

Subsiding Sanitation Financing shrewdly — a case of TEECs Microfinance, Malawi



SANITATION AS A BUSINESS: UNCLOGGING THE BLOCKAGES

*Financing and Business Models – a
presentation by*

*Louis Jalakasi,
TEECs Limited, Malawi*

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A reminder of the goal - MDG 7: ensure environmental sustainability:
*Target 7C: By 2015, halve the proportion of people without sustainable
access to safe drinking water and basic sanitation.*

Improved sanitation

Some 2.4 billion people – one-third of the world's population – will remain without access to improved sanitation in 2015, according to a joint WHO/UNICEF report "Progress on sanitation and drinking-water".

The "2013 update", warns that, at the current rate of progress, the 2015 Millennium Development Goal (MDG) target of halving the proportion of the 1990 population without sanitation will be missed by 8% – or half a billion people.

That is next year and what are we doing about it?

***TEECs thinks sustainable water and sanitation provision require
sustainable financial resources and provision too!***

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A Brief About TEECs Limited



TEECs Limited is a business service provider from Malawi. In the case of Malawi, through the Bill and Melinda Gates Foundation, Water for People engaged Tools for Enterprise and Education Consultants Limited to steer private sector participation in sanitation provision services. Whilst several small scale enterprises emerged from the intervention the traditional banking sector and large industry did not buy the idea and this left both the emerging sanitation entrepreneurs and households with nowhere to find finance for their sanitation needs.

The provision of water and sanitation services in Malawi is through the public and private sectors. Service provided by the public sector has been met with a lot of challenges thereby creating an opportunity for the private sector players to come. Whilst water provision is mainly provided through local water users associations under certain agreements with the water boards and cannot at the moment be classified as businesses sanitation provision has graduated into fully fledged businesses.



The businesses that are currently working are those in pit latrine emptying, septic tank emptying, latrine construction and public toilet provision services. These businesses are largely individual masons or providers to SMEs employing two to ten people.

In case of individual players the business owner and a partner are involved in the both pit emptying using semi mechanized emptying and also construct latrines to individual households. The businesses have now permanent places of operation with telephone contact numbers clearly displayed. Households contact the businesses and agree on a service provision. There is limited marketing often through customer referrals. Emptying is based on a 200 liter drum charge the sludge of which is dumped at a designated sewer run by the city council at a fee. Latrine construction is done through the household buying the materials as specified by the mason and the mason gets his labor for both the sub and super structure.

In case of the emerging SMEs the process is a little more complex. They too have permanent places of operation but are able to advertise in the newspapers and radio and frequently hand out flyers as they send temporary marketing staff in targeted areas. Pit emptying is done on the

same basis as the individual masons. Latrine construction, however, is twofold. On the one hand a household buys materials as specified by the SME and the household is charged labor for the construction thereof. On the other hand the SME buys all the materials and builds the entire structure. The household pays for the latrine upon completion. An emerging scenario is where households have now the opportunity to have the latrines built on a loan offered by an MFI.

Because of their capacity the SMEs are able to empty septic tanks quite often. This is because the public players originally entrusted to offer these services have their tankers broken down. Both semi-mechanized and fully mechanized emptying is being offered by the SMEs. The individual operators also empty septic tanks but then use semi mechanized methods.

Emptying services are largely on cash basis with a number of drums agreed before service starts.

Public toilet operation is commonly based on leasing public toilets originally built and operated by city or town councils. These are often advertised for lease and successful bidders pay rent and water bills accordingly. The operators use cash per visit charges based on the local market fees. In smaller towns operators have built their own public fee paying toilets. Of all the three sanitation businesses this is proving to be the most lucrative.

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The businesses are mainly located in the peri urban areas of cities of Blantyre, Lilongwe, Mzuzu. The entrepreneurs, however, are able to go out to other areas and offer their services upon demand. This is quite common to latrine construction and septic tank emptying services. Public toilets and latrines are also being operated in busy places such as trading centers or transit areas such as border posts and bus depots all over the country.

This where demand for such services is high because of a number of reasons some of which are:

Land scarcity necessitates that a latrine be emptied for re-use

Interventions by non-profits through awareness of modern sanitation products and services

High volumes of people in transits requiring services either at the boarder or in town conducting daily business

Absence of sewer lines connected to individual houses necessitates building of septic tanks

A reasonable ability to pay for the services exists in the peri urban areas unlike in the rural areas where income levels are low and this is compounded by the availability of land to build new latrines when old ones get filled up.

Although the business models are working it is often on a small scale and its impact difficult to notice. Many households require services and products but lack finance thereof. In the absence of finance the only solutions would be to increase public service provision and this is not feasible nor is it sustainable in Malawi's and other similar economies.

Financing Solutions and Mechanisms

A rapid market appraisal conducted by TEECS confirmed the existence of a large market for sanitation products and services in the city of Blantyre Malawi and in the absence of traditional bankers tapping this market and driven by the desire to show that investment in sanitation is possible TEECs, with a completely transformed mind-set, established TEECs Microfinance (TMF). TMF was granted a license to operate by the Malawi Central Bank end June 2013 and started its operations in August 2013. Rapid Market Assessment of Sanitation Services in Blantyre Low Income Areas, Water for People/TEECs, September 2011

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Is Sanitation
Marketing a
Friend of the
Poor?

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In the case of Malawi the National Sanitation Policy outlaws the subsidised provision of sanitation products and services. It encourages the provision of these products and services under market systems.

Sanitation marketing helps low-income households gain sustainable access to improved sanitation facilities they want and can afford. TEECs Microfinance treats households as consumers, not beneficiaries of charity and partners with private businesses to deliver products and services that meet their needs.

Developing the market for sanitation means addressing BOTH supply and demand: breaking down the barriers businesses face to entering the sanitation market, and building consumer demand for affordable improved sanitation products and services.

Sanitation businesses will make money out of large business volumes rather than applying high margins. TMF will make money and continue to provide sanitation financing if it derives more income from other products whose profit will subsidise low interest charged on sanitation financing.

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Is Sanitation Financing Sustainable in Malawi and beyond?



TEECs Microfinance was established with very limited capital injected from personal savings of its directors largely because of the personal conviction and confidence in the sector. The TMF investment is a “tiny fraction of a drop” of the investment required to show meaningful change in the society. In other words TMF alone cannot address the huge scale of the sanitation problem. The directors remain convinced that their efforts will one day bring significant investment into the sector in Malawi based on the success stories that will emanate from the seed they have planted.

TMF is able to finance its sanitation products using lower interest rates that it can commercially sustain itself by providing other non-sanitation products that attract a higher interest rate which consumers are willing to pay. In this way TMF is subsidizing sanitation financing with traditional finance products as a social investment. In conducting an assessment and TMF discovers that a sanitation client is able to pay for commercial rates of interest, then such rates are used other than the lower rate. In this way too that particular client help subsidize the disadvantaged persons. The more traditional product financing made the more sanitation financing products achieved – in this way we believe TMF will continue to sustain itself.

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Is Sanitation
Financing Scalable in
Malawi and beyond?



Currently TMF targets urban population and as the numbers grow there may be need to consider rural population. TMF has to consider how to scale up its urban activities and later provide service to the rural communities. This can be achieved through increasing working capital though attracting short term investments from locals who would otherwise investment in traditional products like government bonds or treasury notes or bills. The trick is to offer a higher return on their investments as compared to the traditional investment they will otherwise make. Being a private company this will be achieved privately as well through personal invitations. TMF has started this already and has received some investments during the mid-half of 2014.

The other method would be through grants (both local and foreign) and though foreign loans. Local loans would be impossible to sustain because of the current high rates of interest. Water for People has since approved a small grant to first build the capacity of TMF with a view of helping find partners who may extend a credit facility to TMF for scalable purposes.

The grant amounts to \$10,000 of which \$7, 500 will go towards capacity building over an 11 month period and \$2, 500 will be used for latrine loans in the first six months, 8 to 13 latrines averaging \$299 will be built over the

six month period. Subject to targets being met Water for People intends to help TEECs find an initial \$50, 000 that will start the scaling up process of sanitation financing in Blantyre City and this will target a minimum of 183 latrines in the first twelve months and minimum of 334 latrines subject to an additional loan of \$50, 000. Both loans will have been paid off at the end of year 3 and the business will remain self-sustaining offering an average minimum of 234 latrine loans per annum.

As TMF prepares for such a facility it bears in mind that sanitation revenues normally accrue in local currency – which entails a devaluation risk where debt and equity have to be serviced in foreign exchange. The critical question would be who bears such exchange losses? It is plausible to have clear agreements at the beginning of the foreign loan negotiations and agree on what to do with the risk of devaluations. A good example is Kiva whose lenders cover currency devaluations of over 10% and absorb any losses arising from borrower default.

Scaling up sanitation services entails introducing sustainable technologies as well. The most common modern latrine being financed, for example, is built from baked clay bricks and this promotes environmental degradation through wanton cutting down of natural trees. The structure is also fixed and this makes it impossible to use collateral for a loan. To help address this risk, Water for People is partnering with TEECs to introduce into Malawi the Modular Latrine from Parry & Associates. This construction method would allow the offsite construction of thin wall single latrine cubicle structure which can be transported and assembled or disassembled. Such a structure will make it possible to be used as collateral and can be withdrawn in case of unsettled defaults and sold to another client.

Coupled with the introduction of the Parry Latrine will be a nationwide marketing campaign that will create demand for the sanitation products.

We have to be ready for such a demand.

Are you?

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Thank You Very Much
for Your Attention

