

IMPACT STORIES



PPIAF Facilitates Micro-Financing for Peri-Urban Water Providers in Kenya

In 2005 PPIAF financed a study to better understand the challenges faced by Kenyan community-based organizations (CBOs) as they tried to secure market-based financing for small water operations in peri-urban areas. The study investigated ways of combining capacity building, output-based donor subsidies, and private sector financing to help CBOs expand and improve their water delivery operations. In collaboration with the Water and Sanitation Program (WSP) and the Global Partnership on Output-Based Aid (GPOBA), the study helped facilitate market-based infrastructure finance for 21 CBO water providers in rural and peri-urban areas of Kenya. In order to build on the success of this first grant, PPIAF approved a second one in 2008 to help the Kenyan government establish a Project Development Facility to help a much larger group of CBOs prepare capital development plans and apply for investment loans from local micro-finance institutions led by K-Rep Bank.

Access to water supply remains at low levels in rural Kenya, and efforts to increase access to piped water have been slow, increasing only from 9% to 10% of rural households over the past eight years. Small-scale providers, previously seen as temporary sources of unsafe and expensive water, are now increasingly seen as a practical way of supplying infrastructure services to low-income households and dispersed populations in rural and peri-urban areas throughout Africa. In Kenya, helped by the 2002 Water Sector Act that introduced regulatory and tariff reforms, it is estimated that CBOs run about 30% of all rural water supply schemes in the country and serve at least 60% of Nairobi's households. However, small service providers have traditionally been constrained by low levels of business expertise and poor access to finance.

PPIAF SUPPORT

In 2005 the Public-Private Infrastructure Advisory Facility (PPIAF) provided a \$72,000 technical assistance grant to facilitate market-based lending to small water service providers on a project finance basis, backed only by project revenues. PPIAF's grant was task managed by a team from WSP's Nairobi regional office, and the scope of work was an extension of two case studies undertaken by WSP in 2004. WSP's analyses suggested that CBO operators of small-piped water systems in rural and peri-urban areas desperately needed financing to extend and improve their systems, and that micro-financiers could, theoretically, make this funding available. But the study also highlighted that this kind of lending faced several constraints, both on the part of CBOs and that of micro-lenders.

In particular, the study found that CBOs in Kenya lacked the technical and managerial capacity to plan investment projects and make compelling loan applications to prospective lenders. Micro-lenders, on the other hand, had little understanding of the water sector, little interest in project finance loans (with loans secured only by the anticipated revenues from the facilities to be built or improved), and were unfamiliar with project credit analysis.

PPIAF-funded technical assistance, managed by WSP's water experts, produced a series of assessment tools for lenders to use in providing market-based financing for small water projects as well as business and financial planning tools to help small water operators present bankable projects to prospective

lenders. GPOBA made additional technical assistance funding available to help the CBO operators understand how to use output-based donor subsidies to reduce their borrowing costs and make their projects affordable and sustainable. GPOBA also made subsidy funding available for qualifying operators.

After the success of the pilot program, PPIAF approved a second, larger Sub-National Technical Assistance (SNTA) grant in 2008 totaling \$523,719 to help the government establish a Project Development Facility (PDF). The PDF scales up the pilot work by offering grants to a much larger group of eligible CBOs so that they can contract consultants to conduct feasibility studies, determine their subsidy needs and the affordability levels of their community, examine design and engineering issues, and, with other assistance from the PDF, qualify for private financing. Additional output-based aid for the scaled-up project was provided by the European Union's Water Facility.

OUTCOMES

In 2006, GPOBA approved a pilot project to be implemented using the tools designed by the PPIAF grant. This initial pilot targeted 21 community-based water sub-projects, representing a total investment of \$1.15 million in five districts around Nairobi. Commercial finance for the sub-projects was provided by one of Kenya's leading micro-lenders, K-Rep Bank. The overall project was administered by the government's Athi Water Services Board.

For each of the sub-projects, the relevant CBO provided equity totaling 20% of project cost and borrowed the remaining 80% from K-Rep Bank (these five-year loans were partially guaranteed by USAID's Development Credit Au

Since 1999 PPIAF, a multidonor technical assistance facility, has helped developing countries use public-private partnerships to improve their infrastructure. A key focus has been upstream technical assistance to support the development of an enabling environment for such partnerships.

This series highlights how PPIAF's support has made an impact on the ground.

thority). Once the project achieved the pre-agreed outputs (e.g., number of new customer connections), the GPOBA subsidy, accounting for a maximum of 40% of project cost, was released to the CBO, allowing it to pay off two-thirds of its debt.

DONOR COORDINATION

PPIAF's support extended WSP's initial work and assisted in mobilizing financial support from the private sector as well as other bilateral and multilateral sources. K-Rep Bank's use of PPIAF's assessment tools led to its understanding of and support for the pilot. GPOBA (and later, the European Union) provided subsidy funding and related advice.

IMPACTS

To date, K-Rep Bank has approved 13 sub-projects for financing with a total value of \$1.08 million. These projects are benefitting nearly 40,000 people.

In addition to the domestic benefits of safe water supply, the pilot project has demonstrated benefits for water-related income-generating activities such as dairy cattle farming, poultry keeping, and horticulture. New household or yard connections have also benefited women residents who otherwise would be spending time and energy fetching water.

Under the management of the PPIAF-supported PDF, the pilot project has now been expanded nationally, targeting over 165,000 beneficiaries in 55 communities, using additional subsidy funds from the European Union.

RELATED PPIAF AND SNTA ACTIVITIES IN KENYA

- 2000: Options for Privatizing Water Supply and Sewerage Operation in Nairobi, **\$490,180**
- 2001: Strategy for Privatizing the Water Supply and Sewerage in Mombasa and the Coastal Region, **\$441,000**
- 2002: Private Sector Participation Options for the Water Supply and Sewerage Operation in Kisumu, **\$230,750**
- 2003: Training Workshop for Members of the Water Services Regulatory Board, **\$74,000**
- 2009: Assessment and Development of Market Transactions in the Kenyan Water Utility Sector (SNTA), **\$486,000**