

# Learning Brief: Facilitating access to sanitation loans through local micro-finance institutions in Bangladesh

## BACKGROUND

Habitat for Humanity implemented a project aimed at improving access to WASH facilities in Northern Bangladesh, while strengthening the enabling environment for better WASH services. It was implemented from 2014 to 2018 with support from Australian Aid's Civil Society WASH Fund.

Baseline analysis identified that approximately 10% of households in the target area were practising open defecation and around 35% were using unhygienic latrines. This correlated with JMP data, which showed 50-60% of households were using improved latrines. Research suggested that key challenges in achieving sanitation for all included reaching underserved groups who may not be able to afford an improved latrine, as well as encouraging households to upgrade to improved facilities, which would be more resilient to disasters and reduce ground water contamination in areas of flooding.

In a context of high levels of unimproved latrine use and strong market potential, the project decided to work with existing micro loan providers (CBOs) in the three project Districts to develop a sanitation loan product to allow families to build new, or upgrade existing unimproved latrines. Repayments would be reinvested in a revolving fund used to provide additional loans beyond the start-up capital provided.

## KEY LEARNINGS

- Working through local CBOs who have loan management capacity, but are also motivated by social good was an important factor in generating organisational interest in a lower profit loan product.
- Only a low level of initial technical capacity training to the CBOs, with a phasing out model of technical support and monitoring, was needed to ensure quality construction.
- A range of demand creation activities led by different actors (project staff, WASH Committees, CBOs, School Hygiene Groups) in the community was critical to ensure uptake of loans. Awareness raising focused on achieving Open Defecation Free villages helped to mitigate the potential distorting impact of subsidies which were available to poorest of the poor families.
- Women are key motivators at the household level to upgrade to improved facilities. In this project their engagement was facilitated through targeting women as WASH Committee members, and providing gender trainings to the CBOs.
- Any sanitation financing model needs to consider supply side actors to ensure adequate supply of quality materials and labour. The project employed a number of simple strategies, including linking loan recipients to suppliers and labourers who had been trained to provide quality products.



## APPROACH

### *Identifying CBOs and Establishing the Loan Mechanism*

Local CBOs were existing loan providers within their community, with the benefits of being able to offer loans and lower interest rates than larger MFIs, and having a strong membership based presence in the community.

Nine CBOs were provided with capacity building support in portfolio management to enable them to add latrines to their portfolio of available products. Habitat also provided WASH technical training to ensure CBOs had adequate knowledge to monitor the quality of facilities being installed.

Habitat provided start-up capital to the CBOs under the following terms:

- CBOs were to provide a pre-agreed minimum number of latrine loans
- Interest rate to be a maximum of 12% p.a.
- Repayments were to be reinvested into provision of new loans
- Each CBO was entitled to retain 5% of repayments to support their operating costs
- Families had up to 24 months to repay loans

The loan portfolio is registered within each CBOs fund account to ensure it is included in annual government audits.



*Rezia with her new latrine*

### *Generating Demand and Identifying Beneficiaries*

Habitat worked with the CBOs to come up with four improved latrine designs at a range of price points. The latrines had identical sub-structure to ensure they were hygienic and sustainable, with varying super-structure. Loans ranged from US\$180 to US\$300, with the average loan amount being US\$190.

As part of the broader WASH project, Community WASH Committees (CWCs) were critical to generate demand for the latrine products. A range of awareness raising activities including hygiene promotion, sanitation mapping and events such as World Toilet Day rallies were used to generate demand for latrines. CWCs put forward possible beneficiary lists and CBOs vetted families to ensure they were in need of a loan but wouldn't be over-indebted.

### *Construction and Monitoring*

An important supporting element was the involvement of local sanitation suppliers and labourers. With the technical support from the project, local suppliers were encouraged to produce quality materials for improved latrines. Local labourers were trained on the specific designs as well as overall quality and accessibility principles. The CBOs linked loan recipient families to the trained suppliers and labourers to support quality construction outcomes.

Habitat also trained CBO members so that they could monitor the construction activities. The project developed a documentation process to enable CBOs to monitor and verify construction quality and ensure loans were used for intended purposes.



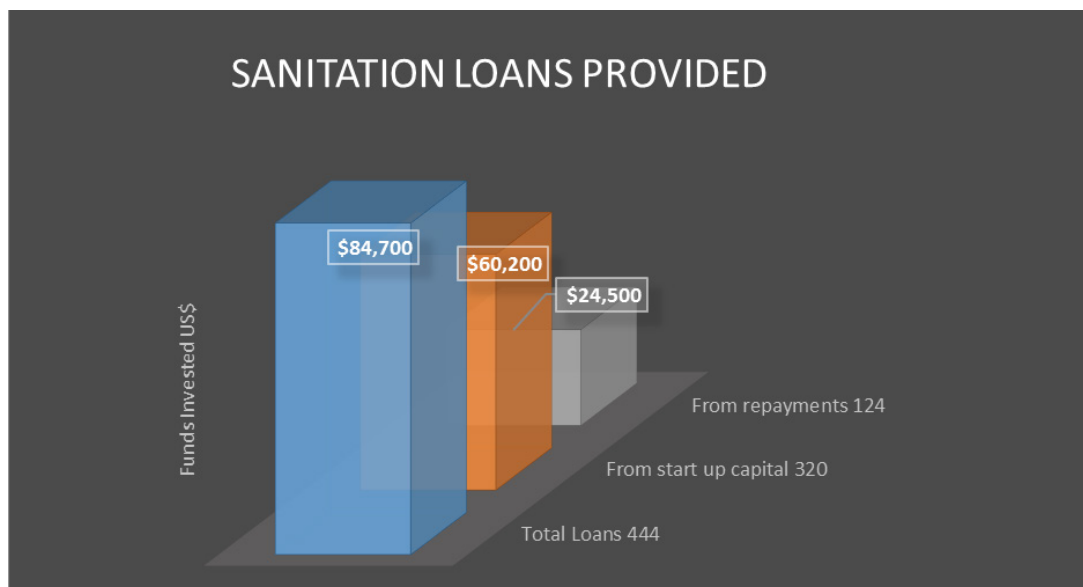
*An improved latrine constructed through loan*

## RESULTS

### *Collecting Repayments and Revolving the Fund*

CBOs worked with CWCs to facilitate repayment collection. As the CBOs have ongoing social and financial programs in the community, loans can be collected at low cost. Group collection meetings helped to facilitate repayments and reduce transaction costs. After three years, the repayment rate is 90%. CBOs provide some flexibility in repayment terms if, for example, recipients have unexpected household expenditure due to family emergencies, which supports the high repayment rate.

As repayments have been collected they have been reinvested into new loans. 41% of the total value of the initial capital has been reinvested to provide additional loans.



### *Next Steps*

Considering the significant success of the sanitation loan program, the CBOs are committed to continue to meet this demand. While the profit margin for the CBOs is low, the work done in the initial stages of the project to build awareness on the importance of improved sanitation, and the role of CBOs in leading that awareness raising change, has embedded the loans as part of their social work. In the words of one CBO leader: “We have a lot of demand for sanitation loans, but we have limited resources so we can’t meet all of that demand. However, we are very hopeful to achieve our long term sanitation goals. And of course, this door was opened by the Habitat project”.

If the CBOs continue to manage funds effectively, the revolving fund will provide a sustainable mechanism for ongoing sanitation upgrading in the three communities. At the project close, 8 of the 9 CBOs have good prospects for sustainability, with only one being impacted by management and governance issues which are likely to limit their organisational sustainability. The remaining 8 plan to expand beyond the initial project locations to their wider working area, and some are planning to invest their own capital. CBOs also plan to share this success story with other CBOs so that they can start this program in their own area.



<sup>1</sup> The loan program ran for 2 years before targeted subsidies were available to poorest families who could not afford a loan.