



SANITATION
FOR MILLIONS



INCREASING ACCESS TO SAFE SANITATION AND HYGIENE THROUGH INNOVATIVE FINANCING MECHANISMS IN UGANDA

EXPERIENCE FROM THE SANITATION FOR MILLIONS PROGRAMME





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Preface

Increasing access to safe sanitation and hygiene through innovative Financing Mechanisms in Uganda – Experience from the Sanitation for Millions Programme

Globally, 4.2 billion people do not have access to safe sanitation services, and approximately 3 billion lack basic handwashing facilities. Even in 2021, almost 700 million people still practise open defecation and nearly 400 million children attend schools with no sanitation facilities at all.

The large financing gap has been identified as one of the greatest barriers to achieving the water, sanitation and hygiene-related targets of the SDGs. There are only three main / consistent sources of financing for water and sanitation services: taxes, tariffs and transfers. The level of investment required to deliver sanitation goods and services to those who lack access is far beyond the capacity of public finance alone. Even in combination, the '3 Ts' are not enough to address the need for water and sanitation services in developing countries anywhere near adequately. The Covid-19 pandemic situation has further exuberated the situation through a diminished tax base and competition for resources towards mitigating the spread of the virus.

In Uganda, investment through the Water and Environment Sector remains low with recent budget allocations at only 4% of the national budget. Estimates for the investment required to align with the SDG targets by 2030 and to extend safe access to sanitation are substantially higher. Any increase in overall sector financing will remain inadequate to address the access deficit, especially at household level, as first mile projects like centralised sewage and faecal sludge treatment facilities are still targeted as priority investments.

The global GLZ programme *Sanitation for Millions* in partnership with the Uganda Ministry of Water and Environment and the local governments in the intervention cities and towns works to increase access to safely managed sanitation. Given the noted glaring financing gaps, innovative financing mechanisms are being explored with key stakeholders, using a combination of public and private finance to stimulate improvements all along the sanitation value chain.

The household sanitation financing approach applied under the *Sanitation for Millions* programme focuses on results-based financing with the intention of attracting and retaining private sector engagement and investment while supporting access to credit for households through grassroots and commercial financial institutions. This approach is aimed at crowding in new funding into the sanitation sector and promoting more sustainable business models.

This publication offers valuable insights into the financing mechanisms that have been tested in northern Uganda in the towns of Apac, Aduku and Ibutje to increase access to safely managed sanitation while working to close the financing gap. The intervention has yielded success and the lessons captured here highlight the need for a market-based foundation with which the mechanisms have thrived. The implementation of this work will continue to be refined until May 2022, as the Ministry of Water and Environment and the local governments gain more lessons that will continue to inform policy decisions.

Synergetic approaches as the ones described in this publication hold great promise to unlocking public financing and private investment, and by channeling funding into viable faecal sludge management, ensuring safe access to sanitation in smaller and medium-sized towns where on-site sanitation is predominant. I recommend it to anyone interested in first-hand knowledge and practical experiences with novel sanitation financing as a useful and accessible read with lessons for all of us wishing to hasten progress in the sector.



Alfred Okot Okidi
Permanent Secretary
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Abbreviations and acronyms

BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (German Federal Ministry for Economic Cooperation and Development)
BOQ	Bill of Quantities
EOI	Expression of Interest
FI	Financial Institution
FSTP	Faecal Sludge Treatment Plant
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
GoU	Government of Uganda
HH	Household
MWE	Ministry of Water and Environment
OSS	On-site Sanitation
RBF	Results-based Financing
SACCO	Savings and Credit Cooperative
SMEs	Small and Medium-sized Enterprises
TSP	Town Sanitation Planning
UGX	Ugandan Shillings
USD	US Dollars
VSLA	Village Savings and Loan Association
WASH	Water, Sanitation and Hygiene

Introduction

Despite ambitions to ensure universal access to safely¹ managed sanitation and positive steps towards creating an enabling legal and policy framework, Uganda continues to face enormous challenges in realising sanitation improvements especially in the cities and small to medium-sized towns. Owner-built and 'managed' on-site sanitation facilities are the most common, and usually the basic form of sanitation.

Much like elsewhere in the world, the services gap is a reflection of a significant financing gap and very limited formal service delivery capacity in the sector. This is not simply a lack of funding *per se*, but also a problem of misaligned incentives to direct investment into the sector, starting right at the beginning of the sanitation chain: many households are using toilets and containments that endanger their own health as well as the environment, and in its predominantly haphazard form 'sanitation' is not immediately attractive from a business point of view.

Starting in 2018/19, *Sanitation for Millions Uganda* sought to explore solutions to bridge the financing gap, which currently stands at \$80 million for water supply and \$26 million for sanitation and hygiene² per

year, beginning with an investigation into the financing barriers faced by households, and lower income households in particular, in the urban context. The programme also brought on board the small businesses that typically deliver construction and pit emptying services. At a time when the idea of innovation in financing was floated at the national level to increase affordability for households and attract more professionalised private entrepreneurs into the sector, *Sanitation for Millions* moved ahead to identify innovative, yet simple and pragmatic approaches that would achieve just that.

Creating a self-sustaining sanitation market, though challenging in itself, could potentially transform sanitation at the local level. Alongside effective behaviour change communication and capacity building and training activities, well-designed financing and incentive mechanisms would be needed to kickstart this process. This paper reports on the *Sanitation for Millions'* experience using results-based financing (RBF) in small town settings in Uganda. So far, the programme has combined RBF incentive payments to local small to medium-sized enterprises (SMEs) with various complementary activities, which together show promise to help accelerate access to safe sanitation facilities and services. Although the programme is ongoing, first lessons can be shared that may offer inputs into further roll-outs and adaptations of 'innovative financing' across Uganda and other low income countries.

1 Safely Managed Sanitation according to JMP is defined as a toilet not being shared with other households, it must meet one of three criteria: (i) toilet is connected to septic tank or pit and the excreta remain stored, treated and disposed of in situ; (ii) toilet is connected to a septic tank or pit and this is emptied and treated offsite; or (iii) wastewater is treated offsite.

2 https://www.sanitationandwaterforall.org/sites/default/files/2020-09/2017%20Uganda%20Overview_final.pdf



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Sanitation for Millions is supported by the German Federal Ministry for Economic Cooperation and Development (BMZ) as its lead donor, the Bill & Melinda Gates Foundation, the UK-based solidarity fund Water Unite, the Hungarian Ministry of Foreign Affairs and Trade and the Inter-American Development Bank.

Sanitation for Millions works along four lines of intervention:

- **Fostering access to adequate and equitable sanitation and hygiene in public institutions**
- **Improving the sanitation and hygiene situation at household level**
- **Developing capacity of sanitation service providers**
- **Monitoring and evaluation as well as financing to work sustainably towards transformational change.**

Its aim is for small yet effective changes to improve sanitation, making best use of facilities that already exist, whilst addressing the core issues of responsibility and funding. Sanitation for Millions is currently active in Africa, Asia and the Wider Caribbean Region.

Context

The challenge of sanitation financing in Uganda

Whilst the Government of Uganda (GoU) has articulated its aspirations for sanitation improvements across the country, funding remains a key challenge in the sector³. Compared to other services, including drinking water, public investment in sanitation is low, and a targeted financing strategy for reaching universal basic service provision has yet to be presented⁴.

The limited investments tend to favour large-scale flagship projects, such as centralised wastewater treatment plants, even though these do not deliver the much-needed increment in access to safely managed sanitation. As the vast majority of the population is not currently connected to networked sanitation services, the benefits of capital-intensive sewerage infrastructure are skewed towards the middle to high-income population: amongst the most vulnerable groups, some 90% rely on on-site sanitation (OSS).

Service levels have been stagnating for a number of years now, despite local authorities intensifying efforts to engage with communities to change sanitation behaviours and encourage upgrades to private infrastructure⁵. Limited budget allocations and inadequate funding streams are one reason for the continued reliance on external support in promoting sanitation improvements⁶. In many areas, NGOs are a central feature of the sanitation landscape, also in terms of financing sanitation-related activities. However, the NGOs efforts have been largely targeted to-

wards the vulnerable communities in informal settlements in the cities, with minimal efforts in the small to medium-sized towns in Uganda.

By far the largest financial contributions into the sanitation sub-sector, however, derive from households directly: estimates put the users' share of sanitation spending at higher than that of government and development partners combined⁷.

In view of the high prevalence of on-site sanitation and the fact that some of the largest OSS-related costs are the initial costs of constructing containment facilities, this does perhaps not come at a great surprise. As the national effort to raise awareness is still ongoing, it goes some way to explain the somewhat sluggish roll-out of improved sanitation services: quite simply, improved toilets are still widely considered to be expensive. Many landlords and householders shy away from the 'unseen' investments in costly substructures designed to ensure safe collection and containment of faecal waste.

Even if they are willing to invest, the substantial upfront payments required to access sanitation services create additional hurdles for households. A typical low-income household will have little money to spare after covering necessary day-to-day expenses⁸. Sufficient personal savings to upgrade toilets are therefore rare, and alternatives are few and far between: formal loans are difficult to access, conditions prohibitive and interest rates exceptionally high. Even with otherwise popular grassroots options, such as savings cooperatives or village savings and loan associations, lending affordability remains too low for many households.

Financing constraints on the demand side are mirrored by those on the supply side, which all along the sanitation chain relies heavily on the local private sector. Private operators have long been part of the Ugandan water sector, actively encouraged by GoU, though mainly as a stopgap solution. More recently, formal opportunities for sanitation entrepreneurs

³ A recent sector analysis commissioned by Unicef and GoU notes that current levels of funding need to rise five- to nine-fold to achieve the national and SDG targets (Instiglio. 2020. Innovative financing scoping study for the social sector in Uganda. Sector analysis report. Second deliverable of the study commissioned by UNICEF Uganda and the Government of Uganda).

⁴ The same analysis remarks upon the 'low policy articulation', which in turn is reflected in financing.

⁵ Less than 20% of the population of Uganda have access to private basic sanitation facilities, with numbers a little higher in urban contexts. (ibid)

⁶ The budget for sanitation activities available to Apac Municipality, for instance, had risen to UGX 48,360,000 / USD 13,070 after several years' of GIZ engagement in the area (figures quoted for after FY 2017/18). (Mujjabi, M. Alinga, I.F. and Rieck, C. 2018. Town sanitation planning experience in small towns: a case of Northern Uganda. Paper 3062 presented at the 41st WEDC International Conference, Nakuru, Kenya.)

⁷ Sources of urban/rural sanitation spending in 2017/18 was as follows: 54%/73% households (tariffs/user contributions), 18%/4% government (taxes), 28%/24% ODA (transfers). Burr. P. 2019. The state of WASH financing in Eastern and Southern Africa. Uganda country level assessment. UNICEF. Nairobi.

⁸ According to a recent investigation, 46% of Ugandans are not in a position to put money aside to save, and access to formal banking is available to less than two thirds of adults.



are being created by investments in faecal sludge treatment plants (FSTPs)⁹: not only do FSTPs require personnel, but operation is contingent on emptying and transport services that deliver faecal sludge to the plant for treatment. In practice, however, these new opportunities are curtailed by financing barriers. Enterprising individuals or small-scale businesses potentially interested in branching out into sanitation activities are encountering similar difficulties in accessing credit needed to acquire the necessary tools and equipment and to meet recurrent operational expenditures. Again, many of the available financial products and services have proved to be unsuitable for entrepreneurs seeking to enter a market that is widely perceived as highly risky¹⁰.

The Sanitation for Millions Programme in Uganda

There is a clear case for engaging local businesses in sanitation, and more specifically on-site sanitation and its attendant activities further along the chain. Unlocking barriers to adequate, safe and equitable sanitation service delivery is at the heart of GIZ's global Sanitation for Millions programme. In Uganda, GIZ has been working with GoU and local partners on creating an enabling environment for effective sanitation services and demonstrating best practice adapted to the local context for a number of years¹¹. With co-financing support from the *Bill & Melinda Gates Foundation*, *Sanitation for Millions* has been expanding its activities from Kampala City to smaller town settings in Northern Uganda.

In the small towns, all-inclusive town sanitation planning (TSP) was complemented with the drafting of sanitation by-laws, which provide a basis for en-



Figure 1: Toilet options catalogue for Apac community

forcement and are now intended to specify minimum standards for domestic on-site sanitation. Authorities have been supported to compile a 'catalogue' of approved, locally appropriate low-cost toilet options.

The catalogue can be used for marketing and training purposes. Sanitation for Millions recognises the central importance of the existing financing gap and the need to leverage new funding to invest in safe and sustainable sanitation. Attention swiftly turned to exploring and road-testing financing mechanisms that would allow local sanitation markets to flourish and thus enable households to progressively move up the sanitation ladder. These activities, which will be the focus of the remainder of this document, have been carried out in close partnership with local stakeholders in a cluster of towns in the Apac district, in the Lango region. In Caritas Hewasa Fort Portal, Sanitation for Millions had an experienced and reliable partner to support demand creation in the local communities.

9 The 2019 country level assessment quoted above finds that 'relatively little appears to have been done either through policies or programmes to actively engage or encourage private sector involvement in sanitation service delivery.' Burr, 2019. p.14.

10 Demis, 2019. Feasibility study on financing options for entrepreneurs and households to on-site sanitation related infrastructure, equipment and services. Commissioned by GIZ Sanitation for Millions

11 A review of earlier GIZ interventions that focused on town sanitation planning (TSP) also concluded that the local private sector would play a critical role in implementing TSP, and that small town are constrained in their efforts by little or no funding for sanitation. (Mujjabi, M. Alinga, I.F. and Rieck, C. 2018. Town sanitation planning experience in small towns: a case of Northern Uganda. Paper 3062 presented at the 41st WEDC International Conference, Nakuru, Kenya.) This paper advised that in view of the critical role played by financing, 'scanning for opportunities to finance the [town sanitation] plan is as important as developing the plans' (p.5).



Figure 2: Uganda map showing Apac cluster

Creating a market for sanitation uptake

The Apac cluster comprises Apac, Aduku and Ibuje – all fairly typical Ugandan small towns,¹² with a population of 67,700 in the area covered by Apac Municipal Council, and 9,100 and 8,400 in Aduku and Ibuje.¹³ Unlike major urban centres, small towns have no networked wastewater services and are thus entirely reliant on OSS.¹⁴ *Sanitation for Millions* focused on scanning opportunities for the local private sector to tap into latent demand for better sanitation services. Critically, financing mechanisms adapted to the needs of clients and service providers would be needed to catalyse an emergent market before it could begin to support itself. With little formal sanitation business activity at the time, local entrepreneurs and small firms needed more than a gentle nudge to turn the theoretical potential into a burgeoning market. Credit barriers aside, smart incentives would be required to encourage masons, craftsmen and other skilled workers to dip their toes into sanitation activities.

Sanitation for Millions and *Caritas Hewasa Fort Portal*¹⁵ embarked on a community-wide integrated sanitation approach to shore up demand and promote available financing packages, whilst simultaneously taking on the challenge of demonstrating to businesses that ‘there is money in sanitation’. Interest was stirred amongst households through awareness campaigns, which were centred around personal contact: *Caritas* were experienced in door-to-door engagement and community meetings, and the project was able to tie into existing hygiene initiatives, including *Sanitation for Millions’* ongoing cooperation with community institutions such as places of worship, health centres and schools. With their help and that of local leaders, the message was able to spread quickly and convincingly.¹⁶ By building conversations around trusted relationships rather than abstract behaviour change

¹² Apac was elevated to municipality status in 2016; Aduku and Ibuje are governed by Town Councils.

¹³ Ugandan Bureau of Statistics figures, 2020.

¹⁴ GIZ has supported the Ministry of Water and Environment (MWE) in providing an FSTP to be located in Apac to serve the cluster of three towns; construction is currently underway.

¹⁵ *Caritas Hewasa* implements the Finnish Mondial programme through the diamond approach in western Uganda which does not incentivise private actors. The *Sanitation for Millions* approach in Northern Uganda focuses on triggering of the sanitation market through incentivization of the private actors operating under the results-based financing model.

¹⁶ School children, for instance, emerged as effective messengers and drivers for change.

campaigns, partners were able to establish exactly what people really wanted and needed. Households that were already using improved sanitation products and services, such as upgraded toilets and formal emptying services, provided another trustworthy source of information for friends and neighbours – and the local private sector benefited from the best advertising there is: word of mouth.

On the supply side, the programme sought to identify every potential player who could profit from engaging in sanitation as a business. Small enterprises and masons providing construction services were an obvious target, seeing that unsafe containment was a major weakness of existing sanitation facilities.¹⁷ The net was cast wider still, to capture entrepreneurs and businesses that could provide the necessary materials (e.g. hardware stores) and transport services, with an eye to expanding into faecal sludge emptying services at the next stage. Most business partners were small in scale, again emphasising the closer relationships, easier communications and flexibility that clients valued.

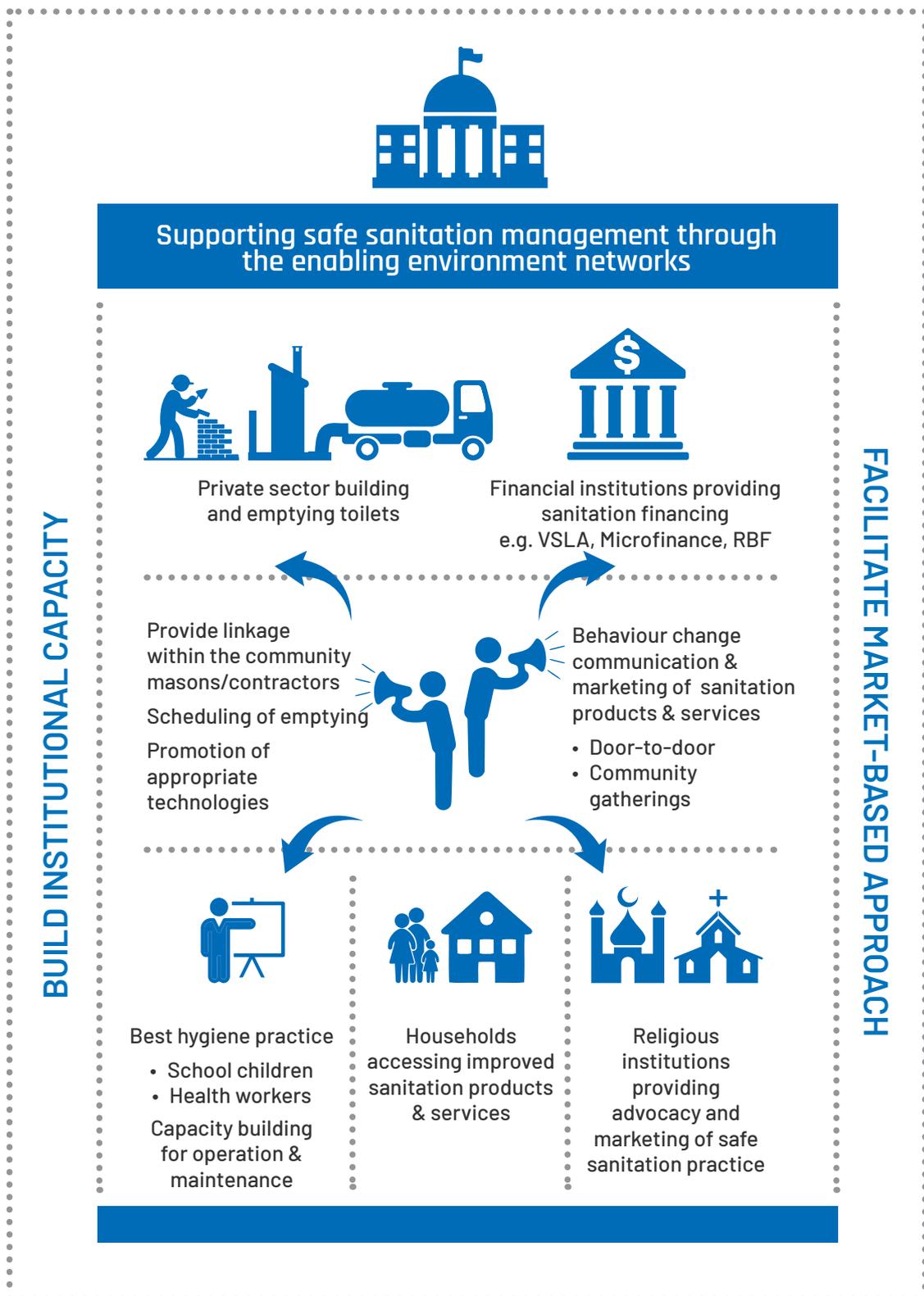
These various strands of *Sanitation for Millions’* activities are illustrated in figure 3 overleaf.



Centenary Bank meeting with interested households in Aduku Town Council

¹⁷ *Caritas* already had experience in working with micro artisans and providing training in construction services for sanitation.

Figure 3: Sanitation for Millions multi-pronged approach to encouraging the sanitation market





Financing instruments tested by Sanitation for Millions

Inspired by the spectacular rise of mobile telecoms in Africa, services that are embraced across the continent and are able to adapt to a wide range of user and community needs, *Sanitation for Millions* started looking for financing mechanisms that would kick-start sanitation businesses that could grow and thrive in low-income markets. With funding in very short supply and the services on offer perhaps a little less immediately attractive than mobile phones or internet, financing needed to provide a careful balance of incentives and flexibility – the classic definition of ‘innovative financing’.¹⁸ Moreover, it needed to be designed with end users (customers *and* providers) and the intended results (improved toilet facilities and competent workmanship) in mind. Some form of results-based financing was the obvious choice, though exactly which would work best in the Apac cluster towns, and how, simply needed to be tried out.¹⁹ However, long-term success of any financing mechanism hinges on planning, coordination and oversight being anchored at competent government authorities. With a view to developing mechanisms that would support local needs well beyond the duration of any project or programme, *Sanitation for Millions* made close cooperation with the local authorities in the cluster a priority during the pilot testing phase.

Together with the Ministry of Water and Environment (MWE) and local government partners, a three-tiered approach was chosen that put vulnerable households firmly at the centre of the financing mechanism

¹⁸ ‘When designed well, innovative financing provides the right mix of incentives and flexibility to address key intervention areas and deliver socially meaningful results. This helps service providers to better serve the target populations and achieve more impact with the same amount of funding.’ Instiglio. 2020. Innovative financing scoping study for the social sector in Uganda. p.20.

¹⁹ Projections had identified Apac cluster as an area of high potential demand for faecal sludge services in the northern region, and hence a priority area for investment. (WSP 2013. National faecal sludge assessment for small towns in Uganda) *Sanitation for Millions* had of course commissioned an in-depth feasibility study that evaluated available and potential financing options in Uganda to inform their designs and trial implementation of a financing mechanism. This study was very clear that in Uganda, a one-size-fits-all approach would not be workable. (Feasibility Study on financing options for entrepreneurs and households to on-site sanitation related infrastructure, equipment and services. Demis Consults Ltd. 2019)

(fig. 4). This approach would comprise a subsidy for low-income households so they could afford to build the improved containments that are critical from a health and an environmental perspective – the toilet cubicle and fittings could always be upgraded at a later stage. Subsidies would likely also be required to encourage regular faecal sludge emptying of the new facilities, though this would follow later still. Middle-income households without substantial savings would benefit from easier access to credit through *Sanitation for Millions’* partnerships with various financial institutions (FIs). Financial support for household or landlords would be complemented with some form of output-based incentive payment for service providers to stimulate their participation in the sanitation market. As the project unfolded, the latter initially took centre stage, though of course all three remained interlinked. The components of the *Sanitation for Millions* approach to sanitation financing that is currently being trialled in Northern Uganda are now introduced in turn.

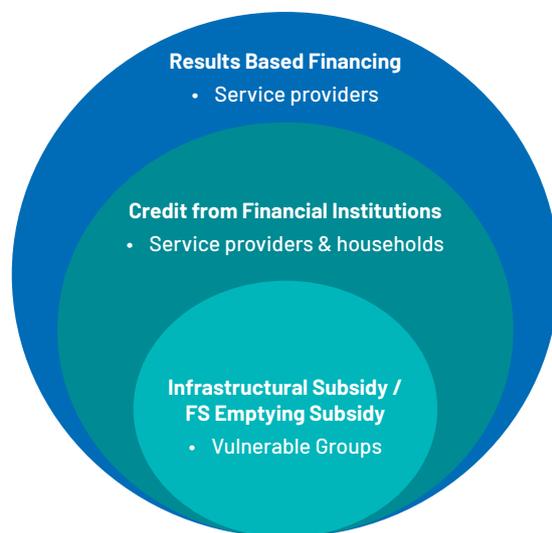


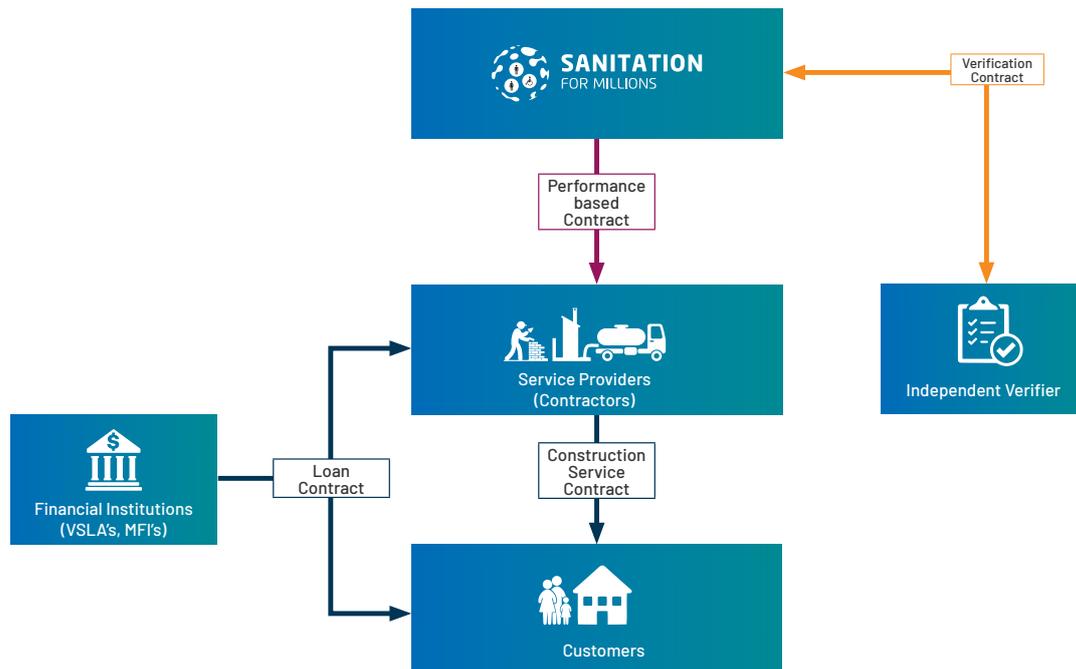
Figure 4: Sanitation for Millions’ approach to sanitation financing

Results-based financing

Increasing access to safe sanitation facilities being primary concern for the Programme, attention first turned to offering an incentive for small local businesses to construct improved toilets to the minimum standards in line with the local authorities' sanitation by-laws. *Sanitation for Millions* was careful to ensure that this incentive would not interfere with the transaction taking place between the property owners and service providers: householders and landlords or institutional customers²⁰ could choose an approved design from the toilet catalogue and engage the services of an approved local construction business to have it built. They would be liable for all associated costs of constructing their new toilet facilities (where necessary drawing on financial support, as detailed below).

The results-based financing mechanism was tied into an entirely separate contractual relationship between *Sanitation for Millions* and the implementing business. Once the result was verified, i.e. the new toilet constructed by the business had been confirmed to be compliant with the specifications agreed in the performance contract, an additional payment would be released by *Sanitation for Millions* directly to the contractor.

Figure 5: Sanitation for Millions' contractual arrangements under the results-based financing model



²⁰ The scheme was also open to institutions, such as health care facilities.

Verification is an important aspects as it provides a firm link to pre-agreed outputs. The verification process comprises monthly on-site visits for observational counting and structural quality assessment as well as quarterly checks with a focus on customer satisfaction and functionality of the toilet constructed. It might be simplest to think of this incentive payment funded by *Sanitation for Millions* (or rather, its funding partners) as a 'token of appreciation': a gesture to acknowledge and reward the service providers' involvement in improving sanitation for the benefit of the community as a whole. In return, contractors would need to engage with pre- and post-construction activities to support the successful roll-out of the programme (e.g. attend training and community demonstration sessions).²¹ In line with RBF best practice, independent consultants were overseeing the verification process, whilst the Apac cluster towns as well as *Sanitation for Millions* were involved in routine monitoring (spot checks) and quality assurance of the works. Overall compliance

with minimum standards is independently assessed before RBF payments can be released. This model is summarised in figure 5.

In order to leverage private finance and accelerate results, *Sanitation for Millions* invited expressions of interest (EOIs) from local firms through the Municipal Council in mid-July 2020. The preferred implementing partners were businesses that would be capable of constructing sanitation facilities and able to scale up operations in the medium term.²² On offer was the following: successful bidders would be eligible for an RBF payment of 100,000 – 120,000 UGX (27–32 USD) per 1-2 stance toilet²³, paid once all technical standards and reporting requirements had been met. For the duration of the performance contract, service providers could count on further support with technical and business development to refine the quality of construction and maintenance, as well as marketing and distribution.

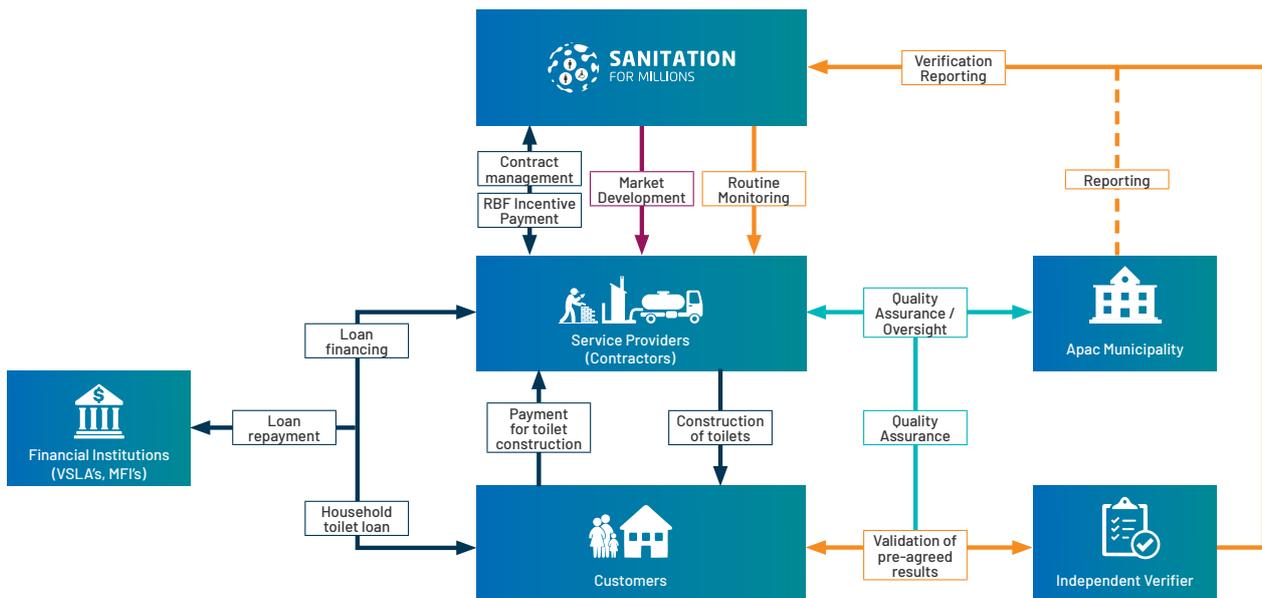


Figure 6: Sanitation for Millions results -based financing model, based on the RBF incentive payment to sanitation service providers

²¹ Training for contractors comprised technical aspects (construction of demonstration toilets) and financial aspects, including a dedicated module on the RBF to ensure clear understanding.

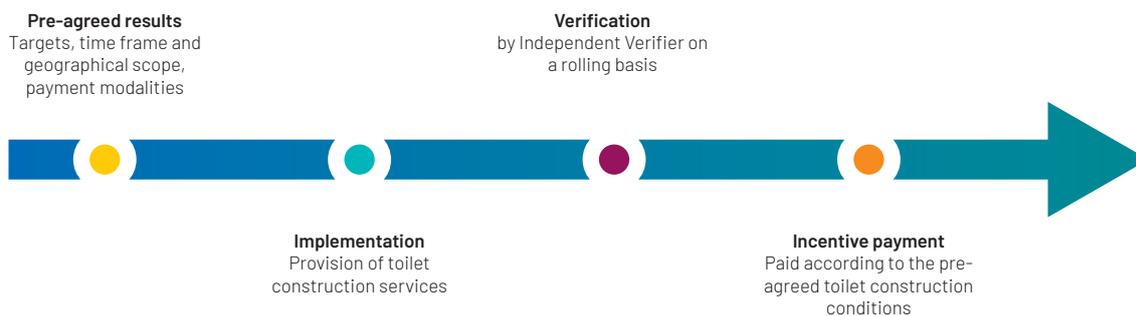
²² At first, selection criteria called for limited liability companies or legally registered businesses 'ready to provide construction services' that were able to demonstrate a commercially viable business model underpinned but adequate financial and human resources capacities.

²³ Every additional stance constructed attracted an additional payment of 50,000 UGX (around 14 USD).

To put these numbers into perspective: for an unplastered ring liner toilet, customers would be looking to pay around 1.5 million UGX (405 USD), around one-fifth of which (300,000 UGX or 81 USD) would be the contractor's net profits. The RBF incentive was pitched as an attractive 'extra' to what was already considered a good take-home wage, though not overly generous so as to generate windfall profits and encourage market exploitation. The response suggested that

the plan might work: the initial call for EOIs attracted submissions from eleven companies, which in a small town is an impressive response given that majority of small and medium enterprises²⁴ in the Ugandan market operate informally and focus on the agricultural sector. Much like in other sub-Saharan countries, the WASH sector in Uganda is not generally viewed as a worthwhile target by SMEs.

Figure 7: RBF steps



RESULTS BASED FINANCING

Results-based financing (RBF) provides funding to improve delivery of basic infrastructure and social services through targeted public funding. In contrast to conventional pre-financing, RBF is a financing arrangement in which funding is only disbursed to service providers after predefined results have been realised and independently verified. Aligning financial incentives/rewards with positive social outcomes is intended to promote a customer service approach, as providers are encouraged to think of the service users as 'clients' (instead of more passive 'project beneficiaries'). Demanding accountability for a set of measurable results rather than activities per se introduces some flexibility for service providers to adapt their approach to local circumstances, whilst the incentive payment helps overcome market barriers.

The payment mechanism is an important consideration in successful RBF design: incentive payments should be large enough to encourage market entry, but in keeping with the available budget and expected public gains, nor should a subsidy result in windfall gains for service providers. Besides payment schedules and fund transfer mechanisms, the verification mechanism must also be agreed or established. Verification has to follow strict and transparent rules and must be undertaken by an independent party. Facilitating access to finance is generally viewed as an important accompanying measure.

24 Uganda Investment Authority 2008

Credit through financial institutions

Whilst the RBF mechanism focused on service providers in the first instance (and the responsibility for pre-financing construction rested with the contractor), their customers were offered the option to access credit through *Sanitation for Millions/Caritas Hewasa* partner financial institutions. The emphasis was on negotiating credit options that would be available specifically for funding toilets, with manageable terms for the borrower and addressing the perceived credit risks²⁵.

Commercial banks in Uganda typically do not offer specific WASH or sanitation loan products, and the interest rate for generic loans can exceed 25%, with short repayment terms and stringent lending terms. WASH loan products have only been explored in a few commercial banks, with support from specific financing instruments. Of the banks operating in Apac

cluster, *PostBank* does have an existing WASH loan portfolio²⁶ that *Sanitation for Millions* was able to tap into. In a similar vein, an agreement was reached with *Centenary Bank*, whose microfinance department was able to structure loans specifically for toilet upgrades and construction under the bank's home improvement loan. Under these arrangements, improvements to sanitation facilities are now eligible for preferential terms, including phased loan disbursement and grace periods dependent on income cycles.²⁷ Through the partnership with *Caritas*, these options were advertised on local radio, through flyers and road shows within the Apac cluster.

A much more common type of savings institution in Uganda are local village savings groups or Village Savings and Loan Associations (VSLAs).²⁸ Several of these groups can typically be found in every ward,

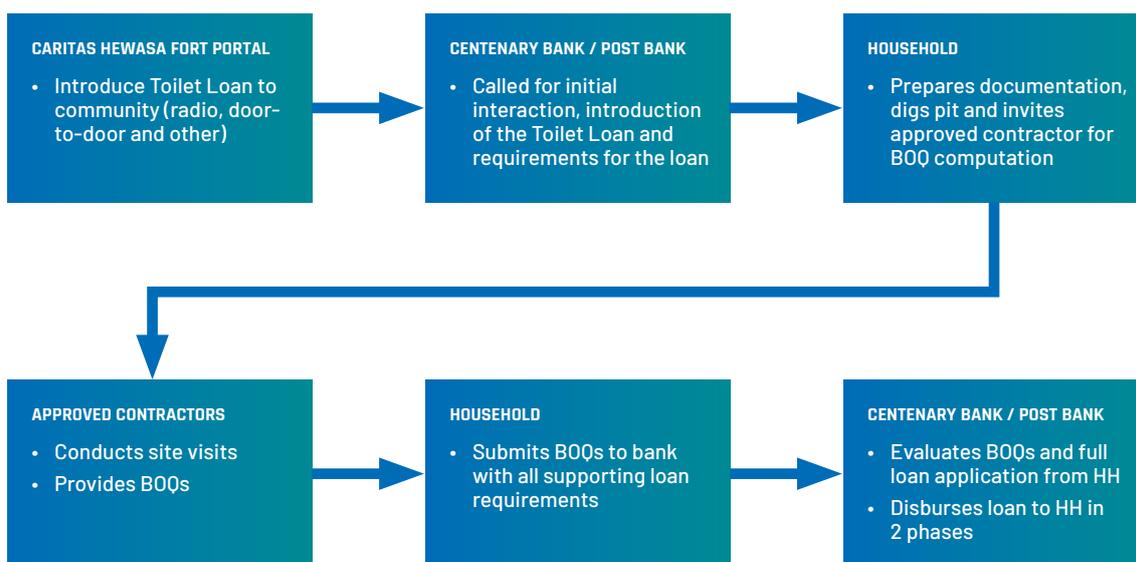


Figure 8: The Loan Process

25 Credit risks include the high lending rates, high cost of borrowing (borrowing costs that include insurance and the 20% down payments) and the seasonality of income (Finscope Survey Uganda Report 2018)

26 PostBank Uganda has been disbursing water and sanitation loans since 2014, when the bank joined Water.org's WaterCredit initiative.

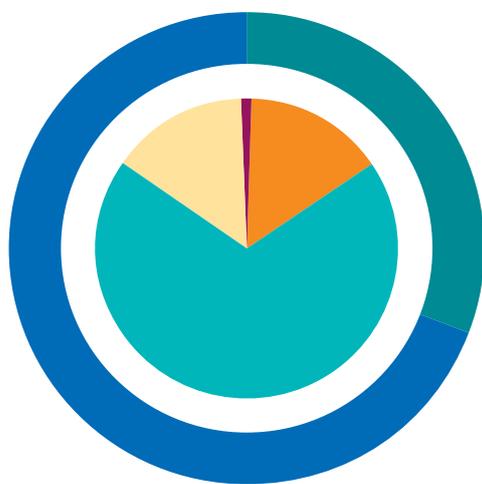
27 Both banks ask customers to have a verifiable source of income and collateral to secure the loan, which stretches over 6-36 months, and may be disbursed in phases. Interest rates are 23% (Centenary) or 25% (PostBank) declining balance.

28 Uptake of formal lending is generally low in Uganda, with the vast majority of people preferring to borrow from family and friends or VSLAs (53% and 46%, respectively). Only 58% of Ugandan adults have access to formal financial services, and just 3% use banks for loans. (Demis, 2019, quoting the Finscope Survey Uganda Report 2018. c.f. footnote 8)

where group members pool their savings as a source of short-term peer-to-peer lending under much simplified conditions, with the group acting as a guarantor. In Apac, VSLAs tend to collect a minimum weekly contribution of 5,000 UGX from each of their 20 to 30 members, and *Sanitation for Millions* is engaging with the established VSLAs to encourage borrowing for toilet improvements.

As an alternative option for low-income customers who do not meet conventional loans requirements,

Figure 9: Toilets constructed verification status and disaggregation of toilet technologies used



Outer Ring - Toilets Constructed (101)

- Verified (63/101)
- Unverified (38/101)

Inner Circle - Toilet Technology

- Single stance VIP, Pre-cast or Pour Flush (70/101)
- Double stance VIP, Pre-cast or Pour Flush (15/101)
- Triple stance VIP, Pre-cast or Pour Flush (1/101)
- Septic Tank (15/101)

Caritas Hewasa has developed a church-based Savings and Credit Cooperative (SACCO)²⁹ that offers quick, small loans with repayment terms that take into account the local situation. In Apac cluster, where incomes can be very low, loans are capped at 1.2m UGX (around 330 USD) and may be repaid over a period of two years.³⁰ Some loans are also offered in kind, with *Caritas* acting as a guarantor for the hardware stores that provide the necessary construction materials – which in turn acts as another layer of protection against loans being diverted to other uses. Key to any borrower accessing a SACCO loan is the credit due diligence and under the *Sanitation for Millions* programme; an additional innovative recommendation from the religious institutions is provided to further de-risk lending.

101 toilets have been constructed in Apac cluster under the model with 63 verified through the verification process and 38 that are undergoing the verification process at the time of writing.

Infrastructure subsidy

The momentum generated by the successfully launched RBF scheme has prompted the Ministry of Water and Environment to explore further ways of assisting vulnerable households. The ongoing demand creation measures are providing an excellent basis for more targeted support to households for whom affordability is the major barrier to better sanitation. MWE has requested a partnership with *Sanitation for Millions* to design and test an infrastructure subsidy that would support low-income households in upgrading their toilet facilities. This activity is expected to commence in mid-2021. *Sanitation for Millions* is drawing on GIZ’s extensive experience with designing and implementing smart, pro-poor sanitation subsidies³¹ in order to ensure the infrastructure subsidy will be well targeted and its impact will be continuously reviewed in the same way as the RBF is closely monitored. The long-term scaling plan is to have the infrastructure subsidy integrated into the budgeting and planning by Ministry of Water and Environment, within the Human Capital Development Program of the National Development Plan III.

²⁹ SACCOs are legally recognized finance institutions, which are formed and owned by their members to collect savings and disburse loans at low interest rates.

³⁰ Elsewhere, the typical repayment period is eight months.

³¹ GIZ. 2019. Toilets on discount. Sharing GIZ’s experience with accelerating access to sanitation through household toilet subsidies. Available from www.susana.org

Experiences and lessons learnt

Sanitation for Millions' vision is to help communities and partner countries to implement lasting sanitation improvements; much time and attention has been dedicated to finetuning processes to local conditions and circumstances. This chapter reflects on the experience of implementing innovative financing mechanisms in Apac, emphasising the practical challenges that were encountered and extracting some lessons that can be shared.

Progress, achievements and challenges

Preparing the market

Although contracting and procurement of qualified contractors had taken more time than originally anticipated, demand creation emerged as a key bottleneck to swift progress. Towards the end of 2020, contractors were standing ready to begin constructing toilets, yet most of their potential customers were not fully prepared to avail themselves of their services. Demand creation was still very much ongoing: people first needed make the commitment to build a new toilet, then choose their preferred design from the catalogue, and finally organise the money to buy the specified materials before the contractor could arrive on site and begin. Although *Caritas* was at hand to act as an intermediary to match households wishing to build with qualified contractors (and, where necessary, FIs able to support), fragmentation of the supply chain further slowed construction works. Contractors reported that households were gathering materials at a very slow pace,³² so *Caritas* stepped in to arrange more formalised agreements with hardware stores such that they were now supplying in bulk and managing transportation. These arrangements not only save time, but also add as another layer of protection against loans received from FIs being re-deployed for other purposes.

Recruiting construction companies

The formal selection and bidding process for the pilot contracts had whittled the large initial number of interested companies down to two successful bidders. Each received a short-term contract to construct 90 toilets, starting in November 2020, though con-

struction works had to be postponed until January 2021. Still committed to its target of constructing 300 toilets within six months to pilot the RBF approach, *Sanitation for Millions* extended the companies' three-month contracts until the end of April, and revised the selection criteria for the subsequent call of EOIs³³ to allow others who had signalled an interest and a willingness to take on the risk of engaging in sanitation a chance to bid. One key requirement remained unchanged: all contractors had to have completed the *Caritas* training programme to ensure their operational practice would be consistent with the technologies in the toilet catalogue, as this was deemed essential to ensure toilet durability and value for money for the contracting households (as well as compliance with local by-laws). At the time of writing, the pool of qualified contractors now includes four companies and one individual entrepreneur, who hires masons to work on construction. Another small change introduced in this call round is that each contractor is now allocated a specific area in the cluster. So far, 49 private toilets have been built (with verification pending), and a further 81 are under construction.

Using the RBF to spark market activity

Progress on releasing the RBF payments has been slow due to the delays related to slower-than-anticipated construction or even procurement of materials discussed above. Nonetheless, there are indications that the RBF is leading into continued market expansion: there have been several new entrants to the 'sanitation market', with new companies previously providing construction services, e.g. for classroom blocks, venturing into providing household sanitation facilities. Apac Municipal Council as well as Aduku and Ibuje Town Councils have expressed their commitment to sensitising their respective communities and will keep linking households in need of a new toilet (of which there are many) with approved sanitation contractors.³⁴

³² One interviewee noted that a construction job that would normally take four days to complete stretched to over two weeks, adding avoidable costs.

³³ Keen to spread the risk and avoid creating a monopoly market, *Sanitation for Millions* had wanted to bring as many contractors on board as possible, yet interest remained low amongst the invited companies even during the second call. Consequently, the criteria were adjusted to create opportunities for smaller market entrants, such as individual masons, who, by contrast, were keen to become involved.

³⁴ The local authorities maintain a list of recognised sanitation contractors.

As the cluster is getting ready to look beyond toilet construction, the range of services required to cover the entire sanitation chain will be further increasing market space. Whilst *Sanitation for Millions* is expecting to withdraw from direct involvement (and thus discontinue the RBF payment, in line with recommended best practice), verification of services (and, more widely, enforcement of applicable stand-

ards and by-laws) will need to continue beyond the current project to ensure long-term sustainability. As the RBF pilot is drawing to a close, *Sanitation for Millions* is entering into deeper discussions with decision makers to ensure any future RBF facility is firmly anchored at the local authorities and officials are in a position to oversee its implementation.

A HOUSEHOLDER'S PERSPECTIVE

Mrs Akao Batty, a lady living in Barbek Village in Atik Division, had managed to build up some savings to invest in an improved toilet to replace the basic mud and wattle latrine she and her two children had been using. As a widow, her ability to put money aside was limited, and after undertaking the initial excavations and building up a small stock of materials worth around 1m UGX (280 USD), she had nothing left to finish the construction. Fortunately, Mrs Batty attended a community meeting with Caritas, where she learnt about the loans schemes that could help with her project. When Caritas visited her at home, the assessment showed that only another 500,000 UGX (140 USD) would be needed to complete the works. Caritas were able to arrange a loan, which was given in kind by availing ring liners and paying for the labour costs for the contractor, Adcon Investments. Mrs Batty is very pleased with her brand new VIP Toilet with a ring liner substructure: *'My grandchildren and their children will have this to use for years to come,'* she says. Her income from farming will allow her to make her repayments over the next 12 months.



A CONTRACTOR'S PERSPECTIVE

Step Entertainment was the very first constructor *Sanitation for Millions* partnered with for the RBF. Having previously constructed sanitation facilities in Apac for schools and the local authority, the contractor was enthusiastic about extending the offer to households for the benefit of the entire community. The managing director, Mr. Bashir Maacha, was impressed with the new precast technology and the speed with which it can be employed: *'Acquiring a toilet can now be done in just a week ... it is very easy to make and durable, and good for the environment'*, and he appreciates the training offered through the scheme.

As one of the early private sector partners, Step Entertainment was affected by the initial delays. It was not a rare occurrence for workers to arrive on site only to find they could not start or continue because vital parts or materials had not been purchased or not arrived yet. While he believes that there could be tweaks to the existing arrangements to ensure that work can progress at pace (and, critically, to avoid funding diversion), he is very optimistic that sanitation will remain good business in the future. As an emptying entrepreneur himself, he points out that it is not only good for the community to have better sanitation, but it is in his interest to build as many toilets as possible that he can later offer his services to. For now, the company is busy expanding its capacity, training more workers to be able to take on several toilet construction jobs at the same time.





A CONTRACTOR'S PERSPECTIVE - NEW ENTRANTS

Adcon Investments, a construction firm based in Apac has joined the *Sanitation for Millions* partnership more recently. Motivated by a desire to make a contribution to the local community, the company has already built six toilets for customers in Aduku, another five in Apac and twelve Nbuje. Also affected by the delays resulting from customers' difficulties in procuring materials in good time, Adcon was able to step in to help: 'Apac is not a vibrant construction area,' Managing Director, Denis Adoko, explains, but his company is also a local builders' merchant in nearby Lira. Adcon opened a sub-store in Apac, from where it can now supply and deliver materials as and when needed. Whilst he acknowledges that uptake will take time to grow in the community, in his view, business prospects are good.

The ongoing two-month trial performance contract has already shown Adcon the value of much closer links with the community and funding partners. Whilst Adcon has worked with NGOs before, the model trialled in Apac is entirely new to the company. More important than the opportunities to hone their expertise in constructing toilet facilities and gain valuable marketing experience is the genuine appreciation of the community. The partnership has greatly motivated and empowered his staff, Mr Adoko explains, and there is no doubt in his mind: 'We will definitely be involved in the sanitation sector for the long haul.'

Lessons to share: emerging best practice for Uganda and other WASH programmes

While the RBF pilot is still ongoing and accompanying financial assistance mechanisms for householders have yet to be introduced, it is arguably too early to be drawing definite conclusions regarding their relative success. However, there are clear indications that the approach implemented by *Sanitation for Millions* and its partners in Apac is beginning to address some of the key issues that had been preventing effective private sector involvement in sanitation in Uganda³⁵:

- **As a direct result of the targeted RBF incentive payments there is now increased (small-scale, local) private sector involvement in sanitation.**
- **The project is making a convincing 'business case' within sanitation. Operators have clearly indicated a desire to remain engaged³⁶.**
- **By facilitating access to finance and moving on to designing an infrastructure subsidy for households, the pilot is addressing the key bottleneck of high**

infrastructure costs for safe sanitation facilities, that is the construction of approved toilets/safe substructures.

- **Through the innovative financing mechanisms, the project has demonstrated that public sector support towards household on-site sanitation infrastructure can spur accelerated uptake of improved household sanitation facilities in small to medium-sized towns.**
- **The project has been a truly collaborative effort, which is critical as success hinges on partnerships with and between a wide range of stakeholders.**

The experience to date offers valuable insights and learnings that can inform the development and implementation of innovative financing mechanisms in the WASH sector in Uganda and elsewhere:

- Introducing innovative financing can be very time-consuming, but it provides a more sustainable basis for sanitation that is safe for people and the environment in the long term. As an RBF is never intended to be a lasting feature, it is essential to invest time and care into all attendant market features (households, funding sources, training, verification and enforcement) to ensure the business it has nurtured will continue to grow. It takes a lot to prepare a virgin market for business, and enough time should be allocated for each stage of the process. With the benefit of hindsight *Sanitation for Millions* would recommend allowing more time for creating demand, ensuring customers are ready and supply chains

³⁵ The 'Innovative Financing Scoping Study for the Social Sector in Uganda' had identified four 'sustainability constraints' for the rural sanitation sector. Whilst the Apac cluster is technically classified as an urban area, the small town context more closely resembles the authors' description (or that of their focus group participants) of a typical rural sanitation situation. (c.f. Instiglio, 2020, p.42)

³⁶ Note that for urban sanitation, the same report specifically recommended that 'An innovative financing instrument could support the longer-term engagement of these private operators'. (Ibid, p. 30).

working smoothly. Market development is core for private sector involvement and sustenance.

- **There are significant 'fringe benefits' to this time investment:** There are significant 'fringe benefits' to this time investment into people-centred approaches: *Sanitation for Millions* has noted an increase in financial knowledge since partner financial institutions have made an effort to provide financial literacy training to community members. Most households accessing formal credit through FIs are first-time borrowers. Incidentally, a similar observation can be made with respect to the uptake of improved handwashing practices: through provision of readily available handwashing facilities at the household level the social approaches introduced by Sanitation for Millions and the local urban authorities have supported better overall hygiene and thus empowered the communities in Apac cluster.
- **Innovation is an incremental process:** for the formal credit arrangements, *Sanitation for Millions* built upon existing loans products for WASH facilities that local banks already had in place, and then extended to include more grassroots options for micro lending options suitable for low-income households. Innovative finance does not require everything to be new concepts; quite the contrary, it is far better to build upon what others are trying to make work in the area or a similar context (in the case of Apac, *Sanitation for Millions* was able to expand on financing arrangements already trialled by Water.org and Caritas, tailoring these to the project's needs).
- **So long as it remains true to its purpose and fair to all parties, an RBF scheme can (and should) evolve in line with local conditions.** The RBF as piloted in Apac has been changing between conceptualisation in 2019 to date. As long as there is no arbitrary moving of goal posts, it makes good sense to make adjustments as *Sanitation for Millions* did in its second call for EOI. It had originally been thought that success would be more likely in cooperation with larger, established companies, who would have more working capital, but it turned out that interested smaller players were willing and able to take on the risk of entering the sanitation market. The pilot saw entry of eight masons that have constructed toilets across the cluster. The programme envisions incorporating them into the RBF model beyond the pilot phase.
- **Financing options should be simple to understand and access, bridge the financing gap for households yet minimize the risk of funding diversion.** Financial packages designed to help households to move up the sanitation ladder must also be adequately promoted: interpersonal communication (facilitated by the implementing partner Caritas and involving a variety of community institutions) has been a particular strength of the *Sanitation for Millions* approach. Funding diversion to other activities (on the part of households) remains a risk that is still being discussed how to best limit. Where necessary, partners may act as intermediaries to ensure loan funding is ring-fenced for toilet upgrades and be part of monitoring construction and repayments.
- **With the right training, local small and medium-sized enterprises can be effective partners in addressing the sanitation gap.** Indeed, they can prove more efficient in responding to community demand and needs for sanitation solutions. Capacity development for sanitation businesses has been a key priority for *Sanitation for Millions* to ensure sustainability of the emergent sanitation market as well as to safeguard public and environmental health. The training has also helped contractors to see beyond profits, such that the incentive payment is not a primary motivation for becoming involved in sanitation.
- **Local SMEs become adept at exploiting market opportunities.** Building toilets is important, but the sanitation chain needs to be managed in its entirety, and with some training and the right incentives, entrepreneurs will participate: under the right conditions (regulatory framework and existence of FSTPs, for instance) establishing toilet construction businesses creates the foundations for business opportunities further along the chain: a ready-made customer base for transport and disposal services.
- **Crucially, flexible innovation in financing clearly leads to more emptyable toilets being built** – this is an important step towards increasing sustainable access to safe and equitable sanitation. Moreover, well-designed toilets are the starting point for sustainable management of the sanitation chain. Businesses offering emptying services become more viable, and faecal sludge treatment plants can operate at capacity for the benefit of communities and the environment.
- **Social approaches introduced by Sanitation for Millions and the Local Urban authorities have empowered the Apac communities and supported the uptake of handwashing practice with soap.** Simple tippy taps, handwash basins and other innovative handwashing technologies are readily available at the household level which practice compliments improved sanitation and hygiene.

Outlook

As indicated above, the *Sanitation for Millions* approach to sanitation financing is still being refined and extended in the ongoing trial in Northern Uganda. Whilst the initial focus lay on upgrading sub-structures, this is beginning to shift towards encompassing the entire sanitation chain, starting with professional emptying businesses that would collect faecal sludge and transport it to the treatment plant that is currently under construction. The RBF scheme was never intended to be capped at construction/containment, and *Sanitation for Millions* is working to introduce an RBF incentive payment for emptying and transportation services. A formal faecal sludge management (FSM) model is expected to be rolled out imminently (in conjunction with the respective authorities), and the RBF would form part of its implementation.

As the sanitation market space expands, *Sanitation for Millions* intends to ensure that sanitation businesses are commercially viable beyond the duration of the project. To this end, monitoring of results (i.e. verifying compliance with standards³⁷ and tracking impact on target communities) is an integral component of the financing approach. Some flexibility may be required to revise the costs and prices for different toilet options as currently quoted in Apac's toilet catalogue: contractors are reporting higher than anticipated costs for transportation (of materials and workers) to more remote areas in the cluster.³⁸

Equally important is having a clear exit strategy for current and future RBF incentive payments as well as the proposed household subsidy. The planned introduction of an infrastructure subsidy for the most economically vulnerable households will benefit from the sanitation campaigning and demand creation activities that have taken place. As this part of the financing model was initiated by MWE, the ongoing design of innovative financing measures is in line with best practice, which recommends that they should

be linked to 'nationally mandated institutions,' who 'should be in the driver's seat'.³⁹ With MWE being so prominently involved, the prospect of the *Sanitation for Millions* results-based financing approach being successful within Apac cluster – and elsewhere in Uganda – are on a good footing. With the RBF, local government structures will have another development tool at their disposal to stimulate sanitation market activity as and when needed. Once tried and tested, innovation in financing can be adopted by MWE to support Uganda's leave no one behind approach, whether as part of new flagship infrastructure projects or to support financial and technical viability of the FSM chains in small towns.

³⁷ The minimum standards are derived from the provisions in existing legislation and guidelines related to sanitation in Uganda. These minimum standards are read in conjunction with available technical standards of building construction, operation and maintenance guides as well as legal requirements in Uganda relating to sanitation, physical planning, environment protection and engineering works.

³⁸ Contractors report that these additional overheads are currently comfortably covered by the RBF payment.

³⁹ GIZ. 2019. Toilets on discount. Sharing GIZ's experience with accelerating access to sanitation through household toilet subsidies. p.32.



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