

FINANCING HOUSEHOLD SANITATION IN GHANA – OPTIONS AND GUIDELINES FOR IMPLEMENTATION OF FINANCING SCHEMES

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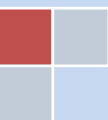


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LIST OF ABBREVIATIONS AND ACRONYMS

CSR	Corporate Social Responsibility
DA	District Assembly
DACF	District Assemblies Common Fund
FNGOs	Financial Non-Governmental Organisations
IGF	Internally Generated Fund
MFIs	Micro Finance Institutions
MLGRD	Ministry of Local Government and Rural Development
MoU	Memorandum of understanding
NESSAP	National Environmental Sanitation Strategy and Action Plan
NGOs	Non-Governmental Organisations
RCBs	Rural Community Banks
RSMS	Rural Sanitation Model and Strategy
SESIP	Strategic Environmental Sanitation Investment Plan
VSLAs	Village Savings And Loans Associations

SECTION 1.0: OVERVIEW OF SANITATION FINANCING

1.1 Introduction

The document on options and guidelines for sanitation financing schemes is based on the following:

- Strong linkage to existing government policies as discussed in key documents including the Rural Sanitation Model and Strategy (RSMS); National Environmental Sanitation Strategy and Action Plan (NESSAP) and the Strategic Environmental Sanitation Investment Plan (SESIP).
- Strong government and development partner support to build on the gains made in promoting installation of household latrines.
- Ownership at the district level through the establishment of District Sanitation Fund that leverages on different resources.
- Support for the poorest by leveraging on the mechanisms used for LEAP.

1.2 The Case and Rationale for Sanitation Financing

An estimated 19.3% of households in Ghana are without household latrines¹. The application of this proportion on the estimated 6,229,521 households (2015) comes to **1,214,757** households without household latrines. It is further estimated that the 16 partner districts have at least 149,343 households that have to be reached with improved household latrines. Many of these households however, face liquidity challenges and do not have the financial resources to meet the one-off cost of investment in the acquisition of household latrines. As a result many of them will continue with open defecation and or turn to the use of unsafe toilet facilities.

Deriving from the Sanitation Market Assessment Study, 80% of respondents indicated financing as a constraint. Deriving from this, it is projected that 80% of the 1,214,757 households (971,805) nationally or 80% of the 149,343 households (80%=119,474) from the initial 16 partner districts will need some form of financing to acquire household latrines. On the assumption that a basic improved latrine will command a full cost of a maximum of GHS500², households in need of financing will require at least a total of **GHS 485.90 million**.

Ideally, households should have access to basic financial services so as to finance the acquisition of latrines for their respective houses. However, there are a number of that serve as barriers for accessing financial services. Almost half of Ghana's population remains without access to basic financial services³ (i.e. not even using informal financial mechanisms), particularly in rural areas and by women. In addition to household challenges, micro and small businesses in sanitation lack access to institutional finances.

¹ http://www.statsghana.gov.gh/docfiles/2010phc/Census2010_Summary_report_of_final_results.pdf

² This is an estimated figure. Depending on location and direct support provided by households, this could be lower

³ World Bank Findex 2014

If the financing challenge is not addressed, most households will not have access to safe, improved and durable household latrines and the fight to achieve ODF status may never be fully realised. Given the importance of financing, there is need for well-defined options and guidelines that facilitate sanitation financing.

The household latrine financing options and guidelines document outlines ongoing practices with respect to sanitation financing in general, practices in the context of sanitation marketing, government policy initiatives with respect to financing household latrines, the role of subsidy and current situation of sanitation financing in Ghana. It further outlines the key issues that have to be addressed as part of the household sanitation financing challenge, required initiatives and specific solution sets. The document has also considered the input of stakeholders who participated in a two-day workshop to discuss the draft proposals with respect to the financing options and guidelines.

1.3 Cautions on Sanitation Financing

It is important to emphasise that financing as an approach to addressing the take up of improved household latrines has its own challenges. Efforts to address financing challenges would have to consider the following key factors:

- There is need for **transparent** and **sustainable** source of **subsidies for the poorest and vulnerable**;
- Money should not be used as a disincentive to the collective change, this is to ensure that we do not undermine what has been already achieved;
- There cannot be one financing solution, instead a basket of solutions;
- Need to maintain the **social** good over the **individual** good;
- Ensure that the **social norm change is not undermined**;
- Ensure there is no creation of **dependencies** that affect overall development;
- Ensure that the approach does not result in latrines being built but not used;
- Ensure that subsidies work for the poorest and vulnerable;
- Introduce mechanisms to handle complexities of the environment (e.g. unstable soils etc.) that impact on householder ability to build latrines;
- Support government to acquire more public financing for Sanitation.

Most of these considerations are factored into the development of the options and guidelines.

1.4 Definition of Sanitation financing

Sanitation financing for the purposes of this document could be defined as:

“Households having access to regular use of a range of formal and informal financial services including savings, credit, remittances and other related funds which meet their needs and are affordable for the acquisition and maintenance of improved, durable and safe latrines”

The adoption of a definition is critical in putting the options and guidelines in perspective. Households need to be enabled to make choices with respect to a mix of financing sources including personal savings, remittances, credit facilities and appropriately designed subsidy schemes that will facilitate the installation and maintenance of their preferred household latrines.

1.5 Literature on Issues Relating to Sanitation Financing

1.5.1 Sanitation Related Cost

The World Bank in its publication on Public Financing for Sanitation identified three broad areas that require financing. These are financing for institutional development; financing for promoting behaviour change; and financing for improving access to hardware.

Institutional development costs are described as those costs associated with overall sector management, and would normally be covered from national government budgets and other quasi state institutions. **Promoting behaviour change costs** focus on costs such as hygiene promotion which has a strong “public good” element, and mostly catered for as part of the supporting role of various programmes and covered from government sources at the appropriate levels. **Improving access to hardware costs** are those incurred in respect of sanitation marketing, sanitation hardware, and operation as well as maintenance cost.

Even though financing for institutional development and promoting behaviour change are all essential, financing “**improving access to hardware**” is the main focus of the Options and Guidelines document. The other two financing components are expected to be covered under Government’s Strategic Environmental Sanitation Investment Plan and in the proposed National Open Defecation Free Plan.

The Financing requirements under “improving access to hardware” are grouped under three (3) subcomponents: sanitation marketing; capital investment; operation and maintenance. The general expense items under each of the subcomponents are presented in Table 1.

Table 1: Expense Items under Improving Access to Hardware

Improving access to hardware		
Sanitation marketing	Capital costs/investment	Operation and maintenance
Staff costs, transport, office overheads, preparation of materials, cost of media placement, training, construction of demonstration facilities and other pilot interventions.	Household level facilities investments covering mainly materials and labour cost. The actual cost will be determined by the sophistication of the technology; state of infrastructure in the area/community; source of materials; whether households or artisans.	Minimal investments in latrine maintenance.

1.5.2 Funding Sources

Funding sources for the expense categories outlined in **Table 1** are diverse with their respective inherent advantages and disadvantages. The main sources are:

- Central government (and in some cases, development partners);
- Regional/ urban/ local government;
- Large scale private sector actors;
- Shared community resources;
- Small scale private sector actors; and
- The individual households.

The capacity of each of the above funding sources is limited. For example it is obvious that some households in rural areas and the poorest may not have the capacity to pay for the cost required to install and maintain household toilets. Government and its partners also do not have unlimited resources to support financing. There is therefore the need to carefully assign the respective costs associated with access to improved sanitation facilities to the various financing sources/units so as to achieve the objective of all households installing latrines.

1.5.3 Microfinance

Literature on sanitation financing has identified microfinance as one of the appropriate financing services comprising mainly credit but also extending to savings, insurance and remittances. The specific advantage of microfinance is that, it has the potential to make sanitation services more affordable to the poor. It is understood that while the final cost may be the same or greater, gradual repayment is easier especially for the poor to manage than the payment of a large lump sum for sanitation largely due to reasons such as low income levels and seasonality in the income sources.

It is recognized that some microfinance (often called “credit”) programs have failed because financial services were provided by organizations which lacked the appropriate financial skills and did not offer an appropriate mix of services, or because they failed to establish their own financial integrity. It is also the case that microfinance providers do not always understand sanitation products and services and are therefore unable to participate in the process. However, appropriate products delivered by competent financial organizations have been important elements in a number of successful low-cost sanitation programs. Literature on use of microfinance indicate that for the microfinance institutions to play the desired role, they are likely to require among other things, capacity building, provision of seed funds and pro-active use of concessionary development funds.

1.5.4 The Use of Subsidy

Subsidy relates to the difference between the full actual costs of a service and what people actually pay for the service. It goes beyond cash to poor households for example to build household latrines. An effective subsidy scheme will require clear projections on what is required to install household toilets and which elements could be covered by subsidies.

Summary of Practices Relating to Subsidy Mechanisms

Many sanitation programs have provided infrastructure capital cost subsidies which are either available to all, regardless of need, OR available through “means-testing” which links subsidies to poverty indicators or to specific levels of service.

The main problem with capital cost subsidy schemes has been their lack of financial sustainability. A policy which states that certain (usually poor) people are entitled to free or reduced cost services, is meaningless if there are inadequate public funds to support it. Thus the first and most important issue, even from the point of social equity, is assurance that the financial regime is sustainable.

There may be many reasons, aside cost why people do not access services. In some situations subsidies may not increase access and provision of financial mechanisms at the local level which spread the investment costs of sanitation may be more appropriate than providing specific funds in the form of subsidies.

As part of the design of options, the use of subsidy has been adequately mainstreamed.

Key principles to consider in the design of sanitation subsidies, subsidy related risks and mitigating factors are presented in Appendix 3.

SECTION 2.0: ASSESSMENT OF SANITATION FINANCING IN GHANA

2.1 Introduction

The financing of household sanitation in Ghana has received attention in various ways over the years. This section presents an overview of policy intentions as captured in various policy documents in support of household sanitation financing. It also presents a summary of key issues in the area of financing latrines for households in Ghana and a summary statement of the strengths, weaknesses, opportunities and threats.

2.2 Government of Ghana Policy Intentions towards Household Sanitation Financing

Sanitation financing with focus on household and community toilet provision has received attention over the years. The key documents that focused on strategies that support sanitation financing are the **National Environmental Sanitation Strategy and Action Plan (NESSAP) 2010-2015**; the **Strategic Environmental Sanitation Investment Plan (SESIP) 2010**; and the **Rural Sanitation Model and Strategy (RSMS)** document.

2.2.1 *National Environmental Sanitation Strategy and Action Plan (NESSAP): 2010-2015*

The NESSAP recognises the need for sustainable financing and cost recovery strategies as well as the provision of appropriate incentives that promote investor-confidence and induce injection of capital by the private sector in improving services such as provision of public toilets, refuse collection, cesspit-emptying vehicles, construction of treatment and disposal facilities. It is obvious that the focus is not entirely on the small enterprises that will operate in rural areas but the proposals serve as a good platform for developing linkages that encourage the participation of small enterprises in rural sanitation delivery. NESSAP also provided that, to ensure systematic funding for DESSAPs within the MTDP framework, MMDAs **shall set up and operate a dedicated fund for environmental sanitation**.

2.2.2 *Strategic Environmental Sanitation Investment Plan (SESIP):2010-2015*

The Strategic Environmental Sanitation Investment Plan (SESIP) is described as the document that made the first attempt at providing a financing plan for environmental sanitation services in Ghana. The document proposed the **Establishment of a Revolving Fund specifically for the provision of household toilets**. This was in response to the NESSAP target of delivering the equivalent of 50,000 household toilets per annum from 2011 to 2015 nationwide.

The plan indicated that at an estimated cost of GH¢500 per unit, the 50,000 household toilets per annum amounts to “GH¢25,000,000” per annum. In all 250,000 units of various types of facilities are estimated to be constructed in five years from 2011 to 2015 at a total cost of “GH¢125,000,000”. The plan envisaged at the time of its formulation that, Government’s share of financing includes an amount of “GH¢50,000,000” for the establishment of a revolving fund to be applied as loans to support the provision of household toilets through artisans and small-works contractors. Micro-finance Institutions will manage the micro-credit schemes for the utilization of the revolving fund.

To ensure patronage of the toilets and reduce the burden on households, it was proposed that each applicant pays an initial deposit of 20% (in the year of construction and pays the balance in four annual instalments). The applicant is expected to pay a finance charge on the outstanding balance at a rate of ten percent (10%) which is far below the then commercial bank lending rate (25-27%).

The outstanding balance of household loans was to be financed from the envisaged revolving fund to be established by GoG and operated by Microfinance Institutions (MFIs) and Rural & Community Banks (RCBs). The MFIs will recover their management costs from the interest to be charged households. The Government will make annual contributions (top-up) to ensure the annual delivery target of 50,000 toilets after considering repayment of instalments by applicants.

2.2.3 The Rural Sanitation Model and Strategy (RSMS)

In the area of financing toilets for households, the RSMS had what may be described as three levels of financing proposals.

- The first proposal envisages the Ministry of Local Government and Rural Development (MLGRD) seeking cabinet's approval to allocate 2% of District Assemblies Common Fund (DACF) for sanitation promotion.
- The second proposal is based on the financing strategies proposed in the SESIP (also based on NESSAP) which requires MLGRD to establish a revolving fund for sanitation promotion. The revolving fund so established will be operated by Microfinance Institutions (MFIs) and Rural & Community Banks (RCBs). The MFIs will recover their management costs from the interest to be charged households.
- Thirdly, communities will be encouraged to use their own systems of mutual savings e.g. "nnoboa system" to finance household latrine construction.

2.2.4 Key Issues from the Policy Documents

A number of headlines are extracted from all the three strategy documents with respect to financing household latrines:

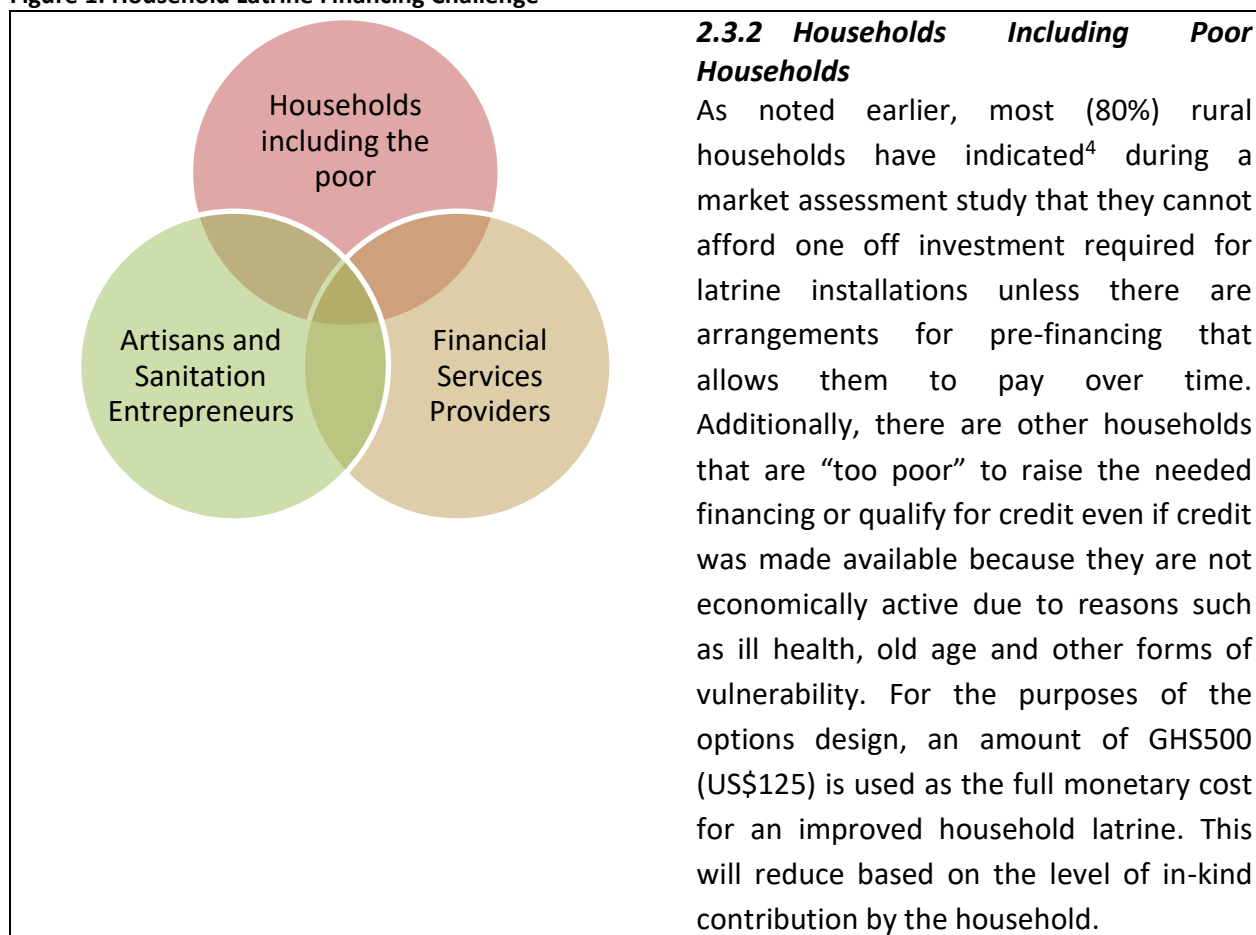
- Financing has remained a key gap in facilitating uptake of latrines for households;
- Households have to cultivate the culture of paying for the installation and maintenance of household latrines;
- Government needs to provide support for the set-up of wholesale funds targeted at financing latrines for households and service providers;
- Interest rates on loans for financing toilets for households should not necessarily be at market/commercial rate so as to serve as incentive for promoting acquisition of household latrine installation;
- Community based financing schemes constitute a key source of financing household latrines that has to be leveraged on.

2.3 Current Situation Assessment

2.3.1 Sanitation Financing in Ghana

Addressing sanitation financing challenge requires the design of a well-tailored response that combines the use of private (households) and public (government) resources to facilitate financing of improved latrines for households, some of who are poor and vulnerable. The challenge of sanitation financing occurs at three interrelated levels as depicted in Figure 1.

Figure 1: Household Latrine Financing Challenge



2.3.3 Artisans and Sanitation Entrepreneurs

Artisans would normally be commissioned by clients including households to construct latrines. In most of these cases the households will provide financial resources or construction materials to facilitate the latrine construction. Artisans and sanitation entrepreneurs would be expected to operate with a set of basic tools; stock of materials and prefabricated latrine parts, all of which require financing. These providers fall in the category of micro and small businesses and most of them do not have access to capital. The situation of artisans is worsened because most of the households lack the financial resources to pre finance latrine construction making trained artisans to abandon latrine construction for other relatively lucrative alternatives. Financing latrine artisans and sanitation entrepreneurs is therefore critical for them to be active on the supply side to meet the potential demand for latrines by households.

⁴ Sanitation Market Assessment Report, 2013, CDC Consult

2.3.4 Financial Services Providers

Financial services providers engaged in direct sanitation related financing are mainly microfinance institutions serving households, micro and small enterprises in rural and peri-urban communities. The supply side of Ghana's microfinance sector is structured along four tiers comprising Savings and Loans Companies, Rural and Community Banks; Microfinance Companies; Money Lenders, Credit Unions and Financial NGOs; Susu Enterprises and Collectors. Most of the providers (over 60%) are located in the Greater Accra and Ashanti regions with a range of financial services and products - savings, credit (loans), investment and remittances. As established from field and desk assessment⁵, Ghana's microfinance industry has products that are largely targeted towards income generating activities rather than household consumption and capital needs such as sanitation and water. Although sanitation financing is generally a new area for the financial providers who were interviewed as part of the market study, all of them expressed general interest in sanitation financing provided on-lending facilities are made available to them.

2.4 Summary Statement of Strengths, Weaknesses, Opportunities and Threats

A summary of the main strengths and weaknesses with respect to household sanitation financing in Ghana is presented.

2.4.1 Statement of Strengths and Weaknesses

Strengths	Weaknesses
▪ Increasing number of households that see the need for durable, safe and improved latrines; ▪ Segments of households engaged in various forms of economic activities that serve as source of income; ▪ Ability of households to draw on financial support from extended families living outside the communities (remittances); ▪ Increasing culture of savings especially through the establishment of community based savings schemes; ▪ Ability of some households to make basic investment in latrine infrastructure.	▪ Segments of households do not consider investment in household latrines as their responsibility (public good to be provided by government); ▪ Low income levels do not facilitate one off investment in latrine acquisition; ▪ Weak linkages with financial institutions depriving households of the opportunity to access credit for sanitation financing; ▪ Lack of appreciation of the use of credit for non-income generating venture such as household latrine; ▪ Economic activities engaged in are seasonal resulting in inconsistent income flow; ▪ The poor lack the necessary resources to pay for household latrine even if credit is available.

2.4.2 Statement of Opportunities and Threats

Opportunities	Threats
▪ The number of households in need of household latrine constitutes a critical mass to be targeted by financial services providers with appropriately designed propositions; ▪ Availability of a wide range of sanitation products ensures that households with varying income levels can select most suitable products; ▪ Recognition by government and its key development partners on the need to support sanitation financing through subsidy provision; ▪ The existence of community-based financing schemes present the platform for savings towards the acquisition of household latrines; ▪ Ongoing arrangements implemented by EKN/SNV/Fidelity offer good learning platform for sanitation financing.	▪ The uncoordinated approach to subsidy allocation could create the impression that households do not need to finance acquisition of household latrines; ▪ Microfinance institutions lack the requisite capital base and technical knowledge of sanitation financing to effectively participate in on-lending towards acquisition of household latrines; ▪ Political authorities are under pressure to make commitments to communities, including promises relating to access to sanitation facilities; ▪ Competition for the meagre resources available to the District Assemblies deprives sanitation financing of the needed attention.

The key strengths, weaknesses, opportunities and threats as captured provide important input for the options and guidelines on sanitation financing.

SECTION 3.0: OPTIONS FOR ADDRESSING SANITATION FINANCING

3.1 Introduction

The options are derived from the current situation assessment and built on the main intentions outlined in the major policy documents. The major issues the options seek to address are presented:

- Use of a national approach to sanitation financing;
- Encouraging decentralisation of fund management to the district level;
- Use of both public and private sector resources;
- Building on household, community and district initiatives towards sanitation financing;
- Response to the key issues discussed in 1.3.

3.2 Sanitation Financing Framework

In meeting the definition of sanitation financing and ensuring that households and artisans especially have access to finance, a financing framework to meet the needs of the target beneficiaries has been designed. The design provides four segments of i) types of financing facility; 2) sources of funds for the financing facility; 3) distribution channels and 4) access accounts.

3.2.1 *Types of financing facility*

The framework envisages the adoption of four (4) main types of financing facilities as follows:

1. **National Sanitation Fund:** The need for a National Sanitation Fund has been highlighted in almost all the policy documents. Spearheaded by government, it will create a pool of funds that provides capital for establishment of a revolving fund for financial institutions that are interested in lending to households and artisans and serve as source for funding a proposed Social Fund targeted at qualifying poor and vulnerable households. The National Sanitation Fund is proposed to be structured as a Public-Private Partner initiative and be managed by independent Trustees and Fund Managers.
2. **District Sanitation Fund:** The establishment of a District Sanitation Fund has already been championed in the Rural Sanitation Model and Strategy document. This financing facility will provide district specific attention to financing the acquisition/installation of latrines by households. The main source of funding for the District Sanitation Fund will be the District Assemblies Common Fund (DACF) with additional contribution from Internally Generated Fund (IGF) of the Assemblies, Corporate Bodies and interested Development Partner direct support.
3. **Community ODF Account:** These are specialised financing facilities created at the household levels that can be tracked by the respective communities to represent the amount available to the households in the community for investment in household latrine. It would show resources mobilised by households for application towards sanitation financing.

- 4. MFI Products:** Products developed by microfinance providers and targeted at sanitation financing.

3.2.2 Sources of Funds

The sources of funds include government funding, development partner funding, private sector funding mainly through their Corporate Social Responsibility (CSR) budget, the District Assemblies Common Fund (DACF), Internally Generated Fund (IGF) of the districts, Non-Governmental Organisations (NGOs), loanable funds from the MFIs, individual savings and remittances.

3.2.3 Distribution Channels

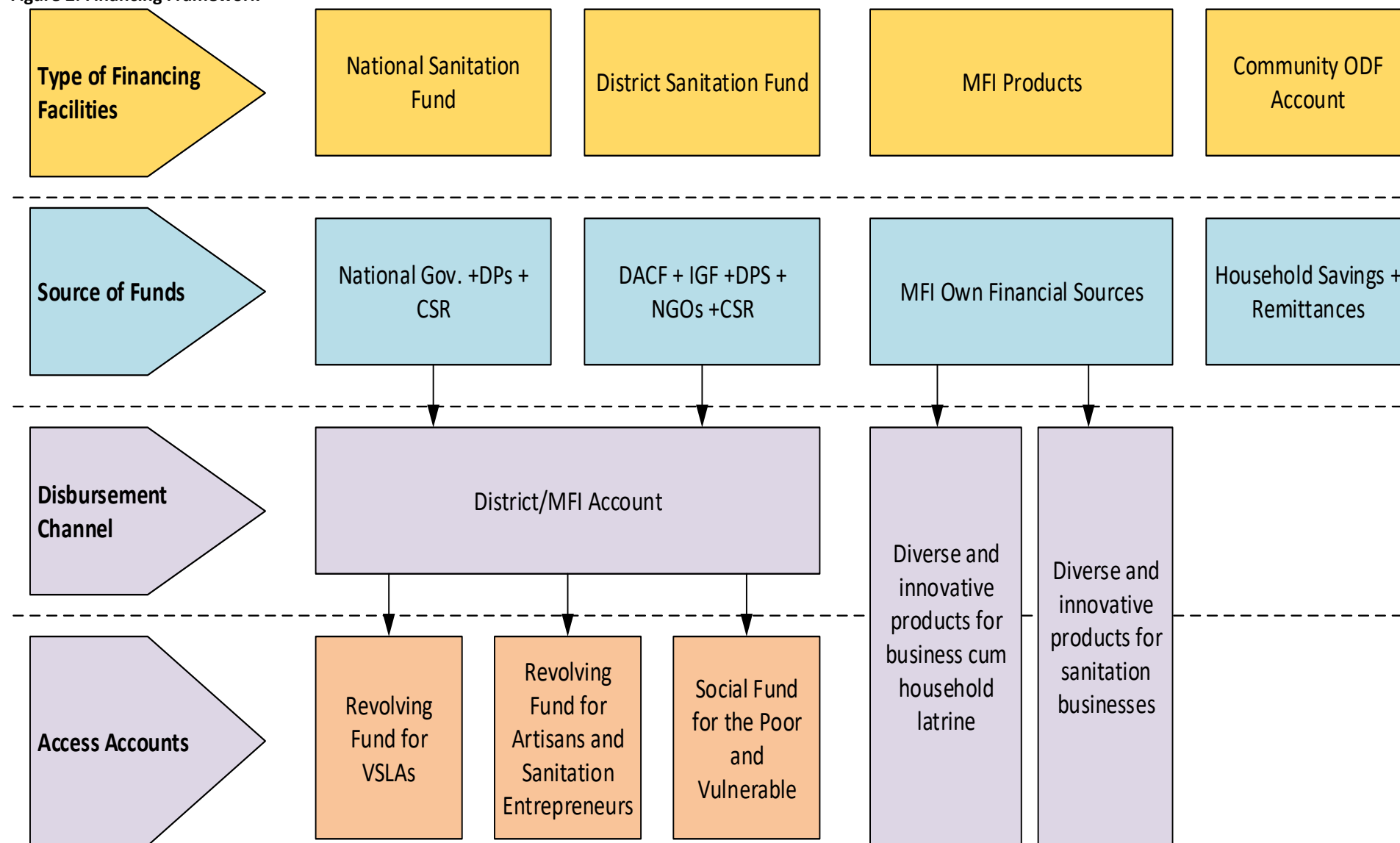
Distribution channels describe the available routes through which the funds will be sent to the respective access accounts. These are the district accounts and MFI accounts.

3.2.4 Access Accounts

The proposed access accounts are Revolving Fund for VSLAs; Revolving Fund for Artisans and Sanitation Entrepreneurs; Social Fund for the Poor and Vulnerable.

A diagrammatic depiction of the framework is presented in Figure 2.

Figure 2: Financing Framework



3.3 The Social Fund

The envisaged Social Fund is to support identified and certified poor and vulnerable households with financial and non-financial support to acquire household latrines. The Social Fund will be designed to receive funding from the District Sanitation Fund, National Wholesale Fund (when it is established), Development Partners and Corporate bodies. The specific aims of the Social Fund are:

- Reach the poor and vulnerable with financial and non-financial support to ensure that the poor and other vulnerable households are not deprived of improved household latrines;
- Communities with difficult terrains such as soil and rock areas are reached with support to ensure that the difficult terrains do not become disincentives.

Disbursement from the Social Fund will be managed to ensure that it serves the need of deserving households. The beneficiary households will not receive direct cash transfers as payment for approved sanitation products and services will be channelled through accredited artisans for the services and products provided to these households.

The location of the Social Fund remains a critical decision to be made. Given the expectation that Districts would be required to set district level social funds, the Assemblies, NGOs and other civil society representatives working in the WASH sector will serve as Trustees of the Social Fund at the District level. It is further envisaged that government and other development partners may contribute to the Social Fund and may therefore ask for representation on the Board of Trustees.

A detailed toolkit to facilitate the roll-out and management of the Social Fund will be developed to facilitate effective management.

3.4 The District Sanitation Revolving Fund

The sanitation revolving fund is critical for financing households and artisans through microfinance institutions. A detailed toolkit on the management of the district sanitation fund has been developed. The management of the District Sanitation Fund and the Revolving Fund will be at three (3) levels:

1. Oversight management team at the District Assembly Level that will receive half yearly reports on the targets and performance of the Fund;
2. Fund Administrator who will have responsibility for ensuring the allocation of the Funds to microfinance institutions that will use the fund for on-lending to households;
3. Microfinance institutions that will have direct responsibility for on-lending to households.

It is envisaged that in some instances the Fund Administrator could also be the same institution providing direct lending to the qualifying households such as in cases where a Financial NGO for example has the mandate as a Fund Administrator but also lends directly to households.

The role of Fund Administrator could also be played by the Business Development Partners (BDPs) where available in the district.

Artisan Financing Under Revolving Fund: The Revolving Fund as envisaged will not serve as seed capital for “asset financing” of artisans such as providing loans to artisans for the acquisition of tools and equipment. However, the Fund shall consider latrine construction financing under “purchase order financing”. Under the purchase order financing, an artisan who has received orders from households to construct latrines financed under either the Revolving Fund disbursed by an MFI or the Social Fund would receive financing needed to install the household latrines.

3.5 Mainstreaming of Subsidy Application in Sanitation Financing

The subject of subsidy remains critical in sanitation financing. The proposals and guidelines address the issues of subsidy at various levels as summarised in box below:

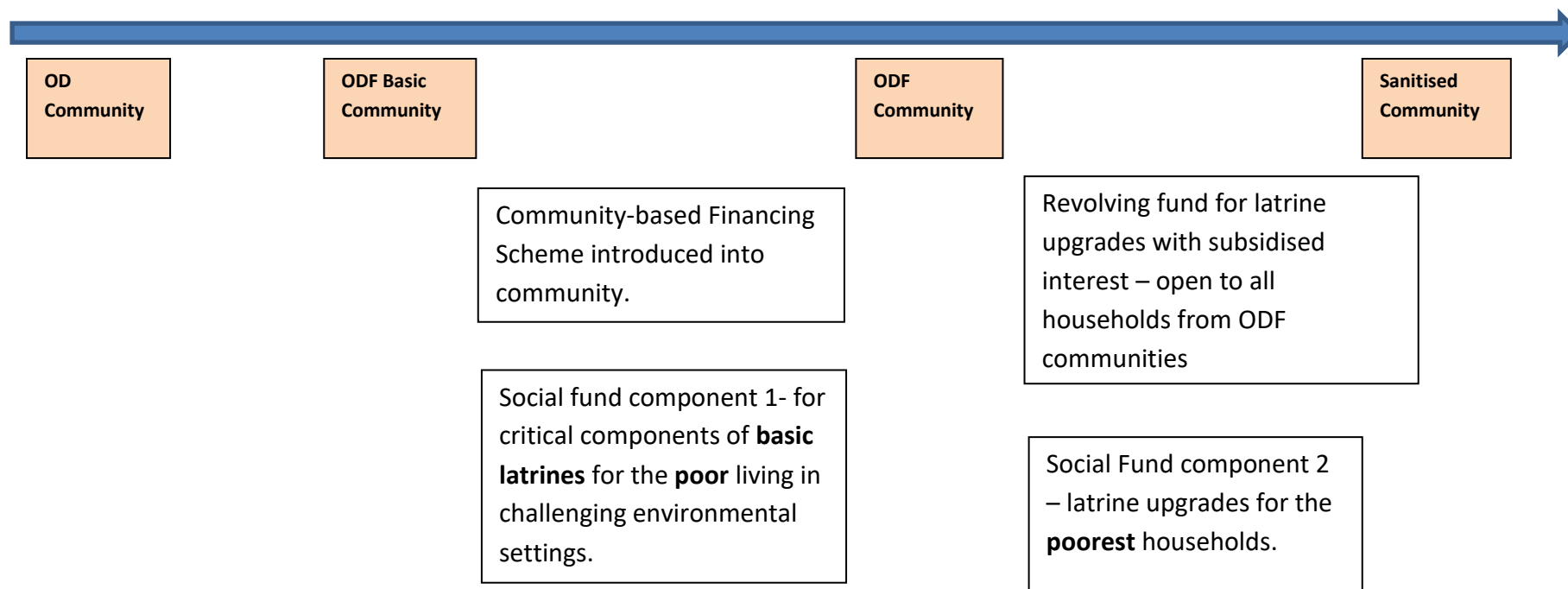
Support for the vulnerable and the poorest: The vulnerable are described as individuals/households which either by household or environmental characteristics would need support to acquire household latrines. Examples of environmental characteristics include soil type and rocky areas that may serve as hindrances to the acquisition of household latrines. Vulnerable households may be those households with members that are sick or incapacitated. Such households will receive support through the Social Fund.

Subsidised interest rate for all households accessing financing: the provision of credit at subsidised rates (15% instead of the market average rate of 45% quoted by microfinance institutions provides significant subsidy that otherwise would not have been available to interested households.

Support for the poorest: The poorest, defined as households that are not on income and those that currently receive support under LEAP as selected by the community as truly poor will be supported through the social fund.

The above is further explained on the next page.

For the subsidy administration not to be counterproductive, a systematic approach to its application will be adopted to effectively transit from CLTS to sanitation financing. This is to ensure that CLTS succeeds and does not fail because all households are waiting for subsidies. Typically financing schemes should be introduced to communities that meet the qualification criteria in terms of status. This will influence how the financial support is targeted and ensure that CLTS benefits are sustained. A graphical depiction on the continuum is presented below:



With the above scheme, subsidies are introduced at the following levels:

1. Regular Revolving Fund for latrine upgrades.
2. Social Fund component 1- for **basic sanitation** facilities for the **poor** living in challenging environmental settings.
3. Social Fund component 2- for upgrading on sanitation facilities for the **poorest**.

SECTION 4.0: DESCRIPTION OF USER CATEGORIES

4.1 Introduction

Sanitation Financing has to address the needs of the major user categories in need of financing. These are:

- Households;
- Artisans and Sanitation Entrepreneurs;
- Financial Services Providers.

Whereas the needs of households and artisans are easily understood, those of financial services providers are not, even though they are critical in channelling funding to the households and artisans. Additionally, most of the financial services providers lack access to finance for on-lending.

4.2 Financing Sources Available to Households

Households have four (4) main sources of financing that can be utilised in various permutations depending on the characteristics of each household. The sources are presented:

Source	Description/Channels
Household Earnings	These are direct and current earnings by households through normal economic activities. These activities may generate regular or irregular income.
Personal savings	Savings at home; savings with formal institutions; savings with informal schemes e.g. VSLAs and other savings groups.
Loans/Credit	Formal providers (Savings and Loans Companies, Rural and Community Banks, Financial NGOs, etc.) and informal providers such as savings and loans groups.
Remittances ⁶	Mobile money; Western Union, Money Gram etc. and available in or near all communities.

4.3 Segmentation of Households for Financing

The range of financing tools and channels available to households include personal savings, earnings from range of current economic activities, remittances, savings and loans from both formal and informal schemes such as Village Savings and Loans Associations(VSLAs), Credit Unions and Financial Non-Governmental Organisations. The suitability of the various financing schemes for households will depend on the type of household with respect to the economic activities they are engaged in; earning capacity and ability to service credit. The households are segmented into four (4) segments as described in Table 2.

⁶ Remittances represent a significant source of revenue for a lot of households including those in rural areas. Various household needs are financed through remittances

Table 2: Segmentation of Households for Financing

Household Segments	Description of segments	Potential Financing Solutions
Segment 1	Households with head of household (and maybe spouse) gainfully engaged on monthly salary employment or engaged in consistent income generating activities such as trading, fishing and other forms of services that provide recurring income. The segment already has experience with financial services providers such as Savings and Loans Companies, Rural and Community Banks or Universal Banks.	- Households in this category can benefit from well packaged sanitation loans from current financial services providers. - Households in this segment may also be well placed to make one off payment for latrine installation.
Segment 2	Households with head of household (and maybe spouse) gainfully engaged in a mix of income generating activities (farming, fishing, trading and other ventures)-the household earns income along well defined patterns that can be substantiated. However, households in this segment may or may not have any interactions with financial services providers.	- Households in this category can benefit from well packaged sanitation loans that are structured in line with household/client's cash flow patterns; - Households in this segment are potential clients for savings products towards acquisition of sanitation products offered by formal institutions or other community based financing schemes.
Segment 3	Households with seasonal income derived mainly from one source – for example farming and fishing. Income is seasonal and comes in a “sizeable” amount about twice a year depending on the products/crops under cultivation. This category is predominantly made up of households that do not have interaction with formal financial services providers.	- Households in this category can benefit from well packaged sanitation loans that are structured in line with their cash flow patterns; - Households in the segment are good candidates for savings products offered by formal institutions or other community based financing schemes.
Segment 4	These are households without any economic activity (and therefore no known income source) due to various factors such as old age, ill health, physical disability and other factors that do not facilitate the conduct of economic activities. These are sometimes referred to as the poor and vulnerable. In their current state they have no known interaction with formal financial services providers.	The households in this segment are potential households for consideration under the Social Fund.

4.4 Financing the Poor of the Poor

The poor and very poor households are highly vulnerable to shocks, have limited capacity and resources, limited mobility and freedom, suffer from social exclusion and lack of empowerment. These are mostly households in the bottom half below the national poverty line or who earn less than US\$1.25 per day. In financing the poor and vulnerable there is need to adopt the use of results based financing – supported by the Community and Assembly. Activities that can be undertaken by the household (or on its behalf by other community members) should be costed

and presented as the contribution of the beneficiary household on execution of the pre agreed activities. Payment due for services/activities undertaken could be used to pay for the parts that could not have been undertaken directly due to one form of vulnerability or another.

Given that support to these households have to be performance based, the District Assembly would have to ensure that any support provided to the poor and or vulnerable is based on performance of pre- agreed set of actions. To avoid a situation of abuse and reversal of potential gains under the market concept, the household of the poor (or other community members) should commit to tasks such as digging the pit, providing labour, fetching water and related actions that are evidenced based as a basis for receiving funding for household latrine construction.

4.5 Segmentation of Artisans and Sanitation Entrepreneurs for Financing

In providing financing support for artisans and sanitation entrepreneurs, the providers are segmented into three (3) categories as shown in Table 3.

Table 3: Segmentation of Artisans and Sanitation Entrepreneurs for Financing

Segment	Description of segments	Potential Financing Solutions
Segment 1: [Start-up]	Largely individual artisans and micro businesses that are at start-up stage. They lack capital and basic tools needed for their work. They do not have savings and have not established relationship with financial services providers.	Funding through Revolving Fund for Artisans that is administered through partner microfinance institutions (MFIs). Credit facilities for Artisans can be tied to construction orders received from households. Artisans could be reached as individuals or through groups (Artisans Cooperative or Association).
Segment 2: [Micro Businesses]	Established artisans and sanitation businesses that operate on a micro basis. These providers may or may not have interactions with financial services providers.	Credit schemes for those who are clients of financial services providers; Funding through Revolving Fund for artisans and sanitation entrepreneurs administered through MFIs.
Segment 3 [Small Businesses]	Established artisans and sanitation businesses operating vibrant businesses, with or without additional staff and have established relationships with formal financial institutions.	Small businesses can access funding through the revolving fund for artisans based on orders received OR through their existing financial services provider.

4.6 Segmentation of Financial Services Providers

Financial Services Providers' categorisation for purposes of financing options is presented in Table 4.

Table 4: Segmentation of Financial Services Providers

Category	Description	Potential Financing Solutions
Segment 1: [Financial NGOs]	Financial NGOs, by their mandate are social mission driven financial services providers. FNGOs serve households and microbusinesses mainly through group lending methodology.	Providers in this category require funding from the Revolving Fund for VSLAs and Artisans for on-lending to savings group members, artisans groups and individual artisans.
Segment 2: [Other Microfinance Institutions/Providers]	Other microfinance institutions/providers comprise a range of providers that provide microfinance services. Examples are Rural and Community Banks; Savings and Loans Companies and Microfinance Companies.	These institutions are in two folds: Either they have their own products and funds to facilitate lending to households and artisans OR will require on-lending facilities to carry out lending to households and artisans. MFIs can serve both households and artisans.
Segment 3: [Universal/Commercial Banks]	Universal banks provide banking services to businesses and individuals who meet the requirements of the banks.	Most of them have strong balance sheets to facilitate financing of sanitation products and <u>may</u> not need on-lending facilities. Suitable for households with heads that are salary earners or with small businesses that are account holders with these banks.

4.7 Specific Financing Solution Sets for Households, Artisans and Sanitation Entrepreneurs

Specific financing solution sets derived from the financing framework in Figure 2 and the various segments are presented.

The five (5) specific financing solution sets are:

1. Use of Community Based Financing Schemes (VSLAs and Savings Groups) to promote savings towards sanitation financing;
2. Use of Community Based Financing Schemes (VSLAs and Savings Groups) linked to formal financial institutions;
3. Use of dedicated Partner MFIs supported with Technical Assistance only;
4. Use of Partner MFIs supported with Technical and Financing (On-lending facility) Assistance;
5. Use of Social Funds to meet needs of poor and vulnerable households.

A matrix on the next page provides a description of the specific solution sets, potential sources of funding for the solution set, benefits offered by the solution set and the beneficiary segments.

Detailed guidelines for rolling out the solutions at the district and community levels are presented as part of the appendices.

Solution Ref	Solution Sets for financing	Description	Sources of Funding	Features and Benefits	Beneficiary Segments
01	Community Based Financing Schemes- VSLAs and Savings Groups	Use of basic community based financing schemes particularly VSLAs and other savings groups to facilitate mobilize savings towards the financing of household latrine acquisition; latrine improvements and upgrade; repairs and incremental latrine construction.	Household savings + Loans + Remittances	- Individual savings accumulated to finance toilet of choice; - Save towards upgrade of existing toilet; - Use savings for the maintenance of existing household toilet; - Reduce financing charges.	Households without formal access to financial services providers who belong to existing VSLAs or join VSLAs that are formed for sanitation roll out.
02	Community based financing schemes linked to formal financial institutions	Community based financing schemes such as VSLAs and Savings Groups linked with formal financial institutions such as Rural and Community Banks (RCBs) and Savings and Loans Companies (S&Ls) to access credit and pay through savings.	Household Savings + MFI Own Funds + Revolving Fund for VSLAs	- Linkage to formal financial institutions increases number of latrines to be installed due to availability of credit; - Savings will be primary source for repayment; - Turnaround time for accumulating financing for household latrines reduces.	Households without formal access to financial services providers who belong to existing VSLAs or join VSLAs that are formed for sanitation
03	Use of dedicated partner MFIs [supported with technical assistance only]	This solution envisages identification, screening and partnering with financial services providers currently operating in the target districts/communities who have their own source of funding to lend to qualifying households, artisans and businesses. The partners will receive technical assistance to build capacity in	Household Savings + Artisans/Business Earnings + MFIs Own Funds	- Specific products designed by MFIs for sanitation; - Technical assistance will improve capacity of the partner MFIs to offer sanitation products and manage household sanitation loan portfolios.	Households engaged in economic activities; Established artisans and micro-sanitation businesses

Solution Ref	Solution Sets for financing	Description	Sources of Funding	Features and Benefits	Beneficiary Segments
		sanitation product development and refinement.			
04	Use of Partner MFIs [supported with technical assistance funding support]	This option envisages identification and selection of MFIs especially Financial NGOs which are either providing credit or have capacity to provide credit to households and small businesses (artisans and sanitation entrepreneurs). NGOs already involved in water, sanitation and or energy will be targeted.	MFIs Own Fund + Revolving Fund for Artisans + Revolving Fund targeted at Households	• Facilitates availability of on-lending facility and speedy disbursement; • Develops the capacity of partner MFIs; • Builds sustainability of sanitation financing among partner MFIs and wider microfinance industry.	Households; Artisans and micro businesses; Small businesses in the sanitation sector.
05	Use of Social Fund	The Social Fund is directed at providing qualifying poor and vulnerable households with resources to acquire household latrine.	Social Fund for the Poor and Vulnerable	• Targeted at poor households that meet well defined criteria in the guidelines; • Ensures no household is left out because of challenges access to finance.	Poor and vulnerable households.

4.8 Other key Considerations

A number of key considerations critical for sanitation financing and its sustainability are discussed.

4.8.1 *Post 100% Sanitation Coverage in the Districts*

It is envisaged that eventually all districts will achieve 100% coverage. At this stage, the Revolving Fund may not have the same demand as it had at the inception. The oversight committee for the District Sanitation Fund would have to make key decisions within the exit framework that would be expanded in the district sanitation toolkit. Some of the key considerations post 100% coverage are presented:

- Minimal financing towards the maintenance of existing household latrines;
- Periodic financing of latrine construction for new houses (this is expected to be very low if the Assemblies enforce bye laws on the need for all houses constructed to have latrines attached);
- Support for community education on WASH to enhance compliance.

4.8.2 *Communication*

The role of communication at all levels of implementation- national, regional, district, community and household levels is critical to facilitate effective adoption and implementation of the proposals and guidelines. A comprehensive communication plan that considers the needs of all stakeholder groups would have to be considered. The key areas of consideration will include:

- Engagement with key decision makers at the Assemblies and the wider Assembly membership;
- Engagement with state actors involved in mass education such as the National Commission on Civic Education;
- Engagement with Civil Society Organisations and NGOs in the WASH space;
- Engagement with Corporate Bodies;
- Engagement with targeted financial services providers
- Engagement with households and artisans

4.8.3 *Use of Technology*

Use of technology especially mobile technology has assumed a significant facilitator role in financial intermediation. Sanitation financing options need to continuously consider how technology can be deployed effectively to enhance cost effectiveness in sanitation financing.

The use of technology will however, be limited by the available infrastructure and connectivity, confidence of potential users in the medium and level of literacy. These cautions notwithstanding, the use of technology especially mobile phone technology would be enabled in the following ways:

- Promotion of savings targeted at latrine acquisition by interested households;
- Use of mobile phone platform to pay Artisans for verified work done for households;
- Facilitate remittances towards household income accumulation towards latrine acquisition;
- Use of mobile phone technology to make periodic and small repayments on loans
- Use of digital platform to aggregate data on households with and without improved latrine as well as for tracking changes in the status of households.

In each of the above cases, financing will be more cost effective and contribute towards a sustained attainment of 100% coverage.

APPENDICES

APPENDIX 1: GUIDELINES FOR THE ESTABLISHMENT OF FUNDING FACILITIES

	Steps	Tools/Techniques
1.0 National Sanitation Fund		
1.1	Develop a Fund mandate to spell out the general management and administration of the National Sanitation Fund	Fund Mandate
1.2	Clarify the sources of contribution to the National Sanitation Fund – Government, Development Partners and Private Companies	
1.3	Establish a company limited by guarantee to hold the Funds envisaged to be credited to the National Sanitation Fund OR Appoint a Fund Manager to receive Funds directly	Responsibility of Fund Manager
1.4	Appoint “Trustees/Fund Steering Committee” from respective stakeholder groups – government represented by MLGRD, DP representation, private sector representation, nongovernmental organizations working in WASH- to have responsibility for ensuring the mandate of the Fund is adhered to by Fund administrators.	Roles and responsibilities of Trustees
1.5	Initial seed capital and annual top up commitment to be provided by the Government of Ghana to set the Fund rolling after necessary approval is obtained to move pre-approved government fund to an independent fund.	
1.6	Invite DPs and corporate institutions to contribute to the Fund.	
1.7	Fund accumulated should be transferred to a Fund Manager for management.	
1.8	Invite tenders from Fund Managers and appoint a Fund Manager.	
1.9	Fund Manager to manage funds in line with agreed mandate – receive and process funding request from various users.	
1.10	Generate annual report on fund utilization for steering committee and other contributors.	
1.11	Set Fund managers fee in relation to performance of the Fund disbursed.	
1.12	Ensure annual audit of the operations of the Fund	
2.0 District Sanitation Fund		
General data collection guidelines:		
2.1	Design general data collection templates with respect to households, artisans, sanitation entrepreneurs and financial services providers.	Data collection template
2.2	District to compile list of all households without household latrines to determine the potential number of households to reach as a basis for estimating funding requirement.	Data collection tablets to map actual location of households (
2.3	For each household reached, document the main constraints to financing household latrine and obtain feedback on their preferred approach to addressing the financing constraints.	
2.4	Categorise households provisionally into the four segments of regular monthly earning households; households engaged in various economic activities that generate regular income; households with only seasonal income; households without any form of income (poor and vulnerable households).	Household segmentation template

	Steps	Tools/Techniques
2.5	District to compile list/register of all Artisans and Sanitation Entrepreneurs in the district.	Data collection tablets that maps location of the various Artisans and Businesses
2.6	Categorise artisans and sanitation entrepreneurs into start-ups, micro (existing) and small (existing) businesses.	
2.7	District to compile list of all financial services providers and their locations and products as well as willingness to participate in sanitation financing.	MFI Mapping Database
Guidelines for setting up District Sanitation Fund:		
2.8	Conduct orientation session for District Executive Committee on the concept and establishment of District Sanitation Funds to obtain their buy-in.	
2.9	Districts to develop a mandate for the District Sanitation Fund that spells out general management and administration of the District Sanitation Fund.	Sample mandate
2.10	Ensure approval of the concept of District Sanitation Fund and mandate by the Assembly.	
2.11	Clarify the sources of contribution to the District Sanitation Fund- District Assemblies Common Fund (DACF), Internally Generated Fund (IGF), Development Partners, NGOs and private companies.	
2.12	Develop budget on amount to be made available to the District Sanitation Fund by the Assembly and distribution to other sub funds – Revolving Fund for Artisans, Revolving Fund for VSLAs and Social Fund.	
2.13	Establish a District Sanitation Fund Oversight Board to have oversight for the management of the Fund. Oversight board will draw on representation from the broad sources of funding.	Oversight Board Mandate
2.14	Assemblies to quantify the number of households without latrines and develop projections in support of the Sanitation Fund showing growth and sustainability trends for at least 3 years.	Household Analyses Financial Model
2.15	Assembly invite tenders from Fund Managers for the management of the District Sanitation Fund.	Tender documents and requirements
2.16	Appoint a Fund Manager to have direct responsibility for the management of the District Sanitation Fund.	Terms of Reference for Fund Manager
2.17	Maintain a performance contract with the Fund Managers and ensure periodic reports are submitted to the Oversight Board.	Sample Performance Contract
2.18	Link fees of Fund Manager to the performance of the Sanitation Fund.	
2.19	Fund Manager to make disbursements based on actual projections received from partner Microfinance Institutions on number and value of disbursement.	
2.20	Fund Manager should ensure that funding provided through the revolving funds for VSLAs and Artisans are charged out at the ruling treasury bill rate to the participating MFIs.	
2.21	Beneficiary MFIs are to lend to households and artisans at a maximum of Treasury bill rate +10% .	
2.22	Fund Manager to present semi-annual Fund report to the Assembly.	Report Template

APPENDIX 2: GUIDELINES FOR IMPLEMENTING SANITATION FINANCING

	Steps	Tools/Techniques
<i>Solution set 1: Reaching Households through Community Based Financing Schemes</i>		
1.1	BDPs/District Assemblies are encouraged to use the schedule developed on status of households latrine ownership by the District Assemblies and segmentation of households to determine households that can be reached through community based financing schemes.	
1.2	BDPs/District Assemblies identify existing groups including VSLAs, Savings Groups, Credit Unions and Cooperatives.	Community maps/Schedule of existing facilitators of VSLAs and Savings groups
1.3	Explain the concept of sanitation financing and introduce the available technologies using fliers and prototypes.	Flyers and prototypes
1.4	Ensure group members understand the various products and their associated cost to enable them make informed choices relating to the most appropriate latrines for their households.	
1.5	Explain various mechanisms available to households in this segment – household savings, loans from savings groups and remittances from friends and family- and how long savings would have to be made to pay for their preferred latrines.	Savings growth chart that shows accumulation of savings over a period of time and what it can procure
1.6	Support members interested in procuring household latrines to identify other sources of financing such as remittances to top up savings.	Fliers on various financing sources
1.7	Allow group members who are undecided at least 7 days to consult with members of their households/spouses to decide on their preferred choices.	
1.8	Match/Introduce accredited artisans (individuals and cooperatives) to group members for them to agree on the terms of the latrine construction.	Order and Terms of Payment Template
1.9	New community based financing schemes formed for sanitation financing will receive orientation and guidance as envisaged under the field manual and be taken through all the steps outlined.	VSLA establishment toolkit
1.10	Track number of households that are acquiring household latrines through the community based financing schemes.	Tracking sheet /Reporting template
<i>Solution set 2: Community based financing schemes linked to formal financial institutions</i>		
2.1	BDPs/District Assemblies are encouraged to use the schedule developed on status of households' latrine ownership by the District Assemblies and segmentation of households to determine households that can be reached by community based financing schemes linked to formal financial institutions.	
2.2	Identify existing MFIs especially FNGOs in each of the Districts and Communities and focus on selecting providers with vision and mission of poverty alleviation and general financial inclusion for underserved population.	List of MFIs/Financial Service Providers
2.3	Discuss with identified institutions the modalities under which linkages could be established with existing VSLAs and savings groups.	
2.4	Orient formal financial services providers on how the	

	Steps	Tools/Techniques
	community based finance schemes (VSLAs and Savings Groups) work.	
2.5	Orient members of VSLAs and other Savings Groups on how formal financial services providers work, what they offer and what they required of their clients.	
2.6	Discuss and review existing loan products that can be serviced through the savings schemes, ensuring the financial products are safe and do no harm to the households.	
2.7	Introduce group members to various technologies to select from/Interested MFIs could also promote the various technologies.	Fliers and Pictures; Prototypes of latrines
2.8	Use charts on loan repayments under various scenarios and conclude with MFIs.	Loan repayment charts
2.9	Orient members of VSLAs and other Savings groups on the option of accessing credit to fast-track household latrine acquisition.	
2.10	Support members interested in procuring household latrines to identify other sources of financing such as remittances to top up savings and reduce loan amount.	
2.11	Allow group members who are undecided at least 7 days to consult with members of their households/spouses to decide on their preferred choices.	
2.12	Match/Introduce accredited artisans (individuals and cooperatives) to group members for them to agree on the terms of the latrine construction/installation.	
2.13	Explain the need for households to save a minimum of 20% of the cost of their preferred latrines as down-payment prior to disbursement with the remaining 80% paid over a maximum of four years from their savings.	
2.14	Explain repayment schedules for respective loan amounts that meet various technology types and the matching savings as well as corresponding repayment periods.	
2.15	Support VSLAs and other interested savings groups to sign loan agreements with interested MFIs.	Loan agreements
2.16	Ensure group members make choices that support their periodic savings contributions and which will not result in cases of over-indebtedness.	
2.17	Monitor to ensure that VSLAs/Savings groups and the partner institutions respect the agreed terms of engagement – accessing credit and savings towards repayment.	
2.18	The FNGOs will be encouraged to work on forming new savings groups that will be supported with credit facilities (through product financing) to acquire latrines.	
2.19	Track and report the number of household latrines procured under the solution set 2.	Tracking sheet /Reporting template
<i>Solution set 3: Use of dedicated partner MFIs [Technical Assistance only]</i>		
3.1	Identify existing MFIs in each of the Districts and Communities.	List of MFIs/Financial Services Providers
3.2	Invite and conduct introductory/orientation sessions for identified MFIs in the respective districts.	Orientation materials

	Steps	Tools/Techniques
3.3	Generate a list of interested MFIs that are willing to partner with District Assemblies to facilitate sanitation financing.	
3.4	Engage with interested MFIs/financial services providers through the signing of memorandum of understanding (MoU) on technical assistance partnership.	
3.5	Discuss and review existing loan products that can be refined to meet the needs of households, artisans and sanitation entrepreneurs.	
3.6	Provide series of technical assistance interventions – training and hands on support for product development, appraisals and monitoring focused on financing household latrine acquisition, latrine improvements, repairs and incremental latrine construction.	Needs assessment and capacity improvement modules
3.7	Provide partner MFIs with support to develop an action plan to roll out sanitation financing in their targeted communities/districts.	Action plan template
3.8	Link Partner MFIs/financial services providers with households and businesses through facilitated community meetings, artisan association meetings and meeting with identified groups in the communities.	
3.9	Field Officers and Agents of MFIs/financial services providers who have received training to present financial products to targeted households, artisans and businesses.	
3.10	Provide continuous support in line with action plans developed by partner MFIs.	MFI Action plans
3.11	Track the number of households that procure household latrines through the partner MFIs.	Tracking sheet /Reporting template
<i>Solution set 4:Use of partner MFIs [funding and technical assistance support]</i>		
4.1	Identify existing MFIs in each of the Districts and Communities.	
4.2	Invite and conduct introductory/orientation sessions for identified MFIs in the respective districts on the potential for supporting them with funding and technical assistance to support sanitation financing.	
4.3	Generate a list of interested MFIs that are willing to partner with District Assemblies to facilitate sanitation financing on the terms of reaching a predetermined number of households.	
4.4	Engage with interested MFIs/financial services providers through the signing of memorandum of understanding (MoU) on the funding and technical assistance partnership.	
4.5	Provide series of technical assistance interventions – training and hands on support for product development, appraisals and monitoring focused on financing household latrine acquisition, latrine improvements, repairs and incremental latrine construction.	
4.6	Provide partner MFIs with support to develop an action plan to roll out sanitation financing in their targeted communities/districts.	
4.7	Provide partner MFIs with support to develop projections on number of households to reach and projected loan sizes using customized template.	Financial model

	Steps	Tools/Techniques
4.8	Consolidate the required amount and determine consolidated funding requirement.	
4.9	Monitor implementation of action plan.	Action plan
4.10	Provide continuous support in line with action plans developed by partner MFIs.	
4.11	Track the number of households that procure household latrines through the partner institutions.	Tracking/reporting template
<i>Solution set 5: Use of Social Fund [Consider the use of the Social Fund for the poor as the last intervention in each mapped community]</i>		
5.1	Identification of the poor that qualify for support shall be community based and will use the indicators used for LEAP beneficiaries modified to include sanitation indicators.	LEAP Indicators
5.2	For each LEAP beneficiary community obtain the list of beneficiary households and determine the number that lack safe and improved household latrine.	Beneficiary Households List
5.3	Confirm the list by visiting each of the identified households to take statistics on the status of those in the house.	
5.4	For each household, explain the concept of results based financing and identify key causes of vulnerability as a basis for determining what services can be provided (if any) by members of the identified household.	
5.5	Confirm from at least two neighbours that the assessed household lacks the financial capacity and is unable to work towards the acquisition of the household latrine.	Checklist of confirmation questions
5.6	Generate a provisional list of all households that have been mapped for support under the Social Fund.	
5.7	Subject the community Social Fund beneficiary list to the opinion leaders/and or natural leaders to determine the support to be provided the qualifying households.	
5.8	For communities that are not covered under the LEAP, use a predetermined checklist similar to one used for LEAP communities and modified to include sanitation indicators and vulnerability assessment.	Checklist
5.9	Work with community opinion leaders to determine ways in which the community can support the identified households such as the provision manual labour to support community's effort to become ODF.	
5.10	Estimate the monetary value of the support needed by qualifying households.	
5.11	Provide support through the Social Fund at the district.	
5.12	Monitor the use of the Social Fund for the qualifying households and confirm that Accredited artisans or approved community actors were used.	
5.13	Verify completion of the household latrine prior to the disbursement of any funds.	
5.14	Track and compile number of households that benefited from support under the Social Fund.	Tracking/Reporting Template

APPENDIX 3: PRINCIPLES FOR THE DESIGN OF SANITATION SUBSIDIES

☐ General guidelines on use of subsidies

- Subsidy would mainly be targeted at partial reduction in the cost of the household toilet;
- Ensure resources are set aside to meet the financial requirements for subsidy application each year;
- Confirm and communicate policy to continue with subsidy in financing toilets for households;
- Create a framework that ensures all rural households have access to subsidy on the basic/minimum household toilets [toilets ranked higher than the basic household toilets will not receive a subsidy];
- Areas with complexities of the environment such as high water tables and rocks should receive subsidy equivalent to the cost differential between a “normal area” and areas such as “high water table as well as rocky areas” to serve as incentive for acquisition of household latrines;
- Institute measures that track and ensure transparency in the application of subsidies.

☐ Principles to consider in the design of sanitation subsidies

The World Bank in its publication on “General Principles for Subsidies” suggested general principles for consideration in the design of subsidy schemes, subject to local applicability:

- Subsidies serve the public interest if they effectively help to maximize public health benefits, protect the environment, and/or increase access by groups who are persistently excluded;
- Subsidize the lowest acceptable level of sanitation service and avoid distortions to the market. Leave room for households to make incremental improvements over time;
- Base subsidies on solid and rigorous information about what types of service people want and are willing to help pay for, what they are willing to use, what is the affordability for the target group, and what can be scaled up in the long term;
- Carefully design the subsidy mechanism and monitor its implementation to ensure compliance and effectiveness;
- Adjust policy cautiously in light of experience, and strive to maintain policy credibility. Once expectations of a certain level of subsidy have been aroused, removal of that subsidy is likely to suppress demand as consumers “wait for the next round”.

☐ **Hardware Subsidies**

There are various arguments for and against the application of subsidies. However, one area in which subsidies have been used in sanitation is in the provision of hardware subsidies. Reasons provided in support of the use of hardware subsidies for sanitation are presented:

- **Equity** – to encourage increased access for targeted segments of society;
- As an **instrument to jump-start** latent demand;
- To **compensate** for the difference between the costs of sanitation service levels deemed appropriate by national sanitation policies and household affordability; and
- To **increase the level of service** and provide additional benefits deemed important by national sanitation policies (such as adding a handwashing basin to promote handwashing).

☐ **Delivery of Subsidies for Latrine Construction**

There are various reported cases on the application of direct subsidies for latrine construction over the years in several countries. As part of the main approach, public funds are usually made available to households to cover all or part of the cost of construction of a latrine that meets the government's minimum standard. The funds may be delivered to the household in advance, in installments during construction, or in arrears. Alternatively, the household can apply for a latrine which is then built under the direct supervision of government engineers with no money handled by the householder at all.

The delivery arrangements are reported to be characterized by a number of problems because the arrangements tend to be:

- Expensive and complex to administer (usually a government engineer needs to certify each latrine, often more than once);
- Unresponsive to the bulk of demand, because costs are too high, or because there is insufficient capacity to respond.

Latrine construction through subsidies have however, proved popular because they deliver a quantifiable product and, particularly in rural areas, are one of the only ways in which many technical departments of government can respond quickly to the sanitation challenge.

☐ **Subsidy Related Risks and Mitigating Factors**

The use of subsidies has strengths but there are concerns (subsidy risks) with implications for program roll-out that have to be mitigated. The main risks documented include:

- Subsidized facilities built during a pilot phase may actually suppress demand as other households wait and see if a subsidy will also come their way;
- Subsidies often create expectations that cannot be fulfilled in surrounding areas and among other income groups;

- Subsidies aimed at helping the poorest sometimes associate a certain technology with poverty and the need for assistance further distorting demand;
- Means-testing (assessing financial ability of households) to establish those households which actually have need for subsidies is expensive and extremely difficult; and
- Requesting a down payment or contribution to assess demand before a subsidy is released may exclude the poorest households.

Mitigating the subsidy risks require a thorough risk assessment approach to ensure that application of subsidy does not become counter-productive. All subsidy mechanisms should carefully consider answering the following key questions:

1. What is the intended policy outcome and to what extent will the intended policy outcome be achieved?
2. Will the subsidy reach the intended target group?
3. Will the subsidy mechanism be financially sustainable?
4. Will the scheme be implemented in a clear and transparent manner?