

## Sanitation Impact Bond (SIB)

### About

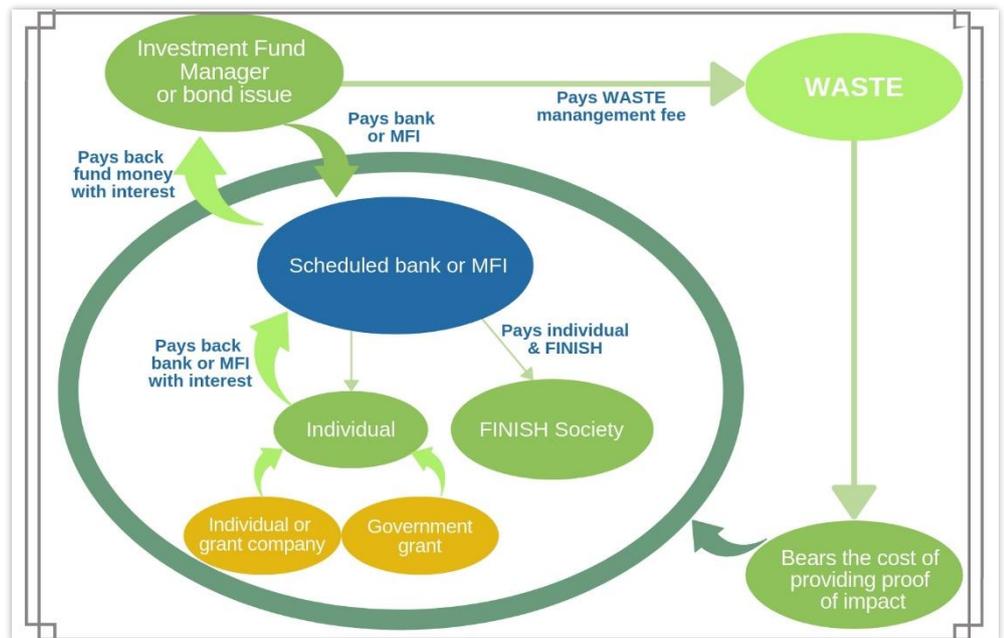
WASTE<sup>1</sup> and its partners<sup>2</sup> have developed a successful programme which addresses vital sanitation and waste management needs in development, aptly entitled *Financial Inclusion Improves Sanitation & Health* (FINISH) Mondial.<sup>3</sup> FINISH is unique in that it utilises WASTE's signature Diamond Model<sup>4</sup> which emphasizes demand generation, an efficient supply chain and localized financing. The safe sanitation systems<sup>5</sup> are paid for by individual households, either through their own funds, government or other grants and often also through loans via banks or from a microfinance institutions (MFI).

The FINISH model is unique because of its ongoing track record of, and continued potential for, scalability. In March 2019, the FINISH model has celebrated the milestone of constructing **1 million toilets** at a rate of 1 toilet, every 4 minutes, 365 days per year and is only projected to increase exponentially. However, FINISH has reached such a scale that liquidity in MFIs for toilet loans has become a bottleneck to further scaling. Therefore, together with its international and local financial institution partners, WASTE has developed an innovative financial tool, the Sanitation Impact Bond (SIB) to provide liquidity to its partner MFIs (or NBFCs/banks), initially focusing on India, to address the financing gap (€25 million available, approx. €12 billion required). The expected size of the SIB is **€100 million**—allocated as 100% senior debt in Indian rupees (INR) to approximately 20 MFIs/banks in different Indian states for the exclusive purpose of financing individual household toilets. The intended impact is an additional 500,000 safe household sanitation systems built in 2 years, benefitting approximately 2.5 million more people.

Sanitation Impact Bond Structure

### Vehicle Overview

The involved stakeholders' roles and responsibilities can be understood as: **(1) ACTIAM** (Investment Fund Manager) is responsible for investor relations and mobilizing €100 million of investments from institutional investors and high net worth individuals. ACTIAM is represented in the Board of the FINISH Society (FS); **(2) FINISH Society** is coordinating supply and demand mechanisms on the ground and is therefore, a key stakeholder. FS has built a strong track record proving that they can deliver; **(3) scheduled bank or MFI**, close relationships with a number of Indian FIs have been developed. The selected banks to partner with in this project have strong track records in sanitation, having built strong relationships with the other relevant stakeholders in the project; and **(4) Other independent organisations** (e.g. KPMG/institutes/universities) who advise the process and outcomes of the project through assistance on research, monitoring and evaluation, financial structuring, outcome financing and contracting. WASTE will use a development impact monitoring system to monitor impact. WASTE will also develop a learning guide to more readily disseminate information for learning and replication in India and other developing countries.



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<sup>1</sup> WASTE is an international NGO specialized in turning waste into prosperity. Over the years, WASTE has developed and blended more than 20 financial instruments to mobilize local finance for entrepreneurs and households, often with subsidies from donors to kick-start projects. Since 2019, the FINISH program resulted in 1 million new systems with more than 4 individual beneficiaries, 10 million working days in construction alone and 1,000 biogas units. An initial €5.6 million grant from the Dutch government was leveraged by €120 million locally, about half of which is commercial funds, resulting in a 1:20 leverage.

<sup>2</sup> As of June 2019, includes ACTIAM, KPMG and local Indian financial institutions such as CASHPOR.

<sup>3</sup> FINISH Mondial is the international ppp programme encompassing 6 locally-contextualised FINISH country programmes across East Africa and South Asia, based on the track record of success from pilot programmes in India (2009) and Kenya (2013). For more information on FINISH Mondial, visit [www.finishmondial.org](http://www.finishmondial.org).

<sup>4</sup> For more information on the Diamond Model, visit [www.waste.nl](http://www.waste.nl).

<sup>5</sup> Specially designed toilets which safely contain and manage waste; easily accessible for reuse like composting, biogas, etc.



The ‘proof of concept’ project is needed to develop the bond itself (with all contractual and legal issues) and to test the willingness of investors to buy bonds for a return of 3 or 4% (as noted). In this case, ACTIAM is willing to invest €5 M of an existing fund in participating MFIs and banks, so that lending can start before all the legal requirements of the SIB are finalized.

## Impact & Beneficiaries

MFIs and banks are incentivized to achieve both scale and impact by a deduction of 0.5- 1% on the interest rate if the target is realized (the ‘impact bonus’). Further, the open credit risk is greatly reduced by the Indian government subsidy scheme, which acts as another incentive for MFIs/banks to participate. This is second to the fact that healthier clients pay back these and other loans at a better rate.

Impact is measured through the total number of toilets constructed but also by checks on their usage. Data as such, is collected from MFIs. In the earlier FINISH programme, a methodology was developed in cooperation with the Institute of Fiscal Studies (IFS, UK) to randomly (and independently) check the reported sanitation systems as actually being were actually constructed actively in use. Together with pictures and some key data points, these were uploaded to an online platform for full transparency of the oversight and monitoring process.

FINISH targets all households in a carefully selected geographic area (from the most vulnerable, the working-poor and upwards), because sanitation health benefits can only be fully realized through complete coverage. The programme starts by creating awareness around the benefits of sanitation to create demand. This is followed by sanitation marketing of affordable, safe sanitation systems. A link is made with MFIs/banks, so that people who cannot afford the full cost can get a loan to make it affordable. A link has also been established with the government subsidy, so that once people have built the toilet, they get 75% completion subsidy. Most MFIs have been partners of FINISH for 3-6 years.

The intended *outcome* of the programme is **an additional 500,000 safe sanitation systems** installed, benefitting at least **2.5 million people** (SDG 6), financial inclusion of poor people (SDG 10), and jobs created in the sanitation sector (SDG 8).<sup>6</sup> The jobs created are considered in the construction of toilets, pit-emptying, transport and re-use of faecal matter. The *impacts* of using safe sanitation are at the social, economic and environmental levels. Firstly, it improves health by reducing diarrhea (SDG 3), and less illness results in increased productivity (SDG 10) of people. At the social level, it provides a safe and private space for women (as opposed to open defecation, which often leads to harassment or vulnerabilities like rape); furthermore, with toilets available at schools, drop-out rates of young girls are greatly improved from the age when they start menstruating (SDG 5).

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<sup>6</sup> FINISH addresses a cross section of the United Nation’s Sustainable Development Goals (SDGs) including: access to sanitation (SDG 6); increased financial inclusion (SDG 10); and livelihood creation (SDG 8). The connecting impact of safe sanitation on individuals’ lives includes: overall improved health (SDG 3), women empowerment (SDG 5) and reduced inequalities within and among countries (SDG 10).<sup>6</sup>

