RBF CASE STUDIES: A GPRBA RETROSPECTIVE

BANGLADESH OBA SANITATION MICROFINANCE PROGRAM



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Overview and Acknowledgements

This case study is part of a series prepared by the World Bank's Global Partnership for Results-Based Approaches (GPRBA). The objective is to highlight project components that have enabled GPRBA to successfully deploy Results-Based Finance (RBF) approaches for the provision of basic services to low-income communities, with efficiency, transparency and accountability. The present analysis is focused on the Output-Based Aid (OBA) Sanitation Microfinance program in Bangladesh. The project facilitated access to finance for household investment in sanitation through a specialized loan product for poor families. It led to the improvement of the sanitation status of more than 170,000 poor rural households. The findings of the study were primarily informed by project documents and semi-structured interviews conducted with World Bank staff engaged in the project. A one-on-one interview with the Task team leader, Rokeya Ahmed, was particularly helpful in understanding the project content, challenges and key details. The team acknowledges Jessica Anne Lopez and Ibrahim Ali Khan for their leadership in the production of this report and Amsale Bumbaugh for her support during the production process. Additionally, regional reports on sanitation authored by the World Bank and other reputable institutions were taken into consideration, both to validate findings as well as provide a well-rounded assessment of Bangladesh's sanitation sector.

Acronyms

ASA	Association for Social Advancement	MHM	Menstrual hygiene management
BDT	Bangladesh Taka	NGO	Nongovernmental organisation
CLTS	Community Led Total Sanitation	OBA	output-based aid
GPOBA	Global Partnership on Output-Based Aid	PKSF	Palli-Karma Sahayak Foundation
GPRBA	Global Partnership for Results-Based	PO	Partner organisation
	Approaches	SDGs	Sustainable Development Goals
IVA	Independent Verification Agent	SDL	Sanitation development loans
LE	Local sanitation entrepreneurs	TA	Technical Assistance
LGI	Local government institutions	UP	Union Parishads
MDGs	Millennium Development Goals	WASH	Water, sanitation and hygiene
MFI	Microfinance Institutions	WSP	Water and Sanitation Program



SECTORS CONTEXT AND CHALLENGES

Institutional Context and Prior Sector Situation

Through the Community-Led Total Sanitation (CLTS) approach, millions of Bangladeshis transitioned from open defecation to basic sanitation facilities-usually basic direct pit latrines. This enabled Bangladesh to successfully eradicate the practice of open defecation.¹ Despite this achievement, it failed to meet the Millennium Development Goal (MDG) of providing access to improved sanitation for at least 69.5 percent of the population² by 2015. This was largely because these rudimentary sanitation facilities had structural deficiencies and were, in some cases, shared between multiple households. The lack of an adequate barrier between the user, the environment and the excreta exposed individuals to fecal pathogens, compromising public health. In 2013 Bangladesh was among the top 15 countries with the most deaths due to diarrhea or pneumonia. Diarrheal diseases also contributed to six percent of under-five child deaths.³ Additionally, prolonged use and sometimes ambiguous ownership meant that facility safety, upkeep and cleanliness suffered.

Community-Led Total Sanitation is based on the principle of triggering collective behavior change. In this approach, communities are facilitated to take collective action to adopt safe and hygienic sanitation behavior and ensure that all households have access to safe sanitation facilities.^a

^a Sanan and Moulik. 2007.

With only 63 percent of Bangladeshis using improved, unshared sanitation facilities, the Government of Bangladesh, through its 2014 National Strategy for Water and Sanitation,⁴ shifted its focus to improving the quality of sanitation facilities and practices. Several institutional challenges remained that inhibited high-quality service delivery in the sanitation sector. For instance, Bangladesh remains a centralized country, with limited devolution to lower tiers of governance. Though assigned the role of a service provider, many local government institutions (LGIs), including union parishads (UPs), pourashavas and city corporations, do not have the technical or financial capacity to deliver and sustain high-quality water, sanitation and hygiene (WASH) services for their entire populations. Instead, central agencies played multiple roles of financing, designing, implementing, and regulating WASH investments, blurring incentives and accountability of service provision in these areas. Though the private sector could potentially fill these service gaps, the environment

discouraged the sustenance of private sector participation. Finally, weak public demand for better services and limited state capability did not incentivize the government and the relevant institutions to improve service delivery.⁵

World Bank Interventions

To assist the government in meeting these challenges and to move people up the sanitation ladder (figure 1), the World Bank piloted a Technical Assistance (TA) project for implementing the sanitation marketing approach (Domestic Private Sector Regulatory Framework for Sanitation in Bangladesh P131981) in rural Bangladesh. This was carried out between 2013 and 2016, through the World Bank's Water and Sanitation Program (WSP). The program devised its strategy based on the notion that market-based models could be more effective in supporting individuals to move from basic to hygienic sanitation facilities. Hygienic latrines, considered the next generation of toilets, fully confine waste from both the user and the surrounding environment. This is achieved by directing the waste from the latrine cubical to a pit through an extended pipe i.e. offsetting.6

Demand for hygienic latrines was restricted because of their prohibitive high upfront costs. Meanwhile, local construction firms were limited in their service offerings by their small size and limited financial capacity, inhibiting them from being able to offer the longer-term repayment periods with lower installments that appeal to cash-constrained households. Additionally, for those willing to invest in such latrines, installation was a cumbersome process. Components had to be sourced from local hardware merchants, with plumbers or masons being separately employed for installation. The program, therefore, set out to devise a holistic approach that could improve the entire sanitation chain and address both these demand and supply side deficiencies in the sector.

⁶ Water and Sanitation Program. 2016.

¹ The Joint Monitoring Progress report of 2017 jointly issued by the World Health Organization (WHO) and UNICEF found open defecation to be at 0%.

² Improved sanitation facilities are those designed to hygienically separate excreta from human contact.

³ UNICEF, 2014.

⁴ Government of the People's Republic of Bangladesh Ministry of Local Government, Rural Development and Cooperatives Local Government Division. 2014.

⁵ Joseph, Haque, Sabrina Sharmin, Yoshida, Yanez Pagans, Sohag, Moqueet, Smith, Lahiri, Ellery, Sen, Ayling. 2018.



Source: WHO/UNICEF Joint Monitoring Programme for Water and Sanitation

Sanitation marketing is the application of the best social and commercial marketing practices to change behavior and to scale up the demand and supply for improved sanitation, particularly among the poor.^a

^a Devine and Kullman 2012.

To overcome the affordability gap, the project worked with microfinance institutions (MFIs) to develop a specialized loan product for low-income rural households to finance the purchase of hygienic sanitation facilities. Supply side interventions included training of local entrepreneurs on hygienic latrine construction using locally sourced material and facilitating access to small business loans to help them grow and expand their businesses for construction and installation of hygienic latrines. The objective of these capacity building activities was to create a 'one-stop-shop' for the customer through the Local Entrepreneur (LE).

By 2014, the Association for Social Advancement (ASA), the second largest MFI in the world, introduced a sanitation loan product targeted to households, which also helped to link the borrower to local LEs trained in installing the hygienic latrines. The entrepreneurs were also given access to flexible loans, enabling them to grow and extend their services and products.⁷ The pilot successfully demonstrated that households were willing to take out loans for latrine construction, and access to small loans increased the affordability of hygienic latrines.⁸ Another critical contribution of this initiative was the strengthening of the enabling environment for future sanitation projects. It created an incentive for institutions not previously engaged in the sanitation sector to explore new products, both technical and financial, by lowering risk and covering initial startup and capacity development costs. The project also trialed different models that proved unsuccessful, such as the installation of latrines by local entrepreneurs on hire purchase (i.e. with repayments to the entrepreneurs rather than the MFIs) and the sale of a prefabricated improved latrine superstructure (i.e. to be assembled by households themselves).

The World Bank continued the work of the pilot through a second follow on TA project entitled "Scaling Up Microfinance Institutions Lending for Improved Rural Sanitation in Bangladesh." The TA comprised 4 components:

- Skill development of entrepreneurs, including training in the production of multiple types of toilets;
- 2. Social marketing to influence behavior change;
- 3. Promotion of multiple hygienic latrine models; and
- 4. Access to consumer loans to purchase latrines and entrepreneur loans for business development

In 2016, the Global Partnership for Results-Based Approaches (GPRBA, formerly known as the Global Partnership on Output-Based Aid or GPOBA) joined the program with a US\$3 million output-based grant

⁷ Ikeda and Ahmed 2015.

⁸ Ikeda and Ahmed 2015.

(OBA Sanitation Microfinance Program) to extend hygienic sanitation to low-income households. Building on the groundwork of the TA, the intervention was informed by a World Bank study, which suggests that well-targeted subsidies could provide a critical safety net for the poor, triggering a significant increase in household sanitation.⁹ This was GPRBA's fourth project in on-site sanitation, and the first involving a blended finance approach combining commercial financing (through MFIs) and output-based subsidies to reach poor households.

Output-Based Aid (OBA) is a form of results-based financing in which subsidies are paid to service providers based on verification of pre-agreed project targets (outputs) defined during project design, thereby offering a strong incentive for the delivery of results.

OBA SANITATION MICROFINANCE PROGRAM

Introduction

GPRBA partnered with the Government of Bangladesh through the Palli-Karma Sahayak Foundation (PKSF) to provide credit support to 170,000 poor households in rural Bangladesh for the construction of low-cost hygienic latrines. The project sought to integrate the learnings from the recently closed pilot and benefit from the support of the ongoing World Bank TA. The project utilized a blended finance approach, combining grant funds with private finance for a total project cost of US\$25 million. GPRBA contributed US\$3 million in the form of an output-based aid (OBA) grant, which leveraged an additional US\$ 22 million in the form of commercial sanitation loans from MFIs. The OBA subsidy provided a financial incentive for households living below the 40th income percentile (the bottom two quintiles of consumption distribution in Bangladesh) to attain sanitation loans. In addition, it sought to stimulate the market for further sanitation lending through a demonstration effect to neighboring households. By establishing the viability of sanitation lending at scale, the project was intended to have larger implications for the wider microfinance industry in Bangladesh and beyond.

Stakeholders

Implementing Agency – The World Bank worked with the Government of Bangladesh to identify PKSF, a government-backed wholesale public finance institution, as the project implementing agency. PKSF had previously worked with the World Bank on wholesale lending to retail MFIs for the extension of 'productive loans' and had independent experience in the extension of 'non-productive loans,' under which the sanitation loan would fall. Their experience ensured they had robust monitoring and evaluation systems that would be compliant with GPRBA's rigorous standards. This meant that, though the independent verification of the quality of construction required under the OBA modality was new to the MFI sector, PKSF was largely well prepared to meet the requirements for the implementation of the project.

Partner Organizations – Partner Organizations (POs) are small to medium scale MFIs or NGOs that were tasked with providing the SDL to the poor households. Through its partnership in the pilot project, ASA was institutionally invested in the project for the construction of 100,000 toilets. They spearheaded the project as the primary retail MFI or PO, contributing a major portion of project funds. To further increase the scale of the project, PKSF selected an additional 20 POs from its large network. The POs were identified through a competitive selection process based on factors such as geographical coverage, overall performance in microfinance operations (including rating score), experience in implementing WASH projects funded by other donors, performance in managing and implementing other projects financed by PKSF, and their social commitment.

Each PKSF PO was given a target of 3,500 sanitation loans. These targets were modified based on their performance. By engaging ASA and the other PKSF POs, the project had significant capacity and outreach, enabling it to mobilize multiple branches and field offices to promote the latrine and financial products.

Construction Firms – Small-scale sanitation firms or local entrepreneurs (LEs), identified through a competitive selection process, were enrolled to construct the hygienic latrines. They also had the added responsibility of driving latrine sales, with the support of the POs, by carrying out marketing at the village level through direct engagement with the customers.

The pilot project demonstrated that the careful selection of entrepreneurs and businesses was vital to the success of the project. Even with a strong selection criterion, results showed that following the training, only 60 percent of construction firms engaged in latrine construction activities. Since the majority of the firms that dropped out did not rely on sanitation as their primary livelihood, the selection criterion was modified with this in mind. The more

⁹ Tremolet, Kolsky and Perez. 2011.

rigorous selection criteria were also a means to ensure that capacity-building activities would be less cumbersome and cost effective. The qualification criteria advertised for the construction firms were:

- At least 3 years business experience on sanitation
- Sanitation business as the main livelihood
- Owns or rents a business center with signboard and license
- Committed to providing quality sanitation service in the project area
- Masons and newly established businesses not applicable

Project Design

The project modality sought to leverage four main actors, i.e. PKSF as the implementing agency and wholesale lender for MFIs, POs as Retail MFIs, LEs/ construction firms as the service provider and lowincome households as the customer (members or non-members of credit groups within the POs).

The Retail MFIs were tasked with providing sanitation development loans (SDL) to households in 237 Upazilas (sub districts) under 42 districts. Capital financing for the loans by the POs could be obtained from PKSF if needed. Eligible household loans were set at a minimum size of 3,500 BDT (US\$ 45) and a maximum size of 10,000 BDT (US\$ 128). The sanitation loans were to be repaid over 55 weekly installments with interest set at a fixed rate of 10 percent.¹⁰ The households were responsible for repayment of the principle loan amount, and the OBA subsidy covered the cost of interest charged by the MFIs. Although existing membership was not a requirement, it was anticipated that 80 percent of the project beneficiaries would be existing customers of the POs. Non-members were also targeted and able to receive sanitation loans without additional requirements.

In accordance with the loan agreement, the borrowers were required to choose from for a list of qualified and trained LEs to contract for construction of the latrines. A catalogue containing three World Bank-designed hygienic toilets informed the decision amongst households. The catalogue ensured consistency and quality and, in effect, subsidized the marketing activities of the initiative.

Upon completion, an Independent Verification Agent (IVA), contracted by PKSF, verified the construction of the latrines and ensured the finished product met hygienic sanitation quality standards. This verification was done through a 6 to 10 percent sampling of households serviced on a quarterly basis. On the basis of a report submitted by the IVA, the World Bank released the OBA subsidy to PKSF. PKSF would, in turn, disburse the subsidy to the POs, according to the number of loans extended and qualified latrines constructed by each. The POs which obtained capital financing from PKSF received a 10 percent OBA subsidy, and others that invested their own capital received a 12.5 percent subsidy from the GPRBA grant.

The project also had a very strong gender component integrated into the design. It sought to address the huge gender disparity that had persisted in the sanitation sector, where women are often the most vulnerable to the effects of poor sanitation, partly because of their biology (e.g. menstruation and pregnancy) and partly because they are, due to their lower social and economic status, less likely to have access to good sanitation and hygiene.¹¹ Unsurprisingly, for households not practicing open defecation, male members almost exclusively undertook the purchase of latrine materials, transportation, design and construction, resulting in the lack of consideration for a female's distinct sanitation needs.¹² The project took a step towards addressing the inequity and put women at the forefront of the household's sanitation decision. Women were positioned as primary interlocutors by working through the predominantly female microcredit groups and by changing local entrepreneur behavior to provide a 'turn-key' sanitation service 'at the doorstep' of the household. This shifted the dialogue from the delivery of the sanitary components of a latrine, negotiated by men in the market, to the delivery of a sanitation service, negotiated by women at their home.

Outside of the scope of the GPRBA project, PKSF, through the POs, also offered local entrepreneurs business loans. These loans ranged from US\$ 500 to US\$ 2,500 and were provided at a 12.5 percent flat interest rate. The provision of these business loans addressed the challenge of LEs being unable to prefinance service provision prior to receiving payment. The ongoing World Bank TA supported the project through demand creation and provided follow-up support to trained entrepreneurs to ensure quality of construction and support partner organization to reach the poorest households.

¹⁰ this is calculated as a flat rate based on the market MFI rate of 20-25 percent declining balance, for ease of payment and collection by consumers and field staff.

¹¹ Winter, Dreibelbis, Dzombo, & Barchi, 2019.

¹² Schmitt, Clatworthy, Ogello, & Sommer, 2018.

Cost and Financing structure

The grant provided by GPRBA was designed as an OBA one-off capital subsidy. The grant amount of US\$3 million was given to PKSF to cover costs related to the OBA subsidy in addition to monitoring, implementation and management of the project. The grant was divided as follows:

Table 1. Grant structure

Component	Estimated cost at appraisal	Actual cost
OBA subsidies to	US\$2.4 million	US\$2.31 million
increase access to		
household sanitation		
Operational and	US\$0.60 million	US\$0.57 million
implementation		
related costs		

Addtionally, fundamental to OBA financing schemes is the requirement that service providers prefinance their investments. Such pre-financing requirements have proved to be a real constraint, especially when the service providers are small and have difficulties in accessing finance. The design of this project effectively overcame this issue by adopting both an OBA and microfinance approach. It addressed the financial constraints of smaller MFIs through the mobilization of resources from large organizations like PKSF and ASA. The MFIs were expected to contribute nearly US\$22 million into the project with a significant portion (59%) of the investment coming from ASA. The capital from PKSF was made available to the POs interest free. ASA and PKSF had the confidence to invest their resources in this new sector due to the carefully designed investment of the World Bank and GPRBA, which both reduced risk of their investment and created the right incentives for the stakeholders tasked with delivering results.

The final evaluation of the program calculated that the US\$3.0 million grant invested by GPRBA leveraged an additional US\$23.7 million of capital investment from ASA, PKSF and PKSF POs. The breakdown of the investment is as follows:

Table 2. Investment contributions

Organization	Contribution [US\$]
ASA	13,644,103
PKSF	3,974,359
PKSF POs	5,478,456
TOTAL	23,096,918

Targeting Mechanism

In Bangladesh, microfinance has become a broadbased policy instrument to reach and assist the poor. Microfinance institutions have been successful in targeting poor rural women to empower them in the household decision-making process.¹³ Working through MFIs was therefore an ideal mechanism for reaching the intended 170,000 rural households below the 40th income percentile in Bangladesh. Since existing membership was not a requirement, PKSF and the POs further identified clusters of poor households that would have been interested in accessing the sanitation loans. The wide network and capacity of the POs helped in this regard.

Targeting within the PO membership was achieved through self-selection, as the OBA subsidies were only offered for low-cost latrine technologies that met hygienic sanitation standards. The latrines offered by the construction firms ranged between US\$ 45 and 220, while the OBA subsidy was only offered for latrines costing between US\$ 45 and 128, as these lower-cost options were more likely to be purchased by poor households.

Product Design

The primary objective of the product was ensuring the effective separation of waste from humans, while doing no harm to the environment. The project therefore promoted the construction of offset pit latrines with an option to install dual pit latrines (refer to the above graphic). The offset pit latrines were easy to clean, and the option of dual pits allowed households to use a second chamber when the first one became full. However, because constructing two pits was more costly, a flexible connection pipe with a single offset pit technology was introduced. The provision of the connection pipe meant that the construction of the second pit could be deferred to a later stage.

Through the pilot it was clear that the demonstration effect would be a significant driver of demand. An important factor that helped stimulate demand was the physical structure of the new latrine models—the exterior of the latrine was bright and attractive using the national colors of green and red. Three types of latrines were promoted: (i) Aram Plus, (ii) Bilas Box and (iii) Bilas (brickwork platform), out of which the Bilas Box was the most popular.

Environmental Considerations

The latrines that the project sought to replace often had structurally-defective pits that lacked a

¹³ Khander, Khalily and Samad. 2016.

Figure 2. Product Design



physical barrier, such as sand or concrete, between stored excreta and soil and/or groundwater.¹⁴ This raised the probability of contaminants from these pit-latrine excreta leaching into groundwater and impairing the quality, thereby threatening both the environment and human health through well-water contamination.¹⁵

Accordingly, measures and guidelines for latrine construction under the project were put in place to mitigate the risk of environmental pollution. The delivery pipe was set up ten inches below the top of the pit to cover the feces by a ten-inch thick soil layer when the pit is filled up. The first ring of the pit was constructed six inches above the ground level for protection of rain/flood water from the pit during the monsoon season. The sand barriers were designed according to factors such as soil condition, ground water level, and distance from drinking water sources. Furthermore, measures were taken to ensure latrines were constructed at an appropriate distance from water supply mains. Lastly, fecal sludge management was strengthened through the easy-to-clean flexible connection in the off-pit latrine.

¹⁴ Van Ryneveld and Fourie. 1997.

¹⁵ Graham and Polizzotto. 2013.

Figure 3. Hygienic Latrine Models

Aram Plus Latrine



Photos: Water and Sanitation Program

Bilas Box Latrine



Bilas Laterine



Women Health and Safety Considerations

The design of latrines previously promoted to combat open defecation had failed to consider the specific sanitation needs and utilization practices of women. In the absence of hygienic toilets, women were at an increased risk of serious health complications. Additionally, the facilities lacked adequate space for proper Menstrual Hygiene Management (MHM). Lastly, the inability to easily access and lock the facility led to safety concerns.¹⁶

The project therefore integrated approaches to address these gender-related issues by focusing on size, access, convenience and health. The latrines were larger than the other products in the market and had a proper lockable door and an optional light for night-time use, where electricity was available. Where possible, households were also motivated to construct toilets adjacent to their houses/bedrooms rather than continue the legacy of 'outhouse' latrine construction.

Project Implementation

The project was launched in March 2017; however, due to heavy monsoon rains, the activities did not fully commence until October 2017. This meant that the toilets had to be constructed within a shorter time period than planned of only 9 months (i.e. by June 2018). The delay in project implementation did, however, allow the Bank additional time to train PKSF and the local entrepreneurs.

The LEs spearheaded the latrine promotional work through door-to-door marketing, utilizing the World Bank-designed marketing material. Though intended as a capital subsidy, the LEs and the POs together marketed the loan as an "interest-free" loan. This turned out to be a significant motivating factor in the decision of households to take the loan. The demonstration effect was also a driver of demand, with household demand for latrine and loan products increasing once they saw the physical structure of the new latrine models being constructed for their neighbors. Therefore, the driving motivation for the latrine came largely from its status value, specifically derived from the quality of the superstructure and its visually attractive exterior.

Consumer preferences were also influenced by the LEs own preferences and marketing approach. It was to the LEs advantage to give less choice to consumers, for ease of stock and material management, as well as to promote the model they were confident of constructing and one which offered them the most financial returns. Hence LEs own sales approach often promoted one model over others. Once a few households chose a single model, consumers were more likely to replicate this choice.

Independent Verification and Feedback Process

The output-based approach introduced an important fourth party, the Independent Verification Agent (IVA), into the delivery model. The IVA's role was designed to improve service quality and accountability, as well as to provide assurance that funds have been used for the intended purpose. The release of the OBA subsidy by PKSF to the POs was contingent on the 8-point verification of the quality of the process and the construction of latrines based on a 6 to 10 percent sampling of the latrines installed.

Although the verification activities of the IVA were ultimately focused on outputs, as latrine construction was ongoing throughout the project, they provided a useful monitoring and feedback mechanism to identify shortcomings and obstacles and, where necessary, facilitate corrective actions. For instance, through the first report, it was brought to the attention of the Bank that the quality of some of the toilets being constructed was below the stringent set standards. This was because the LEs had not adequately grasped the design of the product. Corrective measures were quickly put in place, LEs were reeducated about the design and construction process and any latrines not originally meeting quality standards were fixed. Subsequently, IVA reports found that the quality of the product was significantly improved in the later stages. Another testament to the IVAs contribution was PKSF's ability to modify POs targets during the project by basing them on performance.

The presence of the IVA helped to ensure that the POs were not solely focused on the repayment of the loan but also concerned with how the borrower used the loan and with the quality of the product that the loan was purchasing. If the IVA was to find that the latrine had not been built or the quality of the latrine did not meet the standard, then the payment of the OBA subsidy would not be made. Some POs passed on some of this risk to the LEs by withholding the loan to the customer until the POs had verified the latrine quality for themselves. The customer was also empowered through this

¹⁶ Aidara, Anderson, Anderson, Cortes, Garrett, Jones, Kayengirire, Pankaj KC, Marlin, McCready, Norgrove, Patkar, Reinhardt, Van der Voorden, Yonavich. 2013.

approach. By not paying upfront, they had more leverage to demand a higher quality of service from the LEs.

Project Performance

Table 3. Results achieved

Indicators	Targets	Results
Number of households receiving sanitation loans from POs under the project	170,000	170,679
People provided with access to hygienic sanitation facilities under the project	850,000	776,590°
Number of households receiving sanitation loans which are identified as poor	80%	89%
Loans provided to female borrowers	90%	96%
Households satisfied with latrine installation process and functionality	90%	99.99%

Note:

^a The shortfall in the number of people reached was a function of the household size being slightly less than that estimated in the project development objective target.

The project successfully supported the construction of 170,679 latrines, and in doing so, surpassed its 170,000 target. This was a significant achievement considering the latrines were promoted and constructed in a 9-month period, a major accomplishment compared to other sanitation programs in the country. POs reported that around 13 percent of borrowers were new customers who had not previously borrowed from them. The project also enabled a number of households to transition from multi-family-owned units to private facilities.

Figure 4. Income level of borrowers



This transition has the potential to address concerns regarding safety and access.

As of the latest report in June 2018, the repayment of the loans was on track and in line with MFI averages for other products. A number of POs reported that the SDL was one of their best performing loans in terms of repayment. Only 0.83 percent of the customers had overdue loans, accounting for 1.21 percent of the total loans granted.

A total 1,659 LEs received training through this project. 735 LEs who received training earlier from the pilot project were also included. At project completion, 1,570 trained LEs were active and producing latrine materials as per project design and delivery services. All active LEs were offered loans. However, only 1,031 LEs took advantage of the opportunity and received loans from respective MFIs to expand their sanitation business.

In regards to the effectiveness of the targeting mechanism, an independent evaluation of the project suggested that 29 percent of the beneficiaries fell into the poorest group of below US\$ 1.25 per day, and 31 percent fell in the next poorest group of below US\$ 1.75 per day. These results represent a very positive picture in terms of the effectiveness of the project's design to reach the poorest households within the communities.

Lastly, due to the fact that women account for 89 percent of MFI clients, it was of no surprise that the vast majority of borrowers of sanitation loans were women (96 percent). Out of the total credit group members targeted, 5.4 percent of female members and 6 percent of male members took up the sanitation loans offered.

CONCLUSION

The project was considered a success from a number of perspectives. The majority of targets were successfully achieved, and the quality of delivery was high. The adoption of the "one-stop-shop" business model servicing the entire latrine construction supply chain offered local businesses the chance to increase revenue and margins, and provide customers with a more appealing sanitation product offering. The project delivered the right enabling environment to demonstrate the existence of a viable and robust market for sanitation loans, for both households and businesses.

The OBA model introduced greater discipline of governance, reporting and transparency into the implementation of this sanitation project. The use of subsidies was a key contributor in creating the right conditions to engage the MFIs and customers. The approach has also increased the transparency of subsidies, which are often hidden and almost never quantified under other approaches. However, the targeting of poorer households could have been more effective through longer repayment periods and a higher percent subsidy. Lastly, since the majority of the customers opted for a single pit latrine, there needs to be a follow-up to motivate them to invest in the second pit.

From a macro perspective, the project has contributed significantly to the development of the market for new sanitation and financial products. The level of ownership and commitment that PKSF showed through their engagement in the project demonstrated the significant achievement of the project and offers opportunity for future microfinance investment in the WASH sector. Prior to this program, non-productive loans were less than 5 percent of the total loans by MFIs in Bangladesh. With the introduction of the sanitation development loans, 9 percent of the total number of micro-credit group members targeted that did not have an improved latrine ended up taking out a sanitation development loan (6 percent for ASA and 30 percent for the other 20 MFIs). The introduction of the nonproductive sanitation loans led to a 13 percent

increase in the number of new borrowers amongst all MFIs (9 percent increase for ASA and 18 percent increase for the other 20 MFIs).

Surveys of local entrepreneurs have also shown significant demand and willingness of households to pay for the latrine models designed and developed under this project, even without access to the subsidy. This suggests that the project has successfully moved the quality and price point for latrine facilities in rural areas up the sanitation ladder. Final project data confirmed that in addition to latrines constructed with the support of the sanitation loan, a further 14,448 latrines were sold to customers without sanitation loans. This is an encouraging finding and demonstrates the strength of the products being promoted, as well as the purchasing power of some consumers in the marketplace.

Finally, since completion of this project, PKSF has developed a SDL policy to extend hygienic sanitation to any of its retail MFI partner organizations. PKSF has also allocated capital finance to support retail MFIs in five sub-districts to reach 100 percent sanitation coverage in their project areas through a program supporting the Sustainable Development Goal (SDG) target 6, of ensuring safely managed water and sanitation for all.



