



Issue 183 | March 20, 2015 | Focus on Microfinance

Often used interchangeably, the terms microfinance and microcredit have distinct meanings. Microfinance provides a broad array of financial services and products to entrepreneurs and small businesses lacking access to formal banking options. Microcredit—the provision of loans to low income borrowers in which a collective guarantee usually replaces the lender’s requirement for collateral—is one such service. Studies and resources in this issue cover both topics, including a video from USAID on sanitation microfinance in Indonesia, SHARE research on sanitation microfinance in Tanzania, a series of recently published toolkits from Water.org, lessons learned from the Water and Sanitation Program, and other resources.

GENERAL/OVERVIEW MICROFINANCE STUDIES

Where Credit Is Due. *IPA Policy Bulletin*, Feb 2015. [Link](#)

Seven randomized evaluations from around the world show that microcredit does not have a transformative impact on poverty, but it can give low-income households more freedom in optimizing the ways they make money, consume, and invest.

Financial Service for the Poor: Lessons and Implications of the Latest Research on Credit. [Link to academic papers](#)

For its January 2015 edition, the *American Economic Journal: Applied Economics* published six microcredit studies as well as a review paper. This collective publication brings a renewed focus to microcredit. Together, these evaluations shed new light on the impact of expanded access to credit on borrowers and their families.

Microfinance: The Next Stage of Financial Inclusion. *Stanford Social Innovation Review*, Fall 2014. D Karlan. [Link](#)

Nonprofit organizations led the way in developing microcredit offerings for the poor. Then for-profit companies took over large swaths of that newly created market. Yet research on the needs and habits of the poor shows that nonprofits continue to serve a vital function when it comes to bringing financial services to those who need them most.

Microfinance Market Outlook, 2015. Responsibility. [Link](#)

This report provides an in-depth outlook of microfinance markets for the next five years and reviews the development of these markets over the past five years.

USAID’S Contribution to Microfinance: From Microfinance to Financial Inclusion,

2014. A Jansen. [Link](#)

This paper describes the path USAID followed in supporting the microfinance industry since its formation in the 1960s, primarily from the perspective of USAID/Washington. USAID's efforts to support microfinance coalesced under the Microenterprise Initiative, which began in 1994.

IN THE NEWS

Water.org Looks to “WaterCredit” to Expand Access to Water and Sanitation. *Forbes*, Feb 2015. D Thorpe. [Video](#)

WaterCredit has so far made it possible for more than two million people in six countries to gain access to water or build toilets in their homes. Forty-eight microfinance institutions help us administer the loans. The loans are repaid at the rate of 99 percent. And more than 90 percent of our borrowers are women. Since 2004, we've invested over \$10.9 million in WaterCredit. This has in turn leveraged an additional \$97 million in commercial and social capital.

The First Microfinance Institution Exclusively for Water and Sanitation Targets Rural Tamil Nadu. *Social Story*, Feb 2015. F Ferrario. [Link](#)

Paul Sathianathan started Guardian, a not-for-profit microfinance institution, which provides loans to create infrastructure for household water connections and toilet constructions. Guardian's loan products include six activities at the household level: new toilet construction, new water connection, renovation of existing water and toilet facilities, installation of water purifiers, rainwater harvesting structures, and biogas plants.

REPORTS/VIDEOS

A Micro Financing Framework for Rural Water and Sanitation Provisioning in Sub-Saharan Africa, 2014. S Menguze, UN University. [Link](#)

In a new joint publication the UN University explores a hybrid mechanism of microfinance, based on community networks and third-party collateral for meso-scale loans, to provide a different financing model for small community water and sanitation supplies. Access to low-cost financing coupled with a business model that provides incentives to water cooperative members is demonstrated to make financial sense for small communities. Embedding these community water entities within local government structures provides a mechanism for sustainability and for eventual government management.

USAID IUWASH: Access to Sanitation through Microfinance, 2015. [Video](#)

The USAID IUWASH project collaborates with the district health office, sanitarians, and the local community to implement a community-based total sanitation program in Probolinggo District, East Java, Indonesia. A pilot project called "Jamban Sehat" (Healthy Toilet) has been implemented to improve sanitation facilities for low-income families. Through the microfinance scheme, about 50 households in Probolinggo were able to build a proper toilet at their homes. USAID IUWASH is currently working with banks and local communities to establish a cooperation that will manage the microfinance funds and expand access to adequate sanitation for low-income communities in Indonesia.

Toilets on Credit, 2015. Tremolet Consulting. [Video](#)

This video summarizes the action research that Tremolet Consulting conducted for SHARE in Tanzania in which financial institutions were trained to provide financial services for sanitation. The video places this research project in the broader context and explains why microfinance

should be explored further, and potentially included in sanitation programs.

Lessons Learned from the Sanitation Microfinance Action-Research, 2015. SHARE. [Link](#)

Since December 2013, Tremolet Consulting and MicroSave have been leading a one-year SHARE and WaterAid-funded action research project on sanitation microfinance in Tanzania. Presentations and videos discuss some preliminary findings.

Tools for WASH Microfinance. Water.org; MicroSave. [Link](#)

Water.org and MicroSave jointly developed a series of toolkits to provide information and tools for financial institutions to develop microfinance products for water, sanitation, and hygiene (WASH) investments. The toolkits present essential information, principles, and practices for successful development of WASH financial products. They are designed to be applicable across a variety of markets, lending methodologies, and business models.

Tapping the Markets: Opportunities for Domestic Investments in Water and Sanitation for the Poor, 2014. J Sy, The World Bank. [Link](#)

This document examines private sector provision of piped water services and on-site sanitation services in rural areas and small towns, with case studies from several countries. The preferences and circumstances of poor households and the performance of enterprises that provide services directly to them are examined, as are commercial and investment climate factors that may affect enterprises' actual or perceived costs and risks.

Microfinance Partnerships to Improve Access to Durable Water Filters: Results from Six Pilots in India and Cambodia. *Journal of Water, Sanitation and Hygiene for Development*, 4(4) 2014. E Blanton. [Abstract](#)

PATH collaborated with manufacturers and microfinance institutions (MFIs) in India and Cambodia to test the impact of consumer finance models on uptake and use of household water filters. Six pilots were implemented using different filters, partners, and loan plans. Cost recovery for the pilots ranged from 33 percent to 109 percent. The results suggest that MFI loans have the potential, in certain contexts, to provide an effective and commercially sustainable means of increasing uptake of water treatment solutions for MFI member households.

Embedding Access to Finance in Sanitation Programmes: A Step-By-Step Approach, 2014. WaterAid; SHARE. [Link](#)

The objective of this report is to support WaterAid (and other similar NGOs) with the development of a strategy for embedding microfinance into their sanitation programs. This report has been tailored to WaterAid's specific position, as an NGO that supports programs to boost access to water and sanitation through implementing partners and that conducts policy, research, and advocacy activities to support broader water sector reforms at country level.

Short Overview of Sanitation Micro Finance Meeting at the Bottom of the Pyramid (BoP) World Convention & Expo, 2014. WASTE. [Link](#)

This report captures the lessons learned discussed at the 2014 Expo in Singapore. Highlights of the discussions include the following: 1) Demand for sanitation needs to be generated, and development partners are the best candidates. 2) Portfolios are growing; scaling sanitation loan portfolios has begun in some countries such as Cambodia and particularly in India. The stage is set for Kenya to join. 3) Impact investment funding will help overcome local funding constraints (typically characterized by limited availability of funds and high interest rates). This

could take the form of distinct credit lines for sanitation.

Making Toilets More Affordable for the Poor through Microfinance: Lessons Learned from Introducing Microfinance Loans for Sanitation in Rural Cambodia, 2014. Water and Sanitation Program, 2014. [Link](#)

There is demand for latrines even among poor households; a sanitation loan program offered by socially oriented microfinance institutions helps to increase uptake of sanitation among the poor. A small loan size and a poor-inclusive application process are essential to success. A poor-inclusive sanitation loan program is financially viable and sustainable given the right support, and if loans are managed carefully.

WASHplus Weeklies highlight topics such as Urban WASH, Household Air Pollution, Innovation, Household Water Treatment and Storage, Hand Washing, Integration, and more. If you would like to feature your organization's materials in upcoming issues, please send them to Dan Campbell, WASHplus Knowledge Resources Specialist, at dacampbell@fhi360.org.



About WASHplus - WASHplus, a five-year project funded through USAID's Bureau for Global Health, supports healthy households and communities by creating and delivering interventions that lead to improvements in access, practice and health outcomes related to water, sanitation, hygiene (WASH) and household air pollution (HAP). WASHplus uses at-scale, targeted as well as integrated approaches to reduce diarrheal diseases and acute respiratory infections, the two top killers of children under five years of age globally. For information, visit www.washplus.org or email: contact@washplus.org.