USAID Transform WASH

Financing Practices and Options for Sanitation Products and Services: Findings from SNNPR, Ethiopia

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USAID Transform WASH aims to improve water, sanitation and hygiene (WASH) outcomes in Ethiopia by increasing access to and sustained use of affordable, quality WASH products and services, with a substantial focus on sanitation.

It does so by transforming the market for WASH: stimulating demand at the community level, strengthening supply chains and building the enabling environment for a vibrant private market.

USAID Transform WASH is a USAID-funded project implemented by PSI in collaboration with SNV, Plan International, and IRC. The consortium is working closely with government agencies - including the Ministry of Health, the Ministry of Water, Irrigation and Electricity, the National WASH Coordination Office and sub-national governments.

This study explores sanitation financing experiences in SNNPR with a focus on USAID Transform WASH intervention zones, identifies key financial institutions and stakeholders and suggests innovative financial approaches for sustaining innovative businesses engaged in sanitation marketing while stimulating household demand.

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Abbreviations

CLTSH	Community-led Total Sanitation and Hygiene
COWASH	Community-led Accelerated Wash
EDHS	Ethiopian Demographic and Household Survey
EFY	Ethiopian Fiscal Year
ETB	Ethiopian Birr
FCA	Federal Cooperatives Agency
FI	Financial institutions
GoE	Government of Ethiopia
GTP	Growth and Transformation Plan
HEW	Health extension worker
HSDP	Health Sector Development Plan
HSTP	Health Sector Transformation Plan
INGO	International non-government organization
MFIs	Microfinance Institutions
MoU	Memorandum of understanding
MSE	Micro and small enterprise
NGO	Non-governmental organization
ODF	Open defecation Free
RHB	Regional Health Bureau
ROSCA	Rotating saving and credit association
SACCO	Saving and credit cooperative
SNNPR	Southern Nation Nationalities and Peoples Region
TVET	Technical and vocational education training
VSLA	Village saving and lending association
WASH	Water sanitation and hygiene
WoHO	Woreda Health Office

1. Introduction

1.1. Background

Lack of improved sanitation and in many cases lack of any sanitation facility at all exposes a population, especially children, to hygiene-related diseases. The MDG report (2010) states that 23 percent of under-five mortality in Ethiopia is due to diarrhea resulting from poor sanitation and hygiene. The recent Health Sector Transformation Plan (HSTP) and the 2008/9 and 2009/10 health and health-related Indicators show that diarrhea is the second biggest killer of children under five (after acute respiratory infection)[1].

Overall, six percent of Ethiopian households use improved toilet facilities (16 percent in urban areas and four percent in rural areas). One in three households have no toilet facility at all (39 percent in rural areas and seven percent in urban areas). More than half (56 percent) of rural households use unimproved toilet facilities. The most common types of unimproved toilet in both urban and rural households are pit latrines without a slab or open pits (41 percent in urban areas; 55 percent in rural areas)[2]. More than one-third (35percent) of toilets are shared in urban households, whereas only two percent of rural households share toilets with other households. Shared toilets count as unimproved according to standards set by the WHO/UNICEF Joint Monitoring Program.

To address this, the Ministry of Health has led implementation of Community-led Total Sanitation and Hygiene (CLTSH) at scale. CLTSH provides a systematic, coordinated, and structured approach to behavior change, to enable households to end open defecation and to adopt hand washing and safe water management practices. The approach has led to large numbers of households gaining access to self-constructed basic latrines. However, most of these fall short of the minimum standards for improved sanitation. The policy response has been to initiate sanitation marketing as a means to improve sanitation facilities[3].

The National Sanitation Marketing Guideline seeks to harmonize demand and supply for improved sanitation and hygiene facilities in Ethiopia by establishing a viable sanitation marketing program framed on three pillars: strengthening the enabling environment, creating access for improved sanitation products and services, and generating demand for these products and services.

The guideline emphasizes that the private sector should play a key role in developing and testing new sanitation technology options, upgrading existing technology options, and commercializing sanitation marketing initiatives. It acknowledges that providers of sanitation products and service as well as households may require access to financial services to finance sanitation businesses and to satisfy household needs. Microfinance institutions are encouraged to offer loans across the sanitation business chain and to households. There is a

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1 Federal Democratic Republic of Ethiopia Ministry of Health, National Hygiene and Environmental Health Strategy, 2016

2 Central Statistical Agency (CSA) [Ethiopia] and ICF. 2016. *Ethiopian Demographic and Health Survey 2016:* Addis Ababa, Ethiopia, and Rockville, Maryland, USA. CSA and ICF. http://www.csa.gov.et/index.php?option=com_phocadownload&view=category&download=917:2016-ethiopian-dhs-final-report&id=355:dhs-2016&Itemid=105

3 Federal Democratic Republic of Ethiopia Ministry of Health, National Sanitation Marketing Guideline, 2013 https://www.cmpethiopia.org/media/national_sanitation_marketing_guideline_20132

need, therefore, to promote ways for the finance sector to mobilize resources for sanitation marketing but also to make financial products for sanitation more easily available.

A sanitation marketing intervention[4] jointly implemented by UNICEF and International Development Enterprise (iDE) since 2012 in SNNPR revealed that there was a clear demand and willingness to pay for improved toilet slabs. However, the intervention also revealed that in agricultural-based rural economies affordability and willingness to pay are dependent on seasonality and the flexibility of payment options.

A market landscape assessment[5] for latrines and other hygiene products shows that financial constraints were mentioned as the leading reason for not having latrines by those who currently practice open defecation. The market assessment also revealed that households without latrines were hesitant to take a loan, as they feared that they would not be able to repay it. On the other hand, the major challenges facing the suppliers of materials and parts at woreda level are finance and working space. Product and input suppliers at the woreda level see microfinance institutions and banks as potential sources of finance for their business activities. However, the conditions are considered to be difficult to fulfill which limits access to these services.

USAID Transform WASH supports the Government of Ethiopia (GoE) to implement sanitation marketing activities. To strengthen WASH governance and management capacity, Transform WASH will work closely with financial institutions to establish systems and mechanisms for sanitation financing options for businesses and consumers. Before engaging with financial institutions, it is important to generate evidence on which to base a system for WASH financing options and for designing joint planning mechanisms with sector bureaus. The purpose of this assessment is, therefore, to gain a better understanding about the existing conditions and contexts regarding sanitation financing mechanisms in the Southern Nations, Nationalities, and Peoples' Region (SNNPR) of Ethiopia.

1.2. Objective of the study

The main objective of the study is to assess the scope and potential role of financial institutions for sanitation financing and to identify possible program interventions (mechanisms and systems) to support finance institutions with special emphasis on needs in rural areas. Specific objectives are to:

1. Generate evidence about the existence and performance of sanitation financing options for enterprises and consumers in rural and semi-rural areas;
2. Identify possible intervention mechanisms and systems for financial institutions in sanitation financing;
3. Prepare preliminary models for sanitation financing options.

[4] UNICEF, First Steps Towards Sanitation Marketing in Ethiopia Using a Human Centred Design Approach. WASH Field Note, UNICEF Eastern and Southern Africa Sanitation and Hygiene Learning Series, November 2015 https://www.unicef.org/esaro/UNICEF-FN-SanMark-Ethiopia-low-res.pdf

[5] SART Consult, Market Landscape Assessment for Latrines, Handwashing Stations and Point-of-Use Water Treatment Products, USAID Feed the Future Ethiopia Growth through Nutrition, PSI and Safe the Children, 2017

1.3. Scope and limitation

The scope of the study was to explore sanitation financing experiences in SNNPR with a focus on the Transform WASH intervention zones of Sidama, Wolaita and Hadiya. The study has reviewed and identified key financial institutions and stakeholders that can strengthen sanitation marketing activities initiated in the region.

The study has attempted to identify innovative financial approaches for businesses engaged in sanitation marketing and for consumers wanting to improve their sanitation facility. No study has been found that identifies and quantifies households demand for improved sanitation or that explores household choices, for example through focus groups discussions with households. This is a limitation for this study, but also indicates a need for further research into household demand.

1.4. Structure of the report

The report is organized into six sections. This first presents the background, objective and scope of the study. The second discusses the methodology, including the research design, data collection techniques and tools applied in the assessment. The third section provides information about the financial sector and policy environment in relation to sanitation. It has three sub sections: an overview of financial institutions in Ethiopia; the policy and regulatory framework for sanitation marketing; sanitation financing practices and options in Ethiopia.

Section four explores the context and practices of sanitation financing in SNNPR, and provides some information on the context of the region, specific sanitation marketing financing experiences and anticipated challenges and opportunities. The fifth section identifies innovative financial approaches and models for financial institutions (FIs) to engage in financing WASH products and services. Section six provides concluding remarks and recommendations.

2. Methodology

2.1. Study design

To assess the involvement of financial institutions in financing sanitation marketing activities, an exploratory research design was employed. Exploratory research is conducted when the area of study is relatively unexplored. It is designed to produce familiarity with basic details and concerns, provide a grounded picture of the situation under investigation and generate new ideas and assumptions, develop tentative theories and provide directions for new research questions and techniques.

This was an appropriate method for our main focus: to gain insights and familiarity with sanitation financing activities and modalities practiced in the country, and especially in SNNPR, and to identify possible intervention mechanisms and systems for financial institutions to become involved in sanitation. Exploratory designs are often used to establish an understanding of how best to proceed in studying an issue and this coincides with our plan for action research.

2.2. Data sources, data collection techniques and tools

This study used primary and secondary sources. Primary data was generated using qualitative data collection techniques, primarily key informant interviews (KII). Semi structured interviews were conducted with key stakeholders from local government offices, financial intermediaries, NGOs and private sector actors over 10 days- from August 2-12, 2017, in three zones (Wolaita, Hadiya and Sidama) of SNNPR. Table 2.1 below provides a summary of KII conducted in the region. Secondary data was obtained from documents and publications from governmental institutions, financial institutions and projects, and from articles posted on various websites.

Table 1 Summary of interviews for primary data collection

Government office	Financial Institution	NGO and Private sector
Wolaita Zone		
• Boloso Sore Woreda Health Office • Boloso Sore Woreda Youth and Sport-Rural Employment Opportunities Creation work process • Boloso Sore Woreda cooperatives development office • Wolaita Zone Cooperatives Development Department • Wolaita Zone Health Development Department • Dugna Fango Woreda Health Office		• Sanitation slab producers association • Top building construction cooperative
Hadiya Zone		
• Hadiya Zone Health Development Department	Boyo Dembela Shashego Farmers'	

Government office	Financial Institution	NGO and Private sector
• Zone, Cooperatives Development Department • Youth and Sport Development Department • Shashego Woreda Health Office • Shashego Woreda Cooperatives Promotion and Development Office	Cooperative Union Edget Saving and Credit Cooperative	
Sidama zone		
• Aleta Chuko Water and Energy Development Office	Sidama Chalella Cooperatives Union	• Edget Bandnet construction enterprise • Korke slab producers enterprise
Region		
• Regional Health Bureau • Regional Cooperative Development Agency	Omo Microfinance Institution	• People In Need (PIN)

Semi structured interview guidelines were developed and applied. Separate guidelines were developed to solicit information from governmental institutions and officials, financial institutions, development partners and private sector actors engaged in production of sanitation products and services. The guidelines are attached in Annex 1.

3. Financial institutions and sanitation: the national context

3.1. Financial institutions in Ethiopia

The financial service sector in Ethiopia comprises formal, semi-formal and informal sectors.

3.1.1. Formal financial institutions

The formal sector includes financial institutions that are set up with a legal status and engaged in the provision of credit and mobilization of savings. These institutions are regulated and controlled by the National Bank of Ethiopia (NBE). In the Ethiopian context, formal financial sector includes banks, insurance companies and microfinance institutions (MFIs).

Following the merger of the Construction and Business Bank with the Commercial Bank of Ethiopia, the number of banks stands at 18 of which 16 are private and the remaining two are state-owned: Commercial Bank of Ethiopia and Development Bank of Ethiopia. The Commercial Bank of Ethiopia (CBE) is the dominant single player in the market; the largest bank in the industry, accounting for 36.1percent of branch networks in 2015/16 fiscal year[6]. The country witnessed a proliferation of domestic private banks following the change of regime in 1991, which allowed the private sector to engage in the financial sector. The growing role of private banks is illustrated by the fact that in 2016 the 16 private banks had a total of 1,927 branches and account for 51.1percent share of the capital of the industry. The total capital of the banking system rose to Birr 43.0 billion by end June 2016. The bank branch to population ratio has risen so that in 2015/16 there was one branch for every 28,932 people compared to one to 33,448 people in 2014/15[7].

By the end of 2016, there were 16 private and one government owned insurance companies (the Ethiopian Insurance Corporation – EIC) operating in Ethiopia with their combined number of branches rising to 426 and a total capital of Birr 3.6 billion. The geographical distribution is highly skewed in favor of major towns and cities: More than half of insurance branches are located in Addis Ababa (NBE, 2015/2016). Private insurance companies make up 83.6 percent of the total number of branches, and hold 76.7 percent of the total capital with the EIC making up the other 23.3 percent.

By the end 2015/16, there were 35 microfinance institutions (MFIs) operating in the country. Their total capital had increased to Birr 8.9 billion by the end of 2016 with total assets of Birr 36.7 billion, respectively at the end of 2016. For the same fiscal year, these micro-finance institutions mobilized deposits, which went up by 24.3percent and reached Birr 18.4 billion. Outstanding credit also expanded by 15.5percent to Birr 25.2 billion indicating increased levels of business.

At the end of 2015/16, the five largest MFIs, namely Amhara, Dedebit, Oromia, Omo and Addis Credit and Savings Institution, accounted for 83.6percent of the total capital, 92.9percent of the savings, 88.3percent of the credit and 89.2percent of the total assets of MFIs[8]. Despite the remarkable growth of MFIs in Ethiopia in both outreach and performance,

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6 NBE 2015/16- National Bank of Ethiopia annual report 2015/16

7 Ibid

8 Ibid

they were able to meet less than 20percent of the financial service demand. As most microfinance institutions operate at sub-woreda level, loan beneficiaries (mostly farmers) travel 2-4 hours to access their services[9].

Although it is a well-supported sector, the Ethiopian microfinance industry faces several important challenges. One of the most significant has been lack of access to foreign capital and donor funding for MFIs to finance loans. Not only has this hampered the ability for MFIs to scale up, but also it has resulted in some MFIs having to let some products lie dormant whilst they seek new funding streams. This lack of capital also hinders MFIs from investing in their own development[10].

3.1.2. Semi-formal and informal financial institutions

Due to the shortage of formal financial institutions in rural Ethiopia, the semi-formal and informal financial sector plays an important role in disbursing loans for the majority of population. This mainly comprises financial institutions like saving and credit cooperatives, and *iqqub* and *iddir* that operate outside the rules and regulations of the National Bank of Ethiopia NBE).

Saving and Credit Cooperatives (SACCOs)
Saving and Credit Cooperatives (SACCOs) are financial institutions established to provide financial services for their members. A report from the Federal Cooperatives Agency put the number of SACCOs at 18,959 in the year 2016 out of which 14,976 (79percent) were found in rural areas[11].

Unlike more formal financial institutions (banks and microfinance institutions), saving and credit cooperatives are owned, controlled and capitalized by their members. This means that the savings and credit cooperatives are not subject to supervision and regulation by the National Bank of Ethiopia. The Federal Cooperatives Agency is responsible for the coordinating their activities. SACCO lending is limited to members of the cooperative and the amount of loan depends on the level of individual saving deposits.

As per proclamation No. 147/1998 and the newly revised proclamation No. 985/2016, SACCOs are expected to play an active role in bringing about broad-based development and poverty alleviation and are permitted to take deposits from members and grant loans. The proclamations do not recognize SACCOs as formal financial institutions and, thus, they are not subject to regulation and supervision by the NBE.

Many rural saving and credit cooperatives provide loans for agriculture, including animal rearing and, in some cases for off-farm activities. Loan disbursement policies are prudent, only those with sufficient savings and collateral can borrow. The majority of loans are provided for a period of one year or less. Interest on loans is usually higher than that charged by commercial banks but often lower than that of MFIs and definitely lower than moneylenders. A study conducted in Ethiopia by Golden Africa Capacity center (2010), quoted in Gatachew[12], indicated that three quarters (77percent) of respondents were satisfied with the saving products from financial cooperatives and rural SACCOs. Overall,

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9 Getachew Mergia, 2013- Sacco business performance and Governance Assessment
10 MF Transparency 2011- Country Survey Ethiopia.
11 FCA Annual report for 2015/16
12 Getachew Mergia, 2013- Sacco business performance and Governance Assessment

86percent of respondents had borrowed at least once during their membership life. A fifth (20percent) of respondents had to take loans from more than one source because of the low lending capacity of rural SACCOs. Nine in ten respondents preferred to obtain a loan from financial cooperatives rather than from MFIs.

Informal organizations

Various types of informal organizations in Ethiopia provide financial services. Local institutions such as Iddir, and Iqqub and moneylenders, friends and relatives, pawnbrokers, money keepers and tradesman are the most important informal sources of financing. Iddir and Iqqub (see below) are initiated and organized by the people themselves based on reciprocity[13].

According to MicroNed[14], more than two thirds of the population has access to one or other of these informal finance providers. The price of informal credit fluctuates greatly from 10.5percent per month on average from moneylenders and traders to interest free loans from relatives and friends. The same source states that informal finance is popular for three main reasons: first, it is often the only form of financial service available; second, loan processing is quick and not too many questions are asked about the reason for the loan; and third, in the case of Iddir and Iqqub, loans are provided in the context of social intermediation[15] and self-organization. The capacity of these traditional systems, however, is limited[16].

Iqqub is the Ethiopian name for ROSCA (Rotating Saving and credit Association). Members of Iqqub can be of the same neighborhood or profession, or the same work place or ethnic background. Leaders of the Iqqub pool the savings of their members in accordance with the rules established by the group. Members usually deposit contributions on a weekly or monthly basis, and lots are drawn with the winner receiving the total sum. This process continues until the last member receives his/her share and the whole process starts again. Iqqub has a chairperson and a secretary performing required tasks according to the rules and regulations that are set by members. In 1995, the National Bank of Ethiopia estimated that Iqqubs mobilized funds at 8-10percent GDP[17].

Iddir is a kind of insurance scheme, a common informal arrangement in both rural and urban areas. It is an association designed to provide mutual aid and financial assistance and is made up of people united by ties of family or friendship, by living in the same district, by jobs, or by belonging to the same ethnic group.

Iddir members make regular contributions and use funds for emergencies such as medical treatment or (the original purpose) burial of the dead. Today, the Iddir provides a much wider range of services including financial and material assistance and consolation to a member in the event of difficulties, and even in some cases for entertainment.

13 Aderaw Gashayie and Manjit Singh, 2016- Development of Financial sector in Ethiopia: Literature review, Journal of Economics and Sustainable development, vol.7 No. 7, 2016

14 MicroNed Ethiopia Country Scan, 2007. http://www.micro- ned.nl/ documents/ doc/ ethiopia_country_scan.pdf

15 Social intermediation is a process in which investments are made in the development of both human resources and institutional capital, with the aim of increasing the self-reliance of marginalized groups, preparing them to engage in formal financial intermediation.

16 Ibid

17 Kydaki Gezahagn, 2000- The role of financial sector in economic development of Ethiopia: Comparative study of pre and Post reform period.

Village Saving and Credit Associations (VSLAs)
Village Saving and Credit Associations (VSLAs) are promoted by many development organizations. VSLAs are self-managed groups that provide people with a safe place to save their money, access small loans, and obtain emergency insurance. They do not receive any external capital and the focus is on savings from members, asset building, and the provision of credit proportionate to the needs and repayment capacities of the borrowers. Groups are low-cost, simple to manage and can be seen as a first step for people to reach a more formal and wider array of financial services. VSLAs can dramatically raise the self-respect of individual members and help to build social capital within communities. Women are especially likely not to have access to formal sources of borrowing and often benefit from membership of VSLAs.

3.2. Policy and regulatory framework for sanitation marketing

The GoE has put in place many political and socio-economic transformation measures. Among these, were a national health policy, followed by four consecutive comprehensive Health Sector Development Plans (HSDPs) from 1996/97 with the fourth plan published in 2010. The policy and the first HSDP were based on critical reviews of prevailing national health problems and a broader awareness of newly emerging health problems in the country[18]. At its core, the health policy promotes democratization and decentralization of the health care system and aims to develop preventive, promotive and curative health care, assure accessibility for all parts of the population, and encourage private and NGO participation in the health sector.

In October 2015, the government published the Health Sector Transformation Plan (HSTP), as part of the second Growth and Transformation Plan (GTP II). This sets impact level targets for hygiene and environmental health by 2020. In particular, it seeks to:

- *Strengthen the promotion of hygiene and sanitation through the health extension program to scale-up open defecation free (ODF) kebeles;*
- Implement a national sanitation marketing strategy to generate demand and create access to supplies to construct improved latrines;
- Pay special attention to urban sanitation;
- Build adaptation and resilience to climate change in the health sector; and
- Adopt a multi-sectoral approach to addressing complex sanitation issues in cities[19].

Sanitation marketing is considered as a priority initiative under the hygiene and environmental sanitation section of the Health Sector Transformation Plan. It is believed that the steps listed above will have great impact towards meeting national and international commitments[20].

The newly endorsed Hygiene and Environmental Health Strategy (2016), sets the strategic approach for meeting targets in the Health Sector Transformation Plan, including by facilitating production and marketing of appropriate and effective products through different mechanisms, such as sanitation marketing centers, water utilities, health facilities and other institutions. Sanitation marketing along with the CLTSH approach is considered as a

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[18] Ethiopian Health Sector Development Plan IV, October 2010.
[19] Health Sector Transformation Plan, October 2015
[20] Ibid

main initiative to encourage households to move up the sanitation ladder. The Ministry of Health also encourages woredas to establish sanitation marketing centers, and sets indicators for the number of centers and the proportion of woredas with at least one sanitation market center.

The strategy invites the private sector to work in particular on the production of sanitation products such as pre-fabricated toilets[21].

Since, the CLTSH approach has been adopted all over the country, significant numbers of households have gained access to self-constructed basic latrines. However, most fall short of fulfilling minimum standards for improved sanitation and hygiene. There is a need for additional efforts through triggering, social mobilization and sanitation marketing[22].

The GoE introduced the National Sanitation Marketing Guideline in June 2013, which aimed to direct relevant stakeholders towards the creation of an enabling environment for sanitation marketing in which consumers have access to affordable and improved sanitation and hygiene products and services based on their needs and preferences, supplied by a sustainable private sector[23].

The guideline also stated the need to harmonize and coordinate existing and future efforts by government, development partners, private sector, local producers and households to improve sustainable access and uptake of improved sanitation products and services.

The National Sanitation Marketing Guideline sets out roles and responsibilities of the health sector and WASH structures at federal, regional, zonal and woreda levels, for primary health care health centers and health posts, for the Micro and Small Enterprise Development Agency at all levels and for microfinance institutions at regional/zonal /woreda levels. Regulation and product quality assurance has become the responsibility of the Food, Medicine and Health Care Administration Control Authority[24].

However, there are currently no affordable, appropriate and acceptable latrine technology options on the market in Ethiopia in a form that makes it easy for households to construct, maintain and sustain an improved toilet. To date the focus has been on training artisans to produce concrete slabs in more centralized areas, which does not properly address the challenges in providing improved latrine technologies that satisfy people's demand and desires.

3.3. Review of sanitation financing options and practices in Ethiopia

Sanitation marketing and demand creation are crucial to build the sanitation supply and demand chain, but to achieve a wider health impact they need to be complemented by initiatives to facilitate household access to finance. Initiatives to help sanitation entrepreneurs access finance can also contribute to making interventions gradually sustainable and less

[21] Hygiene and Environmental Health Strategy, December 2016

[22] Federal Democratic Republic of Ethiopia, Latrine Technology Option Manual, June 2010.

[23] National Sanitation Marketing Guideline, June 2013. https://www.cmpethiopia.org/media/national_sanitation_marketing_guideline_20132

[24] Ibid

reliant on donor support[25]. In Ethiopia, despite significant demand for WASH services, the involvement of financial institutions in the WASH sector has been limited[26].

A study by Water.org[27] identified the key limiting factors for weak participation of financial institutions in the sector as:

- *Lack of understanding of WASH issues and markets by MFIs;*
- *Perception that this is a high risk area because it is not income generating;*
- *Lack of credit enhancement and risk sharing mechanisms; and*
- *Inadequate engagement between WASH sectors and MFIs.*

A document review shows that participation of formal financial institutions in sanitation activities is almost non-existence; the concept of sanitation marketing is rather new in the country. Our efforts to review the effectiveness of different financing options found an almost complete lack of information on project initiatives that try to incorporate financing into their sanitation marketing activities.

One exception is the NGO WASTE, which focuses on market-led solutions to the problem of poor sanitation and works with (informal and formal) entrepreneurs, business consultants, municipalities, NGOs, and micro-finance institutions. WASTE has been working with OMO Micro Finance to make micro-loans available to households to invest in toilets and businesses to invest in equipment and raw materials, backed by a guarantee fund. The process has been careful and step-wise, building capacity in the public and private sectors at the same time as building household demand. So far, (September 2017) 500-1,000 households have used the program to build a toilet[28].

The ROSSA project, (Resource Oriented Sanitation Service in Addama), made improved toilet facilities available to households in three kebeles of Addama city in Oromia region. The project, implemented by Waterschap Hollandse Delta, adopted a multi-pronged approach with the following objectives:

- *Train local enterprises to construct improved toilets and in related enterprises, such as pit emptying and waste processing;*
- *Build awareness to encourage households to adopt improved toilets;*
- *Link households with MFIs for financing.*

Waters chap Hollandse Delta collaborated with the Oromia Credit and Saving Share Company (OCSSCO) to provide loans to households. The MFI has been provided with a guarantee fund in the form of a grant for clients who have the capacity to repay but cannot offer any collateral[29].

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[25] Water Aid (2014) Embedding access to finance in sanitation programs: a step by step approach
[26] Water.org (2014) Ethiopia water credit Market Assessment
[27] Ibid
[28] https://www.ircwash.org/news/waste-ethiopia
[29] Water.org 2014 Ethiopia Water Credit Market Assessment

4. Context and practices of sanitation financing in SNNPR

4.1. Context of the region

The Southern Nations, Nationalities and Peoples Regional State (SNNPRS) is located in South and South West Ethiopia, home to 56 ethnic groups with their own distinct languages. The region borders in the North, North West and East by the Oromia Regional State, in the West by Gambella Regional State and in the South and South West by Kenya. The region is divided into 15 zones and four special woredas.

According to the annual report of the Regional Health Bureau (RHB), latrine coverage stands at 86.3percent and almost 30percent of households have improved sanitation facilities. Just over half (54percent) of kebeles in the region have gained ODF status. Improved sanitation coverage in 2009 EFY in the Transform WASH zones of Wolaita, Sidama and Hadiya was 54percent, 26percent and 22percent , respectively. To improve the quality of existing latrines the RHB has initiated sanitation marketing in 40 woredas. The RHB has planned to establish 41 sanitation marketing centers, at least one per woreda, by the end of the next fiscal year[30] .

Table 2 percentage of improved latrine coverage and ODF kebeles in Transform WASH zones

	percent ODF kebeles	percent coverage of improved latrines
Wolaita	84.5	54.1
Sidama	22.5	25.6
Hadiya	25.9	21.5
SNNPR	53.7	30.0

Source: SNNPR Health Bureau DPHP core process HEH 2009 EFY performance report

Various hygiene and environmental health programs are being implemented in the region in collaboration with development partners. The One WASH National Program (OWNP) provides additional financial support to 68 woredas and 20 small towns. GSF, UNICEF and COWASH provide support in 10, 21 and 8 woredas of the region, respectively.

4.2. Experience of sanitation financing in SNNPR

This assessment sought to identify previous experiences involving sanitation financing activities with a focus on Transform WASH intervention zones. Some limited initiatives have combined financing with implementing sanitation marketing activities. A summary of four such projects in Transform WASH intervention zones are presented below.

4.2.1. Sanitation financing in Boloso Sore Woreda

Boloso Sore is one of the pioneer woredas that started sanitation marketing activities in Wolaita Zone. Thirty-two kebeles of the woreda achieved ODF status in 2013/14. According

[30] SNNPR Health Bureau DPHP Core Process HEH 2009 EFY Performance Report

to the Head of the Woreda Health Office (WoHO), CLTSH has been successful in improving household sanitation facilities but limitations that discourage household investment include lack of design options and the poor quality of slabs.

To improve the situation, the woreda government in collaboration with International Medical Corps (IMC) Ethiopia implemented a sanitation marketing project that included local government offices, MFI (Omo), and local slab producers. The main objective was to ensure a sustainable supply of quality slabs for the community. To ensure this the woreda health office in association with MSE Development Office formed two associations to engage in the production and marketing of concrete slabs. Association members (local masons and artisans) were trained in production techniques and business management skills.

IMC provided equipment (molds, hand tools), raw materials (reinforcement bar, sand, gravel and cement), training and technical support for the newly established businesses. The enterprises agreed to produce circular and rectangular concrete slabs and supply to households at a fixed price, set by IMC taking into account raw material costs and the need for a profit margin.

These enterprises, organized from local masons and artisans, do not have access to sufficient capital and liquidity to sustain slab production. IMC and the local government therefore agreed with Omo MFI conditions for the provision of loans for the enterprises. IMC deposited 130,000 ETB with Omo by signing a MoU at district level. The assumption is that Omo MFI will use this as seed money to provide loans for households and businesses. Businesses are expected to save 20percent of what they need before taking out a loan with Omo for the other 80percent.

Figure 1: Business model for sanitation marketing in Boloso Sore

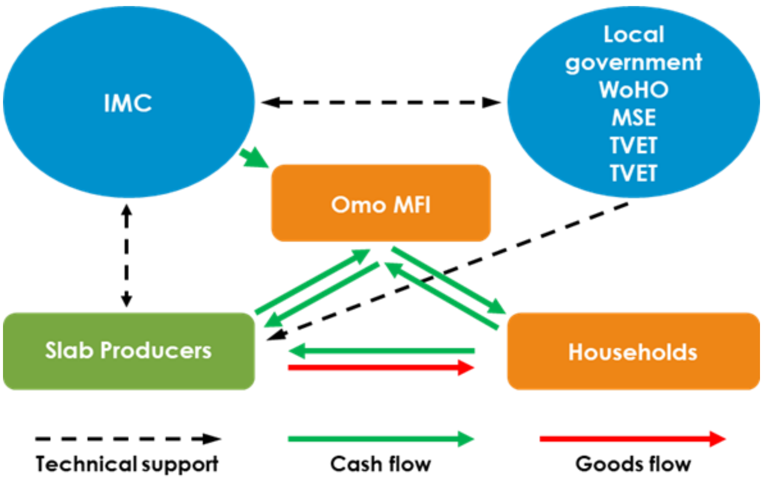


Figure 1 shows the flow of goods, cash and technical support of the proposed business model. IMC provides an initial cash flow, which is lent out by OMI to households and to entrepreneurs who want to expand their slab production and related activities. The households and businesses repay the loans, which can then be lent out again. IMC and the woreda health office provide technical advice and support, backed by the Micro and Small Enterprise (MSE) office and the Technical and Vocational Education and Training (TVET) organization.

The model includes local sales agents selected by the community members who work with health extension workers (HEWs) to stimulate demand for the slabs and register households who want to buy one.

During our visit, we communicated with the Sanitation Association enterprise in Chama Imbecho kebele of Boloso Sore. They told us that their association was established in 2015/16 and has so far produced 100 slabs. There were originally 14 members but only seven are still working. The enterprise borrowed 40,000 ETB from Omo MFI to finance their business. However, the enterprise stopped producing and selling slabs due to an unresolved procedural issue with Omo. The enterprise reported that sales were very poor as the community assumed slabs would be free since the business was supported by an NGO. At the time of writing, there is no support from the NGO and interest due on the loan is increasing. Meanwhile members of the enterprise cannot get a loan for other services from Omo while this situation continues. Producers also reported that consumers complain that the slabs were too expensive, whereas the producers said that the price was not realistic due to inflation of the costs of production materials.

The agent from Omo said that only five consumers in the kebele have taken a loan. At the time of writing, due to staff changes and lack of clarity about the loan disbursement methods, the institution is not providing loans to consumers, the project has been phased out and support from IMC has stopped. An informant from Boloso Sore woreda Rural Employment Opportunities Work Process stated that lack of clarity on how to manage the revolving fund deposited by IMC has created pressure on the slab producers. Two enterprises have taken out loans, however due to low volume of sales they are not viable at present. They are facing additional costs as the interest on their loans is increasing.

Lessons drawn from this intervention:

- *Market-based initiatives and approaches should be developed based on a good understanding of demand, supply and finance challenges.*
- *Starting new enterprises that are solely dependent on producing and selling a single product (e.g. improved toilet slabs) is not realistic and is likely to result in unsustainable businesses.*
- *Increasing supply without simultaneously increasing demand for products and services and facilitating access to consumer finance is ineffective.*
- *Implementation bodies need to establish a clear system that specifies roles and responsibilities for all actors.*
- *Mutual understanding of such schemes is important – in this case, the expectation of householders was a free slab; the expectation of the enterprises was for profitable sale; the expectation of the microfinance institution was for successful loans and repayments; and the expectation of the NGO and woreda was for a sustainable system. They were all disappointed.*

4.2.2. Sanitation financing in Dugna Fango Woreda

Dugna Fango is a woreda in Wolaita zone divided into 6 urban and 26 rural kebeles. The woreda has been ODF since 2014 and improved sanitation coverage is more than 40percent. The woreda health office in collaboration with an INGO called People in Need (PIN) tried to integrate financing options for businesses in a pilot project in two woredas. PIN established nine associations, one per kebele, mainly consisting of local artisans who are willing to engage in production of concrete slabs. Most members of each association come from the same village and have been legally established with the support of Kebele administrators and MSE Development Office. PIN provides enterprises with training in business management and construction techniques.

In this model, five sales agents in each kebele selected from members of the Health Development Army and volunteers facilitate demand stimulation and sales. PIN trained the sales agents and linked them with producers. PIN also linked the enterprises with MFIs so they could to create an account and arrange loans. In addition to technical support, PIN has provided materials, giving each new enterprise a shovel, saw, hammer, spade, bucket, mold and donkey cart to transport the slabs. PIN also provided 4,500 ETB to each enterprise as a one-off business startup grant, and a sales and product demonstration shop in their kebele.

However, by the time of our visit the project had phased out. According to the woreda sanitation and hygiene focal person, the number of enterprises continuing with production and sales was low. He said that the participation of WoHO had been very limited and even HEWs were not properly aware of the activities undertaken by PIN. The initiative had not become sustainable.

From a discussion with a member of one of the enterprises (Top Building Construction Association), we learnt that the enterprise had been established nearly two years earlier but they had not sold more than10 concrete slabs in that time. The slab enterprise has been unsuccessful and they are no longer producing slabs. They gave as reasons low demand for the product, the high costs of raw materials, which made the fixed price unrealistic, and difficulties in transporting the slabs. He stated that the community still perceives the price to be too expensive.

The PIN project coordinator said that the community attitude towards sanitation products and services was challenging. When PIN conducted a demand assessment, the majority of respondents were not interested in taking out loan for sanitation products.

Lessons drawn from this intervention:

- *Effective awareness raising, demand creation and social behavior change activities need to be conducted simultaneously with supply chain strengthening activities.*
- Project activities should be aligned and integrated with government strategies and plans.
- The sales and business skills of enterprises need to be enhanced.
- Formative assessments need to be conducted to determine individual household needs and desires prior to an intervention.
- Programs should be extremely cautious when setting prices. A demand and supply analysis would analyze how buyers and sellers interact to determine transaction prices and quantities.

4.2.3. Sanitation marketing in Aleta Chuko Woreda and others

Aleta Chuko is one of 19 woredas of Sidama Zone in SNNPR, divided into 31 kebeles – 26 rural and 5 urban. Of these, 18 kebeles have been declared ODF and awarded the green flag and three other kebeles have achieved ODF but not yet declared. Information from WoHO shows current latrine coverage at more than 90percent, with more than one in nine households using an improved latrine.

Sanitation marketing was initiated in the woreda in 2013 in a pilot project led by iDE Ethiopia. After a deep-dive analysis, three kebeles with potential to buy slabs were identified. Three enterprises were selected and trained in producing and selling concrete slabs. iDE took the lead in identifying, training and providing follow up to these enterprises, which were also involved in other businesses and agreed to produce and supply the slabs at a predetermined price. Sales agents were paid commission to stimulate demand and collect orders from households.

The pilot project has phased out, but Information from the WoHO indicates that five business enterprises are still producing concrete slabs. All the enterprises combined have so sold 1,235 slabs between 2014 and April 2017.

The pilot had no financial element for consumers or for business enterprises. However, iDE has included financing options for their current intervention in Wolaita zone, where the project is implemented in four woredas (Kindo Kisha, Bolosso Sore, Damot Pulasa and Domecha). Other than the addition of a financing mechanism, the project approach is basically the same as in Aleta Chuko. The area project coordinator from iDE told us the following:

"iDE has acknowledged producers lack financial capacity to produce big orders, thus we arranged loan access with Omo MFI. iDE has allocated seed money to Omo FMI and producers can get easy access loans. Producers can borrow 15-20,000 thousand Birr from Omo MFI. There is also a consumer loan option. Households can take out a loan when they organize themselves in groups since the minimum feasible loan size from the institute is far higher than the loan required to buy concrete slabs. So far most households have purchased their slabs in cash."

iDE entered into a tripartite agreement with local government offices (primarily the Health Office and MSE Development Office); Omo MFI and private slab producers agreed a price to provide slabs. iDE has developed good working relations with MFIs especially in facilitating financial services for agricultural inputs (improved seed, fertilizer), and this experience helped them to understand how to work with financial institutions for sanitation marketing.

Some anticipated challenges arise from the weak commitment by the WoHO to take responsibility for facilitating the loan repayment process in the same way that the Agricultural Office does for agriculture and the danger that households may take out a loan for sanitation but use the money for something else.

Lessons drawn from this intervention:

- *Commissioned sales agents play a critical role in creating demand for improved sanitation products and in bringing interested consumers into contact with suppliers.*
- *Selecting well-established enterprises with other business lines is crucial to ensure sustainability of supply.*
- *The availability of credit services can make it easier for enterprises to become engaged in the sector.*

4.2.4. Experience of engaging MFI into sanitation financing

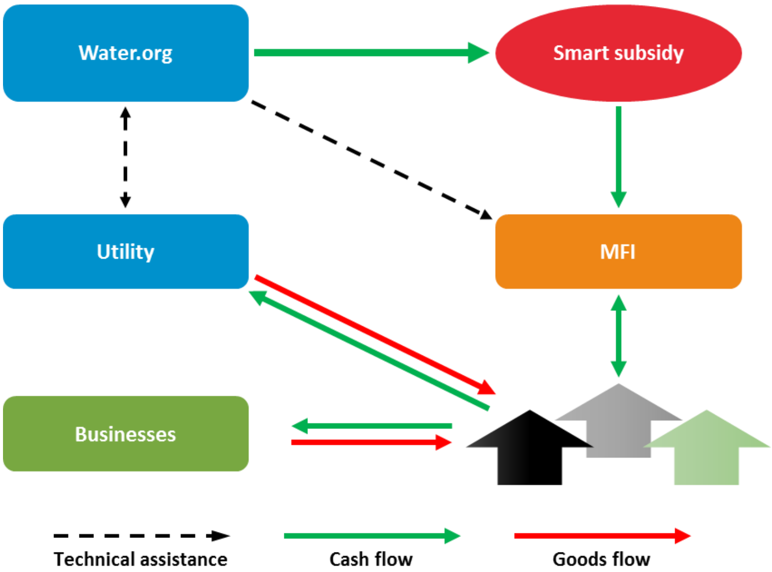
Vision Fund is one of the MFIs operating in SNNPR. One of its branches, Boditi branch, recently began providing WASH loans after signing a MoU with Water.org. The branch developed

WASH loan products and has started providing loans for the town's residents to build latrines and showers and to make private water supply connection. The maximum loan amount is 10,000 ETB and the maximum duration of the loan is one year. The interest rate for WASH products is 15percent, which is less than other loan products (19percent). Repayments are monthly. Target audiences for Water.org are mainly middle-income groups who have the ability and willingness to borrow and repay loans.

Water.org conducted a water credit market assessment and lobbied MFIs to participate in financing of WASH products. Since financing WASH products is not part of the portfolio for most MFIs, water.org provides a "smart subsidy" financial support for the MFI to conduct a feasibility analysis. This enables the MFI to gain an understanding of the demand for WASH product loans.

After assessing demand for WASH products, the branch office began providing loans for the purchase of water tankers, pipeline connections, bathroom and latrine construction and for upgrading latrine facilities. The branch manager says that so far, demand has been promising and the strategy is to focus on the peripheral parts of the town where WASH infrastructure and services are low and areas of new house building.

Figure 2: Business model for sanitation marketing in Boditi



Water.org is currently working with the Addis Credit and Saving Institution, Vision Fund and Metamamen MFI. The country director of Water.org told us that Omo MFI has also shown an interest in working with them and this could be great assistance for Transform WASH activities in SNNPR. The director identified the major challenges as being lack of support and direction from top-level officials in MFIs for WASH financing and persistent liquidity problems.

Lesson drawn include:

- *If access credit for WASH products and services is made easier there appears to exist a willingness at least by part of the community to take out loans.*
- *With proper support, MFI might be interested in financing WASH products and services.*

4.3. Challenges and opportunities for sanitation financing in SNNPR

4.3.1. Challenges

- *Omo MFI is a government affiliated institute and one of the largest MFIs operating in the region. The regional government has identified it as a key stakeholder to fulfil credit provision for businesses and households. However, enterprises report that the institute's loan provision process is long and time consuming. Another challenge is that individual members of concrete slab producing enterprises in rural areas already have a loan history with Omo MFI, for agricultural loans, and accessing additional loans for sanitation is difficult.*
- *Even if there is high latent demand for sanitation products, the sales performance of various enterprises is not attractive for financial institutions. Compared to other construction activities, this sector is less financially attractive.*
- *Liquidity is one key problem for MFIs. Most financial institutions are reluctant to incorporate new financial products and services like sanitation financing, which are deemed too risky. Interventions so far focus mainly on production and sales of concrete slabs and loan sizes (especially for households) are below the minimum standard for MFIs.*
- *Once loans are provided for businesses and households, there is a desire to divert the loan for other purposes like agricultural input purchase, consumption etc. which could hinder the progress of the sanitation marketing activities.*
- *Limited business skills in small enterprises may affect the loan repayment and collection process, which could negatively affect participation of financial institutions in the sector.*

4.3.2. Opportunities

- *The high levels of unmet demand should mean that sanitation marketing has a bright prospect. Improved sanitation coverage in the region is 30percent and about 46percent of the kebeles have not yet gained ODF status.*
- *The regional government has shown strong commitment and the health bureau has signed an MOU with key stakeholders including financial institutions for the implementation of the sanitation marketing guideline.*
- *A number of projects and initiatives implemented by development partners are designed to enhance the performance of the WASH sector in the region. These interventions work on strengthening local capacity and supply chains and this is expected to have a positive impact on local actors towards ensuring sustainability for sanitation marketing initiatives.*
- *A large number of semi-formal institutions can provide financial assistance. There are 4,238 SACCOs and 28 Savings and Credit Cooperative Unions in the region. With a proper guidance and follow up, these institutions could become a reliable financial source for the WASH sector.*

5. Innovative financing models for sanitation

In this section, we explore innovative financing approaches and models to engage financial institutions (FI) to offer financing for business related to WASH products and services. Most USAID Transform WASH intervention woredas have few formal financial institutions. For this reason, we include the semi-informal finance sector in the model. We sought to identify approaches that reduce transaction costs and share risks that financial institutions may encounter while providing reliable and profitable services to households and enterprises.

Sanitation financing models can provide services for different types of sanitation products and services and related supply chains. However, our models mainly focus on local small businesses engaged in production and supply of sanitation products and rural households. Financial institutions identified in the models are microfinance institutions and SACCOs or Saving and Credit Cooperative Unions. MFIs can provide credit services to businesses whereas SACCOs can provide for rural households. Transform WASH can consider Village Saving and Lending Associations (VSLA) as providing a potential mechanism for financing household sanitation.

Box 1. Saving and Credit Cooperatives (SACCOs)

Cooperatives are owned and controlled by their members and regulated under Proclamation No. 147/98 or the newly revised proclamation No. 985/2016 by the Federal Cooperative Agency (FCA). Based on their purpose and function, coops are categorized in different groups. SACCOs are one of the groups and their purpose is mainly to provide financial service for their members. Although both provide financial services, SACCOs' regulation and monitoring differs significantly from that of MFIs and there is no NBE involvement.

Every SACCO has its own by-laws and internal regulations. The management committee is responsible for managing routine activities and a controlling committee is responsible for supervision and ensuring compliance with laws, by-laws, and internal regulations. Zonal and woreda cooperative development offices provide regular inspection, auditing and follow up services. In contrast to MFIs, SACCOs are unable to take savings from non-members, typically provide loans for a term of less than a year, and offer interest rates lower than those of MFIs.

FCA reports indicate an increasing trend for the number of SACCOs and their membership. At the end of 2008 EFY, there were 18,959 SACCOs in the country. The FCA also indicates that SACCOs are available in almost all kebeles of Tigray, Amhara, SNNP and Oromia regions.

Advantages of working with SACCOs

- SACCOs are protected through by-laws and internal regulations
- They are widely distributed and available in Transform WASH woredas
- They are effective in securing loan repayments (more than 98percent)
- They can provide loans for non-members (for revolving fund)
- Cooperative agents are available at kebele levels in SNNPR

Challenges of working with SACCOs

- Poor staffing
- Weak financial capacity and lack of resources
- Limitations in planning
- Lack of competency in leadership

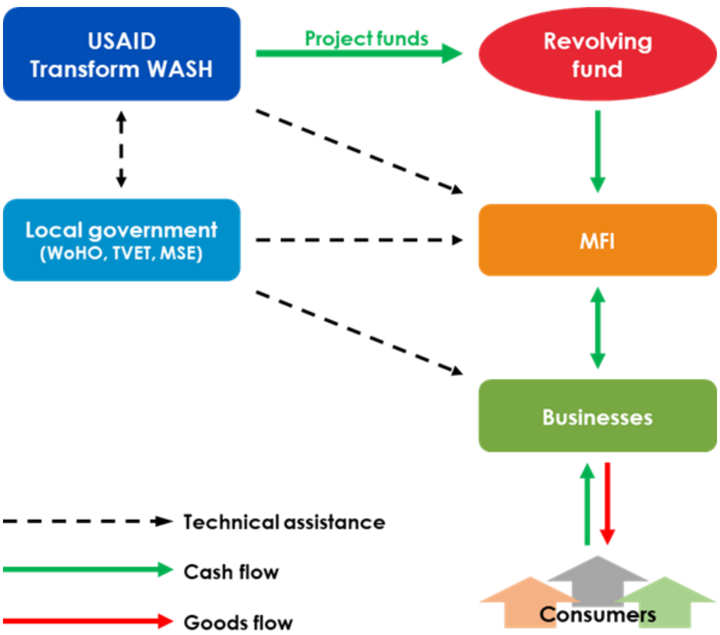
5.1. Financing model for businesses

In the current rural context, businesses and enterprises in the sanitation sector primarily consist of slab producers and retail shops located in urban and peri-urban kebeles. Slab producing enterprises are mainly composed of youth groups or local artisans and masons and in general their financial capacity is limited. Producers interviewed during the field visit mentioned financial constraint as a key challenge. Enterprises said that if the loan accessing mechanism were simplified or made more accessible, it would enable them to purchase a wider range of inputs and raw materials and to gain advantage of economies of scale, enabling them to supply products at the pre agreed rate. They also said that it might enable them to hold stock so that households could more easily access their products.

Based on the estimates of the producers, the average loan size required may vary from 15 to 40 thousand Birr. Among all financial institutions in rural areas, it is MFIs that have the potential to address such demand and thus they should be linked directly to the enterprise to provide credit. Enterprises are expected to save from 10 to 20percent of the capital they require in order to qualify for a loan for the other 80percent. Loans have a flat rate interest distributed over the repayment period.

Most MFIs do not currently include sanitation financing products in their loan portfolio. The limited financial capacity of these financial institutions might pose a challenge for the project to launch financing initiatives immediately. To facilitate WASH loans through MFIs and share risks with financial institutions, the project may need to consider allocating seed money in the form of revolving funds. Such a fund could solve the liquidity problem for MFIs and shorten the bureaucratic process for the enterprises in accessing loans. In addition to managing the fund, MFIs would be responsible for ensuring that loans are applied exclusively for sanitation marketing activities. MFIs can employ their own procedures and systems for loan provision and collection. The provision of revolving funds would give the project and the Regional Health Bureau the opportunity to negotiate interest rates and repayment mechanisms with the MFIs.

Figure 3. Possible financing model for WASH enterprises through MFIs



5.1. Financing models for households

The proposed financing model will also provide direct access to financial services for households. In rural areas, existing sanitation services and products include pit digging, concrete slab and pit cover production and supply of locally produced hand-washing equipment (e.g. tippy tap or jerry can fitted with tap). Informants interviewed from WoHO estimated the average loan size required per household these products and services would range from 800 to 2,000 Birr.

Larger financial institutions may not be interested in this market since the loan size does not provide a viable business proposition. SACCOs could easily fill such gaps, since a member is entitled to take loans for any purpose so long as she/he makes monthly savings and timely loan repayments.

Engaging SACCOs in such schemes has the dual benefit of meeting the needs of members and additional income for the cooperatives. The ability of SACCOs to invest in sanitation loans depends on their capital as well as willingness of members to take loans for such purpose. However, as informants from government offices and financing institutions revealed, lack of capital is the biggest challenge for rural SACCOs.

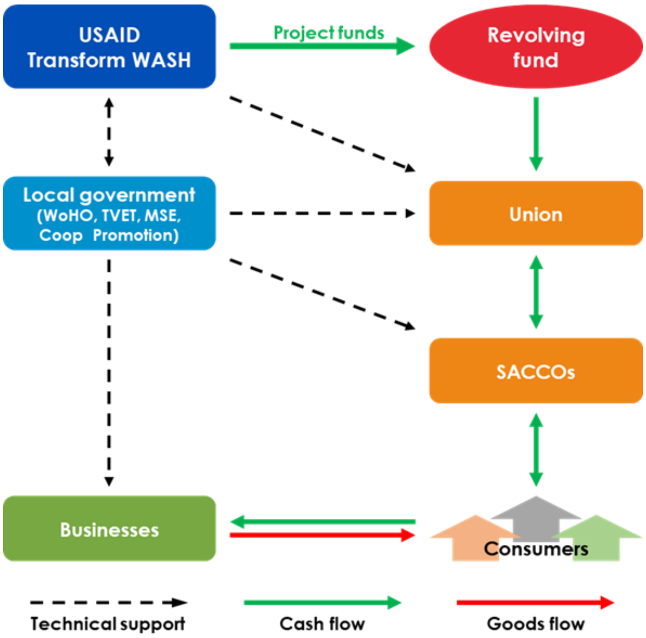
The other option for household financing are Village Savings and Loan Associations (VSLAs). VSLAs are built on the rotating saving and credit association (ROSCA) model in which groups of people pool their savings to create a source of funds. Members who contribute to the pool can also borrow from it. VSLAs can play a critical role in making financial services available in rural areas. Transform WASH can facilitate the establishment of VSLAs, which have the specific objective of financing sanitation products and services.

Three potential financing modalities to address sanitation demand of rural households are discussed below.

Modality one: Providing financial access via Cooperative Unions

In this model, Transform WASH would use cooperative unions as the main entry point to facilitate WASH financing. If a revolving fund were to be allocated to the unions, they would be in a position to disburse funds to member SACCOs who in turn would be able to provide credit services to their members. One advantage of this model is that unions and cooperatives have their own internal agreement, so the project might not need to put in place an additional monitoring or supervision system. As unions have a wide geographic coverage, the effect could spill over into other areas.

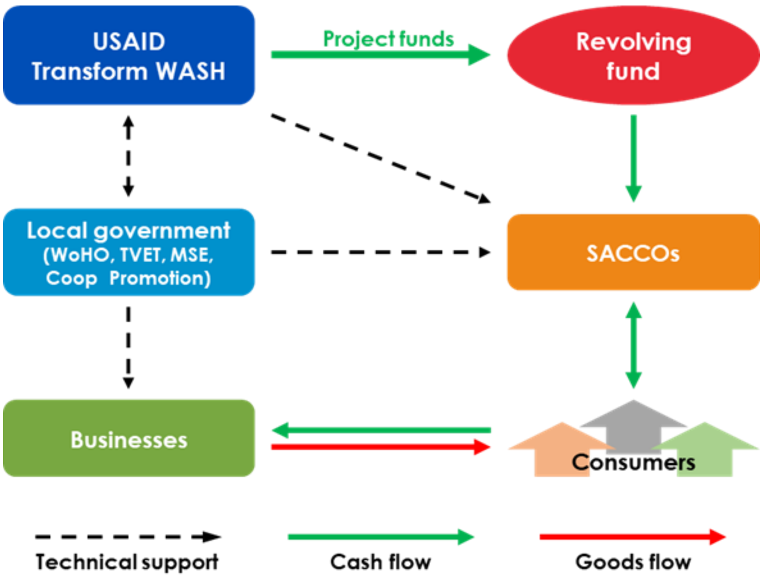
Figure 4. Sanitation services financing model via unions for households



Modality two: Providing financial access directly through SACCOs

As member-based institutions, SACCOs have their own regulations and conditions for loans. To address the limited financial capacity of SACCOs, the project should consider providing them with seed money in the form of a revolving fund, which would enable the SACCOs to start providing credit. It can also enable the project to encourage SACCOs to extend their services to non-members in accordance with Article 23 (d) of proclamation No. 985/2016. Loan repayments and collections can be aligned with SACCOs' internal procedures.

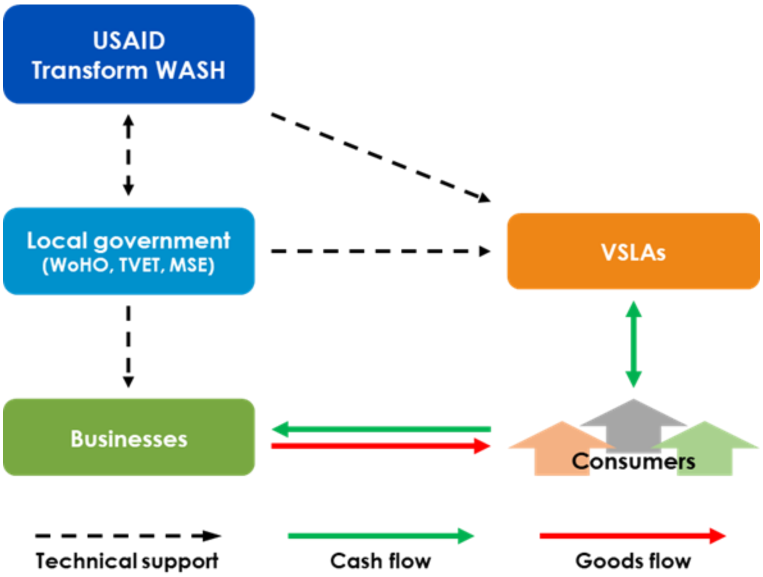
Figure 5. Sanitation services financing model for households through SACCOs



Modality three: Organizing sanitation financing VSLAs

Transform WASH could consider facilitating the formation of village saving and lending associations comprising 15 to 20 members set up with the specific objective of financing sanitation services and products. Since trust is fundamental to the effective functioning of a VSLA, members need to select each other to form their group. The role of Transform WASH would be to facilitate the creation of associations, train them on the methodology, and provide ongoing support during early months of establishment.

Figure 6. Sanitation services financing model through VSLAs for households



An alternative is to adopt the informal ROSCA (Rotating Saving and credit Association) approach (Iqqub in Ethiopian) explained in section 3.1.2 of this report.

5. Conclusions and recommendations

5.1. Conclusions

The Regional Health Bureau in collaboration with partners has initiated sanitation marketing activities in 40 woredas in SNNPRS. Most initiatives focus mainly on organizing local artisans and masons to produce concrete slabs. As concrete slabs are not fast moving items, it is very challenging for newly established enterprises to realize sufficient sales to sustain their businesses. During the field visit, we learnt that most enterprises established in such a way have abandoned production and some of their members have left. Producers explain that households give a low priority to sanitation products and complain that the price of concrete slabs (350-500 Birr) is too expensive. In turn, the producers complain that the price is not economically viable due to the rising cost of production materials.

The enterprises organized for production and supply of concrete slabs have limited business management skills and financial capacity. Although all those involved had been through the basic business skills trainings, their commitment and initiative to try new approaches or strategies to increase sales is almost non-existent. Setting up new businesses is risky and based on the assumption that anyone interested in producing and selling sanitation products can become a successful entrepreneur. Working capital mainly comes from members' own contributions and is not enough to sustain businesses. The link between these new enterprises and local MFIs is weak.

Financial institutions have a poor record in providing credit services for WASH products. Omo MFI, the largest in the region, has no WASH related financing services, though the institute does have some experience in providing such loans in collaboration with NGOs. In this regard, the initiative taken by Vision Fund to provide credit for financing WASH services in selected branches is highly significant. The institute provides WASH loans up to 10,000 ETB with an interest rate of 15percent, which is lower than for other loan products (19percent).

At kebele and woreda level, SACCOs and cooperative unions provide financial services for rural households for a variety of purposes. The Agricultural Office has developed good working relations with such institutes to arrange marketing and loan services for agricultural inputs and outputs. No equivalent initiative is currently taken for the WASH sector by the RHB or development partners to tap the potential of these institutions to finance sanitation.

For the financial institutions, lack of working capital and liquidity have been critical challenges and a constraint in terms of providing a diversified portfolio of financial products and services. From a review of international documents, we conclude that allocating seed money in form of revolving fund is an important factor to encourage involvement of financial institutions in sanitation financing and to absorb some of associated risks.

5.2. Recommendations

1. Prior to each intervention, an in-depth demand, supply and finance assessment should be carried out to determine practices and attitudes of households and businesses towards sanitation products and services. Such a study should identify consumer segments with their own desires and abilities to pay for a range of sanitation products and services.

2. There is a need to stimulate demand for improved sanitation products and services and therefore any program aimed to increase access to improved sanitation must ensure that demand creation activities are intertwined with interventions that focus on strengthening supply and increasing access to finance.
3. Sanitation products and services are not fast moving items and this has compromised the sustainability of new businesses. Rather than focusing on establishing new enterprises, priority should be given to working with existing businesses and entrepreneurs that already have the required business skills and that are interested in diversifying their business portfolios to include sanitation products and services. Artisans, masons and other individuals with production and construction skills (where necessary trained by Transform WASH) can be linked to established businesses.
4. Projects or programs should be extremely cautious about setting fixed prices for specific products and services. These prices are often not renegotiated for years and become an unprofitable business proposition for producers as costs rise and income remains static.
5. Small enterprises do not have the financial capacity to process big orders or hold stocks to deliver upon request, while rural households have seasonal cash flows. To address such financial constraints, the RHB in collaboration with development partners need to work on linking both groups with financial service providers.
6. Local financial institutions like SACCOs and cooperative unions have a wide presence in rural areas and play a key role in providing financial services for rural households. Such institutions are more appropriate than larger MFIs for meeting the relatively modest demands for household financing. Informal Village Saving and Loan Associations or Rotating Saving and credit Associations could be realistic alternatives.
7. To increase the likelihood of participation by financial institutions and to reduce their financial risks, the allocation of seed money or revolving funds dedicated solely for WASH products and services should be considered.
8. As not all projects and programs will be in a position to provide seed money or revolving funds to finance institutions, alternative strategies will need to be considered and developed to meet the demand for improved sanitation products and services beyond the timeline of these projects and programs. Additional strategies to be explored could include:
   - The Government of Ethiopia could consider negotiating directly with Finance Institutions to create opportunities or space to make it easier for them to broaden their loan portfolios to include sanitation products and services. This would be easier if sanitation was recognized by the GoE as a priority sector.
   - Programs like the One WASH National Program could consider allocating some of its unspent funds to Finance Institutions in the form of seed money or revolving funds.

Annexes

Annex 1: Data collection tools used in the study

KII guideline with Government officials

I. Sanitation marketing

1. What are the roles of your organization in implementing sanitation marketing activities?
2. Have you started implementing sanitation marketing in your areas? If yes, explain the measures you have been following? Please also explain your achievements so far?
3. Are there any organizations working with your office in undertaking sanitation marketing activities? If yes who are these actors? What does look like your engagement with these actors?
4. How do you assess the availability of sanitation products and services supply chains? Who are the major players in the supply chain?
5. How do you assess the demand for sanitation products and services? What approaches do you implement to promote demand?
6. What are the main challenges your organization encountered in implementing sanitation marketing activities?

II. Sanitation financing

7. Who are the major actors in the financial sector in your area (List of banks, MFI, SACCOs, etc.)? And what type of services do they provide for the community?
8. What are the local mode of access to financial services in relation to sanitation products and services?
9. Is access to finance an obstacle to the adoption of adequate sanitation facilities and the development of sanitation services? If so, please explain or give an example.
10. Are there any institutions engaged in financing sanitation activities? If yes how? If no, what has been the problems?
11. Whom do you think should take the responsibility to facilitate sanitation financing options? Why?
12. In your opinion which financial institutions are more suitable for financing sanitation activities in your area? Why?
13. Do you have future plans in terms of including financial institutions in your sanitation marketing activities? If yes, how?

III. Opportunities and constraints

14. In your opinion what are the opportunities for the financial institutions if they engage in sanitation financing activities?
15. In your opinion what would be the main challenges for the financial institutions if they engage in financing sanitation products and services?
16. What activities do you recommend to enhance sanitation marketing and financing in your area?

KII with Financial Institutions

I. Services

1. What type of services does your organization provide for its client?
2. Who are the main beneficiaries (individuals, businesses) of your services? Which sectors are your main interest area? Why? What are your criteria for loan provision?
3. What is the range of interest rates you charge for your service? How long is the repayment period and in what ways do your clients repay their loan? What is the minimum loan size? For people who need below the minimum loan size, do you have any system in place to meet the demand of these groups?
4. For whom do you prefer to provide loan (business, entrepreneurs, consumers)? Why?
5. Do you have experience to provide loan for project beneficiaries? If yes, could you tell us the arrangement? What about managing revolving funds? If so, explain?
6. What are the main challenges associated with providing loan for project beneficiaries?

II. Sanitation financing

7. Do you have the experience for financing sanitation products and services? If yes, please explain?
   a. What approach (es) have you adopted?
   b. What are the results so far?
   c. How do see the value chain system for sanitation in remote, rural contexts?

   If no why?
8. What would motivate financial institutions like yours to be engaged in sanitation service and product marketing?
9. Are you aware of any financial institutions engaged in financing sanitation products and services? In your opinion, which financial institutions are more suitable for financing sanitation activities? Why?
10. Do you have future plans in terms of including financing for sanitation marketing activities? If yes, how? If no why?

III. Opportunities and constraints

11. In your opinion what are the opportunities for the financial institutions if they engage in sanitation financing activities?
12. In your opinion what would be the main challenges for the financial institutions if they engage in financing sanitation products and services?
13. What type of support do you need to engage in financing sanitation marketing activities?

KII with Development partners

I. Services and supports

1. Could you explain for us the major activities you are doing in WASH sector in general and sanitation marketing in particular?
2. In implementing sanitation marketing activities, who are the main actors or agents working with you?

3. Do you have experience/ or projects that involve working with financial institutions? If yes, could you please tell us the sector, and the implementation arrangements?
4. What are the main challenges associated in working with financial institutions?

II. Sanitation financing

5. Do you have the experience of working with financial institutions for financing WASH services? If yes, please explain.
    a. The products and services delivered
    b. What approach (es) have you adopted?
    c. What are the results so far?
6. In your opinion what would motivate financial institutions to engage in financing sanitation marketing activities?
7. Are you aware of any financial institutions engaged in financing sanitation products and services? In your opinion, which financial institutions are more suitable for financing sanitation activities? Why?
8. Do you have future plans in terms of working with financial institutions for your sanitation marketing related activities? If yes, how?

III. Opportunities and constraints

9. In your opinion what are the opportunities for the financial institutions if they engage in sanitation financing activities?
10. In your opinion what would be the main challenges for the financial institutions if they engage in financing sanitation products and services?
11. What do you recommend to enhance participation of financial institutions in financing sanitation marketing activities?

KII with Private actors

I. Business and Services

1. Could you explain for us your major business/activities?
2. How long have been engaged in production and marketing of sanitation products? How do you start this business?
3. Who are the major recipients of your products and services? Who are the main actors or agents working with you? Could you explain for us your interaction with those actors?
4. What are the main challenges associated with sanitation marketing activities?

II. Sanitation financing

5. Do you have the experience of working with financial institutions to finance your business? If yes, please explain.
    a. The type of institutions you work with and the services you received
    b. What has been the procedure and selection criteria to get the service?
    c. What are the results so far?
6. What are the main challenges associated in working with financial institutions?
7. Are you aware of any financial institutions engaged in financing sanitation products and services? Which financial institutions do you prefer for financing your business activities? Why?

III. Opportunities and constraints

8. In your opinion what are the opportunities to work with financial institutions for your business?
9. In your opinion what would be the challenges for business like yours to work with financial institutions?
10. What type of support do you need to strengthen your sanitation marketing activities? And from whom?