Sanitation microcredit loans

A MECHANISM TO INCREASE ACCESS TO BASIC SANITATION FOR LOW-INCOME URBAN AND PERI-URBAN HOUSEHOLDS

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**Background**

Benin continues to have widespread open defecation (54% DHS, 2018), and approximately one million toilets are needed to eradicate it (DHS, 2018). Despite households’ interest in owning a toilet, they don’t have enough cash to purchase a toilet. More than 50% of landlords without toilets would like to have sanitation credit. Microfinance institutions (MFIs) have been reluctant to give loans for toilets, since they are not productive assets and are typically smaller loans with similar administration costs as higher ones. Through USAID’s Sanitation Service Delivery project, PSI partnered with PEBCo, a local MFI, to offer consumers loans to build “WC Mimin”, a low-cost, high quality poor flush toilet.

**Intervention**

PSI and PEBCo established a sanitation loan fund based on the following terms

In the case of default, which has been determined by a joint-committee, PSI and PEBCo-BETHESDA will share in the loss, at the rate of 70% PSI and 30% PEBCo-BETHESDA.

Development of a simple eligibility screening algorithm that aligns with PEBCo’s existing loan application system: WC Mimin sales agents do initial client screening before referral to PEBCo; an initial $20,000 investment by PSI into a sanitation revolving fund to de-risk and sustain the newly created sanitation loan product; a guarantee from PEBCo to invest a minimum of an additional $60,000 of its own capital into the fund; loan disbursement at the market interest rate of 1.9% per month.

**Results**

Of 4,084 WC Mimin toilets built from September 2017 to June 2019, 2,226 (55%) resulted from sanitation loans (about two latrines in each courtyard per credit). Due to effective qualification screening by sales agents, less than 5% of loan applications were denied. 29% of loans went to women, and 67% to people below the poverty line. The current repayment rate for 90-day old disbursements is 80%. As a result, MFIs are considering giving larger loans to meet the needs of large households and sanitation entrepreneurs. Already, PEBCo has disbursed an amount of $272,800 out of $120,000 expected disbursements, a percentage of 394.44%. This may lead to the conclusion that this financial product will soon be one of the key products of microfinance institutions portfolio in Benin.

**Conclusion**

Sanitation loans have boosted toilet purchases by low-income urban households. With proper client screening, financial institutions are likely to experience better quality application with higher eligibility rate and possible higher repayment rates even from low-income households. Expanding sanitation loans to more households is a critical component of reaching universal sanitation coverage.