

## Micro finance for water and sanitation in West Africa

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*This paper focus on the challenge of financing the expansion and maintenance of water and sanitation services in poor rural areas and small towns. One possible solution lies in increasing flows of local finance through innovative financing mechanisms. These mechanisms must not only be available, but also be accessible to those who most need them. There is therefore a need to identify what capacities and support are required at local level to create the optimal conditions to promote and implement such mechanisms. The paper is based on a study undertaken by CREPA - Centre Régional pour l'Eau Potable et l'Assainissement à faible coût - in eight countries in West Africa which evaluated the impact and documented a number of experiences where micro finance has been used for water and sanitation projects.*

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### Introduction

In the water and sanitation sector governments, development agencies and NGOs in different parts of the world are mainly struggling with two issues:

- The need to expand service coverage, particularly for the poor in rural and peri-urban areas;
- The need to recover operation, maintenance and replacement costs of existing systems, preventing the failures seen in the past.

According to the UN's Assessment Report (UNDP, 2003), current sources of financing from donors and governments are insufficient to maintain and expand coverage, given the large increases in service provision that are required as a result of population growth, high rates of urbanisation and failure to maintain existing infrastructure. Funding limitations and inadequate cost-recovery rank therefore as the top future constraints to development in every region in the world. One possible solution is to increase flows of local finance through innovative financing mechanisms.

The challenge is not only to enhance mechanisms that make the money available, but also to make sure that those who most need these mechanisms have access to them. One of the conclusions of the Camdessus Report (Winpenny 2003) is that "much investment in water is made, and much more is needed, at the grass-roots level, where the involvement of individual users, small producers, community organizations and NGOs is essential. These parties all need to have better access to finance."

Micro-finance such as credit schemes that provide small loans, grants based on revolving funds and social and development funds are often available for local stakeholders, but key questions remain to be answered:

- What are the existing experiences with these mechanisms in the water and sanitation sector?
- To what extent are these mechanisms effective in increasing and maintaining the drinking water coverage for the poorest? And under which conditions?

Against this background, CREPA (Centre Régional pour l'Eau Potable et l'Assainissement à faible coût), with its National Centres in eight countries (Benin, Congo, Cote d'Ivoire, Guinea, Mali, Senegal, Togo and Burkina Faso) documented a number of cases in which micro finance has been used for water and sanitation projects and evaluated the impacts. The study focused on existing mechanisms in each of the eight countries and analysed the following aspects:

- The institutional, technical and socio economical aspects of micro finance;
- Successes and threats of its use in the water and sanitation sector;
- Impacts of the micro finance on the beneficiaries;

Special attention has been paid to mechanisms that address the needs of the poorest in rural and peri-urban areas, and specifically those of women (CREPA, 2003).

### Micro finance in West Africa: some definitions

Micro finance is the source of funds mobilised or saved for financing activities which are traditionally excluded from credit schemes run by banks, because their beneficiaries, nature and volume are not attractive or do not fit formal bank parameters. Micro finance also has, as target group, populations with low economical earnings and supports ac-

**Table 1. Micro finance in Mali: the Nyésigiso network case**

Types of Credit systems	Minimum Guarantee	Maximum amount in £*	Reimbursement expected within	Interest rate per year	Penalties
Ordinary Credit	30%	80 to 555	1 to 2 years	21%	4%
Credit and saving associative agency for entrepreneurs and traders	20%	28 000	1 year	12%	2%
Credit, saving and Education support project	Specific	No max	1 year	12,5%	4%
Credit and Education	5 to 20%	28 to 55	1 year	33%	5 to 15%

\*1£ = 900 CFA

**Table 2. Comparing characteristics of micro finance mechanisms for water and sanitation**

	Tontines	Village and cooperative savings account and credit	NGO projects
Structure	Traditional	Management entity with credit committee, general assembly, administrative board and control committee	Ministry in charge, general director, credit committee
Origin of capital	Money is collected when needed	Membership, subsidies, loans	Partner State and donors
Activities	Social projects: weddings, latrine construction, water connection	Social projects including water and sanitation but also trade	Small enterprises, basic urban services
Credit period	No credit, money distributed when needed	Short term	Short and long term

tivities often ignored in the economic statistics of developing countries. Loans provided have a lower interest rate and fewer guarantees are needed, but reimbursements are expected in the short term. An example of micro finance and its differences with ordinary credit through the loans of commercial banks is given in Table 1 (CREPA, 2003).

Micro finance provides resources for some productive sectors of the economy, but is still very rarely for water and sanitation related activities. Table 2 (CREPA, 2003) compares the three most common forms of micro finance for water and sanitation as identified by the CREPA network. They are described below:

#### **Traditional mechanisms called Tontines**

Tontines, named after Tonti, their Italian founder, is the eldest micro finance system which exists in the region. It consists of a group of people, generally from the same age range and with similar economic or multiple activities, who decide to pool their financial resources. The main aim is to reinforce social solidarity through financing activities with a common interest. The amount of money produced through pooling resources normally does not allow investments in economic activities. Tontines are used for financing social investments such as connections to a water supply or latrines, but also for weddings, for instance.

#### **Village and cooperative savings account and credit**

Village savings account and cooperatives that provide credit are decentralised financial instruments which for their modalities, organisation and operating mechanism fall under a regional law adopted by the Council of Ministries of West African Economical and Monetary Union (UEMOA). They have emerged in response to demands for financing from the members of the communities and cooperatives and in the last few years have become very popular in most of the countries of West Africa.

#### **NGO projects that support productive activities on a small and medium scale**

NGO supported credit schemes have been set up in order to fight poverty and to create employment through private sector development. The initial funds are generally provided by donors and the partner State and managed by NGOs. The political and social dimension of these funds allows them to have a larger coverage and scope than the other financing mechanisms. The financing and management aspects of the funds are agreed between the donors and the partner State.

## Common problems of existing micro finance for water and sanitation in West Africa

The most common problems with micro finance identified in the eight countries are the need for solid guarantees, the management capacity of the financing organisations and the lack of enforcement of the legal framework when these organisations do not fulfill their obligations.

Accessing credit means that, even in the informal sector, some sort of guarantee is needed. The poorest populations have very little to offer as a guarantee to the organisation who is providing the credit. This situation affects mainly women who do not own land or any other goods. Additionally, micro finance organisations have limited management capacities for conducting preparatory activities which involve the sensitisation of the target groups through training and information campaigns and for monitoring. Furthermore, when some organisations do not respect the legal framework, for instance by providing credit to family members only, there is no enforcement or control from higher up for which those who are disadvantaged can apply. Awareness raising, monitoring and follow-up are very important (Box 1) for ensuring the sustainability of micro finance at local level.

## Opportunities for micro finance for water and sanitation

In most of the countries of the study, there is already an institutional and legal framework for micro finance. Micro finance organisations have also capacities and experience in managing credit. There is however the need to inform and advocate for solutions adapted to the water and sanitation sector.

The target group of micro finance have basic values on which micro finance institutions can build upon. Among those values are: solidarity, social cohesion, community self-help groups, high mobilisation around social projects, capacity to manage conflicts and willingness to pay for clean water and excreta infrastructures. CREPA and the LAGEMYAN association used an interactive process and tools such as SARAR and accounting books which allowed reinforcing the potential of the association to manage micro finance for water and sanitation. Other activities included: organising the work and setting a management committee for managing the credit system, elaborating marketing strategies and strengthening the capacity of the association in facilitating participatory processes. A system, which makes it possible for poor people to repay the loan in line with their income pattern, is also important. Box 2 presents a system used with poor families relying on daily income from occasional labour or small businesses.

To address these common problems, a partnership was created between the micro credit association and a support organisation (which can be a resource centre, local or international NGOs), for financial and technical support.

### Box 1. Financing urban sanitation in Wogodogo, Burkina Faso

In Wogodogo, a low-income neighbourhood in the capital Ouagadougou, a saving-credit initiative has been set up for household management of domestic waste. The credit was provided by LAGEMYAM which is a women's association working for improved sanitation in the neighbourhood. LAGEMYAM agreed in financing the initial 70% needed to start up the credit system. The interest rate was 5% and covered mainly administrative costs. Additionally, LAGEMYAM thought that because the population was poor it would be difficult to ask for a guarantee and the credit was provided based on moral values and the fact that the borrower should be known by the association before having access to the credit.

In a first phase, solid waste collection was organised and 28 households have benefited from the initiative and constructed 35 excreta and waste water infrastructures such as VIP latrines, drainage and soak pits for domestic waste treatment. But only five households reimbursed the credit. LAGEMYAM and CREPA had assumed that part of the revenue from the solid waste collection would finance the credit system for the excreta infrastructure. But in reality this did not happen as the population was used to get the excreta infrastructure for free and any revenues from solid waste collection were invested primarily in basic needs such as getting water and food rather than paying back the loan.

During the second phase, 18 households constructed 20 sanitation facilities. The number of reimbursements improved slightly, because project animators from CREPA and the NGO EAST undertook an awareness campaign. Participatory approaches, with the objective to help the population develop self confidence and commitment took place in order to improve their attitude vis à vis the credit system. The beneficiaries then realised that if they didn't pay back, the system could not continue to run and the dynamic of excreta infrastructure building would stop in the neighbourhood.

The system runs well now and the rate of reimbursement is more than 80%.

Development organisations are not experts in credit provision, but they can mobilise start up funds for water and sanitation credit schemes, bring in technical support for feasibility studies, train staff in participatory mechanisms and help monitoring and improve processes and results. For instance, the support provided by CREPA linked water and sanitation projects with productive activities to decrease the risk of non reimbursement of the credit. Once loan recovery is up to standard, the interest rate of the loans can also be used to pay for the services of the support structure or technical services provided by other organisations.

### Lessons learned

The following lessons were learned from the study and related investigations (Terry and Calaguas, 2003; Mehta, 2003 and Fonseca, 2003):

- Micro finance mechanisms exist that are specifically suitable for use by local stakeholders. They can provide

### Box 2. Community financing for water connections in the Ivory Coast

To allow households to be connected to water supplied services in the Ivory Coast, CREPA Côte d'Ivoire has developed a strategy in order to make households connected and still able to pay the water bills. The first step consisted of CREPA CI borrowing the money required for the connection fees: 20.000 CFA (around US\$36). During a second step CREPA CI helped the households to get the money required to pay the loan reimbursements as well as the water bill.

A fund was created to continue the support to the connection fees and a household committee was set up. To reimburse the funds, a box was set in the households in which 100 CFA had to be put everyday. Every week, the household committee made sure that in each household connected under the project, the money was inside the box. At the end of the month, the household connected paid the bill (most of the times less than 2000 CFA). The left over money was used to reimburse the credit contracted for the connection. Every month the process is repeated till the 20.000 CFA are paid back.

an approach for increasing and sustaining water supply and sanitation coverage to the poorest populations;

- There are specific conditions, incentives and regulatory environments that allow such mechanisms to flourish. Informed national policy on the incentives and regulatory environment is needed to encourage and support increased flows of local finance;
- The development of capacity in local government is universally acknowledged as being critical to any form of decentralisation. This is equally true for the capacity to support grass-roots financing initiatives. Lack of institutional and administrative management capacity at district and regional levels to properly manage the financial flows into the sector is a critical bottle-neck in the road to achieving the MDGs;
- Other local stakeholders such as resource centres, local training institutes and NGOs play a critical role in influencing, adapting and use these mechanisms to their own environment;
- Identifying, documenting, disseminating tools and approaches and increasing the rate at which local finance mechanisms are adopted can lead to reduced poverty and contribute to the achievement of the Millennium Development Goals in those areas where increased coverage is more difficult to reach.

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