



Financial INclusion Improves Sanitation and Health (FINISH)

Background: WASTE advises in sustainable improvement of the urban environment and focuses on low-income urban areas. An important focus is placed on small-scale entrepreneurs, identifying their potential contribution to the provision of urban services and their integration into municipal services.

Program Overview: TATA–AIG together with WASTE identified a joint approach to increase the sanitation coverage using health insurance products. The products are developed based on existing demand for health insurance. Health insurance premiums will be lower when the clients acquire and use improved sanitations systems. Thus, improvement of the sanitation conditions is hereby directly translated into financial incentives, e.g. lower premiums. At the same time health insurance offers the clientèle a much required and needed additional risk management mechanism (financial inclusion). Developing, modifying, testing and implementing new financial products and micro-insurance is viable only on an adequate scale of operation. The target has therefore been set at improved sanitation for 1,000,000 households.

The Problem: Proper sanitation is essential for good health and development, but this notion is seldom present with the targeted end-users (urban and rural poor). However, the poor have not been able to access micro finance to construct or improve their sanitation. Very few micro-finance institutions have offered sanitation loans. Firstly, they would have to modify existing micro finance products and secondly, they have increased costs since sanitation loans are perceived to have a higher risk and regarded as 'consumption loans' (e.g. not directly revenue generating). As a consequence the interest and costs of sanitation loans are higher, making them less attractive and affordable from the clients' perspective.

The Solution: The programme aims at softening the lending conditions for improved sanitation so as to make it affordable for the clients as well as the microfinance institutions. Affordability will be pursued through the programme partners negotiating for lines of credit from (inter)national banks, applying lower interest rates and longer loan repayment periods. At the same time micro-finance institutions will be stimulated to develop sanitation loan products using the World Bank developed Output Based Aid (OBA) model, whereby small subsidies will be paid to microfinance institutions on the basis of them reaching agreed upon targets. Sustainable sanitation will be pursued through institutional strengthening of microfinance institutions' (and their local partners') sanitation capacity.

The Business Case for the Partners: WASTE, TATA-AIG, SNS-REAAL, UNU-MERIT, and BISWA (MFI) have developed an economic vision of sanitation. TATA-AIG, the micro-insurance company, has developed life insurance products and works through several microfinance institutions in India, such as BISWA, to market their products using BISWA's existing supply channels and self-help groups. In this way the transaction costs of its operations are minimized and its reach is maximized. Microfinance institutions are – through this collaboration – in a position to offer a wider range of financial services to their clientele by offering a risk management mechanism to their clients (partial financial inclusion). SNS-REAAL has been working with WASTE on using commercial funding to promote water and sanitation projects. SNS-REAAL's role in supporting the initiative is to invest in implementing MFIs and provide financial engineering advisory services. WASTE is providing the technical expertise in sanitation. A major issue is to assess the ability to upscale the sanitation solution. Monitoring, in particular capturing the cost of monitoring, is a key challenge. UNU-MERIT (United Nations University, Maastricht,) is working to identify simple indicators to monitor the effects and impacts of sanitation interventions mainly on health indicators.