

MicroSave Briefing Note # 152

Financing WASH: Key Considerations for MFIs

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April 2014

Background: A Case for Client-led Investments

Access to safe and affordable water, sanitation and hygiene (WASH) infrastructure and services is essential for improving the quality of life. WHO estimates that every US\$1 invested in WASH results in an economic return of US\$4. Poor status of WASH has severe economic costs on a household.¹ The UN estimates that Sub Saharan African countries lose of up to 5% of their GDP each year due to poor WASH.² Even though the role of improved WASH status in the welfare of poor households is acknowledged the world over, the actual state of access to WASH infrastructure and services is quite dismal. The UNICEF-WHO Joint Monitoring Programme (2012), reports that almost 39% of the population living in Sub-Saharan Africa does not have access to an “improved water resource”.³ Close to 2.5 billion people in the world, mostly in Asia and Sub-Saharan Africa, do not have access to a toilet. Even as efforts in the last few decades have culminated in better access to water, quality of water and poor sanitation are still major areas of concern. For example, in India 21% of all communicable diseases are water related.⁴

The task at hand is so gigantic that public finance by itself will not be enough to enable full coverage for WASH, both in terms of access and quality. Attracting household savings and private sector investments will speed up WASH coverage and can be considered to be one of the most cost effective public health interventions.⁵

Why Microfinance for WASH?

For low income households, the investments needed for acquiring WASH infrastructure like private / community toilets, piped water connection etc. are difficult to mobilise. First, one of the reasons for poor quality of WASH infrastructure is that it is not cheap. *MicroSave* research has shown that, in parts of Asia, building a private toilet can cost as much as US\$400; and depending on existing infrastructure, a piped water connection will call for an investment of approximately US\$150. Second, the poor have more urgent priorities like education and health

that tend to consume their liquidity, and so WASH improvements take a back seat. The “lumpy” nature of investment required for WASH improvements act as a deterrent especially when there are competing and more pressing needs in the household. However, if investments were to be staggered over time and payments made more in line with household cash-flows, the demand for WASH infrastructure and services is likely to go up. Thus, finance can play a catalytic role in increasing the uptake of WASH improvements by poor households.⁶ Interestingly, credit products offered by most microfinance institutions (MFIs) fall in the “sweet spot” of WASH investments. MFIs have honed the systems and processes to offer credit in the range of US\$100 to 500, and repayments are staggered over a period of six months, a year or even longer.

A report by the Bill & Melinda Gates Foundation estimates the global microfinance market for WASH at US\$12 billion.⁷ This represents a huge market and makes a strong business case for MFIs to offer WASH finance products. But, are we viewing the availability of microfinance for household level WASH infrastructure through rose tinted glasses? Not only does the WASH finance differ from the generic income generating loan (IGL) product significantly, there are several other strategic issues that determine the suitability for rolling out WASH finance. MFIs have to consider these issues carefully before embarking on a WASH product development exercise. In this note we explore some key strategic issues that determine the potential for WASH finance portfolio.

1. Ecological Factors

Favourability of some key ‘hydro-geological’ factors like land gradient, thickness and quality of top soil and availability of proximate water sources etc. have a direct bearing on the uptake of WASH equipment and services, which in turn affects both the scope and quantum of finance. For instance, if an MFI provides credit for constructing toilets in a region with chronic shortage of water, it will be only a matter of time before the client

¹ According to a *MicroSave* study, efficient WASH services result in significant cost savings for the clients. Read the summary of the study at http://www.microsave.net/files/pdf/WaterCredit_Summaries.pdf

² <http://www.wateraid.org/~media/Files/Global/Post%202015/5-The-economic-case-for-WASH.pdf>

³ Please follow the link for a list of “Improved” water sources: <http://www.wssinfo.org/definitions-methods/watsan-categories/>

⁴ http://whqlibdoc.who.int/publications/2009/9789241598415_eng.pdf

⁵ https://www.wsp.org/wsp/sites/wsp.org/files/publications/financing_analysis.pdf

⁶ The publication by no means suggests that inadequate finance is the only limitation to WASH adoption. There are plenty of other challenges!

⁷ <https://docs.gatesfoundation.org/Documents/assessing-microfinance-wsh-2008.pdf>

relapses into the habit of open defecation. Thus, MFIs must choose only those regions that exhibit favourable hydro-ecological conditions for rolling out WASH finance leaving other less favourable regions, which may require much higher investments, to local governments.

2. Public Good Nature of WASH

Public sector investment drives private investment, and the provision of WASH infrastructure and services is no exception. The 'public good' nature of WASH provision mandates that government makes a certain threshold level of investment in building sewerage systems, main pipe lines carrying tap water etc., before private investments in individual toilets, pipe water connections etc., can take-off. Thus, MFIs must look to build WASH portfolio in areas that have an existing backbone of public WASH infrastructure and where the proverbial 'last-mile' needs to be addressed. In all likelihood, private WASH market players will exist in such areas with a concomitant demand for finance for facilities/services such as private toilets, water purifiers, storage tanks etc.

3. Usage Level of Existing WASH Infrastructure

MicroSave's research indicates that WASH facilities were in most demand when the existing infrastructure was in 'active use'. It was interesting to note that, in villages where a sizeable population was using sanitation facilities (either private or community) the demand for toilets was high. The reasons were easy to understand: as usage increases, adverse public opinion about open defecation gathers strength and over time, more and more households build their own toilets (or start using community toilets). Thus, people are more likely to access finance to upgrade and acquire WASH systems in an environment which induces them to do so. Therefore, MFIs must look to build WASH portfolio in regions with high level of 'active use' of WASH infrastructure.

4. Collaborations with WASH Product/Service Providers

In several geographies there are existing WASH product manufacturers and service providers who are unable to tap into the low income segments due to high upfront costs. MFIs can enter into collaborations with such entities and leverage the existing market demand for these services. SMEP, an MFI in Kenya has collaborated with water tank manufacturers to provide loans for water storage structures. Similarly, Bank Syariah Mandiri a commercial bank in Indonesia offers loans for piped water connections from the local public water supply agency.

5. Funding for WASH

In some countries, MFIs depend on debt funding from banks and financial institutions for financing their portfolio. The opinion within the banking industry is that microfinance loans should be given for "income generating activities". As a result, WASH loans do not get the priority that they deserve. MFIs on their own may consider WASH loans to be inherently risky as they are beyond their typical income generating group loans. Asset-liability mismatch is another issue; an MFI that gets a shorter term loan exposes itself to liquidity risk if it were to offer a WASH loan that is typically of a longer tenure. Thus, MFIs may have to look for more tailored sources of funds or explore social investors ([Acumen Fund](#), [MSDF OIA](#) etc.) to raise funds for WASH finance.

6. Assessing Technical Specifications to Meet Demand

Besides, understanding client needs, demand assessment for WASH products also involves understanding the technical feasibility of setting up WASH infrastructure (like ground water levels, public sewerage facilities available etc.) and the type of products available in the market to fulfil different WASH needs. Typically MFIs do not have in-house expertise to answer these questions and it may be helpful to carry out technical assessments through an external agency. Understanding of these aspects will help the MFI design tailor-made products and also enter into service contracts with WASH manufacturers and service providers.

7. Awareness Generation Amongst Clients

It is common knowledge among the WASH community that lack of awareness causes poor WASH. For example, increased awareness on the adverse health impacts of impure water or open defecation can lead to greater adoption of water filters and/or hygienic toilets. All MFIs with existing WASH finance programmes agree that awareness generation must precede actual product marketing. This may require MFIs to team up with NGOs which are active in this field. An example from India is the MFI Grameen Koota which works with an NGO, Navya Disha, to generate awareness amongst clients before moving in with financial products to support WASH activities.

MFIs and financial institutions must conduct market research to analyse all the seven factors listed above to determine the strategic climate for building a portfolio of WASH products.