



The Cambodia Rural Sanitation Development Impact Bond

Two Years of Delivering Results through Innovative Finance



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Introduction

In November 2019, the Stone Family Foundation (SFF), the U.S. Agency for International Development (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 combines private and public capital with on-the-ground implementation expertise to accelerate the Royal Government of Cambodia's efforts to reach universal access to sanitation. The DIB's four-year objective is to achieve 1,600 open defecation free (ODF) villages across six provinces in Cambodia through market-based solutions.

What is a DIB?

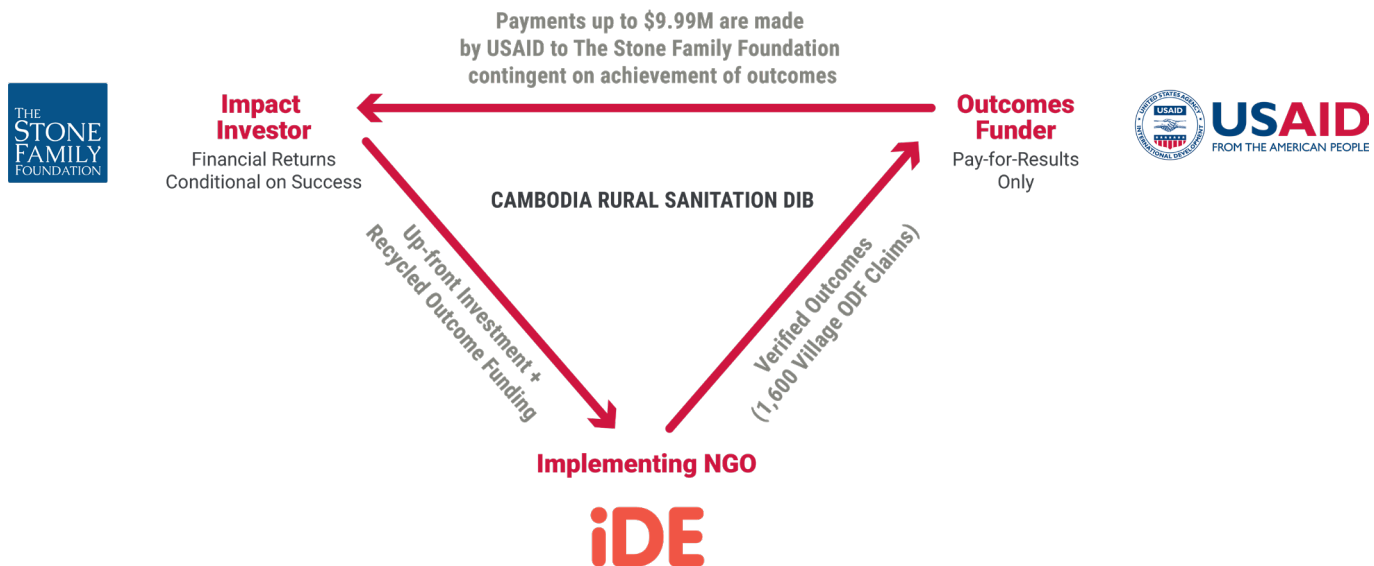
A DIB is a results-based financing structure designed to strengthen the link between funding and impact, and is a partnership between three key actors:

- An impact Investor, which provides upfront capital for a service to be delivered to achieve specific social outcomes.
- An Implementer, which delivers the service.
- An Outcomes Funder, which 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) is providing the upfront capital, which is 100 percent at risk. If pre-agreed outcomes are achieved, the impact investor will be repaid by USAID (the outcomes funder), with a premium that reflects the risk taken on by the investor. If outcomes are not achieved, USAID has no obligation to make outcomes payments.



Loeurm Barang, female latrine business owner. Her business is growing but she is aware that she needs to keep prices reasonable for her low-income customers.



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. Structures such as DIBs are an effective way to attract impact finance into sectors such as sanitation in an aligned and impactful way.

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 potential returns. This innovative mechanism further aligns incentives within the DIB.

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 has proven especially important as iDE tests new strategies for reaching the poorest and most vulnerable households with improved sanitation, while integrating unplanned COVID-19-related activities into its WASH program.

Why a DIB for sanitation in Cambodia?

Poor sanitation, in communities where open defecation is routinely practiced, is linked to poor health and nutritional outcomes. In Cambodia, stunting rates for children under the age of five – low height for age – are at 32 percent, the highest of the region, despite strong economic growth in the past decade. Poor sanitation impacts families and 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.

The Royal Government of Cambodia aims to eradicate open defecation by 2025 as part of its National Action Plan for Rural Water Supply, Sanitation, and Hygiene II. By the time the DIB was launched in 2019, Cambodia had already made significant progress in increasing rural sanitation coverage, from 32 percent in 2011 to 61 percent. However, achieving universal sanitation coverage in Cambodia has become increasingly challenging as focus has shifted to the poorest, the most marginalized, and hardest to reach populations.

IDE's Sanitation Marketing Scale Up (SMSU) program



IDE's SMSU program has been operating in Cambodia since 2009, with the Stone Family Foundation providing funding contributions since 2011. Using market-based principles, the SMSU program 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 over 330,000 latrines, contributing to an increase in sanitation coverage in program provinces from 28 percent in 2012 to 80 percent in 2019.

The challenge facing iDE in 2019, when developing a new iteration of its program, was how to increase basic sanitation coverage to 85 percent or higher and eradicate open defecation entirely in these communities.

To do this, iDE had to switch up the SMSU program to focus more on building the capacity of local governments and other authorities to address remaining barriers to ending open defecation.

The DIB has the ambitious aim of supporting 1,600 villages in six provinces to achieve ODF status by increasing household latrine ownership to at least 85 percent and eliminating open defecation. To do this, the DIB focuses on reaching households still practicing open defecation, addressing the challenge through a market-based approach and non-traditional service delivery model.

In setting up the DIB, all three partners committed to contributing to achieving universal sanitation in Cambodia.

What we have achieved by the end of Year Two

By November 2021, exactly two years since its launch, the DIB is on track to deliver expected results by 2023. The DIB has supported:



1,000 open defecation free villages



8,955 dual pit latrines sold



176,000 households impacted



8,871 toilet shelters built



64,185 latrines sold



Loeurm Barang, female latrine business owner.

Focusing on outcomes to innovate and adapt in the face of uncertainty

When the DIB was designed, the partners did not expect a global pandemic to upend lives and make implementation challenging. The DIB's structure and its focus on achieving outcomes rather than on funding inputs to deliver outputs, enabled the program to innovate and adjust in response.

Despite the challenges presented by the pandemic, the has DIB continued to achieve its outcome-based milestones throughout Year 2 and iDE was able to pivot its implementation to the pandemic-related challenges to continue to achieve impact across the six provinces.

We have reflected on how iDE and the DIB responded in Year 2, and lessons learnt are set out below:

1. Flexibility and outcomes focus

The core of the DIB's approach is a shift from solely sanitation marketing to more hands-on support to villages and the local government to achieve open defecation free status.

Through the establishment of Grassroot Public-Private Partnership teams to support village-level administrations, iDE was able to ramp up recruitment in specific provinces at critical times and shift resources between intervention areas as needed.

The ability to quickly adjust implementation tactics to adapt to conditions on the ground is inherent in an outcomes-focused DIB, and was key in supporting speedy responses to what were quite fluid situations at the village, commune, district and provincial level. This ensured that iDE both achieved the intended milestones and support the government to respond to COVID-19.





Touch In, member of the Commune Committee for Women and Children. Advocated for her commune to reach ODF status and appealed to the government to subsidize latrines for the lowest-income families in the commune.

2. Adapting and adding value to the national response

At the start of the pandemic, like many other organisations, iDE took precautions such as social distancing in meetings, modifying group sales presentations, as well as including messages and distributing materials on COVID-19 awareness and prevention.

By February 2021, during Cambodia's mini COVID-19 surge, iDE implemented a revision of its program in collaboration with the government to support the national response.

iDE has deep networks across the six provinces, built up over 10 years of implementation and work. The SMSU program leveraged these networks and its field-based staff to become part of the frontline response to COVID-19. Staff became frontline workers for a pro-vaccination behavior change campaign, addressing questions and concerns on the pandemic from community members.

They trained local government officials and worked with the government to coordinate the COVID-19 response, alongside marketing sanitation and supporting the villages to make ODF claims. The DIB's structure enabled iDE to quickly respond and make program pivots as resource reallocation approvals were not required. The intervention reached more than 13,000 households each month and has been effective in promoting clear hygiene and COVID-19 related information as well as addressing misinformation around vaccines.

The outcome of this operational pivot also allowed the program to remain relevant in the context of the pandemic, providing opportunities for continued engagement with local authorities and communities as national priorities have shifted.

As a result, iDE received a "Certificate of Appreciation" from the Ministry of Rural Development in recognition of efforts on vaccination promotion within the sanitation marketing activity.

3. Achieving results in the face of uncertainty

As the world responded to COVID-19, there was a real risk that the DIB would begin to underperform as community and government focus were quite rightly dedicated to supporting community response and minimizing the spread and impact of COVID-19.

This underperformance however would have had quite an impact: communities would begin to lag behind in achievement of sanitation targets and the slippage of milestones would have impacted the regular recycling of funding through the structure.

This is a critical element of the CRS-DIB – which in turn would have meant fewer funds for iDE to implement and enable those communities and the overall program to catch up.

One key aspect of the DIB structure is an inbuilt flexibility to achieve milestones consistently throughout reporting periods (and for these to be carried forward), which in turn allows for adjustments to the program in response to challenges like a pandemic.



Dun Yien, Village Chief. Has been village chief for 18 years and was trained by iDE to visit households with information about handwashing/COVID/vaccines as a "Sanitation Champion."

Looking ahead

Two years in, the DIB has continued to deliver on its promise of linking private and development funds to achieve results at scale in the sanitation sector.

All four milestones through November 2021 have been achieved, and funds from USAID have been recycled back into further implementation and social impact in support of the Cambodian government's National Action Plan for Rural Water Supply, Sanitation, and Hygiene II. The COVID-19 pivot and response has been an additional, unexpected achievement.

DIBs and payment-for-results programs are by no means a silver bullet in every context and organizations considering these types of structures must focus on why payments for results is the right structure to achieve their goals.

We believe development impact bonds can work well when certain conditions are present:

- There is a clear question or social challenge the structure is trying to respond to or resolve, which all stakeholders view as a priority.
- There is clarity between stakeholders on what each brings to the table. These structures allow each stakeholder to play to its strengths; in particular, they allow transfer of risk -- financial, operational and administrative -- and alignment on stakeholder roles is essential to ensure the right balance of that transfer.
- Programs should ideally be operating at a reasonable scale, with a good knowledge of the cost base and operational model to support further scale up, backed up by a sufficient evidence base that impact can be achieved. Without this clarity, it is very challenging to focus a payment by results approach successfully and the additional complexity required (e.g. by introducing an impact investor) may not be worthwhile. This does not imply that every implementation step of a multi-year program needs to be agreed in advance -- indeed, much of the value of the structure is that it allows for adaptive implementation and learning-by-doing.
- There need to be clear, objective and measurable outcomes that partners all agree on and value. There should be a robust system for data collection, management and review - which doesn't necessarily require third-party verification, as the CRS-DIB has demonstrated.
- There needs to be acknowledgment that these structures require sufficient time to develop and the wider the number of stakeholders, the more complex the design and execution phase will be. The CRS-DIB has only three partners and was designed and launched in 9 months - meaning transaction costs were kept to a minimum and a larger proportion of the funding is focused towards social impact.

Keeping this in mind, the partners continue to advocate for increased investment in the WASH sector through innovative financing mechanisms to bridge large financing gaps that threaten the achievement of the Sustainable Development Goals (SDGs). Opportunities exist to make traditional grant funding more flexible, to build in greater resilience and adaptation into programs, leading to greater impact when partners are well-aligned.

We are encouraged by the success achieved by the DIB to date and are well on our way to achieving our next milestone. We remain optimistic about achieving our goal of powering 1,600 Cambodian villages to become open defecation-free by 2023 and supporting the achievement of the targets under SDG6 for sanitation in Cambodia.



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