



# Case study - Nigeria

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

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# Table of Contents

Case study technical report.....	2
1. Introduction / Background.....	2
2. Overview of sanitation and sanitation financing in Nigeria .....	3
a. Sanitation situation in Nigeria .....	3
b. Evolution Map.....	4
c. Sanitation Funds in Nigeria .....	8
3. Regional Revolving Sanitation Fund .....	9
a. Objectives of the RRFS .....	9
b. Functioning of the RRFS .....	9
c. The RRFS in numbers .....	14
4. Analysis .....	15
a. Relevance .....	15
b. Effectiveness .....	17
c. Cost-effectiveness / Efficiency .....	20
d. Sustainability.....	22
e. Equity – ability to reach poor households and gender.....	25
5. Summary of key findings and recommendations .....	26
6. Bibliography .....	30

## Glossary

Adashe: Community Savings and Credit Group

CO: Country Office

HH: Household

RO: Regional Office

WCAR: West and Central Africa Region

RRFS: Regional Revolving Fund for Sanitation

# Case study technical report

## 1. Introduction / Background

Cewas has been engaged by UNICEF to assess the key success factors and areas for improvement of the Regional Revolving Fund for Sanitation (RRFS) in West Africa as well as the potential for regional application and develop a business model for scaling. Since April 2022 and leading up to this Technical Country Case Study, the team has developed an analytical framework and methodology as well as a set of guiding questions to assess the RRFS in West Africa, namely Ghana, Nigeria and Togo. The team conducted secondary data analysis through a desk review, then collected primary data virtually through the CO reporting template, and finally conducted a Field Mission in each of the countries in June and July 2022 for interviews and site visits. This Technical Country Case Study is the result of the analysis of the findings from secondary, primary and field visit information that allows to draw a picture of the current functioning of the RRFS.

This document presents an in-depth analysis of the RRFS in Nigeria and draws lessons learnt and conclusions for scaling the system piloted in Bauchi state to the country overall to support the achievement of SDG6. Based on the Technical Country Case Studies for Ghana, Nigeria and Togo, the regional feasibility for scaling will be analysed and discussed through strategic discussions and feedback during a physical workshop. A final step in this assignment, will be developing a business model for the regional deployment of the RRFS in WCAR.

These country case studies are intended for UNICEF internal use, both at the regional and the country level. It will not be disseminated in this form, but rather should act as a basis for the UNICEF regional and country RRFS teams to reflect on the current status of the programme and support the teams in the further development of the RRFS. The report will not be disseminated to other stakeholders as such. Rather, key lessons learnt will be summarized in the regional report, which will be discussed during the workshop with the UNICEF team in Togo, completed with the feasibility to scale and business model and disseminated at the end of the project.

Shows the potential of a revolving fund. Within this section we want to present the main findings, to support the country teams in this direction

Since the RRFS is ongoing, some components are not fully rolled out such as the loans to sanitation businesses or the roll out of the RRFS in Oyo state, therefore the revolving fund and its impacts cannot be assessed at full scale. A full evaluation should be conducted when the RRFS has been implemented with all its components and the tenure and grace period of the first full batch of loans has been completed.

The report first provides a snapshot of the current sanitation situation in Nigeria, the key action to end open defecation and provide improved sanitation for all, including a map of the evolution of initiatives and actions taken by the government, donors and key stakeholders. Secondly, the relevance, effectiveness, efficiency, sustainability, and equity of the RRFS will be assessed through the perspective of strengths and weaknesses internal to the RRFS, as well as opportunities and threats present in the ecosystem in which the RRFS is embedded, to draw conclusions and propose recommendations for a roll-out of the fund across Nigeria and regionally. A regional report will collect the experiences from the three countries in WCAR where the RRFS was conducted to draw on initial lessons learnt and suggest a mechanism for scaling.

Selected information in chapters 1-3 from report has been presented and discussed with the Nigeria Country Team at several stages, ensuring the correctness of the data and preliminary findings. Nevertheless, the study is limited by the fact that the consultants could not visit Bauchi, the main area of implementation of the RRFS in

Nigeria so far, due to security concerns. A local consultant recommended by UNICEF was hired to conduct the face-to-face interviews and field visits and the report draws on his reports and several follow-up meetings.

## 2. Overview of sanitation and sanitation financing in Nigeria

### a. Sanitation situation in Nigeria

In Nigeria today, only 35,9% of the population have access to improved sanitation, whereas 24% of the population still practice open defecation, which translates to 46 million people.<sup>1</sup> The Government of Nigeria has pursued improving water and sanitation in the country actively for the past two decades, however provision of basic WASH services has not been able to keep up with the exploding population growth<sup>2</sup>, which increased from 95 million in 2000 to 218 million today.<sup>3</sup>

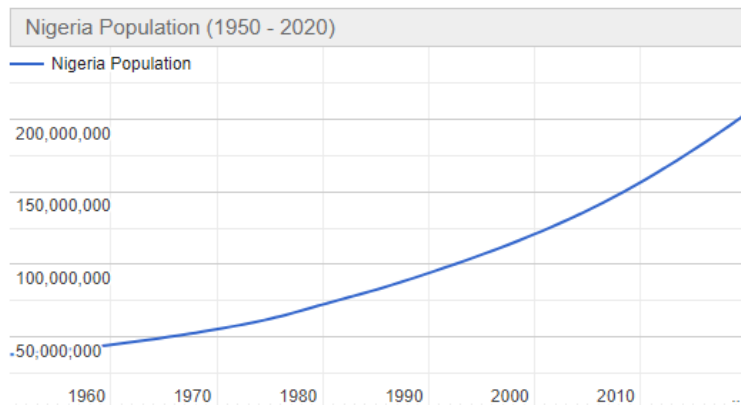


Figure 1 Nigeria population growth (<https://www.worldometers.info/world-population>)

In past decades, while improvements in the sanitation sector meant that the number of

persons with access to a toilet increased and some communities were declared Open Defecation Free, most of the latrines constructed in these communities are basic and thus do not meet the improved sanitation/toilet criteria. In some cases, this has even led to a return to open defecation of the users. A study commissioned by UNICEF in 2013/2014 found that 68% of respondents practiced open defecation because they did not have toilets in their houses. 70% of household members that defecate in the open daily were not satisfied with it and would rather use a toilet if it were available in their house. However, challenges to toilet construction include lack of money (15% of respondents), soil terrain, appropriate know-how and high cost of materials.<sup>4</sup> A survey in 2016 confirmed that more than 81% of respondents with basic sanitation solutions want to improve their existing toilets and 55% were willing to spend between 28-114 USD.<sup>5</sup>

The Government and donors are working to fight open defecation, however funding to reach national targets particularly in rural areas is estimated below 50%, highlighting a gap between current financing and projected need.<sup>6</sup> Households, remittances and private finance can all help bridge the financing gap, but with 53.5% of the population living in extreme poverty this source remains limited. Small, incremental changes in public funding to the sector will have only a marginal impact and would be inconsistent with the change sought through the National Action Plan. Organizations such as WaterAid advocate for a ten-fold increase of funding from current levels to seriously addressing the shortfalls.<sup>7</sup>

In terms of financial options, the microfinance sector has been growing and is an increasingly relevant actor in innovative water and sanitation financing globally. In Nigeria, over 1000 licensed MFBs provide access to financial services to nearly 13 million depositors (of whom 10 million are otherwise unbanked) and 4 million

<sup>1</sup> UNICEF, XXXX, Concept Note Sanitation Pool fund Bauchi and Adawama State

<sup>2</sup> <https://www.wateraid.org/ng/national-action-plan#:~:text=The%20National%20Action%20Plan%20is,a%2013%20year%20revitalisation%20strategy>

<sup>3</sup> <https://www.worldometers.info/world-population>

<sup>4</sup> Khan, 2018, Promoting entrepreneurship and affordable financing for uptake of improved toilets in Nigeria

<sup>5</sup> UNICEF, 2018, Sanitation Marketing: the Road to improved Sanitation, Latrine User Experience Survey in Benue and Bauchi States of Nigeria

<sup>6</sup> WaterAid, 2019, Equal to the task financing for a state of emergency in Nigerias water, sanitation and hygiene sector

<sup>7</sup> WaterAid, 2019, Equal to the task financing for a state of emergency in Nigerias water, sanitation and hygiene sector

borrowers. Nevertheless, the combined asset base stands at 1 percent of the assets of the Deposit Money Banks (DMBs). Many MFI remain small, with insufficient capital to cover their costs. This may be partly due to the fact that the Central Bank of Nigeria's evaluation of MFIs for licensing does not include an analysis of their anticipated prudential ratios and management information systems to meet financial and reporting requirements. Over a third of Unit MFBs and 20percent of State MFBs have failed to submit regular reports in recent years.<sup>8</sup>

While there is a large presence of micro-finance institutions in the country that provide agricultural and business loans, loan products appropriate for sanitation/toilet construction from financial institutions were lacking, since they were not considered attractive. In addition, loans currently provided by micro-finance institutions have interest's rates ranging from 18-32%, that are not favourable to poor households, which are the most in need for sanitation/toilet loans. An additional hurdle for the adoption of improved sanitation solutions is the lack of businesses with the know-how and access to material / stock necessary for improved toilet construction.

To achieve SDG6 and specifically Goal 6.2 on access to improved sanitation for all by 2030, Nigeria must not only ramp up its sanitation solution provision to provide basic WASH services to its current population but also develop and adopt mechanisms that will ensure the provision of improved sanitation services in line with population growth. It is worth noting, that SDG target 6.2 requires safely managed sanitation, which includes not just the facilities but services and solutions along the whole sanitation value chain.

This report will mainly draw on the example of the state of Bauchi, the area where the RRFS has been tested and interviews have been conducted. Bauchi State in the North of Nigeria is a region comprised of 12 Local Governorate Areas and 8349 communities. It is characterized by farming (54% farmers) and economic activities where many are employed as public servants (34%). According to the wealth ranking of the Sanitation Marketing Survey, which is based on criteria such as type of housebank materials, ownership of HH items etc., 29% of respondents are "rich", 68% are "average" and 3% are "poor". The average number of persons per Household is 10-11. According to the MICS survey in 2017, 86% of Bauchi's population had access to improved latrines, whereas 24% had access to unimproved latrines and 10% of the population are without toilets and therefore practice open defecation. 45% of respondents prefer the direct single pit pour flush toilet, out of the typical options offered. 5,029 out of the 13,595 communities in the State have achieved ODF status, most of which are located in the 6 LGAs that have been validated as LGA-wide ODF.<sup>9</sup> A total of 371,983 toilets are required to be constructed in Bauchi State to attain the SDG target.<sup>10</sup>



Figure 2 Map of Nigeria with Bauchi State

## b. Evolution Map

UNICEF and the Government of Nigeria, with the support of donors and other international and local agencies and organizations have been fighting open defecation and working to provide improved sanitation for over a decade. Nigeria recognizes the right to water and sanitation in its national legislation following the 28 July 2010 passing of the United Nations General Assembly Resolution 64/292, which explicitly recognized water and sanitation as a human right and acknowledged that water and sanitation are essential to the realisation

<sup>8</sup> World Bank, 2017. Nigeria's Microfinance Bank Sector: Review and Recommendations, <https://openknowledge.worldbank.org/bitstream/handle/10986/31320/134708-WP-P160136-PUBLIC-15-2-2019-11-10-55-NigeriaMicrofinanceBankSectorReviewandRecommendations.pdf?sequence=1&isAllowed=y>

<sup>9</sup> Concept Note Sanitation Pool Fund Bauchi State

<sup>10</sup> UNICEF, 2021, RfP for the Management of Sanitation Revolving Loan under the Bauchi State Sanitation Pool Fund

of all human rights. Ending open defecation is a complex endeavour that requires awareness, behavioural change, availability of skills and materials as well as financing mechanisms. Collaboration of stakeholders at all levels and from different sectors is decisive for the success of driving such change, namely policymakers, local governments, financial entities such as banks, MFIs and others, local government offices, Civil Society Organizations and the business sector to implement. These actors are embedded in local ecosystems, operate according to existing policies and programs, and create initiatives and platforms, that can define the success of a mechanism such as the RRFS. These programs have not yet achieved open defecation free Nigeria, however they were crucial in laying the ground and testing and adapting approaches to the local circumstances, particularly in raising awareness among the population about improved sanitation options, and creating community engagement around sanitation. The below Evolution Map provides an overview of the ecosystem in which the RRFS operates and fosters a clearer understanding of the key success factors in place as well as potential gaps in the ecosystem that could be addressed to scale the RRFS.

- In the year **2000**, the Federal Government adopted the National Water and Sanitation Policy through investment from the Government, private sector and beneficiary communities
- On the financial side, the Central Bank of Nigeria published Guidelines For the Regulation and Supervision of Microfinance Banks in **2000**
- National Water Resources Management Policy (NWRMP, **2003**) recognized water as an economic good and promoted integrated and demand driven services. It prepared the ground for the 2003 Presidential Water Initiative “Water for People, Water for Life” which was launched by then-President Olusegun Obasanjo. The initiative targeted 100 percent water access in state capitals, 75 percent access in other urban areas, and 66 percent access in rural areas by 2007.
- National Water and Sanitation Policy (**2004**) encouraged private-sector participation and envisaged institutional and policy reforms at the state level. As of 2007, only four of the 37 states (Lagos, Cross River, Kaduna, and Ogun) began to introduce public-private partnerships (PPPs) in the form of service contracts.
- From **2004-2007**, UNICEF and several partners such as WaterAid, State and Local Governments in collaboration with the National Task Group for Sanitation (NTGS) piloted the Community Led Total Sanitation approach. The pilot programme was scaled in **2008** to the national level. CLTS effectively raised awareness about the need to end open defecation and created demand for toilets amongst communities in Nigeria, built the capacity in WASH of 10,000 personnel in local, state and federal authorities, and created and trained around 10,000 volunteers hygiene promoters and leaders at community level that were formed in WASHCOMs. A guideline to certify ODF communities was developed, to later be conducted through a third-party certification and validation by an independent body. However, toilets built were basic and did not meet the improved sanitation criteria nor the expectations of users, thus leading to a relapse to open defecation.<sup>11</sup> Also, finding qualified masons and materials to build improved toilets was challenging and toilets were costly.
- Since **2008**, the Government partnered with UNICEF to accelerate sanitation uptake particularly in rural communities, through the scale up of Community Led Total Sanitation (CLTS) approach in over 20 states. The WES project funded by UNICEF / DFID in collaboration with WaterAid continued the CLTS efforts throughout 2008-2009
- The Sanitation, Hygiene and Water Supply in Nigeria (SHAWN) Programme “Towards Accelerating Access to Sanitation, Water and Hygiene” funded by UNICEF / Netherlands ran from **2010 – 2021**, which led to many LGAs in states successfully becoming Open Defecation Free.
- In **2013**, the Central Bank of Nigeria revised the guidelines for the Regulation and Supervision of Microfinance Banks. By this time the microfinance sector in Nigeria was booming and the document aimed

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<sup>11</sup> Khan, 2018, Promoting entrepreneurship and affordable financing for uptake of improved toilets in Nigeria

to introduce proper regulatory oversight to prevent unethical practice due to the absence of a direct monitoring system.

- In **2016**, the President of the Federal Republic of Nigeria declared an Emergency Program in the WASH sector along with an Open Defecation Free (ODF) Road Map designed to make Nigeria ODF by 2025. The National Action Plan is a three-phase plan to revitalize the WASH sector comprising an 18-month emergency plan, a 5-year recovery programme, a 13-year revitalisation strategy
- In **2016**, the capacity of the Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) was developed to establish a robust and sustainable supply chain that offers a range of affordable technology options through local entrepreneurs for households living in rural communities.
- The PEWASH builds on the National Rural Water Supply and Sanitation Programme, which ended in 2015. It was established in **2016** to guide coordination and dialogue between the differing actors, focused specifically on rural areas. The Making Nigeria Open-Defecation-Free by 2025 and National Action Plan (NAP) for the revitalisation of the WASH Sector aim to increase political commitment within State Governments and guide progress in the sector.<sup>12</sup> It is also designed to coordinate and complement planned and ongoing projects and programs by all stakeholders in the rural water supply and sanitation sub-sector, including Federal, State, and Local Government Areas (LGAs); development partners; private sector; and civil society to help Nigeria ensure the availability and sustainable management of water and sanitation for all.
- In April **2019**, the ‘Clean Nigeria: Use the Toilet’ national campaign was launched, kickstarting the implementation of the national action plan to fight open defecation.
- In **2020** UNICEF Country office set aside 7% from funds budgeted for sanitation and is contributing to the joint RFS with RUWASSA. The current SRF is N40 Million (\$96,325), of which N30 Million (\$73,243) have been disbursed already to MFIs and the remaining N10 Million (\$24,081) is retained by RUWASSA for loans to small and medium business support
- In **2020** the Federal Government announced the expansion of phase two of the Partnership for Expanded Water Supply, Sanitation and Hygiene (PEWASH) in 10 states (56 LGA).
- In November 18 – 19, **2022**, the World Toilet Summit will be held in Abuja, Nigeria under the patronage of Muhammed Buhari, President of Nigeria, and organized by OPS-WASH Nigeria together with the World Toilet Organization. It will be an important moment to further accelerate the drive to provide proper sanitation for all in Nigeria.

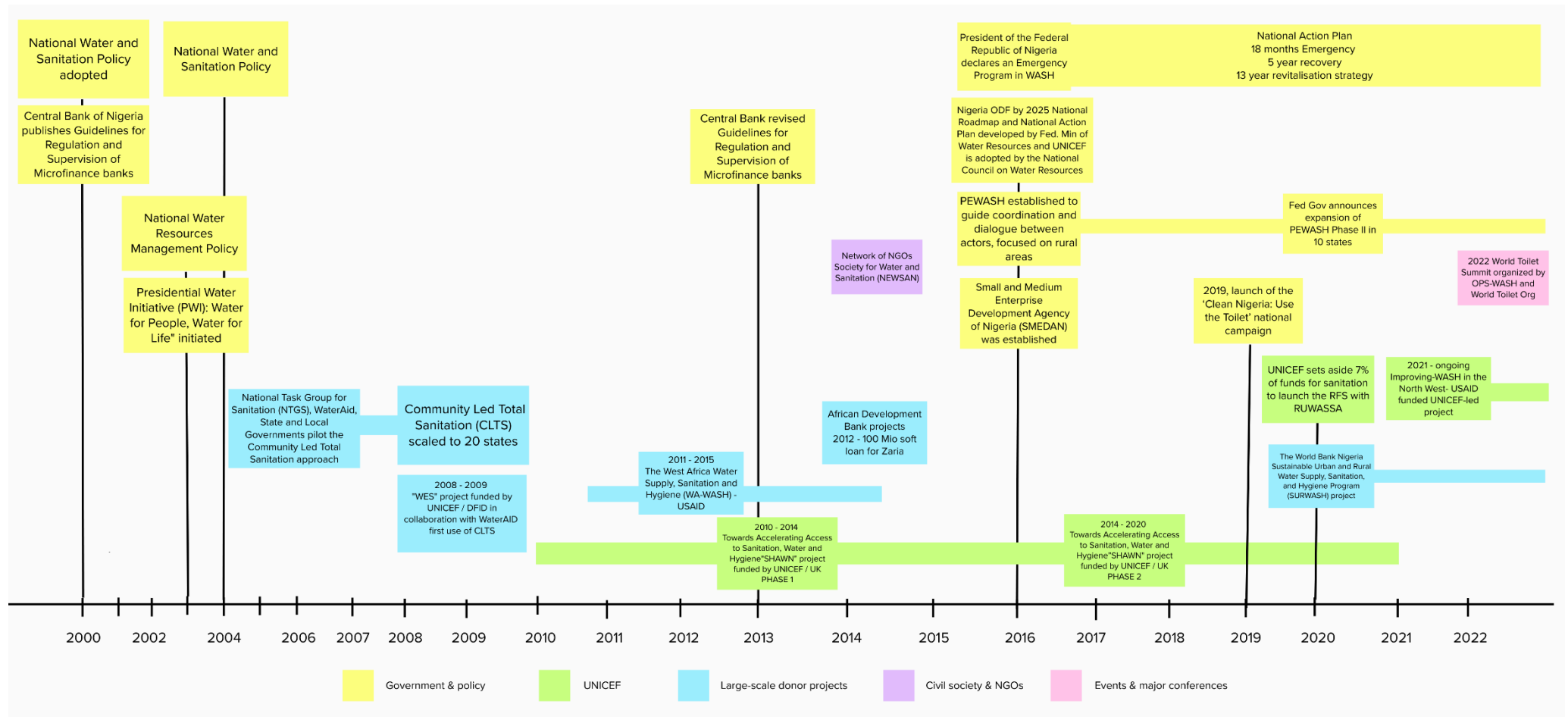
The WASH sector in Nigeria is guided by the National Rural Water Supply and Sanitation Policy, the National Water Resources Policy and the National Water and Sanitation Policy. These are implemented in parts through strategies like the National Action Plan, the Partnership for Expanded Water Supply, Sanitation and Hygiene (PEWASH) Strategy (2016-2030), and the National Open Defecation Free (ODF) Roadmap. These strategies prioritise the elimination of open defecation by 2025 and achieving universal access to basic water services and sanitation in rural areas by 2030. The national strategy then trickles down to State governments, who adopt their own legislation, policies and define priorities.<sup>13</sup> Overall, the translation of policy principles into actionable plans and budgets has been weak.

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<sup>12</sup> WaterAid, 2019, Equal to the task financing for a state of emergency in Nigerias water, sanitation and hygiene sector

<sup>13</sup> WaterAid, 2019, Equal to the task financing for a state of emergency in Nigerias water, sanitation and hygiene sector

# Evolution Map<sup>14</sup>



<sup>14</sup> Policies, project and events mapped based on readings. Initial review with UNICEF CO Nigeria team. The map is a living document and additions and comments by sector stakeholders are welcome to continuously update the map



### c. Sanitation Funds in Nigeria

Having had an overview of other initiatives in the sanitation and sanitation financing sector, it becomes clear that several sanitation financing options are available to Nigerians across several states previous and in addition to the 7% set aside fund for Sanitation, under which the current RRFS is financed. The below tables are based on the national Sanitation Marketing Dashboard, provided to the consultants by UNICEF dated May 2022.

First, it is notable that while the 7% revolving Fund was deployed so far only in Bauchi State, previous pool funds have been released by the Government and through MFIs.<sup>15</sup>

	LGAs	No of Communities	Pool fund amount release by Govt.	Pool Fund released to MFIs (million)	Loans through the 7% Revolving Fund	Loans so far through pool fund	Improved Toilets Through MFI, using state pool fund
<b>Bauchi</b>	12	8.349	30.000.000 <sup>16</sup>	30.000.000	30.000.000	104.300.000	2.980
<b>Benue</b>	8	3.212					
<b>Kaduna</b>	12	5.167	200.000.000	4.561.250		4.561.250	
<b>Katsina</b>	13	6.397	150.000.000	60.000.000		43.270.000	930
<b>Jigawa</b>	20	2.702					61
<b>Zamfara</b>	6	2.463					
	<b>71</b>	<b>28.290</b>	<b>380.000.000</b>	<b>94.561.250</b>	<b>30.000.000</b>	<b>152.131.250</b>	<b>3.971</b>

Secondly, MFIs have used their own funds to Households to build improved toilets using micro-finance.

	No Of active MFIs	Loans by MFIs from own fund	Total Improved Toilet Through MFI-using MFI fund
<b>Bauchi</b>	3	5.500.000	107
<b>Benue</b>	1	2.100.600	76
<b>Kaduna</b>	3	-	52
<b>Katsina</b>	3	1.820.000	-
<b>Jigawa</b>	2	17.440.000	497
<b>Zamfara</b>	2	7.082.000	113
	<b>14</b>	<b>33.942.600</b>	<b>845</b>

A strong presence of Adashes - Community Savings and Credit Group that support households with funds needed to construct improved toilets - is notable in several states, including a very strong presence in Bauchi. Many communities have access to an Adashe, with an average of 20 members, and they disburse on average N20.000 monthly for latrine upgrade. In Bauchi alone, 3468 toilets have been improved through Adashes.

	No Of active Adashes	No of HHs that have received Adashe loans	Loans through Adashe	Total Improved Toilet Through Adashe
<b>Bauchi</b>	974	3.583	93.636.000	3.468
<b>Benue</b>	75	-	35.840.000	1.792
<b>Kaduna</b>	281	-	46.224.000	1.712
<b>Katsina</b>	184	1.265	25.888.000	1.618
<b>Jigawa</b>	94	2.150	67.376.018	1.916
<b>Zamfara</b>	194	-	21.180.000	1.412
	<b>1.802</b>	<b>6.998</b>	<b>290.144.018</b>	<b>11.918</b>

Finally, in many more affluent communities, HH have used self-finance for an improved latrine, results in the largest number of improved toilets, out of all the funds provided, however is only possible for HH that have sufficient financial resources to pay for the toilets directly from their income or savings.

<sup>15</sup> Government of Nigeria, Sanitation Marketing Dashboard, May 2022

<sup>16</sup> According to information from UNICEF, the matching fund from the Government of Bauchi has not yet been received, unless this refers to an earlier matching fund

	No Of active TBOs	Number of HH that used own money through TBOs	Total Amount of HH self finance for Improved latrine	Total Improved Toilet through Self Finance
Bauchi	142	19.303	540.484.000	14.056
Benue	24	-	-	15.544
Kaduna	96	-	-	11.718
Katsina	24	195.729	5.480.412.000	12.412
Jigawa	141	11.522	322.616.000	16.431
Zamfara	69	-	-	8.218
	<b>496</b>	<b>226.554</b>	<b>6.343.512.000</b>	<b>78.37979</b>

### 3. Regional Revolving Sanitation Fund

#### a. Objectives of the RRFS

According to UNICEF Concept Notes for the Bauchi Sanitation Pool Fund, the RRFS aims to:

- **End open defecation and create demand for sanitation.** The Sanitation Marketing activities were targeted at complementing the Community Led Total Sanitation (CLTS) campaigns in Local Government Areas (LGA) to provide durable and affordable improved sanitation options that will guarantee the dignity and improved living conditions of the people of Bauchi state.
- **Business Expansion by high-performing TBOs:** the Sanitation Pool fund set out to provide active TBOs access to loans for expanding their businesses, ultimately contributing to increasing the number of household toilets.
- **Increase access to improved sanitation, and hygiene services for vulnerable people:** The inclusive designs of improved toilets would ensure that access for people with disability would be ensured, whereas loans to the poorest of the poor at lower interest rates would be agreed with MFIs. The Pool Fund will provide cheaper access to finance households improved toilets and to re-pay instalment for households who cannot afford the full cost of improved toilets up front.
- **Improved livelihood through sanitation-based income generation and business development support:** The SanMark value chain will facilitate sanitation focused income generation activities thereby creating employment at various levels of the chain such as material providers, TBOs, masons, Sales Agents, WASHCOMs, and hygiene promoters.

The below analysis will take into consideration the objectives set out for the RRFS and draw recommendations for further development and scaling.

#### b. Functioning of the RRFS

##### Summary of the RRFS functioning

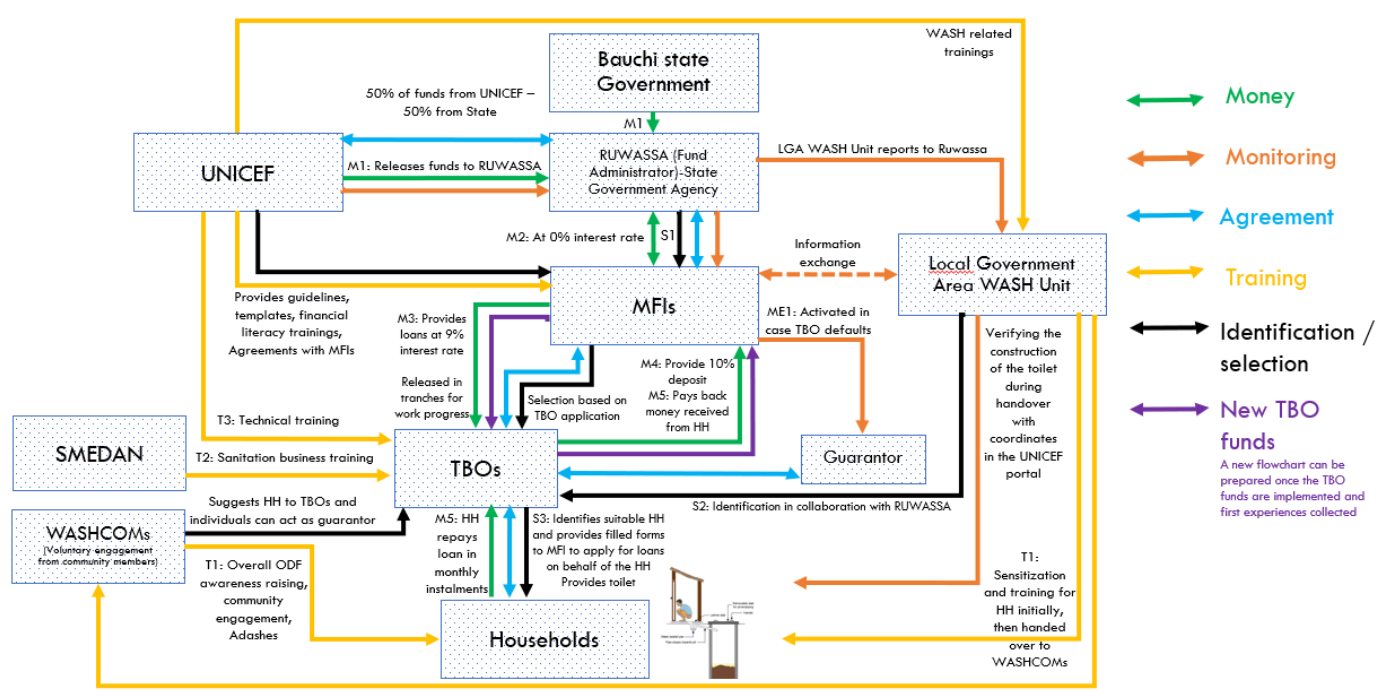
The RRFS (also sometimes referred to as the UNICEF the 7% set-aside fund for innovation / Sanitation Revolving Fund and others), is a mechanism that starts with the Government of Nigeria, Donors and Agencies such as UNICEF contributing funds to a joint Sanitation Fund (M1) that is administered by the governmental Rural Water and Sanitation Agency (RUWASSA). RUWASSA provides the funds at 0% interest rate to Micro-Finance Institutions MFIs (M2) that are selected through a competitive bidding process (S1). RUWASSA disburses the loans to MFIs 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.

Initially, Local Government Area WASH Units and later local WASH Committees (local voluntary entities created by UNICEF) conduct sensitization (T1) about the importance for improved sanitation solutions in the communities of Bauchi State. The LGA WASH Unit identifies suitable Toilet Business Owners (TBO) (S2) and checks their qualifications before suggesting them to the MFIs as partners. TBOs are trained with the support of SMEDAN (T2) on managing a sanitation business as well as by UNICEF concerning the technical construction of improved toilets (T3).

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 (S3). 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 LGA WASH Unit is kept informed of the decisions to ensure all relevant actors are aware about the HH and types of toilets to be constructed. The MFI disburses funds for several approved HH toilet constructions to the TBO at an interest rate not exceeding 9% (M3). In return, the TBO provides a 10% deposit on the loan amount (M4) 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 (A1), that can be activated by the MFI in case the TBO defaults (ME1). Initially, loans were directly disbursed to HH, who paid the TBOs for the toilet construction, however the repayment rate was low and fund diversion common. Therefore, while the loans are targeted at Households, they are disbursed to TBOs, which ensure a high repayment rate.

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 (M5). 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, takes a picture and the coordinates of the toilet and uploads the information on the dedicated portal by the Federal Ministry of Water resources with the support of UNICEF ([www.washims.com.ng](http://www.washims.com.ng)).

The RRFS 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.



The specific roles and responsibilities of the stakeholders involved in each step of the RFFS are detailed below:

### Donor

The main donors in the current RFS are the Government of Nigeria through RUWASSA and UNICEF. The functioning of the current RFS is based on the experiences of the SHAWN (Sanitation, Hygiene Water Supply in Nigeria) project, a Netherlands and DFID funded project that started in 2010 and under which UNICEF implemented sanitation marketing (SanMark) and tested financial mechanisms and partners in micro-finance, initial revolving funds, community savings and credit groups and barter trade.

In 2020 UNICEF Country office set aside 7% from funds budgeted for sanitation and is contributing to the joint RFS with RUWASSA. The current fund is N40 Million (\$96,325) with a 50/50 contribution from UNICEF and the Government of Nigeria through RUWASSA, of which N30 Million (\$73,243) have been disbursed already to MFIs as per the interview by one of the consultants with UNICEF Nigeria office, and the remaining N10 Million (\$24,081) is retained by RUWASSA for loans to small and medium business support. September 2022 data provided by UNICEF shows that so far only N25 Million have been disbursed to the MFIs, demonstrating a discrepancy in the data collected to be clarified. The plan is to increase the fund by N60 Million (\$144,487), with N30 Million (\$73,243) each, coming from the Government of Nigeria / RUWASSA and UNICEF respectively. The target for 2022 is to release funds to MFIs that will allow to build 2000 toilets.

The Government of Nigeria contributes funds for the loans matching the UNICEF input, however UNICEF's budget also contains payments for the running expenses as well as costs for staff, training, transportation and other aspects involved in running the fund, amounting approximately to 25% of the project, whereas 75% are dedicated for the revolving loan.

### **Fund Administrator RUWASSA**

The RFS in Nigeria is administrated by RUWASSA, the Government's Rural Water Supply and Sanitation Agency, that aims to ensure sustainable provision and access to safe water, hygiene and sanitation services for all citizens through investment, water facility construction and rehabilitation, capacity building and partnerships. RUWASSA supports WASH activities across Nigeria and in all 20 Local Government Authorities (LGA) in Bauchi State. RUWASSA collaborates actively with the LGA WASH Units to provide triggering using Community Led Total Sanitation + Sanitation Marketing + Sanitation Financing (CLTS++).

In its role as Fund Administrator, RUWASSA conducted the identification and initial assessment and sensitization of MFIs on sanitation. Interested MFIs must submit applications to RUWASSA, and such applications will be assessed by the state procurement committee supported by UNICEF. Following the decision, RUWASSA signs the loan agreements with the selected MFI and is responsible for releasing the funds to MFIs and for monitoring the functioning of the RFS.

With its convening power, RUWASSA conducts monthly meetings with the relevant stakeholders and gathers bank statements from MFIs and monthly reports from the LGA WASH Units to ensure quality control and report to UNICEF on the overall functioning of the RFS. RUWASSA disburses the loans to MFIs at a 0% interest rate.

### **Financial service providers: Acchawei, WODASS, Rahama**

The selection criteria for MFIs, as selected by RUWASSA, in coordination with and following UNICEF guidelines are the following:

- MFI should be currently fully engaged at the state level and has been operational for at least 7 years
- MFI should have cumulative loan count of at least 40,000 loans during its operating history
- As a part of legal requirements, the MFI should be a registered body under the relevant laws.
- MFI maintains its accounts properly and is audited as per statutory requirements.
- MFI has had average annual turnover/budget of over N40 million in the last three years.
- The MFI has a Portfolio at Risk that is less than 5%
- The MFI shall provide evidence of an in-house monitoring system to track the loan disbursements and repayments
- The MFI has had experience of having provided loans in the Water and Sanitation sector or projects in similar nature
- Demonstrated financial management skills with ability to share high-quality insights on program implementation.

The most experienced MFI in operating the RFS in Bauchi is Rahama, which before the UNICEF RRFs, launched sanitation loans at interest rates of 17.5% for 6 months, in response to the communities' demand for improved

sanitation. The MFIs WODASS and Acchawei joined the RFS more recently, and it being their first sanitation fund, they are learning about the sector, stakeholders and processes as they implement the programme.

MFIs are an active player in the RFS. They:

- Sensitize the TBOs (who are introduced to them by the WASH Units) on the selection of beneficiaries
- Approve the list and loan applications of beneficiaries provided to them by the TBOs, in collaboration with the WASH Unit
- Process the application forms within 48hrs to one week.
- Sign Agreements with TBOs and disburse the loans to the TBOs at an interest rate not exceeding 9%, with a tenor of 6-7 months. TBOs are in turn required to provide a guarantor and, in some cases, a 10% deposit of the aggregate loan sum.
- Carry administrative costs and risk of lack of loan repayment. In case of default from the TBO, they contact the Guarantor, who applies pressure to the TBO, who applies pressure to the HH.
- Some conduct monitoring calls and visits to verify the beneficiaries, whereas others coordinate with the WASH Units who check that the toilets are constructed during handover and send reminders to TBOs for payments.

### **Local Government Area (LGA) WASH Units**

The LGA WASH Units coordinate all WASH activities at the LGA level and on the ground. The WASH Units understand the fund and its mechanics extremely well and are aware of the limitations and possibilities of their communities en route to becoming ODF. They are key actors linked to the sanitation fund, in charge of:

- Coordination of WASH interventions by the state government and donors on the ground
- Awareness raising and sensitisation on sanitation issues
- Promotion of the RFS, to increase demand and engagement with traditional and religious leaders, together with WASHCOMs, which they previously trained
- Identification, selection and suggestion TBOs to the MFIs for approval and selection
- Support to the TBOs in identifying household beneficiaries
- Verifying and approving the construction of toilet facilities with the MFIs and ensuring that loans are disbursed in a transparent and unbiased manner and that they are duly repaid.
- Liaison with and reporting to RUWASSA
- Record success stories relating to the fund

### **WASHCOM**

Water Sanitation Hygiene Committees, created through previous UNICEF programs, are responsible for promotion of WASH best practices in each community. WASHCOMS play an important role in:

- Door to door awareness creation, sensitization and inspection of household health, WASH and hygiene promotion.
- Promoting the SRF to Households
- Helping TBOs to identify potential household beneficiaries
- Assist TBOs with loan collection (when the HH has the payment, but the TBO is unavailable)

The WASHCOM is a voluntary role and does not charge a fee.

### **SMEDAN**

SMEDAN is engaged by UNICEF to provide Sanitation business trainings to the TBOs. The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) was established by the SMEDAN Act of 2003 to promote the development of the MSME sector of the Nigeria Economy. The Agency positions itself as a One Stop Shop for MSME Development.

### **Toilet Business Owners**

TBOs that become part of the RRFs, are identified by the LGA WASH Units and suggested to the MFIs, an important process since they are the recipients of the loans. They are usually advanced businesses in the

construction sector, most of them having been established for over 10 years, with several staff, marketing agents etc. The requirement for selection are:

1. Track record of commitment to timely delivery of toilets (delivered toilets are verifiable),
2. Evidence of a sanitation related business/ shop and can repay loan with ease as funds are meant to be revolved for others to also benefit
3. Evidence of an accounting system showing record of how fund is managed in the business
4. TBOs has a record of constructing at least ten toilets monthly and has effective pricing and payment options for toilet construction such as:
  - Self-finance & Adashi' loan funding mechanism
  - Buy-now and pay small-small OR Buy-now and pay later
  - Trade-by-Barter system
  - Discounted/promo rates to communities to boost demand (Note: Must have adopted at least 3 of these options)
5. Prioritized promotional activities in sanitation business
  - Promotions in churches/Mosques or public places & door to door promo and Evidence of Marketing through cooperatives- where available.
  - Evidence of promotions through Social Media platforms where necessary
  - Engagement of town criers, WASH Adashi groups & other local systems to sell toilets to households
  - Evidence of TBOs Use of agents in strategic places for broader marketing
  - Record of commitment on Promotions through posters and bill boards or with pictures of toilets he has constructed
  - Evidence of working relationship with Ward Officers & communities
  - Facilitate/Participate in Advocacies to Religious, traditional and other group leaders (district and clan heads, youth and women leaders)
  - Prospect to Local Radio Station Announcement/promotions
6. TBO Participates in bi-weekly meeting with the WASH Unit/Departments for progress review and technical support/cross learning support
7. Staffing requirements
  - Deployment of individual & corporate Sales Agents including WASHCOMs
  - Evidence of his engagement with masons for construction
8. A Proposal/Action plan stating clearly strategies to be deployed with the loan to boost sales (Supplier loan) and number of household toilets/ names of potential benefiting households for tracking purposes (consumer loan).

Toilet business owners (TBOs) are a key actor in the RRFs, since they:

- Inform HH about the options available and assess their needs
- Distribute, collect and pre-assess loan applications from HH, which are then provided to the MFI for approval
- Sign an agreement with the MFIs and receive the loan on separate bank accounts
- Provide a Guarantor and for some MFIs deposit 10% of the loan amount as guarantee
- Procure material, supply material, build toilets and sanitation systems
- Handover the constructed toilet to the HH in presence of the LGA WASH Unit
- Collect the payments from HH

Through SMEDAN, they can access trainings for MSME. Recently, loans for TBO growth have been launched, for businesses to grow and further increase their capacity.

TBOs offer three different types of toilets with toilet superstructure options that include:

- interlocking blocks, burnt bricks and cement blocks;
- platform that includes pour flush water trap with ceramic squat-pan
- sub-structure that is constructed using rings, cement blocks and burnt bricks for lining depending on local geological conditions
- locks, doors, tiles and further decorative options

The options and the materials provided must be locally available and with the optimum costing to ensure viability for TBOs and feasibility for households. The average cost of toilet under each type ranges between 65,000 – 80,000 Naira.<sup>17</sup>

Loans to TBOs have been initiated and will be disbursed and tested in the near future by MFIs, first with three, later on expanding to further sanitation businesses.

### Households

Households are the beneficiaries of the RRFS scheme. While they do not receive the money from the loan physically, they express the loan amount that they are interested in (usually around 45.000 Naira) and receive the toilet according to their needs and financial abilities, which they pay back in instalments to the TBO at the same interest rate as provided to the TBO by the MFI. HH are selected based on their needs, their income and ability to repay. While many HH already had basic toilets, these were often not safe from a health and environmental perspective. The programme prioritises the delivery of safe and advanced sanitation solutions, thus it was key to exchange with the households on their motivation, their satisfaction with their toilet, and the construction process.

## c. The RRFS in numbers

General Overview				
	OVERALL	RAHAMA	WODASS	ACCHAWEI
<b>Loan amount available from RUWASSA / UNICEF</b>	40.000.000 that includes 20.000.000 from UNICEF and 20.000.000 from the Government available in the fund administered by RUWASSA. Commitment to increase the fund by 60.000.000 at 50/50, and so far 30.000.000 have been received by UNICEF Country office. Disbursement to Ruwassa will take place when the Government of Nigeria matches the amount of the 30.000.000			
<b>Loan tenure from Fund administrator to MFIs</b>	12 months	12 months	12 months	12 months
<b>Loan tenure from MFIs to TBOs on behalf of HH</b>	6-7 months	7 months	6 months with 1 month moratorium	7 months
<b>Number of HH loans disbursed</b>	1066	708	138	220
<b>Number of TBO loans disbursed</b>	0	0 (disbursement to 3 TBOs planned)	0	0
<b>Number of toilets built / HH with improved toilets</b>	926	587	119	220
<b>Loan repayment rate</b>	97%	97%	73.5%	66.4%
<b>Cost of operating the RRFS per MFI per month</b>	Non-staff costs: \$31-108	Non-staff costs: N100.000 covered from RRFS profits Monitoring - N30,000 (72\$) Calling: N10,000 (\$24) Info sharing meeting with TBO: N5,000 (\$12)  In addition the full salaries of the Branch Manager and SRF Coordinator (unknown amount) are covered	Non-staff costs: N15.000 (35\$) for communication per month Advertising is done by TBOs  Team involved (cost unknown): Credit Officer, and part time M&E officer, Finance Officer, Executive Director	Non-staff cost: Communication and monitoring - N13.000 (31\$) mostly via monitoring visits, calls, chats and emails  Staff cost unknown
<b>Overall UNICEF cost of operating the RRFS</b>	89.000 USD	Innovation portfolio budget 350K USD out of which 261K USD (75%) is for loans and 89K USD (25%) is for soft activities, covering UNICEF, RUWASSA and LGA costs		
Additional data				
<b>Loan amount made available by Fund administrator to MFIs</b>	25.000.000	15.000.000	5.000.000	5.000.000
<b>Average loan per HH for a new toilet</b>	40.000-45.000	40.000	45.000	45.000
<b>Normal cost of sanitation solution per toilet</b>	20.000-50.000	40.000 (\$96)	30.000 – 50.000 (\$72 - \$120)	20.000 – 50.000 (\$48 - \$120) <sup>18</sup>
<b>Number of new people with improved toilets</b> <small>(based on calculation with average nr of people per HH in Bauchi State =10)</small>	9260	5870	1190	2200

<sup>17</sup> Sanitation User Experience survey Report, 2018

<sup>18</sup> The lower band the cost of improving a basic toilet. The higher band is the cost of constructing a new pour flush toilet without super-structure

<b>Interest paid by households and dedicated to additional loans ('Profit plowed back')</b>	3.671.326	2.050.000	561.326	1.060.000
<b>Loans disbursed to men</b>	<i>Based on available data: 92.2%</i>	No disaggregation, but mostly male	120 Male	210 Male
<b>Loans disbursed to women</b>	<i>Based on available data 7,8%</i>	No disaggregation, but mostly male	18 Female	10 Female
<b>Processing time for a loan application</b>	2-5 WD	5 WD	2 WD	5 WD

The information from previous chapters and data in the above table shows several facts worth noting, that we will address in the following chapters:

- The loan repayment rate, as well as related costs to manage the fund vary strongly across the selected MFIs.
- 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 or managing the fund)
- Channelling the loans through the TBOs, while effective, prevents the achievement of the objective of reaching the most vulnerable persons, thus ensuring that the most vulnerable are supported through a subsidy or other programme is crucial
- The roll-out of the RRFS in Bauchi state is relatively small scale in terms of loans disbursed and population reached, and it is limited to one state with specific conditions. This makes it difficult to draw conclusions for scaling.
- Loans for TBO development have just recently been launched and it is too early to draw conclusions from this experience

## 4. Analysis

The key success factors and areas for improvement of the RRFS in Nigeria and assessed through a SWOT analysis in the following chapters.

### a. Relevance

#### Strengths

The RRFS in Nigeria builds on over a decade of experience of programs working to promote sanitation and end open defecation led by UNICEF, the Government of Nigeria and partners. The RRFS is in line with international goals, such as the Sustainable Development Goals, in particular Target 6.2 aimed at ending open defecation and providing access to sanitation and hygiene.

The RFS addresses the need for:

- Innovative financing solutions for households interested in improved toilets that are not able to pay up front, through offering a loan at more preferential rates to borrowers than commercial loans
- Strengthening the toilet supply chain, by training toilet businesses to ensure that the demand is met with adequate solutions, technical and business know-how and material availability.
- Providing improved sanitation options that satisfy the users expectations and thus prevent a return to open defecation



- A more sustainable approach to funding sanitation than relying fully on donor and state funding, by allowing to recover the cost of toilets build (at least partially) and revolving the fund several times to further sanitation solutions, given the fact that the gap between government and donor funding for sanitation to reach national targets particularly in rural areas is estimated to be over 50%.<sup>19</sup> Costs for operating the revolving fund however remain (see chapter 4.c)
- The RFS facilitates sanitation focused on income generation activities and has created initial employment opportunities. TBOs are very satisfied with the RFS, mentioning that it increased their client-base through the increased demand and additional promotion they are conducting.
- The planned business expansion loans to TBOs are targeting a clear need of for instance enabling TBOs to ensure toilets materials are readily available, reduce waiting times or be subject to logistical delays, however their disbursement has only recently been launched and thus it is too early to assess the impact. The launch, conducted by Rahama has identified seven eligible TBOs, however the MFI plans to initially provide loans to 4 TBOs, wait for the loan repayment and then disburse the loan to the remaining 3 TBOs, to exert peer-pressure on the businesses from the first batch.

## **Weaknesses**

Despite progress on reducing open defecation, access to improved sanitation remains limited in Nigeria. It has already become clear that Nigeria will not reach the SDG 2025 targets, the status quo is unsustainable and drastic measures must be taken to offer improved and sustainable sanitation solutions to everyone.

While the programme addresses gaps and needs identified in previous programs such as the CLTS and SHAWN, it is still at a testing phase and applied in a limited number of communities in Bauchi State, while the implementation in Oyo state is currently being initiated. The experiences gathered and lessons learnt from this pilot will need to continue being observed to ensure the transferability of the mechanism to other states.

When it comes to the beneficiary targeting, the RFS currently does not reach the poorest of the poor, given that the selection criteria by TBOs for HH require a stable income, to ensure a high and regular rate of repayment. Most of the beneficiaries in Bauchi work in the public sector and there is no social fund or subsidy linked to the implementation of the RFS to address the HH that do not qualify for the loan.

The programme has so far not put particular attention on reaching female borrowers and reached only 7.5% of female households through the loan programme, according to the limited gender disaggregated data available.

There is not sufficient evidence to assess whether the improved toilets allow access for people with disability.

## **Opportunities**

As the programme grows and expands, new partners will be brought on board to build upon existing structures and drive the sector forward. They also give testament to a shift in perception of the sector – demonstrating that there is an increasing appetite to get involved, also commercially. The World Bank is rather new to the sanitation sector and is eager to deepen its involvement by linking up with the RFS and building on existing experiences of the programme.

It is known from previous experiences, even in traditional and religious communities, that women are more reliable borrowers than men. It is also an important component of SDG Goal 6.2 is to “achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situations”. While it is understood that the RRFS is implemented as a pilot and that specifically targeting women in male-led households for the provision of a

<sup>19</sup> WaterAid, 2019, Equal to the task financing for a state of emergency in Nigeria's water, sanitation and hygiene sector

toilet was not a focus of the project, the project is missing out on an important opportunity by not targeting women as reliable borrowers and guardians of sanitation and hygiene in the household. It is indispensable to focus on it more strongly as part of the roll-out and scaling through developing a specific gender strategy.

### **Threats**

Since 1960, Nigeria's population has quadrupled. Scaling sanitation at the current rate is not sufficient to provide the current nor the growing population in Nigeria with improved toilet solutions.

The federal system in Nigeria allows for states to have relative freedom to the 36 states to decide on the type of strategy to pursue open defecation and improved sanitation and related finances dedicated and thus a scaling throughout Nigeria will strongly depend on the willingness of States to adopt the RRFS. While best practice examples from first states might help to bring more states on board, convincing states to follow the approach requires significant additional resources. A common approach and mechanism across States cannot be guaranteed, since the economic, social and cultural circumstances vary from one state to another, for instance requiring an adaptation of the mechanism in states where the concept of loans by public institutions is not supported for religious reasons.

### **Key findings and recommendations**

Recommendations to move forward include:

- Testing the RRFS with the same set-up in other states that might have different conditions will help understand the success factors and gaps better, to strengthen the mechanism before scaling.
- Setting clearer rules about and distinctions between the beneficiaries of the RRFS to make sure it reaches vulnerable populations that the mechanism set out to target. For instance, ensure that a minimum number of farmers are targeted by the loans, rather than civil servants.
- More clearly disaggregate according to gender in the monitoring of programme implementation and targeting women as borrowers more actively particularly in areas where repayment rates are low.
- Advocating with State Governments for the adoption of the RRFS.

## **b. Effectiveness**

### **Strengths**

In Bauchi the fund was implemented smoothly thanks to good relations with the local ecosystem, the State and local governments and a thorough selection and training process of most of the involved stakeholders. The disbursement from UNICEF to RUWASSA, from RUWASSA to the MFIs and from the MFIs to selected TBOs on behalf of the households has been completed successfully, with N25.000.000 having been disbursed to three MFIs, which have disbursed the funds to TBOs. 87% of the loans for toilet construction or rehabilitation have already resulted in new HH with improved toilets, representing 926 toilets.

Participants of the loan programme were satisfied with the improvements generated through the loan:

- MFIs consider it a way to enter a new market
- TBOs note a considerable increase of business
- Households were very satisfied with their improved toilets

The collaboration between WASH Units, TBOs, WASHCOMs seems to be marked by a supportive attitude, with all parties contributing to the effectiveness of the demand creation, selection of HH, toilet implementation and loan repayment on the ground. The fund administrator RUWASSA, who initially selected the MFIs, signed

agreements and disbursed the funds, organizes a monthly meeting with all relevant stakeholders to discuss progress and address challenges.

Capacity building from UNICEF and SMEDAN is provided to MFIs, WASH Units and to TBOs who receive both sanitation business and technical training at the beginning of the programme. WASHCOMS originally formed under the CLTS by UNICEF receive trainings from WASH Units. It is unclear how regularly training is provided continuously. WASHCOMs regularly follow-up with community members to ensure the proper use of sanitation facilities.

### **Weaknesses:**

An evaluation of the programme effectiveness requires comparing progress against clear indicators of expected results that the programme aims to achieve. While the impact of the programme will among others relate to the number of toilets built, the number of people accessing improved sanitation and the loan repayment rate, the indicators for the expected results are not available to the consultant team. Therefore, assessing the effectiveness is challenging and remains mainly qualitative, rather than quantitative. Overall, the data available concerning the RRFS seems limited and scattered. A coherent monitoring and evaluation mechanism, to ensure transparency and access information is currently lacking.

As a pilot, the RRFS in Bauchi is an important learning and testing ground. The amount of funds disbursed for the loan however is limited and has not yet been matched with funds dedicated by the Government of Nigeria. The committed funding from the Government of Nigeria for the Revolving Sanitation Fund is late in its disbursement and it is not clear whether and when it will come through. This limits the RFS in creating impact as well as operationalizing the mechanism in more communities and engaging more TBOs.

Recalling that a total of 371,983 toilets are required to be constructed in Bauchi State to attain the SDG target<sup>20</sup>, the construction of less than 1000 toilets does not create a significant impact on the sanitation situation in Bauchi state. Since the programme implementation is still underway, and data on the return rates from the full funds released in the first disbursement are not yet available, it is difficult to assess the full potential for revolving the fund. The report notes that expansion to test the mechanism in Oyo state are underway.

In relation to the functioning of the RRFS, most of the weaknesses in the effectiveness of the programme is centred around the MFIs, and the institutions responsible to provide oversight and support to the MFIs.

A stark difference is noted between the management of the loan at Rahama, Wodass and Acchawei. Rahama has a repayment rate of 97% of the Household loans, whereas the repayment rate to Wodass is 73,5% and Acchawei is 66,4%, which is extremely low for a revolving fund. In the case of Acchawei, this means that after revolving the fund for a first time, only 2/3 of the fund are left, and after revolving it a second time, over half of the original amount of the loan is lost. In the case of WODASS, the loss rates are similar, where after revolving the loan for a second time just above 50% are left for the next revolving.

Ramaha was already providing sanitation loans before the RRFS and had an existing local structure and presence in the localities where it provides loans. Wodass and Acchawei do not have structures in all the areas they provide loans to, and they had no previous experience with sanitation loans. Their lacking presence on the ground might be one of the factors in the lower repayment rate compared to Rahama. Due to its longer-standing experience, Rahama was provided with N15 Million in loans, compared to just N5 million for Wodass and Acchawei.

One MFI, Acchawei, was found to (inadvertently) engage in a high-risk loan management practice by allowing WASH Unit staff to serve as guarantors to a loan as large as N2 Million. While this was discovered and corrected immediately, it poses serious risks to the fund's continuity, as it represents a conflict of interest and

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<sup>20</sup> UNICEF, 2021, RfP for the Management of Sanitation Revolving Loan under the Bauchi State Sanitation Pool Fund

potential corruption as WASH Unit staff are required to endorse TBOs. Even if there is no conflict of interest or corruption, if the TBO defaults, it is highly unlikely that WASH Unit staff can cover the risk. In addition, a N2 Million disbursement out of N5 Million allotted to Acchawei presents a concentration risk. If the TBO defaults, they could immediately lose 40% of their entire RSF allocation. Acchawei was the only out of three MFIs that does not require a 10% deposit from the TBO on the granted loan amount, but only requires a guarantor.

It is worth assessing RUWASSA's role as sensitization and assistance for MFIs and quality control in more detail, since RUWASSA does not have financial expertise and its advisory services are limited to sensitizing MFIs to sanitation aspects. MFIs have not mentioned a presence or significant support from RUWASSA for their daily operations apart from the initial identification, contract engagement and monthly progress update meetings.

The lack of on-the-job coaching and regular follow-up and oversight by micro-finance experts to ensure transparency, the application of best practice procedures and a high repayment rate is a major gap of the RRFS in Nigeria. UNICEF attempted to reach out to ANAMFIN, the institution for regulation and oversight of micro-finance institutions, ANAMFIN has not show interest in collaborating. An alternative has to be identified and engaged to mitigate risks and provide adequate quality assurance and training / coaching.

The role of strong MFIs is highlighted through the above findings. Currently UNICEF is planning to expand the RRFS to Oyo State, where an initial screening available MFIs resulted in identifying only one MFIs with experience and meeting the criteria, which led to a relaunch of the selection.

WASH Units, WASHCOMs and TBOs highlighted in conversations, that the fund is not sufficient to respond to the high demand for improved sanitation loans, that the loan size is too small to adequately cover the cost of toilets (it currently only covers the construction of a sub-structure, platform and lining of the pit) and that the short tenor of the loan is challenging for the households to repay, particularly for poor families.

## **Opportunities**

Many studies and experiences globally and in Nigeria argue for the opportunity that microfinance represents for the economy, particularly in its role to alleviate poverty and narrowing the resource-gap challenges of SMEs. Micro-finance in Nigeria is likely to grow in the coming years and combined with the increasing awareness on water and sanitation and first practices of water and sanitation loans, demonstrate that microfinance for water and sanitation in Nigeria is feasible.

## **Threats**

Overall, the sanitation sector in Nigeria has witnessed low investment in WASH from state governments, and poor cost recovery. Challenges in disbursing funds from the Government to the States and from State to LGA levels have been observed and have also affected the RFS. There have been calls for States and LGAs to employ needs-based budgeting to improve the quality of financial reporting to track investments in sectors like water and sanitation more effectively.<sup>21</sup> For instance, in Spring 2022, Adawama State was considered as the potential next location for the roll-out of the RRFS, however the local government did not demonstrate necessary commitment and so efforts to implement the RRFS in Adawama were abandoned.

Another external threat is the lack of regulation and eco-system support for MFIs in Nigeria. To date, national regulation and oversight concerning MFIs is limited. Many MFIs are licensed, however they only account for an asset based of 1 percent of assets of the Deposit Money Banks and have so far remained small and often inadequate. Over a third of Unit MFBs and 20 percent of State MFBs have failed to submit regular reports in recent years. Poor reporting impairs the CBN's ability to monitor sectoral performance. As seen from the Sanitation Dashboard, the number of MFIs active in the Sanitation sector are very limited and their capacity to absorb, manage and ensure repayment is low.

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<sup>21</sup> WaterAid, 2019, Equal to the task financing for a state of emergency in Nigerias water, sanitation and hygiene sector

In recent months, Nigeria has been strongly affected by increases in the country's inflation rate, which jumped to 20% in July 2022 compared to 2021, the highest in nearly two decades. Consumers are struggling to keep up with rising prices for basic commodities, which also affects toilet construction, since the loan sizes are not immediately adapted to market prices and TBOs are struggling to find materials they can cover with the amount of the loan.

### **Key findings and recommendations**

- The repayment rates of the MFIs WODASS and ACCHAWEI are too low and reduce the size of the fund significantly upon revolving it for the first and second time.
- A weak link in the loan mechanism is the lack of MFIs with experience in the sanitation sector, that have their feet on the ground and able to ensure a high repayment rate. The loan mechanism should aim to involve MFIs that are established in the region where they are disbursing loans.
- The lack of experienced MFIs in general and in the water and sanitation sector is an important hurdle for the roll-out and effectiveness of the RRFS in Nigeria. The existence of strong, experienced MFIs is thus a pre-requisite for the launch of the RRFS, and requires additional efforts being put towards strengthening and creating a supporting ecosystem for MFIs when rolling out the RRFS at national and regional level. In the short term, ensuring that proper microfinance and quality assurance training to MFIs is provided in states where the RRFS is planned to be rolled out in the future should be initiated. In addition, the RRFS urgently needs the involvement of an institution or expert with financial and loan expertise, to provide the less experienced MFIs with regular monitoring, evaluation, and on-the-job coaching to ensure effectiveness and compliance.
- Financial commitments from the states are not reliable. Buy-in from federal states is crucial and needs to be ensured for scaling
- Concerning the loans from MFIs to TBOs and Households, an increase of the loan tenor for the repayment by households should be envisioned from 6 (with 1 month Moratorium) to 12 months, to account for potential income fluctuations or delays.
- An increase of the loan size could be considered to adequately cover the cost of improved toilets, since the current loan only covers the construction of the sub-structure, platform and lining the pit. In addition, the loan size should be linked to a regular review of inflation of construction material and adapted accordingly.
- Developing a coherent monitoring and evaluation mechanism in place for all stakeholders involved to track progress

### **c. Cost-effectiveness / Efficiency**

#### **Strengths**

Donors, UNICEF and the Government of Nigeria are committed towards ending open defecation using the mechanisms of the RFS among other sanitation activities. UNICEF's total sum of funding reserved for the RRFS is \$1.3 Million at regional level, out of which N20.000.000 has been disbursed in the first tranche. The State government has released the matching funds of N20.000.000 for the 1st tranche. Both parties have agreed to increase the loan amount in response to high demand with N60.000.000, again with a 50/50 contribution. The second tranche of N30.000.000 has been received by UNICEF Nigeria country office and will be released when RUWASSA receives the matching fund from the Government.

According to data provided by the UNICEF Country Office in Nigeria for September 2022, a total of 1066 household loans have been disbursed so far, with N25.634.695 currently in circulation with the TBOs. The RRFS has led to the construction or rehabilitation of 926 improved sanitation solutions. The data also indicates that approximately 15% of the original value of the fund has been repaid by the households and that is being dedicated to new loans. While originally progress was exceeding the anticipated targets for the first quarter, the rate of implementation and of repayment has slowed down.

The process of the RRFS is working, with all stakeholders involved completing their roles. According to interviews with some of the MFIs, the repayment of the revolving fund is working more efficiently than previous sanitation funds since the loans are received by the TBOs on behalf of the households, preventing fund diversion.

### **Weaknesses**

In terms of money dedicated from the Government of Nigeria, UNICEF must apply soft pressure on the Government, State authorities as well as RUWASSA for the disbursement of funds to avoid delays that are limiting the impact that the programme could have.

While the roles and responsibilities of the different actors involved are generally clear, most often there are several institutions involved in a task, such as for instance the coordination between MFI and WASH LGA on identifying and selecting TBOs and between TBOs, MFIs, WASH LGA and WASHCOM on identifying, selecting and following-up on households, toilet construction and monitoring. Applying principles of coordination, 4-eyes need and on-the-ground checks are necessary for accountability, it seems that the process could be completed more efficiently if the application, selection, approval and monitoring processes were conducted as part of a single system. The system could be computerized or accessible through an application, pending an assessment of potential difficulties with digitalizing the RRFS. Creating or expanding an existing online management system where progress of a loan, toilet construction and other processes could be recorded directly and monitored by the different stakeholders, would ensure both increased transparency as well as ease approval processes, lower coordination and monitoring efforts and ensure that even remotely an overview of the projects' impact is available.

The cost-effectiveness and efficiency aspects of a revolving fund can be considered from a set-up versus operational cost perspective. UNICEF has been fighting open defecation in Nigeria for over a decade and past activities have contributed to preparing actors and fostering partnerships that provide a supportive ecosystem for water and sanitation financing. Building on these pillars, the RRFS has additional set-up costs that involve engaging the partners, signing contracts, drafting and disseminating guidelines and training each actor involved on his role as well as selecting the MFIs and TBOs that will be involved in revolving the fund. During the period of this consultancy, data to estimate these costs are not available. A rough estimation based on funding for a future innovation portfolio proposal had a total budget of 350.000 USD including approximately 261.000 USD for loans, whereas the remaining is dedicated to soft activities including the costs of Ruwassa and WASH LGA (approximately 25%). It is unclear what activities this includes and whether it involves set-up and operational costs. For scaling, it is indispensable to gather the data from past years on UNICEF and partner staff and assess these costs per set-up activity, to identify areas for efficiency gains and optimize the RRFS for scaling.

On the part of the MFIs, some administrative running costs are known. The operational non-staff costs for managing the loans range from 31\$ (Acchawei) to 35\$ (Wodass) and 108\$ (Rahama) per month, including monitoring, calling, information sharing with TBOs. Staff costs are not included, however Rahama supports full salaries of two senior staff, whereas the team involved at Wodass includes a credit officer, part-time M&E officer, Finance officer and Executive Director. If we calculate that the loan tenure is maximum 1 year the costs and then divide by the number of loans disbursed, the non-staff costs for operating the fund is 1,8 USD per

loan for Rahama, 3 USD for Wodass and 1,7 USD for Acchawei. Adding the staff costs of the MFIs as well as the approximately 25% costs of the soft activities by UNICEF, Ruwassa and WASH LGA, would increase the cost per loan significantly. Based on experience from other sanitation loan mechanisms the cost should not exceed 3-5% of the loan amount, since in a future set-up without support from donors, this cost must be included in the interest margin of the loan. A clearer overview of staff and operational costs of all stakeholders involved is necessary to provide a full and reliable perspective and to draw recommendations to improve efficiency and scaling. In terms of the impact of the efforts covered by these costs, Rahama achieves a repayment rate of 97%, whereas Wodass achieves 73,5% and Acchawei 66,4%.

## **Opportunities**

Releasing the 2<sup>nd</sup> tranche will create an opportunity for more households to be reached as screened households are presently awaiting loan collection.

Some MFIs involved in sanitation loans have expressed that the repayment rate is high, at times higher than for commercial loans and that they intend to continue, with or without the revolving fund to offer sanitation loans. A stronger collaboration with the microfinance sector and advocacy with the Central Bank of Nigeria should be pursued. If collaboration is not fruitful, UNICEF and partners can influence the micro-finance institutions by training them and setting stricter and clearer mechanisms for reporting, creating a best practice in the sector.

Since the RRFS in Nigeria has so far only been rolled-out in Bauchi, the assessment of the RRFS in other countries in the region offers several opportunities for learning how to optimize the mechanism, and what measures could be implemented to render it more efficient. Exchange between UNICEF CO offices will take place in November 2022 in Togo.

## **Threats**

It is interesting to note, that while the Central Bank of Nigeria regulates MFBs, no licenses are required for MFIs. This might hint further at the need to increase the financial expertise within the RFS system, to ensure MFI practices are regularly monitored and conflicts of interest prevented.

The committed funding from the Government of Nigeria for the Revolving Sanitation Fund is late in its disbursement. This limits the RFS in creating impact as well as operationalizing the mechanism in more communities and engaging more TBOs.

## **Key findings and recommendations**

Set-up and operating costs of the RRFS are not clearly monitored and thus limited data is available on the cost of the RRFS for the current implementation, making precise estimations for scaling the RRFS impossible. Collecting and estimating these costs are a first step towards enabling scaling.

Exerting pressure on the Government and RUWASSA to release committed funds on time is important for a continuous and larger scale implementation of the RRFS.

To pursue efficiency gains in the application, selection, implementation, and monitoring processes using a single digitalized process management system.

## **d. Sustainability**

### **Strengths**

The idea of setting up an RRFS is sustainable since it aims at efficiently using funds by dedicating the repaid loans for new disbursement and it is important to test and continuously improve its functioning. In practice, the sustainability of the RRFS needs to be developed in more detail.

Currently, the feedback from households that received an improved toilet are positive. Ongoing monitoring must be conducted to monitor and understand user practices and prevent a return to open defecation as has been observed with the CLTS due to unimproved toilet solutions having been constructed.

The capacity building provided to TBOs has a lasting impact, since more masons have acquired knowledge on how to construct improved sanitation systems, and TBOs have gained confidence in taking up and repaying loans. MFIs have benefitted from the experience with the RRFS and the more experienced ones would continue providing sanitation loans at market rates even if the RRFS stopped. The WASHComs are an example of a structure set-up by UNICEF in previous programmes that although voluntary, is sustainably continuing to carry out the role of awareness raisers. Finally, the behaviour change that is occurring through the fact that more people are adopting improved toilets by using loans, encourage other households to recognize the need for improved sanitation solutions and the possibility to finance them through loans. The programme created these lasting changes that are likely to develop their own dynamic.

### **Weaknesses**

As it stands, the RRFS mechanism as implemented in Bauchi State is not sustainable in the long term. The loan losses have a high impact on the projects. The main area for improvement is to assess in depth the reasons for low repayment rate and devote efforts to ensuring a high repayment rate, without which the RRFS is not reaching its objectives and is not sustainable. The intention of the RRFS is to set up an innovative finance mechanism through which HH desiring an improved sanitation solution but do not have the money can access loans at preferential rates, and for this loan to be repaid, to provide this access to more people once the fund revolved. UNICEF aimed at the fund revolving for 5 years. The low repayment rate for Wodass and Acchawei impact the ability to provide future loans highly, since even if the fund revolves, in the second year it will only represent a fraction of the amount of loans in the first year. As it currently stands and assuming that no major variation takes place on the repayment rate, from the disbursed loan the following amounts are still available for further loans after 5 years:

- Rahama (97% repayment rate): 86% of the original fund are available for further loans after Y5
- Wodass (73,5% repayment rate): 21% of the original fund are available for further loans after Y5
- Acchawei (66.4% repayment rate): 13% of the original fund are available for further loans after Y5

UNICEF is committed to pay for the supporting the costs during the period of the fund revolving. This is however not sustainable if the RRFS is to be scaled since support costs would be much higher. It should be well understood by all partners involved, that for scaling and in the longterm, the government and LGA actors currently involved in the operation and receiving financial support for the implementation of the fund management and follow-up, should be able to fulfil this role in the future without donor support, and as part of their role in fighting open defecation. The actors directly involved in carrying out the RRFS, such as the MFIs and TBOs should be able to support themselves through the interest rate, increased demand, and profits. Potentially the fund manager can put a small interest rate (1-2%) on the loan provision to the MFIs to cover their costs, as is the case in other countries.

Many respondents have expressed that the 6-7 months repayment tenure (with 1 month moratorium) for household toilets is still too high for very poor families and 12 months repayment period for MFIs might be too short. Designing the programs to run longer, for instance for three years offers the potential for efficiency gains and might attract more MFIs.

Cost of pit emptying is high in the communities, especially areas where septic tank truck emptier cannot access. When the septic tanks fill and users will need to start paying for the desludging, to prevent them from returning to open defecation if the toilet is not clean, available or needs desludging. With the proliferation of latrines,



the problem of sludge evacuation, transportation and treatment/reuse will soon emerge & could result in a crisis if no sludge evacuation service providers are available. Dual pits improved pit are being prioritized/recommended for households, as the cost of evacuation is almost equivalent to the cost of construction of a new pit. RUWASSA and on the ground actors thus recommended the construction of twin pit offset toilets so they can block off one pit once it is full to use the second pit. Before the second pit gets filled, the first one would have partially emptied because of decomposition of the faeces. However, the need for desludging will not be fully eliminated with this solution.

### **Opportunities**

Ending OD and providing improved toilets is only one aspect in the sanitation value chain and does not contribute to solving the sanitation crisis in a fully circular and sustainable way. There is an important opportunity to provide loans to TBOs along the sanitation value chain, for instance to support businesses for pit emptying, which is currently limited in availability and costly. Contributing to the development of these services is indispensable to ensure supply matches increasing demand. Further, there are examples that in rural areas, biogas systems might be suitable. Although not feasible and efficient in all contexts, in rural contexts and when fed with additional animal and agricultural waste, biogas systems can contribute to overcome the problem of pit evacuation and create incentives for households to adopt improved sanitation systems by creating a return on the investment. Lessons learnt from implementing biogas systems that provide households with cooking gas can be drawn from the examples in Ghana under the RRFS. This is particularly interesting, since the pit emptying market is likely not to be able to respond to the increased demand for pit emptying. TBOs with adequate training from UNICEF or other actors are expected to be interested in such opportunities to expand their businesses, since it represents additional income opportunities.

From a financial perspective, the RRFS can be used as the basis to engage impact investors over time as long as the repayment rates are very high, and the administration costs are within industry norms. These are key prerequisites to get impact investors involved.

### **Threats**

The RRFS with its very low interest rate (sub-market) and low repayment rate is likely to deter impact and commercial investors from entering the market and creates a dependency of government and UNICEF funding. Expectations regarding scaling of the RRFS based on the current financial mechanisms must be realistic. Rushing towards scaling, without having addressed weaknesses in the mechanism could lead to an unsuccessful implementation. Currently, the RRFS is based on a grant, from which it should move towards a subsidized programme, and finally work to attract a friendly commercial investor, and finally fully commercial investments. The scaling readiness of the country's institutions, MFIs, TBOs along the full sanitation value chain need to be assessed to understand whether they are fit for the next stage.

Concerning pit emptying, a current hurdle is the lack of pit evacuators to ensure an efficient functioning of the value chain. UNICEF is in discussions with the State Environmental Protection Agency in Bauchi, to discuss capacity building for TBOs in the sanitation field to grow their operations to cover pit emptying, and to provide loans for TBOs to develop in this sector. If implemented, this threat could turn into an opportunity, keeping in mind more sustainable solutions mentioned above such as biogas.

### **Key findings and recommendations**

Repayment of loans is too low overall to ensure a sustainable revolving of the fund. Efforts to understand the reasons and bring the repayment rate up must be taken.

Continuing to support the fund's operational costs will be difficult for scaling and impossible in the long term. Partners involved need to understand that they will have to prepare for running the mechanism more efficiently and without donor funding in the future.

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 toilet, and thus more sustainable solutions that provide a return on investment should be sought, such as biogas.

## **e. Equity – ability to reach poor households and gender**

### **Strengths**

Overall, the RRFS, by providing loans at preferential rates to be paid back over time offers many households the opportunity to get an improved toilet, that would have otherwise not been possible.

The impact evaluation of the 2014-2017 UNICEF WASH programme in Nigeria mentions that the participation of women in WASHCOMs was supported. In most states women comprised almost 40 per cent of WASHCOM members. It was common for women to hold the position of WASHCOM treasurer, though rare for them to hold the position of chair.<sup>22</sup> The current programme did not set out to achieve specific gender objectives, with the reasoning that the RRFS is at a pilot stage and that it is challenging to target female borrowers for sanitation due to the cultural and societal values in Bauchi state. One MFI, Wodass has a general gender focus and monitored and reached a few female loan beneficiaries.

### **Weaknesses**

The RRFS did not specifically target women as beneficiaries or actors throughout the value chain and there is too little data or evidence on women participation to assess female participation. According to observation it can be said that the number of female beneficiaries remains low. No data is available on the user experience of the improved toilets, which should be conducted with a specific focus on women and girls.

Although specifically mentioned as part of the objectives of the RRFS, no information or mention has been available or observed regarding the provision of access for people with disabilities to improved toilets.

While Bauchi acted as a case study to test the RRFS, its population's income is average and only a small percentage of the population is in the poorest quintile. The HH that received loans in Bauchi were mostly civil servants, which only represents 34% of the active population, whereas 55% are farmers and cattle rearers that do not have a stable income and suffer from seasonal and other unpredictable income fluctuations. Running the RRFS through TBOs ensures a higher repayment rate but might not allow households with seasonally fluctuating incomes to receive the loan. Testing the RRFS in States where poverty levels are highest might highlight needs to couple the RRFS with a social fund of subsidies for the poorest households, to meet national targets concerning improved sanitation. Risks, such as the fact that funds from a subsidy or social fund might be misused could be tackled by following the social register in Nigeria, which however has limitations and needs to be updated since it does not cover all communities. Alternatively, an income range for microfinance loans could be set per country and region based on best practices.

### **Opportunities**

Experience globally shows that women loan beneficiaries have higher repayment rates than men. In addition, women and girls benefit immensely from having a safe and clean toilet for their household, since it prevents

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<sup>22</sup> Impact evaluation of WASH Programme Nigeria 2014-2017

them from exposing themselves during open defecation and from improved hygiene. While it is well understood that the men at the top of a household are engaging with TBOs, women can be involved in the repayment schedule. Not targeting women as loan beneficiaries is a foregone opportunity that needs to be strengthened in future applications of the RRFS and when scaling.

In terms of financing, there are several mechanisms that can be explored further to ensure that even the poorest quintile of the population has access to sanitation loans. In previous UNICEF programs, 1608 Adashes (Credit and Savings Facilities) were supported, trained and established and contributed to the construction of more toilets than the loan mechanisms. Although several beneficiaries mentioned that the financing process through Adashes takes too long, it is an established mechanism that can be strengthened for the poorer households. Adashes have not been mentioned or actively engaged in this RRFS.

Programs such as the I-WASH programme funded by USAID and implemented by UNICEF in the North-West of the country are providing subsidies for the most vulnerable. It is important to test the operationality of a sanitation financing mechanism that includes both loans through MFIs as well as a social substructure that supports poor households, to assess how to avoid contradictions in terms of incentives and access to subsidies versus loans.

### **Threats**

The main threat of not targeting women, persons with disabilities and the poorest quintile, is that the objectives of sanitation for all are not achieved and that open defecation continues to be practiced by the most vulnerable populations. The current set-up of TBOs applying for the loan on behalf of the households entails a risk that TBOs will target the households with the best scores, rather than targeting the most vulnerable. In order to avoid leaving people behind, the RRFS needs to be coupled with another social mechanism, and their co-existence must be set-up in a way that does not deter households able to pay, to benefit from the system.

### **Key findings and recommendations**

The RRFS does not specifically target women, has so far dedicated little effort to reducing barriers of women and persons with disabilities to access the programmes benefits, and has not gathered data on the participation or use of more vulnerable persons. Not targeting women as loan beneficiaries is a foregone opportunity that needs to be strengthened in future applications of the RRFS and when scaling.

The RRFS is also currently not reaching the poorest quintiles and there is no alternative programme that would support those not able to pay and that works in collaboration with the RRFS. Strengthening systems such as financing for the poorest through existing Adashes and combining efforts with the I-WASH programme to run in the same areas of intervention in parallel are crucial to ensure no one is left behind.

## **5. Summary of key findings and recommendations**

Overall, the RRFS has been successful in testing and establishing a microloan system for household sanitation in Bauchi. This shows the important potential for end-user financing in this sub-sector in Nigeria. The experiences from the roll-out of the RRFS 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. The following chapter summarizes the key findings and main recommendations to optimize the fund based on the Bauchi case.

## **Success factors and lessons learnt**

- UNICEF involved most of the relevant sector actors in the pilot of the RRFS, which increases collaboration and buy in, the relevant and initially sceptical government actors, RUWASSA and local WASH Units
- At local level coordination between different actors is working well (local WASH units – WASH businesses – WASH Coms), talk to each other regularly and share information as well as report regularly to RUWASSA during the monthly meetings
- The RRFS was able to build on a long track record of previous programmes and efforts that helped pave the way for the RRFS, such as the CLTS, SanMark, including previous efforts to activate MFIs to provide sanitation loans. UNICEF and partners recognized that the CLTS approach with sub-standard toilets does not solve OD problems in the long run and targeted the RRFS to tackle this problem
- The success of the programme is 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
- The fund really helped the toilet business development, which contributes towards developing a sanitation economy
- 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
- TBO loans are now being launched, meeting demand from TBOs involved for loans to expand their capacities to respond to the market demand

The following recommendations can 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 and can be pursued through.

#### **Recommendations:**

- Exert pressure on the Government to actively encourage States to adopt RRFS mechanism and to dedicate funds, since motivation starts at the federal level. UNICEF should continue to work with the Government partners group for WASH and the national ODF steering committee as advocacy platforms.
- Start early advocacy with State Governments for the adoption of the RRFS, highlighting best practice cases from other states and demonstrating how the RRFS would benefit the State.

### **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 toilet.

#### **Recommendations:**

- More sustainable solutions that provide a return on investment should be sought, such as biogas.

- Monitoring user experiences and practices is indispensable to address needs and prevent a return to open defecation.
- Expand the fund to provide loans to businesses along the sanitation value chain, specifically pit emptying services and provide adequate training in collaboration with existing responsible institutions

### **Sanitation loans**

Sanitation loans are short in tenure, do not cover the full cost of a toilet and are not adapted according to inflation.

#### **Recommendations:**

- Concerning the loans from MFIs to TBOs on behalf of Households, an increase of the loan tenor for the repayment by households should be envisioned from 6 (with 1 month Moratorium) to 12 months or longer, to account for potential income fluctuations or delays.
- An increase of the loan size could be considered to adequately cover the cost of improved toilets, since the current loan only covers the construction of the sub-structure, platform and lining the pit. In addition, the loan size should be linked to a regular review of inflation of construction material and adapted accordingly
- Use client protection standards for microfinance loans: The percentage of a borrower's disposable income that can be applied to debt service may not be higher than 70%<sup>23</sup>

### **Clarifying responsibilities of RRFS**

While the roles and responsibilities of the actors involved in the RRFS are relatively clear, some overlaps exist and since the fund is still running, not all (difficult) responsibilities have been practiced, such as for instance the question of who pays for the losses.

#### **Recommendations:**

- Clarify who oversees overdue payment collection and who takes losses when the fund has to be repaid to the RUWASSA
- Adapt rules for the selection of MFIs highlighting the minimum basic requirements as well as desired qualifications
- Specify more clearly the decision taking process for new loans

### **Reducing the cost of the RRFS**

Set-up and operating costs of the RRFS are not clearly monitored and thus limited data is available on the cost of the RRFS for the current implementation, making precise estimations for scaling the RRFS impossible.

#### **Recommendations:**

- Collecting and estimating these costs are a first step towards enabling scaling
- Digital solutions that simplify the selection, approval and monitoring processes promise the possibility to significantly reduce costs in the current mechanism operation and particularly at scaling level

<sup>23</sup> [https://sptf.info/images/Annex\\_ClientProtectionStandards\\_English.pdf](https://sptf.info/images/Annex_ClientProtectionStandards_English.pdf)

## **Repayment rates and financial expertise**

The repayment rates of the MFIs WODASS and ACCHAWEI are too low and reduce the size of the fund significantly upon revolving it for the first and second time.

Laws regulating MFIs and the implementation thereof in Nigeria are weak. Especially smaller and less experienced MFIs often do not have local offices established allowing them to follow-up on the loan beneficiaries sufficiently and few MFIs have experience with sanitation loans and general loan best practices leading to inefficient practices and even unintended mistakes.

### **Recommendations:**

- Efforts to understand the reasons and bring the repayment rate up must be taken
- Partners involved need to understand that they will have to prepare for running the mechanism more efficiently and without donor funding in the future
- Aim to involve MFIs that are established in the region where they are disbursing loans. If no established and experienced MFIs are available, capacity building needs to be planned before starting the RRFS implementation.
- Hiring a financial expert with understanding of risk management to review the financial structure of the fund on a periodical basis. The expert could also provide the less experienced MFIs already engaged in the RRFS with regular monitoring, evaluation, and on-the-job coaching to ensure effectiveness and compliance.

## **Monitoring and evaluation**

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.

### **Recommendations:**

- Developing a coherent monitoring and evaluation mechanism in place for all stakeholders involved to track progress to create efficiency gains in the process through automation
- Ask questions in the loan application form that are directly available for reporting.

## **Leaving no one behind**

- The RRFS currently does not target the poorer quintiles sufficiently and is not implemented in combination with a social fund.

### **Recommendations:**

- Setting clearer rules about and distinctions between the beneficiaries of the RRFS to make sure it reaches vulnerable populations that the mechanism set out to target. For instance, ensure that a minimum number of farmers are targeted by the loans, rather than civil servants.
- Collaboration with other financing mechanisms targeted at the most vulnerable is necessary, potentially through subsidies based on poverty levels.
- The social credit system through Adashes should be strengthened.

## **Gender**

The RRFs does not specifically target women, has so far dedicated little effort to reducing barriers of women and persons with disabilities to access the programmes benefits, and has not gathered data on the participation or use of more vulnerable persons.

### **Recommendations**

- Create incentive program to lend to more women, impact linked finance fund
- More clearly disaggregate according to gender in the monitoring of programme implementation and targeting women as borrowers more actively particularly in areas where repayment rates are low.

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