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 around 70% in 2019. To date, iDE Cambodia’s Sanitation Marketing Scale-Up (SMSU) program has facilitated the sale and delivery of over 320,000 sanitary latrines to rural households, enabling over 1.4 million individuals to gain access to sanitation. However, estimates by iDE indicate that in SMSU implementation areas, around 21% 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 unavailable. New lending regulations and total loan indebtedness by poor households have made the prospect of supporting latrine sales with microfinance an option with limited appeal. Other types of creative, non-interest-bearing financing models like payment instalment plans and rotating savings and loans groups may offer a potential solution, however these approaches have not yet shown to be effective at reaching scale in Cambodia.

¹ iDE Non-Latrine User Census, 2019
In line with the Cambodian Ministry of Rural Development’s guidance, targeted subsidies are another viable option to responsibly support sanitation investment by poor households without distorting or damaging the local market ecosystem. However, globally subsidy distribution is often mishandled. As noted in a recent World Bank report, WASH subsidies can often be pervasive and poorly targeted, non-transparent, expensive for practitioners, and distortionary for markets. Cognizant of these issues, iDE has developed a targeted subsidy model that mitigates these common risks for implementation.

Project Background

In November 2015, iDE launched a Targeted Subsidy Pilot in three districts in Kandal province. In collaboration with Amplify Markets and Causal Design, the program looked at an innovative delivery mechanism for targeted subsidy through a micro-credit scheme. Government-identified IDPoor households were targeted through regular sales events and were able to purchase latrines at a discounted price. Instead of creating a standalone subsidy program, which can be inefficient and costly to administer, the pilot offered discounted latrines alongside market-priced latrines with the option of financing for all approved purchasers.

The Targeted Subsidy Pilot leveraged the existing iDE sales agents, supply chain, and micro-financing partner (from our financing pilot). Through this pilot, iDE hoped to build on best practices and develop a scalable strategy to serve the rural poor with targeted subsidies and loans while ensuring long-term engagement of the private sector.

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. Additional analyses show that lower baseline coverage rates may be associated with lower non-poor latrine sales, suggesting that implementers should delay the introduction of subsidies until markets have matured in order to minimize distortions. Interestingly, cost effectiveness of the program (measured in cost to program per latrine sold) was actually higher because more latrine sales (with subsidies) occurred in the target areas.

In 2018, building on the experience of the Kandal pilot, iDE Cambodia designed a scalable and operational targeted subsidy mechanism to introduce to the total program implementation area.

Intervention

Critical components of the targeted subsidy operating model include a system for subsidy eligibility verification and an efficient delivery process that provides transparency, traceability, and auditability at scale for a reasonable transaction cost. In provinces with sanitation coverage over 67%, the program delivers subsidies at two levels that respectively correspond with IDPoor 1 and 2 status. In this model, IDPoor 1 households receive a $25 USD subsidy voucher, reducing the price of an Easy Latrine to $80, and IDPoor 2 households receive a $20 subsidy that brings the retail price to $35. In addition, the program has applied the targeted subsidy mechanism to a low-cost, temporary shelter product with a retail price of $80. Both IDPoor 1 and 2 households are able to buy this product as an add-on to their latrine purchase for $10 with a $20 subsidy provided by the program. This product is intended to serve as a temporary solution that enables households to use their latrine 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 after LBOs have delivered the latrine and iDE has 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. iDE conducts random spot checks to verify latrine deliveries.

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\(^2\) 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.
In this system, the financial controller has real-time knowledge of the number of vouchers in circulation and the total value of subsidies committed, pending cash redemption. Household subsidy eligibility is based on IDPoor status of the household. 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 Database. By linking IDPoor status 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 2018-2019**

The program began testing the Targeted Subsidy mechanism on December 12 through two sales agents in Svay Rieng province. The Targeted Subsidy delivery program was scaled up in January to the entire Svay Rieng sales agent team. Within the first six months of 2019, the program scaled this subsidy delivery program to all sales agents in two additional provinces: Kandal and Prey Veng. By the end of June 2019, the program had sold and delivered 2,444 latrines and 70 low-cost shelters to IDPoor households through the targeted subsidy mechanism.
Lessons Learned

- Timing is key: While subsidies proved to have a clearly positive impact on sanitation uptake by the poor, the pilot analysis also showed that lower baseline coverage rates are weakly associated with lower uptake by non-poor households. This finding suggests that implementers should avoid introducing subsidies into a market too early to avoid unintended market distortions. When setting national policy, governments and regulatory agencies should also consider at what point local markets are best able to handle targeted subsidies.

- Familiarity with the local market matters: iDE conducted 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 were invaluable to ensuring we understood the local market and were 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 were 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.

- 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 inexpensive to administer, making them an attractive alternative to financing as a means of reaching the poorest and most vulnerable.

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