

The financial model of FINISH and its implications for the various stakeholders

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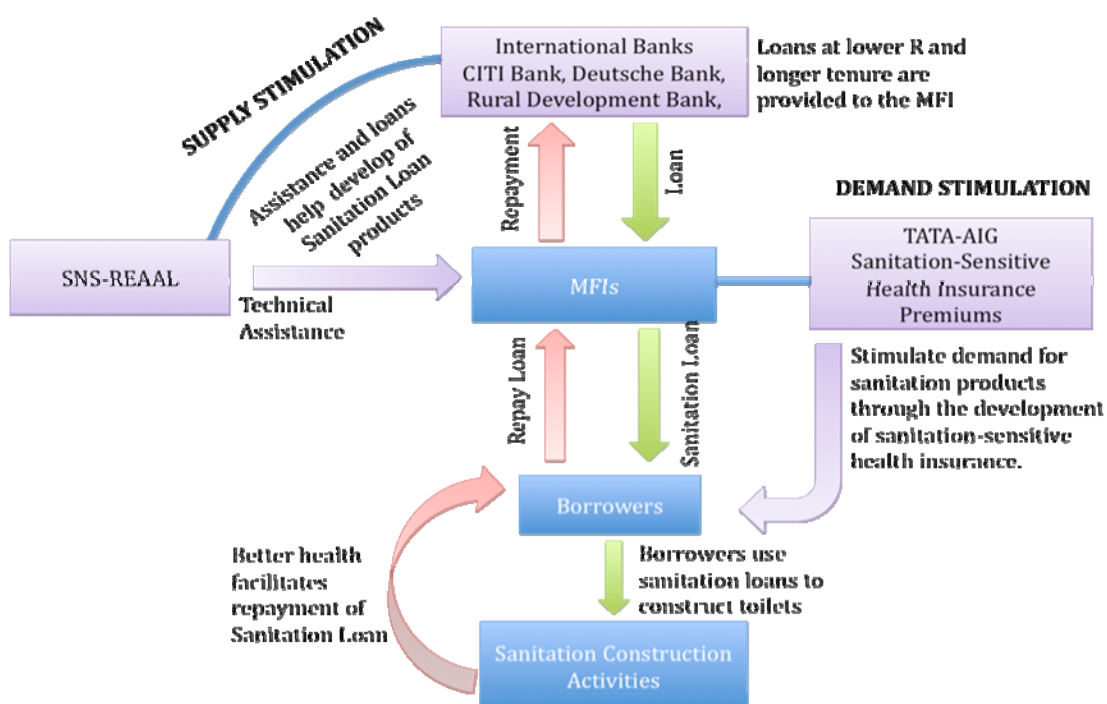
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Introduction

The innovation of the FINISH program is to increase the sanitation and health status of local populations throughout India through a market based and grass roots approach to sanitation construction activities. On the one hand, the FINISH project in partnership with TATA-AIG seeks to stimulate demand for sanitation products (i.e. toilets) through the development of sanitation-sensitive health insurance. Demand stimulation is completed by sanitation supply support mechanisms such as sanitation microloans, which are extended to the local individuals to finance sanitation-related construction activities. However, because sanitation related activities are not necessarily income-generating activities, according to the FINISH programme, MFIs must lengthen repayment and lower interests rates decreased to make sanitation microloans viable loan products. In order to facilitate MFIs' development of sanitation loan products CITI Bank, SNS-REAAAL, the Deutsche Bank and the Rural Bank of India will extend lower interest and longer tenure loans to MFIs, the World Bank will provide output-based aid and SNS-REAAAL will provide technical assistance. The objective of the project is to understand the financial model supporting the FINISH programme and its implications for the stakeholders involved.

Background of FINISH project

The flow of finances for the FINISH project can be represented as follows:



From my understanding the FINISH project is deployed through two phases:

1) Demand Creation Phase, 2) Supply Facilitation Phase

1. Demand Creation Phase

Demand for improved sanitation is stimulated through TATA-AIG's sanitation-sensitive health insurance. Policyholder's health premiums are reduced through a demonstration of improved sanitation.

Marketing and deployment of this sanitation-sensitive health insurance is the crucial part of this phase. After signing up for insurance, policyholders have an incentive for sanitation construction activities in order to improve their health and reduce their risk premiums (Implied in this is regular health education to teach about the benefits of these products)

2. Supply Facilitation Phase

In order to complement this new demand for sanitation related construction activities, International Banks will offer lower interest rate and longer tenure loans to MFIs, the benefits of which will be passed down to borrowers in the form of sanitation loans.

Sanitation loans will fund the construction of toilets or other sanitation projects that will improve borrower sanitation and lead to lower health premiums. These benefits will lead to higher borrower productivity and incomes, which will facilitate the repayment of sanitation loans.

Project Stakeholders

Stakeholder	Advantages	Constraints
TATA-AIG	Sell Health Insurance Product Stimulate demand for sanitation related construction activities	Market health insurance product Develop new health premium mechanism
SNS-REAAL	Develop Sanitation Loan Product in conjunction with MFI	2 Million USD in Technical Assistance
International Banks	Facilitate development of viable sanitation loan product	Loans at lower interest rates and with longer tenures extended to MFIs
MFIs	Extend loans for sanitation related activities Enjoy higher repayment rates because of improved health status of borrowers.	Development of new sanitation product that is adapted to local financial capacities
Borrowers	Construction of sanitation product Better sanitation and health status Receive lower health premiums	Cost of Sanitation Loan that does not generate income

Research Purpose

My research objective is two fold.

- First, to understand the financing package being offered, the mechanism or the sequence of the transfer, its viability in terms of closing of the financial loop through repayments.
- Second, to identify the advantages and constraints imposed by the financial package and its circulations for all the stakeholders involved.

The methodology will be as follows. In an initial step, I will develop a conceptual framework to highlight the different features of the financial package and its circulation on the basis of FINISH documents. From this, I will infer a set of hypotheses on the advantages and constraints imposed by the FINISH model on the various stakeholders. In a second step, I will conduct further interviews to confirm or refute these hypotheses. On the basis of the information obtained I will develop a revised version of the FINISH model and its possible impact. In third and final step, if time permits, the advantages of a regular bank loan for building toilets will be compared with the FINISH product to infer which is the most appropriate and viable financing mechanism for toilet construction in Kameshwaram. It can further be detailed in the following four steps.

Step 1: Understanding the flow of finances and the proposed loan package – with SNS REAAL and WASTE

1.1 Initial Hypotheses and Conceptions of the FINISH Project

- Read FINISH documents and develop rough understanding of financial package.
 - Process Map
 - Project Stake Holders: Advantage and Disadvantages for each
 - Initial concerns / doubts with regard to initial proposal

1.2 Development and Elaboration of FINISH project financial model

- Understanding the flow of finances and the proposed loan package? What is the content of a sanitation loan? (Interest Rate / Payback Period, Loan Volume, Default Procedures, Payment installments (monthly, annually, etc.))
- Create breakdown of missing information.
- Interview SNS-REALL representatives and Valentin Post of WASTE
- Once I have developed a complete model of the large FINISH financial mechanisms, my goal will be to understand the costs and benefits of this project for the mid-stream and downstream actors.

Step 2: Understanding the Up-stream Indian Actors – Discussions with TATA AIG members

- Develop questionnaire for interviews (questions on missing information / concerns) to answer the following:
 - What is the content of TATA-AIG's sanitation-sensitive health insurance?
 - What services are covered by the health insurance?
 - How is the health premium calculated / what percentage of the health premium considers sanitation status? (How much of a reduction in health premiums can borrowers' expect if they prove better sanitation?)
 - What is the link between TATA-AIG health insurance and Sanitation Loans ?

- Is there a delay between the launch of the insurance and the sanitation loans?
- What is the nature and parameters of the TATA-AIG package associated with the FINISH conference?
- What is the break down costs and benefits for upstream actors?

Step 3: Understanding the role of the mid-stream players - the MFI: BHARTHI in Tamil Nadu

- Interviews with at least 5 staff of the Microfinance unit Bharathi
- Day tours of Bharathi to understand the financial mechanism.
 - What is the financial package offered to MFIs?
 - What is the financial package offered to borrowers?
 - Why do these differ ?
 - How are the lower interest rate and longer tenure loans from International Banks to MFIs translated into the sanitation loans from MFIs to borrowers ?
 - What is the difference between the International Banks interest rates and those of the MFI?

Step 4: Understanding the role of the down-stream players – SHG in villages to which Bharathi has given loans

I will assess Costs and Benefits of Sanitation loan in order to understand perceptions of borrower through:

- Focused group discussions with some women's SHG, which are disbursing MFI sanitation loans.
- Interviews with those who have taken loans under FINISH the product

Questionnaire will be designed to answer the following questions:

- What are the benefits and advantages to those who have taken out sanitation loans?
- What is people's understanding of the FINISH Product?
- What is their willingness to pay (WTP)? What is their financial capacity?

Step 5: Understanding the perceptions of those who have not taken loans- interviews in Kameshwaram

- Conduct interviews with Kameshwaram villagers to understand their willingness to pay.

Final Expected Results of Project

1. A financial model of the FINISH programme
2. Identification of benefits and constraints of all stakeholders in the FINISH programme.
3. Comparison of FINISH programme model with traditional loan product in terms of efficiency and equity.
4. Perceptions of willingness to pay.
5. Recommendations for FINISH programme and for Kameshwaram on sustainable financial models that promote investment in toilets.