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**TRANSFORMATION TOWARDS SUSTAINABLE
AND RESILIENT WASH SERVICES**

Promoting entrepreneurship and affordable financing for uptake of improved toilets in Nigeria

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Meeting the SDG targets on Sanitation in Nigeria requires households to construct over 2.4 million improved toilets every year up to 2030, which is a 15-fold increase in the current rate of latrine uptake. Hence business as usual is not an option for the country in the run up to 2030. Markets forces must be mobilized. The two-pronged strategy deployed in Nigeria addresses the issue of markets as well as affordable finances. Toilet Business Owners (TBOs) are trained and mobilized as successful for-profit enterprises by the existing public-sector enterprise development agencies while cheaper financing is being mobilized from both Public and private/commercial sources through local MFIs and community saving groups. This approach has led to the construction of 4650 improved toilets in 06 Local Government Areas of Nigeria and holds promise for the future.

Background

Following successful scaling up of Community Led Total Sanitation (CLTS) in Nigeria since 2009, over 13,000 villages have been independently certified as Open Defecation Free (ODF). Many states have developed their ODF roadmaps and there is keen interest to further scale it up. However, majority of the latrines constructed are basic and doesn't meet the improved sanitation criteria. Besides the relapse back to Open Defecation (OD) was beginning to have a negative impact on the effectiveness of the CLTS approach.

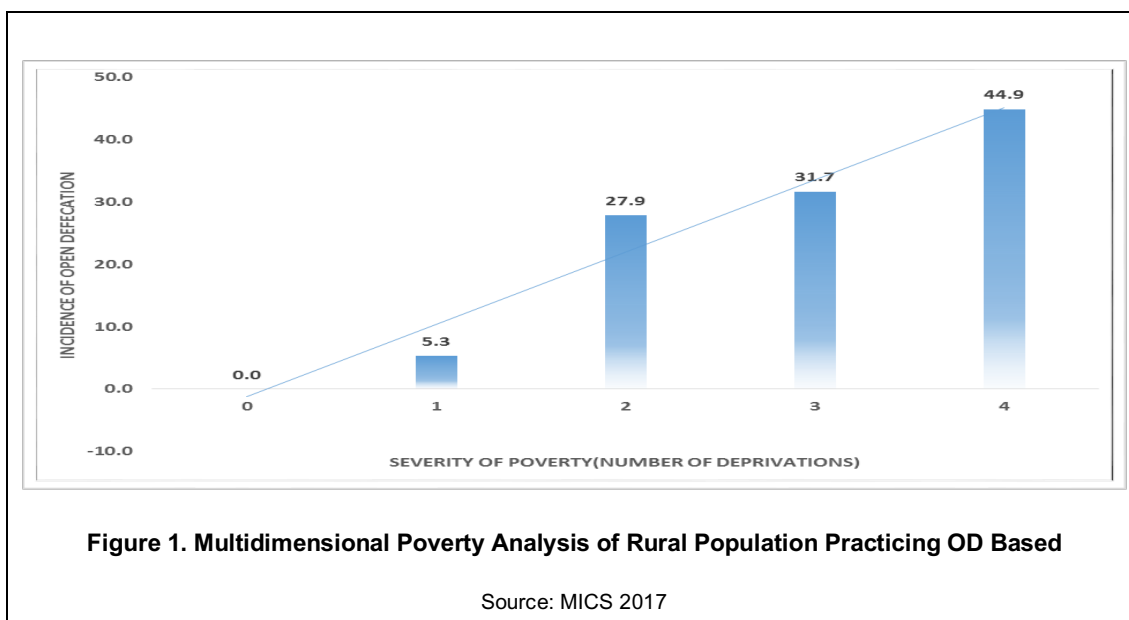
Introduction

UNICEF, Nigeria has introduced Sanitation Marketing and Financing interventions, referred to as the San Mark program, in 2016 under the Sanitation Hygiene, Water Supply in Nigeria (SHAWN) Project. San Mark entails strengthening the sanitation supply chains and mainstreaming the role of entrepreneurs to construct improved toilets for desirous households. Sanitation Financing was introduced to enable the households save or borrow loans through the community savings groups as well as through selected Microfinance Institutions (MFIs) respectively to meet the financing requirements for the household toilets. The approach introduced in 06 Local Government Areas (LGAs) has led to the formation of 100 Toilet Business Owners (TBOs), 1015 WASH Savings and Financing Groups (Adashès) and construction of 4650 improved toilets out of which 1306 were co-financed to the households. The impact of the project is such that at least 03 states have developed their plans to offer state public funds as cheaper capital to MFIs to lend to the Toilet Business Owners (TBOs) to expand their business operations and to the households as affordable loans. Further, UK Aid has agreed to scale up this intervention from 15 to 60 LGAs while the Federal Government of Nigeria is studying the pilot to expand it across the country.

Why sanitation marketing and financing in Nigeria?

Multidimensional poverty analysis as per Multiple Indicator Cluster Surveys (MICS) 2017³ data reveals that 44.9% of those defecating in the open are the most deprived. The poorest certainly requires smart subsidies for them to move the sanitation ladder. For the remaining 55.1% comparatively lesser deprived groups it is

likely that changing their perceptions with the availability of more affordable financing may convince them to stop open defecation and start using an improved toilet. However, the fact remains that reaching such a large number of below poverty population and encouraging them to construct and use-improved toilets requires innovative solutions.



The International Development Enterprises (IDE) paper on “Instituting equity and inclusion in market-based approaches: reaching the poor and disabled in sanitation”²⁴ explains a market-based approach to reaching poor with sanitation products and services. IDE framework on technology adoption, combined with the sequential and targeted approach has helped a number of their intervention countries achieve sanitation targets by reaching out to customers, including the relative poor, through market and financing interventions. The target groups are reached in phases, which are:

1. Approx 20% of the households, mostly above the poverty line, purchase toilets from suppliers directly (this obviously presumes that suppliers or toilet business owners exists supplying the products and services which the customers want and willing to pay for);
2. The majority of the relatively poor households (about 40-60%) purchase toilets through a number of loan and/or financing products;
3. Remaining group of poorer households (~20% of extreme poor/destitute) may construct improved toilets only through smart and targeted subsidies.

The bundled approach involving marketing and financing have been found to augment the uptake of improved toilets especially amongst the poor and farmers. The two-pronged approach involving both sanitation marketing and sanitation financing was deemed appropriate for Nigeria with an objective to not only strengthen the supply chain but also address the financing challenges.

The outlines of sanitation marketing and financing intervention in Nigeria

To strengthen the sanitation supply side interventions, UNICEF commissioned a sanitation marketing research in 2013/14. The main objective of this research was to generate evidence to provide a better understanding of the community’s improved sanitation preferences; their motivation for adoption of certain sanitation practices; the available supply chain and financing for sanitation-related products and services; and the policy and enabling environments for designing and promoting appropriate sanitation marketing models in Nigeria. The study found that open defecation is practiced because most (68%) households lacked toilet in their houses while 15% lacked money to build toilet. In addition, while over 80% of respondent household members defecate in the open daily, about 70% are not satisfied and willing to stop it if they get toilet in their houses. The major challenge against increased toilet construction were finance, soil terrain/appropriate technology, inflated cost of materials, limited land area and lack of required technical

expertise and therefore required support in these elements. The study also revealed willingness of households to upgrade existing toilets.

A UNICEF survey⁵ conducted in August 2016 revealed that more than 81% of the respondents desired to improve their existing toilets and 55% were willing to spend between 10,000 to 40,000 Naira (USD 28-114).

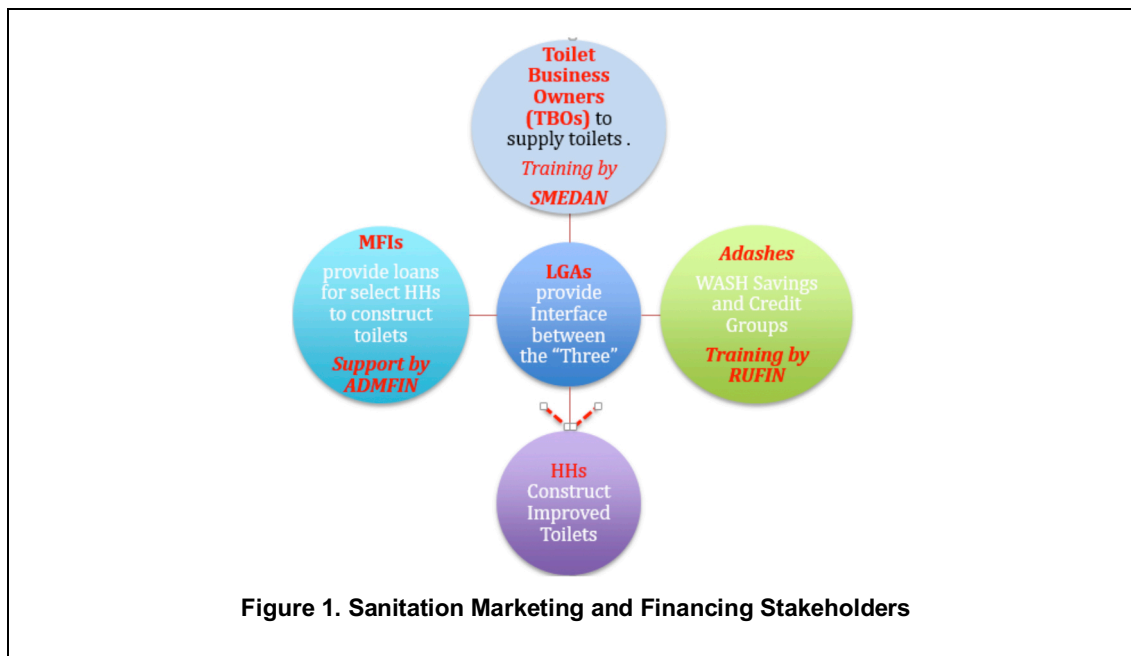


Figure 1. Sanitation Marketing and Financing Stakeholders

Based on the study, UNICEF initiated pilots on Sanitation Marketing and Financing in 03 SHAWN states across 09 selected LGAs.

Under the ongoing pilot intervention, the capacity of the Small and Medium Enterprise Development Agency (SMEDAN-a government agency) was developed to establish a robust and sustainable supply chain that offers a range of affordable technology options through local entrepreneurs for households living in rural communities.

The sanitation entrepreneurs which are also called as Toilet Business Owners (TBO's), are key players in UNICEF's sanitation marketing approach. They are small scale construction industry players and are encouraged to team up with 4-6 masons in their catchment area. The TBOs are identified and trained in enterprise skills while the State polytechnics have been engaged to train their masons in improving/perfecting their toilet construction skills.

Toilet Business Owners (TBOs), together with masons offer services to households to move up the sanitation ladder by offering the range of toilet options to build affordable improved toilets upon receiving purchase orders. TBOs work with their respective Masons to construct improved toilets to the Households at an agreed price, which matches the aspirations, and with the amount that they are willing and able to pay. TBOs offer three different types of toilets with toilet superstructure options that include: interlocking blocks, burnt bricks and cement blocks; platform that includes pour flush water tap with ceramic pan and the sub-structure that is constructed using rings, cement blocks and burnt bricks. The options and the materials provided must be locally available and with the optimum costing to ensure viability for TBOs and feasibility for households. The average cost of toilet under each type ranges between Naira 50,000 – 65,000.

The TBOs receive purchase orders during the sales pitches which they conduct in primarily ODF villages with the support of the LGA sanitation staff. The package of support provided by UNICEF for TBOs include IEC material – catalogues with menu of options, brochures and leaflets to offer different combinations of improved toilets suiting the household preferences.

SMEDAN currently provides mentoring and monitoring support to these TBOs. A monitoring dashboard, indicators and reporting mechanism is developed and is partly operational. An appropriate smart phone-based monitoring and reporting mechanism is needed to track the performance of SMEDAN and the TBOs more efficiently. TBOs also need to be provided and trained in pre-developed registers for easier book keeping e.g. number of orders received, number of order completed, delivery time, types of toilets provided

and cost info etc. Once such evidence-based reporting mechanism is established it will facilitate assessing the effectiveness of – (i) The support of SMEDAN to TBOs and (ii) insights into the TBOs business leading to more specific SMEDAN support to TBO to overcome a variety of challenges (e.g. number of orders received, delivery time, profitability, manpower adequacy and skills, type of toilets delivered etc). Similarly, LGAs have been capacitated in quality certification of the toilets constructed by TBOs to ensure that TBOs are delivering quality services to avoid any loss of trust and interest from the communities.



Photograph 1. Training of Masons

Source: UNCIEF Katsina



Photograph 2. TBO promoting smart toilet

Source: UNCIEG Katsian



Photograph 3. SMART Toilet Brand Promotion

Source: UNCIEG Katsina



Photograph 4. Billboard promoting smart toilet outside of MFI office

Source: UNCIEG Katsina



Photograph 5. Adashè group providing loan

Source: UNCIEG Bauchi

The second important point of our sanitation marketing approach is the sanitation financing component. Microfinance Institutions (MFIs) are widely present and active in rural areas of Nigeria providing micro loans primarily for rural productive sectors such as agriculture, livestock or other small businesses. However none had any experience in dealing with sanitation loans. Under UNICEF's sanitation financing interventions Microfinance Institutions were approached through the Association of Non-Bank Microfinance Institutions in Nigeria (ANAMFIN)¹ and were successfully advocated for initiating loans for rural sanitation. 42 MFIs have signed a Memorandum of Understanding (MOU) so far to start such loans but only 02 MFIs have started the actual disbursement of such loans on lower than prevailing interest rates. The remaining MFIs, though keen to actively participate in this potentially huge market, are constrained either because of incomplete design of their loan product, inadequate understanding of client and/or other dynamics such as inadequate current capital or expensive capital etc. Hence there is a potential that working with the ANAMFIN and building on the lessons learned by the active MFIs, many MFIs would be able to initiate sanitation loaning. Engagement of ANAMFIN is also required to ensure that data from all active MFIs on - number of loans issues, capital invested, number of successful loans, default rates, and number of improved toilets constructed is regularly available for evidence-based planning, monitoring and evaluation/course correction of the approach. UNICEF intends to engage ANAMFIN under a project cooperation agreement (PCA) to support all interested MFIs in initiating loans.

Since most MFIs mobilize their capital from interest-based capital market and use that capital for onward lending to households, these MFIs offered loans often are expensive e.g. 36% interest rate per annum. Based on UNICEF successful advocacy with the State Governments, the respective Permanent Secretaries or Commissioners from the States of Bauchi, Zamfara, Benue and Jigawa have expressed strong interest in making States funds available to MFIs for onward lending as cheaper loans. UNICEF plans to treat this possibility as "a mixed financing" experiment wherein State funds will act as capital finance which will be returned to the state government while the state government and other donors may provide the project management cost of the MFIs (~5-10%) resulting in availability of much cheaper loans to households (e.g. on interest rates between 0-4%). The MFIs, after revolving the loans in say 02 years, will be bound to return the capital to the state governments which may decide to keep revolving the original capital through the MFIs. The availability of very cheap loans is expected to spur the intake of such loans by the households leading to much higher numbers of improved household latrine construction through TBOs.

The second aspect of the sanitation financing approach is the promotion of group savings and revolving fund in rural ODF communities where Water, Sanitation and Hygiene Committees (WASHCOMs) are active as well. Community saving groups, locally called as Adashes, provide the loans to member households. UNICEF is working with the Rural Finance Institution Building Program (RUFIN), for the formation of Sanitation Savings and Credit Groups at the Community Level to mobilize investments for construction of improved toilets. So far 1,000 such Adashes have been trained of which 60% are reported to be active and 400 loans have been provided to members resulting in equal number of improved toilets. Since the Rural Finance Institution Building Programme (RUFIN)² may not continue in its current form after the

completion of the donor support, there is a need to link and promote Adashes to an appropriate Local Government Institution for their continuity, routine data collection, monitoring and mentoring support.

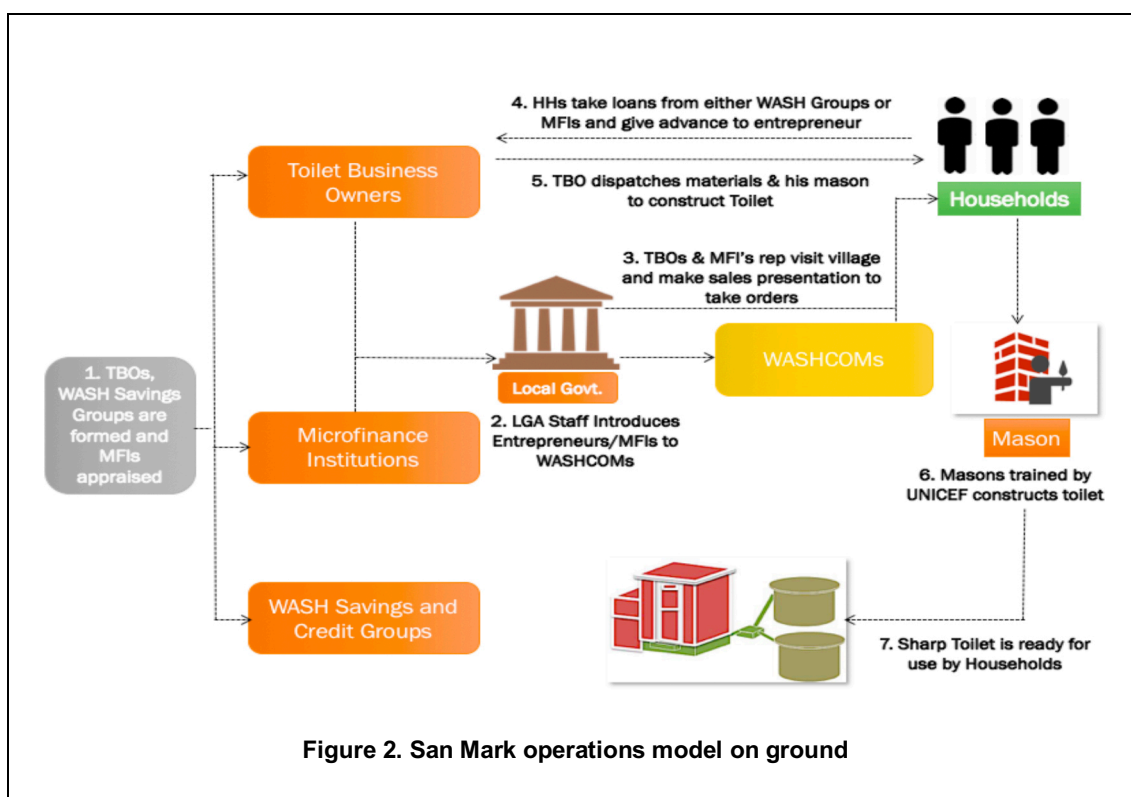


Figure 2. San Mark operations model on ground

This multifaceted sanitation marketing and financing approach is currently implemented in 03 states and UNICEF Nigeria intends to scale up this model in all 06 SHAWN supported states. This model suits Nigeria as it is based on indigenous institutions and more likely to sustain and scale up more cost effectively compared to a parallel approach implemented in neighbouring countries through multinationals.

Progress so far

The pilot project was implemented as an action research intervention. During the course of implementation lessons were regularly learnt and the project design was adjusted. This allowed UNICEF to avoid costly mistakes while still delivering on the project results. The Project so far has trained and onboarded 100 TBOs, have been able to form 1015 WASH Savings and Financing Groups (Adashes) leading to the construction of 4650 improved toilets out of which 1306 were financed through *Adashes* and MFI loans.

As a result of the positive impact of the project 03 States in Nigeria have developed plans to offer state Government funds as cheaper capital to MFIs to lend to TBOs to expand their toilet business operations as well as to lend to the households as affordable loans. Beside this, UK Aid has requested UNICEF to scale up the intervention in 60 more project LGAs. Government of Nigeria is closely following up the project with an intent for a nationwide scale up under the Partnership for Expanded WASH (PEWASH) program.

Sanitation marketing and financing in Katsina State

In Katsina States the sanitation marketing financing interventions were started in early 2017. These interventions so far have resulted in a fourfold increase in improved toilet construction in the project areas. More than 1,100 improved toilets were constructed by the TBOs. 300 community saving groups (Adashès) were formed that provided loans amounting to Naira 11,241,000 (\$32,000) for the construction of 716 toilets. The partnerships with MFIs facilitated toilet financing to 36 households, contributing a total amount of Naira 1,838,000 (\$5,110).

The support received from the market forces has been remarkable, and the results achieved have been quite significant bringing it to the notice of State and Federal Government. In 2018, the project aims to ensure that in the 02 project LGAs every household have an improved toilet. The State Government has plans to partner with a local MFI and allocate NGN 200 million (~USD 0.5 million) for lending to TBOs and Households.

Lesson learned and way forward

Roll out of Sanitation Marketing and Financing within a short span of 12 month yielded quite promising results. Based on the success such interventions are now scaled up from 2 to 50 LGAs, with the objective to provide improved toilets for 100,000 more households in next 02 years. Following are key recommendations for scaling up:

- Further strengthen and scale up the Sanitation Marketing and Financing (SMF) approach from 03 states to all 06 SHAWN supported states.
- SMEDAN to train TBOs in the use of pre-developed record keeping registers providing details such as number of orders received, number of order completed, delivery time, types of toilets provided and cost info etc. The consultant will assist UNICEF Field Staff in developing proposal template for engagement with SMEDAN.
- Develop a mechanism for LGAs to ensure that the TBOs deliver quality latrine construction services to maintain the communities' trust and interest in investments in improved sanitation.
- Capacitate LGA staff in the quality certification and assurance process.
- Develop the modalities for utilization of state government funding (in Katsina, Kaduna, Bauchi and Zamfara) for interest free lending to MFIs based on consultations with key stakeholders.
- Develop sample expression of interest, model agreements between the state and the MFI for initiating such loan financing. Provide necessary mentoring and monitoring support along with ANAMFIN to make sure that this intervention matures and delivers on the promise of cheaper loans.
- Sanitation marketing and financing interventions must be introduced right at the end of the CLTS triggering process
- More affordable toilet technology options to be explored to further reduce the cost of improved toilets

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Notes

¹ <http://www.anmfinigeria.org/>

² The Rural Finance Institution Building Programme (RUFIN) is a Loan Agreement of US\$27.2 million between the International Fund for Agricultural Development (IFAD) and the Federal Government of Nigeria. Under the programme the Cooperative Societies, and grassroots informal Finance Institutions are supported. For details <http://fmard.gov.ng/home/rufin/>

³ National Bureau of Statistics (NBS) and United Nations Children's Fund (UNICEF). 2017 Multiple Indicator Cluster Survey 2016-17, Survey Findings Report. Abuja, Nigeria.

⁴ Y. Wei, A. May, R. Choudhry, 2016, Instituting equity and inclusion in market-based approaches: reaching the poor and disabled in sanitation, 39 WEDC Conference Paper 2016.

⁵ U-Report Survey on Sanitation, Unpublished, UNICEF Nigeria, 2016

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