical.

In 2019, as part of its objective to help smaller sanitation operators access finance, USAID's WASH-FIN Program began engaging with a range of stakeholders to discuss the need for a financial instrument tailored specifically for the sector. Initial stakeholders included: ONAS, the Association of Sanitation Actors (*Association des Acteurs de l'Assainissement du Sénégal*, or AAAS), BNDE, and others. In addition, with the support of AAAS, the Program conducted the review of the existing emptying truck fleet (mentioned above) to understand the level of obsolescence of the vehicles and the required number of trucks needed to meet the demand for sanitation services over the next ten years.

PARC PROGRAM DESIGN AND LAUNCH

Objectives. The primary objective of the PARC program is to mobilize domestic finance to replace old exhauster trucks with new, fuel-efficient, and safe vehicles appropriate for the local context. A secondary objective is to align with ONAS's plans to delegate management and operations of the entire OSS service chain to the private sector.

Utilizing a Collaborative Approach. The Team's initial studies and consultations confirmed the need to renew AAAS members' exhauster trucks well beyond ONAS's achievements under the PSMBV program; 254 aging exhauster trucks required replacement with a total capital expenditure of US\$20

6 ONAS (undated). Market Structuring of Fecal Sludge Management Program. <https://www.onasbv.sn/en/>

7 ONAS (undated) Program for the Structuring of the Fecal Sludge Market for Poor People in Dakar Suburban Areas, and Deutschmann, Joshua et al. (2021). Privatization of Public Goods: Evidence from the Sanitation Sector in Senegal.

8 World Water Council (2017). Increasing Financial Flows for Urban Sanitation, Case of Dakar City, Senegal.

million over five years (2020-2025). With the strong leadership of ONAS and AAAS, WASH-FIN helped convene stakeholders around the objective to design an appropriate financial product to renew the aging truck fleet and improve SSPs services. The resulting discussions led the stakeholders to the idea of a lease model which eliminates the need for collateral and reduces risk as the SSP does not own the vehicle outright during the lease period. It is a good balance of addressing the finance constraints on both demand, and supply side, while also ultimately offering transfer of ownership to the SSP at the end of the lease period. WASH-FIN organized meetings to socialize the idea and by 2020, the initial group of stakeholders had coalesced into a working group of key partners to oversee development and ensure alignment of all actors – see working group members and roles in Table I below.

TABLE I: PARC PROGRAM WORKING GROUP

Stakeholder	Mandate	Role in PARC
ONAS	Responsible for carrying out Senegal's national sanitation policy	Involved in all major decisions related to PARC
BNDE	Senegalese national bank for economic development	Provided commercial finance to PARC
Bill and Melinda Gates Foundation	Nonprofit fighting poverty, disease, and inequity around the world	Provided grant funding to PARC
DER/FJ	A government initiative supporting priority sectors and women and youth entrepreneurship	Provided grant funding to PARC
AAAS	Member-based association	Validate technical and financial information and support: identification of eligible SSPs, terms and conditions for leases, and preparation of lease applications
SENBUS	A private Sengalese vehicle assembly company	Local assembler of exhauster trucks for the PARC Program
USAID's WASH-FIN	In Senegal, supports closing the finance gap in sanitation	Facilitated stakeholder engagement and coordinated the design, structuring and implementation of the PARC Program

In 2021, BMGF, BNDE, and the Government of Senegal General Delegation for Rapid Entrepreneurship for Women and Youth (*Délégation Générale à l'Entreprenariat Rapide des Femmes et des Jeunes*, or DER/FJ) formally agreed to commit approximately US\$4 million for the initial phase of the PARC program. The working group structured the program to combine grants and domestic commercial finance into an affordable lease product for qualified SSPs to acquire exhauster trucks. In addition to facilitating the process, WASH-FIN provided intensive financial training to service providers and helped them develop the formal documentation (e.g., business plans, revenue projections, etc.) required to demonstrate their ability to pay the leasing fees.

Timeline. PARC officially launched in February 2021. Following receipt of grant funds, the partners conducted an open procurement process to find a local manufacturer willing to produce high-quality, fuel-efficient vacuum trucks at a price that would be reasonable and affordable for SSPs. The group selected Senegalese vehicle assembler Senbus Industries (SENBUS) as the manufacturer. SENBUS produced a prototype truck in early 2022 that was validated by DER/FJ and AAAS. Also in 2022, an initial group of 13 WASH-FIN-supported SSPs began to enter the formal due diligence process required for program approval. Figure 2 below illustrates the process and timeline for PARC development.

FIGURE 2: PROCESS AND TIMELINE FOR PARC DEVELOPMENT



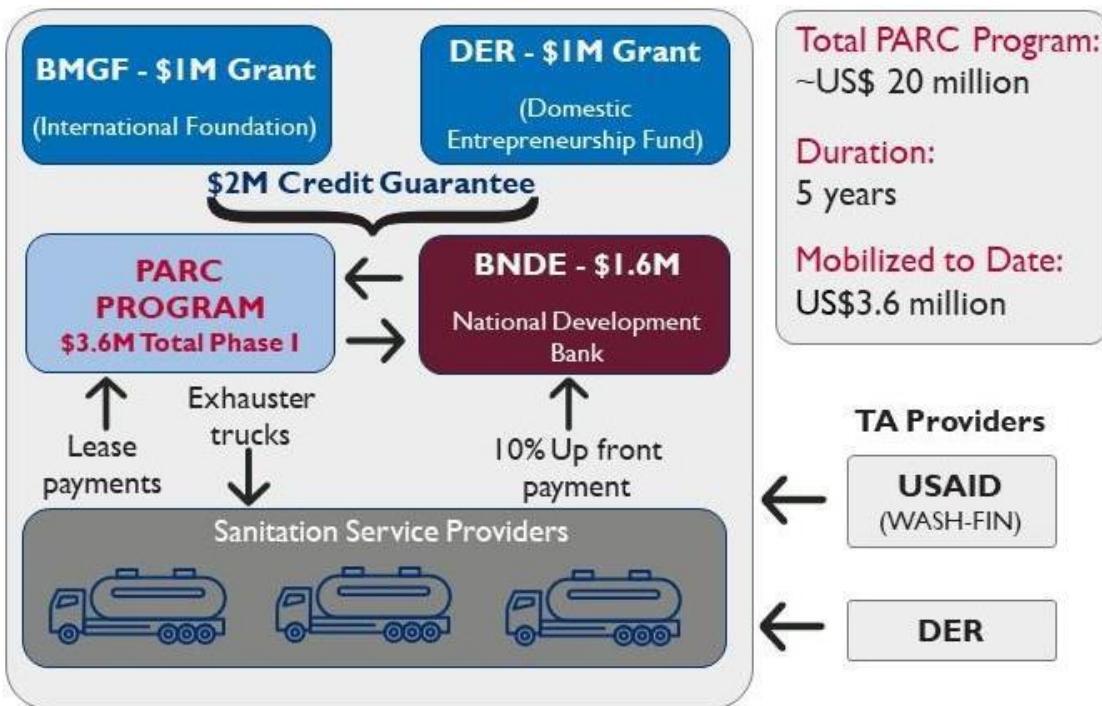
How it Works. For the 2-year pilot phase (2020-2022), PARC raised approximately US\$4 million from DER/FJ, BNDE, and BMGF to finance the acquisition of up to 40 new exhauster trucks for leasing to SSPs meeting the following eligibility criteria:

- Senegalese sanitation operator with at least one truck
- Officially registered company with the Trade and Personal Property Credit Register and National Identification Number of Companies and Associations
- No prior loan defaults (for example, if accessed credit previously from PSMBV/BNDE or other)
- Able to make a minimum owners' equity contribution of 10 percent as an upfront payment
- Sufficient income from sales to cover other expenditures and projected lease payments

Qualified SSPs that apply to the program receive pre-selection support from partners prior to their vetting and approval by BNDE. Once approved, SSPs are eligible to acquire trucks through a five-year lease-to-own schedule, at an equivalent annual interest rate of 8 percent (an improvement compared to the standard 12-17 percent rate for commercial bank loans). Like the PSMBV program, the structure leverages several credit enhancements from partners. The grant component supports a 50 percent credit guarantee to reduce risk of non-payment of leases. The program provides technical assistance to support SSPs in preparing for leases and SSPs interested in acquiring trucks through a lease must put down a minimum of 10 percent of the costs up front. Leaseholders also receive a SENBUS limited manufacturer's warranty of 3 years on engine and other truck components, and some maintenance which ensures reliability of the asset that generates revenue to pay the lease reducing risks to the financial institutions underwriting the leases. The warranty is also a major benefit to SSPs that have historically faced difficulties in making repairs and obtaining parts for used trucks. The PARC partners expect that as a local manufacturer, SENBUS can better facilitate access to parts for their trucks.

Once the PARC has mobilized the first tranche of financing for qualifying SSPs to lease trucks, and the program is operating successfully, the goal is to mobilize additional financial resources to meet further demand. Figure 3 illustrates the PARC Program's functions and features including technical assistance and US\$2 million in grants and US\$1.6 million in commercial finance for the first-round investment.

FIGURE 3: THE PARC PROGRAM TO DATE



FROM CONCEPT TO LAUNCH

Over a period of three years from 2019-2021, through a series of dedicated discussions and convenings, a diverse group of stakeholders facilitated the mobilization of resources and sufficient funds to start the pilot version of the program. Overall, the key enabling conditions that led to the launch of the PARC Program were:

- **Government support:** Support from ONAS was critical for advancing the PARC Program and exemplifies the GoS's commitment to addressing sanitation challenges.
- **Foundation to build on:** The previous access-to-finance program under PSMBV provided a foundation that recent support from USAID under WASH-FIN was able to build on; SSPs had accessed credit in the past and were receiving USAID technical assistance to strengthen their ability to access finance; the strengthened capacity required a renewed focus on options for finance, leading to a lease-to-own arrangement.
- **Critical mass of private sanitation operators:** The majority of SSPs are AAAS members and many had a clear need to renew their fleet; sector stakeholders recognized that this need would not be met without a tailored financial product.
- **Funding and support from local and international partners:** Partners provided funding and technical support for the first phase of PARC to show proof of concept that this type of arrangement could work.
- **Neutral technical assistance provider:** The support and facilitation of WASH-FIN as an independent technical assistance provider helped advise on the structure of the financial product and assist SSPs that were unfamiliar with application processes for commercial financial mechanisms requiring formalized business operations and record keeping.

- **Direct incentive for formalization and capacity-building of private SSPs:** The business formalization, technical, and financial assistance provided by the partners has helped motivate and inspire private operators' entrepreneurial mindset and broaden their vision of the possibilities for growth. This shift in perspective will help these businesses well beyond PARC.
- **Interest in reducing not only costs, but also pollution and improving urban living conditions:** The replacement of old trucks with new vehicles will result in increased fuel efficiency, and reduced pollution from exhaust that will not only strengthen SSP businesses, but also help improve health and well-being of residents. The SENBUS trucks will help operators empty pits more efficiently, reduce spills and uncontrolled dumping of waste, and contribute to the improvement of living conditions and the natural environment.

PARC RESULTS TO DATE

While the program is still at an early stage, the first phase has helped highlight the important service sanitation operators provide, and the role they play in community and environmental health. PARC has incentivized SSPs to acquire new skills, adopt sound management practices, and learn more about safety standards as they strengthen their businesses in preparation for applying to the program. The program mobilized US\$3.6 million in funding, and by June 2022, the first group of SSPs had officially applied to the program, and thirteen of them began the initial financial due diligence process with BNDE. Through the technical assistance provided by WASH-FIN, SSPs have become more formalized and professionalized businesses, with stronger technical, financial, and managerial skills required to provide quality services. Supported SSPs are now better equipped to participate in PARC to acquire the equipment that they have long needed. Additionally, the transparent procurement process facilitated by PARC led to the selection of local vehicle assembler SENBUS to provide quality trucks to meet the needs of SSPs, increasing local employment.



*SENBUS exhauster truck on display at the 2022 World Water Forum in Dakar, Sénégol.
Photo Credit: USAID's WASH-FIN*

PARTNER RECOMMENDATIONS

Ultimately, the goal of the WASH-FIN Senegal Activity—and PARC—is for Senegal’s SSPs to become stronger and build sufficient creditworthiness to be able to make future capital investments without external support. To maintain momentum toward these goals within the PARC Program, the partners convened towards the end of the first phase and agreed to advocate and advance the following recommendations:

- **Maintain the PARC working group:** Doing so will facilitate follow-up and encourage the continuation of the program beyond the first phase. Namely, it will ensure that trucks are ordered and delivered, that the lease program proceeds on a strong footing, and that the group continues fundraising in order to fund the full program.
- **Continue building the capacity of SSPs, including potential applicants as well as the eventual PARC Program participants:** PARC’s partners should raise awareness and advocate with government and development partners on the impact of technical assistance for sector strengthening; at the same time, they should periodically follow up with participating SSPs to ensure they are meeting their lease and other financial obligations in a timely manner.
- **Support the development of a sanitation business education program:** If supported by the Ministry of Hydraulics and Sanitation, such a training program would help further the development of SSP management professionals, thereby helping the sector professionalize and respond to increasing demand throughout the country.
- **Engage development partners to support the finalization of sanitation operator certifications:** ONAS and AAAS have been working toward the development of an official operator certification, but the details have yet to be finalized. Official certifications would help elevate and regulate operators providing a critical public service, encourage business formality, and help small businesses access finance and compete for large-scale tenders.
- **Advocate for additional exemption from taxes for exhauster trucks produced to support PARC:** While the exemption from customs duties is a great start, further savings could be realized if the GoS waives value-added taxes on sanitation equipment for essential public services.

REFLECTIONS AND LOOKING FORWARD

The implementation of the first phase of PARC required the political will of government, a highly structured working group of stakeholders relying on evidence from analysis to identify investments that could be financed in the sub-sector, and the commitment of partners to achieving the end goal. The initial funding and launch of the PARC Program reinforce the importance of efficient and reliable exhauster trucks as a lynchpin for commercial viability of the entire sanitation service chain. Private sanitation operators’ acquisition of improved assets is a powerful means to not only strengthen essential sanitation services, but also to support the health, livelihoods, and economic development of households, communities, and cities.

PARC exemplifies how leasing can be a useful financing tool in situations where it is not feasible for service providers to access loans for new equipment. PARC’s collaborative approach demonstrates that it is possible to align the interests of sanitation entrepreneurs with those of technical and financial partners outside the sector around the critical issue of access to finance for private sanitation services. Leasing offers private and public entities which have limited collateral and capacity in a range of

sectors—WASH, transportation, agriculture, fishing, and others—an alternative means to finance more efficient assets and equipment. Moreover, lease holders build a transaction history and form relationships with the financial sector. These lessons are not just applicable to Senegal, and many financial institutions in emerging markets either offer leases or have the capacity to.⁹

The formation of the working group of partners provided a means for them to work through challenges and align objectives. Building on the prior PSMBV program, the process has similarly shown that unlocking financing in a challenging social sector such as sanitation is possible when government, local organizations, small businesses, and development partners come together to address a critical need. With awareness raising on both supply and demand sides, and proper structuring and technical assistance, lease programs have the potential to leverage the domestic financial sector to increase financing options for safely managed sanitation across the sanitation service chain.

Leasing in fecal sludge management is nascent in Senegal, and it will be important for the PARC working group to monitor the results of the program not only to refine it, but also as a knowledge base for potential replication or adoption of similar structures in other countries. The working group will be considering the recommendations above in partnership with government and development partners as a means to enhance PARC's prospects for fulfilling its objectives in mobilizing additional resources and building the capacity of SSPs to take advantage of this innovative financial instrument.

Looking forward, the PARC Program seeks to mobilize an additional US\$16 million to support the replacement of more than 250 old and inefficient exhauster trucks with new, locally assembled trucks. Doing so will ensure that the sector remains viable to meet the increased growth and demand for improved services from customers. In the evolving macro-economic context, challenges remain in ensuring that PARC's momentum continues and that the program is able to mobilize resources, purchase and build trucks at an affordable price in a time of inflationary pressures, and lease them. The working group has proven to be instrumental in working through challenges of an innovative financial instrument for the SSPs. WASH-FIN coordinated with the USAID/Senegal's Entrepreneurship and Investment Program (E&I Program) which promotes entrepreneurship and investment in WASH and other GoS priority sectors. In response to the recommendations above, the E&I Program has since joined the PARC working group. This continued USAID engagement will be beneficial to ensure the momentum is sustained. The more SSPs can mobilize finance for investment from domestic sources, the greater the self-reliance of these important SMEs and the entire sanitation service chain.

⁹ IFC (2009). Leasing in Development: Guidelines for Emerging Economies.

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