



Ms. Chin Sunly and Mr. Chey Vanna have grown their concrete construction business into one of the leading suppliers of high-quality latrines in their community.

The Cambodia Rural Sanitation DIB:

Lessons learnt from the first year





Introduction

In November 2019, the Stone Family Foundation, USAID, and iDE launched the Cambodia Rural Sanitation Development Impact Bond (DIB). The first of its kind in the water and sanitation (WASH) sector, the DIB aims to help eradicate open defecation in Cambodia and accelerate the Royal Government of Cambodia's efforts to reach universal sanitation.

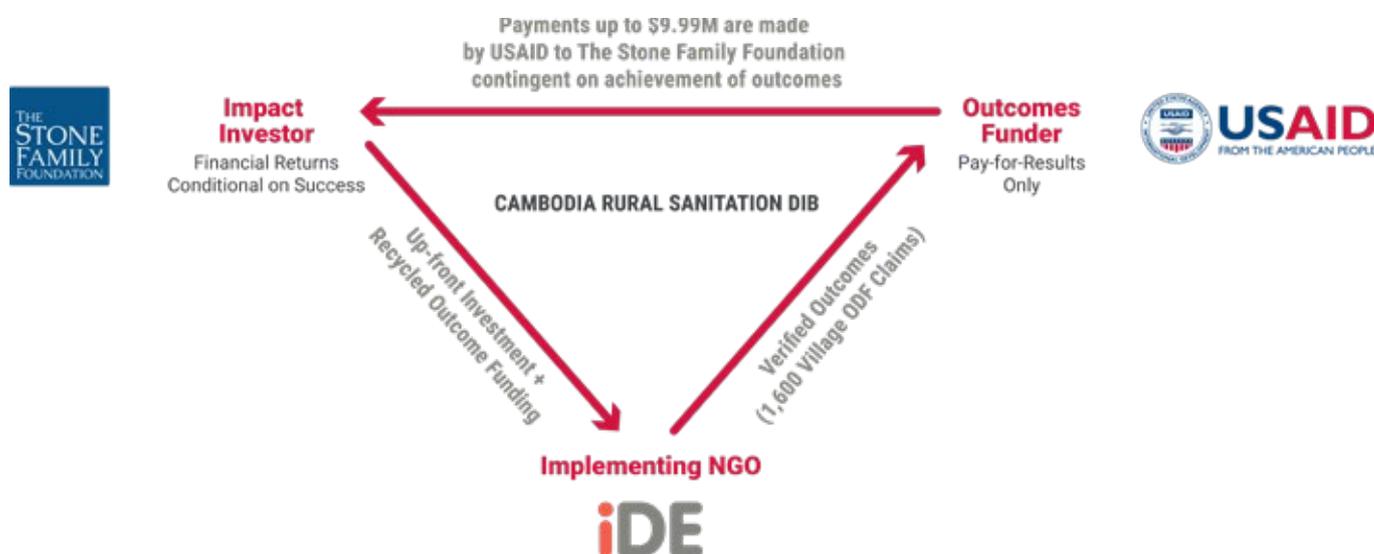
A little over one year into implementation, the three partners reflect on what has been achieved so far and the lessons learnt.

What is the Cambodia Rural Sanitation Development Impact Bond?

A DIB is a financing structure designed to improve the efficiency and effectiveness of international development programmes. It is a form of results-based finance: an investor pre-finances an implementer to deliver a set of pre-agreed social outcomes. When these outcomes are achieved, an outcomes funder repays the investor plus a return. If no outcomes are achieved, then the investor is not repaid.

The Cambodia Rural Sanitation DIB is using this approach to help up to 1,600 villages across six provinces in Cambodia achieve Open Defecation Free (ODF) status.

As shown in the diagram below, the Stone Family Foundation, acting as the impact investor, is providing the upfront investment required to achieve sanitation outcomes, which will be delivered through the third phase of iDE's Sanitation Marketing Scale Up programme. USAID, as the outcomes funder, will provide nearly \$10m in outcomes funding to the Stone Family Foundation, but only where results are achieved through iDE's programme implementation.



Setting the scene

To understand why the partners decided to develop the Cambodia Rural Sanitation DIB, it is helpful to first share the rural sanitation context in Cambodia and iDE’s Sanitation Marketing Scale Up programme, which started in 2009.

The sanitation challenge in Cambodia

Cambodia has seen significant progress in increasing rural sanitation coverage over the last 15 years, with national coverage rates rising from 20% to 74.6% in 2020.

The Royal Government of Cambodia has now set the ambition of eradicating open defecation by 2025 as part of its National Action Plan for Rural Water Supply, Sanitation, and Hygiene II. However, the challenge of realising universal sanitation coverage in Cambodia is getting harder as the focus shifts to the poorest, the most marginalised, and the hardest to reach populations.

Poor sanitation, in communities where open defecation is routinely practiced, is linked to poor physical and mental health outcomes. Childhood stunting is particularly linked to poor sanitation: in Cambodia, childhood stunting rates are at 32%, the highest of the region, despite high economic growth in the past decade. 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.

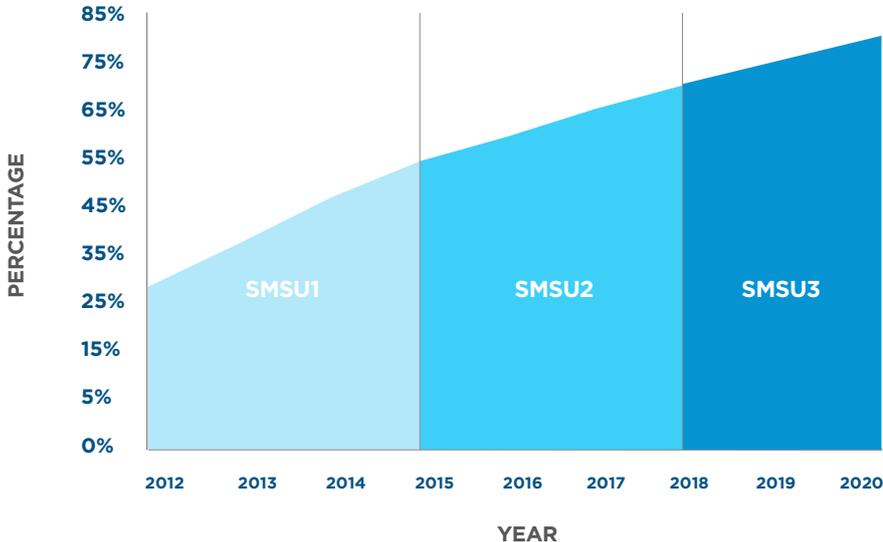
iDE’s Sanitation Marketing Scale Up (SMSU) programme

iDE’s SMSU programme has been operating in Cambodia since 2009, and the Stone Family Foundation began providing funding contributions in 2011. Using market-based principles, the SMSU programme supports a network of local businesses and entrepreneurs to manufacture, sell, and install high-quality, affordable pour-flush latrines to rural households.

By 2019, iDE had sold 340,000 latrines, contributing to an increase in sanitation coverage in programme provinces from 29% in 2012 to 73% in 2019.

The challenge facing iDE in 2019 when developing the third iteration of its programme was how to increase sanitation coverage to 85% or higher and eradicate open defecation entirely in these communities to ensure significant health outcomes are achieved. This required iDE to evolve the SMSU programme to focus more strongly on building the capacity of local government and other authorities to address remaining barriers to sanitation.

SMSU Sanitation Coverage Over Time



	Year	Coverage
SMSU1	2012	29%
	2013	37%
	2014	45%
SMSU2	2015	52%
	2016	56%
	2017	61%
SMSU3	2018	67%
	2019	73%
	2020	77%

Why a Development Impact Bond?

The Cambodia Rural Sanitation DIB has an ambitious aim of supporting 1,600 villages in six provinces to achieve ODF status by increasing household latrine ownership to at least 85% and eliminating open defecation. To do this, the work under the DIB focuses on reaching the households still practicing open defecation. The work is not ‘more of the same’ given the challenges to reach these households through market-based solutions and non-traditional service delivery models. Instead, iDE has adapted its SMSU programme, in particular developing stronger partnerships with local government and other authorities to address remaining barriers to sanitation.

In setting up the Cambodia Rural Sanitation DIB, all three partners were united in their aim to contribute to universal sanitation in Cambodia. But the reasons why the partners concluded that a DIB was the right structure for achieving this goal were slightly different for each.

For iDE, as the implementer

To achieve universal sanitation, iDE needed to adapt its model to reach poorer, harder-to-reach, last-mile households that represent the remaining population of non-latrine owners.

Because target villages present a range of unique barriers to achieving ODF status, iDE needed more flexibility than a traditional grant to test innovative approaches and adapt its programme based on insights from human-centred design research and ongoing learnings from real-time data collected in the field.

“The outcomes focus of an impact bond provides flexibility for iDE to evolve its program in a complex and constantly changing market ecosystem. This flexibility is important in ensuring that all people benefit from the drive towards total sanitation.”

– Lizz Ellis, CEO, iDE

“Our hope is that the DIB serves as an example of how long-term finance and support can address the critical challenge of universal sanitation, and demonstrates it is possible to use impact investment to enable both high social impact and financial return.”

– Paul Gunstensen, Director of WASH, Stone Family Foundation

For the Stone Family Foundation, as the investor

The Foundation had been a long-time supporter of iDE’s SMSU programme in Cambodia. The DIB provided an opportunity for the Foundation to shift its role from a grant-funder to an investor—taking on the financial risk of the programme, in line with the Foundation’s strategy of supporting high-risk emerging ideas and innovation in WASH.

The DIB is also aligned with the Foundation’s interest in increasing access to finance in WASH, by providing a demonstration point for how impact capital can be deployed in the sector.



Mr. Kim Nol and other latrine business owners are key partners in delivering aspirational toilets in rural Cambodia.

For USAID, as the outcomes funder

In 2018, USAID Cambodia began to focus on new approaches to reduce the country's high stunting rates, a main objective of the U.S. government's Global Food Security Strategy. The team began discussions with the Stone Family Foundation and iDE on whether alternative funding mechanisms could better suit the next stage of the Cambodia rural sanitation challenge.

The Cambodia Rural Sanitation DIB is the agency's third DIB so it joined the initiative already familiar with the structure and its ability to catalyse private finance. Achieving the DIB's sanitation outcomes requires the Stone Family Foundation and iDE to learn, iterate, and adapt during implementation. In this context, a DIB adds value over other funding approaches by providing this flexible capital that allows for iDE and the Stone Family Foundation to adjust its approach, while minimising USAID's risk as payment is based on outcomes.

There is also a lower management burden for USAID as the Stone Family Foundation monitors iDE's implementation. For example, budget revisions and changes to the implementation approach related to COVID-19 did not require official USAID approval.

“This new results-based financing approach to improving rural sanitation demonstrates our commitment to supporting Cambodia on its road to self-reliance. This DIB is USAID's third and an example of our leadership in collaboration and co-design between partners and global innovative financing to achieve the best possible development results.”

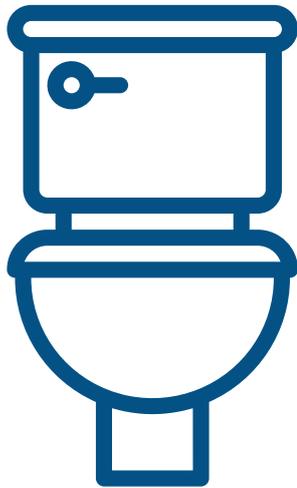
– Veena Reddy, Mission Director, USAID Cambodia

What has been achieved so far?

At the time of publication, the Cambodia Rural Sanitation DIB had achieved:



500 ODF villages,
31% of the overall goal
of **1,600** villages.



There are **88,738**
households living
within the **500**
villages—all of which
have been confirmed
to have **access to
sanitation**, in line with
the Royal Government
of Cambodia's ODF
guidelines.



\$3,125,000 in outcomes
payments from USAID.



Mr. Bun Phors (right) builds and installs durable latrines like the one pictured on the left for his customers in Siem Reap province.



Sales agents like Ms. Pisey Sot are turning their communities ODF, one toilet at a time, through door-to-door sales.

What have we learnt?

- 1. The simplicity of the DIB structure increased the speed and reduced transaction costs of set up.** The DIB was set up in nine months at a cost of approximately 3% of total outcomes funding, significantly lower than other DIBs. This was facilitated by only having three partners involved, which made for easier negotiation of key terms. This also allowed for straightforward governance arrangements, again reducing cost and allowing for quicker set up.
- 2. Detailed feasibility and design work was time well spent.** The partners were supported with feasibility and design facilitation from Social Finance, a global leader in DIBs. This allowed us to draw on Social Finance's expertise and USAID's past experience with DIBs. This gave us confidence both that the programme was suitable for a DIB and in the design of the structure. For example, the design phase identified in detail how iDE and the Stone Family Foundation would provide evidence that an outcome had been achieved. This has meant that the process for requesting outcomes payments so far has been straightforward and uncomplicated

3. Building flexibility within the DIB helps guard against unexpected external events, including COVID-19.

Cambodia has experienced relatively few COVID-19 cases so far, and this has resulted in minimal disruption with only a brief pause in activities in April 2020. However, features of the agreement have meant that the DIB is well placed to weather any further disruption. Specifically, it both allows iDE/Stone Family Foundation to catch up on any underperformance, as well as carry forward any overperformance from one milestone period to the next—providing confidence we can still achieve our overall goal despite the pandemic and other challenges that may arise.

4. Finding the ‘sweet spot’ of outcomes that work for all sides. For USAID, it was extremely important that the result upon which it would provide payments was an outcome, rather than an output (for example, latrines sold). As impact-oriented organisations, this was also important for the Stone Family Foundation and iDE.

At the same time, reporting against ODF villages was not something iDE had done for the programme in the past. The partners were also aware that the further along the outcome chain you go, the more risk you create for the impact investor, as the implementer has less control over whether that result is achieved.

The negotiations were successful in identifying ODF village claims as an outcome that worked for all sides. It moved beyond outputs and represented a significant outcome—but stopped short of looking at health or other impacts that would be hard to attribute to iDE’s intervention.

5. Aligning incentives within the finance structure. The Stone Family Foundation has provided a large tranche of capital to pre-finance iDE’s initial programme expenses. After that, the majority of the capital will come from recycling the outcomes payments from USAID. As well as being an efficient use of capital, this arrangement also aligns incentives by drawing a link between the performance of the programme and the finance provided. This is further achieved by the Stone Family Foundation sharing any financial return with iDE.

6. Managing the DIB has been a learning curve—but backstopped by a strong, long-term partnership.

Moving from a relatively straight-forward grant relationship between iDE and the Stone Family Foundation to a more complex, innovative, and tripartite financing structure with USAID has inevitably had its challenging moments. However, this has been helped immeasurably by the nine-year partnership between the Stone Family Foundation and iDE, which has meant high levels of trust and a strong working relationship between the two organisations.

7. Robust and detailed data has been crucial in the design and ongoing management of the DIB

iDE’s excellent data systems have been invaluable for the DIB in several different ways:

- Historical performance and cost data meant that the partners were able to confidently price the outcomes, which to date have tracked as forecast.
- It has meant that no independent verification is needed because the DIB is able to leverage the official government ODF claim process and verify the results using iDE’s data. This has reduced cost and complexity.
- iDE’s management information system records every household that does not own a latrine within the programme area. Its data system allows for near real-time updates, giving iDE insights into how the programme is performing and enabling rapid adaptation and course correction.



For Ms Kim Say, this shelter is more than just a toilet, it is a durable bathroom that has had transformative impact for the hygiene and dignity of her family.

Conclusion

Launching the Cambodia Rural Sanitation DIB in November 2019 was a significant step forward for the sanitation sector and, one year in, we are delighted with the progress made so far.

The initial milestones have been achieved and the finance has been recycled back into further implementation and social impact, as well as supporting the delivery of the Cambodian government's National Action Plan for Rural Water Supply, Sanitation, and Hygiene II.

DIBs and payment-by-results programmes are not a silver bullet for every context. Rather, they work well when responding to a specific set of conditions that enable them to be successful. In sharing these lessons, our goal is to identify some of the conditions present for the Cambodia Rural Sanitation DIB that may be useful for others considering a similar structure.

We are less than a third of the way through the Cambodia Rural Sanitation DIB, so we know that these are just the initial insights from the early stages of implementation. There is still a long way to go to achieve our goal of 1,600 ODF villages in Cambodia but we are optimistic and confident about the way ahead.

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