

Developing microfinance for sanitation in Tanzania



A report for the SHARE Research Consortium by
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Executive summary

Rationale, context and research questions

Governments and donors are currently expecting households to fund the bulk of the investments required for expanding the reach of sanitation services in a sustainable manner, especially in countries where on-site sanitation is the norm. However, household investments rarely materialise at the pace or at the scale that would be needed to make a significant difference in terms of public health and well-being. In such contexts, it is important to explore how microfinance can help leverage household investments, as well as unlock funding to support the development of a complete range of sanitation services, such as latrine emptying.

Over the last five years, SHARE supported a research initiative on sanitation microfinance. The research took place in three phases. A desk-based review was carried out in 2010, which mapped out global experiences with sanitation microfinance and identified that the most significant experiences were taking place in India. In 2011, field visits were carried out in India to extract lessons on the development of sanitation microfinance there and in Tanzania in order to explore whether there was a potential to develop sanitation microfinance. A one year action-research was conducted in Tanzania from December 2013 to January 2015, which findings are presented in this report.

Based on the observation from the SHARE research that microfinance is rarely used for sanitation, the action-research in Tanzania sought to address the following questions through “learning by doing”:

- Are financial institutions (FIs) interested in sanitation? What type of assistance do they need in order to make the jump?
- Where FIs are providing loans, how is that helping to increase access to improved sanitation?

The main activity of the action-research was the provision of “smart subsidies”, in the form of training and technical assistance, to selected institutions so that they would start offering financial services for sanitation and to promote the development of the sector as a whole. This training focused on market research for developing financial products for sanitation and support to institutions that pilot-tested the products developed. The programme did not provide any funding to MFIs and NGOs, such as in the form of working capital to provide loans. The term “sanitation microfinance” is used as a short hand in the research to refer to the provision of microfinance to either households or small businesses so as to enable them to invest in sanitation services.

The Tanzanian sanitation and microfinance context

Only 12% of Tanzania’s population had access to improved sanitation in 2013 (JMP). A National Sanitation Campaign (NSC) was launched in 2012 with the aim to stimulate 1.3 million households to invest in improving their existing latrines or building new ones. The NSC set to “prompt households to invest in improving their facilities” and improve supply through a combination of Community Led Total Sanitation (CLTS) and Sanitation Marketing.

Access to formal financial services significantly increased between 2009 and 2013, reaching 57.4% of the population. Of these, 13.9% have access to financial services from banking institutions, while 43.5% have access to financial services from non-banking institutions or credit providers. These credit providers are officially registered as “financial NGOs” and known as “NGO Microfinance Institutions” (referred to as MFIs in the present report).

The sanitation microfinance market: small, but with appetite for new products

As of mid-2011, prior to the action-research, no formal financial institution in Tanzania (including commercial banks or MFIs) was offering sanitation microfinance products to households. The only few experiences of microfinance for household sanitation that were identified in (Trémolet and

Muruka 2013) were loans provided by NGOs, which had had a limited impact and were not offered at scale.

Similarly, microfinance for sanitation businesses was embryonic. WaterAid Tanzania (WAT) led the most significant experience identified by the researchers at the time. In Dar es Salaam, WAT approached different banks and MFIs to source financing for CBOs providing sanitation services, but with limited success. As an interim measure, WAT set up a revolving fund, which enabled two of the CBOs to receive funding. However, the revolving fund did not prove to be the adequate tool for scaling up gulper operations in Dar es Salaam and its operations ended in April 2014.

The 2011 research also found that some FIs were interested in developing sanitation microfinance products. These FIs were relatively new, rather small and “socially-minded” and appeared to be open to new product development. However, these institutions would need training and support for developing new product for sanitation. In addition, the development of housing microfinance provided a model for developing sanitation microfinance. In particular, a housing microfinance working group had been created and seemed to work well as a focal point and network of institutions chaired by the Tanzanian Association of Microfinance Institutions (TAMFI).

Activities under the action-research

Establishing a sanitation microfinance working group

Based on the model provided by the housing microfinance working group, the action-research established a working group on sanitation microfinance composed of NGOs, CBOs and FIs interested in sanitation microfinance, with participation from development partners. Through regular meetings and sharing of information electronically, this working group acted as a platform for learning and sharing experiences, including for voicing the challenges faced.

Three working group meetings were held during the action-research. The action-research kicked off in Dar es Salaam on December 3rd 2013 with the first sanitation microfinance working group meeting. This first session gathered representatives from 15 institutions, including MFIs, commercial banks and NGOs. Two subsequent meetings of the working group (also known as “SanFin-Tz”) took place: first in May 2014 following the training on market research for sanitation and then in December 2014, to present and discuss the results of the action-research. SanFin-Tz also used electronic modes of communication to enable maximum information sharing between institutions on sanitation microfinance in between working group meetings.

The working group also gave a platform to identify “local research partners”, i.e. organisations that would receive training on product development for sanitation and agree to pilot-test the development of new sanitation microfinance products.

Improving research partners’ capacity

Training on market research for sanitation took place in Dar Es Salaam, between January 28th and February 6th. These training sessions gathered 14 representatives from eight institutions: four MFIs (K-Finance, ECLOF, Tujijenge and YOSEFO) and four NGOs with experience in microfinance (MAMADO, CCI, SEDIT and Habitat for Humanity).

The purpose of the training was to familiarise trainees with market research tools applied to sanitation. Research partners were introduced to qualitative market research with the use of focus group discussions (FGDs). The training also introduced participants to sanitation concepts and issues, which was particularly relevant for the four MFIs who were not familiar with the sector.

A pilot-testing workshop was held in Dar es Salaam during June 25-27 2014. The workshop’s aim was to improve partners’ capacity to finalise financial product concepts developed through market research and prepare plans to pilot test the viability of these products. Organised and facilitated by

MicroSave, the workshop was attended by eight staff and managers from CCI, ECLOF (including its CEO) and Tujjenge.

Results from the action-research

Two institutions, CCI and ECLOF expressed readiness to pilot-test financial products for sanitation. The MFI Tujjenge was open to sanitation-focused products but was inclined to finance sanitation businesses by offering their existing financial products to sanitation entrepreneurs. The three research partners' activities under the action-research are presented below.

ECLOF

ECLOF conducted eight FGDs in Arusha with 95 respondents. These FGDs identified demand for sanitation products (e.g. toilet construction, biogas plants). Based on the training's recommendations, ECLOF prepared a pilot-testing plan and set up a pilot-testing team. The MFI received further training from MicroSave during pilot-testing preparation. This support helped dissipate some doubts and improve credit officers' confidence in the product line.

ECLOF launched USAFI (meaning "cleanliness") in mid-November 2014 in its Arusha branch. USAFI is a loan for sanitation products (toilet/bathroom construction, biogas, pit construction), which varies from TZS 500,000 (GBP 184) to TZS 10 million (GBP 3,691), depending on the client. The interest rate is set at 28% per annum (as for other ECLOF products). USAFI operates on the solidarity group lending model, meaning that it is offered to individuals belonging to a solidarity group. The loan is repayable in 12 to 24 months. ECLOF targets at least 60 loans to be disbursed in Arusha branch (about TZS 40 million or GBP 14,766) during the pilot-testing phase set to last until June 2015.

For marketing the product, ECLOF deployed three credit officers and placed posters describing the new product in all branches. The strategy is also to rely on the client himself ("the good ambassador") to spread the word about the product. As of December 1st, ECLOF visited 20 households to make appraisals.

CCI

The NGO CCI had been providing financial services for sanitation prior to the action-research, with funding support from Homeless International (now REALL). CCI manages a Federation fund called "Jenga" to which Federation members contribute, who can then take on a loan for toilet improvement/construction. However, CCI's lending scheme for sanitation was severely affected by low repayment rates. Many Federation members perceived the loan as a grant and were not incentivised to repay.

For CCI, the main lesson from the January training and the market research activities was the need to reform the Jenga Fund's operations particularly to reach non-federation members and adopt mechanisms to ensure repayments. CCI conducted FGDs in Ilala municipality in Dar es Salaam (where the Federation did not operate) with 166 respondents. Market research confirmed that there is an unmet need for sanitation financing in informal settlements.

CCI launched the pilot-testing of its new financial product in September 2014. The loan ranges from TZS 500,000 to 1,500,000 (GBP 184 to GBP 553) and carry an annual interest rate of 30% per annum over a one-year period. Loans will not be provided in cash to clients but in terms of materials and services (acquired by CCI from local builders and hardware stores). CCI targeted a new area in Dar es Salaam where there was no Federation network or groups and hired a loan officer for marketing and managing the loans (including ensuring repayments). The loan officer did extensive marketing activities to clients, including through door-to-door marketing. As of December 2014, CCI disbursed five loans as part of these pilot-testing activities, equivalent to TZS 8 million (GBP 2,953).

Tujijenge

Following the market research training, Tujijenge engaged with UMAWA, a small sanitation enterprise and offered a first loan of TZS 5 million (GBP 1,845) at 3.6% monthly interest rate for a period of six months. As UMAWA successfully repaid his loan, Tujijenge lent UMAWA a further TZS 10 million (GBP 3,691) loan in September 2014.

The MFI also provided loans for solid waste businesses. The training on market research for sanitation was an “eye-opener” and enabled considering businesses that would have never been considered before. Tujijenge also provided five loans totalling TZS 15 million (GBP 5,537) for a group of plastic waste processor’s enterprises.

Lessons from the action research

Are financial institutions interested in sanitation microfinance?

The action-research showed that there was interest among some FIs (as well as NGOs providing financial products) for venturing into sanitation. From an MFI point of view, the main reasons for venturing into sanitation are to regaining some of the image associated with their missions, and to position themselves in a “niche” market, as the microfinance market is increasingly competitive. The action-research showed that properly trained MFIs (and NGOs equipped to provide financial services) can be partners in efforts to increase access to improved and sustainable sanitation schemes. The design of the action-research, based on capacity building and awareness raising on the need for sanitation microfinance (as well as opportunities for each actor), was well suited to attract MFIs and build NGOs’ capacity.

How can microfinance support sanitation services and who are the beneficiaries?

The action-research highlighted that in Tanzania, under current market conditions, microfinance for sanitation can take the form of loans for household sanitation or for sanitation businesses. Under current financial regulations, most MFIs cannot take savings (only the deposit required to take on a loan) and therefore can only offer loan products. An important lesson is the role of the working group SanFin-Tz for voicing, at sector level, the potential of sanitation microfinance.

Microfinance can also be a tool for developing sanitation services, as attested by the successful enterprise of UMAWA. This sanitation enterprise had received significant support from WAT previously. This experience highlights the importance of combining public and private sector interventions in order to stimulate the development of sanitation services.

Due to limited time and funds, it was not possible to extract conclusions as to how the action-research directly benefited households. According to ECLOF and CCI, clients who are coming forward for acquiring a loan for sanitation are middle to high income earners. However, more robust research is needed to better identify the type of clients coming forward for household sanitation loans.

Challenges involved in developing financial products for sanitation

MFIs (and NGOs) require substantial and sustained support in order to build interest in sanitation and “make the jump” to offer sanitation-focused products. This support was needed for training on a particular skill (e.g. market research) but also to motivate the MFIs/NGOs staff so that they “sell” sanitation to their clients. One main challenge is the “taboo” associated with sanitation. At ECLOF, for example, credit officers were initially embarrassed to talk to their clients about their toilets.

Another challenge is the non-repayment risks that seem to be higher in sanitation than other lending activities. Improving household sanitation requires the services of artisans (fundis). A common fear among MFI staff was that fundis may not do a “good job” and that the customer will return to the MFIs with complaints. In addition, a sanitation loan can be considered as a consumer loan, as it is non-income generating (although it can be income enhancing).

Potential ways forward

Much remains to be done in terms of extracting further learning from ongoing activities and enabling scale-up. Learning should continue to be extracted on an ongoing basis from Tujijenge, ECLOF and CCI's experiences. Potential areas of further investigation include: the impact of the loans on households' income and health; the long-lasting effect of the action-research on partners (will they carry on providing financial services for sanitation?); who is benefiting from these microfinance services (low income earners or high income earners, or both)?

As a follow-on from the action-research, efforts should also be put in identifying ways to scale up the three pilots and develop further the sanitation microfinance market. The Tanzanian financial sector is still small and it may therefore take a long time before a sustainable sanitation microfinance market is built. However, the action-research, with its limited capacities, has shown that some institutions can be stimulated so that they engage with the sanitation sector.

A comprehensive research programme could be developed to rigorously monitor the impact of microfinance on increasing access to sanitation. Such a programme would include interventions at different levels of the sanitation markets, including strengthening the supply chain and promoting microfinance where demand for sanitation facilities has been established through behaviour change campaigns. However these interventions require substantial funds and an appropriate implementation time frame that were beyond the scope of the SHARE action-research.

A number of initiatives involving additional financing could be taken in order to scale-up microfinance for sanitation. These could include:

- Putting in place guarantees or lines of credit dedicated to on-lending to MFIs for sanitation;
- Providing additional “smart subsidies” for ongoing training, learning and systems development;
- Supporting the working group SanFin-Tz, which can act as a focal point for all parties (funders, FIs, NGOs, international organisations) seeking to develop sanitation microfinance; and
- Introducing a prize mechanism to incentivise FIs to develop financial services for sanitation. Such a prize (and the associated financial reward) would stimulate competition among FIs and could potentially attract a large number of participants.

Actions at policy level are also required. Sanitation microfinance should be discussed as part of the broader debate on sanitation sector financing. The current sanitation policy assumes that households are responsible for investing in household-level sanitation. Current approaches focus on demand promotion and providing support to artisans in order to stimulate supply. However, an analysis of how households can mobilise financing for sanitation investments is missing from the public strategy.

Outside the sanitation sector, it may also be necessary to influence financial sector policy, so as to provide external stimuli for developing the sector. The GoT could consider the adoption of regulations that makes it mandatory or strongly incentivise commercial banks to on-lend to MFIs for social investments, including sanitation.

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Abbreviations and acronyms

CBO	Community-based Organisations
CCI	Centre for Community Initiatives
ECLOF	Ecumenical Church Loan Fund
FGD	Focus Group Discussion
FI	Financial Institutions
GoT	Government of Tanzania
KCB	Kenya Commercial Bank
MFI	Microfinance Institution
MoHSW	Ministry of Health and Social Welfare
NSC	National Sanitation Campaign
SanFin-Tz	Tanzania Sanitation Microfinance Working Group
SAWA	Sanitation and Water Action
SEDT	Social and Economic Development Initiatives of Tanzania
SHARE	Sanitation and Hygiene Applied Research for Equity
TAMFI	Tanzania Association of Microfinance Institutions
VICOBA	Village Community Bank
WAT	WaterAid Tanzania

Note: The exchange rate used in this report is TZS 1= GBP 0.00037 (as of January 2015).

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1 Introduction

This report presents the findings of a one-year action-research project on sanitation microfinance in Tanzania funded by SHARE. The project took place between December 2013 and January 2015. The project was the culmination of a broader research initiative which investigated how financing for sanitation can be mobilised via the use of microfinance in order to support sustainable access to improved sanitation facilities and/or services.

1.1 Background to the research

Governments and donors are currently expecting households to fund the bulk of the investments required for expanding the reach of sanitation services in a sustainable manner. This is particularly the case in countries where on-site sanitation is the norm and where the public sector has de facto withdrawn from service provision. However, household investments rarely materialise at the pace or at the scale that would be needed to make a significant difference in terms of public health and well-being. In such contexts, it is important to explore how microfinance can help leverage household investments, as well as unlock funding to support the development of a complete range of sanitation services, such as latrine emptying. Over the last five years, SHARE supported a research initiative on sanitation microfinance, which took place in three phases, as summarised in Box 1 below.

Box 1 - Overview of the SHARE research on sanitation microfinance

The first phase of the research initiative (referred to as “Call A”) was a desk-based review, carried out in 2010, which mapped out global experiences with sanitation microfinance. This review found that, despite the need for finance at the level of households or small entrepreneurs, microfinance for sanitation is underdeveloped across the globe, particularly in Sub-Saharan Africa. This study found that the most significant experiences were taking place in India.

The second phase of the research (referred to as “Call B”) was conducted in 2011. Field visits were carried out in India to extract lessons from existing experiences for developing sanitation microfinance. Field visits were also carried out in Tanzania in order to identify existing experiences, explore whether there was a potential to develop sanitation microfinance in Tanzania and if so, through which means. Call B provided an in-depth analysis of the microfinance sector in Tanzania and gauged the interest of FIs for venturing into sanitation. This analysis identified that there was a lack of knowledge of sanitation as a potential market among FIs. Building on the findings from this study, Trémolet Consulting and *MicroSave* designed a one-year action-research programme to support MFIs and NGOs for designing and testing sanitation microfinance products in Tanzania. The present report sets out the main conclusion from this third and final phase of the research initiative.

1.2 Research objectives and activities

The starting premise for this action-research is that access to finance is a key hurdle for households who want to invest in sanitation facilities and for sanitation entrepreneurs who wish to develop their businesses. Based on the observation that microfinance is rarely used for sanitation, the research sought to address the following questions:

- Are financial institutions (FIs) interested in sanitation? Why are they not coming forward to provide access to finance for sanitation? What type of assistance do they need in order to make the jump?
- Where FIs are providing loans, how is that helping to increase access to improved sanitation? And for what type of “customers”?

The action-research project sought to answer these questions through “learning by doing”, i.e. by seeking to raise the awareness of microfinance institutions to existing sanitation issues in their immediate contexts; helping MFIs/NGOs identify the role that they can play in order to address those

issues; providing training and ongoing support to help them fulfil that role; establishing a platform for the exchange of experiences between the MFIs and NGOs experimenting with those approaches; and extracting learning from these experiences in a structured manner.

In particular, the action-research project supported the establishment of a sanitation microfinance working group, referred to as “SanFin-Tz”, to help develop a dialogue between microfinance institutions and sanitation experts. The second set of activities was to provide training to selected partners on providing financial services for sanitation and support them in pilot-testing sanitation-focused financial products. SanFin-Tz working group provided the platform for sharing the experiences and lessons from these activities, as well as taking stock of other activities related to sanitation microfinance in the country or elsewhere in the region.

1.3 Structure of the report

The present report describes the activities carried out under the action-research and extracts emerging lessons on the potential for developing sanitation microfinance through capacity building and networking. It is structured as follows:

- **Section 2** provides a brief overview of the sanitation context and microfinance environment in Tanzania at the start of the project;
- **Section 3** presents the main stages of the action-research, with detailed description of the objectives and activities undertaken;
- **Section 4** brings together emerging lessons from the action-research, in particular on the context of Tanzania; and
- **Section 5** identifies areas for further research on microfinance for sanitation.

In addition,

- **Annex A** contains the full list of individuals and organisations that have taken part in the research;
- **Annex B** contains a summary of the MFI ECLOF’s activities under the action-research;
- **Annex C** contains a summary of the NGO CCI’s activities under the action-research
- **Annex D** contains a summary of the MFI Tujijenge’s activities under the action-research
- **Annex E** presents the main elements of a pilot-testing plan; and
- **Annex F** presents a list all outputs from the SHARE Call C project.

2 The sanitation and microfinance context in Tanzania

2.1 Access to sanitation

Tanzania has one of the lowest improved sanitation coverage in the world. Although most Tanzanians have some kind of sanitation facility, most of these are unimproved. According to the latest JMP figures only 12% of Tanzania's population has access to improved sanitation, defined as the availability of an individual (i.e. non-shared) facility, which ensures hygienic separation of human excreta and human contact. The situation in rural areas is worse than the national average, with only 7% of the population having access to an improved facility according to the JMP, although 80-90% uses some kind of facility.

In urban areas, the lack of adequate sanitation facility is compounded by the lack of adequate services for transporting the sludge. In Dar es Salaam, for example, only 10% of the population is connected to the sewerage system, which means that the rest of the population has to rely on mechanical emptying of their pit latrines or, in most cases, on manual emptying. Common practices include dumping the sludge in the nearby environment or in gutters at night and flushing the latrines onto the streets during the rainy season. In Dar es Salaam, for example, it is estimated that over 95% of the sludge that is manually emptied is dumped untreated into the environment (Trémolet and Binder 2013).

A number of reasons account for this situation, including low demand for sanitation (particularly in rural areas where sanitation is not an investment priority) as well as the lack of enforcement of environmental regulations. In Dar es Salaam, municipalities are in charge of enforcing environmental regulation and should issue fines for households that do not have appropriate latrines or dump their sludge untreated in the environment. However, enforcement seldom takes place, as households are often too poor to pay the fines. In addition, most emptying services are offered by vacuum tank operators that cannot have access to densely populated urban areas.

2.2 The policy and institutional context

In the last decade, the Government of Tanzania (GoT) made efforts to address the situation. The GoT signed the 2008 eThekweni Declaration to establish specific public sector budget allocations for sanitation and hygiene programmes. The target is that these sanitation and hygiene allocations should be a minimum of 0.5% of Gross Domestic Product (GDP). The earmarked budget of USD 20 million under the National Sanitation and Hygiene Campaign, launched in 2012, was a milestone for the sanitation sector in the country and a first step towards this commitment (Jiménez and Mtango 2014).

In addition, a Draft Sanitation Policy was elaborated in 2011 and is waiting for approval at the Ministries cabinet. Its content is already guiding the sanitation promotion strategy in the country. However, the policy treats sanitation as a cross-sectoral issue, which results in a lack of leadership and direction. The institutional set-up is as follows:

- The Ministry of Health and Social Welfare (MoHSW), under the Environmental Health Unit is in charge of sanitation and hygiene.
- The Ministry of Education and Vocational Training defines sanitation and hygiene promotion methodologies at schools, and decides on standards for school water and sanitation services.
- The Prime Minister's Office for Regional Administration and Local Government (PMO-RALG) is in charge of budget allocation, monitoring and supervision of Local Government Authorities (LGAs).
- The Ministry of Water (MoW) is responsible for the Water Sector Development Programme (WSDP), which aims at increasing water and sanitation coverage in the country.

An inter-ministerial Memorandum of Understanding (MoU) on sanitation and hygiene was signed in 2010 by these four ministries to coordinate their activities.

The operational programme of the Sanitation Policy is the National Sanitation Campaign (NSC). It aims to stimulate 1.3 million households to invest in improving their existing latrines or building new ones.¹ The NSC set to “prompt households to invest in improving their facilities” and improve supply through a combination of Community Led Total Sanitation (CLTS) and Sanitation Marketing. The programme is delivered by training facilitators to trigger CLTS, training fundis (masons) to improve latrines and sell upgrades, engaging professional agencies to coordinate messaging, organise experiential marketing events, air supportive radio programming, develop training and promotion materials, improve school sanitation infrastructure, and establish targets and a rigorous monitoring system to allow progress tracking and adjustments (Government of Tanzania 2012).

A study carried out in 2014 found that in 2012-2013, the campaign was developed in 42 districts² (or sub-regions), with a target of 100,000 households (Jiménez and Mtango 2014). The campaign was behind target as the Concept Note estimated that 300,000 households would be targeted by 2012-2013.

2.3 The microfinance environment

Access to formal financial services significantly increased between 2009 and 2013, reaching 57.4% of the population according to FSDT Tanzania.³ Of these, 13.9% have access to financial services from banking institutions, while 43.5% have access to financial services from non-banking institutions or credit providers. As of May 2014, there were 29 banks and over 60 institutions officially providing microfinance services. Some commercial banks, as CRDB Ltd. and Dar es Salaam Community Bank, have a microfinance branch and offer microfinance services. Other smaller institutions providing microfinance services only offer credits (although they do take an initial deposit). These credit providers are officially registered as “financial NGOs” and known as “NGO MFIs”.⁴

The MFIs in Tanzania generally use the joint liability group lending methodology, though individual lending is also practiced for larger secured loans. In the joint liability lending model, clients are trained for a period of 6-8 weeks on group leadership and credit management. Upon completion of the training, the clients open accounts with the MFI and deposit cash collateral – usually referred to as compulsory savings. A few members of the group then access initial loans co-guaranteed by the fellow group members and the cash collateral deposited with the MFI.

Unlike commercial banks, MFIs have a limited range of financial products. MFIs in particular provide enterprise working capital loans with short maturity periods, usually 6 to 12 months. The joint liability model also hinders the development of diversified loan products since fellow group members need to be guaranteed that the borrower will make the repayments from the proceeds of the income generating activity. As such, consumption loans are implicitly discouraged especially for the first loans.

Most microfinance service providers operate in urban settings due to the low-density in rural areas. Unlike in Kenya, where the financial sector is very dynamic, mobile money has yet to grow in Tanzania. Mobile money can reduce operating costs, facilitate access for those in remote areas and therefore increase penetration. However, due to increased competition between MFIs, the latter are

¹ The NSC also targets school sanitation and has earmarked funding for improving sanitation facilities in 700 schools all over the country.

² There are 26 regions in Tanzania, subdivided in 169 districts. The districts are sub-divided into divisions and further into local wards.

³ <http://www.fsd.or.tz/finscope/>

⁴ For simplicity, we refer to these institutions as MFIs in this paper.

slowly expanding towards rural areas in order to reach new customers and test new products, such as agricultural loans for seeds.

Some forms of informal lending models are also being developed in rural Tanzania, such as the Village Community Bank (VICOBA) model. VICOBA and other informal financial institutions have reached 27.9% of rural communities. VICOBA are member-based self-managed lending groups, which operate on a similar model to Rotating Savings and Credit Associations (ROSCAs). In a tontine, each member contributes small amounts to a common pot which total is lent to each group member in turn. Each VICOBA has 15 to 30 members who operate in small groups of five. Those small groups are responsible for the repayment of one another's loans, if one is to default. The VICOBA elects its chairperson, treasurer, secretary, accountant and disciplinarian, and determines its own rules and regulations. Members vote to decide their interest rate, which is always paid at the time a loan is given; the timing of repayment and the amount of possible loans. In Tanzania, some NGOs specialise in supporting the formation of VICOBA groups and provide them training on basics of accounting and bookkeeping.

2.4 Sanitation microfinance: what had been done before the action-research?

Use of microfinance for sanitation activities are very limited in Tanzania, as highlighted in the SHARE scoping study carried out in 2011⁵. As of mid-2011, no formal financial institution in Tanzania (including commercial banks or MFIs) was offering sanitation microfinance products to households (Trémolet and Muruka 2013). Unlike in other countries, as in India or Kenya, where some donors have channelled funds to MFIs to stimulate microfinance for sanitation (and water), MFIs in Tanzania had no experience with designing and offering financial packages tailored for sanitation. The only few experiences of microfinance for household sanitation that were identified in (Trémolet and Muruka 2013) were loans provided by NGOs, which had had a limited impact and were not offered at scale. The two main NGOs that engaged in those types of activities identified at the time were MAMADO and CCI: their activities in this area had been at a very small scale (Box 2).

Box 2 - Use of microfinance for sanitation - experiences in Tanzania prior to the action-research

In 2010, **MAMADO**, an NGO based in the DODOMA region ran a small pilot, which offered micro-loans for toilet construction to low-income households in the unplanned settlement of Chang'ombe, on the outskirts of Dodoma. The Swiss State Secretariat for Economic Affairs (SECO) supported the project and provided seed money for the microloans as well as funding for MAMADO's staff. Project funding was split into two phases. A pilot phase, with funding of USD 10,000 for about 50 to 70 microloans was initially supposed to last for 10 months. Depending on the success of this phase, the rest of the funding would be allocated for scale up. During the first phase MAMADO offered loans of approximately TZS 350,000 (GBP 129), with a 12 to 18 months maturity period, to which a 1% flat monthly interest rate was applied – which is a non-commercial and therefore unsustainable interest rate. The loan amount would vary depending on the cost of the sanitation solution chosen. For existing toilet renovation, some loans are available for amounts as low as TZS 9,000 (GBP 3.3.). By mid-2011, MAMADO had offered 20 loans and had low repayment rates. The second phase never took off.

CCI is a member-based organisation, which was set up in 2004 as part of the international SHACK/ Slum Dweller International (SDI) network. The SDI approach uses savings and credit schemes for mobilising the community. CCI encourages group members to start saving schemes. These join together in each town to form a Federation at town or city level. These city-level Federations then joined to form the Tanzania Federation of the Urban Poor (TFUP). The TFUP has developed its own funding mechanism, the Tanzania Urban Poor Fund, or Jenga Fund (meaning "let's build" in Swahili) which is used to mobilise savings from the Federations, combine them with other sources of funding (presently from SDI and Homeless International) and give loans to a variety of programmes. Jenga Fund contributors can obtain loans for water connections, sanitation and housing.

⁵ It is likely that SHARE has not identified all NGOs providing microfinance services for sanitation in some form or another. For example, during the action-research, it appeared that Habitat for Humanity Tanzania had been giving loans for sanitation as part of a lending scheme for home improvement. Habitat for Humanity, which had 800 active loans in Dar es Salaam early 2014 estimates that about 50 of these are for sanitation equipment construction or improvements.

Members can obtain other small loans for livelihood activities from their own savings schemes. Members can obtain one-year loan at a flat annual interest rate of 10%, with values ranging between TZS 150,000 (GBP 55) and 200,000 (between USD 110 and 150). The interest rate is equivalent to 0.83% monthly, when a typical MFI would charge much higher rates (FINCA, for example, charges 3% per month for individual loans and 4% for group loans). As of 2011, the Jenga fund had disbursed 211 toilet loans in five different regions of Tanzania. Repayment rates were very low, however – meaning that the Jenga Fund’s lending activities for sanitation were not sustainable.

Source: (Trémolet and Muruka 2013)

Similarly, microfinance for sanitation businesses was embryonic. WaterAid Tanzania (WAT) led the most significant experience identified by the researchers at the time. In Dar es Salaam, WaterAid pioneered the development and promotion of liquid waste removal and disposal services using the gulper technology and low cost tank and tricycle transport system. WAT engaged private sector actors to improve the skills and capacities of CBOs to effectively provide sanitation services in a more sustainable manner. Four CBOs (SHIMAWA, TFKM, NUMAGRO and UMAWA) were assessed and selected for receiving training and financing support from WAT and its partners. WAT approached different banks and MFIs to source financing for these organisations, but with limited success. As an interim measure, WAT set up a revolving fund, which enabled two of the CBOs to receive funding. However, the revolving fund did not prove to be the adequate tool for scaling up gulper operations in Dar es Salaam. Box 2 describes in more details WAT’s experience with facilitating access to finance to sanitation entrepreneurs.

Box 3 - WAT's experience with sanitation microfinance prior to the action-research

Of the several institutions approached by WAT, only one commercial bank - Kenya Commercial Bank (Tanzania) Ltd (KCB) had a fairly positive response. However, KCB was reluctant to engage with sanitation CBOs. This was due to their limited understanding of the water and sanitation sector on the one hand, while on the other hand, the CBOs did not meet the bank’s requirements, including presentation of a viable business proposal and evidence of strong/stable management.

KCB eventually agreed to provide two business loans of TZS 10 million (GBP 3,691) each at 3% annual interest rate for a two-year period, with a guarantee of TZS 37.5 million (GBP 13,843) deposited by WAT. However, both organisations, which received the loans from KCB, SHIMAWA and TFKM, failed to meet their payments obligations. SHIMAWA failed to pay the loan back as per its agreement and WAT decided to terminate its support. TFKM managed to repay about TZS 4.5 million (GBP 1,661) only.

As the prospect of accessing commercial funds faded, WAT set up a revolving fund. WaterAid Tanzania, being an NGO, could not directly fund the CBOs but placed TZS 10 million (USD 7,407) with Harness Africa Ltd to adapt and develop the gulper pump technology, supply tricycles for transporting the sludge to stabilisation ponds or to the treatment plant. The equipment (including Gulper pump, Tricycle, 400 litres metal tank, 40 litres plastic containers) costs a total of TZS 5 million (approximately GBP 1,845 at the time in 2011). As a result, the amount initially allocated by WaterAid Tanzania could only finance two sets of the equipment for the two CBOs identified, UMAWA and NUMEGRO. These two CBOs now provide sanitation services in Temeke district within Dar es Salaam city. It was expected that the repayments from the CBOs would be used by Harness Africa to produce subsequent gulper pumps hence the concept of the “revolving fund”.

WaterAid Tanzania contracted HACH to respond to the need of improving the management of the CBOs as well as to manage the repayments of the pump’s capital costs. A second private firm, EDAT involved in enterprise development, was engaged to conduct credit appraisals, collect loan repayments and monitor loan performance. EDAT would later pass on the accumulated funds to Harness Africa to develop more gulper pumps.

By December 2013, UMAWA had successfully repaid the loan and had turned into a commercially viable enterprise. The CBO has now turned into a CBE and its chairman is now Director. UMAWA also offers solid waste collection services, an activity that enhances its revenues and UMAWA’s director, Mr Milinga, is committed to developing a solid and diversified business. One factor which influenced this outcome was the construction of a DEWATS treatment plant in Temeke (in the area of UMAWA’s operations), which allowed UMAWA to make efficiency gains in their operations (as the CBE could make more trips and saved on petrol). The other CBO, NUMEGRO, received the same support as UMAWA, including training, promotion and

product marketing. Although the group reimbursed the loan contracted from the revolving fund, it performed less well than UMAWA.

2.5 Potential appetite for developing sanitation microfinance: findings from previous SHARE research

SHARE research conducted in 2011 found that FIs did not have experience in sanitation microfinance, but that there was interest among some for developing sanitation microfinance products. In 2011, Trémolet and Muruka consulted with a number of representatives from FIs, including Tujijenge Tanzania Ltd, Mkombozi Commercial Bank, Dar es Salaam Community Bank, and Kenya Commercial Bank Tanzania Ltd on their appetite for providing loans for household sanitation and for sanitation entrepreneurs. This consultation showed that there was potential to stimulate their involvement in sanitation, as some were actively looking to diversify their portfolio. Larger and more established microfinance institutions, such as FINCA or PRIDE, were showing limited interest for household-level products as they equated those to consumer loans. These institutions were focusing on lending to small-scale entrepreneurs, via income-generating loans and are less likely to be willing to diversify into consumer loans.

The FIs that expressed interest in financial products for household sanitation were relatively new, rather small and “socially-minded” and appeared to be open to new product development. They indicated that they could lend to households as long as the latter could demonstrate their ability to repay the loans (through a clear income stream for example). The research found that these institutions have product development or marketing departments that are actively looking for ways to diversify their product offerings. For example, Tujijenge was offering a “solar lamp” loan and was considering diversifying into health micro insurance products. Mkombozi bank, the most recently licenced commercial bank in Tanzania, was also considering offering housing microfinance products in the near future. Similarly, Dar es Salaam Community Bank Ltd was keen to develop low-income housing loans. However, the research found that these institutions would need to conduct a thorough market demand assessment before deciding on whether to enter this market or not. Such a market demand assessment could start with asking their existing customers whether they would be interested in this type of loan product, for example.

FIs were found to be more inclined to provide financial products for households rather than for sanitation entrepreneurs. One reason identified was that FIs usually had a very limited understanding of this type of business. Some of the financial institutions contacted expressed the need to understand how sanitation businesses could be viable businesses and formulate viable financial propositions. Some large FIs were found to be providing asset financing for purchasing of trucks and tankers for transport services. Discussions with a banker in Dar es Salaam could not confirm whether these trucks or tankers were used for sanitation services. However, MFIs, which provide smaller loans have limited interest in financing sanitation entrepreneurs.

Overall, Trémolet and Muruka found that MFIs had a limited understanding of the sanitation sector, whether household sanitation or sanitation business. However, they could be encouraged to include sanitation financing in their portfolio, as part of wider social programmes, or as stand-alone products. For example, Tujijenge indicated that sanitation financing could be incorporated into their planned medical insurance loan product. Discussions with managers of Mkombozi Commercial Bank Ltd and Dar es Salaam Community Bank Ltd respectively indicated that sanitation financing could be included and prioritised in the housing schemes the institutions were planning to develop. All the same, there is need to actively develop the interest of financial institutions in Tanzania to consider financing their customers to access improved sanitation facilities and/or services. In addition, the sporadic and limited input from NGOs (often ill-equipped to provide financial services) meant that there had been little opportunities for microfinance to become a substantial tool to increase access to sanitation services at scale.

The research found a number of initiatives to support housing microfinance, which could provide lessons for developing sanitation microfinance markets. A housing microfinance working group had been established and was providing a support platform for institutions (NGOs and FIs) involved in sanitation microfinance. This development was related to a USD 40 million World Bank project initiated in 2010 for developing the housing mortgage finance market, including through fostering the development of a housing microfinance market in Tanzania.

The recommendation from this research was that it would be necessary to stimulate the interest of existing financial institutions so that they could start offering sanitation microfinance products. The possibility of strengthening the capacity of NGOs already offering sanitation microfinance was also identified as a potential avenue to be explored rather than dismissed off-hand. The research identified a number of critical actions and additional research needs that would be necessary to achieve these goals, and proposed that some of these actions be undertaken through an action research programme to be funded by SHARE. Unlocking the funds for this next phase took longer than expected, which means that the action research activity could only start in December 2013. By then, key individuals within WaterAid Tanzania and potential research partners had moved on, which meant that it was necessary to rekindle interest through the establishment of a network of partner institutions as a first step for the research.

3 Overview of the action research activities

Trémolet Consulting and MicroSave designed the action-research as a one-year programme. The programme could not involve any funding to NGOs or MFIs, but provided “smart subsidies” in the form of training and capacity building. This was partly due to funding limitations, as the SHARE research consortium could only provide funds for research and no start-up capital for MFIs for example. It also reflected the willingness to test the hypothesis that microfinance providers could start offering financial products for sanitation once they had received sufficient training about the market and product development.

3.1 The action-research approach

The design of the action-research partly built on MicroSave’s approach in India in their collaboration with the international NGO Water.org for developing microfinance for sanitation in Tamil Nadu (India). The approach provides “smart subsidies” to FIs in the form of support for developing financial products suitable for the water and sanitation needs of their clients. The approach requires funding for market research, product design and in some cases, financial system development⁶ activities. Each FI is responsible for mobilising loan capital through existing channels (e.g. internal savings, commercial banks and social investors). With this model, Water.org supported the establishment operations of Guardian, the first water and sanitation only MFI in India. The action research sought to adapt this approach to the Tanzanian context and to complement this approach with a strong learning element, with the view to disseminate lessons from the experience.

It was deemed necessary to sensitize FIs in Tanzania to the needs of the sanitation sector, as these needs are significantly different from those of the businesses that the FIs are used to financing, as detailed in Box 4 below.

Box 4 – Developing a financial product specific for sanitation

Although in theory loans for toilet construction or sanitation businesses can be offered from within already existing financial products, in practice the sale of financial products for sanitation requires FIs’ to become acquainted with sanitation services provision. For example, for a traditional MFI, sanitation business activities

⁶ This was not done in the present action-research although some advice was provided to FIs so that they can monitor the financial performance of the sanitation loans.

(e.g. sludge emptying) are not “business as usual” as there is no “stock” that can be assessed and the business assets are different from other business activities (e.g. hairdressing). More broadly, sludge emptying is not a “shop-based” activity, but a service-based activity, which MFIs are generally unfamiliar with, particularly in Tanzania.

In order to overcome this gap, market research can be introduced as a way of identifying the market and understanding clients’ needs. Where FIs have never engaged in the sanitation sector, market research and subsequent product development can help them design targeted product and more widely, understand the dynamics involved in sanitation. For example, a loan for toilet construction would not involve cash to the household. Rather, the MFI would purchase the materials from the suppliers, which is then repaid by the client in credit.

Based on the outcome of the market research, a specific financial product can be developed or not, depending on what existing products are already provided by the FIs. If the latter decide to develop a specific product, they would be in a better position to allocate funding for pilot-testing the product and tracking the financial performance of the portfolio. The financial characteristics of the product should take into account the resources needed to launch and market the products.

As further described below, the action-research activities built on the existing environment in Tanzania, particularly the housing sector, as a housing microfinance working group had previously been established.

Specific activities of the present action-research included:

- Establish a network of NGOs, CBOs and FIs that are mobilised to improve and finance sanitation and hygiene education in Tanzania through a Sanitation and Hygiene microfinance working group. This working group would be built on the model of the housing microfinance working group, which seemed to have worked well as an experience and knowledge platform in the area of housing microfinance, as discussed in (Trémolet and Muruka 2013);
- Improve the capacity of selected local research partners to provide appropriate financial services/products to individuals and/or community based organisations or enterprises to facilitate access to sanitation facilities. These partners could be MFIs, NGOs or CBOs, The objective was to build their capacity through technical assistance in the form of product development training, pilot test support and on-demand hands-on support. Potential research partners had to apply (and effectively compete) for receiving this technical assistance so as to ensure a demand-led process ;
- Document and disseminate the gaps and lessons learnt from the research project both at the country and international levels. This was to include monitoring of performance of the various research partners so as to extract lessons on the approach and on the ability of microfinance institutions to support the development of sanitation markets.

The action-research was hosted by WaterAid, which acted as the anchor institution. The following sections present the main activities of this action-research in more detail

3.2 Establishing a network of local partner institutions

The action-research kicked off with a workshop held in Dar es Salaam on December 3rd 2013. The workshop gathered representatives from 15 institutions: FIs (Mama Bahati Foundation, YOSEFO, ECLOF, K-Finance and Dar es Salaam Commercial Bank), NGOs with an interest and/or previous experience in microfinance (MAMADO, SAWA, CCI) and international organisations (Plan International, WSP and GIZ), These institutions have their head offices in different parts of Tanzania, including in Dodoma, Arusha and Dar es Salaam and operate in different regions.

The workshop provided the opportunity to present the rationale for the action-research, in particular the roles that microfinance could play to increase access to sanitation. The objectives and schedule of the action-research were also presented. The idea of a working group on sanitation microfinance was well-received among participants, who agreed that there was a need to create a

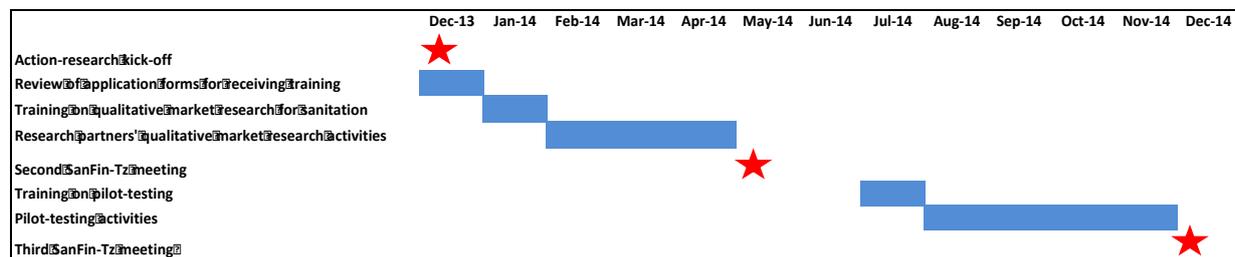
networking and communication platform for the sanitation and financial sectors, which never had had the opportunity to meet before.

The kick-off workshop enabled identifying potential partners which could receive support for developing financial products for sanitation. NGOs and MFIs interested in joining the working group and in receiving targeted support for developing financial products for sanitation were asked to fill in application forms. This formed the basis for selecting partner institutions that could be trained on product development and for tailoring the training to their needs.⁷

In total, eight institutions expressed interest in receiving market-research training. All institutions that expressed an interest in the training were invited to participate, as the project did not wish to exclude any institutions at that stage given the potential benefits of training multiple institutions at once. Some institutions did not wish to receive training (one reason being that they could not afford freeing staff time as the activity was not planned or budgeted) but expressed an interest in attending subsequent working group meetings.

Two subsequent meetings of the SanFin-Tz working group took place: first in May 2014 following the training on market research for sanitation and then in December 2014, to present and discuss the results of the action-research (Figure 1). The working group constantly attracted new members throughout the project implementation period. The second SanFin-Tz working group meeting attracted 13 representatives from 15 institutions, while the third SanFin-Tz meeting gathered 21 representatives from 15 institutions, including from Temeke Municipality, one of the three Dar es Salaam municipalities. Annex A contains a list of participants who attended the three SanFin-Tz working groups.

Figure 1 - Action-research schedule



The SanFin-Tz working group also used electronic modes of communication to enable maximum information sharing between institutions on sanitation microfinance. Workshop presentations and reports were shared on Slide Share (www.slideshare.com/sanfin-tz), which helped bring the discussions and findings from the workshops to a wider audience in Tanzania and beyond, as evidenced by the high number of views for the documents placed on this sharing platform. A Facebook page was also created (www.facebook.com/sanfin.tz) in order to promote the sharing of experience and keep the debate alive. These tools were selected as a low-cost and more versatile alternative to creating a dedicated web page.

⁷ The main information requested was on the institutions' background (type, size, main activities), prior experience with sanitation microfinance, the type of support they needed, expectations from the training and anticipated projects in relation to sanitation microfinance.

Figure 2 - Working group meetings



Following from the May working group meeting, a workshop on sanitation microfinance in the East Africa region was organised in collaboration with WaterAid and SHARE. The workshop, entitled “Embedding microfinance into sanitation activities” was held in Dar es Salaam in May 2014. The meeting examined regional and international experiences (from Malawi, Kenya, Tanzania and India) and tried to identify what actions can an NGO take to support the development of sanitation microfinance. Experience from water.org, Water for People and WASTE-FINISH were presented, as well as from Kenya-based Equity Bank. The workshop also gave the opportunity to the partner organisations (ECLOF, Tujijenge and CCI) to present their activities and thinking in terms of product development. This therefore provided a regional platform for dissemination of their results and allowed them to connect with other actors involved in this field in the region. All outputs from this regional workshop were also uploaded on the Slideshare platform for SanFin-Tz.

3.3 Improving selected partners’ capacity

The specific support to selected institutions was designed in three main stages:

- Training on market research for sanitation;
- Training on pilot-testing and rolling out of pilot products;
- Support for extracting lessons on pilot-testing.

Due to time constraints, as organisations were slow to start pilot-testing the products, most of the support focused on providing structured training and hands-on support. As discussed in Section 6.1, it would be critical to continue extracting lessons from pilot-testing activities in subsequent research, as the pilot-testing activities had only just started or were about to start when this present research ended.

3.3.1 Training on market research for sanitation

Training content: what skills and knowledge were acquired?

Training on market research for sanitation took place in Dar Es Salaam, between January 28th and February 6th. Led and conducted by MicroSave, these training sessions gathered 14 representatives from eight institutions: four MFIs (K-Finance, ECLOF, Tujijenge and YOSEFO) and four NGOs with experience in microfinance (MAMADO, CCI, SEDIT and Habitat for Humanity). All these institutions had had direct experience with microfinance, but only three (CCI, MAMADO and Habitat for Humanity) had previous experience with sanitation microfinance.

The purpose of the training was to familiarise trainees with market research tools applied to sanitation. The course introduced participants to marketing concepts (e.g. “the 8 Ps of marketing”: Product, Price, Place, Promotion, Positioning, Physical Evidence, People and Process) as well as marketing methods, including qualitative market research (QMR). QMR uses focus group discussions (FGDs) in order to identify whether there is demand for service/product and the kind of service/product would be attractive to clients.

The training also introduced participants to sanitation concepts and issues, which was particularly relevant for the four MFIs who were not familiar with the sector. This was done through presentations by sanitation specialists, including from Wilhelmina Malima from the NGO SAWA and Marko Msambasi (ex-WaterAid, now at SNV). Participants were also shown a video on sanitation entrepreneurs, their financing needs, and what opportunities would there be for MFIs to invest in such businesses. A visit to Kigamboni, one of Temeke’s ward, was organised so that research partners could meet the director of UMAWA one of the sanitation enterprises supported by WAT (Figure 3). UMAWA offers liquid and solid waste services and has seen its business growing since it took a loan from the revolving fund set up by WAT. However, the revolving fund was ended by WAT in April 2014, as it was not deemed to be sustainable on the long-run, nor had it potential for scaling up. Mr Milinga, UMAWA’s director, was therefore keen to access other sources of funds, including from commercial banks and MFIs.

Figure 3 - Field visit to Kigmboni to meet UMAWA a sanitation enterprise

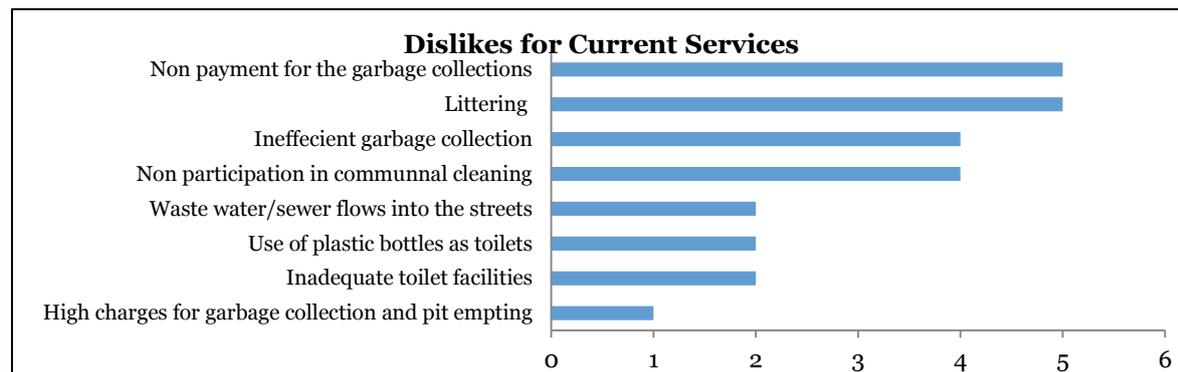
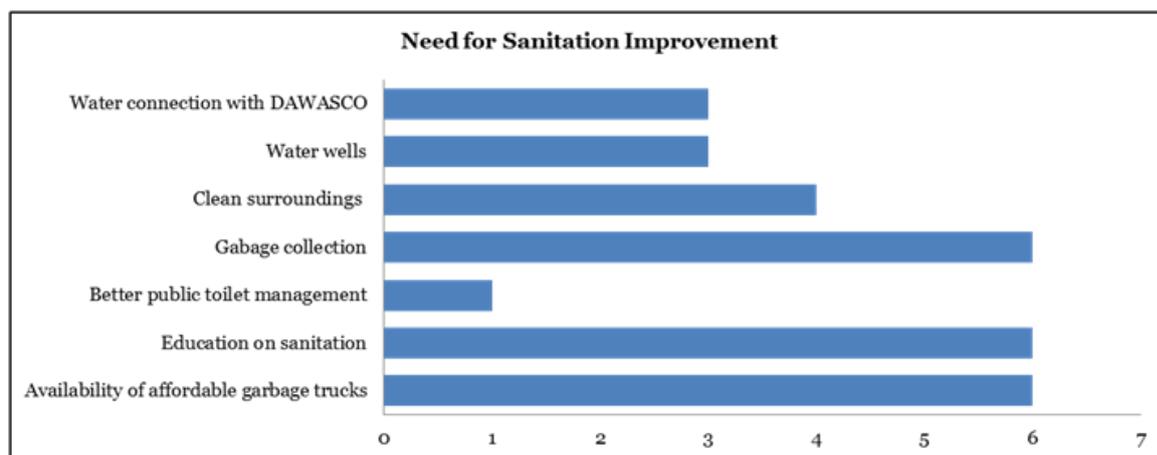


Trainees immediately put their newly acquired skills and knowledge into practice and conducted FGDs on sanitation that were hosted by Tujijenge and K-Finance, two MFIs based in Dar es Salaam. In total, 93 clients were interviewed (in 13 different FGDs). Box 5 presents some findings from FGDs held with Tujijenge’s clients. Each trainee institution was provided with the opportunity to conduct a session, on behalf of Tujijenge or K-Finance. Findings from these FGDs and the field visit to UMAWA were presented to Tujijenge and K-Finance managements. These findings provided the basis for developing initial concepts for financial products.

Box 5 - Some results from FGDs at Tujijenge



At Tujijenge, about 50% of respondents were landlords and the majority of them were women. FGDs highlighted that there are clearly products for tenants (e.g. loans for emptying) and products for landlords (e.g. toilet improvements/ construction). However, it also appeared that respondents understand sanitation very broadly and include solid waste issues. Toilet issues (lack of facilities, emptying problems) are not primary “sanitary concerns”: solid waste and water connections are understood as priority areas for sanitary improvements (see figures below).

Figure 4 - Dislikes for “sanitation services” according to Tujijenge’s clients**Figure 5 - Needs for sanitation improvement**

These figures show that sanitation, as in the management of liquid waste, was not the key “sanitation priority” for Tujijenge’s clients as solid waste issues seemed to have precedence over toilet issues.

This somehow confirms that demand for improved sanitation at household level remains relatively low, especially in Dar es Salaam where most people use some kind of latrines, although most are unimproved.

Which product concepts were identified?

The FGDs and meeting with UMAWA led the trainees to identify the following areas as potential for investments:

- Building/improving toilets;
- Loans for emptying services;
- Loans for improving public toilets; and
- Asset financing (emptying equipment, e.g. gulper).

The most likely products that would be delivered would be loans, either directly to the sanitation entrepreneurs (as a business loan) or indirectly to households, through the financing of the toilet construction/improvement (i.e. the MFI/NGO would pay the fundi (artisan) and the construction material). A combination of savings/loans could not be considered as Tanzania imposes stringent conditions on deposit-taking institutions. None of the institutions participating in the training are allowed to receive savings.

For an institution like Tujijenge, which is very much focused on traditional business microloans, it was clear from the onset that they would only venture into loans for sanitation businesses (as opposed to sanitation facilities improvements).

3.3.2 Pilot-testing training

A pilot-testing workshop was held in Dar es Salaam during June 25-27 2014. The workshop's aim was to improve partners' capacity to finalise financial product concepts developed through market research and prepare plans to pilot test the viability of these products. Organised and facilitated by *MicroSave*, the workshop was attended by eight staff and managers from CCI, ECLOF and Tujijenge. Three of ECLOF staff attended the pilot-testing training: the IT Officer, Finance officer, Loan officer – ECLOF CEO also attended some of the sessions. CCI dispatched two staff (including the CEO), while Tujijenge sent its marketing officer.

The workshop focused on the definition of the pilot-testing plan. *MicroSave* proposed a 10-step pilot-testing plan, including composing the pilot-testing team, preparing the financial projections, etc. A presentation of the 10 steps of the pilot-testing plan is presented in Annex E.

4 Results from the action-research

The action-research worked with a range of institutions with different levels of readiness to enter into sanitation microfinance activities. Of the eight institutions which received training on market-research, only two, CCI and ECLOF expressed readiness to pilot-test financial products for sanitation. In addition, Tujijenge joined as additional research partner, even though they had not taken part to the initial training workshop.

Following support from *MicroSave*, ECLOF launched their pilot-testing in November 2014. CCI started pilot-testing in August 2014. While Tujijenge was open to sanitation-focused products, the MFI did not want to create a new product, but were inclined to finance sanitation businesses by offering their existing financial products to sanitation entrepreneurs. Some other institutions were developing microfinance activities outside the support of the action-research and shared the results through the working group, while others had no interest at that stage to enter into sanitation microfinance, although they found the training useful for raising their awareness on the potential of sanitation microfinance. In the sections below we present the results of the action-research for each institution.

Table 1 provides an overview of the three FIs., including size and experience with microfinance for sanitation.

Table 1 - Comparative table of the three action-research partners

	CCI	Tujijenge	ECLOF- Tanzania
Number of customers	1,139	8,000	11,752
Lending volume in the past three years	Not available	USD 3,000,000	USD 2,300,000
Type of loans	<p>Provision of loans for household toilets, water connections, boreholes, public toilets, livelihoods, and loans for a waste enterprise. The minimum amount of loan was TZS 20,000 (USD 11) and the maximum depended on the loan product.</p> <p>Interest Rate was fixed at 10%.</p>	Mainly provides business loans through group and individual lending methodologies	<p>Mainly provides business loans. The main products are:</p> <ul style="list-style-type: none"> • Jikwamue: loan to solidarity groups – up to 60 people in a group. Loans range from TZS 200,000 (USD 118) to TZS 1,000,000 (USD 591) • Jitegemee: solidarity groups. The average group size is five members. Loans range from TZS 1,000,001 (USD 591) to TZS 10,000,000 (USD 5910) <p>Interest Rate was fixed at 26%.</p>
Experience with loans for sanitation	CCI had provided 532 toilets by December 2013 loans for households and one loan for public toilet construction. However, the institution experienced low repayment rates (30%).	No experience	No experience, but developed interest as its sister organisation ECLOF-Kenya was engaged in the sanitation sector
Experience with other social sectors	Also involved in housing microfinance and waste businesses	Tujijenge piloted loans for health insurance, cook stove or solar power system. However, Tujijenge suspended these products (sometimes despite customer demand) due to lack of buy-in from the staff and lack of supply for spare parts (for the renewable energy system).	ECLOF is piloting an Agricultural loan to small-scale farmers

4.1 ECLOF

4.1.1 Pilot-launch preparation: building staff confidence in the new product

Amongst the MFIs that received training, ECLOF was the keenest to pursue further product development for sanitation. ECLOF-Tanzania was planning to launch sanitation-focused products prior to the training. ECLOF had never ventured in sanitation before, but had planned to follow the footsteps of its sister institution ECLOF-Kenya, which have been providing loan products for WASH services (including for toilet improvement/construction).

ECLOF-Tanzania (based in Arusha and operating in six branches across Tanzania) conducted eight FGDs in Arusha with 95 respondents. Through these FGDs, the following lending product concepts for sanitation were identified:

- Toilet/Bathroom Construction/Improvement for households, businesses and institutions;
- Integrated sludge collection pit and biogas production unit construction; and
- Working capital for sanitation businesses.

Despite some challenges that were anticipated for rolling-out sanitation-focused financial products, in particular credit officers' lack of skills for dealing with sanitation, ECLOF decided to carry on with pilot-testing sanitation-focused products. ECLOF set-up a pilot-testing team, which included the CEO, the operations manager, the operations officer, the finance officer, the IT officer and two credit officers. There was some reluctance amongst ECLOF staff for getting involved in sanitation. Some credit officers were a bit negative initially as they thought it would be difficult for them to face the clients, and talk about their toilets. The finance officer was also reluctant and worried about the risks, as people could say “come and take the toilet back!” if they don't repay. But ECLOF also had sanitation champions (the CEO was strongly supporting this new product, and the operations manager was ready to take it on board).

ECLOF prepared a pilot testing-plan, defining what the objectives were for ECLOF: to reach the low-income earners and help the community – “it's a business but also a service to the community”, highlighted Dativa Mtui (Operations officer). The institution sees sanitation microfinance as part of its “Corporate Social Responsibility”.

During pilot-testing preparation, ECLOF received further training from MicroSave, which helped dissipate some doubts and improve credit officers' confidence in the product line. In total eight staff from ECLOF received training from MicroSave during the action-research.

4.1.2 Product launch and pilot-testing features

USAFI (meaning “cleanliness”) was launched in mid-November 2014 in ECLOF's Arusha branch. USAFI is a loan for sanitation products (toilet/bathroom construction, biogas, pit construction), which varies from TZS 500,000 (GBP 184) to TZS 10 million (GBP 3,691), depending on the client. The interest rate is set at 28% per annum (as for other ECLOF products). USAFI operates on the solidarity group lending model, meaning that it is offered to individuals belonging to a solidarity group. ECLOF was also expecting to provide a TZS 7 million (GBP 2,584) loan to a school for building toilets. The interest rate is set at 28% per annum and the loan is repayable in 12 to 24 months. ECLOF targets at least 60 loans to be disbursed in Arusha branch (about TZS 40 million or GBP 14,766) during the pilot-testing phase set to last until June 2015.

For marketing the product, ECLOF deployed three credit officers and placed posters describing the new product in all branches. The strategy is also to rely on the client himself (“the good ambassador”) to spread the word about the product.

As of December 1st, ECLOF had visited 20 households to make appraisals. Customers were from Arusha (peri-urban) and Bangata region (very rural). Credit officers visited their clients at home to assess their needs, their living conditions and explain the loan process to them. The client has to obtain a quote from the Fundi (local artisan) and come back to the branch to make an application. ECLOF estimates that toilets will cost TZS 1.5 to 2 million in Arusha (GBP 553 to GBP 738) and TZS 500,000 to 1 million (GBP 184 to GBP 369) in rural areas. ECLOF does not plan to give the money to the client but expects to disburse in tranches (e.g. 2 to 3 cheques): for the fundi (artisan), hardware store, and the builder who assists the fundi.

Figure 6 - Some of the "toilets" in need of improvement visited by ECLOF in peri-urban Arusha and the rural area of Bangata



According to ECLOF staff interviewed, initial results from ECLOF's pilot-testing show that people are very interested in the loan and willing to pay for their sanitation needs. ECLOF expected to disburse its first USAFI loan by 15th December. One major constraint for rolling out the loan among its existing customers is that ECLOF, by policy, will not give two loans at the same time to the same client. So clients will wait to finish repaying previous loan to apply for USAFI.

A key constraint to developing these activities further is ECLOF's limited financial ability, as ECLOF does not have sufficient working capital to extend many new loans in this area and is already facing many competing demands on its capital. The product is also seen as very risky: "We are confronted with some of the poorest, who may not be able to repay", Dativa Muti noted.

4.2 CCI

4.2.1 Pilot-testing preparation: reforming CCI's lending model

As presented in Box 2 above, CCI had been providing financial services for sanitation, with funding support from Homeless International (now REALL). However, CCI's lending scheme for toilet improvement and construction was severely affected by low repayment rates (averaging only 30% in 2013) and the NGO was looking for a new lending model.

One main challenge seen by CCI was that most customers perceive the loans given under the Jenga Fund (see Box 2 above) as a grant (which induces these poor repayment rates). This situation means that there was less and less fund available in Jenga funds (which operates on a revolving fund model) for further lending. In addition, the Jenga Fund's disbursement and repayment mechanism are lengthy processes as the Fund relies on the federation committees to remit their payments (savings and repayments). In addition, low or irregular income in informal settlements threatens the viability of lending schemes. One way to enhance income is to provide livelihood loans as well.

For CCI, the main lesson from the January training and the market research activities was the need to reform the Jenga Fund into a full-fledged MFI, particularly to reach non-federation members and adopt mechanisms to ensure repayments. In other words there was a “need to reform the Jenga fund” so as to enable loans to be given outside the Federation and manage these loans on a more “commercial” basis. As a result, CCI hired a credit officer for marketing the loans, the appraisal process and enforcing repayments. This new approach implies that interest rates have to increase in order to cover the operation costs.

Based on the training with MicroSave, CCI conducted a total of 16 FGDs in Ilala municipality in Dar es Salaam (where the Federation did not operate) with 166 respondents. Market research confirmed that there is an unmet need for sanitation financing in informal settlements. However, these FGDs also highlighted some challenges, particularly to ensure the ability to repay. FGDs respondents expressed the need to access loans that could help them increase their revenues, as well as sanitation loans. These income-generating loans would enable households to invest in sanitation. For CCI, this feedback showed the need to introduce other types of loans that are “income generating” – also referred to as livelihood loans – in addition to sanitation loans.

4.2.2 Product launch and pilot-testing features

CCI launched the pilot-testing of its new financial product in September 2014. The loan ranges from TZS 500,000 to 1,500,000 (GBP 184 to GBP 553) for toilet construction or improvement and carry an annual interest rate of 30% per annum over a one-year period. Loans will not be provided in cash to clients but in terms of materials and services (acquired by CCI from local builders and hardware stores). CCI targeted a new area in Dar es Salaam where there was no Federation network or groups, the Kiwalani ward in Ilala Municipality. Kiwalani ward has a population of 82,000 with 6000 houses.

CCI hired a loan officer for marketing and managing the loans (including ensuring repayments). The loan officer did extensive marketing activities to clients. Other than door-to-door marketing, CCI and the loan officer identified VICOBA groups (informal lending groups) as “entry points” to sell the sanitation loan. CCI also used brochures and notice boards describing the advantages and the process involved in sanitation loans. During the pilot-testing period, CCI realised that the involvement of the local government officials was critical in order to ensure the success of the pilot-testing, especially to support marketing, monitoring and follow-up use. For example, local leaders helped setting up community meetings that enabled marketing the sanitation loan product.

As of December 2014, CCI disbursed five loans as part of these pilot-testing activities, equivalent to TZS 8 million (GBP 2,953). All five toilets have already been constructed. These loans are “part of the marketing strategy”. Theresia Ntanga from CCI explained: “some community members want to see the results of the loans first before asking for it”. Over 60 potential clients have expressed an interest for accessing loans for sanitation following the first five loans disbursed.

In the near future, CCI is planning to expand the pilot-testing area to Yombo in Temeke Municipality, where many households are expressing interest for the loan.

4.3 Tujijenge

Tujijenge showed strong interest in the action-research from the on-set as the MFI’s management sent senior staff (Head of Credit and the Operations Manager) to receive the training on market-research for sanitation. Tujijenge also hosted the FGDs that took place as part of the January 2014 training, received the training on pilot-testing and sent staff to all SanFin-Tz meetings.

However, the MFI did not wish to create a separate product for sanitation. Rather, the MFI was willing to lend to sanitation businesses, provided that such businesses were deemed viable, through the same product lines as for other business loan products. As a result, Tujijenge did not allocate a

specific loan officer to sanitation products nor did they carry a specific “marketing drive” for sanitation.

Following the market research training, Tujijenge engaged with UMAWA’s director (Mr Milinga) and offered him a first loan of TZS 5 million (GBP 1,845) at 3.6% monthly interest rate for a period of six months. However, Tujijenge’s loan officer had to go three times to meet UMAWA before issuing the loan. According to Debora Kiwale from Tujijenge, there was little evidence of cash flow (there were cheques from the municipality, but no other means to assess the cash flow) and the business was not the kind of business loan officers usually deal with. As Mr Milinga successfully repaid his loan, Tujijenge lent him a further TZS 10 million (GBP 3,691) loan in September 2014.

The MFI also provided loans for solid waste businesses. According to Debora Kiwale the training on market research for sanitation was an “eye-opener” and enabled considering businesses that would have never been considered before. Tujijenge also provided five loans totalling TZS 15 million (GBP 5,537) for a group of plastic waste processor’s enterprises. The group collects and processes plastic waste materials for sale to plastic factories. They collect and buy used plastic bottles, gallons, DVD covers, broken chairs (they buy it for TZS 500/kg or GBP 0.18/kg). The group uses machines for the processing, called “crush machine” or “pelletizer” – as the plastic is crushed to pellets (rice like) ready for sale to different company (bottle manufacturer, pipes factory, chairs, etc.). The processed plastic is sold at TZS 800/kg (0.29 /kg).

According to interviewees with Tujijenge’s staff, the MFI faces several challenges for expanding further its “sanitation-focused activities”. Tujijenge lacked staff (credit or marketing officers), who can be dedicated to scouting for sanitation opportunities. In addition, the MFI’s current marketing drives are not in cities, but in rural and semi-rural areas, where it was less likely to find sanitation businesses.

4.4 Other institutions

Other institutions are pursuing or planning to pursue sanitation microfinance activities, but independently from the action-research. As a sub-grantee in the WSSCC-funded sanitation programme for Tanzania UMATA, the NGO SEDIT was supporting rural communities in forming VICOBA groups and to allocate a portion of the funds raised to sanitation improvements (Box 6). Habitat for Humanity was not specifically catering for sanitation needs, but had been offering loans for home improvements. Such loans were sometimes used for building toilets.

Box 6 - SEDIT's activities under the UMATA programme

SEDIT is a sub-grantee in the UMATA programme implemented by Plan International (the Executing Agency for the Global Sanitation Fund in Tanzania). UMATA is a sanitation programme implemented through various sub-grantee organisations in rural Tanzania. SEDIT’s role is to “increase households and businesses access to finance to support improvement in sanitation and hygiene through VICOBA’s”. VICOBA’s (or Village Community Banks) are saving groups, which provide informal financial services to about 12% of Tanzania’s population.

SEDIT influences VICOBA groups to form a sanitation and hygiene committee and to contribute towards a sanitation and hygiene fund (each member contribution ranges from TZS 500 to TZS 1000 (GBP 0.18 to GBP 0.36 weekly). Members who need to have their toilets improved and acquire hygiene material (e.g. soap) take a loan. The group assesses the need of several households and acquires the material in bulk. The cost of building the toilet is calculated with the help of artisans. On average, a toilet consisting of just a slab (with the pit) cost TZS 118,000 (GBP 43). With a roof, the toilet can go up to TZS 150,000 (GBP 55). Group construction helps bringing down the construction costs.

SEDIT has been implementing UMATA in the rural district of Kongwa in the Dodoma region. As of December 2014, 53 VICOBA groups have been formed with total number of 1, 244 members. More than TZS 150 million (GBP 55,374) have been accumulated by VICOBA groups in Kongwa of which TZS 14,514,000 (GBP 5,358) were issued as loans for toilet construction. As a result of these interventions, 300 households have acquired

sanitation facilities.

SEDIT works in coordination with other implementers of the UMAMTA programme, who for example train artisans on constructing sanitation facilities. Plan International and sub-grantees also prepared a catalogue, both in Kiswahili and in English, which provides households with a choice of technology at different costs.

SEDIT's activities experience some challenges. In particular, as explained by F. Sambaga from SEDIT:

- VICOBA group members have "limited business ventures", which limits their ability to repay their loans;
- Farmers become very committed to agriculture when it rains (it's difficult to get their attention on anything else, including sanitation);
- Few artisans are attracted to sanitation; most are attracted to housing construction.

The main lessons from SEDIT's experience so far include:

- There is a "spill-over" effect as some non-VICOBA members are constructing toilets after observing group members savings up and constructing decent toilets.
- Construction costs are lowered if done as a group.

SEDIT is also trying to link up with MFIs to get loans for people who are not in VICOBA groups.

The other institutions that were involved in the market research training were K-Finance and YOSEFO. K-Finance hosted FGDs as part of the training but was not ready to venture further into selling loans for sanitation. YOSEFO was keen to enter the market, but was undergoing internal changes (officially becoming an MFI).

4.5 Summary of action-research results

As a result of the action-research, MFIs and NGOs that were trained are better able to provide financial services for sanitation. By December 2014, two institutions that received the training were provided loans for sanitation:

- CCI provided 5 loans (and 5 toilets were constructed) for a total amount of TZS 8 million (GBP 2,953) under a new lending model, based on the action-research support. CCI indicated that clients were meeting their repayment obligations;
- Tujijenge provided several loans (totalling TZS 10 million or GBP 3,691) to a pit emptying business and five loans for solid waste recycling business (totalling TZS 15 million or GBP 5,537);
- ECLOF allocated TZS 40 million (USD 22,400) for pilot-testing the sanitation loan USAFI during the 2015-2016 financial year. ECLOF was conducting loan appraisals as the action-research time-frame was ending.

Another key output has been the establishment of the sanitation microfinance working group, SanFin-Tz. The working group has met three times under the action-research and has gathered 27 different institutions, including one of Dar es Salaam municipality (A full list of SanFin-Tz participants is included in Annex A). SanFin-Tz has voiced the financing needs of the sanitation sector and acted as a platform for initiating collaborations between the sanitation and financial sectors.

5 Lessons from the action-research

5.1 Are financial institutions interested in sanitation microfinance?

The action-research showed that there was interest among some FIs (as well as NGOs providing financial products) for venturing into sanitation, as attested by the presence of MFIs and NGOs during SanFin-Tz meetings and the training sessions that were provided and their subsequent pilot-testing activities.

From an MFI point of view, one main reason for venturing into sanitation is to regain some of the image associated with their missions. For example, ECLOF's mission is "Investing in Human Dignity" (ECLOF); Tujijenge's mission is "Improving the quality of lives". Investing in sanitation is not only a social mission, however, but also a marketing operation, as it can enhance their image among customers and enhance their profile among potential donors. MFIs in Tanzania, as in many other countries, started-off with funding from international donors with a social mission. However, for sustaining and developing their operations, most MFIs have developed into providers of business loans solely.

Another incentive for MFIs to provide sanitation-focused loans is to position themselves in a "niche" market, in an increasingly competitive microfinance market. The microfinance market in Tanzania is growing - the gap in access to financial services has been reduced in recent years and only 32% of the population does not have access any form of financial services. A number of factors contributed to this growth, including microfinance policies and laws and the growth of digital finance. In this context, many institutions are increasingly looking at expanding into "low" income earners sections of the market (due to stiff competition) and in rural areas previously untapped.

Overall, the action-research showed that properly trained MFIs (and NGOs equipped to provide financial services) can be partners in efforts to increase access to improved and sustainable sanitation schemes. In fact, MFIs credit officers are particularly well-suited as "ambassadors" for improved sanitation as they know their clients and are familiar with the type of informal business which they operate. Credit officers also visit their clients' houses for appraising loans. They are not reluctant to travel far and in difficult conditions to meet their clients.

The design of the action-research, based on capacity building and awareness raising on the need for sanitation microfinance (as well as opportunities for each actor), was well suited to attract MFIs and build NGOs' capacity. Feedback on trainings and other support activities has been very positive (as attested by trainees' surveys). For ECLOF and Tujijenge, the two partner MFIs, the involvement of MicroSave as lead training institution was very well received. They are a leading institution in terms of MFI training and organisational development in the region and other parts of the world (such as India or Indonesia), which allows bringing in best practices from other regions. Managers were confident to send their staff (including senior staff) to the trainings.

One finding from the action-research is that FIs do not necessarily need to develop a separate financial product in order to provide loans for sanitation. This is particularly true for loans offered to sanitation entrepreneurs: these loans appear to fit well within Tujijenge's existing portfolio. The major departure is in the loan appraisal process, as the nature of the business is different from what is considered to be a standard business (e.g. shop keeping, hairdressing, farming). The action-research helped create awareness of the potential of sanitation as a market (and break the taboo associated with sanitation) and extend the FIs' activities onto this sector without introducing a new product.

Despite these efforts, the development of the sanitation microfinance sector remains at an embryonic stage and much effort is needed to develop it further. In total, we can estimate that action-research partners will disburse 60-90 loans by the end of the pilot-testing phase (by about mid-2015). Efforts are particularly needed to attract large institutions, which would be able to carry out sanitation microfinance schemes at scale.

5.2 How can microfinance support sanitation services and who are the beneficiaries?

The action-research highlighted that in Tanzania, under current market conditions, microfinance for sanitation can take the form of loans for household sanitation or for sanitation businesses. Under current financial regulations, most MFIs cannot take savings (only the deposit required to take on a loan) and therefore can only offer loan products.

All MFIs and NGOs encountered in the action-research would not give a loan directly to the household. The cash is given to artisans and hardware stores, which is then repaid by the customer. The VICOBA model implemented by SEDIT offers an alternative as it is based on group savings. However, the VICOBA model (described in detail in Box 6) is limited as the amount of funds that is raised is small: the maximum amount the sanitation fund can raise is TZS 150,000 (GBP 55), which limits the households' choice of technology.

Microfinance can also be a tool for developing sanitation services, as attested by the successful enterprise of UMAWA. However, this success was made possible by a number of other public interventions, including:

- WAT support for business development and initial financing through the revolving fund;
- BORDA's financing of a DEWATS sludge treatment facility, which radically reduced UMAWA's operating costs for sludge emptying and treatment; and
- Temeke municipality's enforcement of environmental regulation, which increased the business' customer base.

This experience highlights the importance of combining public and private sector interventions in order to stimulate the development of sanitation services.

As the action-research ended when the first household loans were being disbursed, it is difficult to extract conclusions as to how the action-research directly benefited households. However, early signs from pilot-testing launch indicate that there has been interest in loans for sanitation among targeted populations. Several of ECLOF clients in Arusha, for example, were keen to contract such a loan as soon as they finish repaying their current loan.

The early phase of the pilot-testing also shows the kind of clients coming forward are low to middle income earner, and not the very poor. According to ECLOF and CCI, clients who are coming forward for acquiring a loan for sanitation earn more than of TZS 600,000 (GBP 221) a month. Some earn up to TZS 2,000,000 (GBP 738) per month. This income range indicates that potential clients are middle to high income earners. However, more robust research is needed in order to better identify the type of clients coming forward for household sanitation loans.

From the perspective of UMAWA, the only sanitation (as in liquid waste) enterprise that has benefited from a loan, the action-research has been extremely beneficial in terms of business development. With the TZS 15 million cumulative loans he contracted, Mr Milinga acquired two additional tricycles as well as water pumps and could carry out repairs to his equipment. The CBE has now six employees (as opposed to four previously). As its capacity to provide services is increasing, its customer base has increased and the enterprise is serving institutions and commercial settings as well as households.

5.3 The challenges involved in developing financial products for sanitation

As much as the action-research showed interest and potential for developing the sanitation microfinance market, it also highlighted the challenges that can be anticipated for further developing the market.

MFIs (and NGOs) require substantial and sustained support in order to build interest in sanitation and "make the jump" to offer sanitation-focused products. MFIs and NGOs that were involved in the action-research required substantial support from MicroSave, on site and by phone. This support was needed for training on a particular skill (e.g. market research) but also to motivate the MFIs/NGOs staff so that they "sell" sanitation to their clients. It is not enough to come towards MFIs and present them with the potential opportunities and hand them "toolkits" for including sanitation in their portfolio. The implementation of the action-research experienced some delays, as ECLOF and CCI took longer than expected to launch the pilot-testing. This was due to internal consultations within these organisations on whether and how to go forward in providing loans for sanitation. ECLOF also required additional support for training credit officers at the front line. CCI was also to

convince its partner and funder REALL to agree on allocating funds for pilot-testing the new lending approach for sanitation. *MicroSave* and Trémolet Consulting provided on-going support to these organisations during this internal consultation phase.

One main challenge is the “taboo” associated with sanitation. Sanitation is not a sector that MFIs are naturally ready to take on, let alone to sell to their clients. Most MFI representatives expressed surprise and disgust when confronted with the reality of poor sanitation (through visioning of film by WASTE, the presentations and the field visits). Most of them were also unfamiliar with the common means of emptying the latrines (by “vomiting” or manual emptying). At ECLOF, credit officers were initially embarrassed to talk to their clients about their toilets, as this is seen as a private matter.

Another challenge is the non-repayment risks that seem to be higher in sanitation than other lending activities. Improving household sanitation requires the services of artisans (fundis). A common fear among MFI staff was that fundis may not do a “good job” and that the customer will return to the MFIs with complaints. “What is a good thing [helping people acquire sanitation facilities] can become a bad thing and bring bad reputation to the institution. It happened to us with the Health and solar power products: people were coming to us saying they were not paying “because the light is not working”” (Anna Matete, Tujijenge).

In addition, a sanitation loan can be considered as a consumer loan, as it is non-income generating (although it can be income enhancing). As such, a sanitation loan would be an additional loan for a household that could inflict a burden on household income. Some MFI customers are already struggling with their existing loans, according to research partners. This can also de-incentivise staff to promote sanitation loans.

To address these challenges, loan officers can be “educated” so that they see sanitation as a potential business opportunity (a “sellable” product). For any product to be commercially successful, there needs to be buy-in from the staff at the frontline as well as management level. “One challenge is to understand the business in sanitation: the staff needs to see the opportunity. We need to create awareness among them.” (Dativa Mtui, ECLOF).

Finally, MFIs have limited funds to pilot-test new (and therefore risky) products, whether for lending capital or to deploy staff for training activities and market research and the promotion of the sanitation-specific products. MFIs are particularly in a difficult position as they borrow funds from commercial banks at high interest rates. ECLOF, for example, borrows from CRDB Bank at 16% interest rate per annum. Lending for sanitation, a product that has not been tested in Tanzania, therefore represents high commercial risks for the institution.

5.4 Other lessons

SanFin-Tz has been an important platform for sharing activities and findings from the action-research, as well as for voicing, at sector level, the potential of sanitation microfinance. The working group meetings worked well and attracted a good number of sanitation and financial sector representatives. However, the action-research was less successful in trying to keep the discussion alive through the dedicated Facebook page. The Facebook page proved useful to share information on upcoming or past meetings but it was less successful in terms of being a “social media” platform, however, as the local institutions uploaded limited amounts of their own content.

On the other hand, the Slide Share page that was created proved useful and popular. Posting working reports on www.slideshare.net/sanfin-tz was useful to share the research activities with those in Tanzania who were not able to attend the meetings and with a wider audience looking to extract lessons from the activities. In total, the 21 presentations and documents posted on Slide Share attracted 2,398 views, as of January 2015.

Sanitation microfinance could be promoted as part of wider initiatives to promote access to finance to sanitation services in a broad sense that could include solid waste. As demonstrated by Tujijenge’s initiative to lend to solid waste businesses, such businesses can be attractive to MFIs, while responding to their need to fulfil their social mission. Promoting these “unusual” businesses (that are services, as opposed to product-base) could contribute to building an enabling environment for microfinance for sanitation (as in liquid waste) to develop.

6 Potential ways forward

Even though the action research has successfully attracted attention from the MFI community to sanitation, much remains to be done in terms of extracting further learning from ongoing activities and enabling scale-up.

6.1 Extract further learning from ongoing activities

Learning should continue to be extracted on an ongoing basis from Tujijenge, ECLOF and CCI's experiences. In particular, future research questions should include:

- Will people repay? Have the loans enabled recipients to enhance their income (through reduced medical expenses and improved productivity)?
- Where has this product been mostly popular (in rural /urban areas?)
- Who is attracted to this product (what is their social and economic status?)
- Will credit officers remain motivated to sell this product?
- Has the institution as a whole accepted sanitation as a new product?
- Is it a profitable business for the MFI/NGO?

In addition, research should seek to identify whether microfinance for sanitation has been able to ease the financing burden for those who need it the most. Although microfinance is not adequate for households with no source of income or those at the very bottom of the pyramid, one risk is that microfinance supports the higher income earners (looking to tile their toilets) rather than the low-income earners (who want to step up the sanitation ladder). Monitoring the loans and their effect on households will enable better assessing the role of microfinance for increasing access to sanitation.

In order for such learning to continue, MFI and NGO partners should strengthen the monitoring and evaluation (M&E) of their activities. Institutions should seek in particular to monitor the impact of the loan on their clients (particularly households): is it making the household poorer or is it income-enhancing? Has the health/well-being of the borrowers and her family improved? In general, a robust M&E framework, based on a solid baseline, can put MFIs and NGOs in a much stronger position to evaluate the impact of sanitation microfinance and help with obtaining funding from external funders, if such funds are needed.

6.2 Identifying ways to enable scaling-up

Efforts should also be put in identifying ways to scale up the pilots supported by the action-research and develop further the sanitation microfinance market. The Tanzanian financial sector is still small (in comparison with Kenya, for example) and it may therefore take a long time before a sustainable sanitation microfinance market is built. However, the action-research, with its limited capacities, has shown that some institutions can be stimulated so that they engage with the sanitation sector. A number of initiatives, involving additional financing to the sector or actions at policy level, could be taken in order to scale-up microfinance for sanitation.

6.2.1 Stimulating the market with additional financing

The development of sanitation microfinance can be stimulated by the targeted use of public funds.

Initiatives could be put in place to encourage commercial banks to lend and make capital available to MFIs/NGOs at preferential rates for sanitation. This can be done through guarantees or lines of credit provided by funders. As an example, the Agence Française de Développement (AFD) provides lines of credit earmarked for funding a specific sector. In Vietnam, AFD granted a EUR 30 million

credit line to expand and improve drinking water systems in small and medium-sized cities in six provinces of the Mekong Delta. The financing takes the form of a loan to the State, which on-lend to the Vietnam Development Bank, which then assigns loans for local water companies. A similar scheme could be put in place with a large commercial bank in Tanzania, which would on-lend to MFIs for sanitation activities. Such credit line would ease the process for MFIs to obtain funding for sanitation related activities. Building of such set-up requires time and effort in order to mobilise potential funders and build MFIs' capacity to receive such financing (including improving their M&E framework).

Other than for lending, further funding could be mobilised for additional “smart subsidies” for ongoing training, learning and systems development. The action-research showed that partners require substantial support during the pilot-testing phase, including for motivating frontline staff and the management. It is likely that MFIs willing to launch the product at scale would require further support.

Funding could also be allocated to support SanFin-Tz activities beyond the action-research. The working group can play an important role in future efforts to develop sanitation microfinance, particularly to reach out to potential lending institutions. The working group can also act as a focal point for all parties (funders, FIs, NGOs, international organisations) seeking to develop sanitation microfinance in the country. To keep it alive, an institution has to take the lead for organising regular events, distributing newsletters, etc. As of January 2015, it was not established which institution(s) would take on this role. WaterAid Tanzania was keen to find the right approach and define its role as a lead for the sanitation microfinance working group, but this had yet to be confirmed.

A prize mechanism could be designed to stimulate FIs to provide financial services for households and sanitation businesses. In recent years, prizes and awards have been introduced in the development sector to stimulate innovation and accelerate progress towards a development objective.⁸ A prize for sanitation microfinance would reward FI(s) or NGO(s) that have successfully delivered a specified number of financial transactions related to sanitation (including household sanitation, businesses or school sanitation). Introducing a prize, and a subsequent financial reward, could stimulate competition among FIs and could potentially attract a large number of participants. In addition, prizes usually come with intense communication campaigns (e.g. prize launch, award ceremony, etc.). These communications initiatives would contribute to increase awareness of the potential of sanitation microfinance among FIs. SanFin-Tz could provide a good consultation platform for designing and launching such a prize.

6.2.2 Developing supporting policies

At the policy level, sanitation microfinance should be discussed as part of the broader debate on sanitation sector financing. The current sanitation policy assumes that households are responsible for investing in household-level sanitation but there is no clearly articulated strategy as to how such investments could be mobilised. Approaches have been developed that centre on demand promotion and providing support to artisans in order to stimulate supply. However, an analysis of how households can mobilise financing for sanitation investments is currently missing from the public strategy.

SHARE research argues that sanitation microfinance tools could be considered in order to overcome affordability constraints, at least for those households that are able to repay the loan or to save towards this investment (i.e. those that are above “basic needs poverty line”, estimated at 62% of the rural population and 74% of the urban population as per the Poverty and Human Development Report (2009) estimates). Microfinance is unlikely to be appropriate for the poorest and most destitute households, who may need to receive specific assistance to invest, but could still serve the majority of the population as per those estimates.

⁸ See for example <http://www.ideastoimpact.net/water-and-sanitation-access-challenge>.

Additional actions and advocacy work could be carried out in order to influence the GoT to adopt a regulatory environment supportive of financial services for sanitation. In addition, Environmental Health Officers should endeavour to enforce environmental regulation so that households are encouraged to build toilets.

Outside the sanitation sector, it may also be necessary to influence financial sector policy, so as to provide external stimuli for developing the sector as part of a wider strategy to stimulate the country's development. In India, for example, the Central Bank has identified certain priority lending sectors, where financial institutions (banks) need to provide lending. Similarly, the GoT is considering the adoption of a regulation that makes it mandatory for commercial banks to on-lend to MFIs for social investments, including sanitation. The sanitation working group could identify changes to the financial regulatory framework that could be made in order to make it more attractive for financial institutions to enter the sanitation microfinance sector. To do so, it may be advisable to define joint initiatives with the housing microfinance working group, as interests would potentially be aligned in this area.

Annex A – Institutions which have contributed to the action-research

	Type of institutions	Institutions	Name	Email	Dec 2013 WG	May 2014 WG	Dec 2014 WG	MR training	PT training
1	International organisations, NGOs	Plan International/GSF Tanzania	Nyanzobe Malimi	Nyanzobe.Malimi@plan-international.org	x				
2			Lydia Mcharo	lydia.mcharo@plan-international.org			x		
3		WSP	Ajith Kumar	ckumar1@worldbank.org	x				
4			Kaposo Mwambuli	kmwambuli@worldbank.org			x		
5		GIZ	Linda Engel	linda.engel@giz.de	x		x		
6		DFID	Lukas Kwezi	l-kwezi@dfid.gov.uk	x				
7		ACRA-CCS	Jorg Henkel	joerghenkel@acraccs.org	x				
8	MFIs	Mama Bahati Foundation	Japhet Makau	japhetmakau@gmail.com	x	x			
9		ECLOF Tanzania	Ben Laseko (CEO)	-					x
10			Clarensia Shirma	siashi@yahoo.com				x	
11			Davita Mtui	dativa.bahati@gmail.com	x				
12		Tujijenge Tanzania	Debora Kiwale	deborak@tujijenge.org	x	x	x	x	x
13		K - Finance	Arthur Kaane	akaane@yahoo.com ; dnminzi@gmail.com	x	x			
14			Happy Pesha	happy_pesha@yahoo.com				x	
15			Oscar P.Bwanakunu	oscarpbwana@yahoo.com			x		x
16		YOSEFO	Martha Masha	nmaboja@yahoo.co.uk			x	x	
17			Ndeu Naboja	nmaboja@yahoo.co.uk			x		x
18			Abduel Samson	kabduel@yahoo.com	x				
19		Tujijenge Tanzania	Debora Kiwale	deborak@tujijenge.org			x	x	
20			Anna Matete	annam@tujijenge.org					x

	Type of institutions	Institutions	Name	Email	Dec 2013 WG	May 2014 WG	Dec 2014 WG	MR training	PT training	
21		CRDB Microfinance	Jasmin Sinyau	jasmin_mushi@yahoo.com			x			
22			Richard Madeni	richardmadeni@crdbmicrofinance.com	x					
23	NGOs with microfinance activities	CCI	Teressia Ntangu	teddyntanga@yahoo.com	x	x	x	x	x	
24			Tim Ndezi	ccitanzania@gmail.com			x		x	
25		MAMADO	Augustine Ruheka	mamadotz@yahoo.com	x					
26			Sed Mwamwala	mamadotz@yahoo.com				x		
27			Joyce Kyando	mamadotz@yahoo.com						
28		Sanitation and Water Action (SAWA)	Wilhelmina Malima	sawatz2009@gmail.com				x		
29		SEGIT		Filbert B. Sambagi	filbert.sambagi@seditvicoba.or.tz			x		
30				Tito Mwambala	mwambalatito@gmail.com				x	
31				Silvia James	seditvicoba@yahoo.com				x	
32			Japhet M.Jackson	japhetj@yahoo.com , japhet.jackson@seditvicoba.or.tz		x				
37		TAFSUS	Maggie Msowoya	maggiemsowoya@tafsus.co.tz			x			
33		Habitat for Humanity		Anna Kway	akway@hfhtanzania.org		x			
34				Tonny Charles	ctonny69@yahoo.com		x	x	x	
35		WAT-HST	Judith Sando	jdthsando@gmail.com		x				
36		MFI association	TAMFI	Harry Dambala	hjnndambala@gmail.com	x	x	x		
38	Private sector	VKS construction support services	Kenneth Sinare	kensinare@gmail.com	x	x	x	x	x	
39	Local Government	Temeke municipality	Elias Kazingoma	hjnndambala@gmail.com			x			
40			Grace M. Moshy	gracemack2@yahoo.com			x			

Note: MR Training = Market Research Training; PT training = Pilot-Testing Training; WG= Working group)

Annex B – ECLOF’s profile and activities under the action research

The Ecumenical Church Loan Fund Tanzania (ECLOF)	
<p>ECLOF is an MFI based in Arusha and operating via 6 branches over the country. The MFI was founded in Tanzania in 1994. ECLOF has a sister institution in Kenya, ECLOF-Kenya, which has been providing financial products for WASH for some time. ECLOF’s management had in mind to start offering such products in Tanzania previous to the action-research. However, this never materialised until the action-research. ECLOF was a keen partner during the action-research. The MFI attended all SanFin-Tz meetings and training sessions. The MFI went on from the training to develop and pilot-test financial products for sanitation, including loans for constructing/improving sanitation facilities and biogas plants. USAFI (the sanitation loan) was launched in November 2014. ECLOF committed TZS 40 million (GBP 14,766) for pilot-testing USAFI across all branches. At the time of report writing, ECLOF had not disbursed any loan and was in the process of carrying out loan appraisals. The appraisal process does not depart from the usual appraisal process (as the aim remains to assess the ability to repay). However the loan disbursement process is different as the MFI provides the cash to artisans for constructing the toilets. The amount is then repaid with interest by the household.</p>	
1. Background on the institution at research start	
Information on the organisation	<p>Locations: Arusha (2 branches), Kilimanjaro, Morogoro, Dodoma, Mbeya Number of employees: 55 Number of Customers: 11,752 Lending volume for the past 3 years: USD 2,300,000</p>
Microfinance activities before the training	<p>ECLOF mainly provides business loans. Its main products are:</p> <ul style="list-style-type: none"> • Jikwamue: loan to solidarity groups – up to 60 people in a group- ranging from TZS 200,000 (USD 118) to TZS 1,000,000 (USD 591) • Jitegemee: solidarity groups. The average group size is five members. Loans range from TZS 1,000,001 (USD 591) to TZS 10,000,000 (USD 5910) <p>ECLOF also provides institutional loans (Diakonia) given to churches, para-church institutions and schools mainly for infrastructure development. ECLOF recently introduced an Agriculture product: Loans given to small-scale farmers. This started in Mbeya region and is currently also being piloted in Moshi and Arusha</p>
Experience in microfinance for sanitation	<p>ECLOF had never engaged in the sanitation sector before. They had had some experience with financial products for the construction of water holes, and the purchasing of cleaning materials and water tanks.</p>
Procedure for introducing new financial products	
<p>Prior to the action-research, ECLOF did not carry out a formal pilot-testing phase. They are currently introducing an agricultural loan (still at early stage) but without preliminary market research.</p>	
Experience with innovative products, appetite for testing new areas:	
<p>ECLOF’s most innovative product is the Agricultural loan. It’s deployed in 3 of its branches.</p>	
2. Evolution of their interest throughout the project	
What was their interest in taking part in the SanFin activity?	
<p>According to Ben Laseko (CEO since 2006), there are several reasons which account for ECLOF’s engagement in sanitation:</p> <ul style="list-style-type: none"> • ECLOF’s mission of improving human dignity. Most of Tanzanian cities experience unplanned growth (70% of the city in Arusha is unplanned) –the lack of sanitation equals to a lack of dignity. ECLOF wants to retain its image as working towards improving human dignity. This is important for the client and for the institution as well, including from a Board of Director’s perspective: ECLOF reviewed its mission and thought that sanitation is relevant, including as part of its “Corporate Social Responsibility”. • Positioning ECLOF in the microfinance market: Most MFIs provide the same product: microloans for business. “ If we keep selling the same product that everyone is selling, we may find ourselves pushed out of the market”(B. Laseko). Sanitation makes ECLOF more competitive because no institution has dealt with such products. ECLOF used to receive funds from ECLOF International (based in Switzerland) for development of church construction only, before moving on to support the believers themselves. When 	

<p>ECLOF international started to suffer challenges, ECLOF-Tz started to look for local sources (i.e. commercial funds). ECLOF International only provides funds for capacity building now. That's when our mission started to be dictated by the market, while working within the frame of our mission.</p>
<p><i>Had the institution considered sanitation, prior to the SHARE research?</i></p>
<p>The organization was interested in providing microfinance sanitation products, especially since their sister institution ECLOF Kenya was involved in water and sanitation. ECLOF Board of Directors had requested that ECLOF Tanzania starts working towards providing financial products for sanitation, but this never happened prior to the training. ECLOF was facing internal problems (e.g. one manager resigned). "Without your intervention we would never have got into sanitation" (Ben, CEO). Major limitations include a lack of knowledge on sanitation-related products, but also availability of funds for piloting new (and risky) products.</p> <p>When the invitation to participate to the training on market research for sanitation came in December 2013, ECLOF was keen to send some staff.</p>
<p><i>Type of products that the institution had in mind at the start of the project</i></p>
<p>ECLOF had no specific type of sanitation finance products in mind. "We were not sure what it would look like. After doing our research we came to specifics." (Ben, CEO)</p>
<p><i>Type of assistance requested prior to training</i></p>
<p>ECLOF was interested in receiving technical support for development of sanitation microfinance products and financial assistance (lending capital), if available</p>
<p>3. Product development process</p>
<p><i>Market research (initial product concepts)</i></p>
<p>Two members of ECLOF-T received training on market research for sanitation (with <i>MicroSave</i>) in January 2014. Following the training, ECLOF conducted market research in Arusha in March 2014. A total of 8 Focus Group Discussions (FGDs) were conducted in 3 days with 95 respondents. Through these FGDs, the following lending product concepts for sanitation were identified:</p> <ul style="list-style-type: none"> • Toilet/Bathroom Construction/Improvement for households, businesses and institutions; • Integrated sludge collection pit and biogas production unit construction; • Working capital for sanitation businesses.
<p><i>Pilot-testing activities</i></p>
<p>ECLOF received further training on pilot-testing in May 2014. Following from the training, ECLOF set up a pilot-testing team, prepared pilot-testing plans to define ECLOF's objectives, how much would be allocated during the pilot-testing phase, which staff would be mobilised, the type of loans they would offer and the type of sanitation products these loans would help acquire or improve.</p> <ul style="list-style-type: none"> • The pilot-testing team was composed of the CEO, Operations department (Operations manager), Finance officer and IT officer. In this team, the Operations department is the "sanitation champion". • According to the pilot-testing plan, ECLOF's objectives in venturing in sanitation are to work with people from unplanned areas and to abide to their mission of promoting human dignity • Budget for pilot-testing (excluding staff time): TZS 40 million (GBP 14,766) • Type of sanitation product: toilet improvement, pit construction, biogas plant <p>During preparation of the plans, some staff expressed their concerns. The Finance officer was concerned about the risks that were taken (How are they going to repay these loans? Wouldn't they just tell us to come and take the toilet back if they fail to repay?). Credit officers were also worried about engaging on the subject of toilets with their clients. MicroSave's support in to Arusha in November 2014 was welcomed and helped diffuse the concerns. Eight members of staff were trained in total (including the IT officer and the internal auditor). The training was about how to go for pilot testing, procedures, how to monitor (make a follow-up). <i>MicroSave</i> supported ECLOF in the preparation on financial projections for the pilot-testing.</p>
<p><i>Pilot testing design</i></p>
<p>ECLOF financial product for sanitation is USAFI (meaning cleanliness). The pilot-testing of USAFI was launched on November 10 2014 in Arusha.</p> <p>The pilot-testing period is expected to last from 6 to 12 months. ECLOF anticipates at least 60 loans to be given during the pilot-testing phase. Most clients are expected to be previous ECLOF clients who would move on from their current loan to USAFI (after they finished repaying the previous loan, as ECLOF does not provide two loans at the same time for fear of non-repayment). Whether or not ECLOF will carry on offering USAFI will depend on clients' opinions and trends in repayments. However, ECLOF has already included sanitation in their business plan for 2015-2016 (with TZS 40 million or GBP 14,776 allocated in this area).</p>

The main **marketing method** is an announcement placed visibly in all their branches. Every year, ECLOF also carries out training sessions (on various topics, including entrepreneurship). They envisage introducing USAFI to their clients during one of these sessions. In general, ECLOF relies on the client him/herself for advertising a product (“The client is the best ambassador”) among his/her community.

The **appraisal process** consists of:

- At least one home visit from the credit officer, to see the living conditions of the client and assess his/her businesses – usually, since loans are provided to groups, one trip enables the credit officer to appraise several clients;
- Explaining to the client the remainder of the appraisal process, including the loan disbursement procedure (see below).

The **loan disbursement procedure** is quite complex. ECLOF will not provide cash to its clients. The payment process will follow from the following stages:

- The client obtains an initial quotation (based on consultation with fundis): according to market research, and initial home visits to clients, most client in the Arusha (urban and peri-urban region) would need 1.5 million – 2 million for constructing or improving their sanitation facilities. In rural areas, these cost have been estimated at TZS 500,000 – TZS 700,000 (GBP 184 – GBP 258). The loan amount ECLOF will give to the client will depend on the client and the cost estimate from the fundi.
- With this quote, the client comes to ECLOF’s branch (in Arusha at present) and makes an application
- The application will have to be validated by the local authority – the community chief has the role to attest the identity and the truth of the information given by the client
- The application is submitted to the Branch manager, who may or may not agree on the loan – usually, when an application gets to the Branch manager, credit officers are almost certain that it will be approved.
- If there is approval, ECLOF will make 2 to 3 cheques to different people: one cheque for the hardware shop providing the construction material, one cheque for the Fundi (designer) and potentially one for a builder (the person who will dig the pit or renovate/improve current facilities). One reason why ECLOF is not partnering with a fundi (which could help reduce the costs), is the fact that the institution doesn’t want to be liable to the clients in regards to the construction quality: “If there is a problem (e.g. the toilet breaks) the client will say “this is your fundi, that’s why it’s not working”. We don’t want to take such risk.”

4. Overview of USAFI pilot-testing

Pilot-testing context	
Socio-economic status of region of intervention	<ul style="list-style-type: none"> • Region: Arusha and Bangata (more than 10 km for Arusha – related to Arusha branch – we have put a satellite branch over there. For sanitation loans, they will be coming to Arusha • Estimated Population: we are targeting all of Arusha – everywhere around Arusha • Main economic activities: the targeted population is women with small businesses (including cattle raising in peri-urban areas) + Bulk food business (they needed 2 million) • Access to sanitation (% and type of facilities): most have unimproved latrines
Cost of sanitation equipment (latrines/ biogas/emptying technology)	<p>Latrine</p> <ul style="list-style-type: none"> • In Arusha: TZS 1.2 million (GBP 442) to TZS 2 million (GBP 738), depending on the design • In rural areas: TZS 500,000 (GBP 184) –TZS 700,000 (GBP 258) <p>Biogas Plant</p> <ul style="list-style-type: none"> • In rural areas
Ongoing sanitation-related activities	There is some sanitation campaigning in rural areas: “In the village, the local leader introduced us to some clients, they are campaigning, there is some pressure for them to build a toilet”.
Access to microfinance	<ul style="list-style-type: none"> • <i>Main providers of microfinance services in the area:</i> ECLOF’s main competitors are BRAC, Pride Tanzania and Finca • <i>Estimate of number of existing customers for the MFI in the target region:</i> 50% have microloans - 75% of ECLOF’s clients have multiple loans (from several MFIs)
Sanitation product(s) characteristics	
Financial characteristics	<ul style="list-style-type: none"> • Loan amount(s), IR, repayment period: Loans provided vary from TZS 500,000 (GPB 584) – TZS 10 million (GBP 3,691) (depending on the client – who can be

	<p>an institution)</p> <ul style="list-style-type: none"> • IR will be 28% • Loan repayable in 12 months- 24 months • The loan features are very similar to ECLOF’s other products. However, the disbursement procedure varies as the client does not receive the cash.
Other stakeholders	<ul style="list-style-type: none"> • Who is carrying out: <ul style="list-style-type: none"> ○ <i>Demand promotion</i>: local government is in charge of demand promotion, but ECLOF’ activities is not coordinated with any government activities. ○ <i>Latrine, biogas construction</i>: Local fundis – ECLOF has not partnered with any fundi, so as to avoid bearing any risk if the technology is not adequate.
Marketing approach	
Groups targeted by the sanitation microfinance activities	<ul style="list-style-type: none"> • <i>Gender</i>: women (Jitegemee) • <i>Income</i>: 600,000 TZS monthly on average (although some customers can earn more) • <i>Economic activities</i>: small businesses (brick making, cattle and hen raising, small agricultural project, • <i>Access to financial services</i>: All are ECLOF clients, most have a Jitegemee loan, a business loan. They expect to obtain a loan for sanitation when they finish pay off their loans. ECLOF does not provide two loans at the same time, for fear of non-repayment.
Staff deployment	For marketing and appraisal, 3 credit officers have been deployed (under the supervision of the operations manager). Contributing to monitoring the pilot-testing are staff from finances (finance officer and finance manager) and IT.
Product promotion activities	<ul style="list-style-type: none"> • ECLOF does not (yet) carried out visits specifically to promote sanitation loans. • There is limited cost associated with marketing, as marketing is primarily done through posters in the branches. The main marketing tool will be the client, who is “good ambassador.” “The client will sell it to other clients.” • However, the appraisal process is time and resource consuming as credit officers often have to travel far, and by taxi. • According to financial projections prepared as part of the pilot preparation, each USAFI loan will require over 3 hours of staff time, including 2 hours for client visit.
Appraisal process	<ul style="list-style-type: none"> • <i>Criteria and process for appraising the borrower and their ability to repay</i>: The credit officers usually know their clients, as most have taken a loan before. However, as this is a new loan, the credit officer still has to make an appraisal: the first step is to visit the house, to see the living conditions, to assess their business (have they had new businesses?). • <i>Systems in place to ensure that the loan proceeds will be used for their intended use (i.e. sanitation)</i>: Loans are provided to households, but the cash is disbursed to the local fundi and hardware store for material.

Annex C – CCI’s profile and activities under the action-research

Centre for Community Initiatives (CCI)	
<p>CCI is a Tanzania-based NGO, which has been providing loans for sanitation under a Federation model and with support from the international NGO Reall (previously known as Homeless International). CCI was experiencing low repayment rates and was looking for a different lending model or reinforcing its existing one for sanitation. The NGO received training on market research and pilot-testing and launched the pilot-testing new financial products in August 2014. These products depart from the previous sanitation products as they have higher interest rates (from 0.83% monthly to 3%). These new interest rates partly reflected the new operating costs for CCI as the NGO hired a loan officer to market and manage the loans.</p>	
1. Background on the institution at research start	
Information on the organisation	<p>Type: NGO – CCI is a Tanzanian NGO supported by a number of international organisations, including REALL (previously known as Homeless International). CCI operated the Jenga Fund, a fund which feeds from members’ savings as well as regular fund injection from REALL. The Jenga Fund provides different types of loan aiming at improving urban communities’ livelihood, including loans for water and sanitation loans.</p> <p>Locations: Dar es Salaam, Temeke, Ilala, and KInondoni, Morogoro, Dodoma, Arusha, Mwanza and Mara. CCI was also planning to expand in other new areas (Tanga and Zanzibar).</p> <p>Number of employees: 15 employees Number of Customers: 1139</p> <p>Lending volume: 2012: USD 10,582 = TZS 16,931,500 2011: USD 24,882 = TZS 39,810,873 2010: USD 10,258 = TZS 16,412,200</p>
Microfinance activities before the training	<p>Provision of loans for household toilets, water connections, boreholes, public toilets, livelihoods, and loans for a waste enterprise. The minimum amount of loan was TZS 20,000 (USD 11) and the maximum depended on the loan product. Interest Rate was fixed at 10%. As part of these microfinance activities, CCI gained experience in:</p> <ul style="list-style-type: none"> • Community mobilization and empowerment (participation and inclusion of the community on all stages of the project; helping the community to recognise issues related to sanitation as well as including them in processes such as buying the materials for the construction of toilets); • Training of local technicians (toilet builders) to construct toilets at low cost.
Experience in microfinance for sanitation prior to the SHARE action-research	<p>CCI had experience in microfinance for sanitation. CCI had provided 532 toilets by December 2013 loans for households and one loan for public toilet construction. However, the institution experienced low repayment rates (30%).</p>
<p><i>Procedure for introducing new products (by new, we mean not necessarily “innovative” but new to the institution) Does the institution “test” products? Does it allocate capital for pilot-testing?</i></p>	
<p>No, prior to the action-research, CCI did not go into a formal pilot-testing phase with pilot-testing plans, although they have introduced a large range of innovative products (water tanks, housing, etc.)</p>	
<p><i>Experience with innovative products, appetite for testing new areas</i></p>	
<p>CCI had experience with introducing new products and was ready to venture into a new activity</p>	
2. Evolution of their interest throughout the project	
<p><i>What was their interest in taking part in the SanFin activity?</i></p>	
<p>CCI was interested in taking part for learning, sharing experiences, receiving programme support and more specifically to “improve the organisation in the realm of sanitation microfinance issues.”</p> <p>CCI was interested in all activities proposed by the action-research, which included:</p> <ul style="list-style-type: none"> • Training and development • Support for developing partnerships with other stakeholders (MFIs, NGOs, and others) • On-call support for implementing product (developed after training) 	

<ul style="list-style-type: none"> Participating in sanitation microfinance working group to share lessons, get experiences, represent the sector 	
Had the institution consider sanitation, prior to contact by SHARE research?	
Yes	
Type of products that the institution had in mind at the start of the project	
CCI was already providing sanitation loans, and was seeking to improve the management of their loans. CCI was interested in combined savings and loans sanitation microfinance products (household toilet and public toilet loans in urban areas - Dar es Salaam, Dodoma, Arusha, Mwanza, Morogoro, and Mara).	
Type of assistance requested prior to training	
CCI was interested in receiving technical support for development of sanitation microfinance products: market research, product development and staff training.	
3. Product development process	
Market research (initial product concepts)	
As a result of the training provided by <i>MicroSave</i> in January 2014, CCI conducted market research in order to: <ul style="list-style-type: none"> Identify factors limiting the uptake of the loan; Establish the reasons for low repayment rate; Explore additional sanitation loan products that Jenga Fund could offer to its customers; and Evaluate the current delivery mechanism with a view to make it more efficient and responsive. A total of 16 Focus Group Discussions (FDGs) were conducted in 4 days with 166 respondents. Research was conducted in Karakata, Vingunguti, Chamazi, Kekomachungwa, Kekomwanga, Tandale and Msasani Bonde la Mpunga. FDGs confirmed demand for sanitation loans. CCI decided to work with <i>MicroSave</i> on revising the features of their current toilet construction loan (including targeted customers and delivery mechanism). CCI also decided to define loans for purchasing Gulper (i.e. sludge emptying technology) equipment and constructing DEWAT systems.	
Pilot-testing preparation	
CCI received further training on pilot-testing in May 2014. Shifting from the Federation model: The organisation decided to pilot test in new areas with no Federation. CCI secured funding from REALL for pilot-testing sanitation loans. The management opted to test a new approach to managing the loans in the Kiwalani ward in Ilala municipality in Dar es Salaam. Recruitment of new staff: CCI recruited an experienced loan officer to be in charge of the loan marketing and management	
Pilot testing process	
Launch: CCI started its scoping and marketing activities in Kiwalani in August 2014. Marketing approach: Before CCI could start marketing the loan, they needed to get approval from the ward officer. Only after this approval could the loan officer started door-to-door marketing, with the use of brochures and notice boards. The ward officer also arranged a meeting with some people in the community. People agreed that they have a problem with toilets and many expressed their interest in accessing the loan. However, as it was the first time they heard of such kind of loan, they were keen to see others taking it before they decide. “They wanted to see the toilet before they buy it.” In the first few weeks, five people agreed to take on the loan. These five loans would act as “pilot” or “showcase” to win more clients in the ward. Loan disbursement process: The loan officer provides the potential client with an application form. The client has to come back with a quotation from the local builder and the hardware store. Based on an assessment of the client’s ability to repay, the loan is approved (or not) by the loan officer. The loan officer assesses the client’s businesses and may ask for a guarantee to be provided by a relative. Initial results: As of December 2014, five loans were disbursed (totalling TZS 8 million (GBP 2953) and the five toilets had been constructed. Two loans went for toilet improvements, one for a pour flush latrine and one for an ECOSAN latrine (“One of them had no toilets – she couldn’t construct a toilet because her space was too small. That’s why we advised Ecosan toilets. Although it was expensive she took it.”). Loans vary from TZS 400,000 to TZS 1 million (GBP 147 to GBP 369). All clients paid a 10% down-payment. Some will repay monthly, other prefer weekly repayments. CCI expects that by the end of January they will have 30 loans under this new delivery and management regime.	
4. Overview of CCI new sanitation loan [is there a name for this product?]	
Pilot-testing context	
Socio-economic status of region of intervention	<ul style="list-style-type: none"> Region: Kiwalani ward in Ilala municipality, Dar es Salaam Estimated Population: 82,000 (6,000 households)

	<ul style="list-style-type: none"> • Access to sanitation (% and type of facilities): most have unimproved latrines
Cost of sanitation equipment (latrines/biogas/emptying technology)	<ul style="list-style-type: none"> • The cost of improving/constructing a latrine is estimated to be between TZS 400,000 to 1 million (in Dar es Salaam) • These costs could be brought down if clients contribute to some of the material outside the loan. • CCI is thinking of strategy to reduce the costs of building/improving the latrine, which would contribute to making the loans more attractive.
Ongoing sanitation-related activities)	We were not able to gather information on this.
Access to microfinance	<ul style="list-style-type: none"> • Main providers of microfinance services in the area: <i>no data</i> • Estimate of number of existing customers for the MFIs in the target region: <i>no data</i>
Sanitation product(s) characteristics	
Financial characteristics	<ul style="list-style-type: none"> • Loan amount(s): TZS 400,000 to 1 million (GBP 147 to GBP 369) • Loan type: Individual • Interest rate: 30% • Loan repayable in 12 months • The loan features are different from other loans under the Jenga fund (the usual IR is at 10% per annum with no precise schedule for the repayments)
Other stakeholders	<ul style="list-style-type: none"> • In the targeted area [Kiwalani], who is carrying out: <ul style="list-style-type: none"> ○ Demand promotion: Not enough data ○ Latrine, biogas construction: Local artisans – CCI did not partner with any artisan but recommends some to the clients. CCI also advises on the appropriate technology ○ Procurement of latrines/biogas plants/emptying technology: The client him/herself carries out the procurement procedure. CCI provides the fund to the artisan and the hardware store
Marketing approach	
Groups targeted by the sanitation microfinance activities	<ul style="list-style-type: none"> • Income varies between TZS 600,000 to 2 million (GBP 221 to GBP 738 monthly) • Access to financial services [from other financial services providers]: Not enough data
Staff deployment	For marketing and appraisal, 1 credit officer has been deployed (under the supervision of the operations manager, Theresia Ntanga). Contributing to monitoring the pilot-testing is Tim Ndezi (CCI CEO).
Product promotion activities	<ul style="list-style-type: none"> • The main marketing method is door-to-door marketing. Meetings organised by the community leader have also been useful to spread the word about the loan. • CCI loan officer also used VICOBA groups as entry points [<i>would be good to have some more explanation on this</i>] • It is hoped that the first loans will act as demonstration loans and that more clients will be attracted when they see the toilets constructed. • Marketing and appraisal process is time and resource consuming as the loan officer has to travel and spend time explaining the loan procedure and carry out appraisals.
Appraisal process	<ul style="list-style-type: none"> • Criteria and process for appraising the borrower and their ability to repay: This is carried out by visiting the clients' houses and businesses (as it is the standard procedure in microfinance) • Systems in place to ensure that the loan proceeds will be used for their intended use (i.e. sanitation): Loans are provided to households, but the cash is disbursed to the local fundi and hardware store for material.

Annex D – Tujijenge’s profile and activities under the action-research

Tujijenge Tanzania	
<p>Tujijenge is an MFI operating in Dar es Salaam and in five other regions. Tujijenge was a partner to the action-research, hosting the training on market research for sanitation and sending senior staff to the training. Tujijenge was not willing, however, to design a separate portfolio of activities departing from their usual business loans. They provided a total of TZS 15 million (GBP 5,536) in loans to an entrepreneur operating a sanitation business during the course of the action-research. They also provided financing to solid waste businesses.</p>	
1. Background on the institution at research start	
Information on the organisation	<p>Type: Microfinance institution (MFI) Locations: Five branches located in both urban and rural areas in Dar es Salaam, Coastal, Mwanza and Mara regions Number of employees: Number of Customers: 8,000 active borrowers Lending volume for the past 3 years: TZS 4.9 billion (GBP 1.8 million)</p>
Microfinance activities before the training	Tujijenge mainly provides business loans.
Experience in microfinance for sanitation	Tujijenge had never engaged in this sector
Procedure for introducing new products	
<p>Tujijenge piloted loans for health insurance, cook stove or solar power system. Tujijenge piloted the health loan product with the National Social Security Fund (NSSF) of Tanzania. The product was designed such that Tujijenge would work with health facilities, clinics and pharmacies which would offer to low income business entrepreneurs affordable health insurance services. However, the product did not generate buy-in from Tujijenge staff and the MFI stopped offering it.</p> <p>Tujijenge also suspended the product for acquiring a solar power system, despite customer demand. The main reason is that whenever clients experienced a problem with the system, they would come to Tujijenge. But the MFI did not stock spare parts and it did not have the technical expertise to deal with these enquiries. The only thing they could do was to contact the manufacturer – which was based far from Tujijenge. Spare parts would take several days to reach the client – a situation that caused problems with customers. The loan product was suspended until a solution for after sale services is found - but it seems Tujijenge is not actively seeking such a solution.</p>	
2. Evolution of their interest throughout the project	
What was their interest in taking part in the SanFin activity?	
Tujijenge was interested in finding new customers	
Had the institution consider sanitation, prior to contact by SHARE research?	
No.	
Type of products that the institution had in mind at the start of the project	
Tujijenge had no specific type in mind, although from the onset the institution was keen not to depart from their already existing business loans.	
Type of assistance requested prior to training	
Tujijenge was interested in receiving technical support for development of sanitation microfinance products and financial assistance (lending capital), if available.	
3. Product development process	
Market research (initial product concepts)	
<p>Two members of Tujijenge received training on market research for sanitation (with <i>MicroSave</i>) in January 2014. During the training, Tujijenge conducted market research with 57 respondents in their branch in Dar es Salaam. Tujijenge, with other trainees, visited one of the Gulper operators that have been supported by WaterAid (the group is called UMAWA). Through the FGDs, Tujijenge could confirm that there was demand for sanitation products, including household sanitation. Tujijenge identified the following lending product concepts for sanitation following market research training:</p>	

- Toilet/Bathroom Construction/Improvement for households, businesses and institutions;
- Pit emptying;
- Garbage trucks;
- Connection to the sewerage system

However, as providing loans for household sanitation would depart from Tujijenge lending products, the MFI looked for opportunities within sanitation businesses, such as for pit-emptying businesses.

Soon after the training, in April 2014 Tujijenge disbursed a TZS 5 million (GBP 1,854) loan to Mr Milinga, UMAWA Director, at 36% IR for a period of 6 months. This was Tujijenge's first step towards funding sanitation-related activities that would fit into their current lending activities. In September 2014, having finished repaying this first loan, Mr Milinga asked for a further TZS 10 million (GBP 3,691), which Tujijenge agreed to. Although the loans were business loans, in offering such loans Tujijenge was still departing from its *modus operandi*:

- The loans were individual, when Tujijenge only offered individual loans when clients had "graduated" from group loans (i.e. they've proven they can repay the loans)
- The nature of the business was new – as a service, sanitation business do not operate from a shop and do not have "stocks" – the appraisal process therefore involves new skills and require a shift of mentality from the loan officer as to what a "business" is.

In 2014, Tujijenge also provided five loans totalling TZS 15 million (GBP 5,537) for a group of plastic waste processor's enterprises. The group collects and processes plastic waste materials for sale to plastic factories. They collect and buy used plastic bottles, gallons, DVD covers, broken chairs (they buy it for TZS 500/kg). The group uses machines for the processing, called "crush machine" or "pelletizer" – as the plastic is crushed to pellets (rice like) ready for sale to different company (bottle manufacturer, pipes factory, chairs, etc.). The processed plastic is sold at TZS 800/kg (GBP 0.29/kg).

Pilot-testing training and preparation

Tujijenge received further training on pilot-testing in May 2014 but the MFI decided not to pilot-test a specific product, which would require allocating specific staff-time to this activity. Tujijenge wanted to offer business loans that would fit into their already existing range of products.

Pilot testing design

No pilot testing took place as it was not deemed appropriate.

Annex E – The pilot-testing plan

Table 2 - The 10 steps of the pilot-testing plan

	What is it about?
Step 1: Composing the pilot test team	The pilot test team should be composed from different departments within the organisation: finance, marketing, credit (management), credit (frontline) and are led by the new product “champions”.
Step 2: Developing testing plan/ Testing Protocol	This is the road map to successful pilot testing. It defines what will be done, how it will be done, by whom and when it will be done. The roadmap should include the estimated number of customers to be included in the test, the location, duration, reporting data and boundaries which would dictate pause, extension or cancellation of the pilot test.
Step 3: Defining testing objectives	The pilot test objectives guide the planning of the test. The objectives should be broad and specific in nature i.e. the general objectives and then the specific objectives
Step 4: Preparing systems	Systems refer to the ICT hard and software and core processes involved in deployment of a financial product.
Step 5: Financial projections	Profitability is a key objective of most of the financial institutions despite the social responsibility missions. However, product financial projection (i.e. costing and performance forecasting) is a critical but time consuming activity.
Step 6: Product definitions procedure and manuals	This relates to developing manuals describing and documenting the products, which would be clear for field officers.
Step 7: Training relevant staff	Training of all staff involved in the delivery of the product is important since it helps to standardisation practices and thereby mitigates potential risks. There is need to have properly structured training to as many staff as possible besides the credit officers.
Step 8: Developing marketing strategies	The marketing strategy includes product strategy (development of products after the market research exercise), the corporate brand strategy (e.g. dealing with the physical branding of the institution) the product delivery and the customer service strategy which refers to service delivery channels of delivering.
Step 9: Commencing pilot testing	The date at which the pilot activities start should be recording for monitoring purposes.
Step 10: Monitoring and evaluation of the pilot test	The pilot test team is expected to record findings and make recommendations while ensuring corrective action is taken. The team should make a decision on the lessons and respond to challenges experienced immediately in order to manage associated risks.

Annex F – Outputs from the action-research

Training outputs

- Market Research Training Report, *MicroSave*, January 2014
- Focus Group Discussion Guide, January 2014
- Results from Market Research for Sanitation – K-Finance, January 2014
- Results from Market Research for Sanitation – Tujijenge, January 2014
- Pilot-testing training Report, July 2014
- Pilot-testing support to ECLOF staff in Arusha, November 2014

Workshop outputs

- SanFin-Tz working group meeting, Workshop report, May 2014
- SanFin-Tz working group meeting, Workshop report, December 2014
- East Africa Region on sanitation microfinance, Workshop report, May 2014

All presentations and workshop reports are available on: <http://www.slideshare.net/SanFin-Tz/>

Other outputs are available on demand at: goufrane@tremolet.com or sophie@tremolet.com.

Annex G – Bibliography

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