Investing in Sustainable Change:
Community-Led Lending for Sanitation Solutions

By Barbara Toizer and Elene Cloete
Background

Despite global efforts to achieve equitable access to sanitation and hygiene for all, as of 2022, 3.5 billion people still lacked access to safely-managed sanitation. Instead of covered toilets, many people around the world use “open-pit latrines,” which are uncovered holes in the ground that come with many safety issues. For example, water contamination from these latrines spreads disease. Moreover, due to the unpleasant smell, open-pit latrines are often located two to three miles (about four kilometers) away from homes. This distance requires a long time investment to use and makes nighttime trips dangerous, especially for women. Beyond health and safety problems, the lack of quality sanitation infrastructure has social consequences for families. Without a toilet to offer visitors, families may feel shame and embarrassment.

One of the main barriers to households gaining quality sanitation infrastructure is the high upfront cost. Because many households lack access to a large enough lump sum, they often spend a disproportionate amount of their income on sanitation needs, as the per-use cost of these items is relatively less expensive. While traditional development models offer subsidies to address this financial barrier, organizations have recently started to offer small loans, called sanitation microfinancing.

What is sanitation microfinancing?

To address the financial barrier to sanitation access, organizations have started offering households microloans to finance sanitation solutions. In this sanitation microfinancing model, large international organizations typically mobilize capital that local lending institutions then coordinate and disperse as small private loans specifically for constructing of sanitation facilities. Unlike subsidies, these loans require repayment–households must return the capital to the lender after a set period of time, as well as pay interest or dividends.

Sanitation microfinance programs have found great success. Across countries like Malawi and Cambodia, providing small loans has enabled more households to purchase latrines. Studies show that households are more willing to purchase a latrine when given the microfinancing option. Multiple meta-analytic studies have found that interventions that provide a monetary investment, subsidy, or provision of infrastructure tend to increase latrine coverage, access, and usage compared to Community-Led Total Sanitation or education-only interventions. Beyond their effectiveness, sanitation microfinance interventions also demonstrate scalability. For example, water.org’s WaterCredit Initiative has facilitated access to affordable sanitation for 60 million people. Additionally, these interventions may foster greater self-efficacy and ownership over sanitation facilities compared to simply providing sanitation solutions to households. Along with being more cost-effective than subsidies, this sense of empowerment is a key benefit.

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Like any intervention, sanitation microfinancing comes with limitations. The loans are typically dispersed by local Microfinance Institutions, not the facilitating nonprofits. This means loan terms are subject to the local lenders. These institutions usually finance income-generating activities, whereas sanitation solutions like latrines do not generate income. Thus, lenders may view sanitation microfinancing as higher risk and prefer it comprises only a small share of their portfolio. Moreover, repayment schedules can be too short for households. Because schedules are structured around income-generating loans, they may not accommodate the longer repayment period households need for sanitation investments.

Another drawback of these sanitation financing models is that the lenders are typically not from the local community that a charitable organization is trying to serve. As a result, the funding provided to households only serves the community temporarily. This temporary influx means money goes towards infrastructure but not ongoing maintenance. However, maintenance is critical for sanitation interventions: studies have consistently found that people are more likely to use a latrine, and continue to use a latrine, when they are private, well-maintained, and clean.

A local solution: community-led sanitation microfinancing

Given the proven success of sanitation microfinancing in increasing access to safe and affordable sanitation, is there a modified method that can address common limitations?

Three Filipino community-based organizations (CBOs), supported by Outreach International (OI), sought to address these limitations using an innovative community-led loan model. Building on their experience with other community-led loans, beginning in 2018-2020 they implemented sanitation loan projects. With community-designed and developed project proposals, the CBOs requested funds from OI to build sanitation units for 121 families. But instead of fully subsidizing the project, the CBOs decided to instead subsidize 60% of the building costs. Project participants would then pay the remaining 40% back to the CBO over five years, with a flat 30% interest on the loan amount.

This structure gave the CBOs autonomy to administer loans on their own terms. One benefit was the flexibility to fund both new latrine construction and repair existing ones. CBOs could also provide grace to households in extenuating circumstances, like pausing repayments for 6 months during the COVID-19 pandemic in 2020. Additionally, CBOs chose their own repayment schedules - one collected annually while the other two collected monthly payments.

Impact

After receiving funding, the three CBOs purchased materials and facilitated the construction of 118 latrines, serving over 722 individuals. By buying materials in bulk, at least one CBO was able to negotiate lower pricing. As of December 2023, ₱344,024.00 ($6,254.98), or 56% of the expected repayment sum, has been repaid. One CBO, which currently has about 84% of expected repayments, is on track to collect all remaining funds by the end of 2024. Another CBO has about 38% of repayments and is scheduled to continue collecting funds until 2028.

NUMBERS AT A GLANCE

3 CBOs... → Purchased materials and facilities the construction of 118 latrines → Serving 722+ individuals → As of December 2023, 56% of the expected repayment sum has been repaid
But it doesn’t end there. Each repayment sparks new opportunities, creating a revolving cycle of capital. All remaining and repaid funds, plus accumulated interest, continue to reside within each community group, thereby providing them with perpetual capital to address other emerging organizational concerns. So far, the CBOs have utilized the capital for many different projects. These initiatives include constructing 8 additional household toilets.

In one community, the CBO used some of the funding to improve the infrastructure in a shared Production Center, including building a toilet and connecting electricity. The Production Center is an entrepreneurial space in which women can almost double their typical wages with fewer hours of work. Women generally earn about $120 per month doing seasonal farm work, whereas in the Production Center, they can earn a minimum of $108, and up to $180 per month, producing cassava chips to sell in bulk. This project is one example of how the community-led sanitation microfinancing programs can help provide the foundations for community members to boost their wages.

Most notably, all three CBOs have, to various degrees, invested their sanitation repayments into their own Micro-Loan Programs. Operating on shorter 2 to 3 month timelines, these loans provide smaller sums of ₱1,000 to ₱2,500 ($18.18 to $45.45). Two CBOs are on their 17th loan cycle. The micro-loans have supported around 117 households across the three communities, and have accumulated interest worth ₱84,907 ($1,543.76), thereby growing both their total capital and their communities.

1 Conversion rate of $1:₱55