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# Study on the Experiences of Existing MFI Models Financing Sanitation in Rural Cambodia

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## I. List of Acronyms

ADB	Asian Development Bank
BCC	Behavior Change Communication
CLO	Chief Loan Officer
CLTS	Community Led Total Sanitation
CO	Credit Officer
CR-SHIP	Cambodia Rural Sanitation and Hygiene Improvement Programme
DBM	District Branch Manager
FGD	Focus Group Discussion
GDA	Global Development Alliance
GSF	Global Sanitation Fund
HFH	Habitat For Humanity
IDI	In-Depth-Interview
IEC	Information, Education, and Communication
KHR	Khmer Riel (Local Currency)
MFI	Microfinance Institution
MoU	Memorandum of Understanding
NGO	Non-Government Organization
PAR	Portfolio At Risk
PPI	Progress out of Poverty Index
SanFin	Sanitation Financing
SC-WASH	School and Community Water And Sanitation Hygiene
SM	Sanitation Marketing
SMSU	Sanitation Marketing Scale-Up
VBC	Village Bank Committee
W4P	Water For People
WASH	Water And Sanitation Hygiene
WSP	Water and Sanitation Program
WSSCC	Water Supply and Sanitation Collaborative Council

Exchange rate: USD 1 = KHR 4000<sup>1</sup>

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<sup>1</sup> This rate fluctuates slightly, as per National Bank of Cambodia data, but for all practical intents and purposes is considered as 4000 KHR to the USD in Cambodia.

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## Executive Summary

This document presents the findings of a study on sanitation microfinance models in rural Cambodia, conducted for Plan International Cambodia under the CR-SHIP program and the Ministry of Rural Development. The overall objectives of this study are to evaluate how MFIs support access to sanitation, assess different MFI sanitation models, and recommend best practices for scaling up MFI sanitation financing. Specifically, two prominent models were examined; *Sanitation Financing (SanFin)* implemented by PATH/iDE and *WASH Loans* implemented by WaterSHED.

Sanitation microfinance has the potential to sustainably improve access to sanitation. Previous studies in Cambodia as well as internationally have shown significant increases in latrine purchases and willingness to pay, when households had access to appropriate microfinance products. The microfinance sector in Cambodia is very well developed, with about 8 large and over 30 smaller MFIs serving over 1.5 million borrowers – around 10% of the population. Their wide geographical distribution network offers significant scope to couple microfinance products with sanitation marketing efforts in order to increase uptake of improved sanitation.

The two most active proponents of microfinance in the Cambodian sanitation sector have been WaterSHED through their WASH Loans program since January 2011 and iDE who partnered with PATH for the SanFin program from September 2011 to August 2013. Both of these programs currently work with the same two MFIs, VisionFund Cambodia and Kredit Microfinance Institution, but operate in different provinces. WaterSHED has been active in Battambang, Pailin, Pursat, Kampong Chhnang, Kampong Cham and Takeo provinces; while the PATH/iDE program ran in Kandal and Prey Veng.<sup>2</sup>

Due to a lack of availability of comparative quantitative impact data on both programs, any kind of definitive impact comparison proved to be impossible. Recognizing this limitation, the study focused largely on qualitative research into the experiences and lessons learned in the course of operation of each of the two programs. To this end, the research team interviewed senior staff at all the NGOs and MFIs at their headquarters in Phnom Penh, as well as at the local level. During the course of research, four provinces were visited – two within each program area – for the purpose of interviewing local latrine businesses, latrine sales agents and MFI loan officers, as well as focus group discussions (FGDs) with villagers who purchased latrines either with or without MFI credit. This provided a good picture of each program's operations, the perceptions of each stakeholder, and differences between the two programs.

The two examined programs have a large number of factors in common. They both aim to closely integrate the financing mechanism with their existing sanitation marketing approaches, recognizing the need for supply chain development as well as demand creation activities such as sanitation education and behavioral change communication (BCC). There are some differences however regarding the organization of operations on the ground, including:

- Sales agents in the iDE/PATH program are generally individuals contracted by the latrine business to cover several communes, while WaterSHED generally works with village level sales agents (usually village chiefs or other local authority figures) for a more focused but less aggressive approach.

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<sup>2</sup> iDE has been continuing sanitation marketing and finance activities after the program with PLAN ended, and has also expanded into different provinces.

- Commissions on sales within the WaterSHED program to sales agents are paid by the latrine business through the MFI, while in the iDE/PATH program there are paid by the latrine business through iDE intermediaries.
- In the WaterSHED program, MFI commissions are paid by the latrine business. In the iDE/PATH program, MFI fees are paid by the NGO
- The price of latrines varies according to local market conditions in each province; this in turn affects the amount of commission paid to sales agents and MFIs, which is usually a percentage.

Regarding the financial aspect, because both programs work with the same MFIs, the actual loan products are very similar. There are some differences in interest rates between the two MFIs and thus between provinces, with VisionFund typically charging 2.75% per month for its social loans, while Kredit may charge up to 3%, but this is the same for each program. Using a market-based approach, there is no specific targeting within either program in terms of household poverty and other social indicators – but loans can be considered affordable by most households, except for the extremely poor<sup>3</sup>. The MFIs tend to use either PPI scores or ID-poor levels to track loan recipients, but this is hard to contrast with overall sales and/or program targeting, as the latrine sellers and NGOs do not collect such data. Consumer feedback was generally positive regarding loan processing times, a frequently raised concern in NGO reports, but opinions on interest rates varied – with clients in Kandal and Takeo being more sensitive to this than those in Battambang and Prey Veng.

Both programs have been found anecdotally to be effective in achieving increased sanitation uptake, but without controlled trials to provide a counterfactual, we cannot establish a statistically significant relationship or causality. They are also sustainable from the viewpoint of MFIs, based on overall profitability of the loans and a low default rate. However, varying levels of NGO support are required in facilitating linkages between latrine marketing efforts and MFI loan officers, who have a busy schedule. It is recommended to engage early on with MFIs as private sector partners, considering their capabilities and needs in order to increase ownership and sustainability of the program, similar to the latrine businesses. Drawing on the experiences and lessons learned from both programs in the field, additional recommendations for any organizations wishing to continue or initiate sanitation microfinance schemes in Cambodia include:

- Clearly define roles and responsibilities for each actor – NGO, latrine business, sales agent, MFI loan officer and local authorities – as well as appropriate remuneration schemes.
- Provide a structure for regular and clear communication, with clear timelines and including mechanisms for resolving conflicts as well as transitioning of roles between new people – and the responsibilities thereof.
- “Think like a business” when engaging MFIs for partnership, similar to latrine businesses and sale agents, and make sure each are fairly and properly incentivized.
- Support MFIs to take advantage of opportunities to provide loans for the construction of latrine shelters (superstructures), by educating sales agents and providing them with relevant marketing materials.

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<sup>3</sup> As some studies have indicated the extreme poor, those unable to afford even the loan repayment, may have to be reached with targeted hardware subsidies.

- Closely monitor installation practices and consider supporting local businesses to offer installation services along with latrine sales to increase actual usage by rural households.
- If the program wishes to specifically expand targeting for the poor, more M&E data related to poverty targeting and sustainable outcomes need to be collected. However, we recognize that both current models follow a market based approach which are by nature not poverty targeted.
- More active cooperation and coordination between different NGOs involved in sanitation financing would leverage lessons learned in different target areas, and facilitate the efficient scaling up of the programs.



## 1. Introduction

### 1.1. Background

The national open defecation rate in Cambodia is 58%<sup>4</sup> (13% in urban areas and 69% in rural areas). Accordingly, international organizations, nongovernment organizations (NGOs), and public funding institutions have made considerable efforts to increase sanitation uptake. This has involved different approaches, including behavioral change communication, market development and supply chain support, subsidies, and support for improved access to finance.

The Water Supply and Sanitation Collaborative Council's (WSSCC) Global Sanitation Fund (GSF) supports sanitation and hygiene improvements in the country through the Cambodia Rural Sanitation and Hygiene Improvement Program (CR-SHIP). The program's activities concentrate on non-hardware-subsidized approaches such as community-led total sanitation (CLTS); school and community water and sanitation hygiene (WASH); sanitation marketing; information, education, and communication; and behavioral change communication campaigns. Sub-grantees such as WaterSHED and iDE not only educate people through sanitation marketing, but also make sanitation-related financing available to rural households through microfinance institutions (MFIs). This is an interesting approach to increasing sanitation uptake, especially for less affluent households that want better sanitation facilities but are unable to afford full cash payments.

### 1.2. Purpose of Study and Research Objectives

The overarching goals of this study are to evaluate how MFIs support access to sanitation, to assess different MFI sanitation models, and to recommend best practices for scaling up MFI sanitation financing.

Specific objectives are:

- To identify the sanitation-financing models adopted by MFIs in Cambodia in addition to the two models promoted by WaterSHED and iDE/PATH
- To review the effectiveness of these models in terms of increasing access to improved sanitation – including among the poor – and to assess the ease of monitoring each model
- To review the effectiveness and practicality of sanitation-financing operations in rural Cambodia
- To gauge MFIs' interest in each model and its practical implications for their own operating models and for encouraging other MFIs to offer credit on that scale
- To assess the viability and sustainability of each model by looking at the profitability of sanitation financing, cost recovery, and other relevant indicators where possible.

The scope of this study is limited to the financing mechanisms provided by MFIs. Financing mechanisms for sanitation provided by other actors – including payment plans provided by latrine businesses to customers or direct financing provided by implementing NGOs – generally fall outside the scope of the study, although we have documented these where encountered.

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<sup>4</sup> WHO/UNICEF Joint Monitoring Program for Water Supply and Sanitation (2013).

## 2. Methodology

The study's methodology was developed based on the guidelines provided in the terms of reference (TOR) with a review by Plan International Cambodia's project team following the study's Inception Report.

This overall design of this research study, based on the terms of reference, is qualitative in nature. It therefore does not aim to provide any statistically significant data that can be used to make precise inferences. Due to the small sample size, the data presented in this report are indicative rather than representative of the whole population.

### 2.1. Research Tools

The survey tools were designed according to the research objectives above. Two types of tools were used to assess each sanitation-financing model. These included interview guides with MFI loan officers and latrine sales agents, which were crucial to assessing the program's effectiveness in increasing sanitation as well as any challenges and recommendations that arose during operations. The demand side of the MFI models was assessed through focus group discussions (FGDs) with latrine user MFI loan clients and latrine user clients using other payment sources.

### 2.2. Research Design

Our findings are based on the inputs obtained through expert interviews with NGO program managers/officers at the Phnom Penh head office, which provided an overview of the models and helped design the study's methodology, as well as field interviews in four provinces. Expert interviews were also conducted with the relevant MFIs' top management in Phnom Penh to assess their interest in sanitation-financing models. The fieldwork involved interviews with program actors such as loan officers, sales agents, and latrine businesses, and FGDs with clients and non-clients.

In order to conduct in-depth interviews (IDIs), we asked a number of NGOs for the names and contact details of the relevant actors in each area (loan officers, sales agents, and latrine businesses) prior to implementing the fieldwork.

FGD participants were selected on the recommendation of the latrine sales agent, village chief, and VisionFund's village bank committee (VBC) in each village. Generally, the research team leader provided a list of criteria for participant selection to the sales agent, village chief, and/or village bank committee in order to recruit participants.

### 2.3. Fieldwork

The fieldwork took place in March 2014. The primary data was collected across eight villages within four provinces (see Table 1 below). The villages were selected on the team researcher's recommendation, based on an analysis of sanitation loan uptake<sup>5</sup> (in each province), the duration of operation (the longest possible), and the use of a mixture of group loans and individual loans if applicable.

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<sup>5</sup> We attempted to contrast this with the number of loan applications, but no data was available. In the case of group loans, loans are approved without collateral on the spot.

**Table 1: List of research villages**

Village	Commune	District	Province
Rong Dek	KoKir Thum	Kien Svay	Kandal
Chey Oudom 2	Samraong Thum	Kien Svay	Kandal
Prey Pah A	Roneang	Traeng	Takeo
Trapang Rokar	Ang Knor	Traeng	Takeo
Lvea	Seang Khveang	Kamchay Mear	Prey Veng
Trapang Thum	Pean Rung	Svay Antor	Prey Veng
Sambor	Hab	Koas Kralar	Battambang
Samdach	Tapun	Sangkae	Battambang

The FGDs were moderated in pairs, while the IDIs were conducted individually by research team members. At the end of each day, the researchers carried out checks on each questionnaire. After completing their fieldwork in each target village, the research team met to discuss fieldwork challenges and to devise a flexible solution to overcome these challenges.

## 2.4. Sample Size

In all, the team conducted eight FGDs and 20 IDIs. Half the FGDs were with participating sanitation loan clients, while the other half were with non-sanitation-loan clients (i.e., people who had financed their latrine purchase through means other than an MFI sanitation loan). The 20 IDIs comprised interviews with four latrine business owners, eight sales agents, and eight loan officers.

**Table 2: List of targets and sample achieved**

IDI respondent	Target	Achieved
Latrine Business	0 <sup>6</sup>	4
Sales Agents	8	8
Loan Officers	8	8
FGD	Target	Achieved
San. Loan clients	4	4
Non-clients	4	4

## 2.5. Profile of Respondents

For our expert interviews with NGOs such as WaterSHED, iDE, and PATH, we met with WASH program officers, program managers, and regional managers. We also met with MFI decision makers such as social performance managers/officers, chief operating officers, deputy heads of credit, and senior vice-presidents to ensure that they could answer our critical questions and particularly to gauge their interest in sanitation-financing models and their views on sanitation financing. The IDIs with program actors targeted loan

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<sup>6</sup> Not originally part of the scope of work, interviews with latrine business owners were added on Plan’s request based on the Inception Report and methodology finalization.

officers who were closely involved in sanitation financing programs. The sales agents and latrine businesses we interviewed had been involved in such programs for at least a year<sup>7</sup>.

FGDs were conducted with villagers who had recently built latrines (or had built latrines during the availability of a sanitation-financing facility) to distinguish between sanitation loan clients and non-clients. Both client and non-client participants can be classified as medium-poor and poor (under the ID-poor system). There were no distinctive criteria with respect to gender, age, and occupation. Generally, our respondents were women, most of whom were farmers.

## 2.6. Limitations and Challenges

The research team carefully designed the project to limit any potential challenges and ensure the highest-quality output. However, as with any study, we encountered a number of limitations to the methodology and fieldwork. The study's findings are framed with respect to these challenges and limitations as follows.

### *Study limitations*

**Qualitative study not quantitative.** This was only a qualitative study of the models in which the NGOs and MFIs linked together for sanitation financing, care should be taken when interpreting the assessment of the models as more rigorous quantitative assessment was not possible. Also the timescales of the two programs compared were not always the same, especially considering that the fieldwork took place after the PLAN/iDE cooperation ended and only iDE continues implementing the program, any kind of definitive quantitative comparison for example regarding loan uptake was not possible.

**Small sample size.** The relatively small sample size is also a consideration when interpreting the findings of the study. Findings in the field were anecdotal as only two communes were visited in each province, and thus care should be taken when extrapolating findings to draw conclusions about the operations of the program as a whole. A heavy focus was put on the MFI side however, and we are confident of the findings regarding MFI operations and interest in the working models.

### *Fieldwork challenges*

**Availability of revised data.** No recent data were available at the NGOs' head offices in Phnom Penh. The team had to adjust three villages within the fieldwork plan because it was not clear whether there would be enough respondents for the FGDs (both client and non-client). We resolved the problem by asking the sales agents and NGOs' district managers to confirm the data and provide up-to-date information where needed.

**Fieldwork schedule and coordination with local authorities.** Issues in FGD coordination by the village chiefs initially led to an excess number of participants being invited. This happened once, in the Chey Oudom 2 FGD there were more than 20 participants. Following a discussion with Plan International Cambodia, the team changed its approach and decided to ask the relevant village chief, village bank committee, and/or village sales agent for the names of up to eight latrine users (who had not received financing from an MFI partner to build a latrine) who were then invited to join the FGD.

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<sup>7</sup> Except one sales agent in Kandal who was recruited in 2014 because iDE had stopped working with the previous sales agent due to inappropriate behavior while on the program.

### 3. MFI Sanitation Financing

#### 3.1. International Context

Lack of access to improved sanitation is a common issue for rural households in developing countries. This may be a result of limited access to information, poor supply chain linkages, and the prioritizing of basic consumption over latrine access. There is no consensus in the literature on a one-size-fits-all solution to programs supporting sanitation, and studies generally recommend that an approach be tailored to the conditions of a specific country or region. As such, different approaches have been tested and implemented by various organizations in different countries to improve sanitation access.<sup>8</sup>

Sanitation financing through microfinance has the capacity to improve access to better sanitation for consumers who cannot make an upfront cash payment. This allows middle- and lower-income households in developing countries to obtain *improved* sanitation facilities that meet their long-term needs and preferences through market-based structures. Again, many different models have been piloted and applied in different countries, as both market conditions – supply and demand characteristics – and the availability and sophistication of MFIs vary.<sup>9</sup>

In some cases, multiple approaches have been tried and evaluated in the same country. For example, in India, Water for People (W4P) has piloted a sanitation microfinance model with different partners. Initially, W4P provided local NGOs with interest-free funds to disburse to households. As a nonprofit organization, it could not charge its clients any interest. Later, when W4P partnered with other NGOs to disburse loans, the issue of scalability arose since the program relied entirely on W4P capital for financing. In seeking a suitable model, W4P approached an MFI with the idea of providing sanitation financing as a business opportunity. Local MFIs were interested in adding another loan to their portfolio, but hesitated to lend to new clients who did not meet their current target profile. To resolve this problem, W4P supported a local MFI with a loan guarantee.<sup>10</sup>

#### 3.2. Sanitation Microfinance in Cambodia

Cambodia's microfinance landscape is well developed and relatively sophisticated for a country of its size and socioeconomic development. Currently, there are 40 MFIs serving over 1.5 million borrowers (around 10% of the population) with a \$1.3 billion loan portfolio.<sup>11</sup> Several large MFIs have extensive networks throughout the country, including rural areas. Nonetheless, most microloans continue to be used for (micro-) business purposes. There are comparatively few consumption loans, including for sanitation products, although this number is rising.

While various donor-funded programs and initiatives to support access to sanitation facilities have been implemented in Cambodia<sup>12</sup>, the incorporation of partnerships with MFIs as a way to improve uptake is relatively recent. In a recent study, the availability of microfinance loans has been shown to significantly

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<sup>8</sup> See e.g. <http://www.lboro.ac.uk/well/resources/fact-sheets/fact-sheets-htm/mcfs.htm>

<sup>9</sup> Ibid.

<sup>10</sup> For further reading, see: Microfinance as potential catalyst for improved sanitation: a synthesis of water for people's sanitation lending experiences in seven countries, *Water for People*, 12 December 2013.

<sup>11</sup> Data as of February 2014, Cambodian Microfinance Association. Not including ACLEDA, the country's largest commercial bank, with significant microfinance operations.

<sup>12</sup> See e.g. Robinson, A., Sanitation Finance in Rural Cambodia, *Water and Sanitation Program*, February 2012.

increase the percentage of people willing to purchase a latrine at the prevailing market price.<sup>13</sup> Currently, the two major sanitation microfinancing models operating in Cambodia – the main subjects of this study – are implemented by WaterSHED as *WASH loans* and by iDE/PATH with technical support from the World Bank’s Water and Sanitation Program (WSP) as *sanitation financing* (SanFin). Additionally, Habitat for Humanity Cambodia (HFH) has recently conducted a pilot project in *WASH Financing* in one province, which also contains an MFI component.

The two models being implemented by WaterSHED and iDE/PATH are closely integrated with their sanitation marketing activities, while the HFH model includes an additional hardware subsidy component in the form of household rebates. While all other NGOs partnered with VisionFund, Kredit initially partnered with iDE and subsequently reached an agreement with WaterSHED. Overall, the models are very similar, but their ability to yield the best outcomes may be attributed in some degree to the way coordination and communication between the different stakeholders is organized. Each model also has different geographical coverage within the country. The table below lists the implementing areas under each model.

**Table 3: Program implementing areas**

NGOs	Implementing Period	VisionFund Partnership	Kredit Partnership
<b>WaterSHED</b>	January 2011 – ongoing  Lending started in July 2012	Battambang, Pailin, Takeo	Kampong Cham, Kampong Chhnang, Pursat
<b>iDE/PATH</b>	September 2011 – August 2013*  Lending started in July 2012	Kandal	Prey Veng
<b>HFH</b>	April 2013 – April 2014 (Pilot)	Siem Reap	-

Note\*: Once the program was concluded, PATH withdrew its involvement while iDE continued to implement the program and expand it informally to other provinces such as Kampong Thom, Siem Reap, Banteay Meanchey, Oudor Meanchey, and Svay Rieng. ‘Informally’ here means that loan officers (LOs) are not required to attend sanitation meetings any longer. If a loan is required, the sanitation teacher calls the LO to prepare the application.

### 3.3. Assessment Framework

This section summarizes the evaluation criteria we have used to assess each sanitation-financing model. They were established based on the scope of work established in the Terms of Reference for this study and subsequent discussion with Plan in the Inception Report.

#### *Impact of Sustainable Access to Service*

Assessing the impact of a program is crucial in gauging whether it has increased access to sanitation or services in a manner that is sustainable over time; e.g., whether the latrines purchased by households are still actively operated. Additionally, the impact is evaluated in terms of the extent to which a total sanitation solution, based on behavioral change, has been built into project implementation or whether it is adjusted on an ad hoc basis for the purposes of comparison with other programs.

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<sup>13</sup> Understanding Willingness to Pay for Sanitary Latrines in Rural Cambodia: Findings from Four Field Experiments of iDE Cambodia’s Sanitation Marketing Program, *IDinsight*, October 2013

### *Effective Use of Public Funds*

The effective use of donor funds is measured by the number of sanitation solutions built into a program and specifically by the number financed through micro-loans. However, if directly allocated donor funds channeled to specific aspects of a program (e.g., sanitation financing) are not tracked by the relevant institutions, only qualitative assessments can be made. Additionally, the use of donor funds for software vis-à-vis hardware subsidies was considered.

### *Poverty Targeting*

The ability to target poor households reflects the effectiveness of a model, given that the poor are normally considered vulnerable and unattractive clients by most MFIs, which, in turn, reduces their access to sanitation financing. The product design (loan terms and conditions) determines whether it is affordable for poor households as well as their preferences in terms of sanitation loan terms and conditions. Ideally, we would have determined the number of ID-poor households targeted by the scheme, but not all of the relevant institutions had reliable data to this end.

### *Financial Sustainability and Scalability*

This criterion looks at the contribution of public funds under each model and how dependent it is on public funds. In addition, we assess the profitability of sanitation financing from MFIs' point of view by looking at the portfolio at risk (PAR) of sanitation loans, the default rate of existing loans, and the profitability of sanitation loans compared to normal loans targeted at rural communities. In essence, the willingness of MFIs to continue offering sanitation loans is a key sustainability issue.

Similarly, whether a program can be extended to other areas is assessed based on MFIs' interest in scaling up operations with or without external support, the specific support they need, the challenges identified by each implementing party, and potential solutions to these problems.

## **4. WASH Loans (WaterSHED)**

USAID's foundational support for WaterSHED aimed at developing a program that would promote increased access to clean water, sanitation, and hygiene in Southeast Asia through commercial channels. Between 2009 and 2012, USAID funded WaterSHED through its Global Development Alliance – a program designed to harness the power of the marketplace to create economic opportunities, improve health outcomes, and promote sustainable models for financing development.<sup>14</sup> WaterSHED Cambodia is one of the sub-grants/grantees of CR-SHIP, which is executed by Plan International Cambodia. WASH Loans began in January 2011 with demand studies conducted with Amret and Prasac, and lending operations with VisionFund and Kredit beginning in July 2012.

In the course of its sanitation marketing activities, WaterSHED found that the lack of financing was a common constraint to adopting improved sanitation. From 2010 to 2012, WaterSHED had a Cambodia-based team working in partnership with the University of North Carolina to assess household demand for various financing mechanisms that could coincide with rural sanitation marketing. Armed with an understanding of such demand, WaterSHED sought to create partnerships with several MFIs including AMK, Amret, Kredit, Prasac, and VisionFund. WaterSHED's goal is not to have a limited-time NGO-led project, but rather to have ongoing partnerships that integrate activities and reflect each MFI's willingness to engage in

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<sup>14</sup> This section draws upon information from <http://www.watershedasia.org>, retrieved on March 20, 2014.

a business relationship. For that reason, each partnership is different, but this analysis will focus on the relationship with VisionFund.

WaterSHED entered into a collaborative partnership with VisionFund Cambodia, which began disbursing loans in July 2012 to enable rural households to buy latrines in selected areas. The program was launched in Battambang and Pailin provinces, and in mid-2013 was expanded to include Takeo province.

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*“The loan is a catalyst to increase latrine purchases. We are working hard to make the program available in all seven provinces that Hands-Off sanitation marketing currently covers” Phav Daroath, WaterSHED’s WASH marketing manager.*

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#### **4.1. Program Activities**

Since January 2011, the Hands-Off sanitation-marketing project – of which WASH loans is a part – has enabled the sale of more than 75,000 latrines to rural consumers through about 160 partner local enterprises. Among those latrines, 4,946 had been financed through loans disbursed by VisionFund. The program has also served as a vehicle for disseminating hygiene and sanitation messages to more than 185,000 villagers who participated in group sales events. The WASH loans component – the integration of microfinance with WaterSHED’s WASH marketing program – supports the strategy of increasing the market penetration of essential products such as safe latrines by lowering the barriers to purchase.

Interviews with village chiefs, credit officers (COs), and latrine businesses<sup>15</sup> revealed that WASH loans are promoted mainly by WaterSHED’s field staff and village chiefs themselves, who, in most cases, also represent VisionFund Cambodia’s VBCs and act as sanitation sales agents. COs often promote WASH loans as part of their efforts to promote social loans<sup>16</sup> to villagers and clients during village bank meetings, loan disbursement, and loan collection. Occasionally, COs may promote WASH loans during sanitation meetings organized by WaterSHED’s field staff.

The process of disbursing loans is as follows. WaterSHED’s field staff provides the VBC with a list of clients who are interested in applying for a WASH loan. The VBC then identifies a group of clients for which it can provide a guarantee. In partnership with WaterSHED, VisionFund Cambodia offers WASH loans to groups that have joint liability<sup>17</sup>. Each group consists of two to three clients. Once the groups are formed, the CO prepares a loan application for the clients concerned; generally, loans are approved within a week<sup>18</sup>. On approval of the loan, the CO asks the latrine business to deliver the latrines purchased to the clients’ homes. Overall, loan approval rates are high – between 95% and 100% of submitted applications. However, when promoting WASH loans, WaterSHED’s field staff do not always clearly stipulate the loan design (loan terms, conditions, and eligibility of applicants). As a result, some loan applicants find they are not qualified or prepared to proceed with their loan documents if the terms and conditions are different from those

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<sup>15</sup> A latrine business refers to latrine suppliers who work with the program to supply latrines to villagers.

<sup>16</sup> VisionFund Cambodia’s social loans are provided for water filters, latrines, solar power, etc.

<sup>17</sup> WASH loans are not offered to individual borrowers.

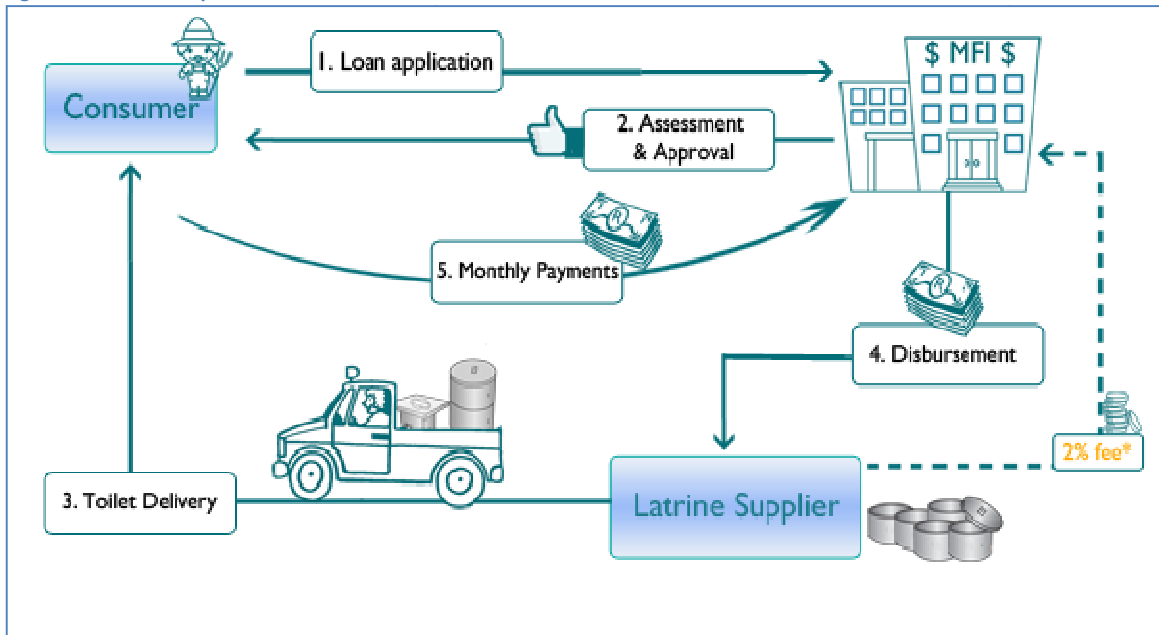
<sup>18</sup> In most cases, the loan is approved within two or three days.



communicated by WaterSHED’s staff. A VisionFund CO in Takeo, for example, observed that her loan approval rate was only 60%.

Once a month, the approved loans are disbursed to the latrine businesses directly. Instead of subsidizing MFIs, WaterSHED has encouraged VisionFund to charge a loan origination fee in the form of an interchange fee. This is similar to the interchange fee paid by merchants around the world who accept payment cards such as Visa or MasterCard – typically, around 2% of the purchase price. Following the payment card model, VisionFund pays the latrine business directly instead of disbursing the loan to the consumer. Every month, clients pay interest on their loans (or repay some portion of the loan amount) to VisionFund (see Figure 1 below).

Figure 1: WASH loan process



Source: Image courtesy of WaterSHED, 2013.

\* Interchange fee is deducted from disbursement automatically.

In addition to the interchange fee (about 2% of the loan disbursed) charged by VisionFund, latrine businesses typically pay the latrine sales agent about 3% per unit sold. Thus, the total commission or fee that a latrine business pays to enable its business is up to 5% of the cost of a latrine (see Table 4 below). While this figure does not reflect the general or average cost of latrines in the two provinces, it does indicate the cost of latrines in the areas the research team visited.

Table 4: Cost of latrine, interchange fee, and commission

Province	Cost of Latrine (in KHR)	Interchange Fee Charged by VisionFund (in percentage)	Commission to Sales Agent (in percentage)	Total Fee and Commission Paid by Latrine Business (in percentage)
Takeo	180,000	4,000 (2.22%)	5,000 (2.78%)	9,000 (5%)
Battambang	200,000	4,000 (2%)	6,000 (3%)	10,000 (5%)

Source: Interviews with COs, sales agents, and latrine businesses.

WASH loan terms and conditions are not uniform across provinces or even within the same province. In general, loans range from KHR 180,000 to KHR 230,000, depending on the prices charged by different latrine businesses. The cost covers a latrine unit, delivery, interchange fee, and commission. The interest rate charged is the same as for social loans, i.e., 2.75% per month (although generally, the interest on a social loan is less than on a typical VisionFund loan). Loan terms in Takeo are longer than those in Battambang, but repayment methods are flexible in both provinces (see Table 5 below).

**Table 5: WASH loan terms and conditions**

Province	Type of Loan	Loan Size (in KHR)	Monthly Interest Rate <sup>19</sup>	Loan Terms	Repayment Method	Repayment Method Preferred by Clients <sup>20</sup>
Takeo	Group loans	180,000	2.75%	Up to 18 months	Installment, end of term, and semi-installment	Installment
Battambang	Group loans	200,000	2.75%	Up to 12 months	Installment, end of term, and semi-installment	End of term

**Source: Interviews with COs and sales agents.**

## 4.2. Stakeholders

This sub-section describes the key stakeholders of the WASH loan program and reviews their perception of the program in order to assess the feasibility of scaling it up. The main stakeholders include target clients, VisionFund, sales agents, and latrine businesses. Although Kredit is also a WASH loan program stakeholder, its partnership with WaterSHED is relatively recent, implying that there was little data available.

- *Target Clients of WASH Loans*

Each sanitation meeting is attended by about 20 to 30 villagers, most of who are from middle-income to poor households<sup>21</sup>. The WASH loan facility has led to a significant increase in latrine uptake. For example, according to an interview with a sales agent in Takeo, out of 70 new latrine users, 40 had financed their latrines using a WASH loan. Clients’ overall perception of WASH loans was positive: many felt that, without the loan, they might not have been able to build a latrine. Clients were also satisfied with the flexibility of loan repayment methods and the facility of having the latrines delivered to their homes. In some areas, however, clients had concerns about the quality and price of latrines.

- *VisionFund*

VisionFund works actively to offer various social loan products through partnerships with other NGOs and development partners. It has also partnered with PATH and iDE to offer sanitation loans. It does not limit

<sup>19</sup> In general, assuming the same loan size, nonsocial loans are charged between 2.9% and 3%, while social loans are charged 2.75%.

<sup>20</sup> Both provinces indicated different repayment method preferences, which could be due to their different livelihood patterns. Most households in Battambang rely on agriculture, while those in Takeo probably rely on micro-businesses and self-employment.

<sup>21</sup> Poor households include both ID-poor 1 and ID-poor 2, there is still low uptake among the poor compared to middle-income households.

itself to an exclusive partnership, however, and thus collaborates actively with WaterSHED to offer WASH loans.

VisionFund believes that the WASH loan is relatively small (about KHR 200,000 in general). It therefore allows its COs to approve loan applications in order to make the loan approval process faster. VisionFund's management team has indicated that the organization needs NGO partners before it can extend the program to other provinces because it wants the supply chain prearranged. It was clear that the organization had the relevant expertise to assess loans but not the latrine supply chain.

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*“Since loans for water filters are sustainable and even smaller than WASH loans, we think it is fine for us to scale up.” VisionFund management team during an expert interview.*

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- **Sales Agents**

The key role of sales agents is to promote sanitation at village meetings and door to door (with support from WaterSHED's field staff). Sales agents are usually village chiefs or representatives of VisionFund's VBCs, and are responsible for promoting latrines in their village. In some cases, they play all three roles: sales agent, village chief, and VBC. Some sales agents have little interaction with those COs who focus on lending in general rather than specifically on WASH loans.

Sales agents receive a commission from latrine businesses based on sales. These commissions vary from one place to another according to the price of latrines and the sales agent's contract with the latrine business. Generally, they range from KHR 5,000 to KHR 10,000 per unit. In addition to the incentive provided by the sales commission, sales agents tend to be highly motivated because they have an interest in improving their communities' access to sanitation.

- **Latrine Businesses**

The research team interviewed two latrine businesses involved in the WaterSHED program – one in Takeo and one in Battambang. Both expressed their satisfaction with the WASH loan program and said their sales volume had increased significantly since joining the program. Last year, the latrine business in Takeo sold 720 latrines, while the business in Battambang sold 300 latrines. Generally, each business sells one to two latrines a day. The latrine business owner in Takeo reported that his sales had increased by 100% after joining the program. The businesses typically sell other kinds of related products and construction materials, which gives them additional benefits of cross-selling as they become more widely known in the community.

### 4.3. Challenges

Notwithstanding the advantages offered by the WASH loan program, stakeholders still face a number of challenges. The key challenges they reported during the interviews are as follows:

**Consumer behavior toward sanitation and sanitation financing.** While sanitation financing is perceived positively, challenges include the limited availability of marketing materials and potential clients' lack of

understanding of financial products (terms and conditions). This can make it difficult to promote latrine uptake: in some villages, for instance, villagers do not think that latrines are a priority for their household<sup>22</sup>.

**Sales performance bonus, time, and sales targets for COs.** There are no performance-based incentives or sales targets for COs to promote and sell WASH loans. Incentives are based on total loan portfolios and the number of clients they manage. Many COs have complained about the workload and time constraint in promoting loans. COs in Battambang reported that WaterSHED staff are allowed to fill up loan applications. CO respondents suggested that WaterSHED staff should be properly trained to fill up loan applications in order to facilitate the disbursement process.

**Latrine supply and installation services.** In some cases, latrines were not supplied in time because the latrine business was responsible for supplying up to six communes at a time. Some COs indicated they were skeptical about the quality and perceived high cost of latrines supplied by the latrine businesses, relative to those supplied in the market. This observation is interesting as there is no actual difference between latrines sold with WASH Loans versus those sold in the market. In some cases, the latrines were delivered but not installed since no installation service was included or available. Due to limited information and the small sample size it was not possible to determine what proportion was not installed, but a surveys conducted by WaterSHED on a previous pilot study reported a 29% non-installment rate.<sup>23</sup>

**Lack of communication.** COs reported finding it difficult to communicate with WaterSHED staff: it was not always clear in the field who the sales agents were and who should receive a commission from latrine sales.

**Impact of economic externalities.** A sales agent in Takeo reported that there were four villages near his where people could get free latrines from an NGO<sup>24</sup>. This had led villagers to wait and see if they too could acquire a free latrine, making sales more difficult.

#### 4.4. Assessment

In general, stakeholders were satisfied with their respective roles in the program. Each was involved in ensuring a sustainable approach – there were no subsidies in kind or in cash. This implies that scaling up the program is highly feasible. Clients now have access to affordable credit to finance their latrines, with highly flexible loan terms and a simple application process offered by VisionFund. VisionFund offers WASH loans under the head of social loans, which have already proved profitable (as have solar loans) although they are smaller than other nonsocial loans. The organization appears keen to scale up the program. Latrine businesses could potentially expand their sales and generate more income. Sales agents (VBCs or village chiefs or both) are satisfied with two kinds of incentives: in cash and in kind<sup>25</sup>.

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<sup>22</sup> From interviews with stakeholders and FGDs with WASH loan clients and non-clients; the target population of the WASH loan program is medium poor to poor.

<sup>23</sup> Understanding Household Consumers in the Emerging Sanitation Market in Cambodia, *WaterSHED*, September 2012.

<sup>24</sup> When asked if he knew the name of the NGO, he replied that he did not. However, the news had a large impact on villagers' decision to acquire sanitation through financing.

<sup>25</sup> In-cash means they can earn a commission on latrine sales. In-kind means they can contribute to improving the sanitation status of their communities.

Challenges that need to be tackled include (i) the lack of knowledge among villagers with respect to financial products and, in particular, WASH loan terms and conditions; (ii) the lack of marketing materials for promoting WASH loans<sup>26</sup>; (iii) lack of clarity concerning the respective roles of COs and WaterSHED staff in the loan application process (in some cases, WaterSHED staff have prepared loan applications instead of the CO); (iv) the limited supply of latrines and installation services; and (v) lack of communication between COs, WaterSHED staff, and other NGOs that provide free latrines.

### *Impact of sustainable access to service*

According to WaterSHED, since July 2012 when VisionFund began offering WASH Loans, 4,946 loans have been approved and disbursed to participating toilet suppliers. Suppliers, in turn, delivered the new latrines to their customers. It may still be too early to assess if access to latrines, installation, and use is sustainable, given that the program started in July 2012. There are some anecdotal concerns, for example in Takeo, some villagers who have acquired latrines are expected to leave the units uninstalled<sup>27</sup>, implying that they may not be used at all.

### *Effective use of donor aid*

By design, WaterSHED's WASH Loans implementation offers no direct subsidies and has no dedicated staff or operations budget. WaterSHED simply aims to facilitate sustainable relationships between toilet suppliers and MFIs. Using this approach in partnership with WaterSHED, VisionFund has disbursed 4,946 loans and is expected to continue offering them. While it is not possible to calculate any effectiveness measures due to lack of specifically allocated budget to supporting WASH Loans, it can be considered effective as WaterSHED indicated that the overall level of effort spent is low.

### *Poverty targeting*

WASH loan terms and conditions are fairly flexible and affordable for poor households. Clients are offered flexible repayment methods, whether in the form of installments, an end-of-term payment, or semi-installments. Monthly installment repayments are generally small – on average, KHR 20,000 a month (including both the interest and principal amount). Although both Kredit and VisionFund offer WASH loans, they apply different tools to measure the poverty level of their clients. VisionFund uses the PPI<sup>28</sup> while Kredit uses ID-poor cards. According to interviews with VisionFund's COs in Battambang and Takeo, between 70% and 80% of their WASH loan clients live below the PPI national poverty line.

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*“The monthly repayment amount is small enough for us to afford. Every month, we sell one chicken to repay both the principal and interest on the loan.” WASH loan client during FGD in Prey Phae, Takeo*

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<sup>26</sup> This may represent an opportunity to link to the marketing materials previously developed by 17 Triggers.

<sup>27</sup> As found during focus group discussion in Takeo

<sup>28</sup> The Progress out of Poverty Index (PPI) tool was adapted from an international context, implying that some of the questions do not apply to Cambodia. Moreover, the tool does not address the issue of complexity in rural Cambodia.

### *Sustainability and scalability*

VisionFund charges interest on WASH loans (as on other social loans), but the rate is not as high as on nonsocial loans. It is thus a sustainable rate that the organization can afford to scale up. In addition to the interest charged and portfolio yield, WASH loans perform well, meaning that their PAR is quite small compared to VisionFund's typical loan products. Senior staff have also expressed the view that the program is sustainable and that the organization is interested in scaling it up. However, this will require third-party involvement before the program can move into new areas.

## **5. Sanitation Financing: SanFin (iDE)**

iDE is an international nonprofit organization that creates income and livelihood opportunities for poor rural households. iDE Cambodia is engaged in improving access to sanitation by facilitating the market for production, distribution, and sale of low-cost latrines in rural areas through its sanitation marketing initiative. From 2009 to 2011, iDE implemented the Sanitation Marketing Pilot Project, which was funded by USAID Cambodia's MSME Project and the World Bank's WSP. Under the project, 17,424 unsubsidized pour-flush sanitary latrines were purchased in 11 districts. After concluding the pilot project, iDE initiated the Sanitation Marketing Scale-Up (SMSU) program to expand access to latrines through its sanitation marketing approach. The SMSU is funded by the Bill and Melinda Gates Foundation and the Stone Family Foundation with technical support provided by the WSP.<sup>29</sup>

PATH has operated in Cambodia for nearly two decades, providing health support to rural households through programs in child immunization, reproductive and child healthcare, tuberculosis, malaria, and HIV/AIDS. PATH has previously piloted a safe-water project in cooperation with VisionFund to provide households with financing to buy ceramic water filters in Kampong Speu province. In the course of nine months, 4,000 water filters were purchased.

The sanitation financing model was first initiated by PATH Cambodia and integrated with iDE's current sanitation marketing approach. Together with technical support from the WSP and funding from the Bill and Melinda Gates Foundation and Stone Family Foundation, SanFin was introduced to test the potential for increasing latrine uptake in rural Cambodia. The program lasted from September 2011 to August 2013 with PATH leading its implementation. The program areas were located in Kandal and Prey Veng where VisionFund and Kredit were responsible for disbursing sanitation loans to rural households. After submitting a concluding report in August 2013, PATH withdrew from the program. However, its partner organization iDE has continued to carry out program activities in existing areas and has expanded these to other provinces within iDE's program area.

### **5.1. Program Activities**

The key activities under the program are to create supply and demand in the market for latrines. iDE was responsible for the operational part of the program while PATH dealt with program design and management. To ensure proper implementation, both the supply side and demand side were incorporated.

Supply-side activities entailed seeking partnerships with MFIs in the implementing area and designing a sanitation loan product that consumers could afford. The MFI partners concerned are VisionFund (in Kandal

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<sup>29</sup> Understand Willingness to Pay for Sanitary Latrine in Rural Cambodia: Findings from Field Experiments of iDE Cambodia's Sanitation Market Program, *ID Insight*, October 2013.

province) and Kredit (in Prey Veng province). Both received administrative cost support from PATH within the SanFin program period. Meanwhile, iDE engaged latrine businesses by assessing their supply capacity to determine their coverage area and offering them a contract under the program. In this sanitation-financing model, the latrine business is required to hire a sales agent (sanitation teacher<sup>30</sup>) who receives a commission based on the number of latrines sold.

On the demand creation side, a sanitation marketing campaign was used to promote latrine usage among rural households. An interview with a sanitation teacher revealed that, in a new village, iDE staff and sanitation teachers work together to organize sanitation meetings; around 30 to 40 participants attend these meetings and the number decreases with each subsequent meeting as households start to buy latrines. Participants include iDE district staff, sanitation teachers, village authorities, and households. Since the program ended, MFI loan officers no longer attend these meetings (during the program, they would normally have attended two or three out of every 10 meetings organized, which was not deemed sufficient by a sanitation teacher interviewed in Prey Veng). When VisionFund loan officers were asked about their efforts to market sanitation loan products, they said that, besides iDE's sanitation marketing, they had asked their VBCs<sup>31</sup> to promote sanitation loans among the villagers and existing clients who came to repay their loans. The sanitation teachers interviewed said they had put considerable effort into promoting latrine sales, devoting three days a week on average to organizing sanitation meetings and door-to-door marketing.

Meetings often involve the dissemination of sanitation messages concerning the impact of open defecation, the benefits of a latrine, and latrine cost and supply. If a household says it does not have enough money to build a latrine, the sanitation teacher asks, "Are you able to pay KHR 20,000 per month?" If the household answers yes, the sanitation loan product is promoted. Interested participants can register at the meeting with the sanitation teacher, who then submits the list of interested clients to the MFI partner.

In the case of VisionFund, the VBC is given the list and asked to form a group loan – normally comprising three to five members who live near each other. Kredit offers individual loans but is very slow to process them, making it a less preferable option (as indicated by a Kredit loan officer in Prey Veng). Group loans are more popular and easier to process; they are formed by loan officers since Kredit does not have VBCs for small loans.

Loan officers for both VisionFund and Kredit have the authority to approve sanitation loans, although district branch managers (DBMs) (VisionFund) or chief loan officers (CLOs) (Kredit) also reserve the right to approve loans. In both cases, processing a loan takes three to five working days, depending on the number of loan applications.

After the loan is approved, the latrine business is asked to deliver a latrine unit to the client. This loan application covers only the latrine unit and not the shelter. Clients who want to build a shelter need to apply for a separate loan and undergo the same approval process. Only DBMs or CLOs are authorized to approve larger loans (more than KHR 200,000). The loan is then disbursed to the latrine business on a monthly basis. The average loan per latrine unit is KHR 180,000. In one case in Prey Veng, the latrine unit cost KHR 200,000 while Kredit disbursed only KHR 190,000 to the latrine business, leaving the latter to

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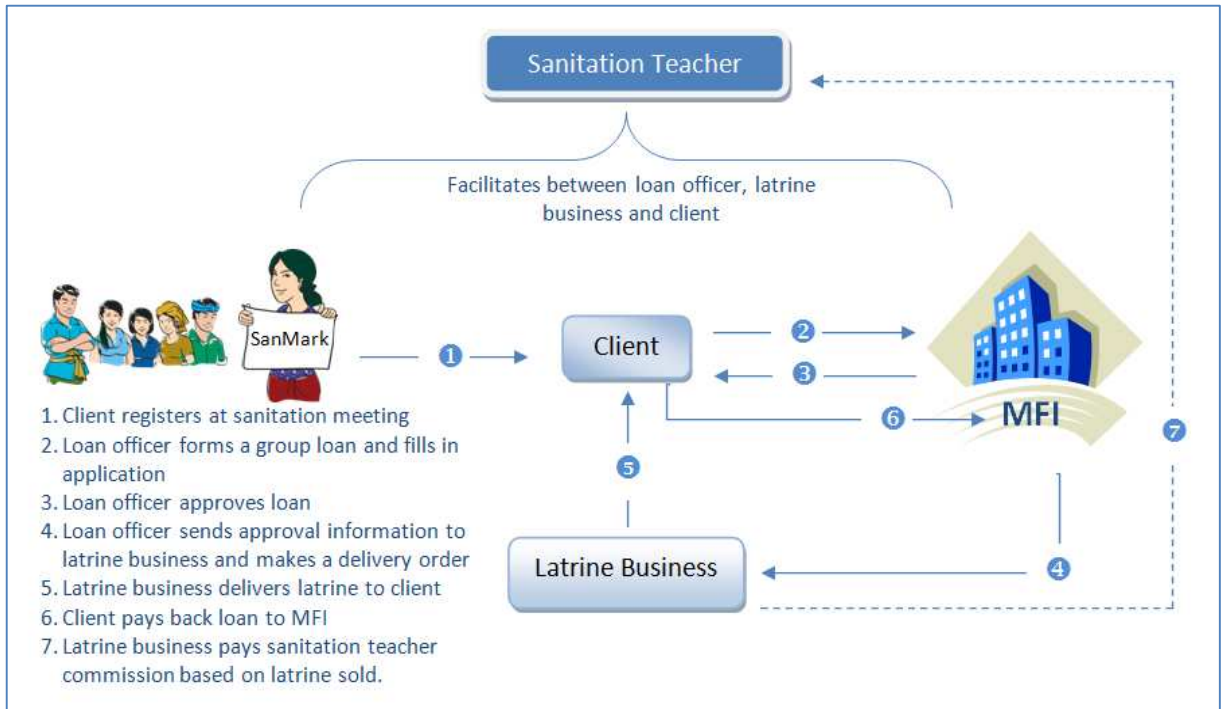
<sup>30</sup> iDE term for a sales agent.

<sup>31</sup> The VBC refers to a villager selected by VisionFund's staff to help facilitate group loans, loan processing, and payment collection. In return, he/she is paid a commission of 3% of the total money collected from loans.

collect the remaining KHR 10,000. This method was used to ensure that the client had no problem with their latrine; in case of any inconvenience, the client could ask the latrine business to fix the unit till it collected the balance. However, this case was confused by a loan officer and the iDE program manager clarified that the KHR 10,000 was actually taken from the latrine buyers since they had registered a deposit at the sanitation meeting.

On average, the monthly amount repaid by clients is KHR 19,000, which includes the interest and principal payment. This amount decreases every month till the end of the loan term.

**Figure 2: SanFin loan process**



**Source: EMC illustration based on interviews with stakeholders.**

In the loan cycle, the latrine business is responsible for paying a fee/commission to the MFI and sanitation teacher (see table below for information on each province).

**Table 6: Cost of latrine, interchange fee, and commission**

Province	Cost of Latrine (in KHR)	Commission to Sales Agent (in percentage)	Fees paid to local authority (village chief)	Total fee and commission paid by Latrine Business (in percentage)
Kandal	215,000	10,000 (5%)	-	10,000 (5%)
Prey Veng	200,000	8,000 (4%)	3,000 (3%)	11,000 (6%)

**Source: Interviews with COs, sales agents, and latrine businesses.**



Loan terms and conditions vary by location. Generally, loans range from KHR 175,000 to KHR 200,000 in Kandal and from KHR 100,000<sup>32</sup> to KHR 360,000 in Prey Veng. The cost includes a unit that consists of a squat pan, concrete slab, precast concrete catchment box, PVC pipe, and offset storage pit lined with concrete rings. It also covers delivery and commission/extra sales fees but not installation and shelter. The installation cost varies from KHR 20,000 to KHR 40,000.

There are three types of shelter: an organic wall (made from leaf at no extra cost), a zinc wall (costing KHR 400,000), and a concrete wall (costing KHR 800,000), the costs of which depend on size. Sanitation products are categorized as social products: the interest charged on sanitation loans is 2.75%–2.8% by VisionFund and 2.9%–3% by Kredit. A 12-month loan term is offered by both MFIs with reducing balance<sup>33</sup> or balloon payments<sup>34</sup> in the case of VisionFund and flexi-payments<sup>35</sup> in the case of Kredit.

**Table 7: SanFin loan terms and conditions**

Province	Type of Loans	Loan Size (KHR)	Monthly Interest Rate <sup>36</sup>	Loan Terms	Repayment Methods	Repayment Method Preferred by Clients <sup>37</sup>
Kandal	Group loans	175,000 - 200,000	2.75%-2.8%	Up to 12 moths	Reducing balance and balloon	Installment
Prey Veng	Group loans and Individual loan	100,000 - 360,000	2.9%-3%	Up to 12 months	Flexi payment	Interest paid monthly and principal paid at the end of loan term

**Source: Interviews with COs.**

At the beginning of the program, latrine businesses are given a sales record book by iDE to keep track of information such as client details (name, address), the sanitation teacher responsible, order information, and delivery information. The information collected, however, is not very accurate as our fieldwork showed. The sanitation teacher does not keep any records; instead, the iDE district staff maintain sales records and report them to the provincial manager. Two loan officers reported one case of default so far; the other two said there had not been any cases of loan default. Respondents said that defaults were

<sup>32</sup> This amount is relatively low because in Prey Veng, East Meets West (EMW) recently offered a subsidy of KHR 68,000 to Poor 1 and 2 clients. These clients can buy a latrine for KHR 123,000 if they apply for a Kredit sanitation loan.

<sup>33</sup> Declining balance payment method: monthly interest and the balance of the principal repaid based on payment schedule.

<sup>34</sup> Balloon payment method: monthly interest and the balance of the principal repaid at the end of the contract.

<sup>35</sup> Flexi-payment method: interest paid with principal; interest alone paid; monthly, quarterly, biannual, or end-of-term interest paid.

<sup>36</sup> In general, with the same loan size, nonsocial loans are charged between 2.9% and 3%, while social loans are charged 2.75%.

<sup>37</sup> Both provinces have different preferences with respect to the terms of repayment. This could be due to different livelihood patterns as most households in Battambang rely on agriculture, while those in Takeo rely on micro-businesses and self-employment.

resolved by asking the VBC to follow up (VisionFund): if the client was still unable to pay, his or her group members would pay the MFI instead (in group loans, each member acts as a guarantor for the others). Although one Kredit officer mentioned that iDE would repay the loan in case of default, this no longer applies since PATH exited the program and a USD 10,000 loan guarantee was suspended.

## 5.2. Stakeholders

This section outlines stakeholders' responsibilities as well as their experience of the program. These include clients of iDE's SanFin program, VisionFund, Kredit, sanitation teachers, and latrine businesses.

- *SanFin Clients*

Interviews with loan officers from both MFIs indicate that clients have a mixed profile and include poor households (1 and 2) as well as middle-income households. VisionFund uses a PPI to measure the poverty level of its clients. One VisionFund loan officer mentioned that most of his sanitation clients had a PPI of 20–30 points, classifying them as poor. In Kandal, around 75% of sanitation loan clients are new to VisionFund. In Prey Veng (where Kredit operates), 59%<sup>38</sup> of the total clients are new to Kredit.

Both loan officers and sanitation teachers felt that their clients were aware of the benefits of having a latrine. Moreover, it was normal practice to take a loan for this purpose because clients could benefit from the latrine even while repaying the MFI.

- *VisionFund*

At the head office, VisionFund's social products team said that the MFI received support from PATH in terms of operational costs and loan provision; in return, a loan officer worked closely with iDE staff and sanitation teachers. During the program, the loan officer was given an incentive of KHR 4,000 to KHR 8,000 by latrine businesses; this corresponds to the information provided by the VisionFund loan officer in Kandal (who received KHR 4,000 or USD 1 from the latrine business in 2013). The VisionFund team also said that sanitation loans were not as profitable as normal loans but were still sustainable to operate. The PAR was zero since the loans were very small and VisionFund only operated group loans. iDE staff were said to be very proactive in selling latrines, training local suppliers, and linking them to MFI staff.

Loan officers felt that the schedule for joining sanitation meetings or promoting sanitation loans was uncertain. They were not very involved in promoting sanitation loans and were required only when there was a sanitation loan application to be filled in and approved.

- *Kredit*

Kredit allows both group and individual loans for sanitation (as a test on its part). As a result, group loans (community banking) are preferred over individual loans, according to its head office team. The average cost of a sanitation loan was higher than for a normal loan, but Kredit officers said it was part of their social mission. It was not profitable, but it was expandable and the PAR for sanitation loans was zero. The Kredit team noted that the "iDE model is aggressive" and their sales team could sell up to 300 latrines per month.

Similar to VisionFund, Kredit's loan officers were not very certain of their commitment to attending sanitation meetings and promoting sanitation loans.

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<sup>38</sup> *Sanitation Financing Final Report: September 2011–August 2013*, 31 August 2013, PATH.

- *Sanitation Teachers*

Sanitation teachers or sales agents are locally recruited to promote sanitation messages and latrine sales among villagers within their coverage area. Sanitation teachers working for iDE are usually responsible for several communes in one district. Their role in the program is to:

- Promote sanitation through group meetings and door-to-door marketing
- Cooperate with iDE staff and village chiefs to organize sanitation meetings
- Inform related parties such as loan officers and latrine businesses of latrine orders
- Arrange latrine deliveries.

Sanitation teachers said they had joined the program as iDE recruits or had been introduced to the program by latrine businesses or relatives. They worked 2–5 days a week on the program.

- *Latrine Businesses*

Latrine businesses are selected based on their supply capacity and competitive pricing. The provision of latrine units is only part of the whole business – other products or services offered are construction material such as brick, cement, pipes, and tiles, etc. All latrine businesses offer delivery to clients' homes but the cost depends on the distance from the business site to the destination with free delivery for distances under 10 km. Latrine business owners said the program had provided them with technical training in producing latrines, marketing leaflets, record keeping books, and help in marketing their products to users. However, when they agree to join the program, latrine businesses are required to hire a sales agent to promote latrine sales in return for a commission. Besides supply and delivery, latrine businesses have no other responsibilities under the program.

### 5.3. Challenges

Certain stakeholders face a number of challenges, especially loan officers, sales agents, and latrine businesses, whose roles can prove to be a bottleneck. Our key findings from the fieldwork are as follows:

**Working relationship between loan officers, sanitation teachers, and latrine businesses.** Loan officers said they did not have enough time to attend sanitation meetings. Their schedules also tend to conflict with those of sanitation teachers.

Another complaint concerned the recruitment of sanitation teachers: one loan officer said that the previous sanitation teacher had been hard to deal with; his manner and language towards villagers was not appropriate. It should be noted, however, that this was an isolated case.

Sanitation teachers in Prey Veng said the application process on the part of loan officers was too slow because they did not have enough time to form a group of clients, this led to loss of interest in obtaining sanitation loans. As the consumer preference ranking in the FGDs indicated, loan processing speed is important to them (see section 8).

Another interesting finding from a sanitation teacher in Prey Veng concerned the division of the implementing area for which latrine suppliers were responsible. Being unclear as to which area a latrine business is supposed to cover or finding that one business covers less area than another leads to frustration among latrine business owners.

**Motivation of sanitation teachers.** Sanitation teachers in Kandal expressed their concern over the commission received on latrine sales provided by iDE. iDE's program manager confirmed that the

organization was responsible for collecting commissions from the latrine businesses and paying them to sanitation teachers. IDE is currently trying to resolve the issue of late payments. Sanitation teachers are not full-time staff and earn an income from selling latrines on commission. They receive USD 3 per latrine, but this is not enough to cover their transportation and communication costs, given that they are responsible for several communes in a district.

**Motivating clients to take loans/buy latrines.** Sanitation teachers indicated the following constraints to persuading people to build a latrine or to take a sanitation loan to build one:

- Substantial effort is needed to educate people about sanitation and to change their behavior and opinion about open defecation.
- Some households are unable to buy latrines or to take a sanitation loan.
- People tend to wait for free latrines and think they should not need to pay to defecate.
- Some villages have potential clients who already have MFI loans, which could make them ineligible for further loans as the MFI has concerns regarding over-indebtedness.<sup>39</sup>

Loan officers said that motivating people to take sanitation loans was not difficult since sanitation teachers were already putting in an effort to do so. However, one loan officer said he did not have enough time to motivate people to take sanitation loans.

**Difficult villages to sell latrines and latrine loans.** ‘Difficult’ villages are defined by income and location. High-income villages, for instance, are less likely to take sanitation loans since they can afford to build latrines. Those near city centers or commune centers also tend to have higher incomes, according to a loan officer in Kandal. Remote villages, however, tend to face delays in the loan application process and latrine delivery. In some villages where NGOs had provided a subsidy, villagers tended to wait for free latrines.

Loan officers did not identify loan processing as a challenge because they said the head office had allowed them to approve loans on the spot. Both loan officers and sanitation teachers felt there was no monthly sales target for loans or latrine sales.

Fieldwork observation revealed the following challenges with respect to program implementation:

- FGD interviews revealed that target clients have a very limited knowledge of financial products such as terms and conditions. They do not know which financial institution to choose but rather apply to any institution that deems them eligible for a loan, and whose loan terms are flexible.
- Latrine sales do not eliminate the incidence of open defecation. This depends on latrine businesses, whether they offer installation services, and whether the client is willing to pay an extra fee for installation. Some clients may choose to wait to save further for a fully built concrete latrine. The team was not able to gauge what percentage of latrines sold had been built into completely usable latrine units.

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<sup>39</sup> Exact data on over-indebtedness in the target villages was not available, but more information on the situation in Cambodia in general can be found in a recent report: Study on the Drivers of Over-Indebtedness of Microfinance Borrowers in Cambodia: An In-depth Investigation of Saturated Areas, Cambodia Microfinance Association, March 2013.

## 5.4. Assessment

This section evaluates the SanFin model based on the criteria set out in the inception report.

### *Impact on sustainable access to service*

The project has made a significant contribution to improved access to sanitation. During the program period, 6,655 latrines were purchased: 2,003 on loan and 4,652 in cash in both provinces<sup>40</sup>. Latrine businesses said their sales had increased dramatically after the program was introduced. One latrine business owner in Prey Veng said his sales had increased by around 60% since he joined the program. A business owner in Kandal noted that his latrine business had increased by around 50% – not only in terms of latrine sales, but also the sale of other construction materials.

Latrines are properly maintained by clients and non-clients (in response to the warm-up question in the FGD). Respondents said they had no information on latrine emptying services.

### *Effective use of donor aid*

The total cost of the project was USD 140,946<sup>41</sup>, which means that for every USD 1,000 spent, 47 latrines<sup>42</sup> were purchased. The total disbursement from the MFIs was USD 98,249<sup>43</sup>. The model has the ability to leverage household investment with a leverage ratio of 0.7, which means that every USD 1 of donor aid was used to leverage USD 0.70 of private funds via household contributions.

### *Poverty targeting*

The program was designed to target poor households based on its small loan size, group loan guarantee, and flexible loan term repayment. Households who choose to pay using the reducing balance method incur a monthly installment of KHR 19,000; this amount decreases every month. However, as the FGDs indicated, people have no particular preference for financial products, implying that they fall within the group that is not attractive to financial service providers. PATH's program report concluded that, in Kandal, 53% of households who had received a SanFin loan were classified as below the PPI Cambodian National Poverty Line (2.9 times as many households as VisionFund reaches through normal loans) while 21% were classified as below the PPI USAID Extreme Poverty Line (three times as many households as VisionFund reaches through normal loans). In Prey Veng, 11% of households who had received a sanitation loan were classified as ID Poor 1 and 21% as ID Poor 2 (as defined by the Cambodian Ministry of Planning). Relative to the general population in Prey Veng, 12% of all households were classified as ID Poor 1 and 15% as ID Poor 2<sup>44</sup>.

### *Financial sustainability and scalability*

Hardware costs are financed by private funding (MFIs), which is sustainable given that the PAR is zero. Sanitation loan products are still profitable even if less so than normal loan products, making them sustainable (expert interview with MFI). Nonetheless, ongoing support is needed from NGO partners to

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<sup>40</sup> Data provided by PATH; does therefore not include loans disbursed with support from IDE since the end of PATH's involvement.

<sup>41</sup> Data provided by PATH.

<sup>42</sup> USD 1,000 divided by (USD 140,946/6,655 latrines).

<sup>43</sup> Data provided by PATH.

<sup>44</sup> *Sanitation Financing Final Report: September 2011–August 2013*, 31 August 2013, PATH.

keep the project running as they have the necessary expertise in sanitation, including latrine supply chains and sanitation marketing.

The program is scalable as long as there is support from donor aid to the NGOs. Expert interviews with VisionFund and Kredit indicate that both rely heavily on their NGO partners. MFIs need their partners to be present in the next implementing area before they expand their operations there. Kredit said it needed a third-party NGO to facilitate the supply chain for latrines, which was too complicated and costly for Kredit to manage. iDE has expanded its program to other provinces through informal partnerships with VisionFund and Kredit. Informal partnerships do not mandate loan officers to attend sanitation meetings. When there is a demand for sanitation loans, sanitation teachers contact the loan officer to prepare a loan application form as usual. In this informal partnership, iDE does not support VisionFund in terms of administrative/operational costs or loan guarantees unlike when PATH signed a formal agreement with MFIs.

## 6. Others

### 6.1. WASH Financing (HFH)

HFH Cambodia has recently launched a pilot WASH project in Siem Reap province in order to increase sanitation uptake through CLTS with sanitation action groups (local people in the implementing area). The project promotes proper sanitation practices for safe drinking water and sanitary latrines across 15 villages and eight schools in the Angkor Chum district. With support from the Asian Development Bank (ADB) to help identify MFI partners, HFH has signed an MoU with VisionFund that incorporates a sanitation loan in its marketing campaign. HFH also supports VisionFund by providing it with a 2% bad-debt guarantee.

Under its CLTS activities, HFH attendees can register with a sanitation action group to obtain a loan. VisionFund's loan officer then contacts the household concerned directly and completes the loan application and process. The loan is later disbursed to the latrine seller based on the total cost incurred. In this financing model, households receive a rebate from HFH of USD 5 if the loan is between USD 50 and USD 70, and USD 10 if the loan is between USD 70 and USD 350 after they have successfully repaid their loan to the MFI.

HFH leaves most of the financing activities to VisionFund and focuses on its own sanitation marketing activities. VisionFund offers clients a seasonal repayment method that allows them to pay at the time they harvest their crops.

The program is still in the pilot period and so no M&E data was available. However, expert interviews revealed the following challenges to the implementing team:

- Lack of commitment on the part of loan officers, which slows down the loan process: this is common to all financing models and arises because sanitation loans – which are small and costly to operate – are not treated as priority loans by MFIs.
- Poor current loan performance: loan disbursement has not increased significantly during the course of the program. Since January 2014, the total number of sanitation loan clients is 418.
- Lack of monitoring tools to ensure that clients build a latrine after receiving the loan.

Once the pilot phase has ended, HFH will collect the results and make plans to scale up its operations for the next phase of the program.

## 6.2. Non-MFI Financing

Based on our desk research and expert interviews, we have identified alternative financing models for sanitation. These include household savings, loans from relatives or moneylenders in the community, and savings groups such as those introduced by Oxfam (Saving for Change). An FGD with non-clients revealed that the main alternative financing mechanism for sanitation used by non-clients was own funding through household savings generated either by farming activities, labor, or remittances from relatives.

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*“I don’t want a loan for a latrine because it is a small amount and I can save up to build it.”*  
*Non-client FGD respondent, Battambang*

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In another case in Prey Veng, a non-client built a latrine at a cheaper price with the help of a subsidy from East Meets West (KHR 68,000). However, only Poor 1 and 2 category households are eligible.

## 7. MFIs’ Interest in Sanitation Financing

From a portfolio yield and MFI partners’ point of view, both the SanFin and WASH loan models are sustainable, although (particularly for VisionFund) the product offered is not as profitable as other loan products<sup>45</sup>. Another difference is that, under the SanFin program, sales agents who promote and sell latrines at the commune level (they may be responsible for more than two communes) receive a sales commission from iDE. The WASH loan program, however, does not offer any commission out of WaterSHED’s funds. Under this program, there is one sales agent per village, who is generally the village chief. In addition, both VisionFund and sales agents receive a commission on latrine sales from the latrine businesses, which has proved more sustainable than the SanFin model (where the sales agent receives a commission from iDE and the MFI received direct financial support from PATH). Another model implemented by HFH may not be sustainable as it depends mainly on NGO support for the rebate system.

According to our interviews, different MFIs have indicated different levels of interest. Those interested in offering sanitation loans are keen to adapt them to their current operational nature and only if there is a decent scale for efforts and investments. MFIs’ interest in offering sanitation loans is summarized below.

- ***VisionFund***

VisionFund has expressed an interest in iDE’s SanFin model in which the latter has made substantial efforts to train latrine businesses and link them up with MFIs. In addition, VisionFund is interested in WaterSHED’s WASH loan model because it operates as a business model (without depending on NGO support, which makes it a good model to scale up). All the models that VisionFund works with – WaterSHED, iDE, and HFH – are group-lending models. The organization is not interested in offering individual sanitation loans because these are too small and will not reach very poor populations.

- ***Kredit***

Kredit works with iDE and WaterSHED to offer SanFin and WASH loans. Generally, its sanitation loans perform well (with a PAR of 0%). A large share of its total loan portfolio comprises individual loans, but it

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<sup>45</sup> VisionFund offers both SanFin and WASH loans by charging the same interest rate as for other social loans (2.75% to 2.8% per month). Kredit, which offers SanFin loans, charges the same interest rate as for other non-sanitation loans.

also offers individual and group sanitation loans. Kredit believes that, while sanitation loans are not profitable, they are sustainable and can be scaled up.

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*“The average cost of a sanitation loan is higher than other loans, but it is our mission to work with the poor. It is not profitable, but it is enough to be sustainable.” Por Yort, chief operations officer at Kredit.*

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Kredit is considering scaling up its sanitation loans using either the SanFin or WASH loan models. It seems to prefer the latter, which puts less pressure on COs in disbursing loans. With any model, Kredit will need a third party to coordinate with (and support) the latrine businesses. It is too complicated for the organization to work directly with latrine businesses and it lacks the expertise to do so.

- *Amret*

Amret participated in WaterSHED’s demand study and has expressed an interest in conducting a feasibility study on offering sanitation loans in accordance with its operational nature<sup>46</sup>, such that the loans could be scaled up at a commercial level. It believes that sanitation loans could be offered under the group-lending model as a bundled product that helps meet other household borrowing purposes as well. This is similar to the so-called “social loans” offered by VisionFund and could be designed based on the WASH loan model and scaled up without significant effort from the NGO partner. However, coordination with (support from the NGO partner) latrine businesses is needed to make the supply chain available.

- *AMK*

AMK has already piloted so-called “social loans” with NGO partners. These include pilot drip irrigation and latrine loans with iDE and solar lantern loans with Kamworks. However, AMK’s board of directors has decided to freeze its efforts due to issues of sustainability and scalability. The board does not view such loans as sustainable products. Recently, however, AMK has started offering home improvement loans (based on the individual lending model) that clients can also use to build latrines. This is similar to Amret’s concept of a bundled product that also meets other household borrowing purposes.

- *Prasac*

Prasac, which is in the process of transforming from an MFI to a commercial bank, is likely to carefully evaluate any social loan products. It ceased participating in WaterSHED’s demand study due to this transition to commercial status. It views social loans as unsuccessful because they are more expensive than other loan products. From a financial and operational cost perspective, sanitation loans are too small to be scaled up to a viable extent.

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*“Our minimum loan size is US\$75. We cannot go lower. Sanitation loans are about US\$50, which is too small.” Say Sony, senior vice-president at PRASAC*

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<sup>46</sup> This means adapting to Amret’s existing loan operational process to avoid incurring any extra operating costs.



Although Prasac has worked in the past with WaterSHED on sanitation and with iDE for water pump systems, it will be difficult for the organization to partner with an NGO to sell financial products. Customers tend to perceive that any NGO involvement should imply discounts or free services, making such loans unsustainable for Prasac.

- *Others*

The other three large MFIs in Cambodia (by loan portfolio and distribution network) are Sathapana, HKL, and TPC. Of these, Sathapana and HKL have a much larger average loan size (over USD 1,000) and target mostly small businesses. They also lack village-level banking systems, making them unlikely partners for social loans. Consequently, iDE has reported that they were not interested in a partnership due to the lack of fit. Additionally, TPC was not interested in providing sanitation loans due to their small size. Other MFIs in Cambodia are much smaller than those mentioned above and lack significant distribution coverage. Many also tend to specialize in specific products. This makes them unlikely partners for sanitation microfinance programs.

## 8. Consumer Preferences

This section discusses the critical factors that determine the decision to take a loan from an MFI or other financial services provider among clients and non-clients. It then assesses clients' satisfaction with WASH loans and SanFin.

### *Product attribute ranking*

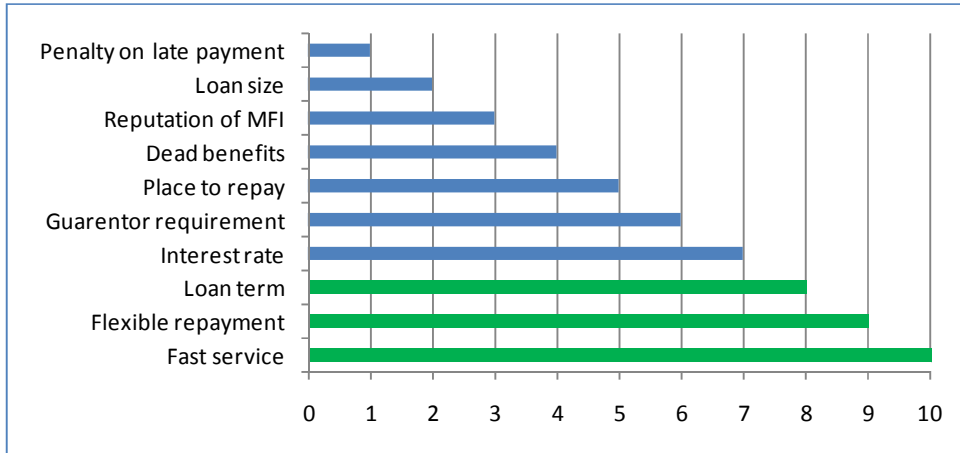
We used product attribute ranking to facilitate a discussion with four client and four non-client groups in order to understand what critical factors they took into account when deciding whether to borrow from an MFI or other financial services provider. These findings will help MFIs and NGO partners determine which product attributes are relatively important when developing a sanitation finance product.

Interestingly, when ranked from one to ten (where ten is the most important and one the least important), sanitation loan clients considered rapid service a critical attribute, followed by flexible repayment and loan terms they could afford as per their income patterns (see Figure 3 below). Non-clients also agreed that rapid service was a key factor to be considered, but cited the interest rate and place of loan repayment as the next most important factors (see Figure 4 below)<sup>47</sup>. Non-clients seemed more concerned about the interest rate than clients.

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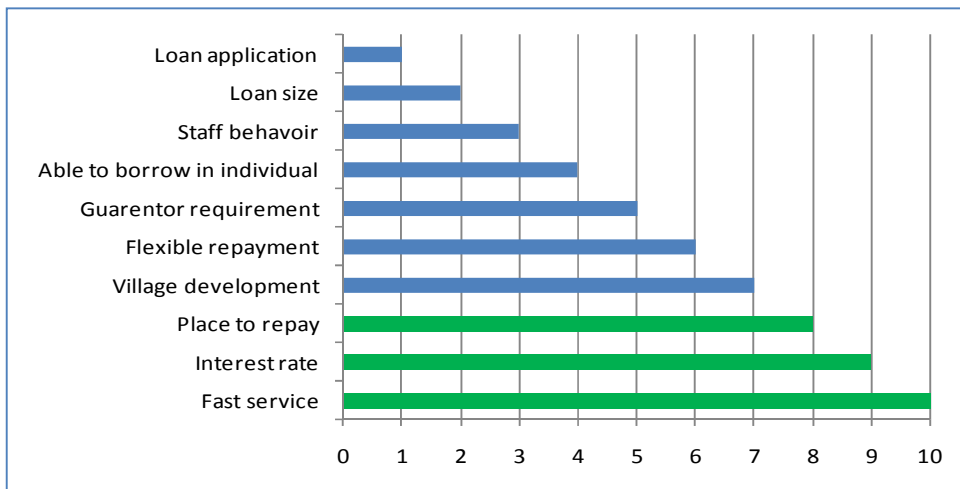
<sup>47</sup> The place of repayment refers to where borrowers are required to repay their loan and interest. In general, borrowers who live in remote village prefer having the CO come to collect the repayment amount, which saves them the time and cost of travelling.

**Figure 3: Product attribute ranking (clients)**



**Source: FGDs with clients.**

**Figure 4: Product attribute ranking (non-clients)**



**Source: FGDs with non-clients.**

**Client satisfaction**

The FGDs held with clients in four provinces (Takeo, Battambang, Kandal, and Prey Veng) indicated that clients were happy with SanFin and WASH loan offerings. Overall, they said they were satisfied with the speed of service, flexible repayment options, loan term, place of loan repayment, and staff behavior. Clients noted that the loan term and repayment methods were affordable, given their small incomes. In addition, staff members<sup>48</sup> were friendly and easy to talk to. Every month, loans (both the principal and interest) were collected at the village level, which meant clients did not have to spend time repaying their loans at the MFI’s offices.

Interestingly, clients in Takeo said they were happy with the group guarantee method because it meant they did not need to provide collateral when borrowing. WASH loan clients in Battambang said they were

<sup>48</sup> Refers to the CO who works closely with villagers and the local authority, and is responsible for loan disbursement and collection.

satisfied with the death benefits offered by VisionFund (a contribution towards loan repayment and funeral expenses on the death of any member of the client's household).

However, both SanFin and WASH loan clients in Prey Veng and Battambang said they were not satisfied with the interest rate charged by Kredit and VisionFund (in Prey Veng, Kredit charges 3% per month, while in Battambang, VisionFund charges 2.75% per month). Clients in Kandal and Takeo are charged the same rate as clients in Battambang, but they appeared to be satisfied with the rate. Our fieldwork observations did not reveal any negative reports regarding the speed of service, although the Kredit sales agent in Prey Veng said that loan processing times were slow, which also delayed the delivery of latrines.

## 9. Summary and Recommendations

This section summarizes some of the key findings for each sanitation microfinance model, highlighting the differences as well as similarities between the two. Based on the experiences and lessons learned from each model, we then propose some recommendations for future practice in sanitation microfinance in the Cambodian context. These recommendations are mostly centered on operational considerations, due to the basic similarities between the two models as well as the current lack of quantitative data to evaluate them comparatively on a basic level. In conclusion, it can be said that interviews with all the key stakeholders provided useful insights to consider when developing new models and/or scaling up existing models for sanitation microfinance in Cambodia.

### 9.1. Model Comparison

As mentioned previously, both sanitation microfinance models – iDE/PATH's SanFin and WaterSHED's WASH loan – share a lot of common features. They both integrate microfinance within an existing program of sanitation marketing and supply chain development activities, they both work with the same two MFIs under similar loan terms, and they both have similar operational and incentive-based structures in which latrine sales agents and MFI loan officers have separate roles. The actual loans are disbursed from the MFI directly to the latrine business in both cases, rather than to the purchasing household.

Both SanFin and WASH loans are demand-driven – the terms and conditions are designed to cater to customer needs and preferences. VisionFund offers loans under the group-lending model, which suits eligible clients because the loans are small (around KHR 200,000). Kredit offers both group loans and individual loans. The interest rates charged on SanFin and WASH loans follow those charged on other loan products offered by the respective MFI partners or are even lower. The loan terms are up to 18 months and repayment methods are flexible (installments, end-of-term payment, or semi-installments). Loan repayments are made at the village level, collected by a CO.

There are however some differences in the organization and operational execution of both programs. Table below provides a summary comparison of the two models, organized by stakeholder function.

**Table 8: Summary of SanFin and WASH loan model differences**

	iDE's SanFin	WaterSHED's WASH loan	Comments
Sanitation marketing and sales	<ul style="list-style-type: none"> <li>- Aggressive sales, which produce significant latrine sales results.</li> <li>- Sales agents sell latrines in several communes. This is less focused and incurs travel costs and time.</li> <li>- Commissions on sales are paid by latrine business through iDE, which makes it difficult to scale up and creates confusion among sales agents.</li> </ul>	<ul style="list-style-type: none"> <li>- Less aggressive sales, which produces anecdotally lower latrine uptake.</li> <li>- Sales agents sell latrines in their own village, which is cost effective and saves time. They may be village chiefs, VBCs, or both.</li> <li>- The latrine business pays a commission to sales agents as well as a fee to the MFI, which makes it feasible to scale up. Sometimes, it is not clear who the sales agent is and what his/her responsibilities are.</li> </ul>	<p>Having a sales agent who is the VBC (and, if possible, the village chief) is useful because s/he can promote and sell latrines within the village. It is cost effective and saves time, and allows agents to receive their commission on loan disbursements from MFIs as part of their efforts to manage large group loans. S/he also receives a commission from the latrine business, which is feasibly scalable. Commissions received from the latrine business through an NGO may pose a constraint to scaling up and lead to high expectations among sales agents.</p>
Latrine supply	<ul style="list-style-type: none"> <li>- MFI's financing program has helped the latrine business grow significantly (including sale of latrines and other construction materials).</li> <li>- Cost of latrine includes a basic latrine unit, delivery, and occasionally installation (if not, other parties offer installation services at KHR 30,000 per installation). iDE themselves ensure that installation is provided within a cost of KHR 40,000. This ensures that</li> </ul>	<ul style="list-style-type: none"> <li>- MFI's financing program has helped the latrine business grow significantly (including the sale of latrines and other construction materials).</li> <li>- Cost of latrine includes a basic latrine unit and delivery. It does not include installation and in some places installation services are not available, which means that many delivered latrines remain uninstalled even though clients repay their loan and interest</li> </ul>	<p>The NGO partner should work with the latrine business to make additional services available, including latrine delivery and installation. Otherwise, clients may leave their latrines uninstalled. The NGO partner also needs to ensure the quality of the latrine and competitive pricing relative to the market.</p>

	almost all delivered latrines are installed and ready for use.	regularly. - Latrine quality and cost is a concern among clients.	
MFI and loan products	<ul style="list-style-type: none"> <li>- Both Kredit and VisionFund are satisfied with latrine sales performance under SanFin, but Kredit has some concerns over the aggressive sales and pressure on their COs, who also have other priorities.</li> <li>- In some cases, COs appear to receive a commission on SanFin loan disbursements from latrine businesses as part of their efforts to promote the SanFin loan.</li> <li>- Loan term and conditions are good: flexible enough (with a maximum loan term of 12 months).</li> </ul>	<ul style="list-style-type: none"> <li>- Both Kredit and VisionFund are satisfied with latrine sales performance under WASH loans. Kredit especially stated they employ a business approach without putting too much pressure on COs.</li> <li>- MFIs receive a commission on WASH loan disbursements from latrine businesses, which provides another revenue source.</li> <li>- Loan term and conditions are good: flexible enough (with a maximum loan term of 18 months).</li> </ul>	The WASH loan model is good as it operates as a business model (both sales agents and MFI receive commissions from latrine businesses). The loan terms and conditions of both models are good. Interest rates are acceptable although some clients would prefer to pay a lower interest. VisionFund is aware of this in designing loan terms that meet clients' cash flows.
Communication and coordination among stakeholders	- Considerable miscommunication: sanitation teachers are sometimes allowed to promote SanFin loans although they do not clearly understand the product's term and conditions. This creates many issues.	- Considerable miscommunication: WaterSHED field staff sometimes fill out loan applications, which is not their role. From the MFI's risk management perspective, this is not acceptable.	Under the WASH loan model, if the VBC becomes a sales agent, s/he can promote WASH loans better than NGO partner staff and sales agents who are not VBCs. Sales agents who are not VBCs or NGO partner staff must be properly trained to understand loan terms and conditions. Allowing NGO partner staff or sales agents to fill out loan applications must be avoided.

### *Impact on sustainable access to service*

Both financing programs have increased the number of latrines sold, as reported by program administrators, latrine businesses and sales agents. The amount of actual loans seems to vary per province, probably due to population size, density and MFI coverage. The PATH/iDE program yielded 2,003 loans disbursed between July 2012 and August 2013 (14 months – 143/month), while WaterSHED’s program yielded 5,026 loans between July 2012 and April 2014 (22 months – 228/month). However without complete data from both programs on total number of latrines sold, it is not possible to compare the effectiveness of the sanitation financing component compared to a situation without financing options. It should also be noted that the fieldwork took place after the PATH/iDE program ended, and the project’s observations thus reflect the current situation as implemented by iDE, without PATH.

The sustainability of sanitation facilities purchased when in use is also hard to ascertain, due to the small sample size of the fieldwork. It is likely that the relative impact on sustainability of sanitation facilities purchased with microfinance loans vis-à-vis those purchased with other loans will require more detailed, quantitative study in the future.

### *Effective use of donor aid*

As a study commissioned by iDE in Cambodia has found, the availability of microfinance can significantly reduce the operational costs per latrine sold<sup>49</sup>, largely by increasing sales volume. A significant difference between the two programs examined in this study is cost. The iDE/PATH financing program cost USD 140,946 and involved a much more intensive engagement on the part of the NGO partners as well as MFI support such as a guarantee fund for bad debt in the case of Kredit. WaterSHED’s financing program involved neither dedicated funding, nor a loan guarantee, though WaterSHED’s sanitation marketing staff spent time to coordinate with MFIs. It should be noted that PATH’s loan guarantee was not used and is now no longer considered necessary by the MFI; it has since been removed from the iDE program. Whilst taking into account the lack of available benchmark, in both cases it can be said that donor funds are being leveraged effectively to promote access to sanitation for rural households.

### *Poverty targeting*

Generally, loan recipients are classified as near-poor or poor (although not many poor households apply for sanitation loans as they may have different pressing needs). According to our interview with VisionFund’s COs, almost 100% of the sanitation loans applied for by poor applicants were approved because the loans were small: on average, clients pay around KHR 20,000 per month, including the interest and principal amount. iDE also tracks the level of poverty of its clients, which WaterSHED currently does not.

### *Financial sustainability and scalability*

Both models are sustainable and scalable from the perspective of the participating MFIs, based on overall profitability of the loans as well as the low default rate. Both models’ loan terms and conditions allow for sustainable operation and the opportunity for MFI implementing partners to scale them up. While both models offer sanitation loans as so-called “social loans”, the interest rates charged and operational burden

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<sup>49</sup> Understanding Willingness to Pay for Sanitary Latrines in Rural Cambodia: Findings from Four Field Experiments of iDE Cambodia’s Sanitation Marketing Program, *IDinsight*, October 2013

for MFIs remain sustainable and scalable<sup>50</sup>. However, operationally speaking, both models need strong support in terms of supply chain development and sanitation marketing to create demand.

Although the SanFin and WASH loan models are similar, the latter has a somewhat greater potential for scaling up. The SanFin model offers the potential for accelerated latrine uptake, but also requires substantially more effort, funding and commitment from the NGO partner. This makes it harder to scale up. The WASH loan model offers a similar latrine uptake, but requires less effort from the NGO partner, making it easier to scale up. Further loan product development would help serve customers' needs in expanding or constructing better latrine shelters during (or after paying off) the first loan.

### *Operational differences and considerations*

**Roles and responsibilities.** iDE can be said to take on the role of pushing the market to work while WaterSHED takes a more hands-off approach, letting the market to work for itself. Both models have advantages and disadvantages as mentioned above. Under the WASH loan model, sales agents promote and sell latrines in their own village; which appears more efficient. Under the SanFin model, sales agents promote and sell latrines across more than one commune (which is effective but less efficient, and ultimately could reportedly discourage sales agents from their work).

It should be noted that PATH also recommended to involve village chiefs in the sales process, based on their evaluation at the end of the pilot.<sup>51</sup>

**Incentive provision/sharing.** Both the SanFin and WASH loan models offer sales agents a sales-based incentive. Although sales agents in Kandal and Prey Veng are offered a larger incentive than those in Takeo and Battambang<sup>52</sup>, they are not satisfied because they are responsible for a larger area (more than one commune, which incurs travel costs and is time consuming). Sales agents in Takeo and Battambang are responsible only for their own village.

Offering sales incentives through the NGO partner (e.g., iDE deducts the cost of latrines from the latrine business to pay the sales agent) can create confusion, when the sales agents come to expect more from the NGO. Offering sales incentives through an MFI partner or directly from the latrine businesses is a better option as sales agents are likely to perceive that the money comes from their own efforts, not from an NGO. This is in line with international experience in studies where “invisibility” of the donor is cited as a critical success factor.<sup>53</sup>

## **9.2. Recommendations**

Although both programs appear to be effective in achieving increased sanitation uptake, as well as sustainable from the viewpoint of MFIs, there is a need to address the weakness identified above. All in all, involving the MFI partners more closely in the program design and loan product development would create a stronger sense of ownership shared between the MFI and NGO partner. Assigning a clear role to each

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<sup>50</sup> VisionFund and Kredit partner with iDE and WaterSHED to offer SanFin and WASH loans by adapting their operational natures respectively and without taking on additional effort/operational burdens.

<sup>51</sup> *Sanitation Financing Final Report: September 2011–August 2013*, 31 August 2013, PATH.

<sup>52</sup> In Prey Veng and Kandal, sales agents receive KHR 8,000 and KHR 10,000, respectively, while in Takeo and Battambang, sales agents receive KHR 6,000 and KHR 5,000, respectively.

<sup>53</sup> See Microfinance as potential catalyst for improved sanitation: a synthesis of water for people's sanitation lending experiences in seven countries, *Water for People*, 12 December 2013.

stakeholder and regularly communicating among stakeholders would also strengthen their working relationship and help address any challenges inevitably encountered during program implementation, as the program moves into new and different areas.

### *Need for clearly defined roles and incentives*

The role of each stakeholder must be clearly defined and reflected in program implementation. If any modifications are needed to ensure a smoother relationship (or workflow), these must be clearly communicated in writing. Thus, in designing each role, the following questions should be kept in mind:

- Who does what and when?
- How long does it take to perform the task?
- If needed, who will support the task being performed?
- Who reports to whom and how often?

One of the key findings in this area is about the responsibilities for marketing sanitation as well as loan products. While latrine sales agents, and particularly well-trained village chiefs, were effective at promoting sanitation, they generally lacked sufficient knowledge of the financial products. More coordination and a clear definition of roles between sales agents and loan officers is desired, in order to ensure that consumers get accurate information, and also that MFIs do not feel they are being misrepresented.

It would also be conducive to a sustainable model, for the incentive scheme to be transparent and well aligned with market forces. Giving latrine sales agents an incentive to do their work has proven to be a necessary component of the marketing process, and the MFIs should be involved in this as well. As mentioned above, this exchange of commissions and fees should ideally be done without much involvement of the NGO partner, as this may distort perceptions of the market actors with regards to donor support and thus heighten expectations.

### *Regular and clear communication*

Better communication can enhance a program's efficiency and effectiveness by clarifying stakeholders' roles and helping to resolve any challenges encountered during implementation. Two aspects especially need to be considered:

- How often will all stakeholders meet?
- If there are issues in implementation, who should report to whom?

### *Opportunity for MFI to lend for latrine shelters*

There is an opportunity here for MFIs to offer larger loans to existing or new clients who wish to build latrine shelters. The current sanitation loan is too small to allow clients to build a latrine shelter (superstructure)<sup>54</sup>, which would require a loan of around KHR 1,000,000. Providing MFIs with additional marketing channels for these add-on products would increase their interest in the program. Additionally, consumers seem to prefer a latrine shelter as evidenced by uninstalled latrine parts by households waiting for additional financing.

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<sup>54</sup> The current sanitation loan size is around KHR 200,000.



### *Closely monitoring installation practices*

The NGO implementer should work with latrine businesses to make installation services more readily available. If possible, installation should be included as part of the total cost package (latrine unit, delivery, and installation). iDE for example now offers optional installation at a cost of KHR 40,000. Otherwise, this may delay installation and even keep latrines from being installed altogether. As referenced earlier this problem is not specific to latrines purchased through microfinance<sup>55</sup>, but it does exacerbate the situation of the household as they have to keep paying interest for a latrine they not use. The installation cost could be optionally included in the total cost package and thus also in the sanitation loan.

### *“Think like a business” when engaging MFIs for a partnership*

Licensed MFIs are private sector firms that operate by offering lending services in a sustainable and scalable manner. Their services are client-based, which ensures competitiveness in the market. Thus, when approaching an MFI for a potential partnership, the NGO partner needs to be aware that the MFI will take responsibility for ownership of product development and offering. In addition, the NGO partner should involve the MFI more closely and/or earlier in the program design.

In terms of the sustainability and scalability of the lending program, the NGO partner should give the MFI a clear idea of the market size and opportunities for scaling up as well as further product development opportunities. The following questions are useful guidelines:

- Who are the target clients (what is their profile)?
- What will be the rough loan size?
- What will be the maximum target market for sanitation financing?
- What is the current supply of consumer financing and to what extent might it serve as a substitute for sanitation loans?
- What opportunity is there to further develop or enhance products?

### *Improve M&E by gathering more data*

While iDE has gathered some useful data for monitoring its program performance, WaterSHED’s efforts to date have been more limited – largely reflecting the smaller role it wishes to play. In either case, basic data collected should include, but is not limited to: (i) the number of latrines sold with or without financing; (ii) the number of latrines sold to the poor through financing or non-financing; (iii) the percentage of latrine uptake at the village, commune, district, and provincial level.

Poverty targeting and tracking can employ two potential tools/approaches: (i) the ID-poor system and (ii) the PPI. Using the ID-poor tool can pose problems in areas where ID-poor cards are not available or are out of date. The PPI tool is subject to issues of adaptability from international practice, such as the description of asset quality, etc.<sup>56</sup>. A meaningful compromise or synthesis will have to be agreed upon between both these methods, balancing comparability between programs with the ease of monitoring and tracking by NGOs as well as MFIs.

### *Increase communication and collaboration between implementing NGOs*

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<sup>55</sup> Understanding Household Consumers in the Emerging Sanitation Market in Cambodia, WaterSHED, *September* 2012.

<sup>56</sup> The PPI tool was adapted from an international context, implying that some of the questions asked are not applicable to Cambodia. Moreover, the tool does not address the issue of complexity in rural Cambodia.

Finally, more active cooperation and coordination between the different NGOs involved in sanitation financing would be beneficial to the development of the sector in Cambodia as a whole. Rather than relying on studies such as this one, NGOs should actively collaborate and exchange information regarding lessons learned in different target areas, which could be leveraged in other places, facilitating the efficient scaling up of the programs.

This is particularly important when different NGOs are working with the same MFIs, as obviously synergies in coordination can be achieved, reducing operational costs as well as improving confidence of the MFI and effectiveness of communication channels.

### *Potential for future research*

During the fieldwork and through consultations with stakeholders in the course of the project, a few areas for potential future research emerged, which may be considered for additional studies in the future:

- **Market segmentation.** A detailed segmentation of the market would allow sanitation support programs to be targeted more accurately. Determining which segments can purchase without support, which need financing and which absolutely require subsidies would help NGOs. It would also help to develop marketing materials. Generally due to the limited profitability of sanitation loans, MFIs don't want to allocate resources to this, while NGOs have limited experience of private sector market segmentation exercises.
- **Consumer value.** In sanitation MFI programs in general, one could ask the question whether the additional efficiencies of scale passed onto the consumer through a lower latrine price, or whether the interest on the loan repayment erodes that benefit.
- **MFI consumption loans.** To support the sanitation financing sector as a whole, it would be interesting to study how many people take general MFI consumption loans to purchase and install latrine ground parts or shelters, without going through specific NGO supported programs. MFIs themselves do not keep reliable data on loan purpose, due to a combination of resource constraints and unreliable information provided by applicant.