

Financing rural water: Communities and commercial banks in Kenya

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- ❖ **Background**
- ❖ **Progress**
- ❖ **Obstacles**
- ❖ **Consolidation**

Business Opportunity - Kenya

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

Customers

❖ **Limited supply of finance** - subsidy finance is unpredictable

- delays of up to 5 years
- Focused on new investments

Competitors

❖ **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

Context

Pilot Project to overcome market constraints

❖ **Affordability** – High interest costs and short loan tenors –
Project development – limited capacity to prepare
projects at community level

Customers

❖ **Market distortion of subsidies** - subsidy finance is
generally input driven

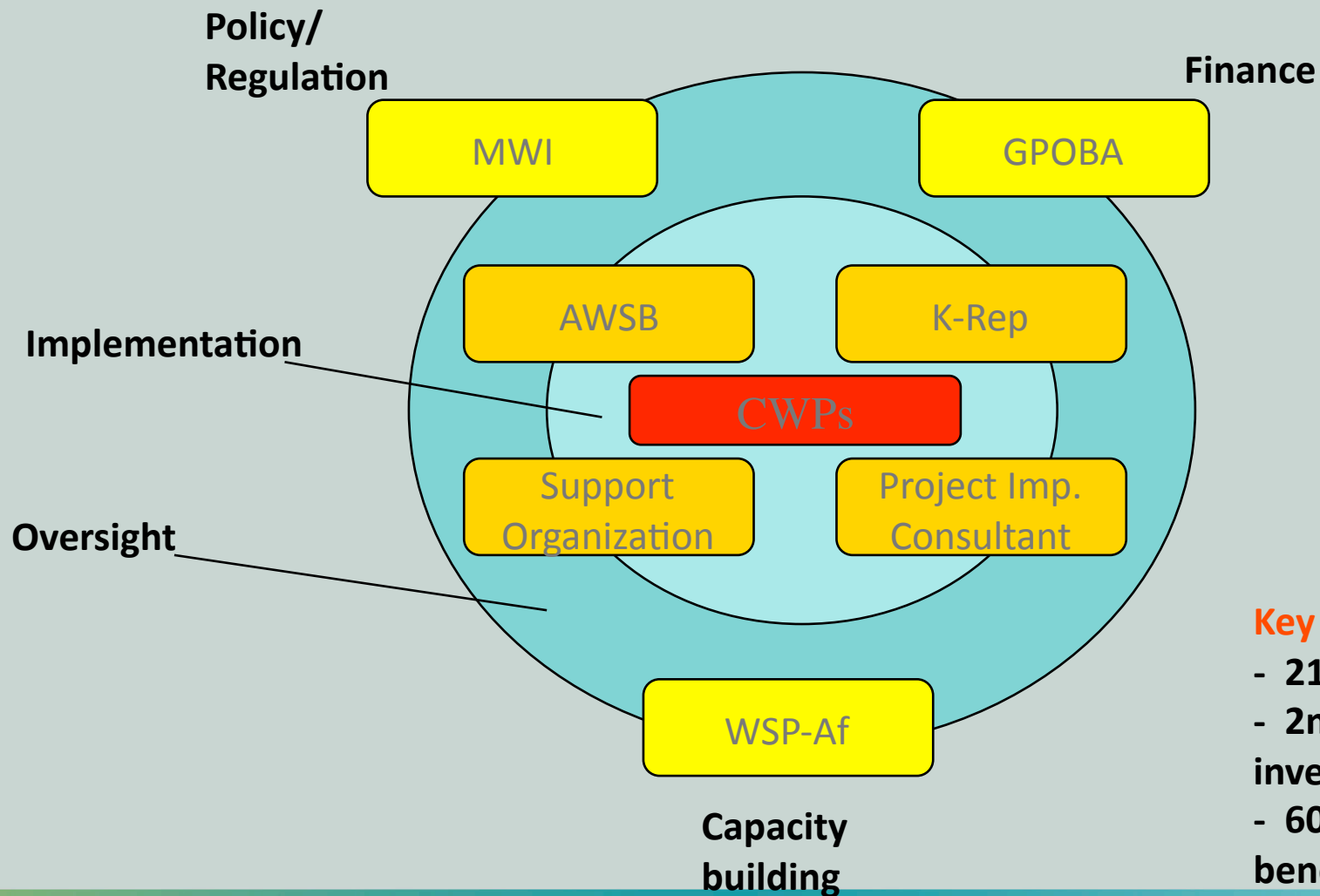
Competitors

❖ **Capacity in banking sector** – limited exposure to cash-flow
based ‘project finance’

❖ **Regulatory operationalization** – reform process had not
yet created regulatory instruments (e.g. standard
contracts)

Context

Microfinance Pilot Project - Institutional Arrangements

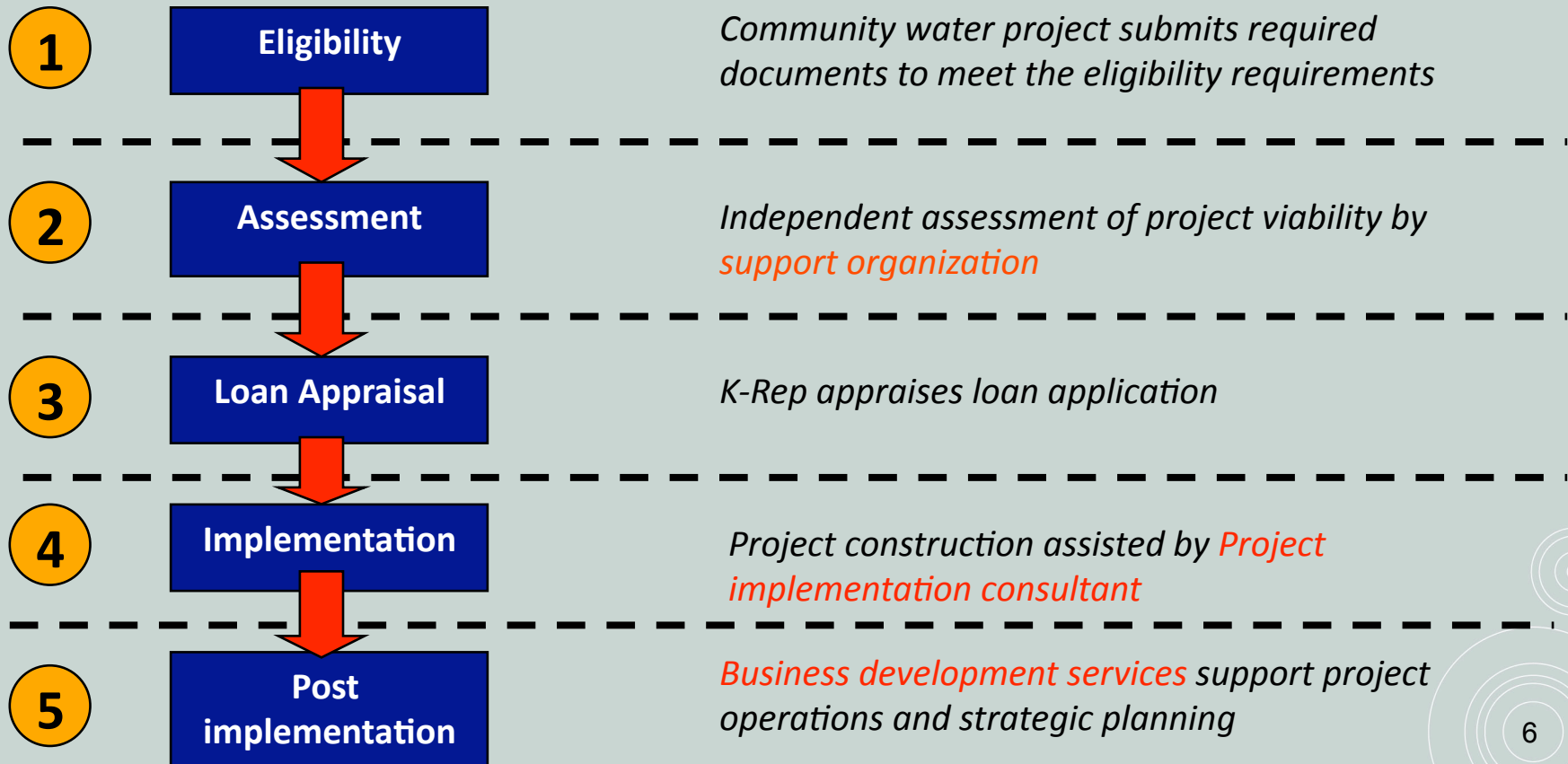


Key Features:

- 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: Karaweti 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

❖ **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
- 12 approved – widening scope of project

❖ **8 loans applications approved and disbursing**

- Total approved value – 72m Kshs
- Total disbursed value – 55m Kshs

❖ **Cost savings – negotiated discounts**

- Pipe/pump/tank suppliers – negotiated up to 50% discount
- **Overall projects savings ~ 20% (compared to BoQs 2 years old!!!)**

❖ Legal issues

Environment

- Clear jurisdiction specification
- Customization to specific system needs

- Legal registration issues – Public trust

❖ Technical Design issues – quality/ timeliness

Project
Development

❖ Slow and difficult process for environmental approval

❖ Clarity in product being offered to communities

Product
Development

❖ Collateral restrictions limit the amount of financing possible – especially for new projects

❖ Project implementation consultant capacity

- ❖ **EU water facility funding to increase scale and scope of pilot**
 - National scope with total projects targeted of about 60
- ❖ **Create a project development facility to fund**
 - Technical design
 - Business plan
 - NEMA approvals
 - Loan application submission
- ❖ **USAID Development Credit Authority partial credit guarantee**
 - Reduce collateral requirements at K-Rep Bank

- ❖ **Project Development Facility**
- ❖ 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
- ❖ Application process
 - Screening - K-Rep Bank
 - Award – Water Services Trust Fund (through private fund manager)

- ❖ **Partial Credit Guarantee**
- ❖ Development Credit Authority – USAID 5m USD facility
- ❖ Limited collateral in new projects especially
 - Cash collateral
 - Personal guarantees
 - Excessive phasing of projects
- ❖ Will allow K-Rep to widen lending in the water sector away from the narrow community piped sub-sector

- ❖ **Post-implementation Business Development Services**
- ❖ GIS mapping of piped water system and (non)customers
- ❖ Connection to billing software
- ❖ Outsourced management of bill production and system diagnostics (financial and technical)

Thank You