FINISH MONDIAL

Microfinance for Sanitation

The devil is - as always - in the details:

Paper 1 our steep learning curve

and

Paper 2 (forthcoming): the people's perspective.

Authors:

Valentin Post (FINISH Mondial), Vijay Athreye (co-Founder FINISH), Kajetan Hetzer (Executive Director, WASTE, Nl), Santwana Sneha (Dethink), Abhijit Banerji (Finish Society), Saurabh Agnihotri (Finish Society)

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GENERAL INTRODUCTION

Financing Sustainable Development

[Dear reader,]

Governments have committed themselves to 17 ambitious Sustainable Development Goals that are designed to end poverty, protect the planet, and ensure prosperity for all. A question that requires an answer: how are we going to finance this? Many of the goals are interrelated and not exclusive. This implies that activities to achieve these goals should also be interlinked.

During the International Conference on Financing for Development in Addis Ababa in 2015, governments from all over the world came up with a package of more than 100 concrete measures that draw upon all sources of finance, technology, innovation and trade that are supposed to support the implementation the Sustainable Development Goals. "Financing needs for sustainable development are high, but the challenges are surmountable," said UN secretary-General Ban Ki-moon at the opening of the Conference.

I believe the world has all the resources and expertise it needs to reach those goals. With our Financing Sanitation Paper Series we hope to share our expertise on how we can finance Sustainable Development Goal 6: Ensure Access to Water and Sanitation for all.

The tangible benefits of sanitation

Sanitation is a broad term that includes safe disposal of human wastes, wastewater and solid wastes, water supply, control of vectors of diseases, etc. These prevent waterborne diseases and are thus part of preventive health care. Proper preventive health care saves money in terms of reducing medicine bills, number of visits to the doctor and the associated travel costs etc. Preventive health care also is a time saver because of less time spent travelling to medical facilities and pharmacies. Furthermore, where there are no toilets, one needs to identify a suitable location to defecate, which more often than not is far away from the home or place of work. This quite often is time consuming too. Lastly, sanitation provides income and employment, including for example, in the construction of toilets, supplying and stocking of sanitation products and latrine construction materials, and emptying toilets. The earning potential of properly and safely processed human waste – nutrients and carbon present in waste – is also something that is currently being explored in FINISH Mondial.

Financing Sanitation Paper Series

India, Bangladesh and most Sub-Saharan African countries have a large financially excluded population, who by and large live in poor sanitation and hygiene conditions. The poor sanitation and hygiene conditions, financial exclusion and poverty of these populations most likely reinforce each other.

We narrowly define sanitation as toilets that are used, designed hygienic, provide medium to long term privacy and convenience AND systems that ensure safe long term excreta management.

The Financing Sanitation Paper Series is a unique collection of six out of a total of seven articles about different aspects of sustainable financing of sanitation (in emerging markets). The papers have covered: (1) financial instruments used in FINISH (>30); (2) financial inclusion – public and private funding; (3) micro insurance; (4) bill of quantities for sanitation[1].

The first four papers in the series were well received and circulated widely through different fora. A similar process will be followed in launching this paper.

The theme of this paper is sharing our lessons in 15 years of FINISH. It has been a steep learning curve and hopefully readers will be able to avoid some of the mistakes we made during the years.

We deliberately excluded basic sanitation from all our work. We have even moved away from improved sanitation as this does not take the full cycle of human waste management into account and therefore it is likely creating troubles in future as well as additional investments[2]. The reality on the ground may So, in our view safely managed sanitation is integral part of human dignity and human rights.

We therefore invite you to react to the papers on our blog, which you can find on www.finishsociety.org; www.waste.nl; www.SuSaNa.org and our Linked-in group. Looking forward to meeting you there.

Valentin Post, Vijay Athreye, Santwana Sneha, Abhijit Banerji, Saurabh Agnihotri

Forthcoming papers are:

- Financial inclusion and sanitation from the beneficiary point of view - People view of microfinancing sanitation
- Sanitation and climate financing
- Measurement of employment effects of a sanitation drive

[2] This of course is a journey, not all partners are as strict as we are and also households may opt for a lower cost basic system. Safe to say that the percentage safely managed increases across all partners and is becoming more of the (aspirational) standard.

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Micro Finance for Sanitation in detail

the steep learning curve in asset financing or non-productive loans

Microfinance for sanitation falls under financial inclusion, a key component in FINISH. Financial inclusion encompasses offering a wide range of financial services to the hitherto financially excluded. These financial services range from financial literacy, micro credit, micro leasing, micro savings, micro insurance, money transfer and micro pensions.

In the sanitation financing series, we are linking financial inclusion to sanitation. Financially excluded face great difficulties in acquiring sanitation assets, yet scaling sanitation is only possible if we can include them. As many do not have needed funds, financial inclusion becomes a key requirement. As we showed earlier with this approach large segments of the market can be included, yet there will be segments of very poor people that cannot be served by financial institutions.[3] When we started in 2009 for most development agencies developing markets with people paying for sanitation systems was not obvious, so the paper series intend to provide insights in the workings. Today, the belief that excluded families need to be financially included and moving away from grants for construction of toilets is much more accepted. An exception needs to be made for the poorest of the poor who cannot be even covered with MFIs

In the first paper we outlined the financial instruments used in the Financial INclusion Improves Sanitation and Health (FINISH) programmes in India and Kenya (FINISH respectively FINISH INK). In the second paper, we described the essence of public financing of sanitation. In the third paper, we described the link between sanitation and one aspect of financial inclusion, micro health insurance. In the fourth paper we dealt with the cost of sanitation and compared it to an alternative asset investment option, a (low cost) motorcycle.

Since then, the FINISH programme has expanded to four more countries and is spun off as a separate organisation – FINISH Mondial Foundation (FMF). FMF targets further growth and impact including other themes (water, agriculture, solid waste, renewable energy). Of course, the papers continue. In the current (fifth) paper we describe our 15-year journey. This historical journey will show the learning from the many mistakes we made.

This paper is based on information obtained from the Financial Inclusion Improves Sanitation and Health programme in India. All papers are available on www.finishmondial.org, www.waste.nl, www.SuSaNa.org and www.finishsociety.org.

[3] At local levels we see increasingly locally designed inclusion mechanisms, these may vary from donations of materials and time by neighbours to joint construction. Donation of sanitation, allowing use of someone's sanitation facilities are other mechanism that are used. As a rule, reducing the size of the group, i.e. poor people without safely managed sanitation (through financial inclusion), makes addressing the sanitation needs of the ultra-poor more manageable and having skilled entrepreneurs in the area makes sustainable solutions also more feasible.

1. Sanitation under FINISH – the steep learning curve in the model

1.1 Origin

1.1.1 Ideation

During a very lively discussion session extending till deep in the night, the co-Founders of FINISH[4] derived at a concept of a scalable sanitation project. The idea that emerged in Bhubaneswar India was that it would bring together Dutch sanitation expertise and the extensive network of microfinance institutions of the micro insurance Rural) department of the insurance company TATA-AIG. SNS-REAAL could potentially lend to these MFIs under it's the existing US$ 50 million water fund.

Sanitation initially was based on the recently launched community led total sanitation. The last mile client outreach, the processes to document, build capacities within staff, was based on the corporate practices of TATA-AIG as micro insurance is just like sanitation not a "pull good" but a "push good", i.e., demand needs to be created.

As corporates are optimising back-office support costs and transaction costs, many of those measures were to be ingrained in the FINISH design.

Funding initially from Partners for Water (Dutch programme) to design the entire programme and acquire microfinance partners was used. Later on, DGIS saw the potential and awarded a grant to start implementation.

1.1.2 Finding microfinance partners

When we started about 15 years ago, the idea that people would take a loan to build a toilet was pretty outlandish. Why questions were all over. Why would they take a loan as Government subsidy was available for the same? People have other more pressing needs. Why would microfinance institutions lend for sanitation as a toilet does not generate income? And also, more generic questions as, there is no demand, why indebting people as it is public good and a government responsibility?

So, we decided to market the FINISH concept with existing partners of TATA-AIG. As a bonus we had the director of the Water Fund with us on the road tour, which was renamed as "*the banker without a flyer is like a fish without a bicycle"* tour.

We didn't bother about a proper acronym for this tour. It took us to 6 metropoles in 5 days. The turnout was very good with some 100-odd MFI partners of TATA-AIG participating. It also worked! We had some seven MFI partners that showed interest to partner in FINISH and in effect issue sanitation microfinance loans.

[4] Vijay Athreye, TATA-AIG, Abhijit Banerji, TATA-AIG, Pradeep …, TATA-AIG, Kajetan Hetzer, SNS-REAAL and Valentin Post, WASTE.

1.2 Demand generation

1.2.1 Corporate sector strength

Successful corporates selling to Bottom-of-the-Pyramid markets will have (developed) a comprehensive sales strategy for reaching their clients, obtaining client feedback ad lowering cost all along the way, whilst not compromising on quality of the product or service. Poor people represent a large part of the market in developing countries, but as money is scarce, they want the best products at the lowest prices.

Along this line, FINISH co-founder TATA-AIG knew that its insurance premium collections from individuals would be very small (less than € 10 per year), so it could only be profitable if their costs of marketing, distribution, premium collection and claims settlement would be as low as possible. Thus, they were looking for last mile outreach using existing human and organisational infrastructure. Microfinance institutions were to be their distribution channels. One of the most appealing parts of working with TATA-AIG was its eye for details in delivery channels, reaching out and responding to clients and how contracts with micro-finance partners should be structured.

Even with low costing, for TATA-AIG micro insurance could only become profitable with a long-term vision and commitment (expected break-even period 7 years). At the same time break-even required very large numbers and this was exactly our Big Hairy Audacious Goal (BHAG, a management fab popular in 2009) what we were looking for too, a scalable model for sanitation.

1.2.2 Setting up mechanisms for awareness and demand creation

So, reaching out to people and communities in need, but not in want of sanitation, we used community led total sanitation to create demand for sanitation and in view of our partners' profile we added the element of financial inclusion to it. That is financial literacy and micro credit. We thus labelled our demand raising strategy CLTS+ as MFIs were going to function into our last mile outreach. For this we looked into two aspects: (1) sanitation demand generation capacity building with MFIs and community outreach (awareness creation, demand generation at household level) and (2) increase in sanitation density to increase health impact.

For sanitation demand generation we developed support materials starting with a 20 min film "*Let's Make it Right*" (1st Prize winner at WWF 5 Marseille). The film was made in Tamil and translated into 5 local languages (English subtitles). Next, we started developing a range of promotion materials. However, most attention went into the capacity development processes and how this could become a standardised process within MFI operation. This was in line with practices at TATA-AIG. The last mile interaction with the client was budgeted in great detail.

As we had a second objective – driven by health consideration – increase in sanitation density we designed output-based aid mechanisms.

1.2.3 Minutely detailed contracting

So initial contracts with MFIs went in great detail. MFI partners would set and annual target for number of sanitation loans and agree to reporting formats. In return FINISH contracts detailed several support mechanisms.

For ***demand generating*** activities each partner would receive copy of the film "*Let's Make it Right*". For film viewing INR 600 (less than €10), that is per viewing in a gram panchayat (administrative "village" unit). FINISH developed an English prototype of a handout (handbill). Partners were to translate and would receive an incentive of INR 0.1 for printing. There were a few other items (wall painting, training coordinator, awareness creation need assessment facilitation) all with similar low budgetary outlays. For their own ideas partners could submit a proposal.

The second major objective captured in the contracts was the drive to increase sanitation densities by offering incentives to key staff of MFI partners and the MFI itself if thresholds were reached. In view of the low sanitation coverage in part of the areas MFI partners operated in the first threshold was set at 50% MFI only), the second threshold at 70% (MFI and key staff) and the third at 90% (MFI and key staff). Payouts would only happen if claims were verified by a third party. Total variable budget as put in the contracts was capped per year. Though as most MFIs predicted it would take considerable time for them to reach sanitation densities as their own microfinance densities were most of the time well below 50%, yet this clause worked as a good incentive.

1.2.4 Southern owner and leadership

Though FINISH started as a project, it became clear at an early stage that because of its multiple different angles, implementation differences between partners at interactions with government at all different levels, that it was a programme instead of a project. For this purpose, a programme management board was installed with an oversight function to the programme implementation and programme development. Board membership were senior bureaucrats (IAS-rtd, as active government members were not allowed to sit in any board), financial institutions (both foreign bank and local MFIs), insurance company, NGOs and a academic institution (United Nations).

As there was a lot of checks and balances that could only be done locally, it was agreed by the newly instated board that it would be set to identify and work with a local partner for implementation management support. As we failed to identify a partner at that time it was decided that for sustainability reasons, we would set up a foundation for this purpose and to ensure continuation of the sanitation drive after the programme ran out of external funds. In 2010 Finish Society was thus established as a local NGO under Indian legislation. The legislation was dating back to the 19th century. Since its birth, Finish Society has grown from strength to strength and it is increasingly supporting activities outside India under the aegis of TOPS/Finish Society.

Lesson learned: With experiences gained contracts are less detailed and more based on checks and balances whereby part of the checks is supporting partners to improve their operations.

1.3 Supply side

1.3.1 Sanitation is not micro-insurance

Just like sanitation micro-insurance is a push good. After initial sale annual insurance renewals is a major issue as the incidence against which people are insured may not have happened and the thinking emerges, it is a waste of my scarce money. But for sanitation it has the advantage that it is product or asset that is sold. As people had been constructing toilets in India for many years, we made the erroneous assumption that sufficient skills and expertise was available in our implementation areas. After all, India had some very detailed guidelines issued by the Government on different sanitation systems ranging from household toilets with double leach pit, toiles connected to biogas and septic tanks.

During a field visit sometime early 2010 in the East of India sites were visited where toilets had been constructed with a microfinance loan. The quality of the toilets wase appalling. The siting and disposal arrangements were also not up to (inter)national standards or that would satisfy clients with knowledge on the topic. In fact, clients were actually happy with the privacy and comfort that the newly constructed toilets provided, but we could see tough times for them ahead. Toilets would start to smell, fill up and possibly have detrimental health impact. Something needed to be done, but what and how?

One week later, in a district South of Bangalore we visited, a project site of one of our microfinance partners. A mason was constructing a substructure, which I could not understand, so I asked him: *what are you building*? He said: *a septic tank*. I told him that is not a septic tank. To which he retorted: *How many septic tanks have you build? Well,* I said, *to be very precise, ….. none, but I know a septic tank when I see one.* His reply was: *"I have constructed septic tanks for 20 years, so who are you to tell me how to construct septic tanks"*. This clearly was not going to work.

Fortunately, the team had a very practical solution, a master training of masons from all over India for a period of two weeks in properly constructing different sanitation systems. Language obviously was a barrier but not too much as a lot of actual construction formed part of the training. The master masons started training local masons. Key local team staff partook in the full training, so they could supervise skill transfer. The four systems that were being taught – barring one – were all part of what today we would call safely managed sanitation. Double leach pit, toilet linked to septic tank, toilet linked to biogas, urine diversion dehydration toilet.

This led to a second modification in our CLTS+ approach, choice of substructures was limited to safely managed systems, whilst people could choose between different substructures. As in CLTS they were completely free to choose their own superstructure. We therefore renamed our methodology as CLTS ++. With

experience gained over the years, and the improved skills of masons resulting in shorter training focused on certain 'gaps'. The number of days a mason spends in training has been reduced from 7 days to 1 day or sometimes even half a day.

Lesson learned: The Government guidelines of safely managed sanitation need to be translated to field level using different sets of skill transfer tools.

1.4 Where are the toilets?

1.4.1 Reporting issues

As contracts with MFI partners and the presented results were based on reporting by MFIs, it was a matter of great concern when implementation team alerted the board in July 2011 about implementation issues with two of the then 7 partners. Cross checking by the Institute of Social Sciences, Delhi revealed that in one case, there was a big discrepancy between the data reported by the partner and their samples. In case of the other partner, through a field visit of one of our academic partners, the same issue was reported too.

Thus, this warranted a large-scale survey to verify and cross check the reported numbers of our partners. In both cases this difference was confirmed. It turned out to be a significant difference in their reported figures and in the monitored figures. In both cases internal monitoring and control systems were less stringent than they should have been. Post reconciliation for 2011-2012 the number of systems and sanitation loans volume were downscaled.

So, we needed to take a relook at the process, come up with a suitable alternative and inform partners and the donor about this.

1.4.2 The process

We had opted for a system of partner reporting and data verification by an independent third-party surveyor. In theory this looked fool proof. Partners needed to pass a thorough due diligence process before being able to join FINISH as implementing partner. The entire process was documented using standardised formats and contained a number of checks and balances. (including submission of the audited annual reports of the last 3 years).

MFI partners assumed that loans for toilets were getting fully converted into toilets with no divergence. Verification by a third party would confirm the same. This low-cost verification system worked well for the first two years as only minor discrepancies were reported and these were mainly due to unclear village and gram panchayat (GP) boundaries that sometimes shifted too.

In 2011 it still worked well for 5 of our 7 partners. Alas in the same year 2 implementation partners reported incorrect data. This was discovered too late by the independent agency. Incorrect data found its way to the Board approved 2011 Annual Report.

1.4.3 Different responses

Large scale survey was conducted to verify reported data against verified data. In case of the first MFI partner, this survey came up with different figures. An auditor appointed by the MFI partner came up with yet another set of data. Now we had four sets of different data! The board decided to depute two senior board members to randomly visit the area and come up with figures that would form the basis for any further discussion. Their data was confirmed by all partners to be correct. As the response from the partner was not very accommodative, it was decided not to continue the relationship with partner.

The response of the second MFI partner was completely different. Its secretary acknowledged that controls were not as stringent as they should have been and made a pledge to make amendments. He also explained openly that the organisation had received a relatively large loan for sanitation without having the necessary human resources, capacities and skills to deal with it adequately. During the three years it was partnering in FINISH, these human resources have developed. Together with tighter controls he convinced the board that the misreporting would not occur in future. Till date, this MFI partners in FINISH.

1.4.4 Process adjustments

From the above two valuable adjustments in the process have been made.

1) Amend partner selection process through more involvement of the team members on the ground in preselection and screening. Screening process to expand include verification of baseline data through random sampling in the verification process. The main change, though. is changing the relationship from partnering captured through a contract with third party verification, a much more active engagement captured in a contract with enroute correction measures before third-party verification.
2) Different and more concurrent surveying. The non-timely survey results from the third-party evaluator meant that we needed to correct figures in the next annual report. But also, that we needed to identify how to do this differently, our academic partner UNU Merit helped us out. Thus, today all primary reporting is verified by the FINISH team on a random sampling basis developed by UNU Merit. This covers baseline data on sanitation densities, sanitation loans issued, conversion and the use of sanitation by households. This again is verified by a third party.

The monitoring method seems to be workable and more reliable data are being collected. To bring additional rigour to the system independent monitoring agency is appointed for random sampling and evaluation of the simplified monitoring tool in the field.

Lesson learned: Trust is good, independent control is better, mutual beneficial monitoring with independent control is the best for scaling sanitation.

1.5 Rocking FINISH model at its core: Microfinance crisis

The crisis that erupted in the Indian State of Andhra Pradesh in early October 2010 hit at the epicentre of microfinance in India. It had implications there,

across the country, and globally. The reasons for the crisis to emerge are beyond the scope of this paper and are very well described elsewhere.[5] Its implications however had far reaching implications for the FINISH model as the financing of MFIs reached very low levels and MFIs were mainly engaged in debt recollection.

In the face of low loan collections, MFIs with proportionally larger exposures in Andhra Pradesh found it difficult to refinance their loans with commercial banks or to raise new equity. MFIs unable to effectively negotiate their financing could become illiquid and insolvent.

Even MFIs that are well capitalized and have a geographically diversified portfolio beyond Andhra Pradesh might have to absorb large losses in Andhra Pradesh, impacting their growth elsewhere. It is possible that a few MFIs might have to close or dramatically downscale their operations [initially] in Andhra Pradesh [and later on in other parts of the country]. The result [was at least for some time] the removal of a credit service that poor people have come to view as reliable in their otherwise uncertain lives.

In this context, the model of FINISH working exclusively through micro finance institutions, who all suffered from lack of credit, was under serious threat. Particularly the big partners of yesteryears which were considered big support in the implementation of the programme were in more difficulty because of poor recovery of earlier advances. They got into serious trouble.

Fortunately, the board of FINISH rose to the challenge and started the process to reinvent the implementation of the programme. There was a consensus that:

a) To reduce the risk of large-scale failures it would be desirable to engage with large number of small size local organizations with strong social profile evincing interest in promotion of sanitation, but with modest targets of sanitation (FINISH would still not pay the hardware costs)
b) to make the results cost effective, the grant portion would be made more attractive but at the same time closely related to the targets /achievements
c) the local team was strengthened with key staff from TATA-AIG. These 5 senior officers had experiences ranging from 6 to over 10 years in both development field and private commercial sector. Each were to look after different regions of the country and several partners. All TATA staff had to take a big pay cut in order to be able to join Finish Society.

A proposal including budget was accordingly prepared for the FINISH programme was restructuring. It was approved by the board in October 2011. Fortunately, we had a very cooperative main donor, DGIS. As it was a major restructuring, we needed their approval. After hearing the reasons and seeing the proposal DGIS approved the same. Hence our proposal which could now be put into effect, whereby the number of partners increase from 10 to 65.

Lesson learned: successful restructuring requires solid field knowledge, strategic thinking capacity within the team, strong governance structures and team's drive to succeed. Even so, if there is no cooperative donor or financial partnr, restructuring may not fly.

[5] Andhra Pradesh 2010: Global Implications of the Crisis in Indian Microfinance (cgap.org)

1.6 It is the money that has to be paid monthly!

Till today we are often questioned by developmental partners and some governments about the very high interest rates that are being charged by MFIs. International development partners compare interest rates charged by MFIs with the interest rates in their own country. Till recently in Western Europe interest rates were even negative. Generally our development partners are finding the interest rates excessive. No doubt there are some bad apples who set exorbitant rates but by and large the rates charged are market conform and this is why.

Microfinance institutions normally do not have much money of their own. They have to go out and borrow money which they can lend to clients. This money on both sides is unsecured and therefore considered very risky. Hence, microfinance institutions pay high interest rates themselves for getting money. They lend this money out to clients after factoring in their cost of managing the money, their staff costs including field staff, a risk premium (it is unsecured!), reporting costs and a profit or growth margin. This does explain the relatively high interest rates that are being charged. However, these are well below the rates used by moneylenders[6]. It will be clear that in very small numbers this model does not work, hence most MFIs have started as NGOs and have grown the microfinance business using grant and concessional money.

If their business and track record grow, their cost of borrowing (the interest rate they pay to banks) comes down. Also, their overhead as proportion of the cost does not grow at the same level and comes down in relative terms. With increased experience they can also set their risk premiums more accurately. In recent years many of the larger ones have grown into small banks and have access to much lower cost funding.

The micro finance model favours the big ones over the small, in other words ***big is beautiful***. Yet as the team has observed some of the smaller ones have generally speaking retained their social mission more strongly. *So how to engage MFIs in this new activity of sanitation financing without distorting the market and at the same time ensuring that poor people do not pay too much?*

To attract MFIs, we have developed result based financing instruments. And the same time to tackle the affordability issue, we have drastically reduced the cost of sanitation systems whilst increasing the quality (indeed the Bottom of the Pyramid market). This means that the loan size will be smaller and the monthly outlay or EMI (equated monthly instalment) goes down without market distortion. So how did we do this?

[6] Their main advantage is that they can issue loans instantly.

The most important is choosing the right technology meeting geodetic and hydrological conditions, meeting user needs and rightsizing this technology. By avoiding wastage cost savings of well above 30% have been realised. This only works, of course, if this knowledge is fully imparted with the masons and partially imparted with those creating demand (see earlier sections).

Our systems are promoting safely managed sanitation meaning that they will be sustainable and future outlays will be minimal, so it will be a one-time investment. In practice many systems are improved and not yet safely managed. A good example is that for poorer households there is the option to build a toilet with junction box and single leach pit (meaning improved) and construct the second leach pit and connect to the junction box only after the first is filled (meaning safely managed).

Thirdly, changing construction materials with locally available materials ranging from waste wood products, bamboo, hollow blocks, interlocking blocks, cement rings, prefabricated materials (avoiding in-situ wastage) and integrating materials made by partners. The partnership with Lixil (SATO) focuses on further material saving and cost reductions.

This search for new methods of construction, materials, further size reduction and supply side interventions to improve functioning of sanitation markets remains core to FINISH Mondial.

Whilst FINISH is a market-based sanitation model, it is clear that government actions have a strong impact on its functioning. In India with the onset of the clean India mission (SBM) there was a tremendous drive to increase the sanitation coverage densities drastically in a relatively short period coupled with result-based subsidies. This again challenged our model.

1.7 Working with government

In the first few years our focus in working with government was through development finance institutions (DFIs). India has four DFIs. These are government financial organisations that supported housing (NHB, national housing bank), agriculture and rural development bank (NABARD), small enterprise development bank (SIDBI) and export and import bank. We signed memoranda of understanding (MoUs) with the first two and had an unrecorded understanding with SIDBI. The second type of government engagement was with central government on policy issues, such as priority sector lending for sanitation, sanitation support programmes.

With the assistance of its board members, FINISH management had access to highest political and administrative levels. We achieved some of the desired policy outcomes (priority sector lending). This could be interpretated as a sign that our lobbying was very successful. An honest reflection will qualify this. There were many others (Sa-Dhan, water.org etc) working on the same policy changes. These others were allocating much more time and drive to it, than our more opportunity driven approach, so our contribution may have been rather small.

The microfinance crisis also gave a boost to cooperation with government. Following our expansion in delivery model we started working together with district administrations in Rajasthan, Jharkhand and Tamil Nadu on converging the then existing government scheme[7]. This worked remarkably well, though it also differed significantly from area to area. In Rajasthan, after its initial success at one district, it became a three-partite model with the government and corporates and later on UNICEF also joined. In Jharkhand the government converged different partners to cooperate. In Tamil Nadu it was driven by the bank self-help group linkage model of NABARD. Whilst the implementation models, the constant was that FINISH facilitated construction, but hardware was never paid for by FINISH.

The Government introduced the Swachh Bharat Mission (SBM, Clean India Mission) in 2014 aimed to make India open defecation free by 2019. SBM was driven and well endowed with funds including an INR 12,000 (€ 150) subsidy for households who constructed a sanitation system. As it took a little time to get a central theme operational at ground level, our team had the opportunity to converge the FINISH approach with this drive. Microfinance did continue to play a big role in sanitation financing as some households were not eligible to receive the subsidy but mainly because the subsidy was back ended (after verification of construction) and poor households had no upfront resources to pay for sanitation. Hence but gap and bridge financing emerged. When the SBM gathered momentum, we also cooperated directly with local governments on the demand generation and supply side interventions.

1.8 Faecal sludge management

Our USP is scaling safely managed sanitation through financial inclusion. Yet the journey continues taking unexpected turns as new challenges emerge. One such challenge is that we have not yet been able to make a strong link between financial inclusion and the sanitation circular economy. We are making progress on aspects of acceptance of the sanitation circular economy or recycling of human waste as shown below, but valorisation of human waste at household level is still elusive let alone making financial products out of it.

With many toilets under construction, we knew that safe disposal of human waste would become an issue in the years to come. *As FINISH Mondial is all about safely managed sanitation, what are our solutions to this?* We decided to give our answers to this in the next paper and use this as a cliff-hanger. Dear Reader, please keep this question in mind whilst for the remainder of this paper, we continue on the financial inclusion and scaling part of the journey

1.9 Not everything works - Going too fast too soon - micro health insurance

The ideation of FINISH was based on the following premise. If people have and use safely managed sanitation and practice safe hygiene measures, the

[7] Nirmal Bharat Abhiyan, the successor to the total sanitation campaign, aimed to accelerate sanitation density in rural areas

incidences of diseases should come down. If a company is selling micro health insurance, they should be very interested in this. As usual the devil is in the details, though in this case it is mor in the nature of the business, insurance companies typically sell insurance products that have a high payout but low frequency (of occurrence), but waterborne diseases are the opposite, low payout high frequency. This goes against the basics of the insurance industry.

Health insurance therefore targets tertiary care or hospitalisation, but most waterborne related diseases are dealt with at primary level. So our insurance partner developed a new product primary health care as a benefit product on tertiary health care. They made a provisory calculation on premiums and pricing and identified a few mission-driven hospitals where this innovative product could be tested. Both the global financial crisis resulting from the fall of Lehman Brothers and the regulator proved to be too big hurdles. To start with the American partner American International Group AIG [8] in the Joint Venture TATA-AIG had to be bailed out by the US Government at some US$ 250 billion. As part of the bailout, it had to refocus on its core business and doing highly innovate stuff in India was not part of this. The regulator was also not playing ball. As the product was new and very innovative, its fictious pricing was considered too risky and permission to launch the product was withheld.

Still believing in the idea we tried to work with another insurance company, L&T insurance, thy had an existing benefit product (based on tertiary care), but whilst several thousands of policies were sold renewals were an issue and it also did not quite fit what we had in mind. Since then, discussions have been held with several insurance companies. Discussions were aided by developments in the health care supply system. We partnered with two organisations on the health care supply side and did collect some data, but this was not enough to convince the supervisory board of FINISH Mondial that this was the right future direction. Particularly Amref Flying Doctors voiced its reservation and these were echoed by the NGO members on the board.

Even today we still believe in the idea, but having taken due cognisance of the reservations of the board we are looking for suitable alternatives. There are as many ways leading to Rome as there are ways to partner with key development partners.

1.10 Scaling - Sanitation Impact Bond proof of concept

One of our long time partners, ACTIAM an impact investor from the Netherlands – and seated in the boards of FINISH Mondial (global), in Kenya and with observer status in India came up with, what we immediately recognised as, a brilliant idea. It proposed to tap into some of the largest financial resources globally, the intuitional market. Pension funds and insurance companies collect large amount of premiums and contributions. In order to meet claims and future

[8] Prior to the financial crisis in 2008 (Fall of Lehman Brothers) AIG was the largest insurance company in the world

obligations, these funds need to be invested. Because of the long-term obligations these companies enter into, their markets are highly regulated.

So how can they invest in household sanitation. Of course, being located in the Netherlands, ACTIAM would not directly invest in household sanitation. Rather it would invest in FINISH Mondial partners that have sanitation portfolios. ACTIAM being a commercial entity could only do this on commercial terms that met the fiduciary requirements of its intuitional investors. So would this relatively expensive money be of interest to MFI partners. As ACTIAM is an impact investor, how could the impact be measured? Before launching a fund that in order to be commercially viable needs to b sized at least € 100 million, the rules of the game, contracting, impact measurement and verification all had to be detailed. In the proof of concept ACTIAM invested US$ 3 million against market conditions in the India MFI Cashpor. FINISH Mondial India worked with Cashpor on demand and supply side issues, concurrent monitoring for verification. Aqua for All agreed to pay the MFI incentive totalling US$ 60,000 if results were achieved. WASTE contracted the third-party agent that verified results from the concurrent monitoring. The first evaluation could, due to COVID-19 not be done by a third party, but only by FINISH Mondial staff based in the area due to severe travel restrictions. From this we learned that there was quite bit of finetuning to be done. The second third party evaluation confirmed that Cashpor had taken the lesson to heart and were able to meet all requirements of the result-based financing. One of the lessons should not come as a surprise to anyone, money is fungible. By focusing on dedication, we missed out on the bigger picture.

1.11 Expansion to Kenya

Having learned valuable lessons in India, crossing the Indian Ocean and starting FINISH in Kenya would be a relatively smooth sailing. Far from it. The relatively easy part was to adjust our safely managed sanitation curriculum to include dry sanitation. Perhaps the most difficult part was finding an expert who was theoretically and practically well versed in dry sanitation. We eventually found our resource in South Africa and together with our India specialist we started building the mason or artisan training verticals.

A main difference with India was that we did not implement CLTS ++, but instead went for classical CLTS and with training artisans and field staff form our financial partners trained in sanitation, we expected that results were flowing in quickly. Far from it, despite creating awareness and sanitation demand, the results in terms of uptake of safely managed sanitation were dismal and the corresponding loan portfolios form financial partners showed minimal growth. Basic sanitation grew at speed. We tried experimenting in the bank sales channels for instance through direct sales representatives or target setting per branch to no avail. Clearly something was missing. In retrospect it was easy to spot the mistake but whilst implementing it is sometimes difficult to see what is right in front of you. After using many different methods, the addition of sanitation marketing with result-based incentives payable to marketers to the mix, the result in increased safely managed sanitation densities and the loan portfolios of our financial partners started coming in.

The system we initiated some 7 years ago, gave results but also carried shortfalls. The main ones being: it is dependent on grant funding, a minimal amount as compared to more standard projects, but what happens if the grant funding dries up? Indeed, results dry up. For marketers it does not matter if they market soap, mosquito nets or safely managed sanitation, whatever brings in money is actively marketed. Incentivising people for walking the extra mile is normal market thinking and is therefore not a shortfall, but maybe we are not incentivising the right people. Should not those be incentivised who have a direct connection to the good or service being sold, that is the entrepreneurs constructing safely managed sanitation or the financial institutions offering sanitation loans? This idea is currently being tested in Kenya.

When we expanded to four more countries in 2018 (Bangladesh, Ethiopia, Tanzania and Uganda) we surely wouldn't make the same mistake again? The good news is we didn't, the bad news is, we made many others. As the markets are still under development in each of these other countries, it is too soon to describe lessons learned in detail, yet we commit ourselves to do so in future.

Making mistakes and learning from it is, we guess, the path of development, looking for impact and the big picture whilst at the same time ensuring that your actions the ground are supportive of the big ideas. At the end, this can only be done by the teams. The teams on the ground can break or make a programme and the main task of management is to ensure that they can function to the best of their abilities, are properly supported, are functioning in an stable environment and have opportunities to grow. We are not there yet, but we are setting up a global support structure that not only is supportive of this but also drives and test new ideas, themes and technologies. Our 15-year journey has just started. But what about our clients, what is their take on all this? This is described in the next paper.