

**Using microfinance to support
households' investments in sanitation**
Does it really work?

SanCop UK, 26th November 2018





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OVERVIEW







- Back to basics: what is microfinance?
- What's the potential for sanitation?
- Has microfinance been leveraged effectively?
- What do we need to know better?

WHAT IS MICROFINANCE?

- **Financial services for low-income populations**







-  Formal financial services: banks, MFIs, NGOs
-  Informal financial services (money lenders, village savings association)

- **Some characteristics of formal microfinance services**

-  Range of financial services (micro loans, savings, insurance)
-  Different sources of lending capital: local commercial banks, philanthropic funds (e.g. Kiva), private investors
-  Interest rates generally higher than « normal » financial services
 -  2-4% per month
 -  Risky products because target population is low-income
 -  High costs per transaction: small amounts, short timeframe

- **« Credit card for the poor »**

MICROFINANCE TO LEVERAGE USERS' CONTRIBUTION

- **Many countries cannot afford subsidising toilets for all**
- **Example of Ghana**
 -  In 2016, total expenditure on sanitation (from all sources) = US\$ 47 million (WHO TrackFin)
 -  Estimated annualised financing requirement for universal access to basic sanitation = US\$ 218 million
 -  Estimated annualised financing gap = US\$ 170 million
 -  Ghana needs to mobilise 3.6 times current financing levels – from all sources
- **Countries need to leverage users' contribution**
 -  Users already the largest contributors through tariffs (TrackFin)
 -  Contribute to lower service levels (public toilets)

HOW CAN MICROFINANCE SUPPORT USERS?



HOW CAN MICROFINANCE SUPPORT USERS? (2)

- Enables households spread investment costs
- Overall cost is higher but package is more affordable
- Practice of short-term loans for home improvement is widespread in high-middle-income countries
- Why not consider sanitation as home improvement?






DESPITE POTENTIAL, LITTLE USE OF MICROFINANCE

- **Very few large government-led programmes that embed microfinance**
 - EO VI Experience in Vietnam with a national bank (very low interest rates)
 - EO VI Efforts in some states in India to mobilise microfinance
- **Many pilots and action-research experiences**
- **Largest NGO-led programme is Water.org's WaterCredit**




EVALUATING WATER.ORG'S PROGRAMME IN THREE COUNTRIES




- **US\$ 8.3 million water and sanitation programme rolled-out in Indonesia, Philippines and Peru**
- **Water.org partnered 15+ financial institutions**
- **Main evaluation questions:**
 -  Has the Programme reached its targets in terms of loans delivered, i.e. have sanitation loans been delivered at scale?
 -  Does offering sanitation loans enable households move up the sanitation ladder?
 -  What are the impacts of loans contracting on households' socio-economic conditions?

EVALUATION METHODOLOGY

- **Data sources**

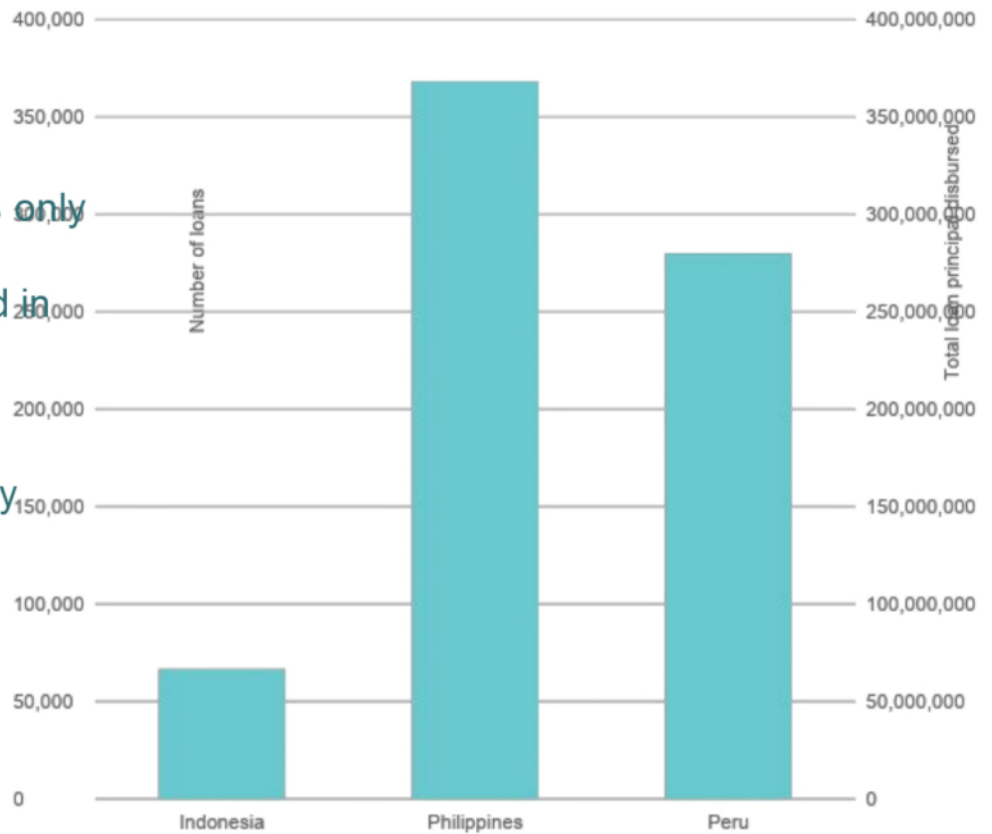
-  Review of programme documents
-  Interviews in-country
-  Longitudinal household surveys commissioned by Water.org

Impact evaluation method

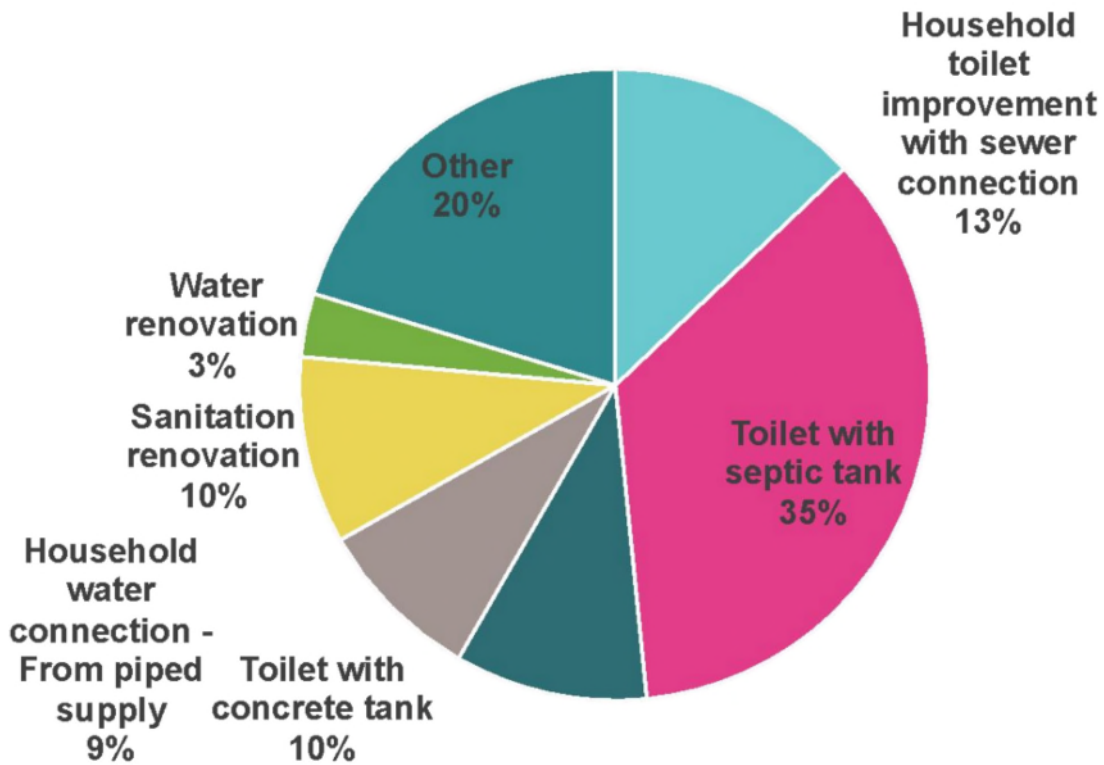
-  Treatment groups composed of households who received a loan and control groups were those who did not take a loan
-  Programme's treatment was not randomised, therefore Propensity Score Matching (PSM) used to estimate casual treatment effects on households
-  A fixed effect model was used to analyse between within households over time

PROGRAMME'S OUTPUTS

- 715,000 WASH loans disbursed
- **480,000 sanitation loans only**
- US\$ 421 million leveraged in lending capital for WASH
- **US\$ 257 million lending capital for sanitation only**






TYPES OF FACILITIES ACQUIRED





- 95% of facilities were in use and functional at the time of the survey
- Nature of sanitation facilities indicates that most loans were used by households to improve their sanitation facilities and services

IMPACT ON HOUSEHOLDS



- **Impact on access to sanitation services**

-  Significant difference on open defecation over time (Philippines)
-  Move from unimproved sanitation services to improved sanitation at endline (Indonesia)
-  At least maintaining or improving sanitation facilities across the three countries

- **Impact on perceived quality of life**

-  Reduction on time spent going to defecate (Indonesia)
-  Higher sense of safety when using sanitation facilities at endline

- **Impact on socio-economic conditions**

-  In all countries, households who took a loan perceive an increase in time for household and productive activities
-  High level of satisfaction among the households who contracted a loan regarding the loan and perceived water and/or sanitation improvements

CONCLUSION

- **Yes, microfinance can work**
- **There is a high demand for financial products to enable households invest in accessing or maintaining sanitation services**
 - EQ 01 Across the 3 countries, sanitation was # 1 selling product
 - EQ 01 Over 61% of lending capital disbursed for sanitation
- **Programmes that build in microfinance can be cost-effective**
 - EQ 01 Leveraging private investments, freeing up public funds for targeting lower income populations
- **There is “business case” for WSS lending**
 - EQ 01 FI can be brought in where financial sector conditions are ripe + where adequate technical assistance is provided

FURTHER RESEARCH NEEDS

- What are the bottlenecks in other regions, especially in SSA?
- What instruments can support FI delivering WSS loans (without distorting the financial market)?
- What are the long-term socio-economic impacts of microfinance for sanitation?

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