cewas

Scaling model and feasibility to scale analysis

LRFP – 2021 – 9172173 – Evidence generation for KRC#8 Innovative Finance – Regional Revolving Fund for Sanitation

December 22, 2022

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0 Briefing note: Structure of the RFS model to scale

Building a private toilet requires upfront expenditures, which poor households are commonly unable to afford. Past studies have confirmed that providing a credit or loan facility can be a critical driver of demand for sanitation products.[1] With the RFS, UNICEF aims to accelerate the rate at which improved sanitation solutions are available to households from the poorer wealth quintiles **through innovative finance mechanisms** with the ultimate **goal to end Open Defecation**. Through inclusive designs and loans that are affordable to people from the Base of the Pyramid, the RFS pursues the specific objective to **increase access to improved sanitation for vulnerable groups**.

To have a relevant role in filling the sanitation financing gap and contribute towards achieving SDG 6.2, the RFS has to become financially viable. Only then will a sanitation fund be able to continuously revolve and scale, leveraging development finance and impact investments to yield more impact for each dollar invested than traditional development programmes.

The RFS model to scale builds on **four key performance indicators and related targets** that determine whether the UNICEF's objectives can be achieved through a sustainable and scalable revolving fund:

Cost coverage: To move towards a scalable model of the RRFS, fund administrators and FSPs have to implement the RFS in a cost covering manner. In practical terms this means that the interest each of these actors collects must exceed or at least match the losses through default payments and the operational costs.

Loan recovery: In moving towards a cost covering system, the loan recovery rate is a critically important performance indicator. In order to align with the RRFS objectives, that require the fund to offer sanitation loans with low interest rates, the loan recovery rate needs to achieve a near 100% target.

Market reach: To achieve the RRFS targets, the current funds in Ghana, Nigeria and Togo need to significantly increase their market reach. For this purpose, the scaling strategy needs to consider how the current fund mechanisms can either grow to reach an amount of customers that constitutes a significant contribution towards ending OD or be replicated (potentially in adapted forms) by other actors (including but not limited to FSPs).

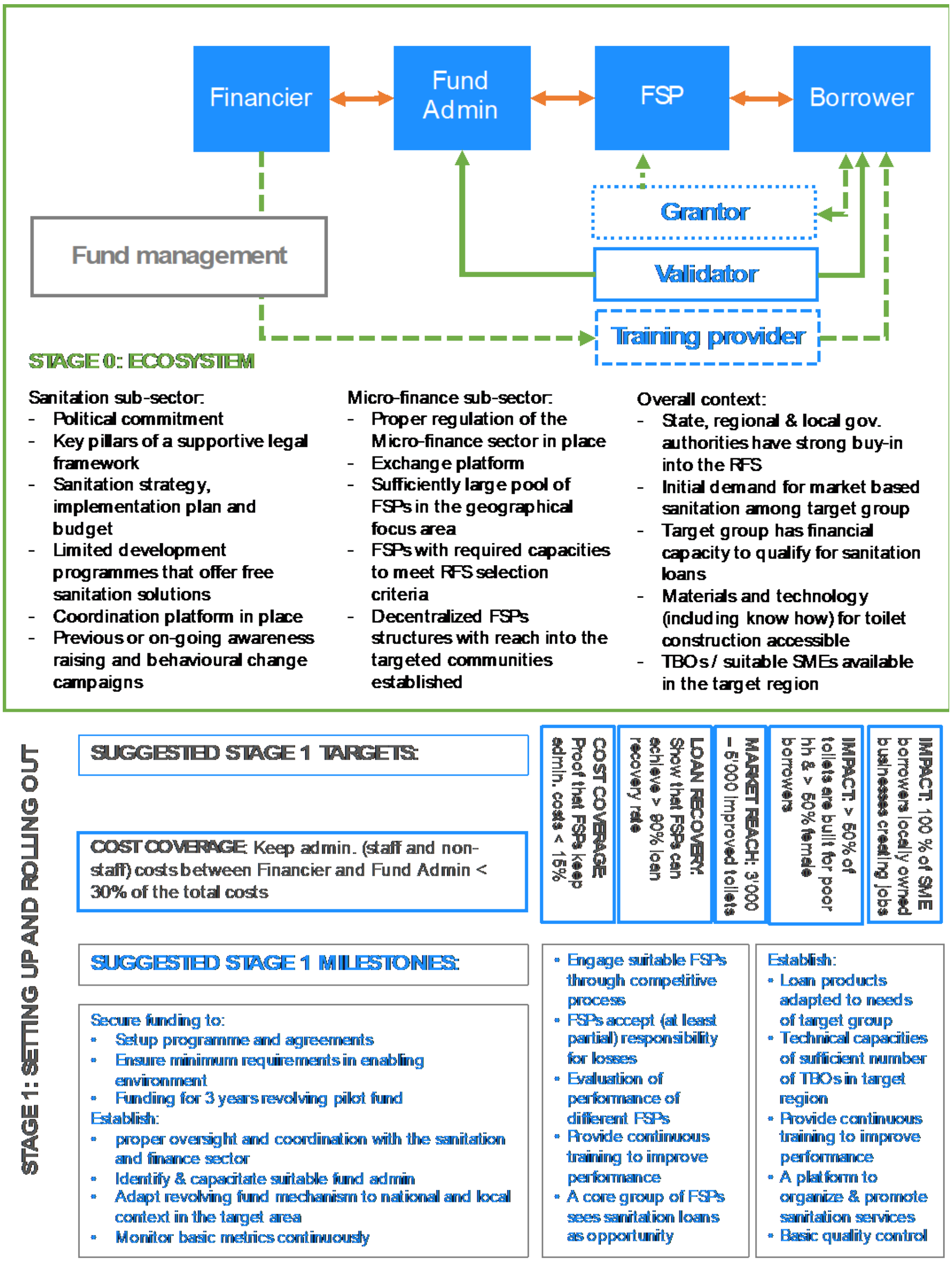
Impact: With the RRFS, UNICEF seeks to accelerate the rate at which improved sanitation solutions are available to households from the poorer wealth quintiles and vulnerable groups with the goal to end Open Defecation. For this purpose, the effective targeting of the sanitation loans towards these beneficiaries is key.

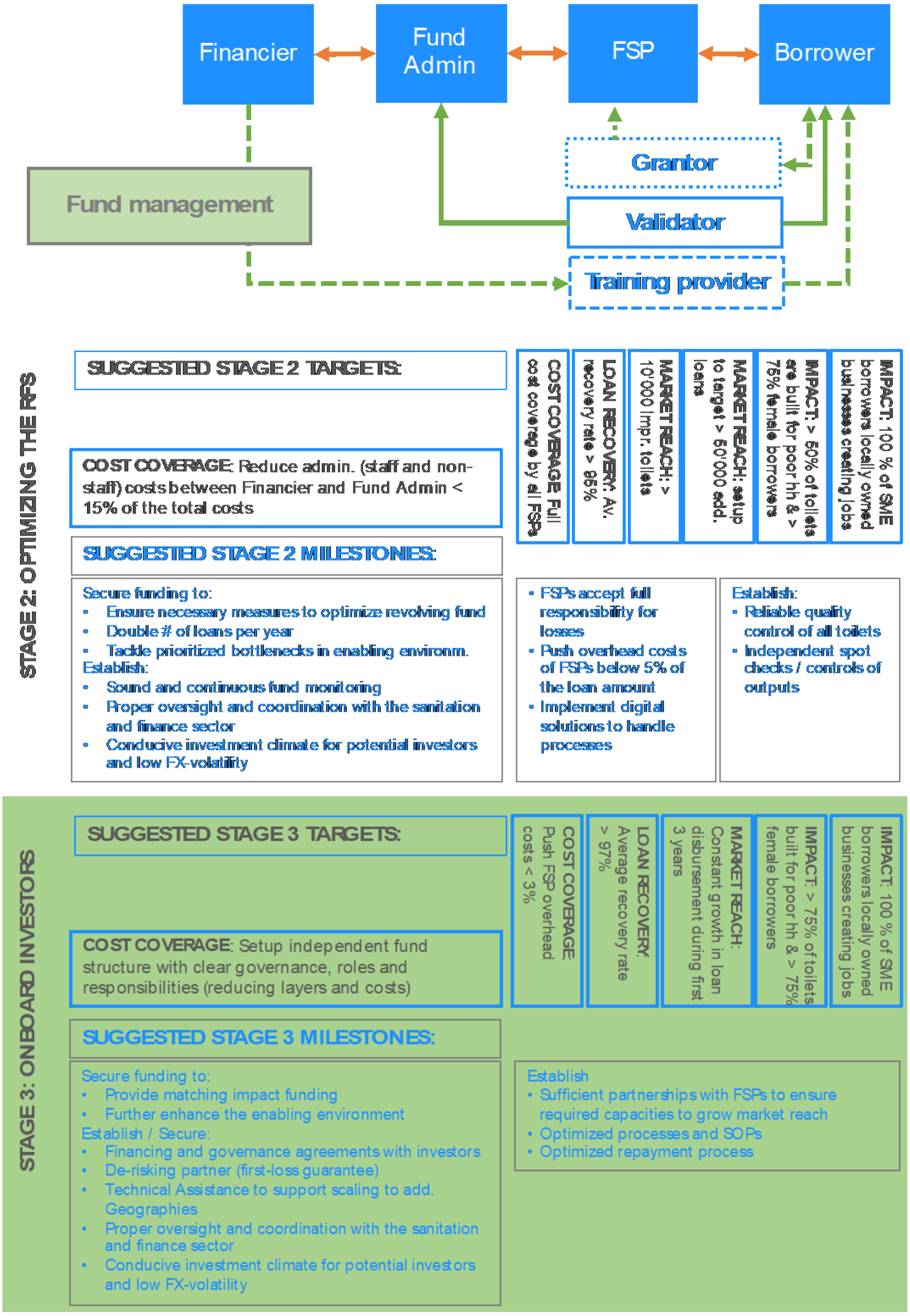
Rolling out an impact-oriented Revolving Fund for Sanitation is a complex and complicated endeavour. The RFS model to scale therefore provides a pathway comprising four main stages (compare figure on the left), to provide reference points and establish milestones in a somewhat chronological order that is meant to provide guidance to those responsible for either further enhancing existing RSFs or establish new ones:

Combining these four key performance areas and the four scaling stages, the RFS model to scale offers a roadmap that synthesises the requirements for that should be in place in the RFS' Ecosystem (stage 0) as a basis

[1] Mulatya DM, Were V, Olewe J, Mbuvi J (2021) Willingness to pay for improvements in rural sanitation: Evidence from a cross-sectional survey of three rural counties in Kenya. PLoS ONE 16(5): e0248223. https://doi.org/10.1371/journal.pone.0248223

to decide whether to launch a RFS. It further provides key milestones for Stage 1 (Setting up and Rolling out) that were derived from UNICEF's RSFs in Ghana, Togo and Nigeria. Building on these insights, exchanges with investors and sector professionals as well as on extensive literature research, the model to scale further maps key additional milestones that need to be achieved throughout the following scaling stages 2 and 3 of the RRFS (see scaling roadmap below).





The following comprehensive Scaling model document provides further background information, assessment results and details on the RFS model to scale.

1 Introduction

cewas has been engaged by UNICEF to conduct the assignment '*Evidence generation for KRC8 Innovative Finance*, specifically the *Regional Revolving Fund for Sanitation (LRFP – _2021 – _9172173)*' in April 2022. The aim of the assignment was to evaluate how the fund has been implemented in the three countries and take those learnings forward for scaling in West and Central Africa.

This feasibility study is a core output of the project, which is meant to serve as a basis for a future strategy of scaling microfinance as part of innovative financing to contribute to speeding up progress towards ending Open Defecation in West and Central Africa. For this purpose, it builds on the objectives and functioning (Chapter 2) of the Revolving Sanitation Fund (RFS) as well as on the assessment of the RFS in Ghana, Togo and Nigeria (Chapter 3). These introductory chapters are followed by a generic introduction into the maturity progression of impact oriented revolving funds (Chapter 4). Chapter 5 then builds on the assessment of the RFS in Ghana, Togo and Nigeria to establish requirements for the RFS at different stages of the scaling process. The last chapter (6) of this report provides a menu of means and measures that could help achieving key milestones along the scaling pathway.

It builds on prior project activities and outputs, including the:

- Inception Report (May 2022)
- Desk research
- Country missions to Ghana, Togo and Nigeria (June - July 2022)
- Country Case Studies for Ghana, Togo and Nigeria (October 2022)
- Regional Case Study (October 2022)

2 Background: WASH end-user financing

There's a gap in financing — The World Bank estimates that $114 billion a year is needed to achieve safely managed water and sanitation and meet the Sustainable Development Goal 6 (SDG 6) targets. While only a share of this gap is linked to sanitation, the amount of the additionally required funding for WASH provides an indication of the magnitude of the sanitation financing problem. More still, since operating and maintaining the infrastructure for these services will require additional, recurring financing. As status-quo solutions are unlikely to bridge the sanitation financing gap, UNICEF and a multitude of other actors (including SWA, water.org among others) consider market-based financial solutions a key element to provide sustainable sanitation (and water) services to all.

Households that cannot afford to invest in WASH facilities are often left to rely on unsafe options such as open defecation. Water.org and other organizations have long been making the case, that microfinance providers are well suited to provide financing for household WASH investments[2][3], and evidence suggests that WASH financing represents a significant opportunity for Financial Service Providers to strengthen their financial and social returns.[4] In line with this, public authorities are also gradually considering innovative financing as a way to increase access to improved sanitation.[5]

Building a private toilet requires upfront expenditures, which poor households are commonly unable to afford. Past studies have confirmed that providing a credit or loan facility can be a critical driver of demand for

[2] water.org (2013). Water, Sanitation and Microfinance Toolkits - Introduction to Opportunities in Water, Sanitation and Hygiene Finance
[3] https://www.oecd.org/environment/resources/Making-Blended-Finance-Work-for-Water-and-Sanitation-Policy-Highlights.pdf
[4] Assessing Microfinance for Water and Sanitation, Meera Mehta and the Bill and Melinda Gates Foundation
[5] https://iwa-network.org/upgrading-on-site-sanitation-systems-in-low-income-settlements-in-dakar-kampala-and-lusaka/

sanitation products.[6] This is why loans and micro finance solutions have become a financing instrument of interest to achieve SDG 6 and related sanitation targets. Actors like water.org have promoted the concept of WASH micro finance for more than a decade. Moreover, Microfinance / Financial Service Providers have established highly relevant goals, experience, processes and outreach to play a key role in increasing access to WASH facilities and provide the up-front capital to poor households to make sanitation improvements.

To have a relevant role in filling the sanitation financing gap and contribute towards achieving SDG 6.2, sanitation loans for on-site sanitation have to become financially viable. Only then will a sanitation fund be able to continuously revolve, leveraging development finance and impact investments to yield more impact for each dollar invested than traditional development programmes. Moreover, sanitation finance needs to be additional and impact oriented to contribute to achieving sanitation related development targets. This means that sanitation loans should not simply be a cheaper option for those that would have anyways gotten a loan or already have an improved sanitation facility.

According to the World Bank's *Water and Sanitation Program*, water and sanitation loans of water.org's WaterCredit – that are among others used to develop improved toilets and other on-site sanitation solutions – have risk profiles comparable to other loans. When it comes to loan performance, repayment rates are above 99 percent.[7] Similarly, a recent WASH loan project between Aqua for All and National Bank of Kenya (NBK) resulted in near 100% repayment rates.

By tailoring WASH loans to people living at the base of the pyramid, water.org has also ensured that more than 80% of its beneficiaries are individuals living on 1$ - 6$ a day and more than 30% on less than 2$ per day.[8] Moreover, WASH loans like WaterCredit have been targeted successfully atfemale borrowers, with 89% of borrowers being women.[9]

Last but not least, the market reach of WASH loans is a key factor determining the contributions towards achieving SDG 6. As the largest WASH specific end-user financing initiative, water.org's WaterCredit program has facilitated the disbursement of more than 3,5 billion USD through more than 10 million loans for water and sanitation to date since 2003.[10] With 1,6 million loans disbursed, Kenya has seen the most successful market reach of this program in Africa.

From these insights, the following key benchmarks can be derived for a successful revolving sanitation fund:

Repayment rate > 95%
Share of economically poor (< 6$ a day) borrowers > 80%
Female borrowers > 80%
Market reach > 1 million loans

3 Objectives and Functioning of the RSF

3.1 Objectives

Providing adequate and equitable access to sanitation and hygiene for all is an immense and challenging task, particularly in West and Central Africa, which account for 24 per cent of global open defecation, with 119 million people

[6] Mulatya DM, Were V, Olewe J, Mbuvi J (2021) Willingness to pay for improvements in rural sanitation: Evidence from a cross-sectional survey of three rural counties in Kenya. PLoS ONE 16(5): e0248223. https://doi.org/10.1371/journal.pone.0248223
[7] World Bank (2015). Financing Water and Sanitation for the Poor. URL: https://www.wsp.org/sites/wsp/files/publications/WSP-Waterdotorg-Financing-WASH-for-the-Poor-Microfinance.pdf
[8] https://water.org/documents/220/2021-11-11_Waterorg_Strategy_Overview_For_Sector_Enablers_Digital_Use.pdf
[9] https://water.org/our-impact/all-stories/ruth/
[10] https://water.org/solutions/watercredit/

practicing it. Ending open defecation by 2030 has emerged on the political agenda of many countries in the region, however progress has been too slow to keep up with population growth.

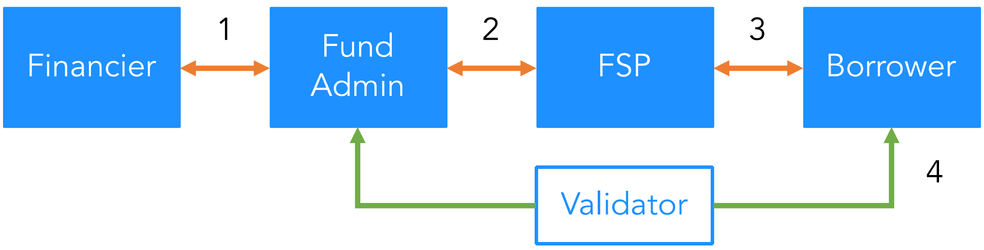
With the RFS, UNICEF aims to accelerate the rate at which improved sanitation solutions are available to households from the poorer wealth quintiles **through innovative finance mechanisms** with the ultimate **goal to end Open Defecation**. Through inclusive designs and loans that are affordable to people from the Base of the Pyramid, the RFS pursues the specific objective to **increase access to improved sanitation for vulnerable groups**.

In pursuit of this goal, the RFS further aims to support **business expansion by high-performing SMEs** through improved access to loans, contributing to **improve the supply side of the toilet market**. This together with complementary activities and programmes (e.g., SanMark) is further expected to **yield sanitation-based income generation**, contributing to improved livelihoods.

3.2 Functioning

Since 2017, UNICEF has implemented an innovative financing mechanism for sanitation that injects capital into a revolving, micro-credit fund to lend to financial institutions to offer microfinance loans to households and sanitation businesses with the objective to build sanitation solution towards ending open defecation. This fund was rolled out in three West African countries: Ghana, Nigeria and Togo.

The fundamental principle of the Revolving Sanitation Fund (RFS) in all three countries is similar: UNICEF together with other financiers inject capital for the revolving fund, which is managed through a fund administrator (1). This fund administrator provides funding as loans to Financial Service Providers (FSPs) at 0% - 2% interest rates (2). The FSPs provide micro loans to borrowers at below-market interest rates (3). Once the sanitation facility is constructed and verified (4), the loan is repaid back to the MFIs, who then are supposed to repay the fund administrating entity.



This mechanism, which is depicted in figure 1 sounds straight forward. The detailed implementation on the ground however varies greatly across the three countries. Chapter 4 provides a comparison of key characteristics of the RFS in Ghana, Nigeria and Togo.

4 Scaling pathway for the RRFS

4.1 Evolution of financing mechanisms in developing contexts

As a basis to move towards scaling the RFS, we refer to the typical evolution of new financing mechanisms in the developing markets. In contexts like Ghana, Togo, Nigeria and most other countries in West and Central Africa, development finance at the outset mostly happens through grants. Over time, there is an evolution to other financing mechanisms in order to grow and scale the impact. The table below provides an overview of key characteristics of financing along this evolution.

	GRANT	HIGHLY SUBSIDIZED FINANCE	BLENDED FINANCE	IMPACT FIRST FINANCE	FINANCE WITH IMPACT	ESG	COMMERCIAL
DESCRIPTION	Intervention is financed through non-repayable grants	Grant is given to an intermediary which lends until no more money is left	Multiple capital providers with different risk expectations combine in one structure	Impact investors with key focus on impact and willing to absorb certain losses	Impact investors which need to achieve financial returns	Investors which follow ESG-criteria	Pure financial investors
INTEREST RATE FSP	0 %	0 % - low	below market	below market	close to market	market	market
INTEREST RATE BENEFICIARY	0 % - very low	below market	below market	below market	close to market	market	market
LOSS ABSORPTION CAPACITY	100 %	100 %	depending on provider: 100 % - 0 %	10 % - 50 %	0 %	0 %	0 %
INVESTMENT CLIMATE / FX	n/a	n/a	Medium	Medium	High	Very high	Very high
MARKET SIZE	small	small	small, growing	small, growing	middle, growing	large	huge
LOCAL PROVIDERS	Government / NGO	Government / NGO	Government / NGO	NGO	Impact investors	ESG investors	Commercial investors
INTERNATIONAL PROVIDERS	Governments / Worldbank / UN organizations / NGO	Governments / Worldbank / UN organizations / NGO	Governments / Dev Agencies / UN organizations / NGO / Impact Investors	Impact First investors (5% of impact investors)	Impact investors (95% of impact investors) / DFIs	ESG investors / IFC	Commercial investors

4.2 Suggested Key Scaling Targets

To the background of the above finance evolution map, it becomes clear that the loss absorption capacity decreases, as development actors are gradually replaced with more commercially oriented ones. In a mechanism like the RRFS this translates into a need to increase the loan recovery rate of FSPs to make the program sustainable. As the market reach needs to grow, it also becomes increasingly important to reduce operational and overhead costs to achieve cost coverage out of the interest margin, without having to rely on grant funding to cover costs. With the impact orientation of the RRFS, it is equally important to avoid a mission drift through the efforts to scale the fund.

Based on this picture, the consultants derived the following key scaling targets that are considered to determine, whether the funds objectives can be achieved through a sustainable and scalable RRFS mechanism(s):

Cost coverage: To move towards a scalable model of the RRFS, fund administrators and FSPs have to implement the RFS in a cost covering manner. In practical terms this means that the interest each of these actors collects must exceed or at least match the losses through default payments and the operational costs.

Loan recovery: In moving towards a cost covering system, the loan recovery rate is a critically important performance indicator. In order to align with the RRFS objectives, that require the fund to offer sanitation loans with low interest rates, the loan recovery rate needs to achieve a near 100% target.

Market reach: To achieve the RRFS targets, the current funds in Ghana, Nigeria and Togo need to significantly increase their market reach. For this purpose, the scaling strategy needs to consider how the current fund mechanisms can either grow to reach an amount of customers that constitutes a significant contribution towards ending OD or be replicated (potentially in adapted forms) by other actors (including but not limited to FSPs).

Impact: With the RRFS, UNICEF seeks to accelerate the rate at which improved sanitation solutions are available to households from the poorer wealth quintiles and vulnerable groups with the goal to end Open Defecation. For this purpose, the effective targeting of the sanitation loans towards these beneficiaries is key.

4.3 Suggested scaling stages for the RFS

Rolling out a RFS is a complex and complicated endeavour. The country assessments made it clear that this process is not linear but rather iterative with the need for country teams to adapt according to learnings and emerging developments. We nevertheless suggest structuring the scaling pathway of the RSF into four main stages, to provide reference points and establish milestones in a somewhat chronological order that is meant to provide guidance to those responsible for either further enhancing existing RSFs or establish new ones.

Specific aspects in the sanitation and micro-finance ecosystems in a given country are required to succeed with a RFS and previous engagements in other sanitation programmes can provide knowledge, networks and relationships that facilitate the setting up of an RSF. To this background we suggest an assessment of the **development of the sanitation ecosystem as stage 0**. This should allow to determine, which complementary measures are needed to establish required success factors.

The process of **setting up and rolling out a RSF** in a geographical area constitutes **stage 1**. Throughout this stage financing mechanisms are adapted to the local context and operationalized through a pilot/initial fund and partnerships. All three national RSFs are considered to be at this stage.

In order to move towards scaling the RSF, the key scaling targets introduced above need to be achieved. Proof that the fund has potential to reach financial viability and that it can reach a sufficiently large market, while maintaining its impact ambition (compare RRFS objectives above) has to be developed. To achieve this the **RFS needs to be optimized** during scaling **stage 2**.

Once the fund achieves scaling targets, **impact first finance, impact investors and later other commercial financiers are engaged. During this 3rd stage,** the RSF transitions to a blended finance setup, when the roles and responsibilities of early-stage stakeholders are likely to change and an independent fund structure is setup. **The detailed requirements and pre-requisites for each stage are outlined in chapter 6.**

The following chapter provides a comparative analysis of the country assessments as a basis to establish key requirements and milestones for stages 0 and 1. This is complemented with best practices from this project's desk research to establish requirements and milestones for the following scaling stages of the RRFS.

5 Comparative Analysis of Country Case Studies

The comparative analysis – together with insights from complementary literature research and interviews with key informants – form the basis for the scaling strategy presented in the following chapters. The insights from the Country Cases are used to establish requirements and milestones the RFS should reach at different stages of the scaling process. Moreover, the best practices from Ghana, Nigeria and Togo feed into the development of a compilation of 'Means and Measures' that could help to achieve scaling milestones at the end of this report.

5.1 Comparison of key characteristics

The table below provides a comparison of key characteristics of the RFS in Ghana, Nigeria and Togo. At the time of writing this report not all data points were available for all three countries. The consultants will intend to complement the table until the end of the assignment with further inputs from the UNICEF Country Teams.

	GHANA	NIGERIA	TOGO
Population	31.07 million	218 million	8,3 million
Share of population with improved sanitation	24%	35,9%	45,5%
Share of population practicing open defecation	18%	24%	45,2%**
Committed amount for administrative costs	50.000 USD for administration + capacity building	89.000 USD (to administer 261.000 USD of loans) (estimate according to proposal)	304'327 USD
Committed loan amount	860'000 USD	40'000'000 NGN equivalent to 91'485 USD*. Plans to increase to 60'000'000 NGN (137'000 USD)	633'959 USD
Share of Government	0	50%	0%
Share of UNICEF	200.000 (USD 50,000 Business loans, and 150. 000 HH loans)	50%	64%***
Share of other donors	660.000 USD	0	36%***
Total programme cost (loan amount & implement. cost)			938'286 USD

Share of loan amount of total programme cost	94.5%	75%	68%
Financiers	Governments of the Netherlands and Canada through UNICEF	Government of Nigeria / UNICEF	KOICA / UNICEF
# of FSP actively involved in the fund	17	3 (in Bauchi State)	5 MFIs (9 branches)
Interest rate for FSP	2% in case of BSF, 0% in case of DSF	0%	0%
Tenure for FSP	12 months for BSF, exceeding 12 months for DSF (36 months)	12 months	12 months
Targeted borrowers	Households and Sanitation Businesses	Households and Sanitation Businesses	Households
Male / female ratio	N/A	N/A	N/A
Borrower	Household and SMEs	Household through sanitation business / Sanitation business (future)	Group of households (5)
Interest rate for borrowers	12 - 15%	Maximum 9%	6%
Tenure for borrowers	12 months	6 – 7 months	12 months
Special characteristics	Three different types of fund mechanisms (Urban = BSF, Rural = DSF and Social = SSF) were setup, including a voucher-based system	Central role of government as co-financier and fund administrator	
# of HH loans disbursed	BSF 764 DSF 901 TOTAL 1,665	1'066	1459
Average loan size per HH for a new toilet	GHS 3,500.00 for BSF, GHS 3,200.00 for DSF = USD 230 – 250	Approx. NGN 42'000 equivalent to USD 97*	Approx. FCFA 70'000 equivalent to USD 104
Loan repayment rate HH	DSF – 71% BSF - 62%	66,4% – 97% depending on the FSP	47,41%
# of Sanitation Business loans disbursed	14	0	0
Average loan size per Sanitation Business	GHS 15,000.00 = USD 1'070	TBO loans starting shortly	
# of toilets completed*	BSF 654	926	1211

	DSF 787
	TOTAL 1,441
Interest rate for borrowers	12 - 15%
Tenure for borrowers	12 months
Loan repayment rate SB	N/A
Average cost per loan	N/A

* as of September 2022
** several different figures were provided. This number was considered most recent and reliable.
*** of the total programme costs, not only of the loan amount

5.2 Country Cases

5.2.1 Ghana

ECOSYSTEM BACKGROUND

The RFS in Ghana builds on nearly a decade of experience of programs working to promote sanitation and end open defecation led by UNICEF, the Government of Ghana, and partners. Despite progress on reducing open defecation, access to improved sanitation remains limited in Ghana. It has already become clear that Ghana will likely not reach the SDG 2025 targets, the status quo is unsustainable and urgent measures must be taken to offer improved and sustainable sanitation solutions to everyone.

With regards to the ecosystem in which the RRFS operates in Ghana, it is noteworthy that the Ghanaian government has been implementing a series of measures to improve access to sanitation and move towards definitively ending open defecation in the country. Notably, the country introduced its National Water Policy in 2008, followed by a National Environmental Sanitation Policy in 2010. In 2012, a dedicated Rural Sanitation Model and Strategy was adopted, and to streamline its water-related interventions even further, Ghana launched a dedicated Ministry for Sanitation and Water Resources in 2017. As the Ghanaian government has been pursuing a decentralization strategy for its water and sanitation sectors, *Metropolitan, Municipal and District Assemblies* (MMDAs) oversee the coordination of WASH interventions by the state government, NGOs, and donors on the ground.

Households wishing to construct a facility have access to various sanitation financing options, including out-of-pocket payment, commercial loans (with interest rates between 26 – 40%), joining a VSLA or informal lending. Moreover, a number of donor-funded IO/NGO programmes have driven forward Ghana's sanitation sector. The separate Ghana Country Case Study gives a detailed overview of the evolution of the Ecosystem over the last 20 years (see Annex).

FUNCTIONING OF THE RFS GHANA

The RFS Ghana is a mechanism that starts with UNICEF and donors such as the Government of the Netherlands and the Government of Canada collaborating with the Ghanaian Government and contributing funds to a joint Sanitation Fund that is administered by two Fund Administrators, ARB APEX Bank (BSF) and Rufinlit (DSF). The fund administrators are in charge of selecting FSPs in the districts where the RFS is implemented, which is done through a competitive tendering process. In total, the program engages 17 FSPs. The tenure for both funds is twelve months, at completion of which the FSP must repay the loan amount in full back to the Fund Administrator.

Ahead of setting up the RSF, the basic sanitation situation in Ghana was analyzed in detail, including through an assessment in rural areas to better understand the market and whether there is demand for HH latrines / whether HHs would be interested in taking up a loan to construct a latrine. On the basis of this analysis, the UNICEF Ghana team has streamlined three different approaches to make sure that the RFS can meet a range of target beneficiaries' specific needs and has the required mechanisms to function in both rural and urban contexts. The Basic Sanitation Fund (BSF) targets urban areas and provides funds to both households and toilet and sanitation SMEs, while the District Sanitation Fund (DSF) implements a cashless system that provides vouchers to HHs who then hire SMEs. A third mechanism, the Social Fund, targets those HHs that have no means to qualify for any type of loan.

A Ghana-specific characteristic of the RFS is the involvement of the MMDAs at several stages of the implementation: They know their communities best, so they are engaged to work effectively on triggering awareness for the importance of sanitation and hygiene through a range of sensitization activities. Further, they propose potential borrowers to the FSPs and assure the quality of constructed latrines, while also ensuring that loans are disbursed in a transparent and unbiased manner and that they are duly repaid. At least quarterly, usually monthly, meetings are conducted with focal persons to cover recent developments or challenges related to the RFS loans. For this setup, UNICEF was able to build on relationships with the MMDAs that were established through previous programmes, many of which go back years – in the case of the DSF, dedicated DSF Committees have been nominated by the District Assemblies.

As per data provided by UNICEF in September 2022, the most recent figures indicate that the Fund has facilitated the construction of 1'441 toilets benefiting an estimated 8'366 people and is now moving towards scaling the BFS model at national level.

In Ghana, despite having one of the highest OD rates, a comparably strong (in the West African context) sanitation ecosystem has been in place prior to the programme. UNICEF's **prior engagement** through different sanitation programmes allowed to get the RFS started effectively and is considered one factor that facilitated the pathway towards the on-going process to scale sanitation financing to the national level.

The RFS' **strong anchorage in the community context** is another aspect that is assumed to have contributed to the achievements to date. This has, for example, resulted in solid **verification of potential borrowers** through the MMDAs. Moreover, it led to an **adaptive programming** approach that yielded a range of **different funding mechanisms tailored to different local contexts**, including two different mechanisms under the partnership with BSF that provides financing to households and SMEs and a voucher-based system under the DSF, as well as the Social Fund targeting BoP borrowers (not subject of a detailed analysis in this Country Case Study).

The **willingness** of the team **to test different approaches** not only led to multiple funding mechanisms but also to allow for group loans or financing of solutions beyond the mere construction of toilets (e.g., for biodigester systems).

By setting up **SME financing**, the RFS in Ghana created potential to contribute towards the **creation of a more sustainable sanitation economy**. While high collateral requirements still limit the access of SMEs and service providers to the RFS, it already contributed to employment creation, capacitation, and increased collaboration among SMEs in the sanitation economy. As an example for the latter, the formation of an Association of SMEs involved in the construction of toilets in Tamale is worth mentioning as a systemic outcome that can be directly attributed to the fund.

While the pilot phase has allowed the country team to create a foundation for market-based demand for sanitation solutions while pivoting ad testing different approaches, the Country Case Study shows that loan recovery rate still needs to be significantly improved and operational costs need to be reduced at all levels of the system to attain sustainability of the fund and move towards successful scaling. While there is no blueprint solution to achieving this, a number of areas for improvement have been identified, including:

Set clear performance targets at different levels: Clear key performance indicators and related targets should be established and duly monitored at different levels of the RFS. This should include targets for recovery rates of loans for FSPs (target >95%), operational costs (target <5%) and number of loans deployed, among others.

Monitoring: At this moment there is no coherent and detailed enough monitoring and evaluation mechanism (including disaggregated data collection) in place that covers all stakeholders involved and is consistent across the MMDAs, region and countries to track progress in both project implementation and progress against WASH targets. This is considered a pre-requisite to identify cost drivers and ensure performance of partners at different levels, and to convince impact investors to become part of the RFS.

Analyse operational costs at different level: Throughout the country case study it has not been possible to obtain information on operational costs at different levels of the RFS. This information should be compiled and monitored to allow for a realistic analysis of the RFS costs.

Optimize processes: Explore how new technologies, including mobile-based communication / follow-up or software solutions for FSPs could be leveraged to reduce operational costs and increase loan recovery. Moreover, experiences to date should be used to standardize key processes. Horizontal learning among FSPs and other stakeholders could furthermore be organized to facilitate knowledge exchange and further optimize operations.

Cost coverage of FSPs: FSPs have not been able to cover their costs under the RFS fully, which is a key challenge for the sustainability of the fund. In cases of non-payment, FSPs have been reluctant to recover funds through collateral provided by borrowers and follow-up has not been prioritized, as loan sizes are considered too small. However, it is highly unlikely that FSPs will be willing to engage in a loan scheme under which they make continuous losses. The RFS should therefore engage with and support FSPs to improve their selection process and collection efficiency.

Loan portfolio: There is a risk that the current loan size is insufficient to cover the full costs for the construction of toilets due to increasing prices as a result of inflation. Moreover, loans are only provided for the construction of toilets (with the exception of a number of biogas systems) and are not made available for pit emptying or other steps along the sanitation value chain. Adapting the loan portfolio could increase customer satisfaction and facilitate 'repeat sales' (e.g., by providing pit emptying loans) to reliable customers, which could increase loan recovery rate and reduce costs. Additional mechanisms could be adopted to mitigate inflation, for example enabling SMEs to purchase materials in bulk.

Given the impact-orientation of the RFS, we consider it important to highlight the potential to improve the fund from a **gender and equity perspective:** In micro finance, engagement of female borrowers has long been established a key success factor to enhance fund performance. The number of female beneficiaries of the RFS however remains low, and it proves challenging to target female borrowers for sanitation due to the cultural and societal values in many regions of Ghana. It is therefore recommended to establish equity and inclusiveness as a continuous topic at stakeholder meetings, sensitize actors along the RFS value chain about the importance of mobilizing women and require FSPs to gather gender-disaggregated data.

The **Ghanaian team has already successfully demonstrated the flexibility to cope with a range of challenges** from the outset of the programme. This includes, for example, the challenge that at the outset there was a strong perception that if UNICEF is involved in a programme, it would be rather a grant-based than a commercial mechanism. The team successfully handled this challenge by putting the FSPs into the foreground of the initiative. The team similarly demonstrated a willingness to test lots of different approaches, to find suitable fund mechanisms (one of which is now moved towards scaling at national level). In the next phase, it will be imperative to use this flexibility to optimize the fund mechanism and processes to further improve the RFS' performance along key success factors (like loan recovery rate or operational costs).

5.2.2 Nigeria

ECOSYSTEM BACKGROUND BACKGROUND

The federal structure of Nigeria provides a different overall governance context than in Ghana and Togo (see following section). With the federal state's large political influence on financing and development programming, they need to be duly involved in the Nigeria RFS to succeed and pave the way for scaling.

Similarly to Ghana, the RFS in Nigeria builds on over a decade of efforts between UNICEF, the Government of Nigeria, donors and other international and local agencies fighting open defecation and working to provide improved sanitation.

Despite political commitment and a range of development programmes to improve water and sanitation in the country, provision of basic WASH services has not been able to keep up with the exploding population growth[11], which increased from 95 million in 2000 to 218 million today.[12] In Nigeria today, only 35,9% of the population have access to improved sanitation, whereas 24% of the population still practice open defecation.[13]

Nigeria recognizes the right to water and sanitation in its national legislation, which explicitly recognized water and sanitation as a human right and acknowledged that this right is essential to the realisation of all human rights. For the RFS in Nigeria, it is worth noting that the National Water and Sanitation Policy (2004) encouraged private-sector participation, and that following initial Community Led Total Sanitation initiatives, the President of the Federal Republic of Nigeria in 2016 declared an Emergency Program in the WASH sector along with an Open Defecation Free (ODF) Road Map designed to make Nigeria ODF by 2025. This has resulted in a phased National Action Plan on the same matter, however the target of ODF by 2025 will likely not be met. For the RFS, the Central Bank of Nigeria' (revised) guidelines for the Regulation and Supervision of Microfinance Banks are further important, since they aim to introduce proper regulatory oversight to the sector. Equally important for the setup of the RFS is that there are on-going efforts to establish a robust and sustainable supply chain of affordable technologies, which is promoted through the Small and Medium Enterprise Development Agency.

With regards to WASH financing, funding to reach national targets particularly in rural areas is estimated below 50%, highlighting a gap between current financing and projected need.[14] However, several sanitation financing options are available to Nigerians across several states previous and in addition to the RRFS (also known as UNICEF's 7% set aside fund for Sanitation), under which the current RFS is financed. MFIs have used their own funds to lend to households to build improved toilets using micro-finance, however conditions may not be affordable for everybody. A strong presence of Adashes - Community Savings and Credit Group that support households lacking the means with funds needed to construct improved toilets - is notable in several states. Finally, in many more affluent communities, households have used self-finance for improving sanitation facilities.

FUNCTIONING OF THE RFS NIGERIA

The RFS in Nigeria has thus far been tested in Bauchi State in the north of Nigeria. The fund is a mechanism that starts with the Government of Nigeria, Donors and Agencies such as UNICEF contributing funds to a joint Sanitation Fund that is administered by the governmental Rural Water and Sanitation Agency (RUWASSA). RUWASSA provides the funds at 0% interest rate to MFIs that are selected through a competitive bidding process to provide funding for improved toilet construction. The assigned funds to the MFI have a tenure of twelve months, at completion of which the MFI must repay the full loan amount to the Fund Administrator.

[11] https://www.wateraid.org/ng/national-action-plan#:~:text=The%20National%20Action%20Plan%20is,a%2013%2Dyear%20revitalisation%20strategy
[12] https://www.worldometers.info/world-population
[13] UNICEF, XXXX, Concept Note Sanitation Pool fund Bauchi and Adawama State
[14] WaterAid, 2019, Equal to the task financing for a state of emergency in Nigerias water, sanitation and hygiene sector

Initially, Local Government Area (LGA) WASH Units and later local WASH Committees (local voluntary entities created by UNICEF) conduct sensitization about the importance for improved sanitation solutions in the communities of Bauchi State. The LGA WASH Unit identifies suitable Toilet Business Owners (TBO) and checks their qualifications before suggesting them to the MFIs as partners. TBOs are trained on managing a sanitation business and the technical construction of improved toilets.

The selection, service provision and monitoring process for the toilet construction for HH is multi-layered: The local WASH Committees collaborate with Toilet Business Owners (TBO) to showcase toilet options and related costs to the communities and identify households that need and want an improved toilet. HH fill a loan application form indicating the type of toilet chosen and the loan amount the HH thinks it can repay. The application is passed on to the MFI by the TBOs and the MFIs verifies the application with the HH and vets it. The MFI disburses funds for several approved HH toilet constructions to the TBO at an interest rate not exceeding 9%. In return, the TBO provides a 10% deposit on the loan amount and provides a guarantor, who must be working with the state, local or federal government or a local leader or business representative with sufficient financial capacity, that can be activated by the MFI in case the TBO defaults.

Once the TBO receives the first loan tranches from the MFI, the TBO constructs the toilet for the HH, and subsequently collects the loan repayment monthly with the same interest rate provided by the MFI from the Household. The TBO then repays the loan with interest rate to the MFI. The LGA WASH Unit verifies the construction of the toilet during the handover of the works.

The RFS also includes loan support for the expansion of business for credible TBOs through the successfully selected MFIs, that have recently been launched and can therefore not be subject of this study.

Overall, the RFS has been successful in testing and establishing a micro-loan system for household sanitation in Bauchi State. This shows the important potential for end-user financing in this sub-sector in Nigeria. The experiences from the roll-out of the RFS in Bauchi provide a basis to further optimize the fund towards achieving sustainable impact and paving the way for accelerating loan disbursement and scaling to other geographical regions.

Key to the achievements to date was that UNICEF **involved most of the relevant sector actors** in the pilot of the RFS, which increases collaboration and buy-in from the relevant and initially sceptical government actors, RUWASSA and local WASH Units. This also facilitates a setup, where coordination between different actors seems to working well at local level (local WASH units – WASH businesses – WASH Coms).

The RFS was able to build on a long track record of previous programmes and efforts (such as the CLTS, SanMark, including previous efforts to activate MFIs to provide sanitation loans) that helped pave the way for the fund. As an example, UNICEF and partners recognized that the CLTS approach with sub-standard toilets does not solve OD problems in the long run and designed the RFS to tackle this problem.

The programme's successes are based on the **selection of reliable and strong TBOs by the LGA WASH units**. TBOs play a central role in the fund setup with an intrinsic motivation. However, this might negatively affect the targeting of BoP customers.

In this sense, the fund was perceived to **really help the toilet business development**, which can be seen as a system-relevant contribution towards developing a sanitation economy. Building on this, additional TBO loans are now being launched, meeting demand from TBOs involved for loans to expand their capacities to respond to the market demand.

A fair number of MFIs exist in the Nigerian microfinance ecosystem. UNICEF and partners actively engaged MFIs and conducted a competitive selection process to source MFIs. While some are weak, the example of Rahama shows that the required performance for scaling can be achieved. Replicating this might be difficult, as there are not many MFIs with this profile and previous experience.

The following recommendations were derived from the Country Case Study to help the UNICEF Nigeria Country office to further optimize the RRFS and prepare it for scaling.

Ensure State collaboration: Financial commitments from the states are not reliable. Buy-in from federal states is crucial and needs to be ensured for scaling. To this end, lobby and advocacy efforts should be factored into the rolling out towards other states, to exert pressure on the Government to actively encourage States to adopt RFS mechanism and to dedicate funds, since motivation starts at the federal level.

Sanitation solutions: Improved toilets with septic tanks are only one part of the value chain. Other components of the value chain need to be developed, such as pit emptying. The additional cost from pit emptying might deter users from continuing to use the improved toilets. It is therefore recommended to explore expanding the fund to provide loans to businesses along the sanitation value chain, specifically pit emptying but also other sustainable solutions like biogas digesters (where suitable) services and provide adequate training in collaboration with existing responsible institutions.

Loans design: Sanitation loans are short in tenure, do not cover the full cost of a toilet and are not adapted according to inflation. An increase of the loan tenor for the repayment by households should be envisioned from 6 to 12 months or longer, to account for potential income fluctuations or delays. Further, an increase of the loan size could be considered to adequately cover the cost of improved toilets.

The evaluation of the RRFS was challenging due to a lack of data and no centralized system to have an overview of the process or data collection is available.

Analysing and optimizing operating costs: Set-up and operating costs of the RFS are not clearly monitored and thus limited data is available on the operational cost of the RFS for the current implementation, making precise estimations for scaling the RFS impossible. A sound monitoring system should therefore be swiftly setup to collect data on these costs.

Repayment rates and financial expertise: The repayment rates of two of the MFIs are too low and reduce the size of the fund significantly upon revolving it for the first and second time. Efforts to understand the reasons and bring the repayment rate up should be taken as a key priority. A clear approach on how performance of MFIs will be ensured in other federal states should also be established (e.g. through selection, capacity building, technical support and performance monitoring). For this purpose, the hiring of a financial expert with understanding of risk management to review the financial structure of the fund on a periodical basis is also recommended.

Impact orientation: The RRFS currently does not target the poorer quintiles sufficiently and is not implemented in combination with a social fund, nor does it target women systematically. To leverage the impact potential of the RFS clearer rules about and distinctions between the beneficiaries of the RRFS should be set to make sure it reaches vulnerable populations that the mechanism set out to target. Moreover, it should be explored, how an incentive program could be created to lend to more women. Last but not least, collaboration with other financing mechanisms targeted at the most vulnerable is necessary, potentially through subsidies based on poverty levels and the strengthening of cooperation with the social credit system through Adashes.

5.2.3 Togo

ECOSYSTEM BACKGROUND

In 2020, 45,2% of the inhabitants were still practising open defecation, a figure that is much higher in rural areas (around 70%)[15]. That same year, the share of the population accessing improved sanitation facilities was 45,5%, hiding another huge discrepancy between rural and urban areas[16].

Pursuing the achievement of SDG 6.2 for 2030, Togo has set an ambitious goal in terms of sanitation: ending Open Defecation (OD) by 2030.

Since 2010, Togo's strategy to end OD has taken shape throughout one major approach: CLTS. The cooperation around CLTS between UNICEF and the government of Togo was formalized in 2014. Beyond this, Togo adopted the Togo SANDAL sanitation roadmap in 2017, which reaffirmed the space of CLTS by encouraging all subsidy-based programmes to target only ODF communities or institutions rather than households still practicing OD.

Despite this strong incentive to encourage municipalities to progress on sanitation coverage, it is worth noting, that only in 2015, the Directorate of Hygiene and Sanitation was created within the Ministry of Health. Until that point, sanitation had for long been considered a sub-section of health topics. In the year **2006**, the Government issued a National Policy for Sanitation and Hygiene in Togo.

The RFS that was launched in 2020, is the first Sanitation Financing programme in Togo that is targeting households as beneficiaries.

The sanitation sector in Togo has long been suffering from underinvestment: it was considered as a minor part of health policies for decades and was not recognized as a key axis in itself for development, therefore sanitation funds and financing options are very scarce in the country. As a result, households still mostly have to rely on self-financing, Micro Finance Institutions or informal lending, unless subsidies from municipalities or RFS funding is available.

FUNCTIONING OF THE RFS TOGO

In Togo the RFS starts with UNICEF and a donor (KOICA) contributing funds to a joint Sanitation Fund that is spread among municipalities involved and administered by the CACs (Municipal Sanitation Committees). The CACs provide the funds at 0% interest rate to MFIs that have agreed to join the programme and comply with the lower interest rates. The MFIs were initially approached by the NGOs who handed this responsibility over to the CACs in 2020.

The funds are assigned to the MFIs throughout the opening of a CAC's account. MFIs can debit the CACs' accounts in case of late repayment or default. In case of smooth repayment, they transfer 20% of the collected interest rates to the CACs account. However, the agreements are not describing how the partnership between MFIs and CACs should end. A grey area remains on how the fund should revolve or when the CAC would withdraw its money from the MFI account.

Aside from CLTS-based awareness campaigns, a training programme on building improved toilets was implemented for masons. Masons need to be approved by the CAC before getting involved in the construction work. Moreover, Regional and Prefectural cells for Hygiene and Sanitation facilitate knowledge and experience sharing among artisans via a WhatsApp group, technical note cards showcasing latrines prototypes.

The CACs are also central for service provision and monitoring: They are present on the day when the loan is disbursed to HH and accompany them to buy the material supplies with the first instalment of

[15] JMP 2021 TGO _ Togo, document shared by UNICEF Togo
[16] JMP 2021 TGO _ Togo, document shared by UNICEF Togo

money disbursed, they also carry out the verification process of the toilets, unlocking the second instalment to pay for workmanship of the artisans.

The HH start reimbursing the loan on a monthly basis upon toilet construction at an interest rate of 6%. Most of the HH are gathered in solidarity groups of 5 and keep each other informed of the repayment schedule. If the MFIs are supposed to be reminding the HH of their reimbursement obligations, most of the time reality shows that the CACs are assuming this role.

KEY FINDINGS AND LEARNINGS FROM TOGO RFS

Togo is the country in the Regional RFS where there has been comparably recent engagement in sanitation policy and development of the ecosystem. CLTS campaigns are ongoing and are directly linked to the RRFS, for instance through applying it in the same regions. Despite the nascent political prioritization of Sanitation and the late roll-out of the fund, the RFS managed to disburse most sanitation loans and reached different types of target groups including farmers, households, and commercial target groups as well as people with disabilities.

This could be linked to the RFS' strong collaboration with the whole sanitation ecosystem and media, bringing the topic to the forefront, further contributing to the acceptance of the RFS. Moreover, good relationship of RFS with municipalities and communities has been highly beneficial to its implementation in the country. Municipalities took ownership to the point of competing over who reaches ODF first. This might stem from the fact that municipalities feel incentivized to reach ODF status, which qualifies them for other support programs. This has also positively affected the uptake of the fund. The ownership by municipalities is also very important to the general of push for decentralization of sanitation solutions.

In Togo, fund administrators have been trained on sanitation as they need to verify the quality of constructed toilets. Also, instead of using grantors, the RFS supports the formation of solidarity groups of 5 HH, who coordinate on the repayment schedule. This mechanism incentivises HH to ensure repayment through peer pressure.

The RFS is very rooted in the communities and connected with different types of local actors (from municipalities to regional level), which allows for feedback loops that can be used to continuously improve the RFS.

Furthermore, efforts to facilitate knowledge and experience sharing between artisans / masons is fostered (e.g., through WhatsApp groups), which has been pointed out as a success factor.

Despite these achievements and learnings, the RFS in Togo, as in the other countries still need to enhance key performance indicators to move towards a sustainable model. The repayment rates need to be near 100% but are too low and reduce the size of the fund significantly upon revolving it. As with the other funds, the market reach and impact orientation also still need to be enhanced. The following suggestions were established through the country assessment, which could be used by the UNICEF Togo Country office to further optimize the RRFS and prepare it for scaling:

Monitoring: The evaluation of the RFS in Togo was challenging due to a lack of data and no centralized system that provides an overview on progress around KPIs. As a result, precise data on several aspects is not being monitored regularly and data is not readily available to all parties involved (no gender disaggregation, lack of clarity about costs of managing the fund). This is a precondition to optimize the fund's performance. The establishment of a coherent M&E system that collects relevant data and allows tracking progress of all stakeholders should therefore be a priority for the RFS Togo.

Clarify MFI selection process: To further clarify the process, relevant and accurate selection criteria should be defined. This should include e.g. that MFIs need to ensure that repayment collection can be made available in each municipality where the RFS is implemented. At the same time, it should be explored how MFIs can be further capacitated and if they should be given more leeway and more decision power to adapt to specific situations of HH and communities (seasonal revenues, inflation) on loan tenure, repayment schedule, amount of the loan.

Evaluate MFI performance: A review of the repayment rates per MFIs has to be done, as some repayment rates are particularly low with the relevant follow-up actions. At the moment, costs to manage the fund vary across the selected MFIs and data on the coordination and implementation costs are not available. This equally has to be collected and evaluated.

Establish incentives and mechanisms to reach the BoP: The RFS managed to reach various population groups, however the poorest quintiles have not been the main beneficiaries of the fund. To move more effectively towards the fund's objectives, it should be explored how an inherent mechanism could be created to cover for the BoP.

Gender focus: The RFS does not specifically target women and has so far dedicated little effort to reducing barriers of women to access the programmes benefits. As the rate of female borrowers has been a key success factor in micro-finance, efforts should be made to target women as borrowers more actively and sensitize all stakeholders of the RFS value chain about the importance of mobilizing women.

5.3 Conclusions from comparative analysis

The analysis of the RFSs in Ghana, Nigeria and Togo shows that there are a number of shared best practices and challenges across the region. As could be expected there are also a number of findings that relate to the specific stage and context of specific national funds. The following paragraphs derive a range of success factors from the findings of the three countries covered by the RRFS.

5.3.1 Success factors: Embedding and market development

Since the RRFS needs support from stakeholders at different levels, **prior engagement** through different sanitation programmes has been a key success factor in all three countries. This provides both a clear understanding of the governance framework that the RFS needs to be aligned with as well as relationships with relevant actors that allow to get the RFS started effectively. In Ghana prior relationships also allowed to set the programme up with the needed links to national level stakeholders that now help paving the way towards the on-going process to scale sanitation financing to the national level.

Understanding which government actors need to be involved and how to establish the required support for the RRFS is important in all countries. Who these actors are however differs from country to country. In Nigeria, engaging state government is imperative. In Ghana, Nigeria and Togo, engaging local government institutions has been important to align with the respective water governance framework and in Togo, the high level of motivation of municipal governments to reach ODF status has been an effective lever for the initial successes of the RFS.

Adapting the RRFS to the **community context** in the respective implementation areas is another critical success factor. This led to an adaptive programming approach that yielded **different funding mechanisms across and within the countries covered by the RRFS**. While the basic principle of the revolving fund is the same for all three country initiatives, tailoring the mechanisms to different local contexts was necessary to build more effectively on existing institutions rather than developing new ones. Strong anchorage in the communities allowed e.g., to leverage local stakeholders for solid verification of potential borrowers.

While it is considered imperative that the RFS mechanisms are adapted to the local context, it also has to be recognized that this works against setting up a blueprint approach for replication and scaling.

Direct engagement of and the provision of technical **support and loans to Sanitation Businesses** is considered an important contribution to strengthening the local sanitation economy. It helps Sanitation Businesses to leverage more customers and develop required capacities to meet growing demand for improved toilets. In this way, the RRFS directly triggers the development of improved supply in the sanitation market. Engaging the Sanitation Businesses in the collection of loan repayments from households, as is the case in Nigeria, is a smart way to also reduce the resources FSPs need to invest to follow-up with borrowers.

Since the RFS requires the engagement of different types of actors from the sanitation and micro-finance sectors it should be acknowledged that not all capacities are in place to allow each actor to fulfil their role effectively. **Including capacity development to fill existing gaps** in the RFS programming is therefore critical. As capacity gaps are different in each context, these need to be duly assessed and responded to with tailored approaches. In Togo for example, the fund administrators were deemed the best positioned actors in the RFS setup to verify the quality of the constructed toilets. To enable them to fulfil these roles, UNICEF trained them on sanitation and toilet design. Similarly, efforts to facilitate knowledge and experience sharing between artisans / masons is considered to have increased their capacities.

5.3.2 Success factors for optimization of RFS performance

The loan recovery is one of the key performance indicators of any loan system. Under the RFS, FSPs would need to achieve near 100% recovery targets to establish a sustainable and scalable fund. To this end, **selecting the best suited FSPs** is critical to the success of RFSs in all countries. Competitive tendering / selection of FSPs, as it took place in Ghana and Nigeria seem adequate to source suitable FSPs, where these are sufficiently established in the market. To ensure best results, experiences with FSPs from previous programmes / engagements should be tapped to evaluate the suitability of FSPs.

Moreover, it should be **considered how and what capacity development support can be deployed to optimize the performance and increase market reach** of an RFS as it evolves. The low recovery rates of FSPs across all three countries, make it clear that reaching the target of near 100% loan recovery will require significant improvements at this level. As FSPs were selected through competitive processes it must be assumed that FSPs who can deploy and recover sanitation loans may not be readily available in the market. Establishing systematic support to help them gradually achieve performance targets will therefore be important.

To achieve a sustainable model, it is also considered critically important to **reduce the administrative costs substantially** over time. While currently there is no comprehensive data or detailed break-down of the administrative costs across the different levels of the fund mechanism available, this is considered imperative to recover all costs of the loan within the interest rate (next to repayment losses and interest margin).

Adequate measures to **increase loan recovery** (goal of 99 %) and reduce administrative costs are required to change the current cost-to-loan ratio of around 50 % (each loan of 1.00 costs around 0.50) towards a permanently sustainable revolving fund. In the initial rollout phase such a high cost-to-loan ratio is acceptable due to the high setup costs and required training, but it needs to come down to a few percent of the loan amounts in the next phase for the running of the overall program.

In all three countries, the RFS mechanisms already **established aspects that are geared towards efficient collection of loan repayments**. In Togo for example, most of the loans are disbursed to solidarity groups of 5 households who keep each other informed of the repayment schedule. This also introduces a level of peer-pressure that is meant to enhance repayment moral. In Nigeria Sanitation Businesses collect repayments, reducing the required efforts of the FSPs. In Ghana the *Metropolitan, Municipal and District Assemblies* (MMDAs) is involved to follow-up on repayments, where needed. These tactics are promising steps towards efficient collection of repayments. **Further approaches and tactics to increase repayment rates and reduce operational costs** should be tested to establish a portfolio of measures that helps to increase RFS performance further.

To move towards cost coverage, it may also be required to continue exploring the roll-out of **different types of fund mechanisms**, as has happened in Ghana. The same also applies to mechanisms that can help achieve the intended impact. A good example for this is the Social Fund targeting Gahnean BoP beneficiaries.

A clear **understanding of the performance of all actors involved** in the RFS is a requirement to establish how the fund can be optimized. For this purpose, a sound monitoring and evaluation system that collects relevant data is key. In all three countries, up to date data and information about (performance) monitoring at different levels of the RFS was difficult to access, leading us to the conclusion that the existing monitoring systems are not adequate to effectively optimize the performance of the funds. As an initial step, we suggest **establishing Key Performance Indicators and Targets for all actors** involved in the RFS. These need to be aligned with the RRFS' objectives. On this basis, each country team should then **setup mechanisms for data collection, analysis** and how the resulting insights should be used to inform the management of the funds.

Throughout the country assessments, it was hardly possible to **obtain data on operational / overhead costs** of the fund. It is not clear, how high costs for the management and administration of the RFS are at the level of UNICEF or the Fund Administrators in the different countries and operational costs at the level of the FSPs were only available in very few cases. Since a scalable RFS model needs to enable participating actors to cover their costs, this is a key information gap that needs to be filled in order to establish where the funds stand and how much their setup and operations need to be improved to become interesting for other financiers.

6 Scaling requirements, targets and milestones

In this section, we synthesise the requirements for stage 0 (Sanitation Ecosystem) as a pre-requisite to consider launching a RFS and the key milestones for Stage 1 (Setting up and Rolling out) that can be derived from the RSFs in Ghana, Togo and Nigeria. Building on these insights, we map key additional milestones that need to be achieved throughout the following scaling stages 2 and 3 of the RRFS.

6.1 The RFS ecosystem (Stage 0)

The country studies and exchanges with UNICEF teams and partners show that there are certain conditions for success that should be in place or need to be established to succeed with an RFS. Below we provide a checklist that is clustered into three main areas. While it is not imperative, that all aspects on this checklist are in place, anybody seeking to setup an RFS should consider what implications gaps in the ecosystem could have for the fund and what complementary measures should be taken to establish an ecosystem that is conducive to scale the fund.

STATUS **ECOSYSTEM ASPECTS**	Not in place	Partly in place	Fully in place
Sanitation Sub-Sector			
Is a clear commitment to improve sanitation services at political level in place?			

Are key pillars of a supportive legal framework in place, including a dedicated line ministry, a sanitation policy, a decentralized private-sector sanitation sector and a commitment to the human rights to water and sanitation?			
Does the sector have a sanitation strategy, implementation plan and ring-fenced sanitation budget?			
Is the amount of development programmes that offer free sanitation solutions limited?			
Is a coordination platform for the sanitation sector in place?			
Do previous or on-going awareness raising and behavioural change campaigns (including CLTS, SANMARK, etc.) exist that contribute to sensitization and creating demand for improved sanitation solutions?			
Micro-finance Sub-Sector			
Is proper regulation of the Micro-finance sector in place?			
Is the pool of FSPs in the geographical focus area sufficiently big?			
Do FSPs have the required capacities to meet RFS selection criteria (ideally initial experiences with sanitation)?			
Have decentralized FSPs structures been established with reach into the targeted communities?			
Is a coordination platform for the microfinance sector in place?			
Borrowers Household			
Has an income range for micro-finance leans been set for the targeted region / country?			
Is the minimum income level reached for microfinance loans in the selected regions?			
Is there a need for a social fund to cover the poorest households?			
Borrowers SME			
Is the minimum income level reached for microfinance loans in the selected regions			
Are there creditworthy[17], legally organized SMEs			
Overall Context			
Do state/regional and local government authorities have strong buy-in into the RFS?			
Is there an initial demand for market based sanitation among the RFS' target group?			

[17] Creditworthiness is determined by several factors including the SME's credit score – usually based on MFI's internal evaluation systems – and possibly repayment history. Some lending institutions also consider available assets and the number of liabilities you have when they determine the probability of default.

Does the RFS' target group have the financial capacity to qualify for sanitation loans?			
Are materials and technology (including know how) for toilet construction accessible in the target region?			
Are Toilet Business Organizations / suitable SMEs available in the target region?			

6.2 Setting up and rolling out (Stage 1)

Throughout the process of setting up and rolling out a RFS, a functioning financing mechanism should be established that proves both the potential 1) for end-user financing (households and businesses) to enhance sanitation coverage and 2) that the fund could become scalable. To this end, the following main **targets** should be met at this stage:

LINK TO SCALING	STAGE 1 TARGET
Overall Cost Coverage Target	Keep administrative (incl. staff and non-staff) costs between Financier and Fund Administrator below 30% of the total fund costs
FSP Cost Coverage Target	Proof that FSPs keep administrative (incl. staff and non-staff) costs below 15% of the loan costs
Loan Recovery Target	Proof that FSPs can achieve more than 90% average loan recovery rate
Market Reach Target	Proof that the RFS can yield 3'000 – 5'000 improved sanitation facilities
Impact Target	Generate evidence that at least 50% of the toilets are built for households from the poorer population quintiles and that at least 50 % of the borrowers are female
Impact Target	Generate evidence that at least 50 % of SME borrowers are small, locally owned businesses creating local jobs

To achieve these targets, the following **milestones** – among others – were identified that need to be met at different levels of the RFS.

Overall Governance[18]**:**

- Assure proper oversight and coordination with the sanitation and finance sector

Fund management[19]**:**

Secure funding to:

- Setup programme and agreements
- Funding for first three years of the revolving fund for sanitation in at least two locations with different contexts
- Ensure complementary activities (e.g. awareness campaigns, L&A) can be carried out to enhance the enabling environment

Other fund management milestones:

[18] in the current setup this is considered the responsibility of UNICEF but there are some overlaps with the Fund Administrator
[19] in the current setup this is considered the responsibility of UNICEF but there are some overlaps with the Fund Administrator

- Identify and capacitate a suitable fund administrator
- Adapt revolving fund mechanism to national and local context in the target area
- Establish loan products adapted to needs of target group
- Monitor basic metrics continuously at all levels of the funding mechanism

FSP performance:

- Engage suitable FSPs through competitive process
- FSPs accept (at least partial) responsibility for losses
- Evaluation of performance of different FSPs (loan recovery and running costs)
- Provide continuous training to constantly improve performance
- A core group of FSPs sees san loans as opportunity

Service providers level:

- Develop technical capacities of sufficient number of TBOs in target region
- Establish a platform to organize & promote sanitation services
- Establish a basic quality control system
- Provide continuous training to constantly improve performance

6.3 Optimizing the RFS (Stage 2)

Through the optimization of the RFS, the fund needs to move towards matching the Loss Absorption Capacity of (impact) investors (compare chapter 3.1). At the same time the impact of the fund should be further enhanced, to move towards achieving the RRFS' goal of ending open defecation. To this end, the following main **targets** should be met at this stage:

LINK TO SCALING	STAGE 2 TARGET
Overall Cost Coverage Target	Reduce administrative (incl. staff and non-staff) costs between Financier and Fund Administrator to below 15% of the total fund costs
FSP Cost Coverage Target	Achieve full cost coverage by (or ideally profitability) of all FSPs
Loan Recovery Target	Achieve average loan recovery rate of more than 95%
Market Reach Target	Finance the construction of at least 10'000 improved sanitation facilities
Market Reach Target	Grow target area and RFS mechanism and partnerships to cover a market with potential for at least 50'000 additional loans
Impact Target	Generate evidence that at least 50% of the toilets are built for households from the poorer population quintiles and that at least 75 % of the borrowers are female
Impact Target	Generate evidence that at least 50 % of SME borrowers are small, locally owned businesses creating local jobs

To achieve these targets, the following **milestones** – among others – were identified that need to be met at different levels of the RFS.

Overall Governance[20]**:**

- Assure proper oversight and coordination with the sanitation and finance sector
- Secure a conducive investment climate for potential investors and low FX-volatility

Fund management[21]**:**

Secure funding to:

- Ensure necessary measures to optimize revolving fund can be implemented
- At least double # of loans per year
- Tackle prioritized bottlenecks in the enabling environment

Other fund management milestones:

- Sound and continuous fund monitoring

FSP performance:

- FSPs accept full responsibility for losses
- Push overhead costs of FSPs below 5% of the loan amount
- Implement digital solutions to handle processes

Service providers level:

- Establish a reliable quality control for all toilets
- Establish a mechanism for independent spot checks / controls of outputs

6.4 Engaging (impact) investors (Stage 3)

Engaging investors is key to leverage additional capital to scale the market reach and impact of the RRFS. This process goes hand in hand with several structural changes to the fund setup. With additional actors joining the band waggon, it is also imperative to establish measures that maintain the impact-orientation of the RRFS. The following main **targets** have been identified but may need to be adjusted depending on emerging developments and the investors that are on-boarded during the investment stage:

LINK TO SCALING	STAGE 3 TARGET
Overall Cost Coverage Target	Setup independent fund structure with clear governance, roles and responsibilities (reducing layers and costs)
FSP Cost Coverage Target	Push FSP overhead costs below 3%
Loan Recovery Target	Achieve average loan recovery rate of more than 97%
Market Reach Target	Achieve constant growth in loan disbursement during first three years
Impact Target	Maintain impact orientation with more than 75% of toilets built for poor households and that at least 75 % of the borrowers are female
Impact Target	Generate evidence that at least 50 % of SME borrowers are small, locally owned businesses creating local jobs

[20] in the current setup this is considered the responsibility of UNICEF but there are some overlaps with the Fund Administrator
[21] in the current setup this is considered the responsibility of UNICEF but there are some overlaps with the Fund Administrator

To achieve these targets, the following **milestones** – among others – were identified that need to be met at different levels of the RFS.

Overall Governance[22]:

- Assure proper oversight and coordination of the sanitation and finance sector
- Secure a conducive investment climate for potential investors, possibility to expatriate profits and low FX-volatility

Fund management[23]:

Secure funding to:

- Provide matching impact funding
- Further enhance the enabling environment

Other fund management milestones:

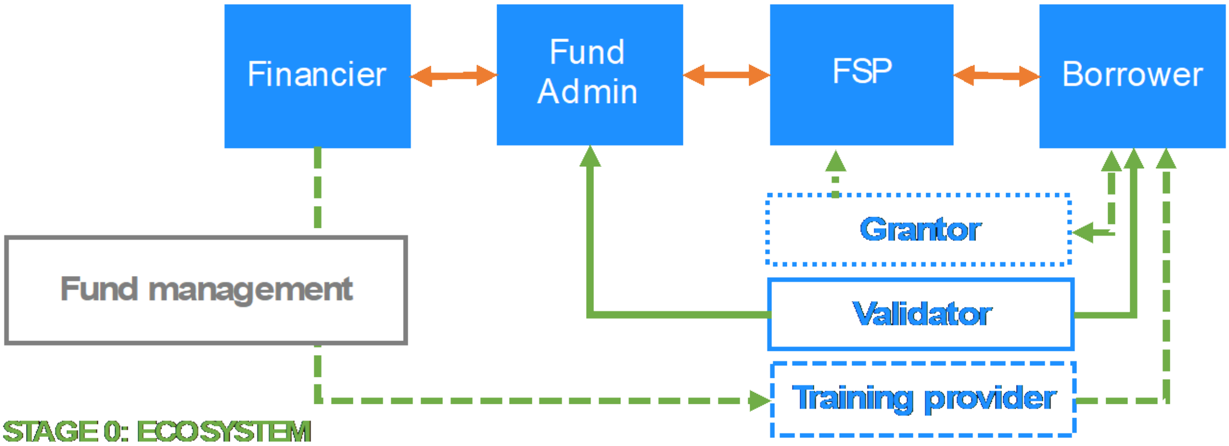
- Establish financing and governance agreements with investors, including confirmation of impact orientation
- Secure a de-risking partner (first-loss guarantee)
- Establish Technical Assistance (TA) to support scaling to additional geographies

Service providers level:

- Develop sufficient partnerships with FSPs to ensure required capacities to grow market reach
- Establish optimized loan disbursement and repayment processes and SOPs

[22] in the current setup this is considered the responsibility of UNICEF but there are some overlaps with the Fund Administrator
[23] in the current setup this is considered the responsibility of UNICEF but there are some overlaps with the Fund Administrator

6.5 Synthesis: Map of scaling requirements, targets and milestones



STAGE 0: ECOSYSTEM

Sanitation sub-sector:
- Political commitment
- Key pillars of a supportive legal framework
- sanitation strategy, implementation plan and budget
- Limited development programmes that offer free sanitation solutions
- Coordination platform in place
- Previous or on-going awareness raising and behavioural change campaigns

Micro-finance sub-sector:
- Proper regulation of the Micro-finance sector in place
- Exchange platform???
- Sufficiently large pool of FSPs in the geographical focus area
- FSPs with required capacities to meet RFS selection criteria
- Decentralized FSPs structures with reach into the targeted communities established

Overall context:
- State, regional & local gov. authorities have strong buy-in into the RFS
- Initial demand for market based sanitation among target group
- Target group has financial capacity to qualify for sanitation loans
- Materials and technology (including know how) for toilet construction accessible
- TBOs / suitable SMEs available in the target region

STAGE 1: SETTING UP AND ROLLING OUT

SUGGESTED STAGE 1 TARGETS:

COST COVERAGE: Keep admin. (staff and non-staff) costs between Financier and Fund Admin < 30% of the total costs

COST COVERAGE: Proof that FSPs keep admin. costs < 15%

LOAN RECOVERY: Show that FSPs can achieve > 90% loan recovery rate

MARKET REACH: 3'000 - 5'000 improved toilets

IMPACT: > 50% of toilets are built for poor hh & > 50% female borrowers

IMPACT: 50 % of SME borrowers locally owned businesses creating jobs

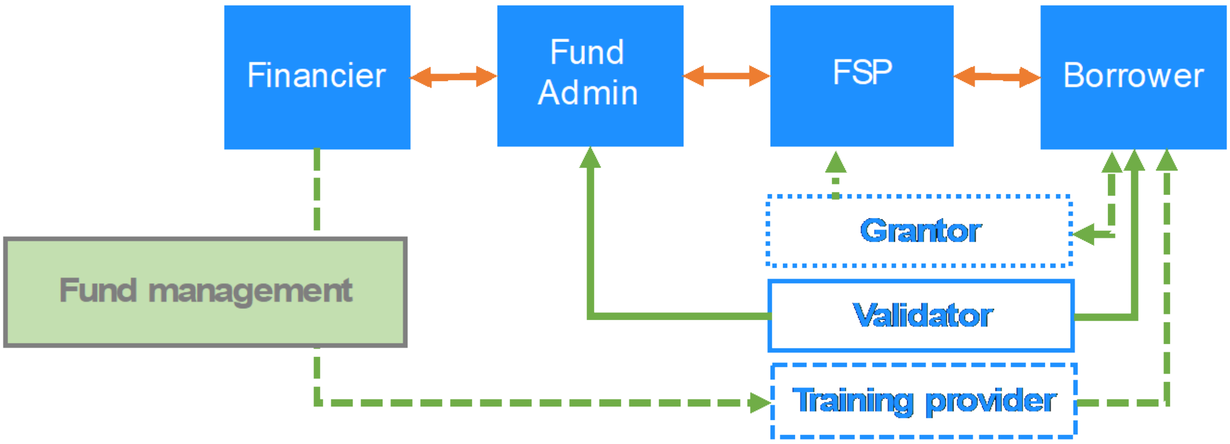
SUGGESTED STAGE 1 MILESTONES:

Secure funding to:
- Setup programme and agreements
- Ensure minimum requirements in enabling environment
- Funding for 3 years revolving pilot fund

Establish:
- proper oversight and coordination with the sanitation and finance sector
- Identify & capacitate suitable fund admin
- Adapt revolving fund mechanism to national and local context in the target area
- Monitor basic metrics continuously

- Engage suitable FSPs through competitive process
- FSPs accept (at least partial) responsibility for losses
- Evaluation of performance of different FSPs
- Provide continuous training to improve performance
- A core group of FSPs sees sanitation loans as opportunity

Establish:
- Loan products adapted to needs of target group
- Technical capacities of sufficient number of TBOs in target region
- Provide continuous training to improve performance
- A platform to organize & promote sanitation services
- Basic quality control



STAGE 2: OPTIMIZING THE RFS

SUGGESTED STAGE 2 TARGETS:

COST COVERAGE: Reduce admin. (staff and non-staff) costs between Financier and Fund Admin < 15% of the total costs

- **COST COVERAGE:** Full cost coverage by all FSPs
- **LOAN RECOVERY:** Av. recovery rate > 95%
- **MARKET REACH:** > 10'000 impr. toilets
- **MARKET REACH:** setup to target > 50'000 add. loans
- **IMPACT:** > 50% of toilets are built for poor hh & > 75% female borrowers
- **IMPACT:** 50 % of SME borrowers locally owned businesses creating jobs

SUGGESTED STAGE 2 MILESTONES:

Secure funding to:
- Ensure necessary measures to optimize revolving fund
- Double # of loans per year
- Tackle prioritized bottlenecks in enabling environm.

Establish:
- Sound and continuous fund monitoring
- Proper oversight and coordination with the sanitation and finance sector
- Conducive investment climate for potential investors and low FX-volatility

- FSPs accept full responsibility for losses
- Push overhead costs of FSPs below 5% of the loan amount
- Implement digital solutions to handle processes

Establish:
- Reliable quality control of all toilets
- Independent spot checks / controls of outputs

STAGE 3: ONBOARD INVESTORS

SUGGESTED STAGE 3 TARGETS:

COST COVERAGE: Setup independent fund structure with clear governance, roles and responsibilities (reducing layers and costs)

- **COST COVERAGE:** Push FSP overhead costs < 3%
- **LOAN RECOVERY:** Average recovery rate > 97%
- **MARKET REACH:** Constant growth in loan disbursement during first 3 years
- **IMPACT:** > 75% of toilets built for poor hh & > 75% female borrowers
- **IMPACT:** 50 % of SME borrowers locally owned businesses creating jobs

SUGGESTED STAGE 3 MILESTONES:

Secure funding to:
- Provide matching impact funding
- Further enhance the enabling environment

Establish / Secure:
- Financing and governance agreements with investors
- De-risking partner (first-loss guarantee)
- Technical Assistance to support scaling to add. Geographies
- Proper oversight and coordination with the sanitation and finance sector
- Conducive investment climate for potential investors and low FX-volatility

Establish
- Sufficient partnerships with FSPs to ensure required capacities to grow market reach
- Optimized processes and SOPs
- Optimized repayment process

7 Means and Measures to reach scaling targets and milestones

In this chapter we have curated a **non-comprehensive** overview of means and measures that could help achieving scaling milestones and targets. They are based on experiences and insights from the three RFS pilot countries and best practices from the complementary literature review conducted for this assignment.

The *Means and Measures* below are not normative recommendation but are options that can be tested or used for inspiration to develop other approaches to achieve the targets for the different scaling stages of the RRFS.

The presented list will be discussed and further complemented during the regional workshop with UNICEF teams and RFS stakeholders in November.

7.1 Fund management and administration

COMPETITIVE FSPs SELECTION

Description: Competitive Selection of FSPs means that relevant institutions (MFIs, NGOs, or other types of organizations that could become an FSP) are invited to apply to become a partner of the RFS and are selected against selection criteria that ensure the best possible choice of applicants to become Financial Service Providers for sanitation loans.

Potential impact: Ensure the selection of most suitable FSPs, which will increase performance as compared to other less suitable FSPs.

When: All stages

COMPLAINT MECHANISM

Description: A system allowing (potential) customers of the Revolving Fund to register their dissatisfaction with service, and associated redress mechanism.

Potential impact: Increase customer satisfaction and therefore repayment rate and identify non-compliant actors in the revolving fund system to take adequate corrective action.

When: Stages 2 – 3

CREATE GUIDELINES AND TOOLBOX FOR DATA COLLECTION AND AGREEMENTS FOR NEW RFS IMPLEMENTORS

Description: Create and share a toolbox in French and English with all new implementing regions/countries. Guidelines should contain, among others: Operational cost monitoring template for FSPs, Monitoring and Reporting templates for Fund Administrators and UNICEF team, Fund Administrators/FSPs agreements templates, ToR for MFIs.

Potential impact: Ensure that relevant and harmonized data is available in all geographies, where RFS' are rolled out. Helps consider all coordination or implementation costs beared by stakeholders. Provides the basis for comparative analysis and optimization.

When: Stage 1

DEVELOP/ADAPT/USE GUIDELINES AND SOPs FOR SELECTION OF FSPS

Description: Develop a clear ToR for MFIs and share it with implementing countries/region. The selection process is branded as a call for applications and an opportunity to develop the range of financial products of the MFIs.

Potential impact: It clarifies the selection criteria and roles of MFIs and avoids situation where selected MFIs are not appropriate for RFS roll out (e.g. located too far from borrowers). It attracts more MFIs, leaving a wider choice range for RFS implementors.

When: Stage 1

DIGITALIZING THE RRFS / ONLINE MANAGEMENT SYSTEM

Description: When issues occur along the fund value chain, especially on the ground, it can be challenging for partners to raise these with the RFS team in a timely manner. A streamlined online management system allows for better monitoring of implementation (i.e., one delegate uploads specifications and documentation of the completed facility for partners to review and approve) and thus cuts down on time and manpower for all involved partners. It further allows for instantaneous data collection and monitoring, thus expanding the possibilities for disaggregation of data.

Potential impact: Decentralise solution-finding processes and shorten response time to be able to solve challenges faster and avoid bottlenecks, while keeping a better grasp on data collection.

When: Stages 1 - 3

INVEST EFFORTS TO DEVELOP A MORE ENABLING ENVIRONMENT

Description: Efforts to build a better enabling environment for market-based sanitation solutions can be manifold, ranging from technical support to build well-developed sanitation value chains over building and maintaining strong relationships with local government to support loan collection to campaigns that stimulate demand.

Potential impact: Tackle key bottlenecks in the enabling environment that impede the development of a functioning sanitation economy.

When: All stages

LEGAL AND GOVERNANCE STRUCTURE FOR SCALING

Description: Key components of a fund structure that is conducive to raise investments and scale sanitation financing include (i) potential governance arrangements, (ii) division of tasks, structure, and funding scenarios, and (iii) proposal for an implementation plan and sequence for the Fund. All these considerations are typically summarised in formal Fund Investment Guidelines, including among others for the RFS' Investment Strategy, Management and Governance, Investment Committee, Investment Process, Result framework & Monitoring and evaluation and Main identified risks and mitigation measures.

Potential impact: Facilitate the mobilization of financing (both from donors and investors) using a proposal that clarifies key aspects on how the RFS will be scaled with external funding.

When: Stage 2

MARKET RESEARCH

Description: Market research is should inform the decision whether it is worthwhile to setup a RFS in a given geographical location. It should cover aspects like market size, demand for market-based sanitation solutions, potential FSPs and alternative sanitation financing options available to evaluate of there is demand for sanitation loans.

Potential impact: Enable informed decision-making whether to develop and roll-out an RFS in a given geographical area.

When: Stage 0

PROCESS MAPPING

Description: A process map is a graphical representation of the tasks and procedures followed over the course of any operational activity in a Sanitation Fund. Process mapping is a simple yet powerful method for examining functional activities. The Flowcharts of the RFS' in Ghana, Nigeria and Togo are examples of process maps for the respective overall RFS. Process maps can however also zoom into specific areas like the 'Loan Origination Process', 'Loan Appraisal and Approval Process', 'Loan Disbursement Process' or the 'Loan Repayment Process' to establish the base for further optimization

Potential impact: By making work flows visible, process mapping allows the Fund management and financial service providers to document and improve the way a process or department works.

When: Stages 1 – 3

See also: https://water.org/documents/56/Water.org_Toolkit_4_-_WASH_Finance_Process_Risk_Mgmt_Pricing_Internal_Audit__Controls.pdf

RISK MANAGEMENT

Description: Risk management typically comprises risk assessments, prioritization and monitoring of risks and taking corrective action, in case risks materialize. In the context of a revolving sanitation fund, the following types of risks should be duly considered: operational risk, credit risk, market risk, and institutional/strategic risk. When managing these different types of risks, a sanitation fund can opt to avoid, transfer, accept or control risks.

Potential impact: Effective risk management will help mitigate that risks materialize that affect the performance and ultimately the impact of the RFS.

When: Stages 1 – 3

See also: https://water.org/documents/56/Water.org_Toolkit_4_-_WASH_Finance_Process_Risk_Mgmt_Pricing_Internal_Audit__Controls.pdf

SANITATION LOAN MARKETING

Description: Like most products and services, Sanitation loan products require a mix of selling and marketing concepts. Since having access to proper sanitation facilities can be lower on the list of a customer's priorities when compared to things like medical costs, food and education, FSPs cannot expect the Sanitation loan products to create demand by themselves. They need to be promoted with a thorough selling and marketing strategy, parts of which may be supported by the RFS fund management – especially through awareness raising and behaviour change campaigns, CLTS or training on marketing sanitation loans.

Potential impact: Increase market reach and demand for sanitation loans, leveraging economies of scale and creating more impact.

When: All stages

See also: *https://water.org/documents/55/Water.org_Toolkit_3_-_WASH_Financial_Product_Marketing.pdf*

SET UP A REWARD SYSTEM FOR SIGNIFICANT MILESTONES ACHIEVED

Description: Create a reward system for local authorities linked to the KPIs of the RFS (ex: rate of access to improved toilets in municipality XY, repayment rate…) and stimulate competition between municipalities/regions.

Reward system can be:

- Certification acknowledging results achieved (similar to ODF status)
- Unlocking of further funding and grants (e.g. in Togo, UNICEF and Government are pushing for a system where sanitation grants can be allocated only in communities declared ODF)

Potential impact: municipalities are nudged to voluntarily get more involved in the RFS mechanism to increase repayment rate and efficiency of the overall programme. They involve local leaders and their local network to follow-up with households on repayment and maintenance of toilets built.

When: *Stage 1 – 2*

SOUND AND CONTINUOUS M&E SYSTEM FOR ALL LEVELS OF THE RFS

Description: Monitoring and Evaluation (M&E) is a continuous management function to assess if progress is made in achieving expected results, to spot bottlenecks in implementation and to highlight whether there are any unintended effects. To ensure that the RFS achieves key targets and milestones at each scaling stage, a system should be setup that helps to monitor and evaluate performance of involved actors at all levels of the RFS.

Potential impact: Enhance performance of RFS and progress towards a sustainable and scalable fund setup, as monitoring results are used to learn from successes and failures, and to take corrective actions when needed.

When: Stages 1 - 3

7.2 Fund management – Financial Service Providers

TRAININGS FOR FSPs

Description: Trainings on topics related to key challenges FSPs face around sanitation loans can help to develop the required capacities of FSP staff and management to deploy the loans more effectively and efficiently, helping that key targets are met. Training interventions can range from conveying important aspects of microfinance, over technical understanding of sanitation solutions and the market all the way to building the capacities for the functioning of FSPs through adequate internal processes (HR management, compliance, quality assurance, etc.). The focus of training interventions should be determined through a training or learning needs assessment.

Potential impact: Increase capacities of FSP staff and management as a means to enhance overall performance of FSPs in deploying sanitation loans.

When: All stages

See also: https://sswm.info/es/train-trainers/pre-training-preparations/learning-needs-analysis

COACHING AND REGULAR FOLLOW-UP AND OVERSIGHT BY MICRO-FINANCE EXPERTS

Description: Depending on the type of FSP, some might not be accustomed to micro-finance, let alone the specific requirements and needs of the sanitation sector, which may negatively impact the process of getting

the RFS distributed, and repayment collected in a timely manner. A coaching curriculum coupled with regular check-ins by experts in the field can build the FSPs' capacity to better tailor their offer.
Potential impact: Increased flexibility in anticipating and responding to BoP customers' needs and tailoring products to match their abilities as well as sector intricacies.
When: Stages 1 - 3

7.3 Financial Service Providers

CLIENT CREDIT ASSESSMENT FOR WASH LOANS

Description: A credit assessment determines the ability and intent of a prospective loan seeker to repay a loan. Credit assessment of clients for WASH loans generally consists of three major components: data collection, data interpretation, and the decision-making model.

Potential impact: A well-documented credit policy (with procedures and activities modified to the sanitation loans) with a trained credit staff is critical to maintain high repayment rates and a healthy portfolio.

When: Stages 1 – 3

See also: https://water.org/documents/57/Water.org_Toolkit_5_-_WASH_Financial_Product_Portfolio_Mgmt.pdf

DELINQUENCY MANAGEMENT

Description: Credit risk and related to this delinquency is defined as the un-fulfilment of credit obligations by the customer as per defined terms and conditions. Delinquency management includes a range of measures to prevent and reduce delinquency related to (sanitation) loans, including among others setting up a sanitation loan delinquency register, follow-up plans for delinquent (sanitation) loans or maintaining and updating a blacklist register.

Potential impact: Prevent and reduce delinquency related to sanitation loans.

When: Stages 1 – 3

See also: https://water.org/documents/57/Water.org_Toolkit_5_-_WASH_Financial_Product_Portfolio_Mgmt.pdf

(RE)DESIGNING SANITATION LOANS

Description: A broad range of characteristics, including the loan size, term, interest rate and fees, required collateral or guarantees, eligibility requirements among others, can be adjusted during the development and (re)design of sanitation loans. Suitable pricing and design of sanitation loans is considered key to succeed with a revolving sanitation fund. This is however a complex process. Aside from the complexity of developing and pricing (micro) loan products, there are a number of characteristics that need to be considered when developing sanitation loans. These include but are not limited to the low level of priority of sanitation loans for FSP customers, the need for support from technical experts for sanitation loan delivery or lack of awareness of market prices by borrowers.

Potential impact: Make sure the product meets demand, is feasible and appropriate in the targeted client locations.

When: Stages 1 - 3

See also: https://water.org/documents/56/Water.org_Toolkit_4_-_WASH_Finance_Process_Risk_Mgmt_Pricing_Internal_Audit__Controls.pdf

DEVELOPING STAFF INCENTIVE SCHEMES FOR SANITATION LENDING

Description: Staff incentives are designed to motivate staff to achieve high performance levels, change behaviors and/or change attitudes. Incentives are rewards for achieving certain targets or making a certain effort. Performance-based cash payouts are most frequently used, but non-monetary incentives are also possible.

Potential impact: A well-designed Staff Incentive Scheme for sanitation loans can have a powerful effect on the performance and productivity of FI operations and employee motivation.

When: Stages 1 – 3

See also: https://water.org/documents/57/Water.org_Toolkit_5_-_WASH_Financial_Product_Portfolio_Mgmt.pdf

EXPAND LOAN PORTFOLIO TO OTHER SANITATION SOLUTIONS

Description: Beyond supporting the building of improved toilets, sanitation loans have been successfully deployed for other sanitation solutions, including among others for bio gas systems (including through the RFS Togo), pit emptying and upgrading. To expand the loan portfolio to other sanitation solutions, it is important to procure designs that include the technical specifications, as well as legal processes needed, for the client to be able to build a functional sanitation improvement. It is therefore highly recommended to develop a product design for each complementary sanitation financing product.

Potential impact: Increase market reach, generate repeat sales to reliable customers (enhancing efficiency and lean repayment), leveraging economies of scale and increasing impact through more sustainably managed sanitation.

When: Pilot Fund / Optimize Revolving Fund

IMPLEMENT DIGITAL SCORING SYSTEMS OF BORROWERS THROUGH SELF ASSESSMENT

Description: IDE Toilets in Ghana (Sama Sama) already implemented such a psychometric survey system to assess the creditworthiness of the borrowers on a mobile phone through a series of simple questions.

Potential impact: This tool should increase the likelihood of the borrowers repaying the loans through better selection and decreasing the cost of providing loans through faster processing times.

When: Stages 1 - 3
See also: https://www.ideglobal.org/story/psychometric-surveys

MONITORING PERFORMANCE OF SANITATION LOANS

Description: Microfinance interventions produce better results when design, reporting, and monitoring focus explicitly on key measures of performance that are measured and reported regularly. FSPs should therefore setup a dedicated monitoring system for their sanitation loan portfolio that continuously tracks at least the following indicators:

- Outreach: Breadth (number of clients served) - The number of clients or accounts that are active at a given point in time
- Outreach: Depth (client poverty level)
- Loan repayment (portfolio quality)
- Financial sustainability (profitability)
- Efficiency (focus on nonfinancial operating expenses)

Potential impact: Enhance performance of FSPs, as they use monitoring results to learn from successes and failures, and to take corrective actions when needed.

When: Stages 1 - 3

See also: https://www.cgap.org/sites/default/files/CGAP-Technical-Guide-Measuring-Results-of-Microfinance-Institutions-Minimum-Indicators-That-Donors-and-Investors-Should-Track-Jul-2009.pdf

QUALITY CONTROL

Description: Loan utilization and construction quality are prominent concerns for a sanitation fund. Water.org therefore recommends that FSPs carry out feasibility assessments prior to construction, as well as verification visits upon completion.[24]

Potential impact: This type of quality control is meant to ensure loans are utilized properly, construction quality adheres to appropriate standards, and facilities are ultimately completed.

When: Stages 1 – 3

USE A MIX OF CHARGES TO ACHIEVE COST COVERAGE

Description: Financial Service Providers have multiple options to generate revenues and cover their costs for sanitation loans, including one-time charges, periodic fees, compulsory savings, penalties, and interest rates.

Potential impact: Combining these options may be more effective to reach cost coverage than only using a loans interest rate to cover costs.

When: Stages 1 – 3

[24] https://water.org/documents/256/Water_and_Sanitation_Microfinance_Operations_in_India_Bi4Eor7.pdf

See also: https://water.org/documents/56/Water.org_Toolkit_4_-_WASH_Finance_Process_Risk_Mgmt_Pricing_Internal_Audit__Controls.pdf

USE TACTICS TO ENHANCE LOAN COLLECTION AND INCREASE REPAYMENT RATE

Description: A range of approaches are available to increase the efficiency of loan collection, including disbursing loans solidarity groups and village chiefs (Togo), engage Sanitation Businesses (Nigeria) or public institutions (e.g., *Metropolitan, Municipal and District Assemblies* in Ghana) in the collection of repayments. Beyond this there is a broad range of other tactics that can be explored to enhance loan collection, ranging from staff incentives over delinquency management to the re-design of sanitation loan products.

Potential impact: Increase the loan collection efficiency and repayment rate for sanitation loans, thereby contributing towards achieving sustainability, cost coverage and scalability of the RFS.

When: Stages 1 – 3

7.4 Targeting and Borrower Relations

FOLLOW-UP WITH COMMUNITY MEMBERS

Description: Strong relationships with local community leaders and well-maintained ties to significant representatives of districts or municipalities where the RRFS is implemented increases trust and transparency, as well as accountability of the program on both sides. By embedding the program in communities, loan takers experience additional incentives to pursue a sanitation facility and follow through on repayment. Artisans are subjected to closer scrutiny, but also are more likely to receive support and word-of-mouth advertising of their work.

Potential impact: Ensure proper use and maintenance of sanitation facilities to achieve longer-term impact. Increase transparency and accountability.

When: Stages 0 - 2

PROVIDE LOANS TO SANITATION BUSINESSES

Description: The supply side of the sanitation value chain consists of small businesses (e.g., toilet masons, etc.). As any business, Sanitation businesses may require working capital to meet customer demand by households who wish to improve their sanitation facilities. In some cases, Sanitation Businesses may also need larger loans to finance capital expenditures e.g. for community level infrastructure, like public toilets, collection assets or treatment facilities. Developing tailored loans for sanitation businesses can therefore be an important contribution of an RFS towards building a more enabling environment and a functioning sanitation economy. Such loans however need to be duly tailored to the local context.

Potential impact: Under the RFS Ghana, financing for Sanitation Businesses / SME was established. Dedicated loan offers for such businesses can improve access to financing, can contribute to employment creation, capacitation, and increased collaboration among SMEs, ultimately improving the supply side of the toilet market.

When: Stages 1 – 3

ADAPT LOAN PORTFOLIO AND MECHANISMS TO ACCOUNT FOR GEOGRAPHICAL DIFFERENCES

Description: Ghana has developed two distinct fund mechanisms that focus on urban and periurban, as well as rural areas respectively – the Basic Sanitation Fund (BSF) and District Sanitation Fund (DSF). The two fund mechanisms are coordinated by separate fund administrators and are implemented by a different set of financial service providers. This allows the BSF and DSF teams to better accommodate the needs and challenges of their targeted borrowers that sometimes differ greatly depending on the geographical and social context in which they live and work, such as their purchasing power, seasonality of revenues, availability of artisans and material, and logistical supply chains.

Potential impact: Acknowledging and incorporating geographical and borrower distinctions in the fund design allows for increased flexibility in meeting different target groups' needs and tailoring financial products to the given context.

When: Stages 1 – 2

PROVIDE SOCIAL LOANS TO HOUSEHOLDS

Description: Unfortunately, there is a part of population which does not have the required minimum income levels to qualify for a sanitation microfinance loans. Given the ultimate goal to provide adequate sanitation to all inhabitants leaving no one behind, the provision of social loans is an important tool. Ghana has made initial experiences with the approach and this should be further developed. There is a risk of negatively affecting the repayment rates of the regular sanitation loans as some borrowers might find it unfair that some borrowers get social loans. But with proper rules and guidelines around the targeting of such social loans, this should be possible to overcome. Such social loans, however, need to be duly tailored to the local context.

Potential impact: Social loans allow to reach also the bottom of the pyramid and leverage the same basic loan processes as for the other programs. It assures that no one is left behind.

When: Stages 1 – 2

SPECIAL PROGRAMS TO INCREASE FEMALE BORROWERS

Description: To increase equity of the program, partners could collaborate and engage with NGOs carrying out women empowerment / entrepreneurship programs, especially via Income Generating Activities development. The partnering NGOs, in turn, can raise awareness on the sanitation loan opportunity. It would also be beneficial to expand on mechanisms that have proven beneficial to raising women engagement thus far (i.e., Village Savings and Loans Associations in Ghana).

Potential impact: Ensure equity and increase rate of female borrowers and general repayment rate.

When: Stage 1 – 3

TARGET LANDLORDS AS BORROWERS

Description: Aside from targeting end-users or Toilet Business Organizations, Landlords have become a promising target group for market-based sanitation solutions. Through housing infrastructure and land, landlords can offer relevant collateral. At the same time they have a clear means of monetizing the loan through rent as they increase the value of housing offered to tenants. Moreover, they may be interested in loans for pit emptying to solve wastewater management challenges on their plots.

Potential impact: Establish a new target group that can provide collateral for loans while maintaining the impact-orientation of the RFS. Moreover, this target group could make sanitation loans more interesting for FSPs, as landlords could be an opportunity for FSPs to expand into housing finance.

When: Stages 1 - 2

TARGET SCHOOLS AND HEALTH FACILITIES AS BORROWERS

Description: Schools and Healthcare facilities require adequate sanitation facilities. Given that they can provide collateral and improved guarantees for repayment of loans, they constitute a potentially relevant target groups for sanitation loans.

Potential impact: Given the large number of users of sanitation facilities in schools and health facilities, this target group has a high impact potential. Moreover, this target group offers comparably higher securities than private households, which could increase repayment rates.

When: Stages 1 - 3

TRAINING AND CAPACITY DEVELOPMENT FOR SANITATION BUSINESSES

Description: Technically capable Sanitation Businesses are at the heart of a functioning sanitation value chain. However, in many cases Sanitation Businesses are the very bottleneck for efforts to increase access to improved toilets and sanitation solutions. To ensure that the RFS contributes towards ending open defecation and that loans are used to build improved facilities, it may become necessary to support the development of technical and business capacities of Sanitation Businesses through training and/or coaching interventions. To determine the focus of training interventions a learning need assessment should be conducted.

Potential impact: Ensure that sanitation solutions built with the RFS loans are actually improved and durable and lead to continued use of improved toilet.

When: All stages