

HOW TO SPEND A PENNY

10 lessons from funding market-based approaches in water, sanitation and hygiene

June 2014



The Stone Family Foundation is a UK charitable trust founded in 2005. In its early years the Foundation funded across a wide range of sectors, but following a strategic review in 2010 it decided to sharpen its focus to direct 75% of its funding (around £4m per year) to market-based solutions in water, sanitation and hygiene (WASH).¹

Clean water, sanitation and hygiene are basic necessities that we all take for granted. But today over 740 million people do not have access to safe drinking water and one in three do not have a hygienic toilet. This has devastating consequences: water-related diseases such as typhoid kill two million people every year, and diarrhoea is the second biggest cause of death among children under five. Despite this shocking situation, investment in water and sanitation is woefully lacking, and many traditional approaches to funding WASH have not worked—lack of planning and commitment to maintenance has resulted in a huge waste of capital as infrastructure falls into disrepair and disuse.

To help address this problem, the Foundation focuses its funding on innovative and entrepreneurial initiatives that have the potential to offer long-term, sustainable solutions. This has resulted in over 20 grants and nearly £10m of funding for WASH since 2010.

Here we summarise ten lessons we have learned during this time—to share our knowledge with other funders and the WASH sector as a whole and to show how we have further adapted our funding approach as a result. We include examples from some of our [grantees](#) to illustrate our points.

1. There are no silver bullets in WASH

As a funder, it is tempting to search for *the* solution to the WASH crisis: a single intervention or technology that works in all situations. But, while we should not stop looking for transferable solutions, the fact is there are no panaceas in the WASH sector. Solutions have to be tailored to suit different customers and geographies.

The Foundation is therefore keen to support a range of market-based solutions and has found that funding contrasting approaches to the same problem provides a valuable way to learn about what works best in which situation. For example, we have supported three different approaches to sanitation marketing in Cambodia, which has given us a better understanding of what works and what doesn't and has allowed richer dialogues with and between grantees. We are also exploring different solutions to decentralised water supply—including hand pumps, water kiosks and small piped networks—to see how and where business approaches can work.

2. WASH is much more than toilets and taps

Think of water and sanitation, and you automatically think of infrastructure: toilets, wells, and waste treatment plants. But the WASH crisis will not be solved by installing toilets and taps alone. Technology is no good without businesses to get the products and services to the people who need them. Innovation in business models is an area that needs further attention: we need more ways to market WASH products to build demand; to provide affordable, high quality services reliably; and overcome the challenges of maintaining technology and infrastructure.

Funding the development of innovative new business models, rather than new technologies, is therefore a priority for the Foundation. For example, we are supporting WSUP's [Clean Team](#) initiative in Ghana to develop its sales and marketing approach, and [Sanergy](#) in



¹ This process was documented by NPC in *A funder journey*: www.thinknpc.org/publications/a-funder-journey/

Kenya to test whether there is a market for its Fresh Life Toilets among landlords. Where appropriate, we will fund technology and capital expenditure in order to achieve sustainable service delivery. For example, we have funded the refinement of pit emptying technologies as part of projects to develop sanitation businesses.

3. We need to build demand for WASH by understanding what customers want

Offering products or services will never be enough to ensure good WASH provision. The benefits of toilets and clean water may seem obvious to those of us that already have them, but habits and cultural norms are hard to break and the benefits of improved WASH are not always self-evident—safe and unsafe water can look exactly the same! One thing we have found striking is the lack of understanding from donors and non-governmental organisations (NGOs) about the factors that motivate people to take up WASH services. While donors invariably focus on health benefits, the Foundation's grantees (including [iDE](#), [WaterSHED](#) and [WSUP](#)) have identified that aspiration and convenience are often far higher priorities for customers. Families invest in sanitation to avoid the shame of telling guests they have no household toilet or the dangers of going out to community latrines or the fields at night, therefore keeping their daughters safe from harm and escaping snake bites.

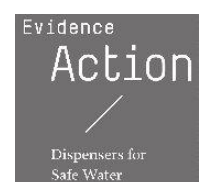


As an example, while donors have invested huge sums of money in installing the below ground infrastructure for toilets, they have neglected to provide affordable and appealing shelters to house them—even though an attractive shelter is fundamental to what families want and value in a toilet, and without which they often delay installation and use. The Foundation believes that market-based solutions that put the customer at the heart of service design, by offering products that people actually want, are essential.

4. Households are often able to pay for WASH, but this can be easily undermined

Low-income households are often ready to pay for the right WASH products and services—especially when better quality services are offered at a cost similar to what they are already paying. For example, the cost to a family of using a [Clean Team](#) toilet is similar to using community toilets, but is much more pleasant and convenient. However, this willingness to pay has too often been undermined by poorly targeted subsidies—NGOs and governments giving away water and toilets for free even when there is willingness to pay among customers. Greater alignment and coordination is needed in the sector so those that are able and willing to pay do so, creating a long-term, sustainable solution.

We recognise that sometimes the ability to pay is limited, particularly in poor rural communities without regular incomes. Here, we need creative solutions to make services sustainable. This might include hybrid models where donors and governments fund capital expenditure but customers pay small fees to cover the costs of maintenance by local entrepreneurs, or in the case of [Dispensers for Safe Water](#)—the winner of the [Stone Prize for Innovation and Entrepreneurship in Water](#)—generating income from carbon credits. Sometimes market-based solutions will just not work, but if those that can pay, do, philanthropic support can be better targeted to those that really need it.



5. We need innovative financing solutions to improve households' ability and willingness to pay for WASH

WASH is infrastructure heavy and the upfront costs—of a latrine, a water filter, piped water connections—can be a big deterrent to household investment in WASH. We need to find creative ways to overcome this barrier.

Microloans are an obvious candidate and have been used successfully in the WASH sector. Research by [iDE](#), PATH and IDinsight in Cambodia found that households are four times as likely to buy a toilet if loans are offered. [Water.org](#), an NGO that specialises in increasing household finance in the WASH sector, has a cumulative repayment rate of 98% for its WaterCredit loans. However, many microfinance institutions are reluctant to lend more than a small proportion of their portfolio, as they see WASH products as 'unproductive' assets that do not generate revenue, and so consider them to be high risk.



We need to find ways to open up access to microloans for WASH. But we also need to look at alternatives like savings schemes and leasing. For example, one of the attractions of the Clean Team model is that toilets are leased to customers who pay a weekly servicing fee, which over time will recoup the capital cost of the toilet.



6. Market-based approaches in WASH exist—but more often than not are still nascent

It is encouraging to see new players in the sector who are developing modern, innovative solutions, and the Foundation is proud to count some of these organisations among its grantees. However, most innovative organisations are early stage and small scale—partly because the market for the services they provide is undeveloped, so they often have to create demand, as well as serving it. This has big implications for the Foundation's funding: we aim to make grants and investments of £4m per year, ideally made up of a small number of large multi-year grants of around £1m–£1.5m each. However, we found that fewer organisations than expected were able to absorb this level of investment, which made it a challenge to hit our funding target.

The Foundation has made changes to how it funds as a result. For example, we are now prepared to award smaller grants of £200,000–£500,000 to organisations that have the potential to absorb larger grants in the future. The Foundation is also aware that funding businesses alone will not bring about widespread change—it is crucial that there is also an external environment, particularly in terms of government policy and funding, that supports these initiatives to scale. We are therefore considering ways to help overcome systemic barriers to the growth of market-based solutions in WASH, for example, through supporting sector leadership and coordination, providing business support for entrepreneurs, and funding advocacy and campaigning.

7. Lack of high risk capital is holding the WASH sector back

Finance is needed for any enterprise or sector to grow—especially in capital intensive sectors such as water and sanitation. However, social and commercial finance has been slow to take off in WASH compared to other sectors such as energy and agriculture. This is partly because many market-based approaches in WASH are very early stage and are a long way off being able to repay an investment. The cost of building demand for WASH—and changing behaviour—is a particular challenge to reaching breakeven. As a result, many WASH enterprises do not look very attractive to investors—other than the most socially-motivated who are willing to take a high risk with their capital.

The Foundation is increasingly being asked to provide social investment, and is willing to take a risk and provide patient and flexible capital where it can add value to a well-thought through business plan. We are particularly keen to do so where we can help build an organisation's track record of managing an investment and make it more attractive to other funders and investors. The Foundation has made one social investment so far and is in the process of making two more. This has not been straightforward—partly because this is a new approach for the Foundation and partly due to the unclear regulatory environment in the UK. But we are keen to do more, especially where there are opportunities to co-invest with more experienced social investors.

8. Market-based approaches in WASH need to resist the temptation to scale too fast

Given the scale and urgency of the WASH crisis, it is frustrating that so many potentially high impact market-based solutions remain so small. While it can be tempting to throw money at these promising enterprises to try to scale them as fast as possible, the importance of patience and good management is often overlooked. The trustees' experience from funding in the WASH sector and running their own businesses shows that it can be counter-productive to scale up before an organisation has really cracked its business model: growing too fast can reduce social impact and financial sustainability, and even lead to organisational collapse.

Given the early stage of many market-based solutions, the Foundation's preference is to support organisations to refine their business model and to understand the factors that make it work. We are willing to support organisations to scale up their work, but only where there is a convincing case that the time and stage of development is right.

9. The WASH sector is under-funded, and philanthropic funds are a limited but precious resource

Given the scale of the need, we have been surprised how under-funded the WASH sector is: only around 5% of international aid goes to water and sanitation. Compared to other sectors, WASH does not have very diverse funding sources—the majority of its funding comes from donor agencies, such as DFID and the World Bank, with some from corporate funders too. These are valuable partners for the WASH sector and their size and reach mean they are well positioned to roll out proven projects. Companies like Unilever (which helped develop Clean Team) and Coca Cola, for example, can bring their resources, supply chains and expertise to increase access to WASH at scale.

But our experience suggests that for a sector to flourish it needs a range of funding sources, including from philanthropic foundations that have fewer restrictions on their funding and are willing to take risks. **The Foundation sees its niche as supporting projects that have successfully piloted their approach but are still high risk and need funding to get to the point where they are attractive to other investors.** Focusing on this post-pilot/pre-scale niche means that we need to coordinate and share information with other funders—to find small organisations to support, and help our grantees access follow-on funding. The Foundation also wants to encourage more funding—particularly private philanthropy—into the WASH sector, and ensure this funding has the greatest possible impact. For the Foundation, this means promoting the importance of WASH to other philanthropists, sharing what we learn, and supporting advocacy and campaigning organisations that can promote effective spending on WASH.

10. WASH is not a sector for quick wins

The changes to attitudes and behaviour required to increase access to effective WASH services takes time—it will not happen within a typical 2–3 year project lifecycle. This is especially true for market-based approaches: firstly, because the market is underdeveloped, and so businesses often need to build demand from customers first; and secondly, because there are so few proven models for delivering services, and these take time to refine and build.

For the Foundation, this means being realistic about what can be achieved. Whenever we find an innovative, fresh approach which shows real promise we will always consider proposals for re-granting, and we are keen to develop longer-term partnerships with our grantees. When monitoring projects, we recognise that plans may change and timescales can often slip, and therefore offer as much flexibility as possible to help ensure the organisations we fund are successful. The need for patience is another reason why we are keen to develop partnerships with other funders too. We may only be able to support a project through part of its development, but by coordinating with others, we can help to ensure that promising projects continue and grow.

Final thoughts

The Stone Family Foundation sees its role as providing seed capital to help promising market-based approaches prove their model and scale. How we go about this over the next few years will be informed by the lessons set out here, and is described in more in [our strategy](#). That said, as our funding journey in WASH continues, we will no doubt continue to learn more and develop our approach further.