# Sustainable Sanitation through Market-Based Mechanisms in Nicaragua

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## Problem

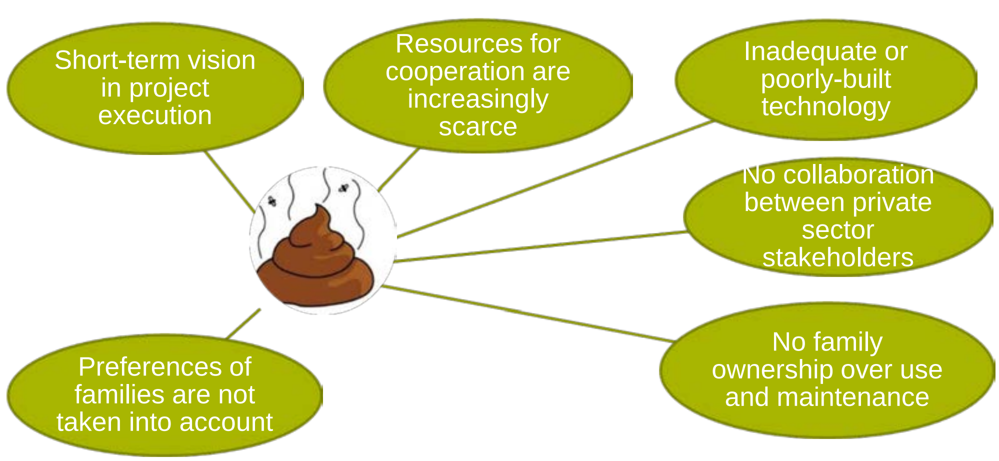
Sanitation facilities are essential for public health. Since 1990, the number of people with access to improved sanitation facilities has increased from 54% to 68%. However, approximately 2.3 billion people still have no access to toilets or improved latrines.

In 2010, the United Nations General Assembly officially recognized that access to safe, clean drinking water and sanitation is a human right and called for international efforts to help nations provide drinking water and sanitation facilities that are safe, clean, accessible, and affordable.

Despite the progress made, the target of the Millennium Development Goals of 2015 to reduce by half the percentage of the world population without access to improved sanitation facilities fell short by almost 700 million people (WHO, 2018).

It is important to recognize that the problem of lack of access to sanitation is so extensive, that it cannot be resolved within the budgets of our national governments. Therefore, it is necessary to establish public-private partnerships.

**Figure 1: Factors affecting increases in Sanitation Coverage in Nicaragua**



According to the World Bank, in Nicaragua 500 people die prematurely and more than 95 million dollars are lost each year due to inadequate sanitation. In 2013, approximately 52% of the population in Nicaragua had access to improved sanitation. However, the 2018 update from Rural Water and Sanitation System (SIASAR, Sistema de Agua y Saneamiento Rural) showed a decline to 49%, and the underlying reasons remain the same (Figure 1).

Although the Water For People team in Nicaragua has tried to address all the factors that prevent the sustained increase of improved sanitation coverage, the initiative has focused on family decisions and the process has utilized Microfinance Institutions (MFIs).

## Sustainable Sanitation with Microfinance Institutions

Microfinance usually refers to the furnishing of financial services to low-income clients. The term also refers to the sustainable practice of the furnishing of those services. More broadly, it can be said that the microfinance movement envisions "a world in which as many poor and nearly poor families as possible have permanent access to an appropriate range of high-quality financial services, including not only credit, but also savings, insurance and money transfers" (BCN, Banco Central de Nicaragua, 2012).

The need for increasingly efficient tools for fighting poverty is natural in a country with poverty levels above 40 percent, like Nicaragua. Diverse evidence confirms that the microfinance movement may be one of the most important of these tools, due to its ability to focus on the poor, be financially sustainable and therefore scalable (BCN, 2012).

## Profile of MFIs

### Aldea Global

An association of small coffee producers in the coffee producing region of Nicaragua. Founded in 1992, over 40% of Aldea Global members are women. The association offers its members credit products, technical assistance, environmental sustainability, and conducting searches for new markets for their coffee. Its membership is located only in rural areas.

### FUNDENUSE

A Nicaraguan microfinance institution, founded in 1993 in Ocotal, departmental capital of Nueva Segovia. Since its inception, it has a social mission with an environmental business approach. It helps to grow the elements of micro, small, and medium-sized businesses and producers in the northern, central, and western regions of Nicaragua. It offers quality financial and non-financial solutions that meet national and international performance standards throughout its 22 branches, 15 rural and 7 urban.

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### MiCrédito

Founded on July 1, 2004 through the efforts of members of the current management team and its principal partner, Mennonite Economic Development Associates (MEDA). MiCrédito is currently a regulated institution. At the beginning of 2013, it obtained the approval of the National Microfinance Commission (CONAMI, Comisión Nacional de Microfinanzas), and in that same year, shares were officially signed over to be distributed to institutional and individual investors, converting MiCredito into a public company. The organization has 13 branches in 11 departments of the country to serve its clients in urban and rural areas.

MiCrédito
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***It is important to note that microfinance institutions are not simply money lenders. In order to achieve significant results, institutions must align themselves with principles of social commitment to improve the quality of life of their clients and the environment.***

## Lessons Learned

### Forming a Multidisciplinary Team

To address the issue of sanitation with microfinance institutions, a multidisciplinary team must be organized, because familiarity with water and sanitation, construction, marketing, microfinance and credit management is important. Therefore, extra effort is required to find technical talent in market development and behavior modification. Collaborators are needed that have open and innovative objectives and are accustomed to working in alliances towards a common goal.

### Relationship between Water and Sanitation Investments and Revenue-Generating Activities

"A loan is a transaction in which a financial institution places at our disposal a certain amount of money, and is repaid with money." (Cámara). Although investments in water and sanitation can help us to significantly improve our quality of life, in terms of microfinance, they are capital investments, and are not intended to generate working capital. It is important that clients with a water and sanitation related loan also have a revenue-generating activity supported by the institution, as this will provide the source of funds to guarantee the repayment of the loan.

### Partners or Advisers?

For microfinance institutions, as for any other company, time is money, and every activity brings a risk of losing money or an opportunity to make money. Water For People teams must disclose their affiliation, and then primarily serve as "advisers." As advisors, we must act professionally in our recommendations and commitments. It is important to build trust with our partners, not only through

camaraderie, but also through achieving significant results for their institution. Water For People's Sustainable Sanitation team is made up of "specialists," and we must have confidence in our abilities.

### Coordination with Other Participants in the Market Chain

Access to microfinance will have zero impact unless there are materials or services to finance. Therefore, concurrent to the opening up of available credit for water and sanitation, technology providers, technical assistance providers, builders and other necessary services must be established in work areas.

### Impacts on Terms of Credit

Demand for credit can be stimulated by flexible terms of credit, such as guarantees, payback periods, interest rates, and other credit application requirements. However, much care must be taken to avoid either affecting the financial sustainability of microfinance institutions, or creating situations where customers will not opt to borrow without these stimulated conditions. Before encouraging demand, any changes to requirements for normal conditions could generate a market contraction. On the other hand, in our experience it is important to note that potential clients generally do not pay much attention to the interest rate; they place more value on flexible requirements, payback periods, guarantees, and response time. Families normally base their decision on the amount of the monthly payment, and hence their ability to make this monthly or biweekly payment.

### Promoting Investments by Families

Considering that investment in sanitation and water has historically been considered a governmental responsibility, families do not consider these investments a priority. Therefore, it is important for "Everyone" to play the role of promoter, starting with entrepreneurs, service and technology providers, and of course the Microfinance Institution credit advisers. In our experience, the most effective form of promotion has been through house-to-house visits where the opportunities and benefits of the product are explained to potential clients.

### Quality of Construction and Effective Technical Assistance to Mitigate Risk of Default

In addition to supporting the development of water and sanitation expertise in Microfinance Institution credit advisors, it is important to consider several other activities that help mitigate risks in the construction process:

- Encourage the hiring of water and sanitation technical personnel by Microfinance Institutions who can support technical advisory efforts in the selection, budget, and supervision of projects. For example, Habitat for Humanity provides this service to partner Microfinance Institutions.
- Technology providers, in addition to advising clients and providing training to advisers, builders, and suppliers, should provide post-sale warranties.
- It is important to support the establishment of constructors with specialized expertise in water and sanitation projects.

### Application of Smart Subsidies


Because NGOs have historically subsidized almost 100% of sanitation investments, and this model has not been successful, we cannot validate the application of subsidies using other approaches.

Government/NGO - Private Enterprise

- The government and/or NGO pays for a part, and the rest is financed by families through Microfinance Institutions.
- The government and/or NGOs create a revolving fund administered by Microfinance Institutions for the granting of water and sanitation loans on favorable terms, because MFIs will not assume the financial costs of accessing funds from international investors.

For this purpose, many models could be tested. What should be clear are the criteria for evaluation and assurance that the models will not affect the sustainability of the initiative.

### References

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