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Sanitation financing: lessons learnt from application of different financing instruments in Busia county, Kenya

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Financial Inclusion Improves Sanitation and Health in Kenya is a Dutch-Government funded project implemented in Busia and Kilifi Counties. The project is founded on a Public-Private Partnership arrangement to create an enabling environment for market-driven approach for scaling up sanitation. The intervention combines demand generation and private sector involvement in developing and delivering sanitation products and services to underserved rural communities. The mainstay strategy applied was Community Led Total sanitation plus (CLTS+) approach. The plus entails financial inclusion targeting communities without sanitation facilities through financial literacy and micro-lending for sanitation improvement. As part of supply side development, Small and Medium Enterprises (SMEs) in sanitation business having also been financially included to strengthen their capacity to respond to thus generated demand. A combination of expanded markets coupled with demand generation has contributed to access to improved sanitation, promising health and livelihood improvements.

Introduction

A huge proportion (70.3%) of Kenya's rural population lack access to improved sanitation with only 15% having attained open defecation free status (WHO/UNICEF, 2015). Inadequate access to sanitation affects the economies negatively with up to 7% Gross Domestic Product reduction besides the well-known negative health and social outcomes (Hutton & Chase, 2016.) Every year, each Kenyan spends an estimated US\$12 of their earnings an estimated US\$0.56Billion in sanitation-related ailments (Oxford Economics, 2016). To attain goals on safe water and sanitation by 2030, the World Bank indicates that there is need for a fourfold increase in sector investments as deliberated in World Water Week at Stockholm in August 2017 (World Bank, 2017).

Kenya through its national policies adopted a non-subsidy approach for scaling up sanitation (Republic of Kenya, 2016). With no subsidies sanitation financing for households, schools, and public utilities remains a major bottleneck to scaling up sanitation. This paper describes pro-poor sanitation financing mechanism, innovations and models that have been tested under the project in Busia and results realised.

Context

The poverty levels among Busia County residents are at 66% with trade, agriculture, and fishing as the main economic activities (County Government of Busia, 2014). With low per capita income and poor living standards, majority of households in Busia are unable to pay for sanitation presenting a challenge in scaling up access (Masinde et al., 2017). While Community Led Total Sanitation (CLTS) helped Busia rural villages to attain open defecation free status, majority of sanitation facilities are makeshift and susceptible to harsh weather conditions like floods and strong wind. Studies conducted in Busia indicated that the upfront cost of upgrading a basic latrine to an improved option equals or surpass the monthly income of an average household (Ikeda & Arney, 2015). The opportunity cost for primary needs such as health care and food outweighs provision of improved and could, inhibit sanitation improvement. It is however known that there

is high willingness by households to spread the cost over a certain time period in savings or loans (Ikeda & Arney, 2015).

The National ODF Kenya 2020 Campaign Action Framework envisages massive sanitation upgrade across the country as a result of CLTS effort and advocates for development of sanitation market and supply chains. A government-approved toolkit with various sanitation technology options was developed for adoption by communities with its administration overseen by MOH/National Environmental Sanitation Coordination and Regulatory Authority, NESCR (Republic of Kenya, 2016).

Impact investors including FINISH INK project partner; Actiam and Social Equity have been keen to develop models that ensure affordability of money in the market for social impacts such as sanitation (Post & Athreye, 2015). Financial institutions including Banks and saving and credit cooperatives (SACCOS) have ventured into micro-credit for sanitation including family bank, Sidian Bank and Imarika SACCO. This form of micro-financing has impacted positively by increasing sanitation investments and providing a social and economic benefits to low-income communities, the private sector and government.

Objectives

The paper discusses innovative sanitation financing instruments and their contribution in scaling up improved sanitation for rural populations in Busia County. The objectives were:

1. To describe sanitation financing instruments adoptable in rural communities
2. To highlight the immediate and intermediate outcomes of sanitation financing
3. To share the predominant lessons in sanitation financing

Materials and methods

Setting

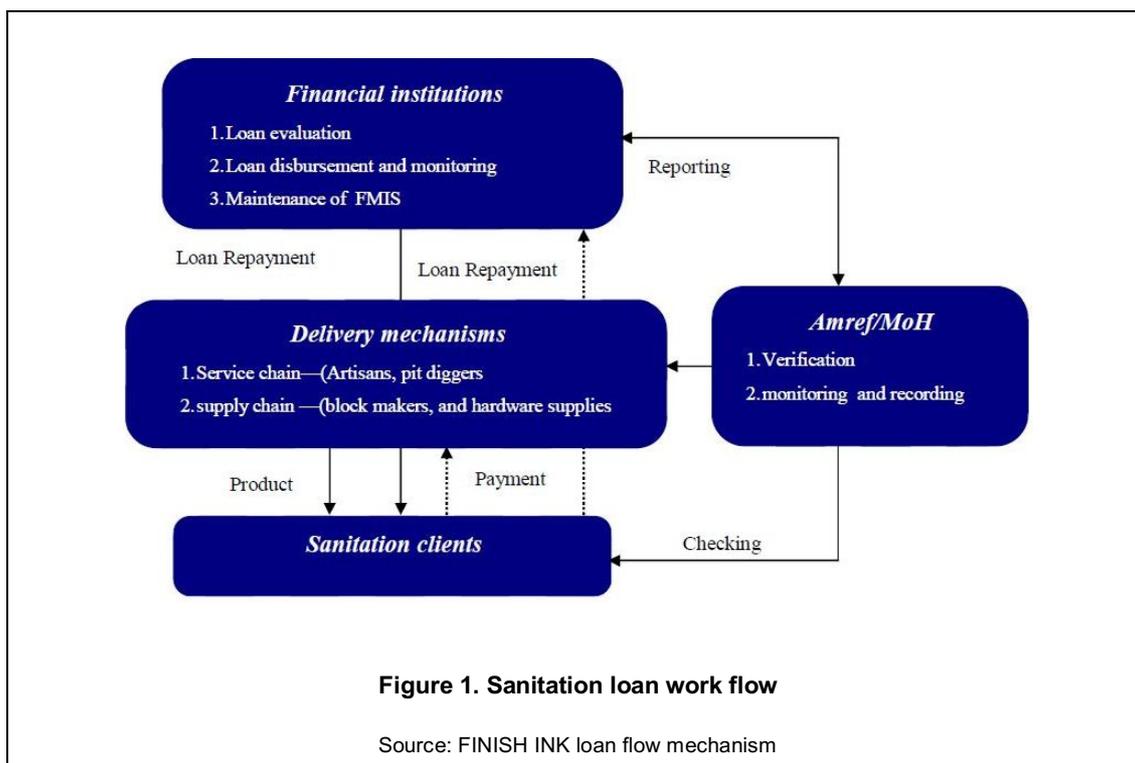
The project is implemented in Busia County which lies in the most westerly part of Kenya bordering Uganda. The County has been ranked among the top counties for business investment (World Bank, 2016) with booming financial and service sector owing to its large population. The County's capital is Busia town and has 6 Sub-counties namely Bunyala, Nambale, Samia Butula, Teso South, and Teso North. Busia County is investor-friendly and has high level of mobile phones and road network attracting a variety of financial institutions including banks, micro finance institutions and other lending institutions. Out of a total population of about 743,946 (Republic of Kenya, 2009), 83.5% live in the rural areas thus inclination of interventions to focus more on these settings.

Processes and procedures

Financial inclusion for sanitation for sanitation is a mechanism for CLTS sustainability by ensuring no slippage to open defecation practices, through access to improved sanitation. Poor access to financing for sanitation has been the main hindrance to scale up of sanitation. There are two pillars under which financial inclusion for sanitation is implemented:

- Financial literacy to financially excluded rural communities
- Loaning to customers with households with ability to pay for sanitation

The first steps involves primary demand generation targeting selected households in a village based on prior information on their ability to pay. Community health volunteers engage household heads with information on technological options available and the cost of each choice. Both the customer and community health volunteers explore financing options available. Within this conversation, basic financial literacy, savings and micro-lending dynamics are discussed and customers have a choice on whether to take a loan or use savings for the purpose of constructing an improved sanitation system. The figure below shows the process flow in marketing, acquisition and reporting mechanism for sanitation loans.



In the event that the customer chooses to take a loan, a loan officer from our partner financial institutions conducts loan evaluation. Based on customer credit worthiness and the bill of quantities, the loan is disbursed to the customer and the disbursement report is shared with Amref and the Ministry of health officials for follow ups. Referrals to qualified artisans are made to ensure quality workmanship. The work is booked for verifications upon completion for quality checks are made by Amref or the Ministry of health officials. Once satisfied with the quality of construction, the inspector with the artisan officially hands over the sanitation to the client.

Results

Financing instruments for sanitation

The project has a test bed for a variety of tools engineered for flexibility and ease of adaptation by various segments of the community. The financing instruments that have been applied in the project include:

1. **Micro savings and micro credit:** Post financial literacy training, micro credit requires micro savings first of up to 30% of the required amount. Commercial banks including family and Sidian banks have developed a special loan product and the growth of the portfolio is exponential.
2. **Guarantee funding:** This financing instrument was used to stimulate small and growing sanitation businesses who don't qualify for a commercial loan from banks or micro-finance institutions. Due diligence is conducted as a mandatory requirement and a set criteria ensures uniform scoring across groups. The loan is issued through commercial banks but payment collections is through monthly deposits through mobile phone money. Collaterals include land deeds, registered assets and are important in providing psychological security to the lender.
3. **Savings and internal lending groups:** Also known as the Merry Go Rounds, this is informal sanitation financial instrument which is based on social cohesion. Groups of about ten (ten) people women or men contribute equal sum of money in a month and give to one of them to improve household toilets. Savings and lending is debt and interest free and many community members tend to be associated with this financing instruments. This cycle continues throughout the year so that all members in the group receive the support.
4. **Government subsidies:** The government funds various development projects at the constituency level through constituency development funds. This funds through the CDF chair can be leveraged for the

purpose of construction of sanitation systems especially in schools. Through the devolved context, counties allocate funds for construction of public sanitation facilities in markets and other public places.

Financing instrument	Portfolio in US Dollar	Number of sanitation systems built
Micro saving and credit	3,479,735	4621
Guarantee funding	681,660	107
Saving and internal lending groups	9,379	23
Government subsidies	16,019	11

Lessons learnt

Diversity in sanitation financing

Sanitation financing instruments are varied and work best in different contexts. Different financing mechanisms are practicable based on social and structural arrangements within governments, communities and social networks. Sanitation promoters should study possible financing options in various contexts and leverage on what work best for communities within those areas. Notably, access to sanitation financing depend on bankability, accessibility to lending institutions, social networks and groups with the objective of saving for sanitation and above all the promotion that goes on to prioritise investment in sanitation

Public-Private Partnership engagement for scaling up sanitation

Scaling up access to improved sanitation require calculated multi-sectorial efforts bringing each partners strength together for synergy. Governments should take pivotal role of coordinating various actors, providing enabling environments and equitable achievements of various actors' interests. Governments should allow local markets to freely thrive without undue control to the financiers or suppliers. To ensure sustainability, the partnership arrangement adopted a hands-off approach in implementation.

Discussions and conclusions

Sanitation financing remains a major bottleneck in scaling up access to improved sanitation among the rural poor communities (Ikeda & Arney, 2015). Poverty notwithstanding, does not influence willingness to take up sanitation as long as appropriate financing options are availed. Impact investing has incubated a sanitation portfolio with substantial returns and significant social impact. Actors should open sanitation financing latitude to appreciate the role the informal sector and community associations could play in scaling up access to financing. It is not about sanitation loans from financial institutions but a mix of approaches not restricted to what has been discussed. Governments on the other hand should provide an enabling environment for active private sector (SMEs, MFIs) involvement in developing, promoting and distributing sanitation products & services and financing in mind that sanitation improvement are incremental with resultant socio-economic improvements (Bos, 2015; Ikeda & Arney, 2015).

Public-private partnership arrangement is key in sanitation financing and overall improvement in sanitation coverage by capitalizing on strengths of partners to fulfil demand supply sides for sanitation services. The partnership arrangements have been rippled to other developmental sectors but context-specific financial engineering is desired to financially include diverse populations (Post & Athreye, 2015).

The paper concludes that financial inclusion for the rural poor plays a big role in scaling up sanitation in remote rural communities. Financing options are practicable for different contexts and communities must not be restricted to specific funding streams but should be supported to access financing whether through self-financing or credit. Developing of financing instruments should be based on diversities of populations and market dynamics and making sure that markets respond to the poor. Lastly, it's worthwhile to evaluate the long-term social and health benefits of market-based approach to sanitation financing.

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