SanFin Tanzania

Proceeding from working group meeting
4th December, Dar Es Salaam




December 2014

1 Introduction

SanFin Tanzania (SanFin-Tz) is a working group focused on supporting microfinance for sanitation in Tanzania. The working group was initiated at the start of a SHARE (DFID)-funded action-research for developing microfinance for sanitation in Tanzania. The action-research, sometimes referred to as "SanFin", was designed by Trémolet Consulting and *MicroSave* and implemented with support from WaterAid. The one-year action-research started in December 2013 and is due to close in January 2015. The December 2014 SanFin-Tz meeting was the third working group meeting and offered an opportunity to share lessons from the action-research among stakeholders in the sector.

The first working group meeting was held on 3rd December 2013, gathering institutions from both the financial and sanitation sectors. Following on from this first meeting, participants from eight microfinance institutions (MFIs) and NGOs took part in a two-week training on developing microfinance products for sanitation provided by George Mugweru and Justus Njeru of *MicroSave*. Three of these organisations (Tujijenge, ECLOF and CCI, also referred to "SanFin partners") went on to develop financial products for sanitation.

During the second SanFin-Tz meeting, which was held on 15 May 2014, SanFin partners presented their progress in developing their products:

- ECLOF conducted focus group discussions (FDGs) in Arusha to identify demand for sanitation products, and found that there was strong demand among its customers (especially for loans for toilet construction/renovation and biogas plants);
- CCI also conducted FGDs to identify if there is demand for sanitation and why its existing loan product did not perform. From the feedback from these FGDs, CCI decided to provide financial services from outside its Federation model (although with the use of the Jenga fund). CCI was considering shifting its approach to loan management by hiring a credit officer;
- Tujijenge had already provided a loan for sanitation. During the January training, Tujijenge staff were introduced to the director of a sanitation enterprise operating in Dar Es Salaam. Tujijenge disbursed a TZS 5 million loan to UMAWA's director within a few weeks from the training.

The third SanFin-Tz meeting was the opportunity to share the latest updates from SanFin partners: what further support from *MicroSave* did SanFin partners receive? What products have they developed and have they started offering sanitation-related financial services? Has there been buy-in from within their institutions for including sanitation products in their portfolio? Have there been challenges? How are they likely to be involved in sanitation in the future?

The third SanFin-Tz meeting also brought the action-research to a close and provided the opportunity to share preliminary answers to the research questions: why is sanitation microfinance little developed and how can this market grow? How can microfinance support efforts to increase sanitation coverage? What should we try to know better in order to assess whether microfinance is an adequate tool for increasing access to sanitation?

Finally, one objective of the workshop was to think of the next steps for the SanFin-Tz working group: Was the SanFin-Tz useful? Would participants like to see such working group carry on and in which form? Which institution is most likely to lead on keeping SanFin-Tz alive?

2 Attendance

The working group meeting was hosted at Sea Cliff Hotel in Dar Es Salaam and gathered 21 representatives from 15 institutions, including from:

- The microfinance industry: CRDB Bank (microfinance branch), ECLOF-Tanzania, Tujijenge Tanzania and TAFSUS;
- NGOs (all of which delivering or promoting financial services for sanitation): SEDIT, ACRA-CCS, CCI, Habitat for Humanity;
- International organisations: Plan-International, GIZ;
- One local microfinance network organisation: Tanzania Association for Microfinance (TAMFI);
- Local government: Temeke Municipal Council (TMC); and
- Other interested parties: VKS construction support services.

A full list of participants is available in Annex 2.

3 Proceedings

Introductory remarks

Dr Ibrahim Kabole, WaterAid Tanzania (WAT) Country Representative, opened the workshop by expressing his appreciation to all the organisations, which made it possible for this "coalition" to happen, referring to the SanFin-Tz working group. Dr Kabole told the working group that he first came across this initiative to develop sanitation microfinance in November 2013. The second working group meeting showed there was a potential to grow sanitation microfinance, "*we are trying to wrap up what we have learnt and positioning ourselves to make sure we apply it in the field*."

Dr Kabole, who comes from a medical background, reminded everyone of the importance of sanitation and hygiene, as key elements for development: *sanitation and hygiene are two interventions which are essential to protect families, encourage school attendance and promote an overall enabling environment*. One of the key issues sanitation practitioners are confronted with is "how to sustain sanitation services?" Although sanitation can be considered as a public good, in reality, governments are not able to provide the funds necessary to provide sanitation services. The challenge, which the involvement of MFIs could help overcome, is to make investing in sanitation and hygiene a "viable business".

Dr Kabole explained, however, that financing solutions was an issue among other several issues (including governance and community ownership). "We should look at all factors which contribute to making it work (not just the financing side). We still have to work on enabling effective sanitation microfinance."

What could WAT be doing to support this initiative? Dr Kabole explained that WAT is committed to prioritise sanitation, especially in the context of their upcoming strategic planning for the next five years. Dr Kabole said that WAT "can be **a hub for knowledge sharing** and can **host a number of sessions and activities** to this effect". He clearly expressed his support for seeing the working group carry on beyond the action-research. He also added that WAT will continue to work with policymakers to make changes in the enabling environment for developing sustainable sanitation services. Dr Kabole concluded his remarks by stressing on the importance of the action-research as "an initiative which we can learn from" and which put WAT and all sanitation practitioners "in the right direction".

3.1 What has been done under the SHARE action-research and what future trends for sanitation microfinance? Presentation by George Muruka, *MicroSave*

George Muruka started the presentations by looking at what has been done under the SanFin project and placing the action-research within the wider context of microfinance and sanitation in the East Africa region.

George Muruka explained that the project initiated from a scoping study on the potential of sanitation microfinance carried out jointly by Trémolet Consulting and *MicroSave* in 2011 and that the presence of a Housing Microfinance Working Group in Tanzania inspired the creation of the SanFin-Tz working group.

To form this working group, *MicroSave* and Trémolet Consulting contacted at least 10 financial institutions (e.g. DCB, FINCA Tanzania, CRDB, KCB Tanzania, TGT, Dar Es Salaam Community Bank) to participate in the SanFin project. But few commercial banks and MFIs were interested, and therefore at the time of this meeting, only two MFIs were engaged in the SanFin project as partners. This is "an indication of the challenges related to motivating financial institutions to actively participate in the sanitation sector".

George Muruka went on to explain the "core role" *MicroSave* played in the action-research in terms of training and capacity building. This was done in two main stages:

- Training on market research for assessing clients or customers' needs;
- Pilot-testing training for products concept refinement, development and roll-out.

In the SanFin project, market research conducted by the three SanFin partners indicated that there was a great need for developing financial products for sanitation. The three partners also attended the pilot-testing training, ECLOF sending its CEO, showing commitment to include sanitation in their portfolio.

The lessons to take from these training and capacity building activities, according to Georges Muruka are that:

- There is a need for ongoing engagement with institutions managers and staff for them to see business in sanitation (as one staff can be committed, while others may be more reluctant);
- The experience of CCI (as will be presented below) showed that there is need to actively involve community members and leaders for successful implementation: toilets are "public" (you can't grant a loan for toilet construction without engaging with the community); and finally
- Pilot-testing requires a considerable period of time, say 12 to 24 months to decipher the lessons before the product can be rolled out [*Note: the action-research only had about six months to pilot test the products and due to long decision making processes in the MFIs, the first MFI tested two loans in the last three months of the action research*].

Microfinance for sanitation is of course, still at infancy, but its potential market is big, as pointed out by G. Muruka. Across East Africa, the lack of sanitation remains a huge issue. For example, 78% of Tanzania's population lacks improved sanitation facilities. What is the prospect to see the growth of sanitation microfinance, asked G.Muruka? On the microfinance side:

- The trend is that microfinance is still growing, due to a number of interventions in the financial sector to make sure that more and more people have access to finance, e.g. microfinance policies and laws, banks going down the market and the growth of digital finance – in Tanzania the gap has been reduced in recent years and only 32% of the population does not have access to formal services;
- Many institutions are increasingly looking at expanding into "low" income earners sections of the market (due to stiff competition).

One key issue, however, is "to make sure that that people channel those finances to livelihoods and quality of life improvements." This includes, for example, investing in sanitation.

On the sanitation side, recent years have seen an evolution, with many "self-help groups" or community-based organisations turned into "enterprises": individuals are operating public toilets, companies providing "mobile toilets" for public gatherings / events such as weddings and funerals, etc. However more effort is needed to see the "sanitation markets" grow, through provision of financial services, business development services and regulatory enforcements (by municipalities or local leaders). For example, one key area of intervention is to support these informal enterprises to register as formal companies and facilitate their linkages with MFIs and commercial banks for debt financing.

G. Muruka took an overall look at financial institutions (FIs)' response to the action-research, and their interest in sanitation: there has been a "slow response" from FIs to this initiative. G. Muruka identified a number of reasons for this:

- FIs' limited understanding of the sanitation sector: FIs are familiar with business and trading sector; they lack strategy on sanitation financing and have low staff capacity;
- Limited commercialization of WATSAN activities: sanitation operators are only slowly commercializing their activities;
- NGOs are not familiar with the demands of FIs hence do not effectively partner with the financing sector;
- Unclear regulatory and policy environment, especially for private sanitation systems. However, public actors are slowly appreciating the role of private operators due to limited public funds.

Finally, G. Muruka concluded by indicating that *MicroSave* would be available for providing their services to SanFin partners and other actors willing to engage in and facilitate the growth of sanitation microfinance.

3.2 SanFin Pilot Testing by CCI, Presentation by Theresia Ntanga

Background

Theresia Ntanga started by giving some background on the Centre for Community Initiative (CCI). CCI is an NGO established in 2004. CCI mobilises urban communities to form savings and credits groups that contribute to CCI managed Tanzania Urban Poor Fund (TUPF). The TUPF operates at regional level through the Jenga Fund, a revolving fund established for purpose of financing different livelihood projects including the purchases of land, home improvements, water and sanitation projects. Outside the SanFin project, CCI has been financing WASH activities in low-income urban areas, including for toilet construction. By May 2014, over TZS 190 Million (USD 115,853) worth of loans had been disbursed for toilet construction in various low-income urban and rural areas across Tanzania. However one main issue for CCI's Jenga Fund programme was the low repayment rate. This was a threat for the Jenga fund, as the funds were not being replenished.

Activities under SanFin Project

As a result of the training provided by *MicroSave* in January 2014, CCI conducted a market research among its core clientele to explore the reasons for poor performance of the fund. The research identified that one of the main reasons of non-repayment was the perception of the loans as "grants". In addition, the Jenga fund relied on volunteer officers, with no incentives, for appraisals and following up the repayments. Finally, the Jenga Fund did not provide any "business loans", which may increase people's income earning capacity and ability to repay the loans.

The FGDs also confirmed that there was demand for sanitation products. CCI therefore decided to try to launch products outside the Federation mechanism. This implied hiring a credit officer for marketing the loans, the appraisal process and enforcing repayments. This new approach for managing the loans implied that interest rates would have to increase in order to cover the operation costs. 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.

With this in mind CCI prepared for pilot-testing. CCI established a loan range from TZS 50,000 to 1,500,000 for toilet construction or improvement and set an annual interest rate of 30% over a one-year period. Loans would 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 recruited a loan officer for marketing and selling for the microloan for sanitation in this area. 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. In fact, all five toilets have already been constructed. These loans are "part of the marketing strategy". T. Ntanga explained: "some community members want to observe such kind loan before asking for it". Over 60 potential clients have expressed interest for accessing loans for sanitation following the first five loans disbursed.

For the near future, CCI will expand the pilot-testing area to Yombo in Temeke Municipality, where many households are expressing interest for the loan. CCI will also seek to provide loans for pit emptying businesses (through gulper technology especially) and waste management for community groups.

Lessons learned under SanFin

T. Ntanga concluded her presentation by reflecting on the skills acquired and lessons learned from the SanFin activity. Among the skills acquired, CCI got acquainted with conducting marketing research and the process for developing loan products. CCI also realised the importance of thorough assessment of the clients' ability to repay before they can access sanitation loans and the importance of clients training on the loan process. Crucially, CCI realised the importance of using an adequate management system for the loans: this includes using a loan officer, particularly for loans follow-up, and having specific date for the repayment.

3.3 Activities under SanFin, Tujijenge Tanzania. Presentation by Debora Kiwale

Background

Tujijenge Tanzania Limited is a MFI, operating through five branches located in both urban and rural areas in Dar es Salaam, Coastal, Mwanza and Mara regions. The MFI social mission is "to improve quality of lives of families in Tanzania through the provision of microfinance". As of December 2014, Tujijenge has 9,000 active borrowers and a loan portfolio of TZS 5.7 billion.

Activities under SanFin Project

As part of SanFin training activities, Tujijenge conducted market research for sanitation and attended the pilot-testing training. Soon after staff members met UMAWA director, Mr Milinga, who has a pit emptying business in Kigamboni, Tujijenge offered him a business loan. From the onset of the SanFin activities, Tujijenge was keen not to "add a new product" but to keep its existing product as it is, i.e. to provide sanitation loans that fit within their existing business loans. As a result, Tujijenge did not allocate a specific loan officer nor did they carry a specific "marketing drive" for sanitation.

Although no specific loan product was created, D. Kiwale explained that Tujijenge already disbursed TZS 23 million as a result of SanFin:

- TZS 8 million in total to UMAWA for purchasing a new emptying equipment
- Five loans totalling TZS 15 million for a group of plastic waste processer'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.

Tujijenge faces several challenges for expanding further its "sanitation-focused activities". D. Kiwale stressed that:

- The MFI has limited staff (credit and marketing officers) who can look for other opportunities which are mainly in the cities
- Current marketing drives are not in cities, but in rural and semi-rural areas, where there is no sanitation business
- Lack of funds to take on such projects

D. Kiwale also shared with the audience some of the institutional changes, which resulted from SanFin, including:

- A change in staff attitude towards sanitation business: it sounded more like a service than before;
- New skills have been gained: Tujijenge loan officer can assess this type of business competently. Tujijenge was used to business where people have stocks, daily sales and weekly profit. Loan officers look at stock – there is not "stock" in the sanitation business ("it's a new kind of stock") and limited record keeping. These entrepreneurs are not in a shop. For example, the waste collectors' working site is not "fixed" and is unfenced.

Finally, D. Kiwale made clear that Tujijenge was ready to work with sanitation businesses and that the institutions would like to be connected with entrepreneurs.

Following on from the previous three presentations, a short discussion started. ***Dr Kabole (WaterAid)*** reminded the audience of WaterAid's experience in making sanitation attractive for FIs. WaterAid provided a guarantee to Kenya Commercial Bank (KCB) so that the Bank lends to sanitation businesses. But the outcomes were not as expected: KCB was not engaged in ensuring the repayment of the loans, nor were the sanitation entrepreneurs under pressure to repay. Dr Kabole advised against going down the same route and urged the assistance to find ways, which would promote the independence of FIs (and move away from the reliance on the NGO sector).

3.4 Activities under SanFin, Presentation by Dativa Mtui, ECLOF Tanzania

Background

ECLOF is an MFI based in Arusha, with a portfolio of TZS 3.5 billion (as of December 2014). Before SanFin, ECLOF was serving the market through six products, the main ones being Jikwamue and Jitegemee, which are both business loans, consisting of 65% of the portfolio. ECLOF also has an agriculture loan for small-scale farmers.

Activities under SanFin Project

Under SanFin, two ECLOF staff received training in market research (in January 2014). ECLOF went on to carry out market research for sanitation and conducted eight FGDs to identify demand for sanitation in Arusha. From the research finding, ECLOF developed some lending product concepts: toilet and bathroom construction or improvements for households, businesses and institutions; integrated sludge collection pit and biogas production unit construction; and working capital for sanitation businesses.

Three of ECLOF staff then attended the pilot-testing training (in June 2014): the IT Officer, Finance officer, Loan officer – the CEO also attended some of the sessions. Based on the training's recommendations, ECLOF set-up a pilot-testing team, which includes the CEO, the operations manager, the operations officer, the finance officer, IT and two credit officers. D. Mtui explained that there was some reluctance among ECLOF staff. 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 also prepared a pilot testing-plan, defining what the objectives are for ECLOF: to reach the low-income earners and to help the community – "it's a business but also a service to the community", highlighted D. Mtui. Sanitation microfinance is part of our "Corporate Social Responsibility". During pilot-testing preparation, ECLOF received further training from Kevin Genga of *MicroSave*, which helped dissipate some doubts and improved credit officers' confidence in the product line. In total eight staff from ECLOF received training from *MicroSave* during SanFin project test in 2014.

USAFI (meaning "cleanliness") was launched in mid-November 2014 by ECLOF's Arusha branch. USAFI is a loan for sanitation products (toilet/bathroom construction, biogas, pit construction), which varies from TZS 500,000 to TZS 10 million, depending on the client. D. Mtui said that ECLOF was expecting to provide a TZS 7 million loan to a school. 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) during the pilot-testing phase.

D. Mtui described the marketing approach for the USAFI loan: ECLOF deployed three credit officers for this product and placed posters describing the new put in all branches. One main strategy is the client himself ("the good ambassador").

As of December 1st, ECLOF visited 20 households to make appraisals. Customers were from Arusha (peri-urban) and Bangata region (very rural). Credit officers visited their client at home to assess their needs, their living conditions and explain to them the loan process. The client has to obtain a quote from the Fundi (local artisan) and comes back to the branch to make an application. ECLOF estimates that toilets will cost TZS 1.5 to 2 million cost in Arusha and TZS 500,000 to 1 million 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.

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Figure 1 - Some of the "toilets" visited by ECLOF in peri-urban Arusha and the rural area of Bangata

According to D. Mtui, 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 expects to disburse its first USAFI loan by 15th December. One major constraint 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.

ECLOF is committed to offering sanitation-focused products. D. Mtui told the audience that the MFI has included USAFI product and estimated the portfolio in the organisation's business plan for 2015-2016 and have allocated TZS 40 million for it.

A key constraint to developing further these activities is ECLOF's limited financial ability. The product is also seen as very risky: "We are confronted with some of the poorest, who may not be able to repay", Dativa noted.

Overall SanFin brought important institutional changes at ECLOF Tanzania, concluded D. Mtui. ECLOF has now the capacity to increase the number of products on offer. ECLOF is also more engaged into the community: "it's a business and a service at the same time. You need to do it with some heart". However, this engagement with some of the poorest is "good for ECLOF's image".

3.5 Update on other SanFin partners' activities and group discussion

Following the presentations from SanFin partners and SEDIT, a group discussion took place and enabled to take stock of where other members of SanFin-Tz where at.

Jasmin Sinyau, from ***CRDB microfinance*** said that CRDB microfinance had been dealing with working capital loans so far and has a portfolio of TZS 2.5 billion, with 20 credit officers active in several branches. CRDB microfinance was about to launch three 3 loans:

- Housing microfinance loans ("we're thinking how we can integrate sanitation in this product", she added);
- "Boda boda loan" for motorcycling taxi; and
- Asset financing.

However, CRBD microfinance is still at very preliminary stages in defining these products and has not identified all the conditions for the housing microfinance loan. One probable avenue for launching the loan is to start with the existing customers, which have expressed the need to improve their houses.

Filbert M. Sambagi from ***SEDIT*** gave a short presentation on the NGO's activities as part of the UMATA programme implemented by Plan International (with funding from WSSCC) through various organisations in rural Tanzania. SEDIT's role is to "increase households and businesses access to finance to support improvement in sanitation and hygiene through VICOBAs". VICOBAs (or Village Community Banks) are saving groups, which provide informal financial services to about 12% of Tanzania's population.

F. Sambagi explained that SEDIT intervenes so that VICOBA groups form a sanitation and hygiene committee and contributes to a sanitation and hygiene fund (each member contribution ranges from TZS 500 to TZS 1000 weekly). Members who need to have their toilets improved and acquire hygiene material (e.g. soap) take a loan. The group assesses the needs for potentially several households and aquire 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. With a roof, the toilet can go up to TZS 150,000. What brings down the construction cost is the group construction.

SEDIT's intervention is one of several interventions within the UMATA programme. For example, other implementers trained artisans on constructing the sanitation facilities.

SEDIT is implementing UMATA in the Kongwa district. So far, 53 VICOBA groups have been formed with total number of 1, 244 members. More than TZS 150 million have been accumulated by VICOBA groups in Kongwa of which TZS 14,514,000 were issued as loans for toilet construction.

F. Sambaga also presented some of the challenges SEDIT is facing:

- VICOBA group members have “limited business ventures” which would help them repay their loans;
- Farmers become very committed to agriculture when it rains (it’s difficult to get their attention on anything else);
- Few artisans are attracted to sanitation; most are attracted to housing construction.

Main lessons so far from SEDIT’s experience 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.

Lydia Mcharo from ***Plan International,*** which are the Executing Agency for the Global Sanitation Fund in Tanzania, explained that so far, over all regions where UMATA is implemented some 300 households now have sanitation facilities. “As a programme we have found that microfinance can play a big part”, she said. Lydia also picked on the costing provided by ECLOF and CCI in their presentations. She showed the audience a catalogue Plan International and the sub-grantees have prepared, which provided households with a choice of technology at different costs. She suggested that the SanFin partners take a look at the catalogue (that had been produced both in English and Kiswahili).

G. Muruka then referred to the “sanitation ladder”, suggesting that the financial services on offer (and the type of sanitation facility this relates to) depend on the household’s level of income. G. Muruka also added that for an MFI to succeed with providing sanitation financing, they need to understand the sector and be aware of the different types of toilet technologies). FIs need to do “more scoping” of the target area and households.

For ***Kenneth Sinare*** (from ***VKS construction services***), “the person coming to the door of a contractor knows what he wants”, i.e. the customer or the client already has a good idea of the kind of facility he/she’s looking for.

Linda Engel from ***GIZ*** expressed some doubts towards seeing the microfinance sector moving into the sanitations space. She gave the following example: “The issue is that if someone wants to construct a flush latrines, the MFIs would finance it”. However, there is increasing concern that pour / flush latrines are not appropriate as they can produce large quantities of wastewater, that can contaminate the groundwater table if there is no infrastructure.

Goufrane Mansour from ***Trémolet Consulting*** agreed that this was a concern but, she said, that others may have a role in regulating the type of facilities that were adequate or not. Microfinance only plays one part in the sanitation issues – other actors also have an important role to play. We must recognise, she added, that it was already a big leap for MFIs to be sitting together with WASH NGOs to talk about sanitation.

Tim Ndezi from ***CCI*** suggested the need to reflect on “what we mean by sanitation”. “Most MFIs would not want to jump over to [talk about] pit latrine directly. When we talk sanitation, let’s think sanitation wide, like Tujijenge [referring to their loans related to solid waste]. For toilets, we should think about it as home improvement: someone can build a good house but with no toilet.”

Joerg Henkel from ***ACCRA-CCS*** enquired about the SEDIT model and how it works (in terms of repayment, organising the sanitation fund, etc.). F. Sambagi explained that sanitation microfinance works as part of broader financial services. “If you promote sanitation microfinance you’re supposed to give them livelihoods loans that cater for the needs of the community. If you are going to push for total sanitation, we have to explain how they’re going to repay the loans. Everybody at the moment is thinking about agriculture, it’s their subsistence. When we’re doing this we also have to cater for their [agricultural] needs. Not only we’re going to sell the sanitation product, but also something for their livelihoods.

SEDIT explained that in the area where they work, “the bush”, there is no FI operating [therefore the need for other types of financial services]. “We see the gap”, said F. Sambagi. “ The idea is to form an MFI and develop the capital for lending. SEDIT can top up the capital”. G. Muruka explained that SEDIT was evolving and moving toward another model (the FINCA model, that set up village banks).

Harry Ndambala from ***TAMFI*** gave a brief update on what was happening on the microfinance front. He explained that TAMFI is an umbrella organisation of 80 members organisations, which serve more than 800,000 active women, farmers and micro-entrepreneurs. TAMFI only had 18 members in 2011. Members are financial NGOs, community banks, commercial Banks, SACCOS, microcredit institutions, community-based organisations and government programmes and business development providers. TAMFI gathers a number of sub-sector organisations (or APEX organisations). For example, the association of community banks in Tanzania is a member. The challenge is that TAMFI has not been empowered by any MFI laws to enforce the act or some of its parts: MFIs must submit a number of periodic reports, but this does not happen on a regular basis [This means that TAMFI is not always able to keep an eye on what’s going on in the sector].

Joerg Henkel asked whether TAMFI was taking up the issue of sanitation and bring it up to MFIs. “We do promotion but strictly for our members”, replied H. Ndambala. He added that if WaterAid wanted to share sanitation microfinance to TAMFI members, “the doors are open”. “We can arrange a seminar or a workshop to our members”, he added.

An animated discussion followed on the importance of combining demand generation with financial services. F. Sambagi noted that some people “go to the bushes” although they have a house to which they could add a toilet – they don’t prioritise it. SEDIT created “sanitation and hygiene committees to change the mind-set of its VICOBA group members” and proposed other kinds of loans [income enhancing] to help them repay the sanitation loans. K. Sinare referred to Acumen Fund: “One thing they say, is that poor people can pay if the product makes sense to them. So the issue is not that they can’t repay, you want to make them want to repay.”

3.6 Preliminary findings from the action-research, Goufrane Mansour, Trémolet Consulting

As the action-research is ending, ***Goufrane Mansour*** from ***Trémolet Consulting*** shared some preliminary lessons from the activity. G. Mansour highlighted the main two research questions that were driving the activity:

- Are financial institutions 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”?

In order to seek the answers, as part of the activity, a working group on sanitation microfinance established (SanFin-Tz), which would act as a platform for discussing the potential of sanitation microfinance and identify potential ways to make the market grow. The action-research also provided training to selected partners, of which three received substantial support.

SanFin-Tz gathered three times under the action-research. The first meeting in December 2013, gathered representatives from 15 institutions (international organisations, NGOs, MFIs and commercial banks) from different regions in Tanzania (Arusha, Dodoma, Dar Es Salaam). A similar attendance was recorded in May 2014. This attendance, again in December 2014, shows that there is an interest from various institutions in this initiative. This demonstrates that there is a need for such a learning and exchange platform.

Another key event of the action-research was the organisation of the East Africa regional workshop (in coordination with WaterAid) in May 2014. This regional workshop examined regional and international experiences in sanitation microfinance (including in Malawi, Kenya and Tanzania). Representatives from NGOs and international organisations (Water.org, Water for People and WSP) presented on the type of actions that can be taken to support the development of sanitation microfinance. The regional workshop brought in the financial sector perspective as well (Equity Bank and SanFin partners), which they showed the readiness of MFIs to commit and engage with sanitation, provided they're given the right support.

As part of its training activities, the action-research provided the following support to selected institutions:

- Training on market research for sanitation to eight organisations (four MFIs: ECLOF, Tujijenge, Yosefo, K-Finance and four NGOs: CCI, MAMADO, SEDIT and Habitat for Humanity);
- Ongoing technical advice (often online and on call) to organisations who wished to test microfinance for sanitation through email and telephone
- Pilot-testing training to three partners willing to engage further in the activity: CCI, ECLOF, and Tujijenge.
- Credit officer level training to ECLOF Tanzania in November, just before launching the pilot test commenced in December 2014.

What then has been achieved, as a result of these various interventions, under the action-research? The two immediate results, pointed out G. Mansour, are that:

- Financial services for sanitation have been provided, with two institutions already providing loans (CCI and Tujijenge) *[see above]*. One institution is on its way for disbursing sanitation loans: ECLOF has just launched its pilot-testing and is now appraising potential borrowers. ECLOF has included TZS 40 million for sanitation in its business plan for the year 2015-1016; and
- The working group SanFin-Tz for sanitation microfinance has been established and already met three times.

What lessons can we then take form the action-research? G. Mansour came back to the research questions. To first one, "Are MFIs interested in providing financial services for sanitation?" the answer is "Yes, but there are constraints". The action-research identified three main reasons for MFIs' interest:

- This is part of their mission: "Investing in Human Dignity" (ECLOF), "Improving the quality of lives" (Tujijenge);
- It gives them a "good image" towards their clients, as well as their Board of Directors keen to see them regaining some of their social mission;
- It makes them stand out and more competitive, as most MFIs give standard business loans.

Other than interested, MFIs are also capable of handling sanitation products, provided that they are adequately trained. MFIs credit officer can handle sanitation because:

- Credit officers know their clients;
- They are used to visiting them, to see their living conditions;
- They are not afraid to travel far and in difficult conditions;
- They are used to assess informal businesses.

Figure 2 - ECLOF Tanzania Credit officers visiting some of their clients, assessing their needs and their ability to repay around Arusha

NGOs can also provide financial services for sanitation. However, NGOs like CCI need to shift their approaches to financial services for sanitation, if they want to sustain these services. For example, they would need to:

- Rely on trained and experienced credit officers, motivated to enforce repayments, rather than volunteers for managing the loans
- Apply adequate interest rates that will match the cost of managing the loans (e.g. hiring a new staff, transport costs)
- Engage the target community leaders and wider audience for goodwill to provide financing for a rather publicly owned facility.

G. Mansour pointed out that CCI transformative process during the action-research now begged the question: can CCI be considered as an NGO-only organisation? By hiring a credit officer and applying corresponding interest rates, shouldn't CCI consider changing its status, at least for parts of its operations on financial services? CCI can work with its partners and stakeholder to reflect on the direction it wants to take. This is particularly relevant now that CCI has proved that it can operate a shift to implement a successful lending programme.

The engagement of MFIs (or their willingness to take on sanitation) has also been limited by a number of factors.

- For some sanitation is still seen as part of CSR activities – it is NOT business as usual (at least not yet);
- Providing financial services for sanitation is a risky business. Some MFI staff said: "what if people don't pay and say "come and take your toilets"?
- People who take the loan for sanitation (e.g. USAFI loan offered by ECLOF) may not be able to renew their other standard (business) loans, which are less risky (as they are income generating, unlike sanitation)
- It is also a risk for MFIs to get commercial funds for testing new products:

Despite these constraints, results from the action-research are encouraging:

- ECLOF allocated TZS 40 million to sanitation for the next financial year;
- CCIs has already disbursed TZS 8 million under a new microfinance strategy;
- MFIs are ready to seize the opportunity to do business with sanitation (like Tujijenge)..

In terms of the second question of the action-research, "*how is sanitation microfinance helping to increase access to improved sanitation?*", preliminary answers are as follows:

- Sanitation loans are products in demand, as attested by the response during SanFin-Tz pilot-testing;
- People are ready to pay for sanitation facilities, but need to ease the burden of upfront investment;
- However, microfinance will not help people at the bottom of the pyramid: people coming forward are active poor: low income earners, with income from various activities (wage employment, cultivation, cattle raising, sowing, agriculture)

Therefore, in supporting microfinance for sanitation, interventions should monitor whether they benefit mainly the higher income earners (looking to tile their toilets) and less the low-income earners (who want to step up the sanitation ladder). It should be notes, however, that in catering the need for the higher earners, interventions are also promoting them as “the good ambassadors”, setting the standards in their communities.

The overall lesson from the action-research is 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.

Looking forward, G. Mansour explained that there was still a lot of learning to be done. For example, will people repay the loans? What was the uptake? Where the loans income-enhancing, etc.? G. Mansour highlighted that in order to facilitate such a research, MFIs should put in place appropriate monitoring and evaluation (M&E) of their activities and their clients. A good M&E of their activities would also put MFIs in better position to receive external funding from potential donors – who are increasingly looking at ways to measure the impact of their investments.

Other than learning, future activities should also look into ways to support SanFin partners and other willing to engage in sanitation microfinance to scale-up their activities. This can be done through several ways:

- By encouraging commercial banks to lend and make capital available to MFIs/NGOs at preferential rates for sanitation or other social services (this could be done through lines of credit provided by funders as done by Agence Française de Développement in Cambodia).
- By mobilising additional “smart subsidies” for ongoing training, learning and systems development

Government institutions can also can play a role by promoting regulatory environment that supports financial services for sanitation (for example, through enforcing environmental regulation so that households are encouraged to build toilets). Tanzanian public authorities can also consider introducing regulations that encourage commercial banks to on-lend to MFIs for social investments such as sanitation microfinance (such deliberate schemes have bee observed in in India).

Finally, G. Mansour addressed the question of SanFin-Tz beyond the action-research. How can SanFin-Tz be kept alive? Which institution can act as focal point for the working group? Would other institutions be prepared to share the costs, through membership fees or meeting fees, or covering the costs of meetings in turn?

G. Mansour invited partners to form small groups to discuss:

- Was SanFin-Tz useful and how?
- Should the working group carry on in the present form?
- Which institution (s) should lead and act as a focal point?

3.7 Group discussions: What’s next for SanFin-Tz?

Participants were separated in three groups, representing roughly:

- The financial sector (MFIs and NGOs actively promoting sanitation microfinance – including SEDIT and CCI);
- Public funders (e.g. Temeke local authority, international organisations) and
- Organisations, which could be potential hosts for SanFin-Tz (TAMFI and WaterAid).

All three groups agreed that SanFin-Tz had been very useful, including for learning, networking, as part of CSR activities and for supporting some to develop new prroducts (“it gave us new ideas”).

If maintained, some suggested that there should be more representatves from the sanitation sector, especially on the technical side, in order to inform MFIs on appropriate and affordable technologies.

In addition, some sugested that SanFin-Tz should be merged with the Housing Microfinance working group as sanitation can be considered as home improvement. Another group suggested that a representative of SanFin-Tz should join a technical committee within the Ministry of Health. All groups suggested that SanFin-Tz could be hosted on a rotational basis to enable some that are not based in Dar es Salaam to host the event (and avoid lengthy journeys). However, it was not clear whether the working group member institutions would bear the costs related to hosting the event. It is highly likey that they would require extenal financing.

Annex 1 – Agenda

Sanitation Microfinance Working Group meeting

Sea Cliff Hotel, Dar es Salaam, 4th December

9:00-9:15	Welcome and introductions	Ibrahim Kabole
9:15-9:35	Update on the action-research: what has been done and where are we at?	George Muruka, *MicroSave*
9:35-10:50	Brief overview of involvement on the action-research and latest developments: CCI	Theresia Ntanga, CCI
10:50-11:05	Brief overview of involvement on the action-research and latest developments: Tujijenge	Debora Kiwale, Tujijenge
11:05-11:20	Coffee break	
11:20-11:35	Brief overview of involvement on the action-research and latest developments: ECLOF	Dativa Mtui, ECLOF
11:35-12:05	Q&A discussion session on participants' activities in relation to microfinance for sanitation	All
12:05-12:45	Preliminary findings from the action-research	Goufrane Mansour, Trémolet Consulting
12:45-14:00	Lunch (provided by WaterAid)	
14:00-14:45	What is needed to further support the development of microfinance for sanitation in Tanzania? Group discussions	All
14:45-15:05	Reporting back from group discussions	
15:05-15:35	What's next for SanFin-Tz?	All
15:35-15:40	Workshop / Project Closing	Trémolet Consulting, *MicroSave* and WaterAid

Annex 2 – Attendance

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