How can sanitation actors in Ghana stimulate toilet loan uptake?

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Only 15% of Ghanaians use an improved household toilet, while nearly a quarter lack access to any household or shared facility. Inability to obtain finance is often cited as a key barrier. Financial institutions offer toilet loans to help sanitation customers and providers bridge the gap, but uptake is low and businesses face wider challenges in providing affordable products. This Practice Note considers how demand for sanitation financing products in Ghana could increase.

The sanitation finance landscape

A market assessment conducted by Athena Infonomics identified 12 Finance Institutions (FIs) and Micro-Finance Institutions (MFIs) who offer toilet loans to households in the Greater Accra Metropolitan Area (GAMA) and Kumasi, Ghana's second city. The FIs/MFIs adopt interest rates in the range of 16% to 36%, with repayment periods ranging from 6 to 24 months (12 months was a common repayment period). Ten of the 12 FIs/MFIs demand a down payment, ranging from 10-12%.

A key distinction between toilet loan products is whether they are funded by subsidised capital or the market. Subsidised loans will typically have similar interest rates of 16-17%, but differ on other aspects such as down payment and documentation requirements; market-based loans have a much higher interest rate of 30-36%.

No visible differences were observed in the type of applicants that access either loan - potentially an indicator of inadequate marketing and communications by the FIs/MFIs.

Segmenting the customer base for toilet loans

As part of the market assessment, a household survey was conducted in 442 compound households (67% in GAMA and 33% in Kumasi). The survey included households who had expressed interest in constructing a toilet but had not applied for a loan; and households who had successfully applied for a loan. The survey identified two segments within the population for whom sanitation finance is particularly relevant:

Landlords: Segment 1 are landlords who display similar characteristics to those who have successfully secured a toilet loan. Relative to the wider population, this group is characterized by higher levels of education; higher monthly incomes; higher likelihood of holding a civil service or government job; higher likelihood of having access to piped water; and higher likelihood of residing in a formal settlement.

Households: Segment 2 are households who would be considered suitable to obtain a sanitation loan by the FIs, but who have yet to be approached by them; about 10% of the households surveyed. A detailed profile of this segment has been created by the research team, enabling sales agents and banking correspondents can create a roster of potential candidates for targeted product marketing.

Understanding what makes a toilet loan attractive

The household survey revealed that households expect an ideal toilet loan to be 1) flexible in terms of repayment frequency; 2) have low documentation requirements; and 3) offer alternative modes of repayment (for example, mobile money). Other important features for households include lower interest rates, and the removal of the guarantor requirement.

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A mystery shopping exercise found that:

- Applicants had to visit the FI/MFI four to five times to finalize the application process, including three visits to obtain all the information about the loan requirements;
- Applicants spent an average of five hours travelling to and from the FI/MFI;
- Applicants spent three hours at the FI/MFI office to obtain all the information about toilet loans, of which almost half was spent waiting.

The perceived tediousness of applying for a loan remains a key barrier to uptake. Making the loan process as convenient for applicants as possible was considered a priority by households. Accordingly, simplifying and demystifying the loan application process could potentially expand the customer base.

Sanitation enterprises' access to finance

An assessment of the ecosystem for sanitation Micro- and Small Medium Enterprises (MSMEs), artisans and suppliers in Accra and Kumasi was conducted in parallel. The assessment revealed a wide range of challenges impacting the financial viability of these enterprises, including their ability to access appropriate finance:

Smaller companies have fewer sources of income. While larger MSMEs can fund their sanitation operations with funds from their other income streams, smaller companies struggle to do so due to limited cash flows.

FIs do not have a clear idea of MSMEs' ability to repay. Most financial institutions think that sanitation MSMEs cannot afford current market-based interest rates, and that they are likely to lack sufficient managerial and financial expertise. FIs also encounter difficulties in validating the information provided by the MSMEs.

The variety of available loan products introduces complexity. Lack of standardization makes it more difficult for MSMEs to identify the right product that is suitable for their needs and their capacity to pay.

Sanitation artisans face a wide range of logistical and financial challenges. Artisans are impacted by fluctutations in input prices, delays in payment from households, and fluctutations in demand, which hinder their ability to borrow from financial institutions. Ensuring regular cash flows and improving access to finance would have a significant impact on MSMEs' ability to deliver sanitation products in urban Ghana.

Implications and next steps

Demand for household toilets in urban Ghana is held back by a range of systemic issues, including the relatively high cost of toilet construction; high interest rates; and a uniquely high prevalence of pay-per-use public toilets. The assessments, delivered by Athena Infonomics, has been particularly instructive in identifying bottlenecks that are inhibiting uptake of sanitation loans from FIs/MFIs, both by households (sanitation customers) and by MSMEs (sanitation providers). Other actors are also developing tools to assess credit worthiness, such as a Ghana-specific psychometric survey being implemented by Sama Sama.[1] The results from the Athena assessment are being used by the GAMA Sanitation and Water Project (SWP), funded by the World Bank to improve project performance. The ongoing initiative by the Ministry of Sanitation and Water Resources to create an enabling environment for sanitation SMEs provides another vehicle for affecting change. Next steps could include the following:

- The data and information on customer characteristics can be used by sales agents/banking correspondents to create a roster of potential candidates for targeted product marketing.
- FIs/MFIs could cross-sell toilet loans to customers who are likely to borrow for other needs.
- The clear insights identified on the demand-side - including the tediousness of the current loan application process and ideal toilet loan features - must be addressed through a coordinated programme involving FIs/MFIs.
- Communication campaigns and targeted marketing investments should be pursued to raise awareness about the available toilet loans and build confidence of ability to repay.
- Partnerships between the sanitation authority (Local Government Project Coordinating Unit, LGPCU) and financial instutions should be supported to ease MSME access to affordable finance.
- A formal cluster of MSMEs could be formed in Accra, enabling group loans from financial institutions (a similar initiative already exists for artisans in Kumasi).

1. ideglobal.org/story/psychometric-surveys

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