

Alternatives to Public Sector Financing Commercial Finance for Water and Sanitation

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WASH Forum, Brisbane, Australia
May 16, 2011

Story line

- 1. Global trends – from ‘private sector’ in the 1990s to a plea for more ‘aid’ resources in 2000s...**
2. But, there is also some new thinking emerging...
3. A few experiences show the possibilities for utilities and small providers...
4. Microfinance – high potential – but, not enough evidence at scale!
5. Measures needed to achieve scale and sustainability in the use of commercial finance

1990s... the Hope...

- ❑ Large infrastructure investment needs
- ❑ Limited – or even declining public resources
- ❑ Limited share of international aid

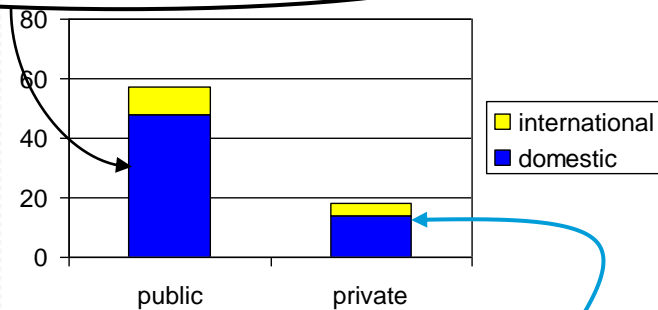
- ❑ Worldwide interest from private sector in cross border infrastructure investments

- ❑ *So... the private sector will “fill the gaps”...*

The Realities...

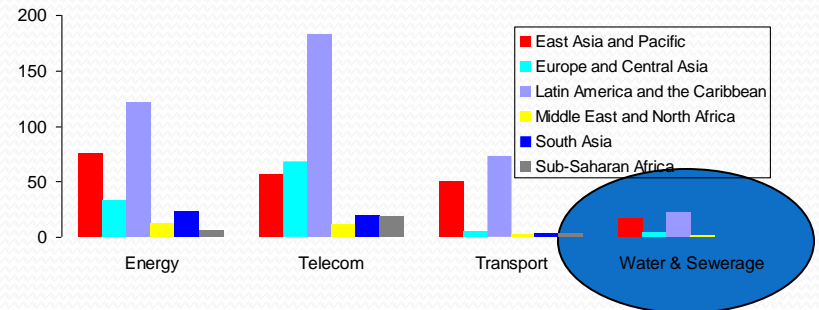
Financing flows into water in 2000

Public is dominant ~85%



Domestic is dominant ~ 85%

International) private investment in infrastructure in 1990-2002 – Very low in WSS



In the new millennium – 2000s: A Plea for Aid Resources

□ Camdessus Panel Report

- *“There is widespread agreement that the flow of funds for water infrastructure has to roughly double...”*

□ Sachs Report - UN Millennium Project

- *“The report says the MDGs can be achieved if total annual development assistance is doubled to \$135 billion—or 0.44 percent of donors’ GNP—in 2006, and rises to 0.54 percent of donors’ GNP by 2015. “* (The Economist)*”*

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There is some new thinking, however...

- ❑ Improving priority and effectiveness in the use of public (and aid) resources in the water and sanitation sector
- ❑ **Leveraging local resources** – ‘non-public’ linked to water and sanitation service delivery

Possibilities of leveraging local resources

- ❑ What is meant by 'non-public local resources'?
- ❑ Essentially refers to '**service**' **linked resources** as opposed to budget or aid linked resources
 - ✓ From maximizing '**internal generation**' of resources by 'autonomous water service providers' through user fees and tariffs and improved efficiency and expenditure management
 - ✓ From **domestic credit market** for sub-national and for small service providers (private and community)

Potential Market Segments for Domestic Market Borrowing

Demand	Supply by Potential Financiers
Urban Utilities	Banks, Domestic Financial Institutions
Small service providers	
Households	Microfinance Institutions

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Experience from developing countries

Urban Utilities	India: Municipal Bonds Sub-Saharan Africa: Preparatory work supported by WSP-Africa
Small service providers	Kenya: Community-managed projects by K-Rep Bank
Households	Vietnam: Revolving Fund and VBSP Bangladesh: Grameen and BRAC, Peru: Sanitation Marketing Project India: Gramalaya, FINISH Project

Municipal Bonds in India

- ❑ Between 1998 and 2005 – Over **10 city governments** issued municipal bonds amounting to Rs. 9.5 billion (about USD 250million).
- ❑ This averaged about **14% of city's total annual capital expenditure** – Ahmedabad it was 40%
- ❑ Most of these were **General Obligation and structured bonds** backed by general revenues with escrow account arrangements
- ❑ **Pooled finance for water and sanitation** for smaller municipalities by TNUDF and KUIDFC
- ❑ Possible **crowding out** by the Government of India's flagship program JNNURM (3bn USD/year) as no municipal bond issues since 2005.

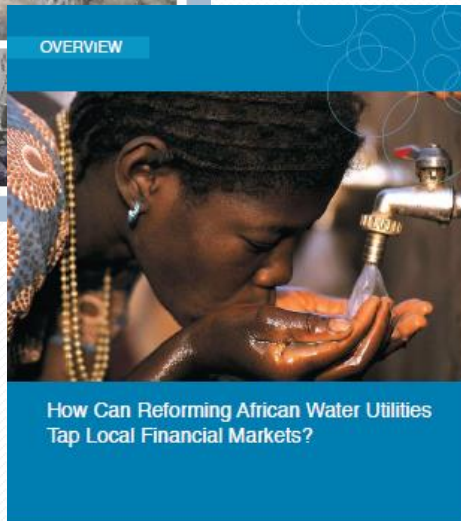
Exploring Market Finance in Sub-Saharan Africa



Mobilizing Market Finance for Water Utilities in Africa

Practitioners' Workshop, Pretoria, South Africa, August 7-9, 2006

This report summarizes outputs from a Practitioners' Workshop on Mobilizing Market Resources from the Domestic Financial Markets for Water Utilities in Africa held in Pretoria, South Africa, in August 2006. The workshop addressed the challenges of accelerating market financing to improve delivery of services in the continent, and ensuring that these investments result in sustainable delivery of services.



- ❑ Considerable work over the past 5 years **to support market finance for reforming urban water utilities**
- ❑ Workshop in Pretoria, 2006
- ❑ **Credit Assessment** of water utilities and workshop in Dakar, 2008
- ❑ Support to NWSC, Uganda 2009-10
- ❑ Ongoing credit rating work in Kenya

Project-based Finance for Small Water Providers in Kenya



Public distribution point. Water purchase is free. Water purchase points are pulled by the retailer price. Meter in times of drought at public points the projects cover costs.



FINANCING INVESTMENT IN WATER
Is your community or company a water service provider?
K-Rep Bank can help you realise your dreams



K-Rep Bank
A different kind of bank. The bank for you.

- ❑ Initiated in 2007 with support from WSP Africa GPOBA PPIAF and EU Water Facility
- ❑ 40% subsidy, **40% loan and 20% equity by community**
- ❑ **12 projects financed so far, loans worth USD 1 million**, 4600 new connections and 67,000 beneficiaries
- ❑ **Scale up planned for 50 projects** with a project development facility funded by PPIAF
- ❑ Guarantee facility by USAID

Project-based Finance for Small Water Providers in Kenya - 2

MAJI ni maisha

wsp
water and sanitation program

The Water and Sanitation Program is an international partnership for improving water and sanitation sector policies, practices, and capacities to serve poor people

APRIL 2007

Business Development Services for Community-managed Small Water Enterprises

From Post-Construction Support to Business Development Services in Kenya

Meera Mehta, Kameel Virjee, Barbara Evans and King'ori Wathobio

FINANCING is your community K-Rep Bank

A different

Key Lessons:

- ❑ Need for **in-house capacity for project appraisal of small WSS projects with the lender** – a skill generally lacking with most FIs and MFIs
- ❑ Need for a **special WSS product and its marketing**: K-Rep Bank has introduced a special product for water
- ❑ Need for **business development services** to Small Water Providers to sustain their operational viability

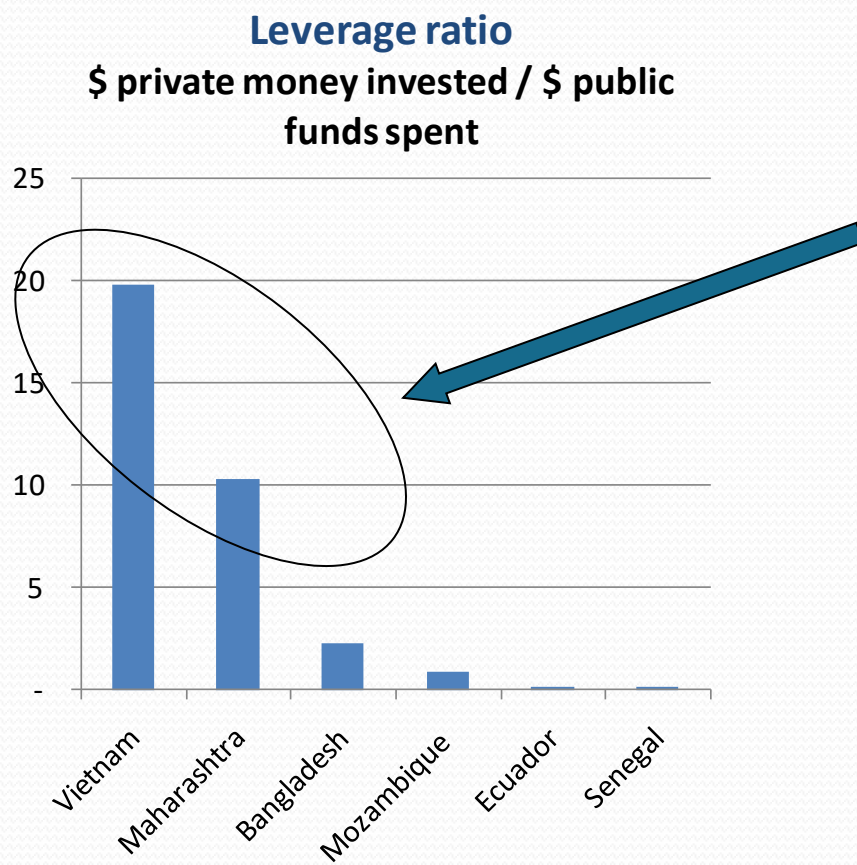
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Market Segments for Microfinance

WSS SEGMENT	Retail Loans	SME Type Loans	
Rural Water	Retail Loans for Households		SME type loans for small water services providers
Urban Water		Urban Services upgrading and shared facilities	
Urban Sanitation			
Rural Sanitation			

High Leverage with Microfinance - 1



A recent WSP study of financing household level sanitation showed the high leverage ratios (10 to 20) when access to microfinance was made possible in Vietnam and Maharashtra, India

High Leverage with Microfinance - 2

- “Providing access to credit seems to be a very **effective way to promote household sanitation**
 - ✓ In **Maharashtra**, performance of districts that have organised access to credit has been greatly enhanced
 - ✓ **Vietnam’s** Revolving Fund leveraged substantial private investment and has proved a highly sustainable scheme “
- “Credit schemes can be particularly effective at **leveraging** substantial household investment and are best in terms of **sustainability and scalability** “

Main Drivers for Using Microfinance

❑ Large WSS Programs

- ✓ Vietnam – a) Rural Environmental Sanitation project funded by VBSP and b) sanitation revolving fund with WU as part of World Bank project
- ✓ Bangladesh – BRAC WASH program by Government of Netherlands
- ✓ India – Total Sanitation Campaign in Maharashtra, use of credit through local coops, SHGs and banks – but not promoted directly by the TSC
- ✓ Peru – specific plans for market-based finance products - scale small now but potential to grow

❑ Business lines in MF

- ✓ Bangladesh various MFIs
- ✓ WPI's work with Basix and Guardian
- ✓ K-Rep Bank special WSS product for small water service providers

Country, MFI/ banks	Type of Loans	Average Loan Size*	Total No. Borrowers (/annum)	Total loans	Loans/annum*
Retail Loans					
<i>Bangladesh</i>					
Grameen Bank	Water and sanitation	47	921,000 (61,000)	35,000,000	2,900,000
BRAC	Water and sanitation	71	325,000 (12,900)	5,800,000	275,000
<i>India</i>					
SHGs and Dist Coop	Sanitation (linked to GOI's program)	30	640,000 (128,000)	18,000,000	8,800,000
SHGs/commercial banks	Sanitation (with Gramalaya support)	47	9,000	425,000	425,000
Basix	Water and sanitation (with WPI support)	130	1,000 (500)	130,000 (till 2007)	65,000
SEWA Bank	Water and sanitation linked housing repairs	562	7,300 (1,500)	4,100,000	820,000
<i>Indonesia</i>					
BRI	For connections to local utilities, with USAID support	105	2,200 (1,100)	230,000	115,000
<i>Vietnam</i>					
Vietnam Bank for Social Policy	Water and sanitation	244	450,000 (150,000)	110,000,000	36,000,000
Vietnam Women's Union	Sanitation (revolving fund under World Bank project)	150	14,000 (4,700)	2,100,000	800,000
SME Type Loans			Total projects/ HHs	Total Loans	
<i>Kenya</i>					
K-Rep Bank	For small water projects in rural and peri-urban areas, with WSP support and GPOBA subsidy	39,000 per project (30,000 to 120,000)	41 projects About 20,000 households	1,600,000	
<i>Senegal</i>					
CMS	For water projects to meet 25% contribution, with AFD support	6,250 per project	32 projects	200,000	
<i>Cote d'Ivoire</i>					
COOPEC	For water connections to utility with CREPA support	2,000 per local committee	1,300 households and 25 committees	53,000	
<i>Togo</i>					
Various MFIs	For small household entrepreneurs	1,500 per entrepreneur	1,200 entrepreneurs	1,800,000	

Microfinance for Water and Sanitation

- ❑ Many examples
- ❑ But, **only a few examples at scale**
- ❑ However, all have **not sustained over time**
- ❑ ...

Mehta Meera (2008), "Assessing Microfinance for Water and Sanitation: Exploring opportunities for sustainable scaling up", Study done for the Bill and Melinda Gates Foundation.

A few examples at Scale

□ Bangladesh:

- ✓ At country level 4 MFIs together had reached **9% of total rural households in Bangladesh** for WSS
- ✓ Grameen Bank – by 1998, **30% of its members** had taken a WSS loan, only **1.6% of cumulative loan disbursement** due to the small size of WSS loans

□ Vietnam Bank for Social Policy:

- ✓ In 2007, total WSS loans were about **2% of its gross assets**
- ✓ Cumulative borrowers were **10% of total active borrowers** in 2007

□ SEWA Bank, India

- ✓ An estimated **12 % of borrowers and 15 % of total loans** in Ahmedabad for WSS purposes

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Constraints for Scaling up Utility Finance

- ❑ **Inadequate understanding** of WSS sector policies / institutions and potential market demand for loans by banks/FIs
- ❑ **Lack of mutual awareness** – of commercial finance by utilities and of WSS by banks, FIs
- ❑ **Crowding out** by donors, national programs
- ❑ **Inadequate funding for smart subsidies** for banks/FIs to meet affordability concerns, or viability gap funding
- ❑ **Lack of bankable opportunities** – support needed for developing projects/ applications

Constraints for Scaling up Use of Microfinance

- ❑ Inadequate understanding of WSS sector policies / institutions and potential market demand for loans by MFIs
- ❑ **Lack of interest and capacity** by growing MFIs when market for regular MF products is still very large
- ❑ **Lack of special products for WSS** that have been field tested
- ❑ Lack of mutual awareness – of MF by WSS practitioners and of WSS by MFI
- ❑ MFIs **lack access to medium-term funds** needed for WSS and find it difficult to access or blend with subsidies to **meet affordability concerns**

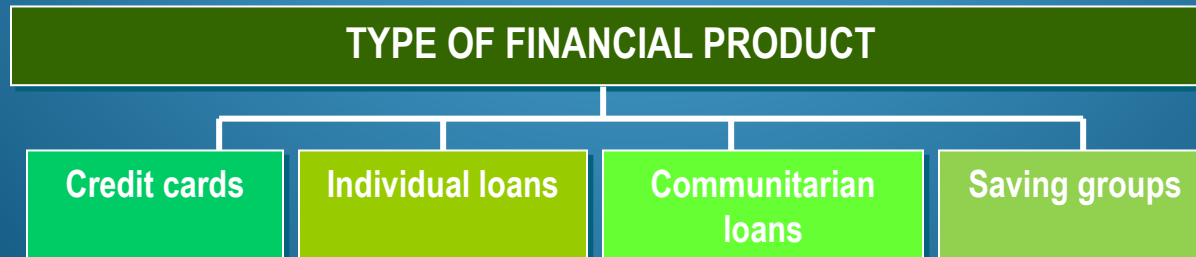
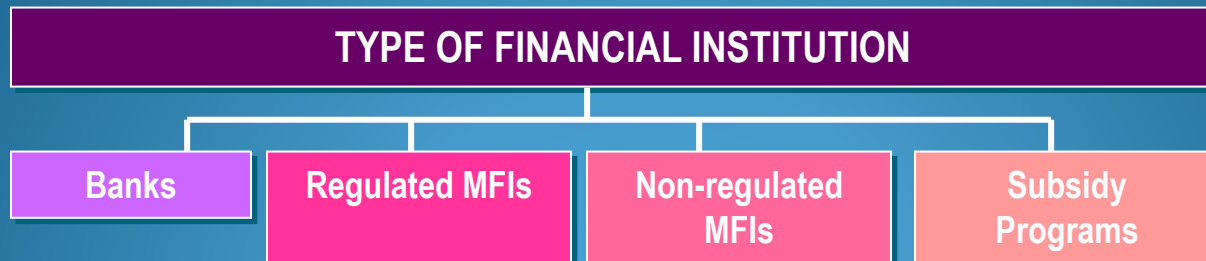
Core Activities in Scaling Up

- ❑ **WSS industry assessment and policy support** including demand, market size, tenure issues
- ❑ **WSS product development** for: a) retail loans--possibly in the line of housing improvement products, and b) for SME funding on the line of project finance
- ❑ **Facilitation by a credible promoter** to facilitate partnerships between WSS institutions and MFIs/banks/FIs
- ❑ **Credit rating /assessment** of utilities / small providers
- ❑ **Project development support** to create a project pipeline particularly for project structures
- ❑ **Capital funding** to provide long-term funds for MFIs, and to meet subsidy needs



Thank You

Market-based Financing in Peru



What is needed for leveraging local resources?

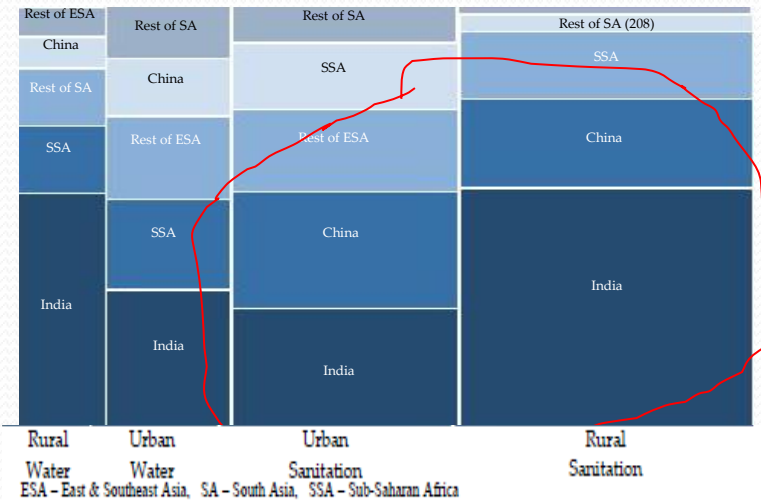
- ❑ **Revenue management strategies**

Cost recovery policies, improved cost recovery and expenditure management by autonomous water service providers

- ❑ **Facilitating domestic market borrowing**

By development of bankable opportunities and enabling policy of 'financing space'

Microfinance Opportunities - Demand



- **Potential demand for sanitation** outstrips that for water supply
- Demand for **rural sanitation** is likely to be larger
- Demand for microfinance for sanitation over 2004-2015 is potentially very large - **USD 8 billion in Asia**
- Within sanitation **share of higher level facilities (sewerage connection) is high in SE Asia**, especially in urban areas
- For others –demand for microfinance when a **toilet-cum-bathroom** is preferred