



“FINANCING WATER IN RURAL SUBSECTOR USING MICROFINANCE IN KENYA”

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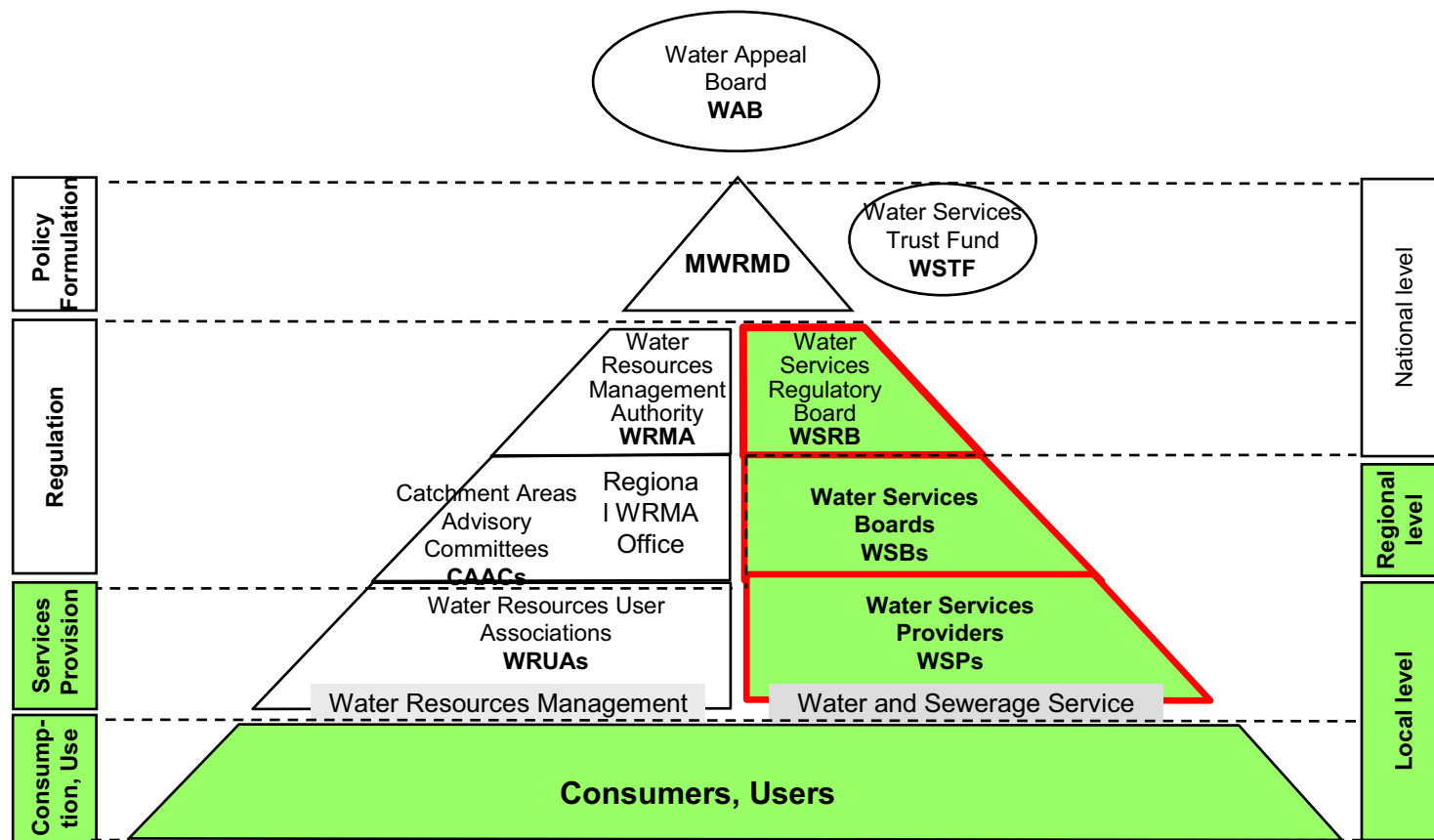
Dakar- Senegal

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Presentation Outline

- ❖ **Institutional Framework of Water Reforms in Kenya;**
- ❖ **Rural Water Sub-Sector**
- ❖ **OBA project**
 - **Progress**
 - **Obstacles**
 - **Scale up**

Institutional Framework of Water Reforms in Kenya



Challenges of Financing In Rural Sub-sector

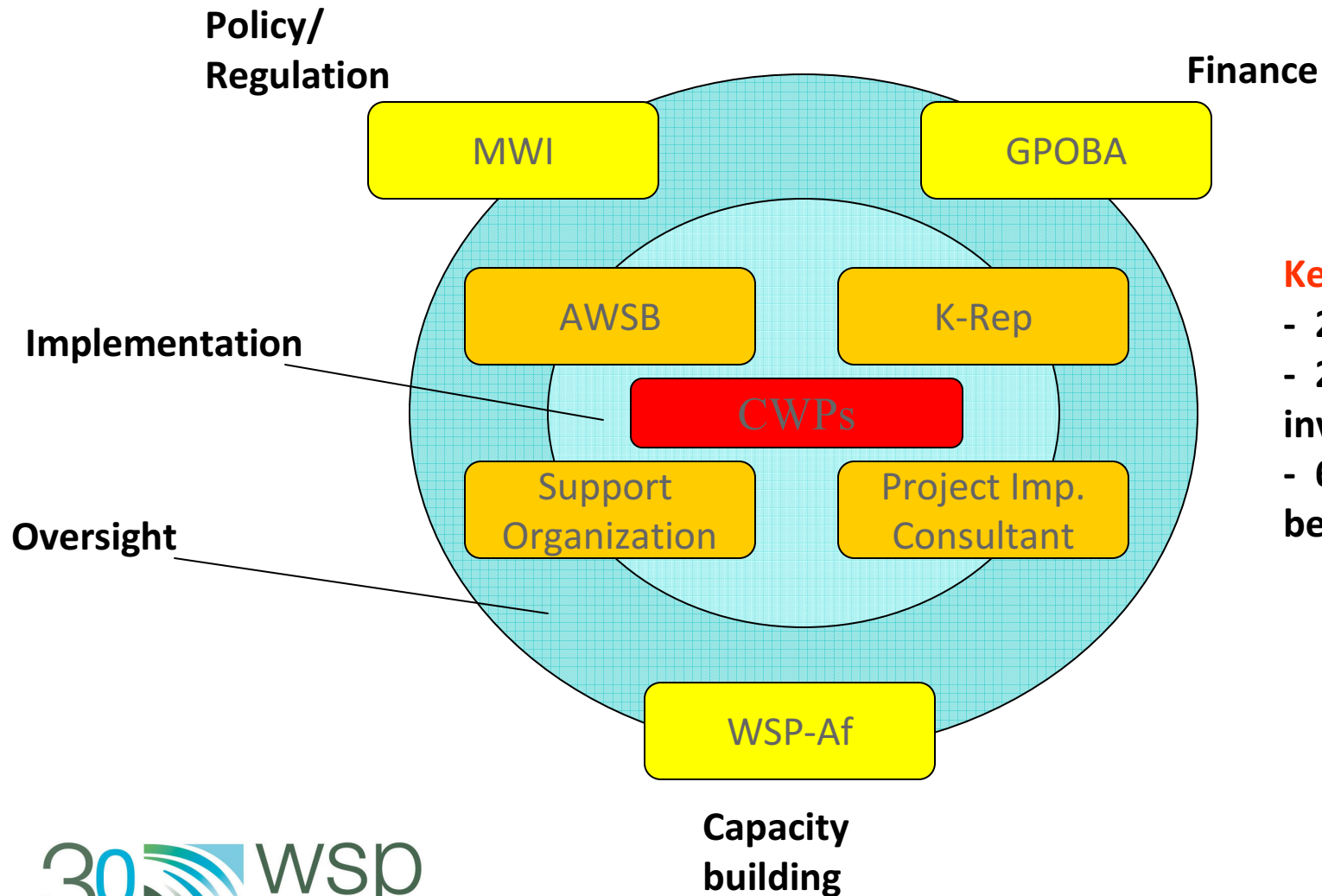
- ❖ Limited Government Resources;
- ❖ High costs of distribution cost;
- ❖ Questions of ability/willingness to pay;
- ❖ Lack of interest from investors etc
- ❖ Alternative water sources – of lower quality
- ❖ Trade offs- between tariff and quality.

MICROFINANCE PROJECT-OBA

❖ OBJECTIVES:

- Affordability of domestic water supply by providing market based finance and subsidy.
- Improve coverage and service level outputs

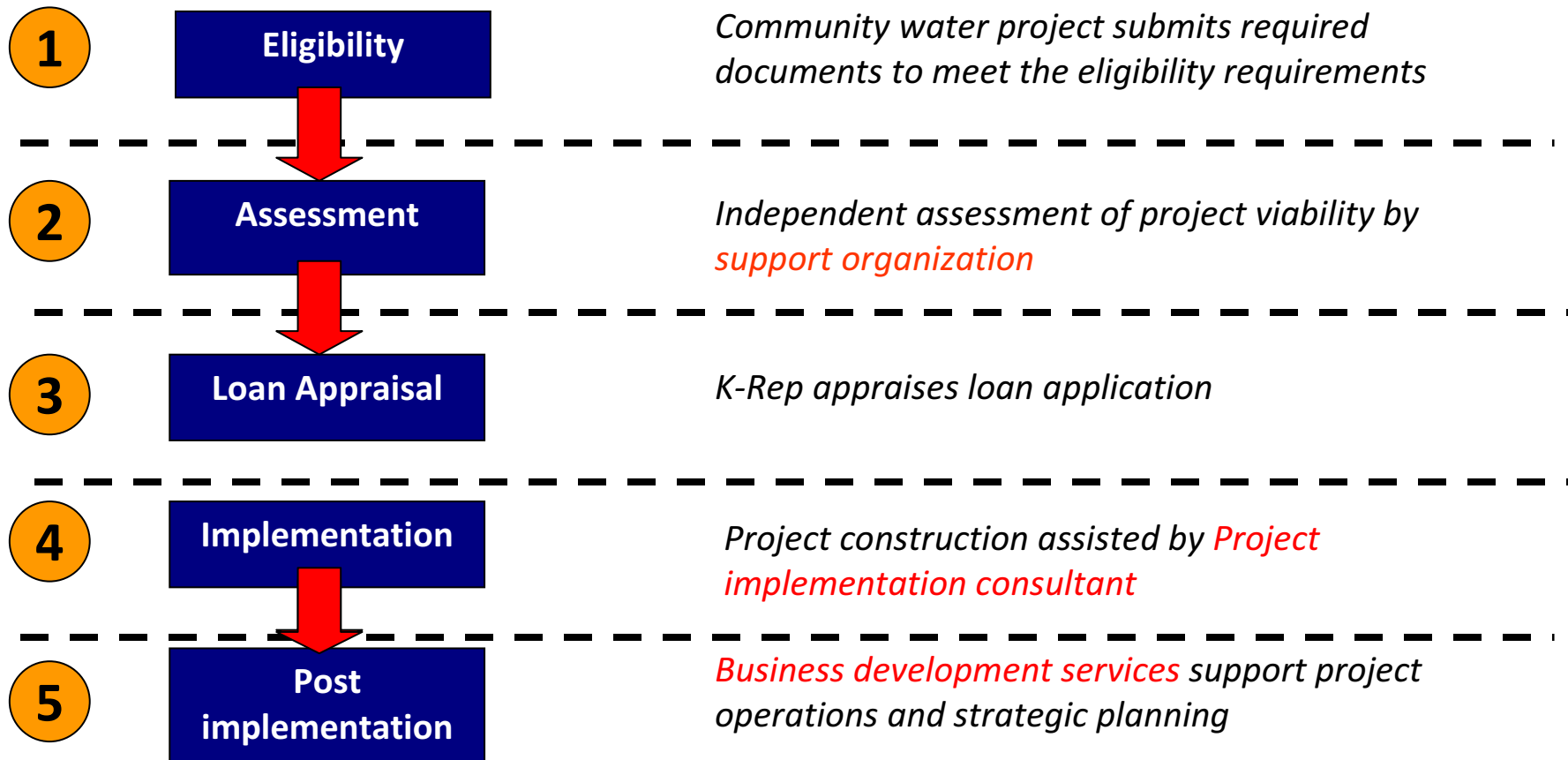
Microfinance Pilot Project - Institutional Arrangements



- Key Features:**
- 21 projects
 - 2m USD total investment
 - 60 000 beneficiaries

Microfinance Pilot Project - Project Cycle

PROJECT STAGES



Microfinance Pilot Project – Financial Structure

Organization	During construction	After 'Outputs' are achieved
Community Contribution (equity)	20%	20%
K-Rep Bank (loan)	80%	40%
GPOBA (subsidy)	0%	40%
Total	100%	100%



Typical project:

Karweti Community Water Society

- ❖ Population ~ 10 000 residents – 2500 HHs
- ❖ Total water connections – 600
- ❖ Pumped scheme – 2 days per week/ 12 hrs per day

Investment project → 70 000 USD

- ❖ Metering (zone + HH) and new borehole
- ❖ Added 50 new connections immediately (will grow by 300 in first years)
- ❖ 24hours /7 days a week service

Progress

❖ 13 loan applications submitted to K-Rep Bank

- 4 with final stage 'blockages' – water resource conflict, asset ownership questions
- 4 decided not to proceed – grant competition, insufficient water resource

❖ 8 loans applications approved and disbursing

- Total approved value – 53m Kshs
- Total disbursed value – 27m Kshs

❖ Cost savings – negotiated discounts

- Davis and Shirtliff – 35%
- Kentainers – 58%
- Pipe suppliers ~ 40%
- **Overall projects savings ~ 20% (compared to BoQs 2 years old!!!)**

Business Opportunity - Kenya

- ❖ **Large potential market** – Community water projects > 3000
- ❖ **Limited supply of finance** - subsidy finance is unpredictable
 - delays of up to 5 years
 - Focused on new investments
- ❖ **Liquidity in banking sector** – competition in MF sector forcing alternative investments (e.g. schools finance, women's finance, etc)
- ❖ **Regulatory space** – Sector reform created legitimate legal entities with cost recovery tariffs

Business Opportunity - Kenya

- ❖ **Large potential market** – Community water projects > 3000

Customers

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Competitors

- ❖ **Liquidity in banking sector** – competition in MF sector forcing alternative investments (e.g. schools finance, women's finance, etc)

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Context

Scaling Up

❖ Expand project to be NATIONAL in scope

- All WSBs eligible
- Total of 60 community projects considered
- First come-first served basis

❖ WSB role

- Promotion and mobilization of communities to apply
- Assistance in preparing expressions of interest/ eligibility → access **project development grants**
- Ensuring that SPA/ service area is viable (giving letter of comfort and then final SPA)

Scaling Up

- ❖ **Project Development Facility – Water Services Trust Fund**
- ❖ PPIAF funded (through new Sub National TA program) – 523 000 USD
- ❖ Partial demand side matching grant to eligible communities
 - Eligibility defined in terms of preparation and anticipated creditworthiness
- ❖ Standardized TORs to contract consultant
- ❖ Performance based payment for successful loan applications

Scaling Up

❖ **Project Development Facility – Water Services Trust Fund**

❖ National Marketing Campaign

- Media (TV, newspapers)
- K-Rep Branch offices
- WSB district offices

❖ Application process

- Eligibility - K-Rep Bank
 - Project concept
 - WSB 'no objection'
 - Co-finance of 20% of project development cost
- Award – Water Services Trust Fund (through private fund manager) – on recommendation of K-Rep Bank and WSB

Asante

