

TACTIC REPORT

Reaching the poorest with sanitation through targeted subsidies.



How can we reach the poorest with sanitation without distorting and damaging the market? Carefully targeted, verifiable subsidies.

Context

Rural Cambodia has achieved a remarkable expansion of basic sanitation coverage in the past decade. In iDE program areas, household-level coverage has increased from 23% in 2009 to over 70% in 2020. To date, iDE Cambodia's Sanitation Marketing Scale-Up (SMSU) program has facilitated the sale and delivery of over 343,000 sanitary latrines to rural households, enabling over 1.6 million individuals to gain access to sanitation. However, estimates by iDE indicate that in SMSU implementation areas, nearly 20% of the remaining market is comprised of poor households that may not be able to afford a latrine at market price.¹

Financial support to increase the affordability of latrines will be needed to reach these poor households. Microfinance has historically offered a potential solution, however, in Cambodia, microfinance for sanitation has become increasingly unviable. New lending regulations and high levels of indebtedness among poor households have all but eliminated prospects of supporting latrine sales with microloans. Other types of creative, non-interest-bearing financing models like payment instalment plans and rotating savings and loans groups offer potential solutions, however these approaches have not yet shown to be effective at reaching scale in Cambodia.

¹ iDE Non-Latrine User Census, 2020

According to Cambodian Ministry of Rural Development guidance, targeted subsidies are one way to responsibly support sanitation investment by poor households without damaging the local market ecosystem. However, globally subsidy distribution is often mishandled. As noted in a 2019 World Bank report, WASH subsidies are often pervasive, poorly targeted, non-transparent, expensive for practitioners, and distortionary for markets.² Cognizant of these issues, iDE has developed a targeted subsidy model that mitigates these common pitfalls of subsidy implementation.

Project Background

In November 2015, with the support of Australian Aid, iDE launched a Targeted Subsidy Pilot and randomized controlled trial in three districts in Kandal province. Through this pilot, iDE hoped to learn more about the potential market impact of targeted subsidies and develop a strategy to more effectively serve the rural poor at scale. In collaboration with Amplify Markets and Causal Design, the program trialed an innovative mechanism for selling toilets with subsidized price discounts, which was compared against selling with micro-credit and full cash payment options.

The Targeted Subsidy Pilot leveraged the existing iDE sales agents, supply chain, and micro-financing partner from an earlier WASH financing pilot. Government-identified IDPoor households were targeted through regular sales events and in the treatment group were able to purchase latrines at a discounted price with the option of microcredit to support.³ In the control group, IDpoor households were only offered the ability to pay the full price in cash or with the support of microcredit.

The study found uptake rates among poor households that were offered subsidies increased by 14 to 16 percentage points compared to the control group, while there was no significant effect on non-poor households. Interestingly, cost effectiveness of the program (measured in cost to program per latrine sold) was actually higher in the areas receiving targeted subsidies because more latrine sales occurred in the target areas. In 2018, building on the experience of the Targeted Subsidy Pilot, iDE Cambodia designed a targeted subsidy mechanism to scale to the total program implementation area.

Intervention

In order to reach thousands of poor households while maintaining a reasonable transaction cost for iDE, it is critical that the targeted subsidy operating model includes an efficient delivery process that provides transparency, traceability, and auditability. In line with government guidance, the program only offers subsidies in provinces with a high level of sanitation coverage of at least 67%. Subsidies are allocated at two levels that respectively correspond with IDPoor 1 and 2 status. In this model, the poorest households, classified as IDPoor 1, receive a \$25 USD subsidy voucher, reducing the price of an Easy Latrine to about USD \$32.50. The relatively less-poor IDPoor 2 households receive a \$20 subsidy that brings the retail price to \$37.50. In addition, the program has applied the targeted subsidy mechanism to a super low-cost latrine shelter called the Soft Shelter. While the Soft Shelter has a retail price of \$33, both IDPoor 1 and 2 households are able to buy this product as an add-on to their latrine purchase for \$13 with a \$20 subsidy provided by iDE. This product is intended to serve as a temporary solution that enables households to use their latrine



² <https://openknowledge.worldbank.org/handle/10986/32277>

³ The IDPoor System is an initiative administered by the Cambodian government that identifies poor households, assesses their level of poverty (IDPoor 2 is poor, IDPoor 1 is poorest), and distributes identification cards for these households.

immediately after installation until they are able to save enough money to construct a permanent shelter structure.

In order to manage the subsidy delivery mechanism, the program expanded and deepened its management information system (MIS) infrastructure. The MIS system tracks the status of unique subsidy vouchers, which are given to customers at the time of sale, using QR-codes attached to each voucher. The codes allow for end-to-end, real-time traceability of each voucher from their batch creation to their eventual redemption for cash to the latrine business owner (LBO) by iDE. The program redeems vouchers for LBOs only after they have delivered the latrine and Monitoring & Evaluation Officers have verified the eligibility of the voucher. LBOs redeem the voucher by sending a picture of the collected QR-Codes to iDE’s respective provincial office and the redemption claim is paid within five working days through mobile cash transfers. On a continual basis, iDE conducts random spot checks to verify latrine deliveries.

In this system, the financial controller has real-time knowledge of the number of vouchers in circulation and the total value of subsidies committed and pending cash redemption. By using the IDPoor system, iDE can verify the eligibility of subsidy voucher recipients through online verification of their IDPoor card number in the National IDPoor Database. By linking IDPoor registration numbers to subsidy vouchers, the program prevents any risk of fraudulent duplication of payments and enables a resolution path for re-issuing lost vouchers.

1. Sales agent gives household a voucher at the time of sale



2. Sales agent takes photo of QR code on order form and submits via TaroWorks to Salesforce



3. LBO delivers latrine and takes QR code voucher from household

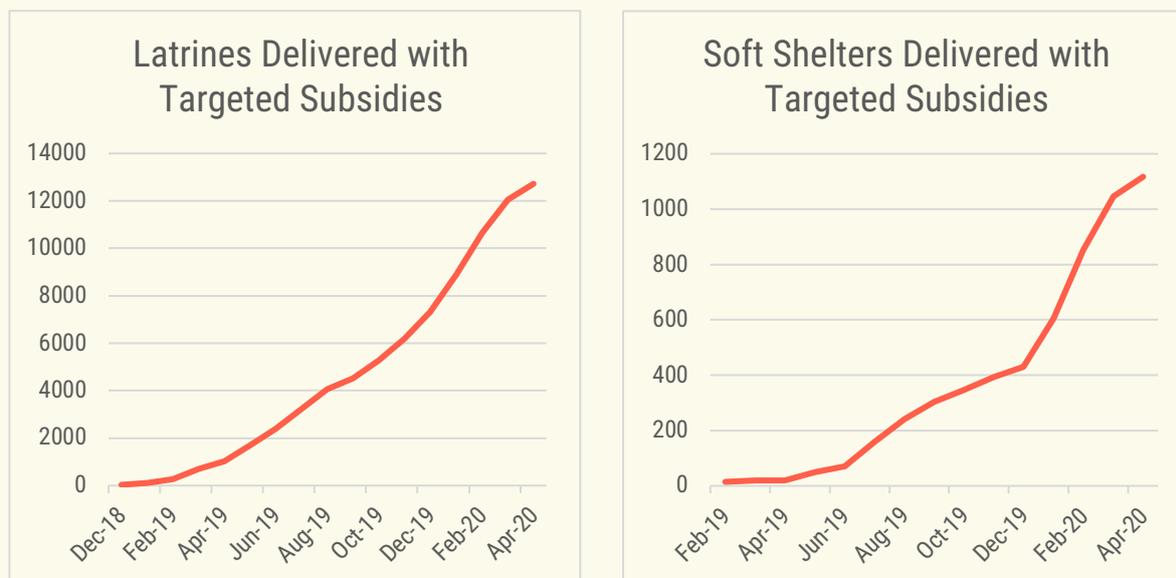


4. LBO redeems coupons with iDE for cash after verification with Salesforce database



Implementation and Impact 2018-2020

iDE began testing the targeted subsidy mechanism in December 2018 through two sales agents in Svay Rieng province. The next month, the targeted subsidy delivery program was scaled up to the entire province's sales team. By the end of 2019, the program had scaled targeted subsidy delivery to four additional provinces: Kandal, Prey Veng, Kampong Thom, and Siem Reap. As of the end of April 2020, the program has sold and delivered 12,723 latrines and 1,117 low-cost Soft Shelters to IDPoor households through the targeted subsidy mechanism.



Partnering with UNICEF to reach Open Defecation Free status

As Cambodia's sanitation coverage continues to rise, the government and WASH sector have developed a strategy to achieve Open Defecation Free (ODF) status nationally. Several high-coverage provinces have been identified as the likely first in the country to reach ODF. The sector intends to dedicate concerted efforts to sanitation improvement in these areas so that they can serve as examples and "learning labs" for the rest of the country. UNICEF and iDE both operate in one such province, Svay Rieng, and have established an innovative partnership to help it become the nation's first to eliminate open defecation.

UNICEF is providing funding and support for iDE's targeted subsidy distribution for latrines, shelters, and hand washing with soap promotion materials. In doing so, UNICEF is able to financially support the poorest, with 80 cents per dollar of funding given directly to households in the form of a product discount. Unit costs are clearly and simply calculated, so UNICEF has been able to track its investment in near real-time to assess its impact in the push to reach ODF in Svay Rieng. To date, over 2,300 IDPoor households in Svay Rieng have purchased a latrine with the support of a UNICEF and iDE-facilitated targeted subsidy. Svay Rieng, with its sanitation coverage rapidly approaching 90%, is on track to be the first province in the Cambodia's history to eliminate open defecation.

Lessons Learned

- **Timing is key:** While subsidies can have a clearly positive impact on sanitation uptake by the poor, analysis has shown that lower baseline sanitation coverage rates may be associated with lower non-poor latrine sales. This suggests that in these low-coverage areas, many non-latrine owners apparently have means to pay for latrines, but are not yet doing so for reasons that may not be financially-driven. In such areas, implementers should consider delaying the introduction of subsidies until coverage rate increases in order to minimize the risk of market distortions. When setting national policy, governments and regulatory agencies should consider and continually review at what point local markets are best able to handle targeted subsidies.
- **Familiarity with the local market matters:** iDE conducts this work in a geographic area where we have maintained a sanitation marketing presence over several years. Our network of experienced local sales agents and management team are invaluable to ensuring we understand the local market and are able to address operational challenges associated with administering subsidies.
- **Subsidies must be well-targeted, but targeting can be a challenge:** The IDPoor system in Cambodia represents an almost ideal system for targeting subsidies. While iDE recognizes that the system is not perfect and registration of households is sometimes outdated, the general population trusts it, and iDE staff and sales agents are able to use it to quickly confirm household eligibility for targeted subsidies. Such systems are not common in the developing world, so others attempting to imitate this approach will need to proceed cautiously when designing their subsidy verification and study protocols.
- **The nudge to use mobile money motivates efficiency in other areas of business:** In order to process subsidy redemption payments, iDE requires business owners to open a mobile money account. We have seen that businesses, who are increasingly comfortable with mobile money, are using this mechanism to make transactions with customers, including payment installment plan collection, more cost-effective.
- **Subsidies offer operational efficiencies when compared to financing:** Much of the sector's energy has been focused on strategies for unlocking capital to provide financing to consumers of WASH products such as latrines. During iDE's experience with financing more generally, slow loan processing times and high rejection rates have made it difficult to operationalize sanitation financing at scale. In contrast, well-targeted subsidies can be simple and cost-effective to administer, making them an attractive alternative to financing as a means of reaching the poorest and most vulnerable.

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