



**MIFIndex** 



**water for people**  
COBERTURA TOTAL • PARA SIEMPRE

# MICROFINANCE SECTOR STUDY

---

*"Situation of water and sanitation solution financing in Central America and the Dominican Republic: generating synergies".*

**SECTOR ANALYSIS NO.6**  
**October 2021**





# Presentation I

This study is an initiative of cooperation and collaboration between the Red Centroamericana y del Caribe de Microfinanzas (Central American and Caribbean Microfinance Network, or REDCAMIF) and Water For People. These two organisations come together in their efforts to meet the needs of vulnerable families in Central America and the Dominican Republic in the area of clean water and sanitation, in order to improve their quality of life.

The objective of this sectoral study is to learn about the current situation of microfinance sector financing for water and sanitation, evaluate the limitations and identify the best ways to promote and scale up this financing within the offer of microfinance institutions.

The methodology of the study is mixed: information was collected through surveys and interviews with microfinance institutions, second-tier financial institutions and organisations specialising in water and sanitation.

The study was prepared by a working team coordinated by Yoselin Galo Vanegas, Information and Analysis Manager at REDCAMIF, with the participation of Liza Rivera, Country Director

– Water For People Nicaragua; César López, Sustainable Sanitation Officer – Water For People Guatemala; Harold Nuñez, Sustainable Sanitation Specialist – Water For People Honduras; Carlos López, Sustainable Sanitation Officer – Water For People Nicaragua; and Heriberto Ubeda, Sustainable Sanitation Officer – Water For People Nicaragua.

With the support of:



# Table of contents

<b>I.</b>	Introduction .....	5
<b>II.</b>	Water and sanitation .....	6
	<b>2.1</b> Sustainable Development Goal No. 6: Clean water and sanitation .....	6
	<b>2.2</b> Access to water and sanitation in the study countries .....	8
<b>III.</b>	Current status of microfinance institutions' financing solutions for water and sanitation .....	9
	<b>3.1</b> Portfolio and customers .....	10
	<b>3.2</b> Intended uses of the loan .....	11
	<b>3.3</b> Working method.....	11
	<b>3.4</b> Product design.....	11
	<b>3.5</b> Complementary services .....	12
	<b>3.6</b> Partnerships.....	12
	<b>3.7</b> Funds.....	13
<b>IV.</b>	Limitations and prospects for microfinance institutions' financing of water and sanitation solutions .....	14
	<b>4.1</b> Internal.....	14
	<b>4.2</b> External.....	15
	<b>4.3</b> Prospects.....	16
<b>V.</b>	Support policies to encourage microfinance sector financing of water and sanitation .....	16
<b>VI.</b>	Case studies .....	19
	<b>6.1</b> Case no. 1 Mayaversátil – Guatemala.....	19
	<b>6.2</b> Case no. 2 Fundenuse - Nicaragua.....	25
	<b>6.3</b> Case no. 3 Habitat for Humanity - El Salvador .....	29
<b>VII.</b>	Conclusions .....	35
<b>VIII.</b>	Bibliographical references .....	36







# I Introduction

Millions of people have little or no access to adequate water and sanitation services. Water scarcity, water quality problems and inadequate sanitation affect the food safety, nutrition, economic opportunities and quality of life of poor families around the world. Vulnerable and rural populations are most at risk because of the lack of coverage and quality of water and sanitation services. Access is highly unequal within countries and can be a major factor that exacerbates poverty.

*The emergence of the COVID-19 pandemic has created a global health crisis that has a negative impact on the quality of life of millions of people. However, it has exposed the need for appropriate drinking water and sanitation systems to practice preventive hygiene measures. The Central American and Caribbean region has made progress in terms of coverage and access to water and sanitation at the basic level; however, there are many challenges in scaling up service levels to reach access to safely managed drinking water and sanitation services with improved technologies, mainly in the countries of Guatemala and Nicaragua and in rural areas.*

Thus, although the region shows progress in some indicators, it still faces major challenges. One of them is the urgent need to prioritise investments in water and sanitation at national and local levels; in this context, the private sector can be part of the solution. The UN Water Decade Programme on Advocacy and Communication (UNW-DPAC) reader "Financing Water and Sanitation" points out that households are key investors

in water and sanitation solutions, so the design and implementation of appropriate projects can maximise their participation, satisfaction and financial investment.

This study has three specific objectives: to understand the current situation of microfinance institutions' financing for water and sanitation in the region; to analyse the limitations and opportunities of this financing; and to capitalise on current experiences in the region in order to identify the best route for scaling up water and sanitation financing within the current offer of microfinance institutions.

It is aimed at various key players interested in improving the quality of life of vulnerable populations in the region through access to appropriate water and sanitation solutions, including microfinance institutions, microfinance networks, funders and investors, cooperation agencies, local and national governments, technical assistance and training organisations, and others.

The study was carried out using a mixed methodology approach. The quantitative aspect is mainly based on descriptive statistics and was used to achieve the



first objective of understanding and quantifying the financing of water and sanitation in the region by the microfinance sector. Under this method, microfinance institutions in the region were surveyed and the results were processed. This is complemented by a qualitative methodology that helps to understand in depth the difficulties that the institutions have faced in their attention to the issue, as well as the prospects for the future in terms of opportunities in this sector. Semi-structured interviews were conducted with microfinance institutions, funders and specialised organisations. Finally, the case studies illustrate some experiences of microfinance institutions that are contributing with products designed to finance water and sanitation solutions. In-depth interviews were conducted to collect the information

The study involved 56 microfinance institutions from Central America and the Dominican Republic, two microfinance funders and two international organisations whose mission is to promote access to water and sanitation at the sites of coverage.

The quantitative results correspond to the assessments of 20 of these microfinance institutions

and are integrated with contributions from interviews with 12 microfinance institutions, two local funders and two international development organisations.

*The document is structured in six sections: the first section provides a contextual framework and analysis of the main issues and needs in water and sanitation in the region; the second section focuses on the current data on microfinance institutions' financing of water and sanitation solutions; the third section analyses the limitations and prospects of this financing; the fourth section presents some recommendations and support policies that can encourage financing within the current offer of microfinance institutions; the fifth section presents case studies of relevant experiences in the microfinance sector; and finally, the sixth section is presents the conclusions of the study.*







## Water and sanitation



2.1

### **Sustainable Development Goal No. 6: Clean water and sanitation**

*The United Nations Development Programme (UNDP) indicates that water scarcity affects more than 40% of the world's population, a figure that will grow with rising global temperatures due to climate change. Countries are experiencing water stress, drought and desertification, and they estimate that at least one in four people will be affected by water scarcity by 2050.*

Climate change is a threat to water and sanitation services, but it also presents an opportunity. WaterAid, IRC and Water For People agree with this argument; extreme events such as droughts, floods and cyclones put the delivery of water and sanitation services at considerable risk, and the impact is even greater when services are not safe and robust.

During water shortages, populations resort to contaminated surface water, while floods damage water treatment and purification facilities and spread faeces. This, coupled with higher temperatures due to climate change, increases the incidence of water-related diseases. WaterAid, IRC and Water For

People highlight that climate change also presents an opportunity because safe and reliable water and sanitation services can improve the resilience of communities and households, and strengthening water and sanitation delivery systems helps to combat climate change.



The 2030 Agenda for Sustainable Development adopted in 2015 by the United Nations defines Sustainable Development Goal 6: "Ensure availability and sustainable management of water and sanitation for all" (SDG 6). This Development Goal calls for universal (including households, schools, health facilities, workplaces, etc.) and equitable access for all, eliminating inequalities.



*This goal also calls for safe and affordable drinking water, safe and adequate sanitation and an end to open defecation. Within SDG 6, two specific targets have been set for water and sanitation:*



**Target 6.1** Achieve universal and equitable access to safe and affordable drinking water for all by 2030.



**Target 6.2** Achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women and girls and people in vulnerable situations.

*In addition, there are benchmarks to measure the region's progress in the levels of water services provided to households and the levels of sanitation services used by households. Figures 1 and 2 detail the service ladder from no access to access to safely managed services.*

Figure 1. Water service levels

	Service ladder	Progressive implementation	
SDG 6.1	Safely managed drinking water services	Improved source located on the premises, available when needed and free of contamination	Progressive Implementation
	Basic service	Improved source at a 30-minute round trip distance	
	Limited service	Improved fountain at a distance of more than 30 minutes round trip	
	Unimproved	Unimproved source that does not protect against contamination	
	No service	Surface water	

Fuente: [www.un.org](http://www.un.org)

Figure 2. Sanitation service levels

	Service ladder	Progressive implementation	
SDG 6.2	Safely managed sanitation services	Improved private facility where faecal waste is safely disposed of on-site or transformed and treated off-site	Progressive Implementation
	Basic service	Improved private facility that separates excrement from human contact	
	Limited service	Improved facility shared with other households	
	Unimproved	Unimproved private facility that does not separate excrement from human contact	
	No service	Open defecation	

Fuente: [www.un.org](http://www.un.org)



The United Nations (UN) "SDG 6 Synthesis Report 2021 on Water and Sanitation" reports that:



**771 million people do not have access to basic water services, 88 out of 10 of whom live in rural areas and half of whom live in the least developed countries. It also reveals that 2 billion people do not have access to safely managed drinking water, 3.6 billion people do not have access to sanitation services and 494 million people still defecate in the open.**



In addition, it highlights some points that conclude that little progress has been made towards the goal of ensuring water availability, its sustainable management, and sanitation for all. These points are: an increase in water pollution, affecting quantity and quality for personal use; lack of financing for water and sanitation; fragmented and weak governance structures; agriculture putting pressure on water resources; and lack of institutional and human capacity for better management.

*This divide materialises in different aspects; firstly, the service providers and their sustainability. In urban areas, public companies provide these services and receive subsidy support for their operation, while in rural areas, community water and sanitation service organisations (OCSAS) are the main providers and their sustainability depends on the tariffs they collect.*



divide materialises in different aspects; **firstly**, the service providers and their sustainability. In urban areas, public companies provide these services and receive subsidy support for their operation, while in rural areas, community water and sanitation service organisations (OCSAS) are the main providers and their sustainability depends on the tariffs they collect.

**Secondly**, there is little access to piped water in rural areas in the countries of the region, with the exception of Costa Rica and, to a lesser extent, Panama. **Third**, rural and peri-urban areas that receive water services are more likely to suffer from discontinuity of services. These last two aspects force the population to use alternative sources (wells, rivers, streams, etc.), aggravating the precarious situation and health of the populations because they make it difficult to comply with sanitary recommendations to prevent the spread of COVID-19, as well as adequate storage practices to prevent other diseases such as dengue fever, malaria, and others.

On the other hand, the region faces poor water management, a management that is not integrated, thus hindering the capacity of water and sanitation systems to adapt to new challenges.



*There is also a disparity and lack of access to proper sanitation services, which has severe implications for health and the environment.*





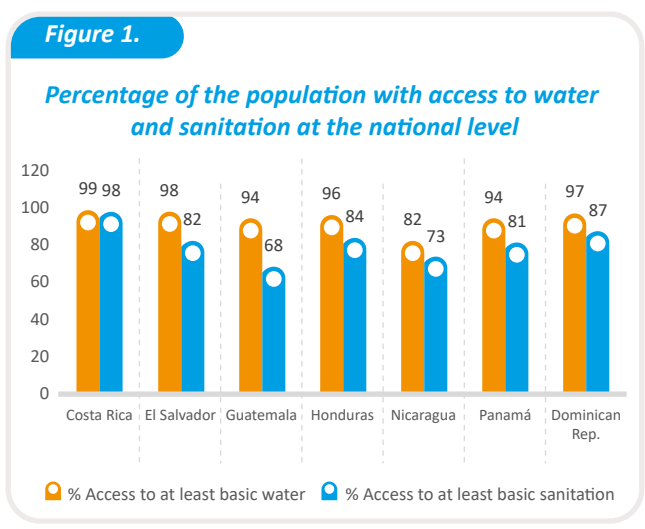
## 2.2

### Access to water and sanitation in the study countries

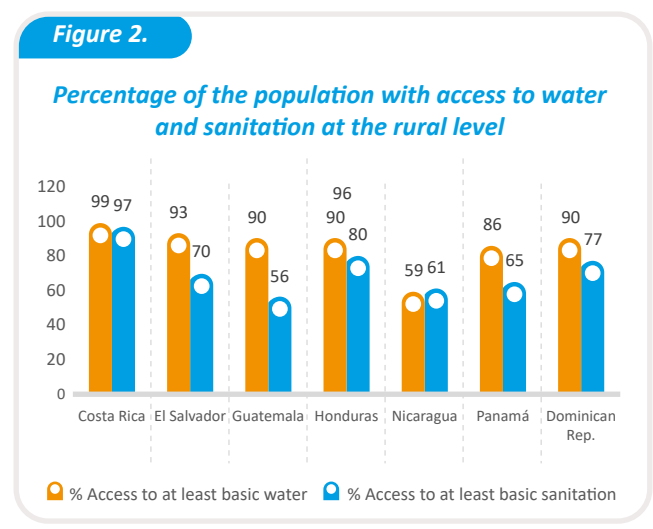
According to the latest 2020 Joint Monitoring Program (JMP) report, above **94%** of the populations of all the countries in the region have at least basic-level water coverage, with the exception of Nicaragua, whose coverage is **82%**. In terms of access to basic sanitation, Costa Rica has the highest coverage of **98%**, while Guatemala and Nicaragua have the lowest coverage of **68%** and **73%**, respectively. Figure 1 presents a country-by-country comparison of the national coverage of the population with access to water and sanitation.



In most countries in rural areas, the coverage of the population with access to water and sanitation, at least at the basic level, is acceptable. However, the data reflects greater challenges in these areas for access to safely managed water and sanitation, especially in the countries of Guatemala and Nicaragua, but there are also low levels in El Salvador and Panama. Figure 2 shows the data by country for access to water and sanitation in rural areas.



Source: Joint Monitoring Program 2020



Source: Joint Monitoring Program 2020



Open defecation data in the region highlights major challenges for Honduras, Nicaragua and Panama at the national level and in the rural sector, with levels of between 8% and 15% of the population defecating in the open. These percentages represent an important sector of each country's population and a significant public health and security issue. Table 1 provides open defecation data for each country.



1

TABLE 1

Percentage of population who defecate in the open

Country	National level	Rural area
Costa Rica	<1%	<1%
El Salvador	<1%	1%
Guatemala	2%	3%
Honduras	4%	8%
Nicaragua	7%	15%
Panamá	4%	12%
Dominican Rep.	2%	6%

Source: Joint Monitoring Program 2020

Data exists for all countries on water and sanitation services at least at the basic level. However, there is insufficient data on the percentages of the population with access to safe water, i.e. drinking water from an improved water source located at the residence or on the plot, available when needed and free of faecal or priority chemical contamination. There is also little information on the percentages of the population with access to safely managed sanitation, i.e. use of an improved sanitation facility that is not shared with other households and where excrement is safely contained and disposed of on-site or transported and treated off-site.

This is relevant given that, to the extent that progress is made in coverage levels at the basic level, the challenges and opportunities in this area are focused on improving levels of safe water and safely managed sanitation. Only Costa Rica, Guatemala and Nicaragua present data on safe water, and only Costa Rica and Honduras present data on safely managed sanitation.





## Current status of microfinance institutions' financing solutions for water and sanitation



Considering the regional and country-level picture of access to water and sanitation services, the need to continue to work towards scaling up the levels of safely managed water and sanitation services is demonstrated. To achieve this, financing is one of the main challenges. Effective strategies and financing mechanisms must be found to ensure the expansion of access to these services.

In this process, microfinance plays an important role since, according to the "Financing Water and Sanitation" reader from the UN Water Decade Programme on Advocacy and Communication (UNW-DPAC), *households are key investors in water and sanitation solutions and play an active role in the design and implementation of projects*. This opens up space for microfinance institutions to maximise household involvement, participation, satisfaction and financial investment.

For this study, **104** microfinance institutions, both affiliated and not affiliated with **REDCAMIF**, were invited to

complete the survey that allowed us to quantify the financing of water and sanitation solutions in the region. Of this total, **56** institutions completed the survey, with **96%** of them affiliated with the network. The results of the surveys conducted with these **56** institutions reveal that **28** of them do not offer financing for water and sanitation, nor did they show any interest in the short or medium term.



Only 20 institutions at the regional level offer financing for water and sanitation solutions, which corresponds to 36% of the sample, and 8 expressed interest, although they do not currently address the issue. These 20 institutions financing water and sanitation solutions are geographically distributed as shown in Table 2:



2

TABLE 2



Geographical distribution of MFIs offering water and sanitation financing

Country	No. of MFIs offering water and sanitation financing	Percentage distribution
Guatemala	3	15%
El Salvador	2	10%
Honduras	5	25%
Nicaragua	5	25%
Costa Rica	1	5%
Panamá	1	5%
Dominican Rep.	3	15%
Region	20	100%

Source: Joint Monitoring Program 2020



45% of these institutions have participated in a water and sanitation project or programme promoted by other actors, especially international non-profit organisations that work to empower people in need with access to safe water and sanitation, such as Water For People or Water Aid.

The interest of Microfinance Institutions (MFIs) to enter into water and sanitation financing has emerged through different directions. The main one is the institution's strategy, which aims to generate social impact by improving the living conditions and quality of life of families and the environmental impact in the communities they serve. Of the sample of institutions, 85% have indicated that their strategic plan includes attention to water and sanitation, reflecting the commitment of the corporate governments of these institutions.

Another direction stems from the experience of institutions that started with a vision of providing financing for housing projects, which later identified the need for families to retrofit water and sanitation units or systems to improve their standard of living. A third direction arises from stakeholders, mainly investors, funders and/or shareholders whose lines of action are focused on this issue or have a special interest in progressing in terms of Sustainable Development Goal (SDG) No. 6 "Clean water and sanitation".





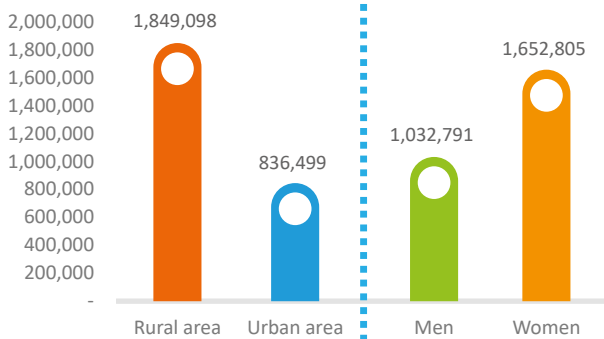
## 3.1 Portfolio and customers

Of the 20 institutions, only 12 reported their portfolio and customer data specific to water and sanitation. The rest of the institutions revealed difficulties in differentiating the intended use of the loans since they are mostly included in the home improvement product, or in a smaller proportion in an environmental productive loan.

The 12 institutions present a total water and sanitation portfolio balance of USD 2,685,596 and 2,149 customers. Of this total, 59% is placed in rural areas and 62% was granted to women. Figures 3 and 4 illustrate the portfolio and customer data for each breakdown.

Figure 3.

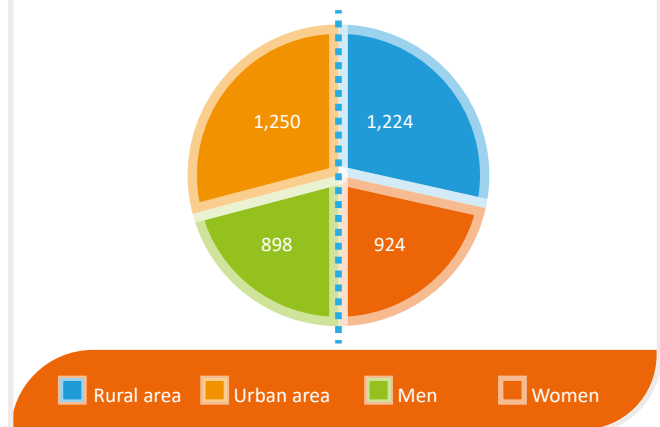
Portfolio balance (USD) - Water and sanitation



Source: prepared by authors on the basis of data from the MFIs

Figure 4.

No. Customers - Water and sanitation



Source: prepared by authors on the basis of data from the MFIs

## 3.2 Intended uses of the loan

The microfinance institutions working on the topic under study provide financial and non-financial services to implement water and sanitation solutions either through community organisations such as water committees or boards or directly to families, which is the majority of cases. In the first case, institutions have financed the purchase of technologies (meters, pumping equipment, solar panels, motors, etc.) or infrastructure. Families are financed for a variety of intended uses, both for water and sanitation, including: installation and

connection of drinking water services, irrigation systems, protection of water sources, installation of water collection tanks, construction of wells, maintenance of water distribution networks, solutions for sanitation systems, construction, expansion and repair of toilets and latrines, sewage systems, drainage, construction and improvement of septic tanks, connections to public sewage systems, biodigesters. It should be noted that both issues – water and sanitation – are closely linked and the combination of financing both needs is even more favourable for institutions and families.

### 3.3 Working method

For the most part, microfinance institutions identify and serve potential customers with a demand for financing water and sanitation solutions through credit officers or advisors who have a direct relationship with the customer. The objective is for each advisor to become a promoter, as during follow-up visits they have access in order to analyse the sanitation conditions in which the customer lives and to determine their needs. For this purpose, it is essential to train the advisors on topics such as: approach and sales strategies, knowledge of water and sanitation, improvement of sanitation structures, budgeting, implementation and monitoring phases, among others. Publicity material is also relevant to support the work of the advisors.



Some of the other working methods of the institutions include the advisor approaching community leaders (e.g. pastors, presidents of water boards, presidents of boards of trustees) to promote financing services, or partnerships with developers who refer clients to the advisors, who then contact the client and initiate the credit process.

### 3.4 Product design



*Of the 20 institutions, 55% have designed an exclusive financial product for water and sanitation solutions*

with conditions adapted to the needs of the customers, and have developed manuals, brand image, credit policies, and non-financial services with added value. This added value varies between institutions, ranging from technical assistance to complementary elements to water and sanitation solutions (filters, hygiene kits, etc.). This product design has been carried out with the institution's own capacities or with the support of other organisations,

including ADA, REDCAMIF, Water For People, Water Aid and Habitat for Humanity.

**The remaining 45% of these institutions that have not designed a specific product address this issue through a home improvement product or a green/environmental product.**

The conditions that the institutions offer in water and sanitation loans are presented in the following table:

CONDITIONS
Loan amount
Interest rate
Term
Grace period
Average loan amount

RANGE
USD 450 - USD 5,000
18% - 36%
6 months - 7 years
No
USD 1,200

Four institutions located in Guatemala (2 MFIs), Honduras (1) and Nicaragua (1) have implemented a combined or mixed loan, i.e. a percentage is intended for productive activity and a percentage for water and sanitation. This type of loan is even more suited to the needs of families, as it promotes income generation or business reactivation – especially in the current times of the pandemic – and provides families with a water and sanitation unit that improves their living conditions. At the same time, it guarantees the institution a source of repayment of the loan.



Case study No. 1 illustrates the implementation of Mayaversatil's combined loan model and the lessons learnt from this experience

### 3.5 Complementary services

The non-financial services that microfinance institutions have implemented to accompany the financing of water and sanitation solutions include:

**Technical assistance:** 40% of the institutions that offer this financing accompany it with technical assistance, most of which is channelled to the customers through the credit officers themselves or through a team from the institution that is trained in water and sanitation and/or construction assistance. Another way of providing this service is through partnerships with organisations that promote the development of drinking water and sanitation services or in combination with the institution's staff and partners. This technical assistance aims to

support families in the proper and orderly installation of water and sanitation solutions and to ensure that the technical conditions are of a minimum standard of quality.

“**Training for families** on a variety of topics, including business management, accountability for payment of customer obligations and the reduction of arrears; family practices to improve their financial situation; construction and disaster risk management issues; and health education. The traditional method of community visits is now being complemented by digital media.



## Awareness-raising programmes or campaigns for families

, aimed at changing thinking, behaviour and the rational use of water resources: in this awareness-raising process, the benefits generated by the type of intervention carried out by the institutions in terms of water and sanitation solutions are highlighted. The means used for this purpose have been flyers, megaphones, and advertising posters at strategic locations in the community.

## 3.6 Partnerships

Partnerships with different stakeholders in the value chain play an important role in the supply of financing for water and sanitation solutions.



*Fifty percent of the institutions offering these financial services report having partnerships with international cooperation agencies, local and international financiers and local governments.*

These partnerships contribute to strengthening the technical capacities of the institutions in various aspects, which are detailed below:

✓ Training field staff so that they can attend to families' requests on technical issues, provide better advice on changes, improvements and budgets, and learn about new technologies, best practices and models in the area of water and sanitation. In the context of the pandemic, the training, which was previously face-to-face, has been combined with a virtual methodology.



Design of the loan product, loan by-products and additional services. These partners also provide support in carrying out diagnostics and market studies, and in developing credit policies, manuals and other documentation that facilitate the formalisation of the product. In some cases, their contribution is made with evaluations of the impact of the project on the customers.



Marketing, communication and commercialisation strategies for the financial product and complementary services. Support with the content of written, radio and digital advertising material. Recently, digital marketing through social networks has been used to achieve a greater reach.

With other stakeholders, such as suppliers of materials and technologies, collaboration is different. The institutions carry out collaborative work, but without major commitments; in other words, what the institution develops is a directory of suppliers of materials, equipment and technologies, as well as of skilled labour in each town to recommend to the customers, who in the end make the decision as to which supplier to work with. Few institutions have a more formal agreement with suppliers in which they establish direct payment from the institution to the supplier, who delivers the materials and equipment to the customer.

On the other hand, public institutions are also part of these partnerships. They are part of the ecosystem and therefore contribute in two ways: 1. they guarantee attention to technical quality, the technical criteria and the offer that is put on the market for these solutions; and 2. in some places, the municipalities are more active in the construction of works that increase the demand for financing on the part of the customers, who request to make

basic connections to the water system and to the public sanitation system.



*During the surveys, interviews and case studies, the main partners of microfinance institutions for both capacity building and funding have been Water For People, Habitat for Humanity, Water Aid, Water.org, ADA, REDCAMIF, REDIMIF, One Drop, Barceló Foundation, Swedish Cooperation SIDA, Inter-American Foundation (IAF), BANDESAL, IDB, OMA (minimum water and sanitation organisations) of the Ministry of Health in Guatemala and the Ministry of Public Health in El Salvador.*

These partnerships, whether with development organisations, funders, technical assistance companies, public entities or others, leverage the capacities of the institutions and are of great support to initiate and maintain work in water and sanitation. Generally, once a technical team (usually well-trained credit officers) is consolidated within the institution to address the needs of families in water and sanitation systems, the role of partner organisations is more one of updating and refreshing knowledge, technologies and best practices.



*Case study No. 2 of Fundenuse highlights the importance of partnerships with different stakeholders to help families in the construction and/or implementation of water and sanitation solutions.*

## 3.7 Funds

The sources of funds that institutions use to finance water and sanitation are diverse, but few of them have access to external financing for this purpose.



*Seventy-five percent of the institutions active in this service indicated that they use their own funds to address this issue.*



*Thirty-five percent of the institutions indicated that they are supported with funding from international funders*



*and only 25% receive funding from local funders.*

From the funders' perspective, they stated that they have not had funds allocated to these projects, nor demand from the institutions, but they are willing to work on the issue because it has an impact on the quality of life, there is potential for funding due to the shortcomings in terms of water and sanitation experienced by the communities, the demand exists, and this funding also contributes to financial inclusion.

Recently, they have been approached by an initiative that aims to catalyse investment in order to improve water and sanitation services in underserved communities in the countries of operation; however, the partnership did not materialise. For the funders, the issue is not a simple one; they also

see the need for partnerships and the formulation of comprehensive projects, especially with the technical support of organisations specialising in the field.

*Currently, some microfinance institutions are in negotiations with funders or are analysing more comprehensive projects where they can form part of an partnership to facilitate financing for water and sanitation solutions.*

## IV

### Limitations and prospects for microfinance institutions' financing of water and sanitation solutions



*Improving access to sanitation and safe drinking water has great benefits for the health of the population, the economy and the development of countries. Despite these benefits for human development, financial institutions still allocate insufficient or no resources to contribute to the Sustainable Development Goals on water and sanitation. While there are some microfinance institutions in the region that are facilitating this financing, a number of internal and external factors have been found to limit the scaling up of these services.*

#### 4.1

#### Internal

Internally, the situation of the institutions is different, but some of them have faced difficulties in promoting water and sanitation financing due to the following factors:

The product design is often not the right one, or the requirements of the financial institutions are not adequate to the customer segment: They do not have a loan designed with conditions adapted to

the needs of the customers. Progressive financing is required because the customer segment for this product will not always be able to make the improvement with a single loan. Also, microfinance institutions either do not have a culture or, in some cases, do not have the capacity to develop products with a customer focus.



Turnover of credit officers who are part of the institution's installed capacity: This turnover of trained staff takes away all the knowledge and resources invested by the microfinance institution, forcing it to constantly train new staff. Despite the fact that the partner institutions train their staff, these trainings are often not as frequent as the training of new staff.

“ From a profitability perspective, water and sanitation lending is not as attractive to microfinance institutions as other sectors, such as commerce. Institutions perceive a difficulty in having a self-sustainable water and sanitation loan, for which they need to structure this product well. In addition, they identify that the market potential is at the base of the pyramid, which could have a higher risk for the institution.

Another limitation found in the institutions is that they perceive water and sanitation as a recent and highly specialised issue that requires technical knowledge and other capacities of the whole institution, from corporate governance to field staff, to integrate it into their product and service offerings.

## 4.2 External

The COVID-19 pandemic has been a major constraint in the past year. First, other priorities emerged within microfinance institutions to provide continuity of operations. For example, the digitisation of processes and enabling digital channels for customer service demanded the focus and resources of the institutions, leaving social and environmental impact issues on the back burner. Secondly, from the customer's perspective, something similar also happened, as the customer has prioritised productive activity over the construction or improvement of water and sanitation systems. Finally, as a result of the pandemic, there was an increase in the cost of construction materials.

“ *The cultural aspect is another relevant aspect that makes it difficult for microfinance institutions to pay attention to the issue of water and sanitation. Families are reluctant to make behavioural changes: they do not value the importance and benefits of drinking water structures and sanitation systems on their health and living conditions; on the contrary, there is a preference to live in the status quo. There is a lack of awareness; of awakening communities to the need for safe drinking water and a sanitation unit in their homes. There are not enough awareness-raising campaigns or programmes to demonstrate to the population the improvement in the health and living conditions of their families if they invest in water and sanitation solutions.*

The lack of strong, well-trained and well-supported water committees, whose purpose is to serve as a link to supply or value chains, has been one of the constraints encountered by microfinance institutions. This lack of organisation and the emergence of internal conflicts within the committees, sometimes due to political interventions,

make it difficult to recover loans. This difficulty is accentuated by the lack of follow-up and monitoring by microfinance institutions of the loans granted to these community organisations.

According to the Swiss Agency for Development and Cooperation (SDC), Latin America and the Caribbean Division, in its report "Water and Sanitation in Central America: Community administration is the key to sustainability", the model of community organisations known as CAPS (Comités de Agua Potable y Saneamiento, or "Drinking Water and Sanitation Committees") in Nicaragua or JAAPS (Juntas Administradoras de Agua Potable y Saneamiento, or "Drinking Water and Sanitation Management Boards") in Honduras enjoys the approval of most sectors; however, as they are fragmented, weakened and without the voluntary participation of citizens, access to and distribution of water and basic sanitation cannot reach very remote communities

Few local and international funds earmarked for water and sanitation: most of the institutions revealed that they use their own funds to finance these loans, as well as being in talks and negotiations with some funders. However, there are not many second-tier institutions working on the issue, even though they are a fundamental part of the entire ecosystem.

“ From the perspective of second-tier financial institutions, they also find a restriction in the type of funds they manage, as they are oriented to meet working capital requirements for the productive sector whose terms limit the attention to problems related to water and sanitation. Another relevant issue for these institutions is the lack of experience in assessing the projects that microfinance institutions may present based on requests for financing from their direct customers.

There is a lack of strengthened value chains, especially in rural areas where there are no developed markets. Therefore, they depend on non-local suppliers, which makes the product more expensive. On the other hand, the water and sanitation sector has been very much associated with subsidies, creating a kind of paternalism, making it difficult to change the mentality towards market-based, sustainable systems.

## 4.3 Prospects

The organisations participating in this study indicate that there are good prospects for financing water and sanitation. One of the main reasons they highlight is the real needs of the customer families, both those who currently do not have a solution and those who need to improve or renovate their infrastructure. These shortages create a demand and make customers more welcoming of financing to meet this huge community need.

*They believe that a well-designed product to address these specific needs is promising because of the social and environmental impact it generates in households and in the community. Moreover, this social focus is part of the mission of the institutions and is also aligned with positive externalities for the environment.*

They perceive a business opportunity because the segment of microfinance customers is very poorly served in this area. There are many areas, mainly rural, where the issue can be worked on, therefore leaving space to generate an impact on customers' quality of life and facilitate or scale up financing with a differentiated product. In addition, they consider that the water and sanitation theme is broad, creating market opportunities for the implementation of different solutions, as well as different ways of combining credit.

Institutions already offering financing to this sector have reported, for the most part, a profitable and healthy portfolio, with good recovery rates. They have identified that most of the customers requesting this financing are women, which has a multiplying effect on the benefit to families, in addition to being a product with a higher probability of recovery, due to good behaviour in repaying its financial obligations. On the other

hand, access to water and sanitation services becomes a space for women's empowerment and participation, transforming gender relations in the communities and making their demands visible in the community and family decision-making spheres, as well as their needs for security and privacy.

Other organisations promoting water and sanitation say that there are prospects for growth in this segment as long as the market is developed and the value chain is strengthened, making solutions more accessible and affordable for families. Another issue to consider is the connection between water and sanitation, i.e. promoting and working on both issues, which are closely related.

## V

### Support policies to encourage microfinance sector financing of water and sanitation

The COVID-19 pandemic has affected the health of millions of people around the world and has killed 45,067 people in Central America and the Dominican Republic alone, according to the World Health Organisation as of 7 October 2021.



*The current context is ideal to initiate a campaign to promote the financing, implementation and use of water and sanitation solutions in the most vulnerable populations.*

It is essential to create partnerships and generate synergy between different stakeholders in the value chain, which could help families to acquire a loan responsibly supported with technical assistance that makes both the financial institution and the final customer feel confident about the next step, and reassures them that the benefits of this investment will be tangible and of great impact.

It becomes necessary to support the awareness-raising of both microfinance institutions and customers on the importance of water and sanitation solutions and the benefits they have for the health of families and the environment. Approach the issue from a behavioural change perspective, putting the human being at the centre and involving the members of the communities.



*When acting individually and in isolation, microfinance institutions cannot adequately bring solutions to end-customers. They require coordinating actions with a variety of stakeholders for different purposes:*

✓ The contribution of organisations specialising in water and sanitation with knowledge, technical skills and experience that can be passed on to the staff of microfinance institutions entering the market is required, because the credit officers need to strengthen their financial and technical capacities to manage this type of project.

✓ The availability of local or international funds is necessary for microfinance institutions to be able to mediate resources to the sectors in need. Microfinance institutions must have the opportunity to access funds in larger amounts and under different conditions than traditional financing. This means extending terms, re-thinking the form of payment, and considering grace periods and guarantees, among other aspects.

✓ It is important to create partnerships with public entities such as municipalities and mayors' offices to coordinate efforts and take advantage of public works, as well as with committees of the Ministry of Health in order to join forces for the health of the communities.

✓ Actions should be coordinated with organisations that contribute to capacity building of microfinance institutions on different topics. The design of customer-focused products is fundamental: differentiated products with conditions adapted to the needs and resources of the customers, accompanied by non-financial services such as technical assistance, training and awareness-raising. A product where the monitoring and verification of the investment in the works is carried out to guarantee the recovery of the portfolio and the expected social and environmental impact.

✓ Partnerships should be created with suppliers of equipment and construction materials and providers of technologies and skilled labour in the different towns, to reduce costs for families.

*Additionally, it is important to develop water and sanitation markets, strengthen the value chain, carry out market and feasibility studies, and aim for a change in thinking and behaviour where water and sanitation solutions are valued in such a way that families are willing to invest to improve their living conditions — mainly in rural areas where there is greater need and where there is greater placement of a financial product for water and sanitation as found in the study.*



Pay special attention to the financing of women in water and sanitation solutions. The institutions that currently deal with this issue reflect that a large part of their customers are women; they play an important role in the health and hygiene of their homes, which favours the consolidation of financial products in vulnerable populations.



In projects where the community is involved, or projects that finance community organisations, it is imperative to be part of a training process that helps to manage financial and project resources, as well as those related to the monitoring and follow-up of water and sanitation works. These organisations should be strengthened, trained and provided with adequate support to face the great challenges that arise from the installation and maintenance of water and sanitation infrastructures, as well as from their sustainability.



*To achieve the social and environmental impact pursued by microfinance, it is essential to formulate and implement integrated projects with multi-sectoral participation, carry out coordinated actions that integrate the different stakeholders involved and create synergies to offer communities responsibly supported loans.*

## IN ORDER TO BE SCALABLE, PROJECTS MUST CONSIDER THE FOLLOWING CORE CONCEPTS



### Financing

for water and sanitation solutions.

01



### Technical

assistance in the construction of water and sanitation works.

02



### Advocacy

with the public sector, local governments, academia, etc.

03



### Educational

and awareness-raising programmes for families.

04



### Skills

development and specialisation of staff of microfinance institutions in water and sanitation.

05



### Creation

of strategic partnerships with the variety of stakeholders in the water and sanitation value chain.

06

*Case study No. 3 on Habitat for Humanity El Salvador is an example of what could be achieved in terms of financing water and sanitation solutions with the creation of a comprehensive programme.*

# CASE STUDY



**MayaVersatil**

”

Implementing a  
combined loan model

# Institution



MayaVersátil is a Guatemalan social enterprise development company that has been working in rural and urban communities since 2005. Its mission is to generate sustainable development opportunities for the country's population through entrepreneurship and versatility. They offer comprehensive microcredit services aimed at improving the social, economic and environmental well-being of the local population and their families, as well as strengthening sustainable economic development throughout Guatemala.



Its strategic objectives are to strengthen the ancestral organisational models of the communities it covers; facilitate and provide financial services to the rural and urban population, based on the methodology of community banks and solidarity groups; support and advise productive projects to ensure sustainability and return on investment; and contribute to the protection and conservation of natural resources through sustainable projects.



The financial services they offer are loans and investments for micro, small and medium-sized enterprises. These are complemented by non-financial advisory and consultancy services in various areas such as entrepreneurship, business incubation, entrepreneurship, credit management, financial education and marketing, water management, food security and sovereignty, and environment and sustainable endogenous development.



MayaVersátil operates in western Guatemala, in four departments: San Marcos, Quezaltenango, Totonicapán and Quiché, where they serve more than 1,300 customers with a total loan portfolio of USD 587,460 as of June 2021, of which 74% is placed with women and 76% in rural areas.

Of. Cantón Paquí, Totonicapán



**MayaVersátil**

*Service to more than  
1,000 clients*





## BACKGROUND



**56%** nationally and **46%** in rural areas, creating a major challenge to ensure adequate levels of safe water in terms of quantity, quality and accessibility.

Coverage of access to at least basic sanitation services is the lowest in the Central American region and the Dominican Republic. At the national level, this percentage is **68%** and in rural areas it decreases to **56%**. On the other hand, **3%** of rural households maintain open defecation practices. These results leave room for improvements in sanitation technologies, water systems, sewage system connection strategies at urban levels and other measures to scale up levels of access to safely managed water and sanitation services.

In 2020, **94%** of Guatemala's population will have at least basic drinking water the national level, and **90%** at the rural level, which demonstrates great progress. However, when reviewing data on safe water, coverage drops to

## Project description



In this context, MayaVersátil identified that water and sanitation solutions respond to the institution's focus on sustainable endogenous development and generate social, economic and environmental impact. Based on this premise, they developed coordination actions, initially with local authorities to support reforestation work and later to support water and sanitation in order to protect water resources. They are part of a regional structure that includes authorities from 48 cantons in Totonicapán, where the main focus is to protect and conserve natural resources.

*linked some joint actions, including a diagnosis of needs and opportunities where they identified water and sanitation as a common theme.*

This partnership with Water For People Guatemala was key for MayaVersátil as they initiated a process of exchange of experiences, training, capacity building and awareness raising on the issue of water and sanitation. Through these activities, MayaVersátil began to visualise how water and sanitation solutions have an impact on the quality of life of families in the communities they serve. Subsequently, strategic meetings were held to formulate a specific loan product for water and sanitation, with the aim of achieving self-sustainable credit.



*With a clear objective of improving the quality of life of families, in 2015 they made a first approach with Water For People Guatemala, with whom they signed a letter of understanding. Through this collaboration, they*



The approach strategies were worked on and it was concluded that a combined loan model should be implemented. It is combined because a percentage of the loan is allocated to the customer's productive activity and the other percentage is invested in water and sanitation solutions. Combinations can be created in any of the four main activities that MayaVersátil serves, which are

There are three main intended uses for these loans: water supply, latrine refurbishment and construction, and biodigesters. The latter is the one that has had the greatest impact. The three intended uses are worked on in combination; any combination can be created depending on the customer's needs.

This loan is complemented by technical assistance and support for the construction of water and sanitation works. At the beginning of the project, MayaVersátil's technical team and independent builders were trained to learn the design and implementation of sanitation projects, with the objective of empowering them and facilitating their commercial strategies towards customers. Currently, this assistance is provided directly by MayaVersátil staff because they already have the experience and ownership of the model and a lot of knowledge on issues of budget, materials, models, and product quality. Although MayaVersátil's staff

is already properly trained, due to their relationship and partnership, Water For People Guatemala occasionally supports them and provides specific advice. It should be noted that the institution also monitors the use of the project once it has been implemented.



Another collaboration with value chain stakeholders was with material suppliers. MayaVersátil canvassed material suppliers in the communities, looking for low costs so that the customer is satisfied. The way the institution works is that it pays the supplier directly and delivers the materials, but not the cash, to the customer. They also made a partnership with labour suppliers; currently, the labour suppliers for the construction of water and sanitation solutions are customers of the institution. If loans were to be made more widely accessible, other stakeholders would have to be identified, perhaps considering construction companies, which are better established and have more available resources.

Initially, the funding was their own; later, Water For People Guatemala granted them exclusive funding for water and sanitation. They have not received any further external funding, but are considering participation in the Azure initiative, developed by the

IDB Lab (the innovation lab of the Inter-American Development Bank Group), Catholic Relief Services (CRS) and Azure Source Capital (ASC). This initiative will finance projects to improve and expand water committees in rural and peri-urban communities, as well as municipal and small town water and sanitation service providers.

Through REDIMIF, they identified the opportunity to apply to the ADA-REDCAMIF call for proposals for value-added financial services pilot projects in 2019. MayaVersátil's areas of work and the objectives of ADA and REDCAMIF coincided. Through this important partnership, they achieved the objective of designing the methodology and regulations to provide combined microfinance services for production and housing/sanitation, in order to contribute to the quality of life of customers.



Activities included conducting a customer-centred market study in MayaVersátil's areas of influence to confirm that the product responds to customers' needs, developing manuals and improving processes to offer the product, analysing commercial processes for loan placement, and supporting the launch of the pilot phase to test the product and its marketing.



Under this project, the processes and product were formalised and the pilot phase was implemented in 2019, which was somewhat halted in 2020 due to the pandemic.

However, the product has already been made more widely accessible, although not yet on a large scale as more work needs to be done on an awareness-raising programme in the different areas served by MayaVersátil. Currently, the product is part of the institution's portfolio of services and is available in all branches.



## Results



The implementation of this product specifically designed to finance water and sanitation solutions has had a financial, environmental and social impact. On the financial side, through the combined loan model, they were able to have a profitable product. To date, MayaVersátil has a portfolio of USD 59,023 in water and sanitation corresponding to 125 customers; the average loan is USD 470 and arrears are less than 10%.



From an environmental point of view, in the areas covered by MayaVersátil, they reduce environmental pollution through biodigesters, the reduction of insect pollutants, and the drainage of sewage, among other benefits. This has generated a great change for the customers, who indicate that the sanitation work reduces many sources of contamination. In addition to improving water and sanitation, the institution is committed to contributing to reforestation processes with the support of campaigns to protect water sources.



In the social sphere, families see a change in their quality of life. They move from a polluted environment in which they relieve themselves to a clean, healthy and more dignified space. In addition, they are reaching segments of the population in extreme poverty and middle poverty, who previously did not want to invest, but now see the need to do so.



## Points for reflection



Although the institution started this project a few years ago, it is considered to have had good results and the expected impact on customers, communities and the environment, in line with the institution's mission and strategy. This has been achieved due to different factors that have driven this project and its proper execution. However, they have also faced some obstacles along the way and others that still need to be overcome.



## SUCCESS FACTORS

Strategic partnerships with different organisations are a relevant factor in addressing the issue of water and sanitation. "A log does not burn alone" (says Manuel Tzul, General Manager of MayaVersátil). Independently and isolated as a microfinance institution, not much can be done to scale up and make an impact; on the contrary, the support of many stakeholders with experience in the field is required. An integrated team is needed to work on water and sanitation. Even if channels are made available, a strategic plan must be made in conjunction with other stakeholders in order to implement these projects. In this case, Water For People Guatemala, REDIMIF, ADA and REDCAMIF, through the strengthening of MayaVersátil's capacities in different areas, were relevant for the implementation of this financial product.



The education, training and constant awareness-raising among MayaVersátil's staff was a key factor in the implementation of the project. As the team has to believe in the product and the benefits it will bring to the families and the community in order to be able to sell, they must know about water and sanitation solutions in-depth. The more empowered the employee is, the better the marketing and awareness-raising work will be for the families.

The working model and the combined loan work for the institution and the customer, as it creates a self-sustaining product for both. This model solved two of the main obstacles that the institution encountered in launching the project: 1. the customers did not have the cash flow to repay the loans, but through a combined loan, the families have the opportunity to carry out a self-sustainable process and generate a change in their lives, and 2. with the combined loan, the profitability of the product was achieved.



## OBSTACLES IN THE PROCESS

In the communities served by MayaVersátil, the previous dynamic had been development organisations providing water and sanitation solutions as donations to families, creating a certain paternalism and preventing households from making proper use of them, as this did not imply any cost or effort on their part. Breaking these patterns in the mentality of families and moving them towards a market model has been a challenge for the institution.



The culture of MayaVersátil's areas of coverage has also implied limitations for the implementation of the project, as families do not perceive investment in water and sanitation solutions as a priority; due to their diverse needs, they prioritise other aspects of their lives such as income generation, business reactivation, etc.



As in many sectors of the economy and people's lives, the COVID-19 pandemic has changed the dynamics. There is no denying that it has brought hardship both to financial institutions as well as families, in terms of health, economy, and routines, among other aspects that have been altered as a consequence of the pandemic.



Another difficulty encountered along the way was the price of supplies and materials for the construction and/or implementation of water and sanitation works. Because of their work method, the institution's field staff make budgets based on already defined prices, but they have found that when the loan is formalised, the prices have already changed due to different market factors, and they have to go through the whole process of analysing the customer's credit again.

## Recommendations for other stakeholders

Advocate with government entities, at the national and/or local level, on the need and impact that water and sanitation solutions provide to families, especially in rural areas. The greatest support so far has been received from foreign organisations who invest resources to advance the issue.

Create strategic partnerships with suitable actors and institutions that can make changes with a sustainable approach to water and sanitation.

Create awareness campaigns through different media to reach customers, highlighting the transformations in the quality of life that can be generated by the implementation of water and sanitation solutions. They can also influence behavioural change towards the correct use of resources.

Versatility and creativity in the design of a water and sanitation product that responds to customer needs. The topic is very broad, thus generating market opportunities for the implementation of solutions.

Manage resources and funding for the topic, which is available to institutions of all scales.

# CASE STUDY



”

Building  
partnerships to  
finance water and  
sanitation solutions



# Institution



Fundenuse is a Nicaraguan microfinance institution based in Ocotal, the departmental capital of Nueva Segovia, where it has been operating since 1993. Its mission is to provide financial services with a business, social and environmental focus to micro, small and medium-sized entrepreneurs and producers in order to contribute to their socio-economic development. Their vision is to be a microfinance institution recognised for offering quality financial and non-financial solutions, meeting national and international performance standards. The financial solutions they offer are loans for commerce, industry and services, business development, small businesses, livestock and agricultural activities, housing, productive activity expansion, rural productive chains and water and sanitation.



Fundenuse has a network of 21 branches, mainly located in the northern part of the country, in the following departments: Jinotega, Madriz, Matagalpa, Nueva Segovia, Estelí, León, Boaco and Atlántico Sur. Through this network, they serve more than 20,000 customers and have a total portfolio of USD 16.6 million, of which 46% is placed with women and 58% in rural areas. The economic activities that account for most of the portfolio are agricultural and commercial activities, as well as housing finance.



## BACKGROUND

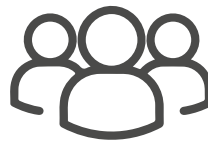


In Nicaragua, 82% of the population has at least basic drinking water coverage at the national level and 59% in the rural sector, both indicators being the lowest in the Central American region and the Dominican Republic in 2020. The indicators are even more worrying when looking at the data on access to safe water, where coverage drops to 59% nationally and 39% in rural areas. Access to at least basic sanitation has a coverage of 73% at the national level and 61% at the rural level. In relation to open defecation, Nicaragua has the highest percentage in the region; i.e. 7% of the population at the national level and 15% of the population in rural areas still defecate in the open. This data points to clear opportunities for products focused on the improvement or rehabilitation of water systems and improved sanitation technologies, both at the national level and in rural areas, to ensure the quality and availability of both services.

## Project description



Fundenuse started financing water and sanitation solutions through a partnership with Water For People Nicaragua in 2016. Water For People Nicaragua had a project in the area of La Concordia and San Rafael where they provided financing, technical assistance and technology to some families. Fundenuse provided support with the management and recovery of these loans. Based on this first experience, the institution began to place loans for water and sanitation under other products in the communities of Jinotega and Yalí. They formalised the partnership with Water For People Nicaragua, which provided technical assistance and training to Fundenuse credit officers in order to serve these communities.



After this partnership and taking into account Fundenuse's mission to provide services with a business, social and environmental focus, they continued working on the issue. They had designed "green products" whose funds came from international funders and were intended to support customers in the purchase of solar panels and improved kitchens, among other uses; but with the experience in water and sanitation, they evaluated that this theme was in line with the objective of improving the hygienic and sanitary conditions and quality of life of their customers. Therefore, the executive management and the board of directors of the institution found it necessary to continue implementing projects along these lines.

Currently, Fundenuse does not have a loan product specifically designed for water and sanitation, but this demand is served through an intended use of the housing loan product. Generally, the conditions are the same as for housing loans, although its classification depends on the source of payment; that is, if the source of payment is a commercial activity, the conditions granted are those of a commercial loan; and so on with the rest of the loans. The loan can be pure (100% for water and sanitation) or combined (a percentage to carry out water and sanitation works and another percentage for working capital). It is a flexible loan that is constantly being adjusted according to demand. In some cases, the loan for water and sanitation is accompanied by technical assistance; however, this depends on the different technologies to be implemented.



The partnership with Water For People Nicaragua has been increasingly strengthened by training credit officers in commercial strategies, highlighting the benefits of the project and providing recommendations on suppliers. They contributed to the development of publicity materials, such as radio spots. In addition, an awareness-raising process was carried out through a campaign to inform the population in the different communities about the convenience and benefits of water and sanitation solutions for their homes. Fundenuse also forged partnerships with other stakeholders such as hardware stores, to offer preferential prices and other benefits to its customers (e.g. free delivery), and with skilled labour for the construction of works and the implementation of technologies.

Another partnership that Fundenuse has created is with Habitat for Humanity Nicaragua, a non-profit organisation that advocates and works for the right to adequate housing and the sustainable improvement of community living. Through this partnership, Fundenuse gained access to a housing fund, training and technical assistance support that is provided as a non-financial service along with the loan. When the loan is granted with Habitat funds, technical assistance for the customer is mandatory and is provided directly by Habitat for Humanity Nicaragua staff.



In order to expand and formalise its financial services for water and sanitation, a little over a year ago Fundenuse established another

partnership with Water Aid, an international non-profit organisation dedicated exclusively to clean water, hygiene and sanitation. With them, they launched a project in the Waslala area with the objective of creating a pure water and sanitation product and implementing all the stages involved in the development of this new product: market studies, loan policies, process manuals, brand image, marketing strategy. The project is currently being



## Results



Fundenuse started with a pilot project that has now been extended to the entire geographical coverage of the institution. With the outbreak of the COVID-19 pandemic, loan placements for water and sanitation have slowed down; however, the partnerships remain active and operational. To date, they have placed 372 loans and have a portfolio of USD 43,800. Forty percent of this total is placed in rural areas and 59% with female customers. This portfolio has been profitable and shows a good rate of recovery.



Although they have not conducted a formal evaluation of the results, they have conducted consultations and customer surveys. In the results, the institution has identified a positive impact on its customers. They have found places where conditions were subhuman (e.g. open defecation), and having a toilet inside their home has improved the living conditions of the families. Customers have expressed and testified to the change in the quality of life and the hygienic and sanitary conditions in their homes. This undoubtedly generates a degree of satisfaction in the institution, as they are changing the lives of the population.



## Points for reflection



In its experience working on this issue, Fundenuse has recognised some elements that have contributed to the proper execution of these projects and to having a healthy portfolio. They also faced some obstacles in the process, which they are working on in order to offer a better service in the future.



## SUCCESS FACTORS

The synergy that Fundenuse has created with different organisations specialised in water and sanitation has been a relevant factor in the success of its projects. Through these organisations, Fundenuse is working on the development and formalisation of a complete loan product, adapted to the needs of its customers. In addition, they are contributing to training, technical assistance, marketing and other aspects.



Another fundamental point for the execution of these projects is the needs of the population, especially in rural areas, in the different communities served by Fundenuse. This real need of the families, combined with the awareness campaigns, has led to a good perception and demand for funding.



Fifty-nine percent of the water and sanitation loan portfolio is placed with women, which has also contributed to the good performance of the portfolio in terms of profitability and quality. In addition, it is considered that women are the ones who most perceive the need for a water and sanitation solution to improve the standard of living of their families, resulting in a multiplier effect that reaches the whole family and the community.



## OBSTACLES IN THE PROCESS

One of the main obstacles they encountered in their experience is the lack of funding for water and sanitation; funds that have different conditions to pass on these better conditions to customers.



Another issue that has limited them is the lack of a loan specifically designed to finance water and sanitation solutions. A loan product with differentiated conditions and adapted to the needs of the customers. Progressive financing is needed because the segment of the population served by the institution cannot always carry out the works with a single loan.

## Recommendations for other stakeholders



Build partnerships with different stakeholders to strengthen the institution's capacities in terms of staff training, loan product design, commercial strategies and other relevant elements.



Design a product under a progressive approach where the financing promoted by the institutions guarantees adequate investment, quality works and a healthy portfolio.



Conduct awareness raising and training programmes for families to demonstrate the improvements in health and quality of life that can be achieved by investing in water and sanitation solutions.

# CASE STUDY



”

From the design  
of a financial  
product to a water  
and sanitation  
programme

# Institution



Habitat for Humanity El Salvador (HFHES) is a non-profit organisation, part of Habitat for Humanity International, with a presence in approximately 70 countries. Its vision is a world where every person has a decent place to live. Habitat has worked in El Salvador since 1992, with a mission to bring people together to build homes, communities and hope, and thus show God's love in action. Its impact in the country reaches 42,000 families.



They work with national and international partners, corporations, private organisations, faith-based organisations, Habitat International affiliates, and committed individuals who come together each year to support Habitat's work.



Habitat for Humanity builds decent and affordable housing throughout El Salvador for low-income families. It also provides innovative and affordable financing opportunities.



Families support the construction under the mutual aid model, with the help of volunteers, and pay a fee appropriate to their socio-economic situation. The services they offer include housing construction and financing; home improvement (expansion, change of floor or roof, progressive improvement); disaster risk management; education in finance, construction, risk management and community leadership; sustainable construction and implementation of integrated projects for community development.



Habitat El Salvador covers the three regions of the country – western, central and eastern – with 9 agencies distributed in the following departments: Santa Ana, Sonsonate, Cuscatlán, La Libertad, La Paz, San Salvador, San Vicente, Usulután and San Miguel. The total portfolio of the institution is USD 40.3 million placed with more than 14,000 customers in the housing sector. Of the total portfolio, 47% is placed with female customers and 53% in rural areas.



# BACKGROUND



El Salvador has systematically improved access to at least basic water services since 2000, advancing to a coverage of 98% of the population with access in 2020. In this same service, the rural population has made the most progress, from 56% coverage in 2000 to 93% in 2020. In terms of at least basic sanitation, access at the national level is 82% and 70% at the rural level. There is a gap in rural areas, where 30% of the population does not have sanitation at the basic level.

Despite progress in access to both water and sanitation services, this basic access is not sufficient to achieve the country's goals and SDG 6. According to the 2017 Monitoring Country Progress in Drinking Water and Sanitation II, there is a shortfall of USD 73 million and USD 182 million to scale up service levels in water and sanitation, respectively. In total, the investment gap to achieve higher levels of water and sanitation services in El Salvador is at least USD 255 million. This gap is an opportunity for other sectors that can contribute to decrease these amounts.





## Project description



Habitat has been working for years in housing improvement and in their experience, they had identified a demand for financing for water and sanitation solutions, such as septic tanks, bathroom repairs, sanitation services, etc. In line with this identification of demand in El Salvador, Habitat International sent information on what could be a water and sanitation programme, comprising different focuses, financing being only one of them.



Combining this real demand and an indication from Habitat International, Habitat El Salvador took an interest in the topic and applied for the ADA - REDCAMIF: Value-added financial services pilot projects in 2019. The proposed and approved pilot project had the overall objective of improving the quality of life of Habitat El Salvador's customers through access to water and sanitation products. In addition, they hoped to achieve the specific objectives of systematising the process of product and service innovation; designing, approving and piloting water and sanitation loan products; and launching water and sanitation loan products within the institution's range of financial services and making them more widely accessible.

*The project was completed by the end of 2020, achieving the objectives set. Prior to this project, the institution financed water and sanitation through other loan products, but with this project they structured the specific product very well. This pilot project began with a market study that was carried out in the three regions of the country – central, west and east – in which all the information on the tastes and preferences*

*of the customer families was collected. Subsequently, focus groups were held to learn about and implement the theme of "customer at the centre", a cross-cutting methodology throughout the process. The product design was for two purposes: 1) a second-tier loan to finance water committees at the community level, and to finance water and sanitation projects through these committees; and 2) a first-tier loan to finance water and sanitation solutions directly to families.*



The first-tier loan was designed in such a way that it has loan conditions adapted to the needs of families, for example: they have a preferential rate that is a little lower than that of other products; the terms have flexibility to adapt to the family's payment capacity; the range of terms is wider (between one and seven years); there is greater ease in the guarantee required for loans of less than USD 500; the loan amounts vary according to the intended use but the ceiling is up to USD 4,000; they have the flexibility to make combined loans (expansion of housing with a sanitation solution). Habitat El Salvador's loans are monitored and verified, in order to guarantee that the family has invested the loan in the stipulated use; otherwise, the institution applies a penalty rate and the preferential rate is lost.



This product is complemented by a construction technical assistance component and a water and sanitation education component, both of which are mandatory. Habitat El Salvador has a construction area that is in charge of providing technical assistance; once the loan application has been initiated, a visit is made to verify the requirements of the project and ensure that the technical conditions under which it will be built meet

minimum quality standards. Subsequently, design and technical construction specifications are drawn up together with the budget, in order to carry out the customer's credit analysis.



Generally, in the education component, Habitat El Salvador defines different themes, as follows: a) Financial education with emphasis on the responsibility of timely payment and reduction of arrears; b) Family practices to improve their financial situation; c) Construction aspects and disaster risk management; and d) Health education. The latter is the one that accompanies the water and sanitation loan product, highlighting the benefits that investment in these solutions generates in the health of families.

This health education component has been coordinated with the Ministry of Public Health of El Salvador, and it is the community health promoters who support and advise families on health issues. This process is carried out through the traditional method, i.e. visits to the communities and through digital media, mainly by Whatsapp and e-mails, where publicity material with relevant information is sent. This health education is a new aspect of the institution and part of the design of the water and sanitation loan product.



**Based on the design of this product for water and sanitation, seven intended uses for the loan have been defined:**

**01** *Connection to drinking water services.*

**02** *Water supply and storage.*

**03** *Sanitary works, sanitary devices and household hygiene supplies (kits).*

**04** *Household wastewater treatment works.*

**05** *Collective wastewater treatment works.*

**06** *Construction or refurbishment of toilets, sanitary facilities and/or latrines.*

**07** *Physical works combined with water and sanitation.*

The last intended use, "physical works combined with water and sanitation", is the one that was most in demand during the pilot project. It is known as the "combo" and is considered a star product. The high demand for this intended use is related to the scale of values that families have, who prioritise their residence (expansion, improvement), but at the same time want to add some water and/or sanitation solution.

*In this pilot project, they developed the marketing strategy to publicise the benefits of the loan product to customers, and identified that each of these intended uses can generate a specific promotion and advertising campaign targeted at areas or segments of the population that have the greatest need for one of these intended uses. The marketing strategy did change considerably with this loan product, as the initial market study indicated that the promotion should be different, with a more intentional approach, adding elements from a social perspective, i.e. highlighting the benefits of the project rather than the benefits of the loan.*

The pilot did not generate substantial changes in the institution's processes. The only change that was made was in the computer system for defining the intended use of the loan and separating the portfolio and customers, but the adjustments were minor. There were no major changes in the process of prospecting, analysing and granting loans.

Habitat El Salvador has created partnerships with different organisations and/or companies to implement this project; at the local level, they have partnerships with qualified personnel/labour (builders) and with the supply chain of construction products (hardware stores). At the national level, they have partnerships with other stakeholders, such as local governments, with whom they carry out campaigns for promotion, the identification of needs, and involvement in three communities.



*For funding, they participate in the Fideicomiso para La Seguridad del Agua (Water Security Trust, or FIDEAGUA), which seeks to facilitate access to water for the rural population. This trust was created by the humanitarian agency Catholic Relief Services (CRS), the Inter-American Development Bank (IDB) Group's Innovation Lab and Azure Source Capital (ASC). It is managed by the Development Bank of El Salvador (BANDESAL), which evaluates financial institutions in the country interested in acting as intermediaries and providing loan financing to water service operators.*

This initiative has a technical assistance component, which is provided by Azure, an innovative social enterprise that provides subsidised technical assistance, affordable capital mobilisation and social impact investment. In this partnership with Azure, Habitat El Salvador will initiate feasibility studies to serve the water committees, ensuring that the investments they make are technically and financially sound. This will be combined with second-tier financing, for which they have already designed a loan product through a pilot project with ADA – REDCAMIF.



*The project, which was carried out with the support of ADA - REDCAMIF, was designed to be implemented at the national level in the nine agencies covered by the institution; however, it began with a pilot project and was only implemented in the agency located in La Libertad, in the central part of the country. In the medium term, it is expected that the programme will be extended to the rest of the agencies nationwide through a water and sanitation programme that includes the following areas: financing; advocacy with the public sector, local governments, trade unions, academia and other stakeholders in water and sanitation issues; water and sanitation education for customer families; skills development and training for Habitat El Salvador staff in water and sanitation; and partnerships with other organisations specialising in water and sanitation.*



Currently, they are in the phase of systematising the experience of the pilot project, designing the components to be added to the programme, validating it with the areas involved, and then scaling it up. For this programme in 2022, the organisation will use the customer-centred methodology.

## Results



In the pilot project, they were able to validate their loan product, identify the main intended uses, document the process, train staff, analyse the potential for expansion to other areas and initiate product placement. To date, Habitat El Salvador has a portfolio of USD 186,430 in water and sanitation solutions corresponding to 193 customers. Of these customers, 53% are located in urban areas and 55% are women. So far, the quality of this portfolio has been very good; however, these are recently placed loans, so it is necessary to wait for them to mature to see how well they perform.



Although Habitat El Salvador has not measured the performance and social impact of this loan product, they believe that this pilot project has had one of the greatest impacts on customer families and will become increasingly important for two reasons: the first is the reality of the country, whose population has a shortage of and great need for housing and water and sanitation systems, being a single-family need that impacts quality of life; and the second is the environmental impact, since these solutions reduce pollution, favouring the environment and the community.

## Points for reflection



Habitat El Salvador has provided housing finance and construction services since its inception, but it was not until the implementation of this pilot project that they gained momentum for the creation of a water and sanitation programme. In this experience, they have had both successes and difficulties that will enrich the process of making the programme more widely accessible and the formulation of a new programme for next year.



## SUCCESS FACTORS

The design of the product was fundamental to achieving the expected results financially, socially and environmentally. This design, which considered the adaptation of credit conditions for customer families with a lack of and demand for these services, was essential, and the element of flexibility contributed to the appropriateness of the attention given to these families.



The application of the "Customer at the centre" methodology has also been relevant. It was enriching for the pilot project to listen to the customer, their needs and suggestions regarding the key elements of the project: loan conditions, product promotion and construction assistance.



The social vocation and focus of the organisation have also contributed to the success of the pilot project. For Habitat El Salvador, social impact has great benefits, not only for the institution, but also for the customers and the community. Projects such as the water and sanitation project generate profitability with high impact, and this is a great achievement for the institution.





The availability of funding for the institution was a success factor. In this sense, Habitat El Salvador had the necessary funds for the pilot and for making it more widely accessible as planned for the coming months.



The support of different partners and the cooperation with ADA and REDCAMIF have been valuable in the institution's experience, because of the technical and financial support and because the project was timely, being implemented at an important moment for Habitat, when they were trying to take the next step towards a well-formulated and well-founded water and sanitation programme.



## OBSTACLES IN THE PROCESS

One of the obstacles in the process was the lack of product development culture within the institution. Normally, they do not follow such a rigorous process for the design of new products, and this made the design of this water and sanitation loan product a little difficult.



The current context of the COVID-19 pandemic caused a delay in the execution of the project because it was necessary to make several adjustments to the processes that had been defined prior to the pandemic. In addition, due to the quarantine, Habitat El Salvador was closed for five months, limiting the mobility and normal operations of the institution. During the implementation of the pilot, there was a shortage and increase in the cost of construction materials.



Customers were also affected by the pandemic, generating a social and economic impact on families through the loss of jobs, the closure of businesses and the prioritisation of issues other than water and sanitation solutions.

## Recommendations for other stakeholders

At the country level, it's important to consider that there is a very large potential market due to the reality of the country, which faces a lack of water and sanitation solutions, mainly in rural areas, but also in peri-urban areas. Therefore, it is advisable to address these needs and demands of the population through products tailored to the needs of the target population.

The availability of funds especially for water and sanitation is also essential. Organisations that can facilitate and support this type of financing, accompanied by non-financial services to achieve scale and impact, are important. Partnerships are essential in water and sanitation because it requires constructive technical assistance.

These water and sanitation financial services should be implemented together with education campaigns or programmes for families to raise awareness and highlight the urgency of water and sanitation solutions to improve health and have an impact on communities.

Finally, for these water and sanitation financing products, it is important to put the customer at the centre, i.e. to consult with and talk to families about their needs and to provide personalised technical assistance targeted to their demands. To this end, it is important to maintain consultation circles with families to find out how to improve, maintain or expand services and incorporate their suggestions into the financial and non-financial services provided by the institution.

## VII

### VII.

## Conclusions



The health crisis caused by the COVID-19 pandemic has accentuated the importance of access to safe and reliable water and sanitation services in Central America and the Dominican Republic. This context has highlighted even greater challenges in terms of advancing the levels of safely managed water and sanitation services, closing the gaps between urban and rural areas, improving the conditions for the sustainability of water and sanitation service providers, and creating a framework of partnerships to facilitate the integrated management of these issues.

To address these challenges, the support of private sector financing is essential, especially from the microfinance sector, whose customer segment is the most affected by the lack of access to these services. It is necessary to find the best approaches and identify the relevant factors to consider in a strategy and/or programme for financing vulnerable sectors of the region's population.

During this study, we have identified that many microfinance institutions have made it part of their strategy to achieve a social and environmental impact in the communities they serve. The issue of water and sanitation encompasses both aspects; however, few institutions at the regional level are supporting the financing of these solutions. It is worth noting that even fewer of these few institutions have a loan product specifically designed to meet these household needs.

The experience of the institutions that have ventured into loan services to finance water and sanitation works, solutions and/or technologies has highlighted some limitations in the process, as well as success factors. The main limitations include the lack of a loan product focused on the customer, with adequate conditions that generate financial profitability and social and environmental impact; the few funds allocated to finance the issue; the lack of microfinance institutions' knowledge on the technical aspects involved in building or implementing water and sanitation solutions; the lack of awareness of institutions and communities on the urgency, importance and repercussions of these projects on the quality of life of families and the environment.

Those institutions that have made progress in financing water and sanitation solutions highlight the creation of partnerships with various stakeholders as a key factor in the execution of these projects, as it allows them to strengthen their capacities to bring a complete and safe service to families.

It is necessary to formulate and implement water infrastructure and sanitation system projects that generate sustainable and safe solutions. This requires structuring comprehensive projects with a multi-sectoral approach to generate efficiencies, synergies and more private investment in the race to scale up the levels of access to safely managed water and sanitation services. The task ahead is immense, but it is urgent to take action at different levels in order to increase resilience and improve the quality of life of the most vulnerable groups in the region.

## Affiliated National Networks



**Guatemala**  
(502) 2361-3647  
redimif@redimif.org  
www.redimif.org



**El Salvador**  
(503) 2298-9989  
asomi@asomi.org.sv  
www.asomi.org.sv



**Honduras**  
(504) 2232-2311  
msalgado@redmicroh.org  
www.redmicroh.org



**Nicaragua**  
(505) 2278-8613  
direccionejecutiva@asomif.org.ni  
www.asomif.org



**Costa Rica**  
operacionesredcom@gmail.com  
www.redcom.or.cr



**Dominican Republic**  
(809) 549-5316  
redomif@gmail.com  
www.redomif.org.do



**Panamá**  
(507) 382-6681 / 82  
directorejecutivo@redpamif.org  
www.redpamif.org