

# Terms of Reference

## Research on Sanitation Financing for Enterprises and Households

### 1. Background

Despite Ethiopia's remarkable achievement in reducing the percentage of population practicing open defecation (OD) by 57% (from 79 to 28 million) between 2000 and 2017, only 7% of households have a 'basic' or improved sanitation facility, and one in three households in rural Ethiopia still practice open defecation (JMP 2019, DHS 2016). The vast majority of toilets owned by households are pit latrines without a slab, lid, ventilation or superstructure. This compromises environmental health, safety, and users' privacy. The national Community Led Total Sanitation and Hygiene campaign (CLTSH) has had a great impact in terms of changing behavior and supporting installation of unimproved pit latrines, but these gains have not translated into significant movement 'up the sanitation ladder' to more hygienic 'basic' sanitation facilities, and there is risk of slippage back to OD and a lack of sustainability of the gains achieved so far.

The government of Ethiopia (GoE) and development partners are working towards three pillar objectives to curb the poor quality of sanitation coverage in the country: *1) creating an enabling environment, 2) better access to affordable products and 3) generating demand at household levels*. However, despite efforts to catalyze demand for improved sanitation products, financial constraints are a significant barrier on households' ability to adopt such options. Access to loans is limited and households are hesitant to take them due to fear of their ability to pay back on time with high interest rates. Banks and microfinance institutions (MFIs) may consider financing sanitation products and suppliers as a less lucrative endeavor and as such, have not fully realized the market potential of the sector.

With the objectives of creating supply and demand for low-cost and quality sanitation products, the USAID-supported 'Transform WASH' Project ('Project') is working on engaging MFIs, Saving and Credit Cooperatives (SACCOs) and Village Savings and Loan Associations (VSLAs). Plan International Ethiopia, who are part of the Project consortium<sup>1</sup>, helped establish 150 VSLAs in three regions (SNNPR, Amhara and Oromia). However, only 14% of their members have accessed loans, and it is not clear how many of these supported sanitation related investments.

For enterprises and small sanitation businesses, access to financing is also a major challenge. The Project has been working with MFIs to strengthen their sanitation-oriented loan portfolio and increase access to enterprises who are producing and distributing improved sanitation products. Selected MFIs also were provided revolving funds by the Project to help them provide loans to enterprises. Data on loan disbursement from these financial institutions has not yet been fully analyzed.

### 2. Rationale of the Study

The market landscape assessment conducted in 2017 by Population Services International (PSI) showed financial constraints were the leading reason for not having latrines by those who were practicing OD. The market assessment also revealed that households without latrines were hesitant to take a loan because they were not confident in their ability to repay it. Suppliers of materials at the woreda level

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<sup>1</sup> The Project is led by Population Services International, and consortium members are IRC, SNV, and Plan International.

also reported the lack of financing as a major challenge. Although the enterprises see MFIs and banks as potential sources of finance, they find it difficult to fulfil the requirements for loans from these institutions.

This study is aimed at exploring ways to sustainably finance sanitation investments by households as well as by sanitation enterprises.

### **3. Objectives of the Study**

#### **3.1. General Objective**

The study plans to explore options for sanitation financing for enterprises and households, examining the Ethiopian context but also referencing potentially relevant approaches used in other countries. The final output from this study will assess the suitability and performance of existing financing options for sanitation businesses and customers, as well as identifying ways in which financial institutions could increase access to affordable financing. The study shall:

- Assess the project's consumer-oriented financing interventions operating at the local level, focusing on the VSLA approach in use.
- Assess the project's enterprise-oriented financing interventions, including activities with regional and national level microfinance institutions.
- For the above-mentioned interventions, assess their scale, effectiveness, and impact – and provide recommendations on how to strengthen these approaches.
- Identify and review successful examples of financing approaches in sanitation market development from other relevant sources, both inside and outside of Ethiopia – and provide insights and recommendations for alternative approaches to consider.
- Provide specific recommendations on how the various financing components of the Transform WASH project could be enhanced or strengthened.

#### **3.2. Specific Objectives: Financing for Sanitation Enterprises**

- Assess the results of the Project's enterprise-oriented financing interventions, including activities with districts, regional and national-level MFIs.
- Assess financial institutions' learning regarding their experiences and challenges working with Project partners, enterprises and households.
- Review ways of encouraging financial intuitions to provide more loans for sanitation market development, identifying key challenges and opportunities in each setting.
- Identify and review best practices on sanitation financing from relevant sources<sup>2</sup>, both inside and outside Ethiopia, and provide insights and recommendations for any alternative, potentially viable approaches to consider.

#### **3.3. Specific Objectives III: Financing for Household Sanitation Investments**

- Assess the Project's consumer-oriented financing interventions at the local level, focusing on household loan schemes, including but not limited to VSLAs.
- Analyse the performance of VSLAs and other consumer lending institutions with regards to their ability to generate demand for sanitation loans including their viability for scaling up.

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<sup>2</sup> Such as programmes run by non-governmental organisations, international agencies, development banks, or private sector finance institutions.

- Assess the household-level loan experience, including incentives and barriers related to utilizing loans for purchase of sanitation products.
- Identify any other household financing options (including formal and informal sources) that are in use in Project areas.
- Identify and review best practices on household financing from relevant sources<sup>3</sup>, both inside and outside Ethiopia, and provide insights and recommendations for any potentially viable, alternative approaches to consider.
- Provide practical recommendations on how to enhance, diversify, and scale up the Project's household sanitation financing interventions.

## **4. Methodology**

### **4.1. Study Design**

The study will commence with a short Inception Phase (comprising mainly desk-based research) which will be used to develop a detailed investigation and analysis plan. The investigation plan will be reviewed by Project partners and finalized by the Consultant prior to commencing field work.<sup>4</sup>

The study will collect and analyse both primary and secondary data. Analysis of primary data will be through a mixed methods approach involving both quantitative and qualitative techniques. For the household level study, a representative sample will be drawn from the population of over 400 households who have accessed loans from VSLAs. Focus group discussions (FGDs) will be conducted with selected members (and non-members) of VSLAs to explore their experiences. Key informant interviews (KIIs) should be conducted with VSLA facilitators, relevant GoE officials from Woreda, Zonal, and Regional levels, and selected Project staff.

The study also will focus on MFIs in each focus region (see Section 5.2) and enterprises who have accessed loans from these institutions. Partner and non-partner MFIs and SACCOs will be identified at each administrative level for participation in the study. NGOs with significant sanitation or related financing experience with MFIs or other mechanisms also should be contacted.

### **4.2. Study Areas**

Primary data will be collected in the three focus regions (Amhara, Oromia and SNNPR) where the Project is actively working towards creating access to finance for both enterprises and households. Gozamen Woreda (Amhara), Shebedino Woreda (SNNPR), and Wando Genet Woreda (Oromia) are the recommended study sites, as they are among the well-established intervention areas for VSLAs.

### **4.3. Study Sample**

In the three focus regions, two to three kebeles will be identified by the Consultant through discussions with Project staff. In each kebele, the Consultant will select an appropriate number of households, VSLA facilitators, and key informants from GoE, enterprises, and financial institutions.

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<sup>3</sup> As above.

<sup>4</sup> The inception report should be concise, and the inception process should be conducted quickly, ideally within the first week of the assignment.

Collection of data from the ‘supply’ side will include financial institutions such as MFIs, commercial banks, VSLAs, and others. On the ‘demand’ side, sanitation enterprises – whether they have taken loans or not, will be approached. And, consumers (households) will be interviewed to learn about their experiences and attitudes towards loan institutions and other sources of credit, as well as their readiness and perceived ability to pay back such loans.

#### 4.4. Recommended Data Collection Queries

The following table presents some recommended guiding questions for surveys and interviews. These can be modified or expanded as determined necessary by the Consultant.

**Table 1: Recommended Survey Queries**

Unit of Study	Thematic Areas
<b>MFIs</b>	<ul style="list-style-type: none"> <li>• What are the visions and strategies of MFIs towards financing the overall sanitation market?</li> <li>• How do MFIs view the prospect of making loans to sanitation enterprises, and/or sanitation consumers?</li> <li>• What are the terms of the loans made to sanitation enterprises or customers?</li> <li>• How effective is the revolving fund management process? How are the funds used? How many and what types of enterprises have accessed the funds?</li> <li>• How was the experience working with Transform WASH or other WASH sector agencies? Government?</li> <li>• What constraints are being encountered in disbursing loans to sanitation enterprises?</li> <li>• How effective has loan repayment been so far?</li> <li>• What actions have been taken to overcome challenges in managing, lending and collecting on enterprise loans?</li> <li>• What rules or regulations governing MFIs should be changed, to strengthen performance?</li> <li>• What opportunities exist to scale up any best practices?</li> <li>• What should be done in order to make these schemes more sustainable and profitable?</li> </ul>
<b>VSLAs</b>	<ul style="list-style-type: none"> <li>• How effective and capable have VSLAs been in providing consumer loans? What proportion of the loans have been for sanitation investment?</li> <li>• Is there unmet demand for sanitation loans in these communities? If so, what are the factors limiting VSLA performance?</li> <li>• What other community level platforms or structures exist apart from VSLAs with the potential to provide loans for households?</li> <li>• What unique strengths or advantages do the VSLAs offer in increasing sanitation coverage in their respective communities? What are their weaknesses or gaps in capacity?</li> <li>• How scalable and sustainable is the VLSA model, given the scale of the sanitation challenge?</li> <li>• What needs to be done to further improve and enhance VSLA performance?</li> </ul>

<b>Unit of Study</b>	<b>Thematic Areas</b>
	<ul style="list-style-type: none"> <li>• What else should be done to improve the supply of financing for sanitation consumers?</li> </ul>
<b>Households</b>	<ul style="list-style-type: none"> <li>• How willing and ready are households to take loans for sanitation products?</li> <li>• How easy is accessing a loan from VSLAs?</li> <li>• How satisfied are households with the loan amount, duration, interest rate, and repayment terms?</li> <li>• Was the household able to purchase products of their preference, desired quality, and at an appropriate time?</li> <li>• Were loans used for the intended purpose or diverted for some other household priority?</li> <li>• What do household members suggest improving the experience of consumer credit for sanitation?</li> </ul>
<b>Enterprises</b>	<ul style="list-style-type: none"> <li>• What is the experience of enterprises in getting loans and working with financial institutions?</li> <li>• How the loans impacted their business performance?</li> <li>• What needs to be improved to make their experience better?</li> </ul>

## 5. Deliverables

The Consultant is expected to conduct and deliver reports and other products as per the methods and objectives outlined in this ToR. The task deliverables are:

1. Concise Inception Phase report with a detailed investigation plan (for review and comment).
2. Final investigation plan including proposed field schedule and logistics.
3. Detailed draft research report (for review and comment).
4. Detailed final research report.
5. A Transform WASH “Learning Note” summarizing the key study findings.
6. At least two blog articles based on the research findings (e.g., one focused on enterprises, and another focused-on consumers).
7. A presentation file (PPT) summarizing the research and key findings.
8. Presentation of the findings to a selected sector meetings or event (to be determined).<sup>5</sup>

## 6. Qualifications

The Consultant shall have an academic background in economics, finance, accounting, banking, or other related discipline. He/she also should have extensive knowledge of the Ethiopian banking and finance system and its regulations and policies particularly as relates to sanitation financing, and previous experience on similar studies in market landscaping and analysis of financial institutions

## 7. Data management and transfer

The Consultant shall maintain well-organised data files and will transfer these to IRC WASH at the conclusion of the study. These data and records should include:

1. Any audio recordings of interviews, written transcripts, raw quantitative data;
2. Any reports, documents, or other publications acquired for the research.

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<sup>5</sup> IRC will work closely with the Consultant regarding preparation and delivery of items 5 through 8.

3. Lists of key informants and institutions contacted during the study, including contact information.

## **8. Acceptance Criteria/ Performance Requirement**

The selection of the consultant will be based on:

- i. Competency in conducting studies especially related to sanitation financing for at least five years
- ii. Availability throughout the study undertaking (i.e. November and early December)
- iii. Quality and clarity of the data collection plan and logistical arrangement. Quality and clarity will be assessed against the following:
  - Knowledge of Ethiopian financing institutions and local contexts in each region
  - Proven track record of conducting similar studies and analyses
  - Extensive knowledge and experience with data review, analysis, and synthesis

## **9. Level of Effort and Timing**

The assignment is for **25 working days** for the Consultant. The process is expected to commence by mid-November and to be completed in December 2019. Finalization of deliverables may take place in January, as end-of-year schedules may come into play.

## **10. Transform WASH support**

Transform WASH will assist in facilitating any letters of support required for information collection or other purposes.

## **11. Communications**

The consultant will routinely communicate with Ephraim Mebrate, IRC Research and Policy Advisor, and Peter Feldman, IRC Project Manager to discuss progress, constraints, as well as safety and security of team members as related to the assignment.

Any modifications to the scope of work, whether in technical requirements, assessment questions, assessment team composition, methodology or timeline must to be agreed upon in writing by IRC.