The world's first Development Impact Bond (DIB) for Water, Sanitation, and Hygiene (WASH), the Cambodia Rural Sanitation DIB, aims to eradicate the high rates of open defecation in the country and accelerate the Cambodian government’s efforts to reach universal sanitation and eliminate open defecation by 2025.

**KEY FACTS AND FIGURES**

- **Launch date:** November 2019
- **Duration:** 4 years
- **Maximum outcome payments:** $9,999,999
- **Target population:** Rural communities across six provinces in Cambodia: Svay Rieng, Kandal, Prey Veng, Kampong Thom, Siem Reap, and Oddar Meanchey—focusing especially on poorer and harder-to-reach groups including women, children, people living with disabilities, and older people.

**CAMBODIA RURAL SANITATION DEVELOPMENT IMPACT BOND**

2019 - 2023 | BRINGING SAFE SANITATION TO RURAL COMMUNITIES IN CAMBODIA

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**KEY FACTS AND FIGURES**

- **Outcomes Funder:** USAID
- **Implementer:** iDE
- **Impact Investor:** Stone Family Foundation

**Target population:** Rural communities across six provinces in Cambodia: Svay Rieng, Kandal, Prey Veng, Kampong Thom, Siem Reap, and Oddar Meanchey—focusing especially on poorer and harder-to-reach groups including women, children, people living with disabilities, and older people.
The DIB model is an innovative way of financing international development that improves value for money while increasing the efficiency and effectiveness of programs. Impact bonds are performance-based, meaning that investors are only paid a return if a set of pre-agreed targets are met. The Stone Family Foundation will provide the upfront investment required to achieve sanitation outcomes, which will be delivered through the third phase of iDE's Sanitation Marketing Scale Up program. Payments of up to $9.99M will then be made by USAID to the Stone Family Foundation contingent on achievement of outcomes.

Key Points:

1. The world’s first WASH DIB. A groundbreaking effort to finance a push toward eradicating the high rates of open defecation in Cambodia.
2. The goal is for 1,600 villages to become open defecation free in six Cambodian provinces by 2023, accelerating the Cambodian government’s efforts to achieve universal sanitation as part of its National Action Plan for Rural Water Supply, Sanitation and Hygiene II.
3. This effort builds upon the work done by iDE’s Sanitation Marketing Scale-up Program over the last ten years that increased latrine coverage in select provinces from 29 percent to 67 percent. The work under this DIB will focus on reaching the communities that still practice open defecation (some of the poorest and most marginalized households in Cambodia).
4. Support from the Stone Family Foundation reflects a shift from grant funder to impact investor, with high social impact and financial return achieved in a mutually beneficial way. This is a good example of the Foundation’s leadership in innovative financing in the sector to achieve national and global development goals.
5. Support from USAID reflects its commitment in Cambodia to support the country on the road to self-reliance. This is another example of USAID’s leadership in global innovative financing to achieve national and global development goals.
6. The DIB went from initial design to launch in nine months. The relatively short design phase is an example of how different development partners can work together, playing to key organizational strengths, to deliver high impact programs with a clear goal and objective. Social Finance conducted the feasibility study for the sanitation sector DIB and facilitated the design of this DIB in collaboration with the partners.

THE PROBLEM

Cambodia has seen significant progress in increasing rural sanitation coverage over the last 15 years, with national coverage rates rising from 20 percent to above 60 percent in 2019. The challenge of realizing universal sanitation coverage in Cambodia is now getting harder as the focus shifts to the poorest, the most marginalized, and the hardest to reach populations. The Cambodia Rural Sanitation DIB aims to dramatically reduce open defecation in rural communities—focusing especially on poorer and harder-to-reach groups—across six provinces in Cambodia: Svay Rieng, Kandal, Prey Veng, Kampong Thom, Siem Reap, and Oddar Meanchey.

Poor sanitation, in communities where open defecation is routinely practiced, is linked to poor health outcomes: from the spread of disease to negative effects on mental and social well-being. Poor sanitation not only impacts families without access, but also puts the entire community at risk. Beyond the spread of diseases and contamination of drinking water, open defecation also impacts the safety and dignity of all household members, especially women, girls, and older people.

Over the past decade, iDE contributed to sanitation coverage increasing from 29 percent to 67 percent in the DIB’s target provinces. Now, the challenge remains to increase sanitation coverage to 85 percent in these communities to ensure significant health outcomes are achieved.

This has been recognised by the Government of Cambodia, whose ‘National Action Plan for Rural Water Supply, Sanitation and Hygiene’ (NAP II) aims to increase sanitation coverage across the country.

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As the sanitation market has matured in Cambodia, areas where coverage rates are still low appear increasingly heterogeneous, each with their own unique set of challenges, constraints, and barriers and with poorer households making up an increasing proportion of non-latrine owners.

THE SOLUTION

The goal of the DIB is to expand iDE’s proven model for building sanitation markets in order to increase access to safe sanitation and push toward total sanitation in six provinces in Cambodia.

iDE’s model empowers communities to improve their own lives in a sustainable way by supporting local entrepreneurs to meet demand for modern sanitation, capacity building on both the supply side (sanitation entrepreneurs) and in demand creation (through sales agents). A different approach to traditional aid, iDE’s methodology generates enduring jobs at the local level, while linking behaviour change with strengthened local capacity.

As iDE develops its model to reach poorer, harder-to-reach, last mile households, it needs more flexibility than a traditional grant to test innovative approaches and outcomes-focused adaptive management techniques. The impact bond mechanism incentivizes constant program improvement for delivery of results, allowing iDE to leverage its strengths in rigorous data analysis and adaptive performance management to achieve outcomes.

WHAT IS THE CAMBODIA RURAL SANITATION DIB?

A DIB is a results-based approach designed to strengthen the link between funding and impact, where the finance for a program is provided by private risk capital rather than by the implementing organization.

Structures like DIBs are one way to attract impact finance into sectors like sanitation in an aligned and impactful way. DIBs are a partnership between three key actors:

• The Impact Investor, who provides upfront capital for a service to be delivered to achieve specific social outcomes.
• The Implementer, who delivers the service.
• The Outcomes Funder, who repays the investor only if the pre-agreed outcomes are achieved.

In the case of the Cambodia Rural Sanitation DIB, the Stone Family Foundation (the impact investor) has provided the upfront capital, which is 100% at risk. If pre-agreed outcomes are achieved, the impact investor will be repaid by USAID (the outcomes funder), including a premium that reflects the risk taken on by the investor. If outcomes are not achieved, USAID has no obligation to make outcomes payments.

The DIB structure therefore incentivizes the impact investor and the implementer to work together to achieve outcomes, using adaptive management techniques based on evidence from the program.

Alongside the Stone Family Foundation’s upfront risk investment, iDE has also made a financial contribution to the DIB, with the opportunity to share in the potential returns. This innovative mechanism further aligns incentives within the DIB—building on their strong historic partnership.

In contrast to a traditional grant, which specifies the activities and outputs of a program upfront, the outcomes-based nature of the DIB provides flexibility for the implementer to evolve in a complex and constantly changing market to achieve outcomes.

This flexibility is especially important as iDE tests new strategies for reaching the poorest and most vulnerable households with improved sanitation, ensuring that all people benefit from the drive toward total sanitation.
**SOCIAL OUTCOMES**

USAID will make an outcome payment for each village (up to a maximum of 1,600 villages) in the program area achieving open defecation free (ODF) status.

This metric was chosen to reflect the goal of minimizing fecal matter in the environment, which is closely linked to positive health outcomes.

The DIB will use the Government of Cambodia’s definition of ODF, which has recently evolved from simply requiring 85% latrine coverage to a much more rigorous set of criteria that brings this metric closer to measuring health outcomes. According to this definition, a village will be declared ODF if:

- 100% of households do not practice open defecation (i.e., each household has access to either improved sanitation in their own home or to a shared latrine);
- At least 85% of households have access to a functional improved latrine in their own home (i.e., a maximum of 15% use shared latrines);
- All households dispose of infant faeces into owned or shared latrines;
- There is no evidence of human excreta in the village environment;
- Households can show a handwashing device with soap; and
- The community has formulated and enforced informal and formal actions against open defecation.

To receive an outcomes payment, the impact investor will need to submit the following for each village:

1. The village’s ODF claim self-assessment form, an official government form that villages submit to their commune when claiming ODF; and
2. The data collected by iDE supporting the village’s claim.

The triangulation of iDE data with villages’ official ODF claim self-assessment form removes the need for third-party verification.

Field level monitoring will also be conducted across the life of the DIB to provide quality control and oversight.

**INITIAL INSIGHTS**

**Rapid development—building on sector experience, strong partnerships and outcome focus**

The DIB design process was completed in just nine months, and at a relatively low cost compared to other DIBs.

This was achieved by building on the experience of, and partnerships between, stakeholders. USAID’s previous roles as an outcomes funder meant it could build on its experience without reinventing the wheel. At the same time, the Stone Family Foundation and iDE’s long-standing partnership over the last six years fostered close collaboration as the Foundation transitioned from grant funder to impact investor and iDE evolved its SMSU program to meet new challenges in the sanitation market.

The rapid development was also enabled by the aligned priorities and commitment of the partners. This DIB is a great example of how focusing on outcomes allows different development partners to collaborate in a mutually beneficial way, playing to organizational strengths to deliver high impact programs with a clear end-goal.
Aligning incentives between impact investor and implementer

Innovatively, the Stone Family Foundation has agreed to split its return with the implementer, iDE, in the case of good performance. This is an incentive mechanism for the implementer, which further aligns the two stakeholders—building on a strong historic partnership.

Finding the right metric

This DIB has just one payable outcome (the number of villages declaring ODF status), which puts health outcomes related to access to safe sanitation at the heart of the DIB. It also aligns with the Cambodian government’s aim of eliminating open defecation in these areas by 2025—an example of how impact investors can engage with the sanitation sector and support the delivery of national and global targets.

PARTNERS

The Stone Family Foundation supports innovative, sustainable, entrepreneurial solutions to major social problems in the UK and around the world. It provides high risk, flexible capital to achieve high social impact with a vision of market-based solutions delivering transformational impact on the lives of people living in Africa and Asia currently without access to improved water and sanitation. This is the first DIB the Foundation has been involved in and hopes this could become an example of how to provide the right type of finance at the right time to achieve specific goals and aims. The Foundation has been very active in the rural sanitation sector in Cambodia, providing over $11M to various projects and initiatives since 2011. The Foundation is the only investor in the Cambodia Rural Sanitation DIB, providing the up-front risk capital to the implementation partner.

iDE is a global organization that advances market-based approaches in agriculture; access to finance; and water, sanitation, and hygiene (WASH) to create income and livelihood opportunities for low-income rural households. iDE is the implementation partner who will be responsible for running the Cambodia Rural Sanitation DIB in the country. iDE has increased the incomes and improved the livelihoods of more than 33 million people globally by developing inclusive market ecosystems that allow more people to participate in the economy, exercise choice through economic freedom, and achieve their aspirations. The organization has offices in 14 countries around the world and employs over 1,000 people—96% of whom are local—to create real change that gives people the power to prosper on their own terms. iDE guarantees an average social return on investment of a minimum of $10 in annual income or livelihood savings for every dollar invested in iDE globally.

The U.S. Agency for International Development (USAID) leads the U.S. Government’s international development and disaster assistance through partnerships and investments that save lives, reduce poverty, strengthen democratic governance, and help people emerge from humanitarian crises and progress beyond assistance. USAID is the outcomes funder for the Cambodia Rural Sanitation DIB, committing $9,999,999 to repay the investor for outcomes achieved.

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