GUIDANCE NOTE 8

Equity in Sanitation Marketing: How can we support the market to reach the poorest?

Mimi Jenkins and Danielle Pedi

In this Guidance Note you will learn:
- How Sanitation Marketing tries to reach poor households by increasing affordability and access
- Strengths and limitations of alternative consumer financing options including cash-based social subsidies
- Methods for identifying and targeting the poorest households in rural communities
- Ways that UNICEF can support equity in Sanitation Marketing programs

Through Sanitation Marketing (SanMark), households purchase improved latrine products and services from local businesses. While the core goal of SanMark is to catalyze the market to better serve the needs of the poor, as with other approaches, affordability barriers are likely to persist for the poorest households. Market-compatible financing options, including new types of cash transfer social subsidies, offer a promising way to enable households in the lower wealth quintiles to purchase through the market, while maintaining incentives for others who can afford to purchase on their own.

In this Guidance Note, we examine some of the pros and cons of alternative consumer financing options. We review targeting methods that can be used to identify rural poor households and reach them with these options to reduce sanitation financing burdens. We also recommend ways to support greater equity within UNICEF SanMark programs.

1. What can we do to overcome affordability barriers?

Within the SanMark 7-Step Framework, we first try to make improved sanitation more affordable for the poor through product design (Step 3) and supply chain and business model improvements (Step 4) (see GNs 3, 4 and 5 for details on these steps). But even after we have successfully reduced market prices and improved accessibility of sanitation products and services, it is very likely that affordability barriers will remain for some households especially those in the lower wealth quintiles.

Table 1 presents different types of market-compatible consumer financing options for sanitation. These include new ways of providing social welfare subsidies, such as conditional cash transfers (CCTs) pioneered in the health, education and welfare sectors, and household output-based aid (OBA) where subsidies are paid after-the-fact, upon verification of the desired output. While many of these options have not yet been tested in sanitation programs, they offer potential as market-friendly mechanisms for reducing affordability barriers.
### Table 1. SanMark-compatible Consumer Financing Options to Increase Access to Sanitation

<table>
<thead>
<tr>
<th>Category</th>
<th>Sanitation Financing Option</th>
<th>How it could work</th>
</tr>
</thead>
</table>
| Saving up                 | • VSLs (Village Savings & Loan), RoSCAs (Rotating Savings & Credit Association), savings groups | • Households group together, each putting aside small amounts of cash on a regular basis, taking turns for who gets the funds.  
• No outside source of funds required.  
• Accumulated savings used to purchase, build, upgrade.  |
|                           | • Lay-away purchase                                                                          | • Lay-away schemes allow household to pay businesses in installments, receiving product/service when full amount is paid.                                                                                                               |
|                           | • Health insurance scheme                                                                     | • Health insurance premiums include free or reduced price sanitation goods/services, or discount given for having/installing a latrine.                                                                                                   |
| Loans / credit (Borrowing)| • Consumer loan via microfinance institution (MFI), community or formal bank, revolving loan fund, self-help group | • Addresses cash flow problems for households with ability to repay over time (but cannot pay lump sum upfront).  
• Grant or donor funding often used for loan market research, loan product development, or credit guarantees/subsidies for loan capital and/or on-going administration costs.  
• Interest rate paid by consumer must cover loan administration and commercial borrowing costs, unless loans are subsidized.  
• Often requires a new source of capital for loan fund.  |
|                           | • Installment payment purchase (credit via business)                                           | • Businesses offer purchase on credit from own or outside resources, then collect installment payments from households at and after installation / purchase.                                                                                   |
|                           | • Product leasing/renting                                                                    | • Lease towards ownership or rent when product can be repossessed and re-sold or re-used (e.g. portable toilets).                                                                                                                       |
| Social subsidy to households| • Vouchers                                                                                   | • Physical coupon for price discount (or free), for specified hardware options or set cash amount, redeemed at authorized businesses  
• Can be distributed via existing social protection programs** (e.g. ID card for the poor in India).  |
|                           | • Conditional Cash Transfers* (CCT) for sanitation behavior /action                          | • Cash is transferred to beneficiary, conditional on future performance of a measurable sanitation behavior, with on-going independent verification of behavior performance  
• As with vouchers, can be distributed to poorest or vulnerable groups by linking to existing social protection programs**  |
|                           | • Purchase rebate (Consumer OBA)                                                             | • Rebate is paid to household who pre-finance toilet purchase/installation or upgrade (or safe pit emptying service) meeting prescribed criteria/quality, after independent verification.  
• As with vouchers and CCT, can be delivered to poorest or vulnerable groups by linking to existing social protection programs**  |
<table>
<thead>
<tr>
<th>Category</th>
<th>Possible Sanitation Financing Options</th>
<th>How it could work</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indirect Approaches</td>
<td>• Output-based aid (OBA) to businesses/suppliers</td>
<td>• In supplier OBA, business pre-finances work, receives guaranteed rebate/subsidy for meeting independently verified performance targets (e.g., # of verified installment payment sales to poorest quintile households). • Requires distinct funding pool, verification systems, and on-going supplier certification and quality control.</td>
</tr>
<tr>
<td></td>
<td>• Pricing cross-subsidies among consumer segments or among products (e.g., bundled sale)</td>
<td>• Cross-subsidies are organized and managed at business level or higher up in the supply chain. • These often require public policy decisions by Government at appropriate levels (municipality, regional, national).</td>
</tr>
<tr>
<td></td>
<td>• Consumer cooperatives or buying clubs • Community Driven Development (CDD) grants</td>
<td>• Consumer cooperatives can negotiate reduced prices for bulk purchase. • CDD block grants given to communities/local government to achieve measurable outcomes, transferred before and/or after verified achievement.</td>
</tr>
</tbody>
</table>

* Unconditional cash transfers – in particular where an existing cash transfer program is already established – can be explored. There may be opportunities to include sanitation as one outcome of an integrated young child survival and development package being supported through an existing social protection scheme. To achieve the outcome, ongoing sanitation demand creation and market facilitation activities would need to continue, including through the CATS and SanMark programs.

** See UNICEF’s Social Protection Strategic Framework and contact the relevant UNICEF staff in your office to explore opportunities for linkages with and learning from existing social protection programs.

*** Appropriate mainly for piped water or sewerage connections and where on-going utility services exist.

When thinking about these options, it is helpful to consider two dimensions of the sanitation affordability barrier expressed by poor households: cash flow problems and absolute cash poverty problems.

**Cash flow problems:** Borrowing and saving up options work for households who have the ability to pay for an improved latrine over time from their own sources of cash income, but struggle to accumulate the large up-front lump sum required to purchase all at once. Box 1 provides examples of successful sanitation loan programs.

**Box 1. Examples of Successful Loan Programs for Sanitation**

**Lesotho:** One of the first large-scale toilet construction loan programs was in urban Lesotho in the 1980s (WSP 2002). Government provided capital for a large loan fund managed by a commercial bank. Loans for toilet construction were offered as part of a government-led sanitation promotion campaign, combined with development of private sector services. Loans were dispersed as a purchase order covering construction materials from certified businesses, who were paid directly by the bank.

**Cambodia:** WaterSHED Cambodia is partnering with three Microfinance Institutions (MFIs) to pilot test the operational costs and impacts of offering toilet loans to rural households within their “Hands-off” SanMark program (Geissler et al. 2012). Considerable up-front and on-going effort was necessary to identify a workable MFI partnership model and sanitation loan package and coordinate SanMark and MFI lending activities. New loans are offered by an MFI loan officer who attends the SanMark village latrine promotional events. During trials, about 5% of attendees applied for and received a toilet loan from the MFI, mainly new clients. Many other interested households applied but did not meet the MFI lending criteria.
Absolute cash poverty problems: Sanitation vouchers, consumer rebates, CCTs and some indirect approaches, in theory, can address the absolute cash poverty constraints of poorer and the poorest households who are unable or would be unfairly burdened to pay the full costs of toilet construction or upgrading, even if spread over time.

Vouchers have yet to be tested for sanitation but have been widely used to increase uptake of health services. For instance, they have been used to encourage poor households or vulnerable groups to use anti-natal services and to increase uptake of insecticide-treated bed nets. Consumer cash rebates, an output-based subsidy, require the household to pre-finance an improved latrine, service, or other sanitation improvement and are typically structured as a one-time payment (see Box 2). By contrast, CCTs are on-going payments designed to incentivize often repeat behaviors by providing cash in advance and then verifying behavioral performance before issuing more cash. On-going CCTs funded under social transfer programs have been used in Mexico and elsewhere to encourage consistent school attendance over time. Regular CCT payments have been proposed to incentivize continued latrine usage among very poor families with young children (see ‘Growing up with a latrine’ CCT proposal in WSP 2011).

Box 1. Examples of Successful Loan Programs for Sanitation (continued)

Vietnam: From 2001-08, the Vietnam Women’s Union (VWU) operated a large-scale government revolving loan fund (RLF) program, providing over 46,000 low-income households in three cities with toilet loans (Trémolet et al. 2010). Hygienic toilet construction loans of around $150 were issued at a subsidized interest rate in 3 payments to poor-qualified households in areas without sewers. Loans had to be paid back in 24 months. The VWU provided sanitation and hygiene promotion and technical guidance, screened qualified households, enforced repayment using a group-based saving guarantee model, and verified proper use of cash loans. Loan repayment rate was 99.6% and loan facilities were correctly operating 5 years later. The RLF capital was revolved about every 2 years, however, demand for the loans outstripped loan capital. The program was scaled up via the Vietnam Bank for Social Policy across much of Vietnam.

India: Trémolet and Kumar (2012) document a variety of different Indian MFI and non-banking-finance companies offering toilet loans across India, including a new organization, Guardian, supported by Watercredit.org to exclusively offer water and sanitation household loans in coordination with its parent WASH NGO Gramalaya.

Box 2. Household OBA Rebate for Sanitation in Rural Vietnam

The NGO East Meets West Foundation has been operating a scheme to offer rebates of about US$20 to poor and vulnerable households who construct a household latrine that meets Vietnam government hygienic standards (Jenkins et al. 2011). The program uses community-based targeting methods to identify qualified households, provides education and training on hygiene, sanitation and latrine construction. The NGO verifies poor-qualifying criteria and signs a contract with interested eligible households who are given 6-9 months to complete construction to qualify for the rebate. Local government plays an active role linking households with local sanitation businesses. Sanitation social loans are also available. A final NGO visit to each participating household is made to verify complete construction including shelter. Cash rebates are dispersed at a central ceremony event. Over 5,000 households benefited during the first 2 year pilot which has since scaled to other areas of Vietnam and Cambodia.
2. Strengths and limitations of alternative financing options

Table 2 compares direct financing options based on broad experiences of applying these for a range of durable health-related goods. For household sanitation, the most promising options for reaching the poorest at scale would seem to be vouchers, cash transfers and, to a lesser degree, rebates. However, these require sustained funding sources to pay for administration and independent verification systems, as well as the subsidy itself. Credit and loan options, via MFIs or other mechanisms, have the potential for financial sustainability and may reach some degree of scale depending on the MFI landscape and the willingness of households to take sanitation loans. However, these are unlikely to reach the poorest households who cannot (and should not be encouraged to) take on debt and often do not qualify for a loan.

Table 2. Comparing Financing Options

<table>
<thead>
<tr>
<th>Option</th>
<th>Strengths / Favorable Conditions</th>
<th>Limitations / Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saving up</td>
<td>• Assures that households do not accumulate debt</td>
<td>• Can be very slow if savings rate is slow and/or amounts are small</td>
</tr>
<tr>
<td></td>
<td>• Established networks of savings groups can be a channel for sanitation product distribution and marketing in poorly served areas, but requires testing new business and sales models</td>
<td>• Limited potential for scale if new groups must be created, savings rate is slow</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Savings for latrines compete with other cash needs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• May reach relatively better-off who are able and have habit to save</td>
</tr>
<tr>
<td>Credit / Borrowing</td>
<td>• High compatibility with market delivery, can help expand access for lower income segments</td>
<td>• MFIs often uninterested in non-income generating, infrequent, small and ‘higher risk’ sanitation loans</td>
</tr>
<tr>
<td></td>
<td>• Potential for financial sustainability where loan promotion and administration costs can be covered by borrowing rates</td>
<td>• Reaches relatively better-off who can qualify for and pay back loan</td>
</tr>
<tr>
<td></td>
<td>• Requires favorable economic conditions and good financial sector regulatory policies</td>
<td>• Risk of loans being used for non-sanitation purposes, difficult to track</td>
</tr>
<tr>
<td></td>
<td>• Requires MFIs or other lending agencies willing to disburse and manage smaller ‘social’ loans</td>
<td>• Upfront grant / donor investment needed to develop loan products and programs tailored to demand for sanitation loans among each MFI’s client, service area</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Can overburden poorer households with excess debt or damage credit-worthiness</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Typically requires intensive operational coordination between MFI and SanMark activities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• MFI brand and repayment risk if MFI actively distributes sanitation product and clients are dissatisfied</td>
</tr>
<tr>
<td>Option</td>
<td>Strengths / Favorable Conditions</td>
<td>Limitations / Risks</td>
</tr>
<tr>
<td>--------</td>
<td>---------------------------------</td>
<td>---------------------</td>
</tr>
</tbody>
</table>
| **Vouchers** | • High compatibility with market delivery, potential for scale and market stimulation  
                  • Flexibility to adjust voucher value to household needs and market fluctuations  
                  • Allows consumer choice  
                  • Can reduce inequity by targeting vouchers to qualified households  
                  • Can leverage existing social subsidy schemes and need-based targeting mechanisms to reach poorest and vulnerable  
                  • Potential to link to existing social protection programs | • High cost of initial set-up and overheads to manage and administer system (some cost savings possible on distribution side if linked to an existing social protection program)  
                  • Favors large-scale implementation, with significant and sustained funding  
                  • Unable to fully eliminate inequity for peripheral and remote populations beyond the reach of certified businesses  
                  • Risk of stock outages at redemption and retail outlets  
                  • High risk of fraud in voucher distribution and at redemption points, but possible to detect, control fraud with active voucher tracking, monitoring systems.  
                  • Can suppress post-program demand (i.e. once voucher scheme is phased out) |
| **CCT** | • Can leverage existing social subsidy schemes and need-based targeting mechanisms to reach poorest and vulnerable  
                  • On-going CCTs can incentivize poorer households to install and correctly use available products  
                  • May work best where existing social subsidy frameworks and policies are maintained with long-term funding streams  
                  • Opportunities to integrate with existing social protection programs | • Potential for fraud, misuse of cash when paid in advance or without high quality on-going independent verification  
                  • Complex and potentially costly to set-up, manage disbursement, properly target households (if not linking to an existing social protection program)  
                  • Household-level verification and monitoring of on-going behavior a major challenge  
                  • Unable to eliminate sanitation inequity for peripheral and remote populations beyond the reach of sanitation supply chains |
| **Rebates** | • High compatibility with market delivery  
                  • Works best at later stages of market development after majority have installed improved sanitation  
                  • May be appropriate where improved sanitation is unusually expensive, e.g. difficult hydro-geology, high transport costs | • Number of rebate-qualified households often exceeds availability of subsidy fund  
                  • Rebates require pre-financing which can limit access for poorest  
                  • As with vouchers, can suppress post-program demand |

(Expanded and adapted from a literature review of alternative consumer-side financing options for durable health goods prepared by Mimi Jenkins, July 2012, for PATH, Seattle, WA.)
3. Poverty targeting methods to reach the rural poor

To reach the very poorest who lack sanitation, we first need to find them. Table 3 presents three methods to identify and target alternative financing options to economically vulnerable households. Once identified, a household’s sanitation needs and status would need to be checked. In rural settings, especially in the context of CATS, community-based targeting may be the most appropriate approach unless a reliable national ID system for the poorest already exists. In community-based targeting, as in other targeting methods, it is important to develop, test and refine criteria for both inclusion and exclusion. Simple procedures that can be used by local government, community leaders, and front-line facilitators must also be developed so that targeting methods can correctly find and include all eligible households. Existing national social protection programs will have experience with targeting methods, and may offer established systems to reach the poorest that may be appropriate for sanitation consumer financing subsidies.

Table 3. Poverty targeting methods for subsidized financing options to households

<table>
<thead>
<tr>
<th>Method</th>
<th>Description</th>
<th>Conditions where method works best</th>
</tr>
</thead>
<tbody>
<tr>
<td>Means-based targeting</td>
<td>• Identifies individuals who are poor using population-wide household surveys of income, assets, economic status of every household. • Proxy variables often used to categorize households into wealth levels. • Some countries (e.g., India, Cambodia) have national means-tested poverty ID systems where poor households have ID cards qualifying them for social benefits.</td>
<td>• Where reliable national ID systems already exist. • Means-testing is very costly and not recommended for stand-alone sanitation programs.</td>
</tr>
<tr>
<td>Community-based targeting</td>
<td>• Uses community-based methods such as participatory wealth ranking, identification by informed community leaders and/or by self-selection and community verification, according to clear inclusion and exclusion criteria and identification procedures.</td>
<td>• Where reliable national ID systems do not exist. • Where the proportion of households likely to meet poverty criteria is relatively small (perhaps &lt;25%) in the community.</td>
</tr>
<tr>
<td>Geographic targeting</td>
<td>• Identifies geographic areas or communities with very high rates of poverty or proxy conditions • Subsidies (e.g., vouchers) are distributed to all residents living in the identified zone. • Requires very good spatially disaggregated data and on-ground verification prior to selection and use.</td>
<td>• Appropriate and most efficient where large majority (probably &gt;80%) in a well-defined area meet the poverty criteria.</td>
</tr>
</tbody>
</table>

4. Supporting equity in UNICEF sanitation marketing programs

At the moment, the sanitation sector has limited experience with any of the above alternative financing options, particularly in rural areas. This means we must engage practitioners with expertise in designing and implementing these mechanisms in other development sectors such as health, nutrition and education. Since this is an area of emergent learning, it is best to carefully design and trial options on a small scale before investing in large-scale programming.
Here are four ways that UNICEF can begin to ensure the needs of the poorest are addressed in your SanMark programs:

1. **Include and consult the poorest in each step of the SanMark 7-step framework.**

Make use of available poverty data in Step 1, situational analysis, to help define the scope of your SanMark activities. Ensure that the bottom two wealth quintiles are consulted in consumer market research, and in developing and testing new products and demand creation strategies. If necessary, consider this group as a separate ‘market segment’ during these steps. Hold separate focus groups with them, seek them out for consumer interviews, and adjust field schedules to facilitate their participation.

2. **Build equity tracking into SanMark monitoring and evaluation system.**

Plan and budget for collection of data to track changes in household demand for and investment in an improved latrine by wealth quintile or other reliable poverty classification system (e.g. national ID system). This means setting aside time and resources to establish a baseline of disaggregated household-level indicators and conducting a follow-up assessment one to two years after full SanMark operation.

3. **Form and lead a national task force on Sanitation Equity and Markets.**

Bring government and sector stakeholders together to explore new approaches for testing market-compatible pro-poor subsidy financing options for sanitation – including, where appropriate, linkages with social protection programs and policies. This could build on existing UNICEF advocacy to harmonize policies on household latrine subsidies and UNICEF’s on-going work with government in child and social protection. The task force could systematically explore how subsidy funding could be better utilized as pro-poor market-compatible social subsidies and examine opportunities to integrate with existing social protection programs and policies. It could review sanitation equity in rural areas and identify characteristics of the poorest unserved households and the most disadvantaged areas.

4. **SanMark programs require time for marketing messages and new products to penetrate the market, so be sure to allow sufficient time before collecting evidence on how well poorer households are being reached.** Collecting good evidence on which households are unable to afford will help determine what financing options might work best.

**Tips**

- Consult with government statistics bureaus, other agencies and UNICEF evaluation officers to ensure you are leveraging existing data and harmonizing with existing classifications and methods for tracking poverty and vulnerability.
- Guidance on indicators for measuring changes in household investment in an improved latrine and opportunities to harmonize with CATS monitoring are provided in GN9: Monitoring and Evaluation.

- Social subsidy programs are complex, require long-term funding commitments, and can be challenging to design and execute well. Engage UNICEF colleagues responsible for Social Policy/Planning/Children Protection programming in your explorations and bring in external expertise where needed. The most important aspects of social subsidy delivery are related to strong systems for targeting, administration, fraud detection, and verification. Draw from extensive experience within UNICEF and other sectors (see Resources below).

**Tips**

- Consider carefully the staging and phasing of any of the subsidy financing mechanism (vouchers, CCTs, or rebates). Starting too early, before new sanitation supply chains are established, can distort local markets and dampen demand among households that are able to pay. Evaluate the sources of long-term funding for subsidies at the start, and assess the ability of local businesses to adequately supply new subsidy-driven demand.
4. If loan or saving options are needed, seek partnerships with the right groups to deliver these.

Established MFIs, savings and loan organizations, and other groups with financial inclusion as their core business have a comparative advantage and extensive experience in workable models for consumer finance to poorer households. Do not attempt to set up or administer these types of financing mechanisms as part of the SanMark program itself, and avoid involvement of sanitation program staff and promoters in consumer financial transactions.

**Tips**

- Assess the financial services industry and MFI landscape in your country to understand existing players and the regulatory environment. Places to start are the MixMarket and national and regional Microfinance Associations, which publish detailed data on each MFI (see Resources below). To find the right MFI partner, consider criteria such as: overall distribution and reach; current loan portfolio, including average loan size and types of products; experience with non-traditional lending (e.g. micro-insurance, etc.); sources of finance; and social mission.

- If partnering with MFIs, it is important to make a clear business case. Be prepared to work through the numbers and take time to understand and test some potential models. MFI engagement will require exposure to your SanMark model and the sanitation product offering. Allow time for partnerships to develop, and avoid offering high levels of subsidized finance to start. Enduring partnerships are those where MFIs see a clear benefit for engaging in sanitation lending as part of their core work (see Box 1 and Resources below).

**RESOURCE FOR FURTHER READING:**


4. Watercredit.org, working with MFIs to develop sanitation and water consumer loans. [http://static.water.org/pdfs/WaterCredit%20Executive%20Summary%20%28May%202012%29_FINAL.pdf](http://static.water.org/pdfs/WaterCredit%20Executive%20Summary%20%28May%202012%29_FINAL.pdf)

**Case studies:**


Websites and Manuals:

- MixMarket: [www.mixmarket.org](http://www.mixmarket.org)
- Microfinance Gateway: [www.microfinancegateway.org](http://www.microfinancegateway.org)

About the UNICEF Sanitation Marketing Learning Series

This Guidance Note is part of the UNICEF Sanitation Marketing Learning Series, a learning initiative designed by the University of California Davis (UCD) to improve Sanitation Marketing knowledge and practice within UNICEF. The Learning Series is delivered by Mimi Jenkins (UCD and London School of Hygiene and Tropical Medicine), Danielle Pedi (Consultant, WASH Catalyst), Jeff Chapin (Consultant, IDEO), and Mike Rios (17 Triggers Behavior Change Lab).

The ten Guidance Notes in the Series are available for download here: [http://uni.cf/Xo2o2l](http://uni.cf/Xo2o2l)

1. Situation Analysis – How do I know if SanMark will work in my country?
2. Consumer Behavior – How can we understand sanitation consumers in target markets?
3. Sanitation Supply Chains and Business Models – How can we improve market systems?
4. Private Sector development - How do we improve capacity of local sanitation businesses?
5. Getting the Product ‘Right’ – How do we design affordable, desirable latrines that businesses can profitably produce and sell?
6. Enabling Environment – What roles and functions are needed in the new market?
7. Demand Promotion and Marketing – How do we reach rural target markets in SanMark?
8. Equity in Sanitation Marketing - How can we support the market to reach the poorest?
9. Monitoring and Evaluation – How do we measure sanitation marketing progress?
10. Sanitation Marketing and CATS – How do we link approaches?