

PRACTICE EXAMPLE:

# FINISH PROGRAM INDIA

FINANCIAL INCLUSION IMPROVES SANITATION & HEALTH



AGUASAN Workshop 2016  
Implementing the Water Goal – SDG in practice  
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# General Context (1)



## CURRENT SCENARIO

- Did not meet the MDG on sanitation

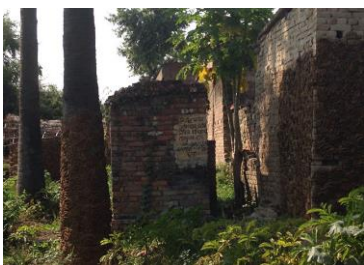
### What is the current status?

- Finance gap *\$3.3 and \$4.5 trillion a year to implement all the SDGs.*
- Annual financing *gap for WatSan* is estimated at *\$26.7 billion.*
- 2,400 Million w/o access to safe sanitation.
- Yet WHO states that Return on Investment is excellent:  
**1 € gives returns of at least 7 €**



## CURRENT SANITATION SCENARIO

- Governments building toilets and these are not being used  
..... or are used →



### SDG 6 Financing:

- Goal 6 – enabler for many other SDGs
- Average costs sanitation system € 150,-.
- Sanitation construction € 96,000 Million needed in India alone. Can this be met by money markets and if so how?

## How to tackle these challenges?

# I. FINISH - history

- Goal to build **500,000 safe sanitation systems** in India by the end of 2016, to improve their livelihood situation.
- Supported by the Dutch Ministry of Foreign Affairs (DGIS) since 2009.
- **€ 55 Million** investments leveraged by DGIS grants of € 4.5 Million.
- **International PPP** comprising of Dutch & Indian organisations.
- For **sustainability of the programme** a foundation was setup in 2010 (the FINISH Society)
- **Setting up of enterprise**, FSMC Private Limited in 2014. WASTE to take a stake.
- Incubation of a **SME fund**, Social Equity Fund, also to invest in FSMC.



# II. APPROACH

## FINISH 'Diamond' Stakeholder Approach

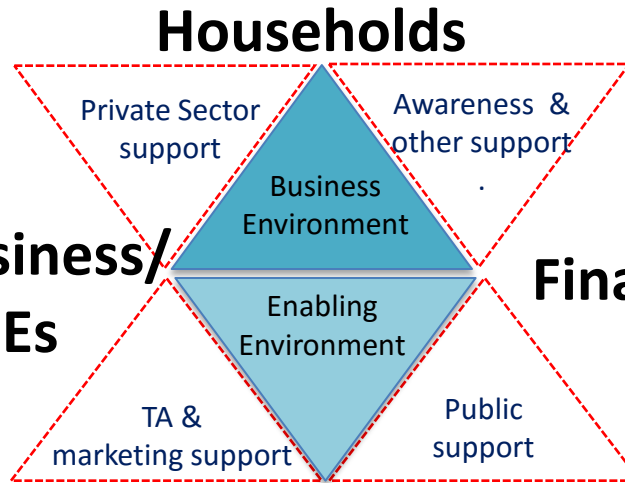
*FINISH engages multiple stakeholders, public, private and civil society, into one scheme creating a set of interlocking solutions...*



Business aggregator; toilet pans, doors; sanitary napkins; mason training; reuse excreta etc.



...and putting Enablers in place



Demand generating: Learning Guide, films (demand generation ,technology), Training of Trainers ; women empowerment etc.



Rural Sanitary Mart: centre to impart training to masons and to generate awareness etc



Support in legislation/regulation. Partner with local government; PPP in States (like Rajasthan); school sanitation etc.

**Local authorities**

# II. APPROACH

## 6 Steps



## II. APPROACH



# Integrated approach to create & strengthen service & value chain



- Sanitation as **service chain**:

From user via facility through desludging faecal sludge and transport towards treatment

- Sanitation as **value chain**:

From treatment to selling products: composting, nutrient recovery, bio-energy, recycled water resource

### Pilots:

- Composting faecal sludge Rajasthan (completed)
- Biogas and urine nutrient recovery via Community Toilet and bathing at Papampatti, TN
- Faecal Sludge Management – vermicomposting. 180 t / yr Angul, Odisha



# CIRCULAR ECONOMY

- More use of local inputs
- Partial replacement fertiliser

- Behavioural change
- Financial inclusion
- Capacity development

Crop production

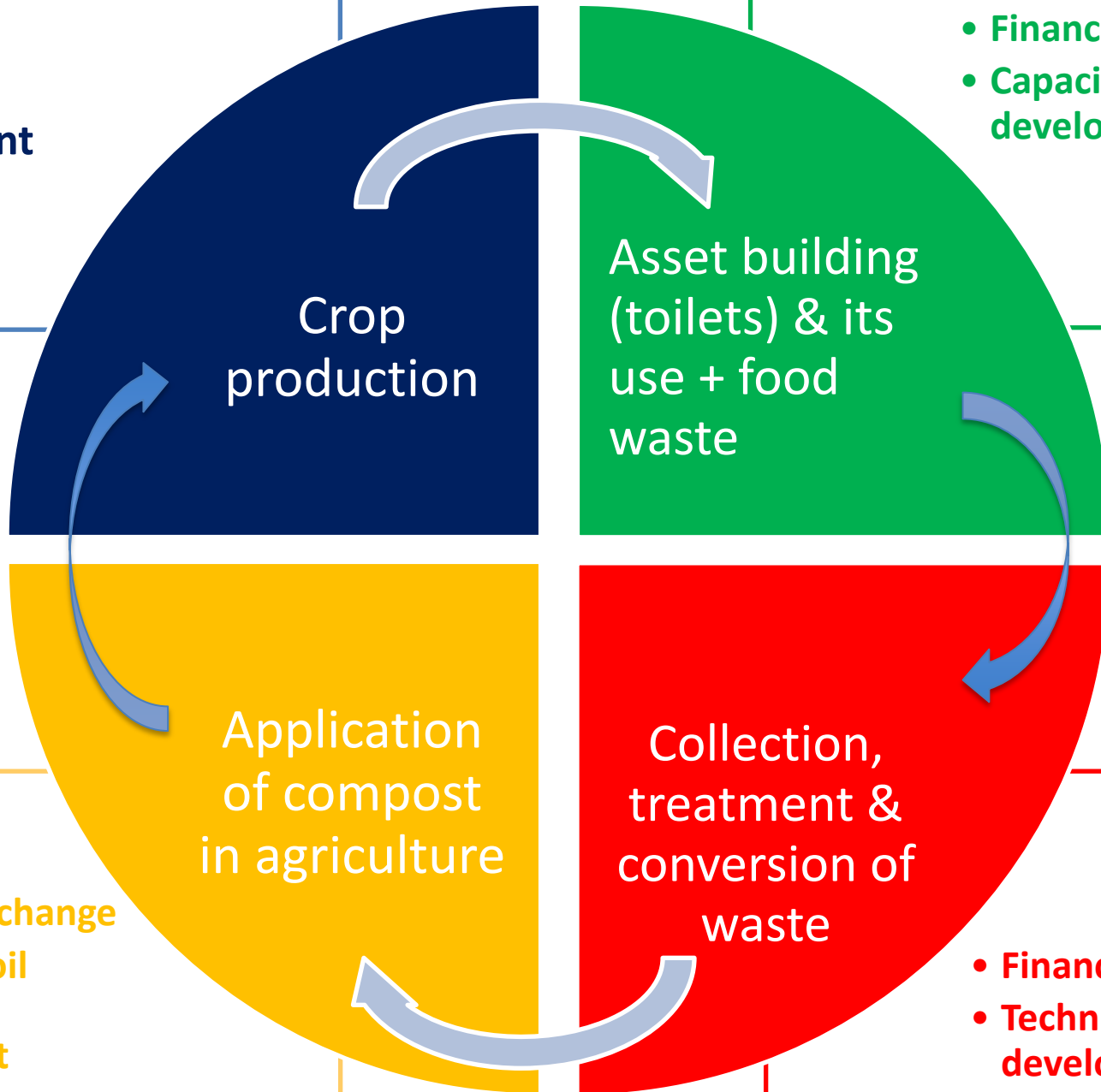
Asset building (toilets) & its use + food waste

Application of compost in agriculture

Collection, treatment & conversion of waste

- Behavioural change
- Integrated soil fertility management

- Financial inclusion
- Technical & business development

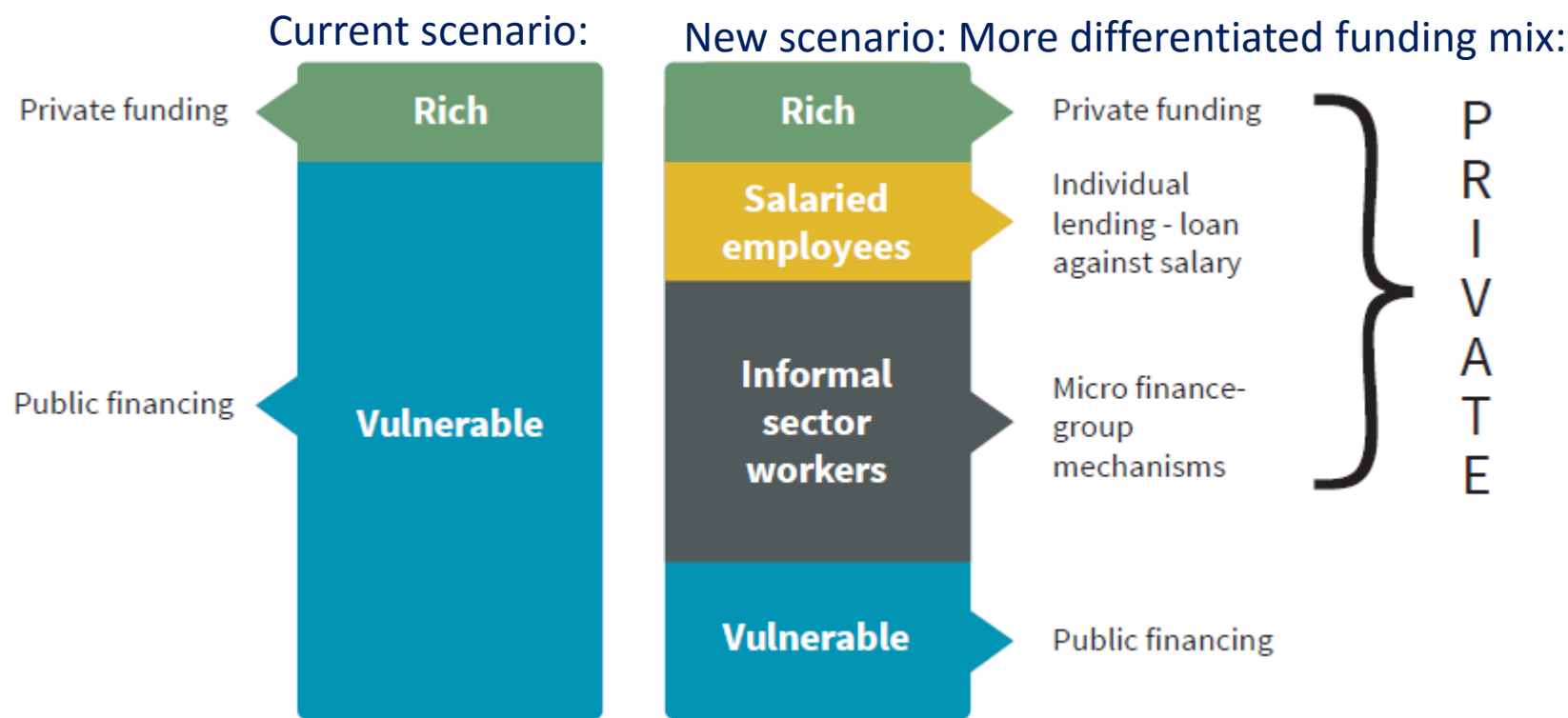


# II. APPROACH

## APPLICATION FINANCE MIX

Many sanitation programmes run on two premises:

1. Sanitation is a public good
2. People are willing to pay, but not all have capacity to pay



Mixtures of public and private financing that leverage limited public and also other financial resources and free up public resources to those most in need.

# III. RESULTS



## Impact FINISH 2010-2015

### THE IMPACT OF THE FINISH PROGRAMMES IN INDIA 2010 - 2015



**>554,000  
 TOILETS  
 FOR 2.75M  
 PEOPLE**

The number of toilets built. The toilets built in pockets of density and are used.



**15 TIMES  
 LEVERAGE**

The amount of grant funding leveraged. For every euro grant more than € 15 was generated locally totalling € 68 Million.



**EVERY 4  
 MINUTES; 24/7**

Currently one sanitation system is built every 4 minutes, 24 hours per day, seven days a week.



**40,000 TONNES**

40,000 tonne is ready for reuse with a calculated value of €700,000. 10 tonne human waste converted into marketable compost



**> 5000 LOCAL  
 JOBS**

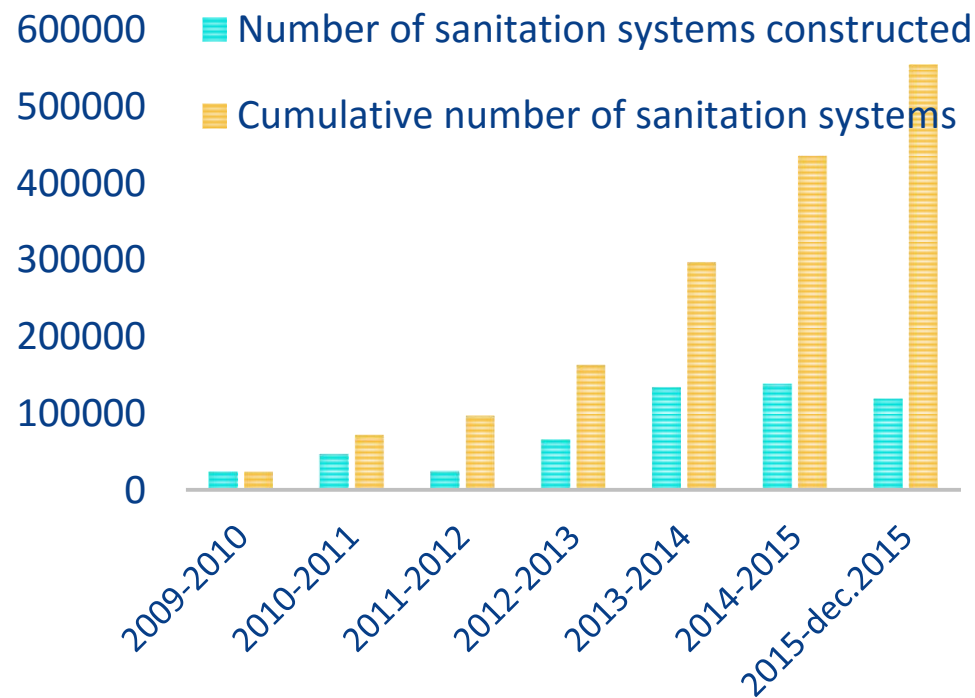
Over 4,500 new jobs were generated and new businesses were created. New jobs stimulated empowerment of women.



**1,000 BIOGAS  
 UNITS**

Close to 1,000 toilet-linked biogas units have been constructed sufficient for cooking purposes of these households reducing carbon emissions by 3,500 tonne per year.

# III. RESULTS

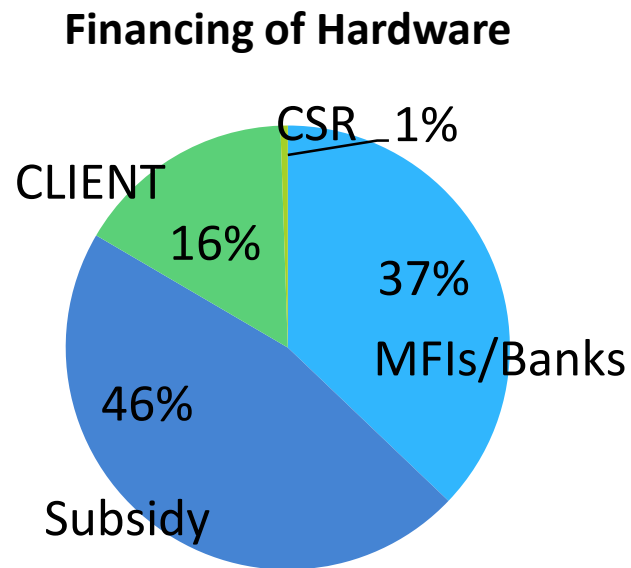


**As of Dec 2015:**

- >8 M people reached with sanitation awareness
- >8000 Micro-insurance policies issued
- Hardware financed locally: € 76.3 Million
- Development Grant Used: € 3.8 Million

**61 partners**

- 15 MFIs/SHG Bank Linkage – mostly small
- 2 Milk Cooperatives
- 47 Grassroots NGOs
- Operating in 10 States in India



# III. RESULTS



## Leveraging Mix of Financial Instruments

Leverage target of 1:10 (foreign grant: local financing) exceeded to 1:15

Initial focus on micro credit, but later broadened and now includes over **30 different financial instruments** – customized to situation.

Like for example fin. instruments:

- |  |                                   |
|--|-----------------------------------|
| 1. Micro finance (savings, credit)           | 11. Leverage on fixed deposit     |
| 2. Mico-Insurance                            | 12. Bank – SHG linkage            |
| 3. Impact investing                          | 13. Supplier's credit             |
| 4. Local Govt. Subsidies                     | 14. Equity investment             |
| 5. 1 <sup>st</sup> / 2 <sup>nd</sup> loss    | 15. CSR finance                   |
| 6. Cooperative                               | 16. Small Investment facility     |
| 7. Bank                                      | 17. Carbon financing (under dev.) |
| 8. Self finance                              | 18. Bond financing (under dev.)   |
| 9. Output Based Aid / result based financing | 19. SME finance                   |
| 10. Guarantee Fund                           | 20. ...                           |



## Leveraging Financial Instruments & New Stakeholders

### L&T Insurance forays into SME, home space with 10 new services

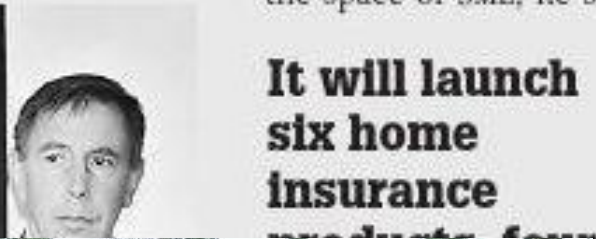
**NEW DELHI:** Private sector general insurer L&T Insurance on Tuesday said it plans to launch 10 products in the small and medium

enterprises (SME) and home space soon. "We have got regulatory approval for SME and home products," L&T Insurance

Chief Executive Officer Joydeep Roy said here. The company proposes to launch six home insurance products and four in the space of SME, he said.

Inclusion Improves Sanitation and Health), a public-private-partnership company for distribution of its micro insurance products. Under the partnership, FINISH, supported by Dutch government, would train the employees of its micro insurance partner or NGO for distribution of two micro health insurance products in the three identified states.

These states are Maharashtra, Rajasthan and Orissa. Cash hospital micro insurance and medi-sure micro insurance would be offered under the programme, Roy said. Micro insurance has huge growth potential and will play an increasingly important role in the penetration of the sector in the country, he added.   
 -PTI



be of tied financial



# III. RESULTS

Recognition & awards by Indian Government / private sector, Internat.



# IV. LESSONS LEARNED

## STAKEHOLDERS



- **Multi-stakeholders (PPCPs)**

Should be engaged from beginning and managed carefully.

- **Choosing right partners**

>60 different type and sized partners.

⇒ These deliver better results than focus on large scale MFIs only.

- **Iterative capacity development**

Training programmes started one way.

Now more standardised with information flows both ways.

- **SMEs**

are the engines of local economy and could contribute much more.

- **...but potential of SMEs constrained** by various challenges,

e.g. lack financial management, human capital, skills, etc.

Why capacity building is required.

# IV. LESSONS LEARNED

## PROJECT DESIGN & TECHNOLOGY

### *General Success Factors:*

*Product*

*People*

*Price*

*Promotion*

*Place*

*Partnerships*



Product



Price



Promotion



Place



# IV. LESSONS LEARNED

## PROJECT DESIGN & TECHNOLOGY

### DECENTRALISED SYSTEMS

- Breaking down large projects into smaller bits;
- Treatment of faecal sludge has been largely ignored;
- Most of € 96,000 Million market is in decentralised systems for the following reasons:
  - 1) Central sewer systems are waterborne – water scarcity
  - 2) Very high capital expenditure, disruptive in construction
  - 3) Reuse difficult
  - 4) Usually excluding poor areas



## IV. LESSONS LEARNED



### FINANCIAL SUSTAINABILITY - INNOVATIONS

- Make sanitation (services and products) **profitable**.
- **Lack of viable-fundable business cases**, despite enough (proven) business concepts
- **Work on:** costs – financing (+ guarantee) – cost recovery.
- Structural access for **informal sector** as well (micro-macro).
- **Financing gaps** can be closed by innovative PPPs.
- **Customise** to situation.
- **Financial engineering:** Application mix of financial instruments that fit to situation.

# IV. LESSONS LEARNED

Last, but not least....  
People!



## TEAM EFFORT

FINISH's management team and board members (mainly from India and the Netherlands) have years of experience in sanitation, financial inclusion and related sectors.

A Project Implementation Team with a regional structure implements the various projects. This Team is trained on Sanitation and Solid Waste Management by experts from WASTE & India.

## FINISH BOARD MEMBERS:

*Vijay Athreye (Finish Society, Treasurer); SV Bhave (Former IAS); Theo Brouwers (ACTIAM Impact Investing), Joydeep Roy (Ex- CEO, L&T Insurance); Valentin Post (WASTE, Chairman), A Sahasranaman (Former IAS), NK Perumal (RDO, Trust),*

*Mukul Jaiswal (MD, Cashpor), Arun Ramanathan (Former IAS), Britta Augusburg (IFS, London), Abhijit Banerji (Programme Director, Secretary);*

# V. CHALLENGES



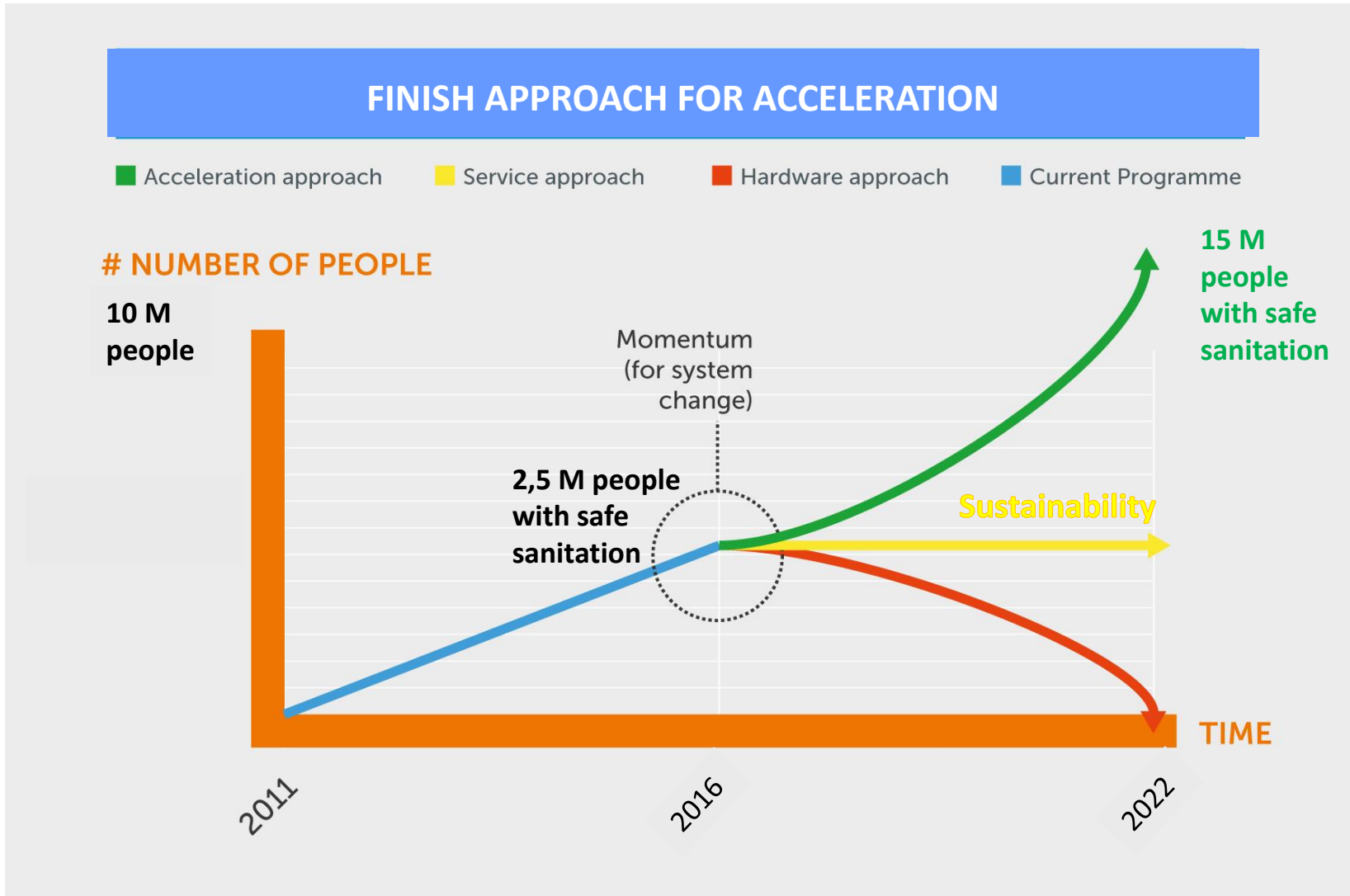
Putting pre-conditions in place:

- **Difficult enhancement of demand and supply side** *via local players, now often splitted, non linked, operating individually*
- **Difficult valorisation excreta and organic waste** – also lack of awareness
- **Lacking strong Supply Chain and Entrepreneurship** *as catalyst for change, marketing, upscaling and sustainability*
- **Lacking finance for SMEs** to strengthen supply side
  - *Often lack of collateral*
  - *Blended finance needed*
  - *Additional to funding also capacity building needed*
- **Hampering enabling environment** *e.g. policy, regulations, legislation, capacity and .....barriers in demand for re-use by products from the value chain (energy policy, fertilizer policy, import policy, taxes, ..)*
- **Business as usual is not sufficient, but lack of enablers for upscaling and acceleration**

# V. CHALLENGES



Need to **accelerate** and at same time ensure **sustainability** of interventions. A contradiction?



# V. CHALLENGES



## Upscaling & Acceleration:

- Often not integrated in set-up from beginning.
- Balancing growth with quality, sustainability and affordability → can conflict.
- Measure, data, feedback loops.
- Application of right framework.
- More needs to be done with less money.





# V. CHALLENGES



## Lack of liquidity: Thirst for Finance of WASH

- **How to close the enormous finance gap?**
- **Public funding alone is insufficient/not sustainable**
  - *Shortage of budgets*
  - *Often conflict of interest (politics etc.)*
  - *Lacks efficiency*
  - *Lacks financial-economical sustainability, continuity, consistency,...*
- **Role private investments?**
  - *No “magic stick”, but could help to fill gaps and bring in incentives*
  - *Various types of funders, with diverse set of financial instruments*
  - *Capital is searching for new, tangible markets (also to mitigate current market risks)*

# V. CHALLENGES



## Key Bottlenecks for Private Investors in WASH

### 1. Limited profitability/earnings

- Traditionally tax and fee based / social pricing,
- depends on willingness & capacity to pay

### 2. Capital-intensive

- Significant amount of capital expenditure required,
- Relative low profit vs. rel. high transaction costs

### 3. Long-term perspective

- Longterm until break-even
- Relative high up-front investment leads to benefits in the very long term

### 4. Complex/Non-repetitive/unique sector

- Situation specific, customised solutions, significant sunk costs;
- hard to realize economies of scale

### 5. Investors lack specific WASH expertise

- Lack insight in value chain & business case; too few visible successes;
- Information & communication gap



# V. CHALLENGES



## Key Bottlenecks for Private Investors – cont.

### 6. Project promotor and owner often lack experiences and capacities

- *e.g. Lacking knowledge about financial-economical aspects*

### 7. Lack of sound business cases

- *Economic benefits hard to quantify, materialise, benefits often =avoided costs,..*
- *Track record; Competent and trustworthy local organisations, partners, ...*

### 8. Lack of good business plans

- *Lacking skills, capacities and access to market of scale / upscaling mechanisms of pilots*

### 9. Lack of enabling environment and support of interested investors

- *e.g. by NGOs & (semi) public organisations*

### 10. High risk profile

- *Difficult to assess and control since depends highly on diverse externalities*

# V. CHALLENGES



## High risk profile for investors

### Some risks examples:

*How & Who takes or mitigates risks?*

- Social, cultural and political situation
- Social economical and market situation
- Regulations and policies
- Financial design (u.m. valuta risks)
- Payback capacity and grip on behaviours
- Securities: Project activa and activities
- Corruption / transparency
- Project / change management
- Contract break
- Capacity and commitment of stakeholders
- Externalities, like politics, physical conditions, climate, environment
- .....etc.



## V. CHALLENGES



Lacking Support of Entrepreneurs  
as catalyst for change & acceleration

***“Only by letting millions of entrepreneurs try new ideas, to innovate, to create businesses that put those ideas to work in a competitive and open way, only by doing those things are we going to be able to tackle the world’s big problems”***

- Angel Cabrera, Chair, World Economic Forum Council on Entrepreneurship

# V. Challenges

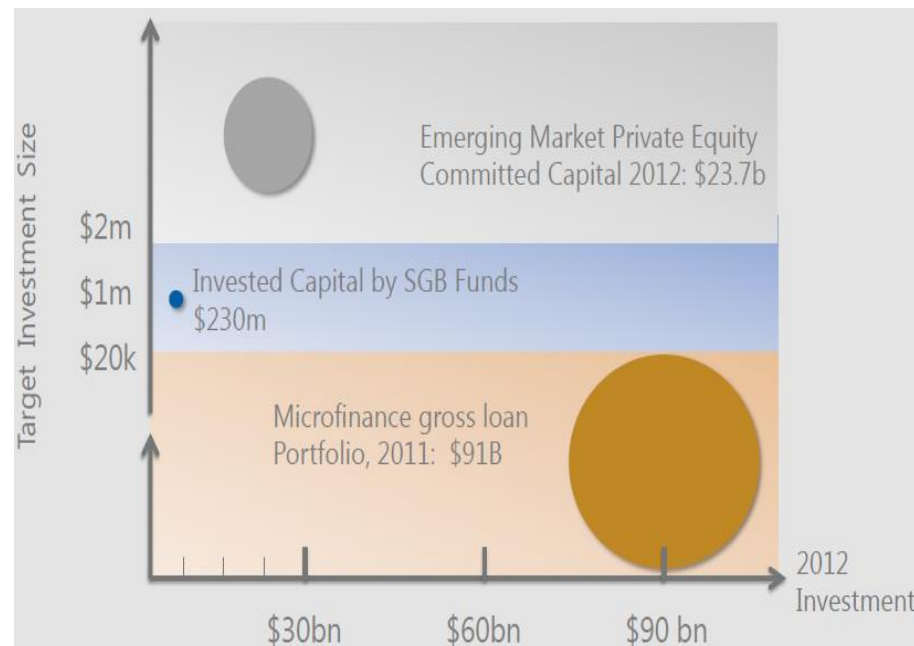
## The Missing Middle:

### Finance Gap for Small & Growing Businesses (SGBs)

#### Finance gap:

- The credit gap for formal SMEs exceeds \$700 billion.
- Funding gap especially for key drivers: the middle segment (SGBs).
- Most popular sectors for SGB funds are ICT, agriculture and health (but not WASH).

(IFC and McKinsey, 2012)



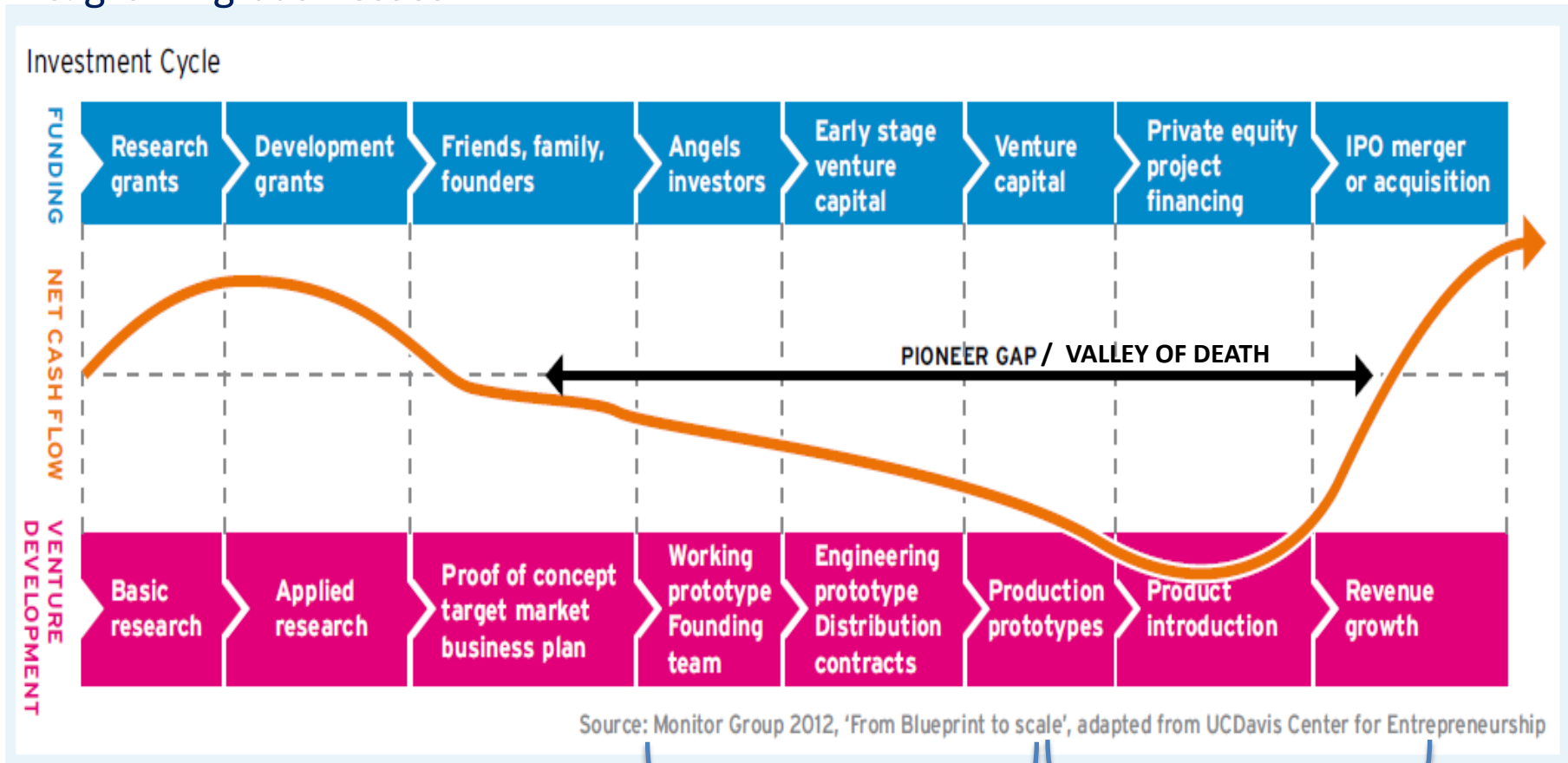
Source: EMPEA, Mix Market, ImpactBase, ANDE Analysis

# V. Challenges



## Gap between entrepreneurs and financial sector

How to bridge the (funding) gap for new players, innovators, start up's, small & growing businesses...



Aqua4All, Africa Funded and WASTE support enterprises in the pioneering phase

**Social Equity Fund**

The missing model for the missing middle



## VI. PERSPECTIVES



# Supporting SMEs and their potential for innovation and social impact: *The Low Hanging Fruit?!*

### Value addition SMEs

- **SMEs are key drivers of economic growth in developing countries**
- **Create more jobs compared to microenterprises and better paid**
  - In Africa, over 90% of employment comes from SMEs
  - In Asia, over 2/3 of employment comes from SMEs and over 60% of GDP
- **Strong effect on value chain development, improving prosperity for:**
  - *Employees and suppliers:* Job creation, innovation and new products, income stability and income growth
  - *Customers:* Effective provision of essential services such as water, sanitation, waste, agri, energy and health
- **High social impact on the Base of the Pyramid**

***If there is one bit of finance where people agree on the need for more innovation, it is in lending to small business. Policymakers are desperate to get more credit flowing to this vital engine of economic growth.***

*The Economist Special Report on Financial Innovation, February 25th, 2012*

# VI. PERSPECTIVES



The missing model for the missing middle

## Capital and capacity building provider

Private  
Equity

Traditional private  
equity

Medium  
businesses



The missing model for the missing middle

**Provides: Mix  
of financial  
instruments  
+ TA  
customised to  
SGB Sector**

Commercial  
investment

Blended capital  
investment

Social impact  
investment

Grants for  
capacity building

Capital only  
provided

Capital & capacity  
provider

Capacity building  
only provider

Small & Growing  
Businesses

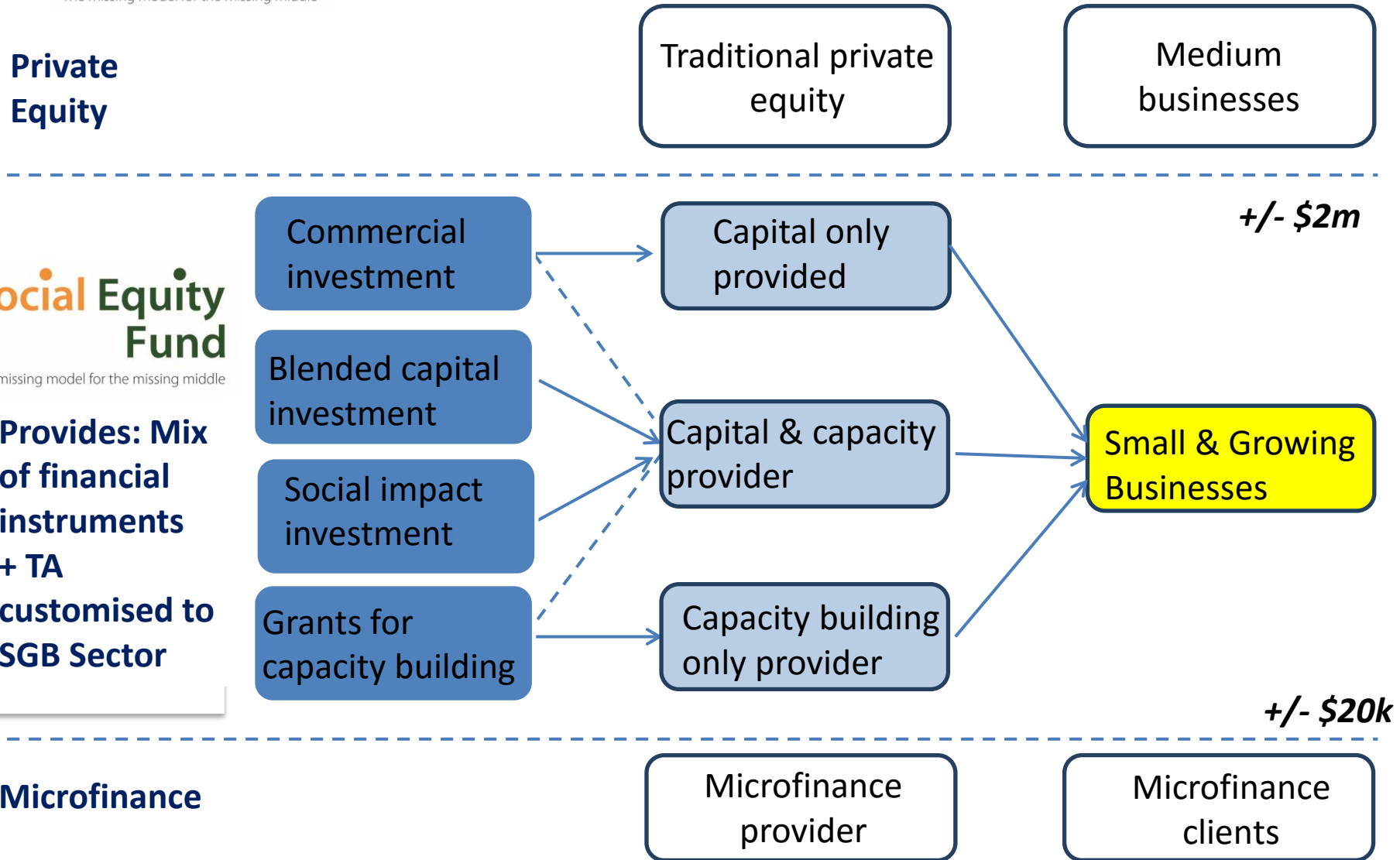
+/- \$2m

+/- \$20k

Microfinance

Microfinance  
provider

Microfinance  
clients





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**Social Equity  
Fund**  
The missing model for the missing middle



# Thank You