WaterCredit Market Assessment: Ethiopia

23 July 2014, Addis Ababa

Conducted by M2i Consulting,
in partnership with Water.org

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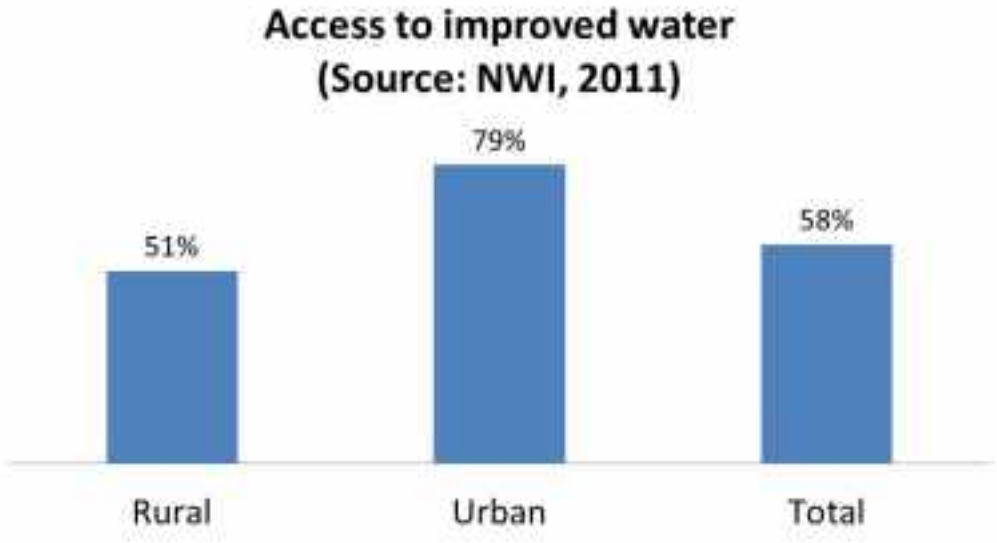
M2i Consulting
Microfinance Management and Investment Advisory

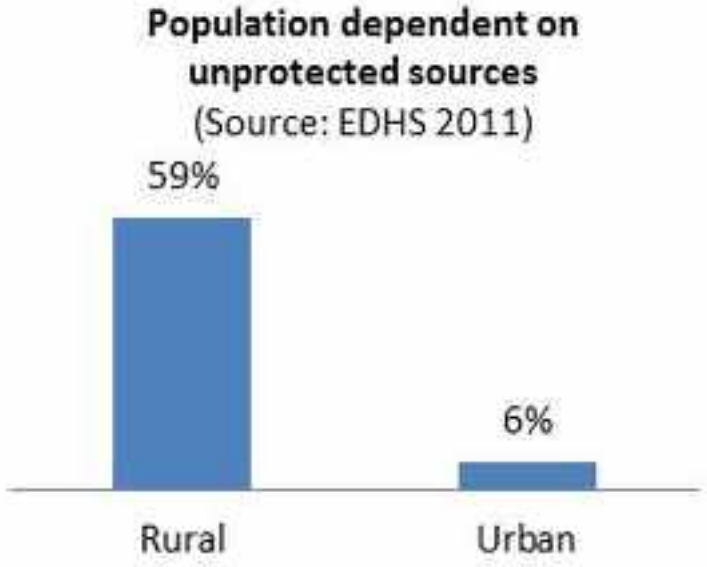
Market assessment

Conducted March- April 2014

Secondary research	Stakeholder interviews	Primary research
• Various research reports • Documents • Around 40 documents referred	• Ministries • MFIs • NGOs • Programs • Multilateral agencies • Government officials • 60 interviews in all	• 4 regions (Amhara, Oromiya, SNNPR, Addis city) • 8 woredas • 16 FGDS and 416 community interviews

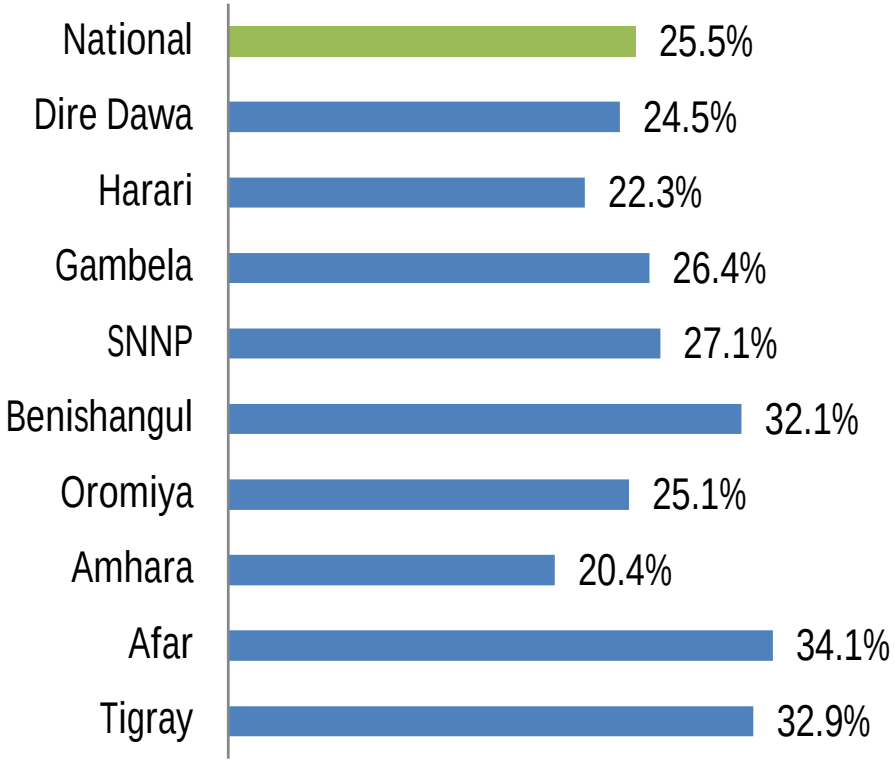
Current status - Water



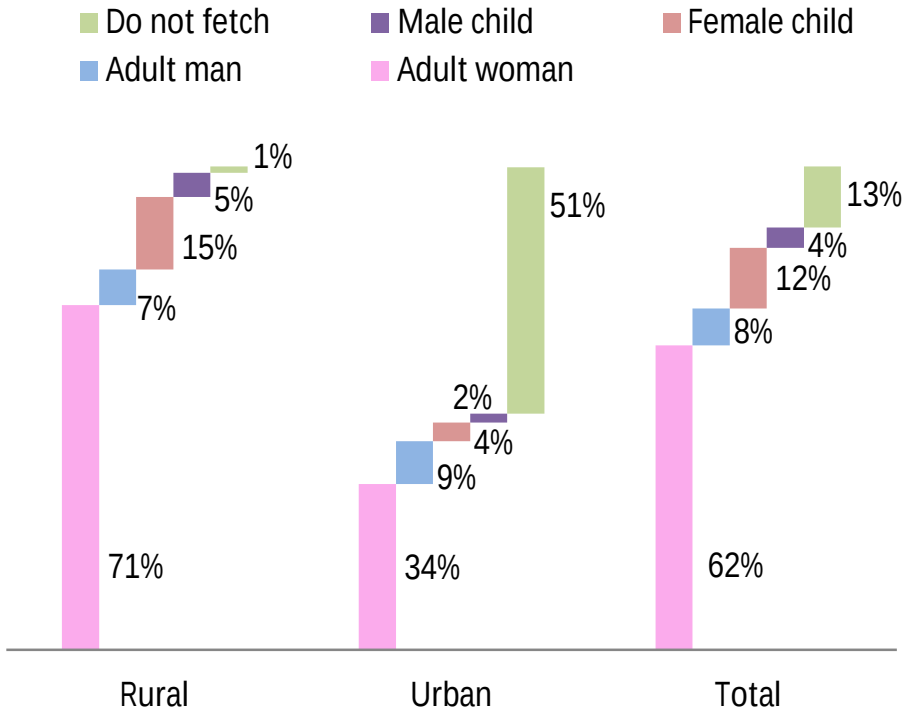


Current status - Water

Non-functionality of rural schemesi n 2010
(Source: NWI)



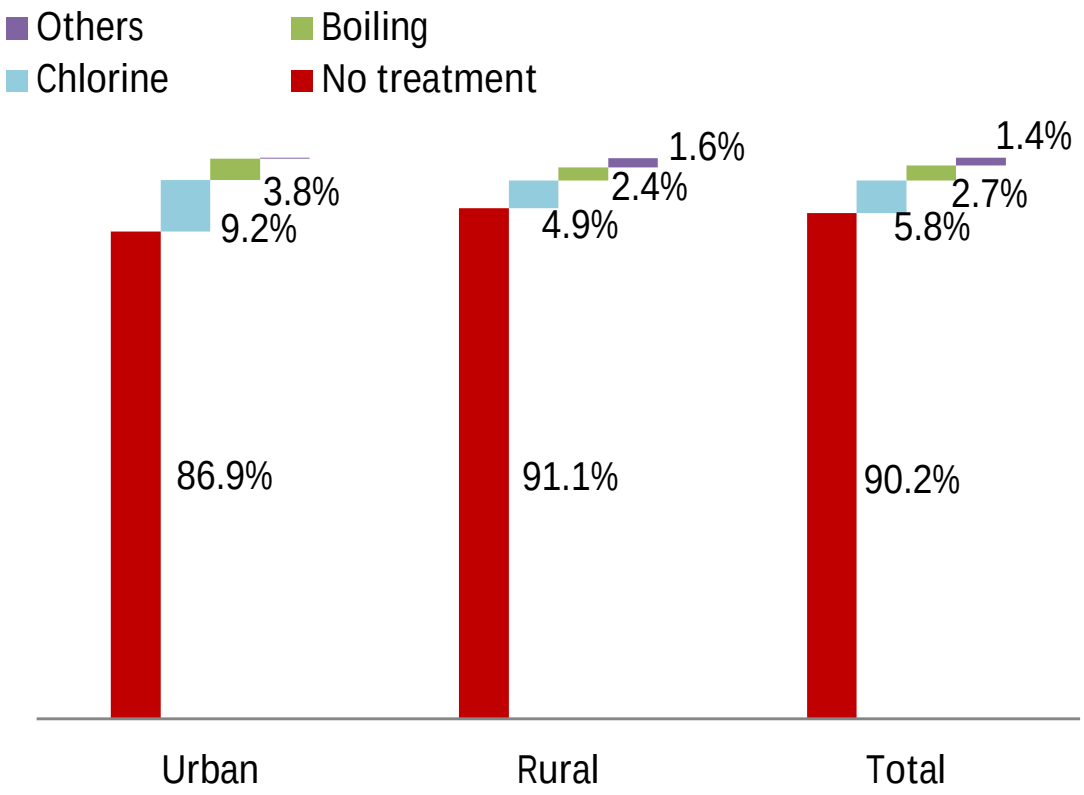
Water fetching practices
(Source: EDHS, 2011)



Current status - Water

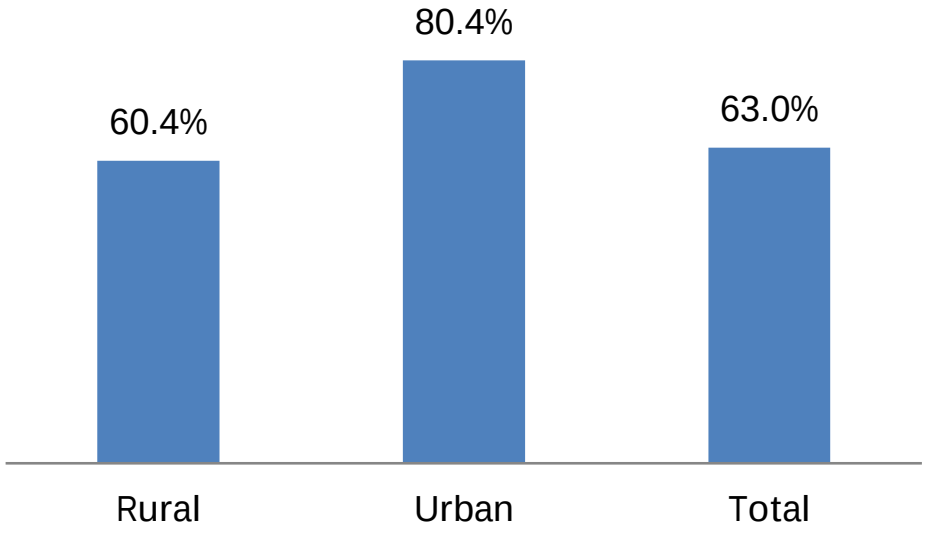
Water treatment practices

(Source: EDHS, 2011)

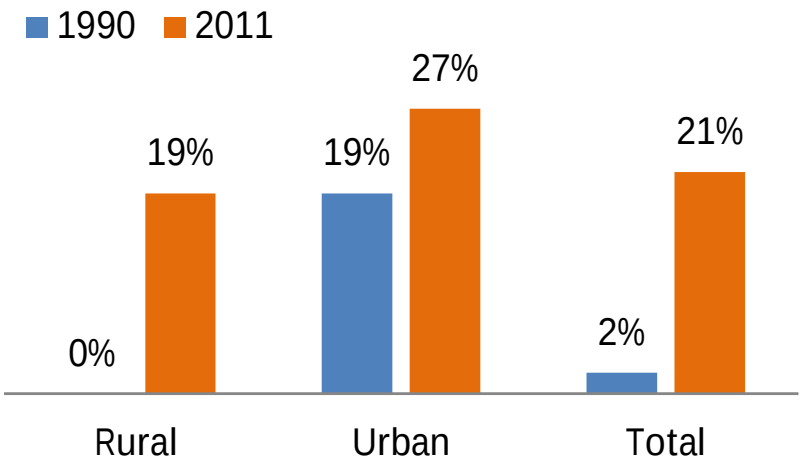


Current status - Sanitation

Acces to toilets (basic+improved)
(Source: National WASH Inventory, 2011)



Coverage of improved sanitation facilities (JMP, 2011)



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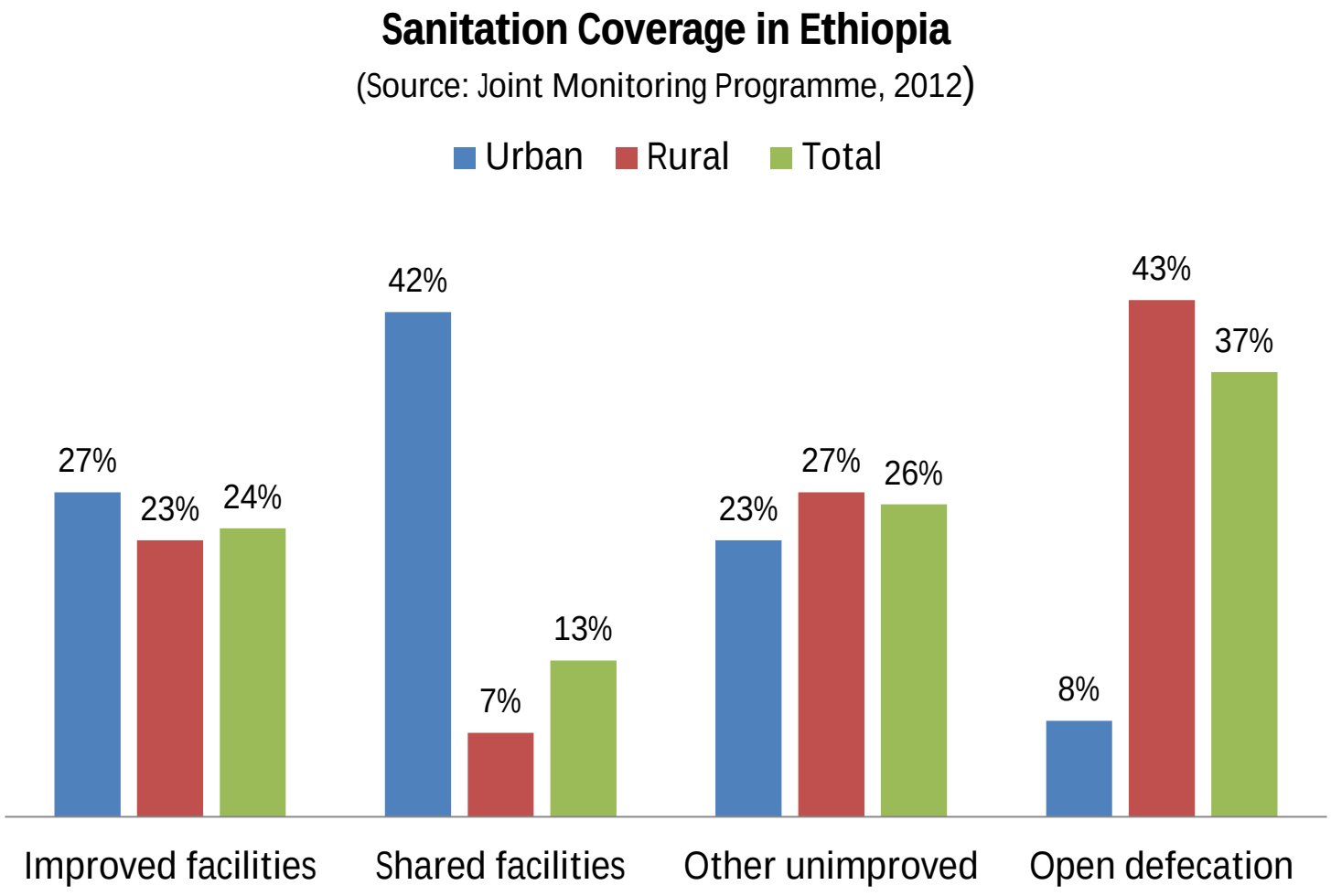
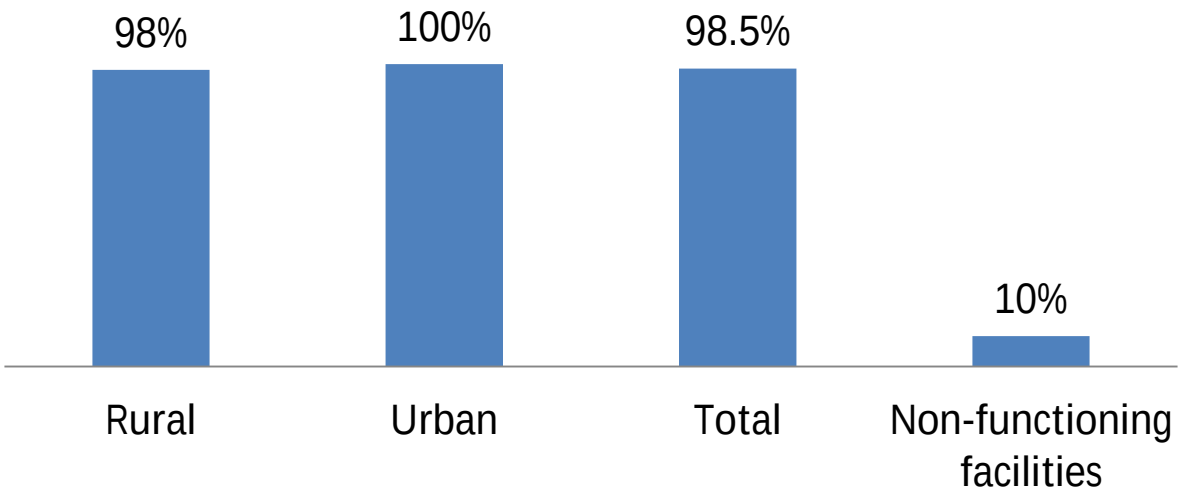
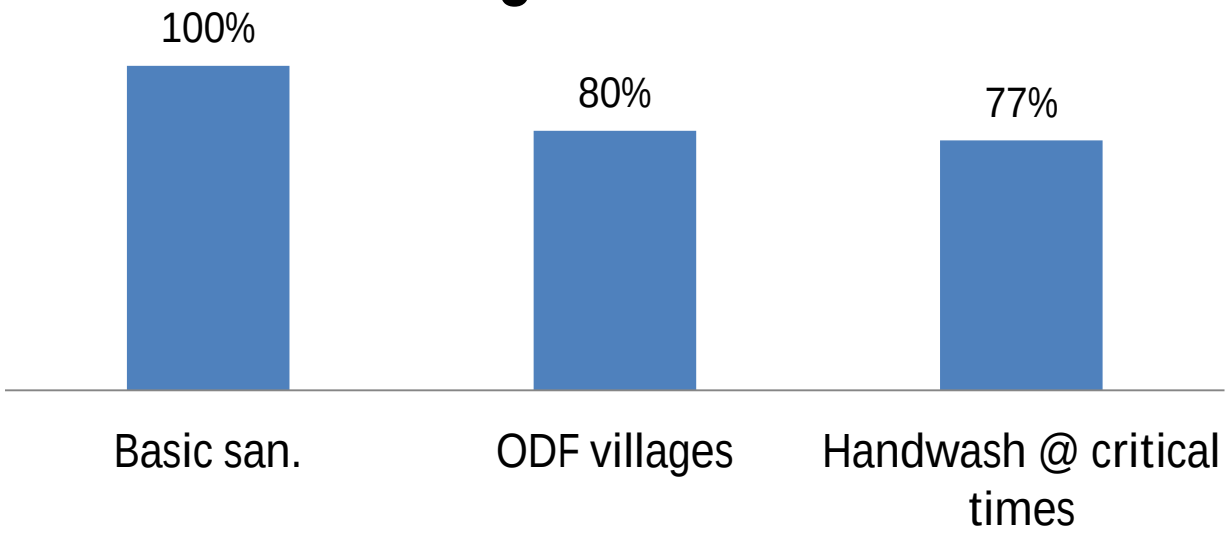


GTP target for Water



GTP targets for sanitation

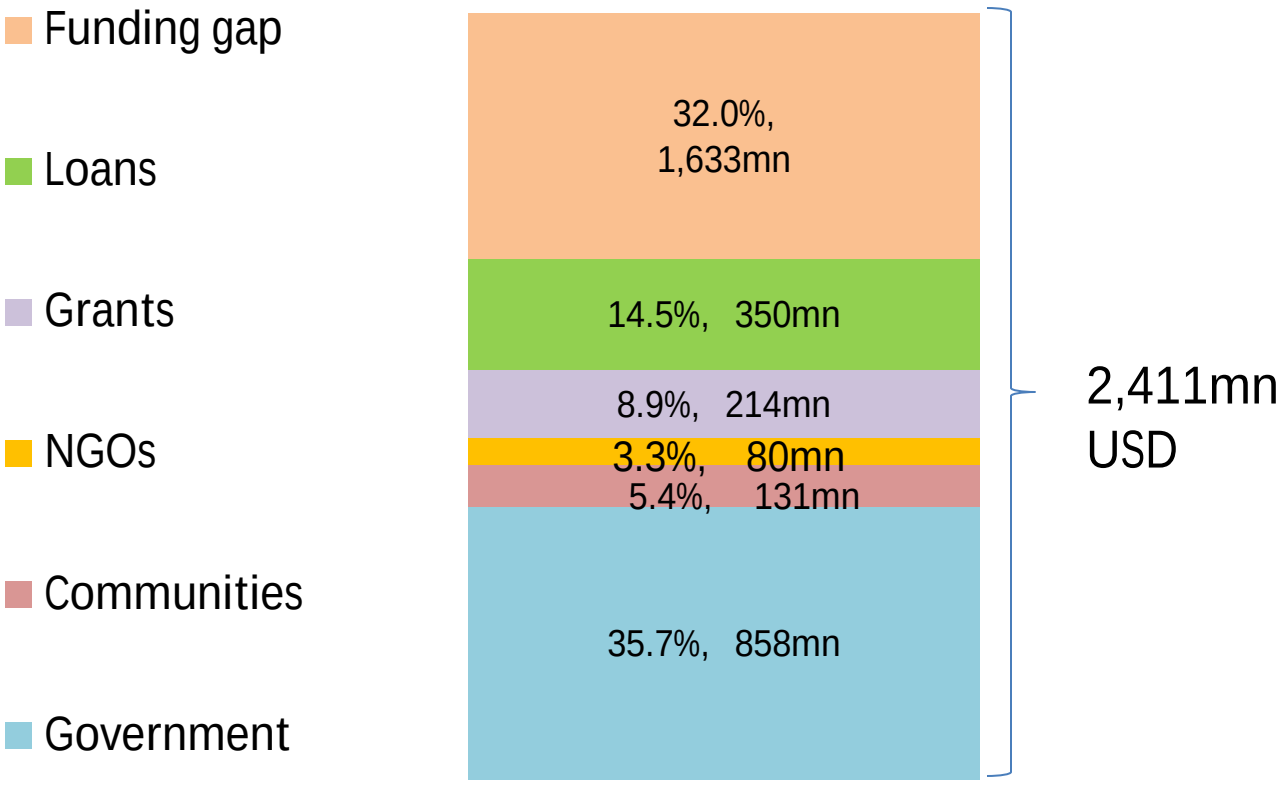


What it means to achieve GTP?

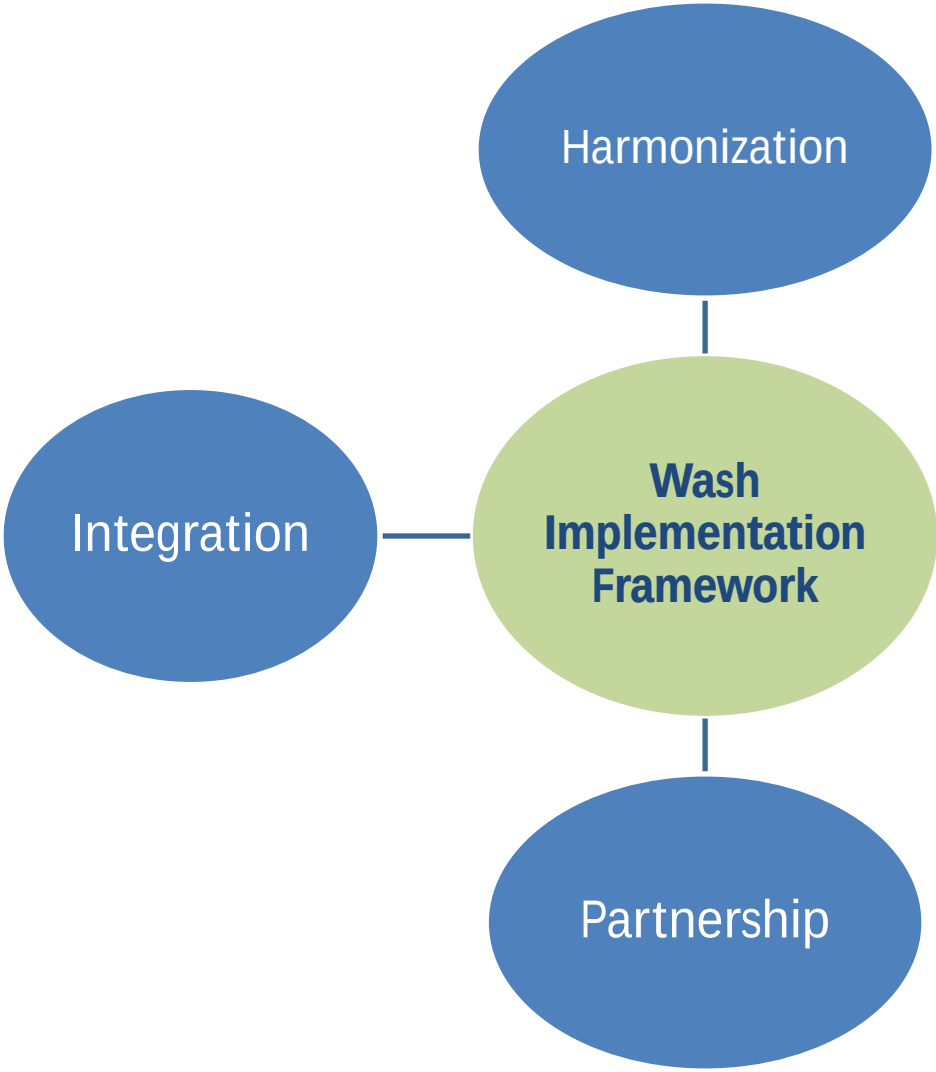
- 55,865 new conventional and 20,010 rehabilitated water points in rural and peri-urban areas, respectively
- 777 new, or expanded pipe systems in towns
- 42,529 household dug wells and **community** dug wells through Self supply
- 6,724,676 household and 6,122 school latrines and the extension of the sewerage system in Addis Ababa

A total investment of USD 2.41 billion

Funding Plan



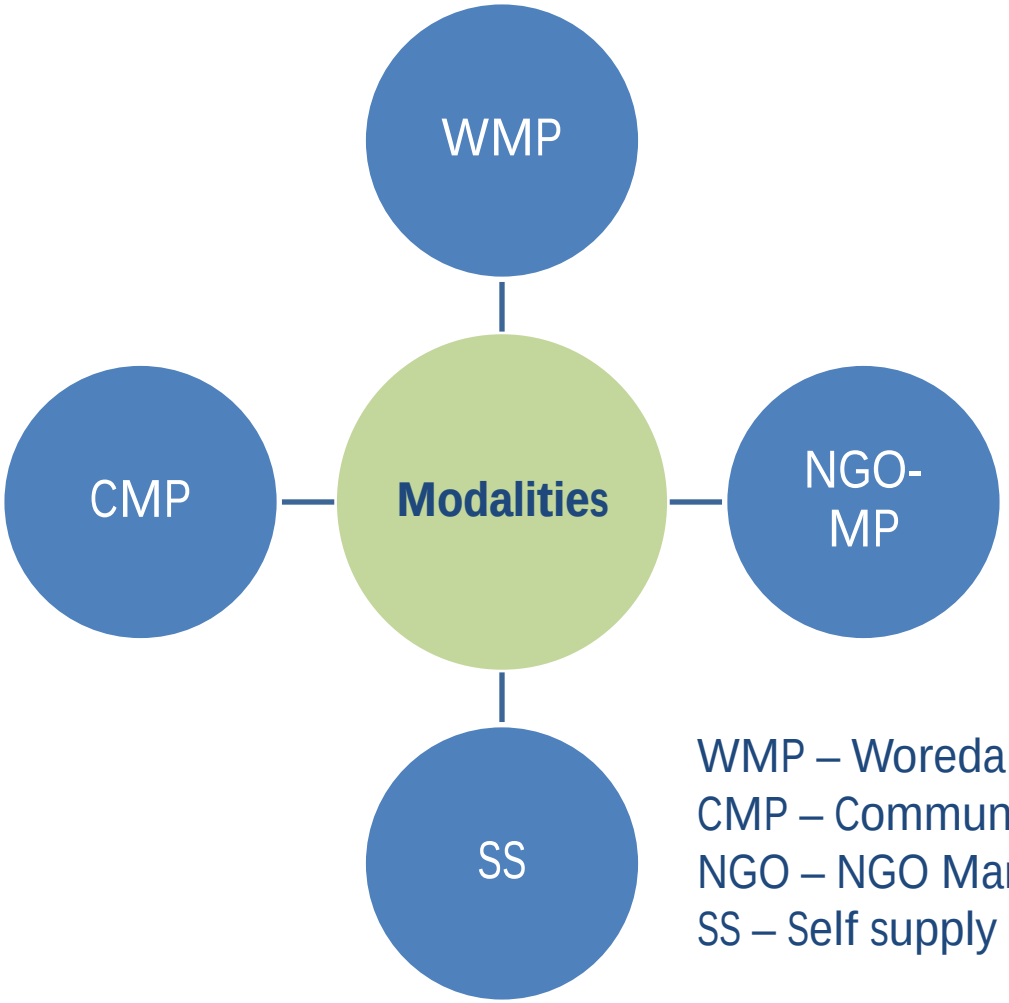
Policy environment - Water



All WASH initiatives guided by WIF.

Government has created the One WASH National Programme.

Modalities- Water



WMP – Woreda Managed Project
CMP – Community Managed Project
NGO – NGO Managed Project
SS – Self supply

Policy environment - Sanitation

Policy

National Hygiene & Sanitation Strategic Action Plan (SAP)

Target

100% Open Defecation Free (ODF); 84% of the population will have access to and use improved hygiene

Approach

Community Led Total Sanitation and Hygiene (CLTS-H)

Policy environment - Sanitation

- To fulfill SAP targets- 11.5 million new latrines will need to be constructed (Source: SAP, 2011-15).

Government investments:

Hardware

- Institutional sanitation – school, hospitals, prisons, public areas etc.

Software

- CLTS-H for awareness creation, demand generation

Subsidy environment

Cost recovery principle

Rural

- Capital investments by government
- Community to bear only operations and maintenance (O&M) costs

Urban

- Full cost recovery
- Capital cost, debt servicing, depreciation and O&M

Subsidy environment

In reality – high subsidy dependence

Rural

WASHCOs not able to recover even O&M costs.

WASHCOs' Capacity issues.

Lack of suppliers creating dependence on government

Urban

63 towns with population >30,000 can move towards FCR.

80 towns with strict cost design can cover O&M and depreciation.

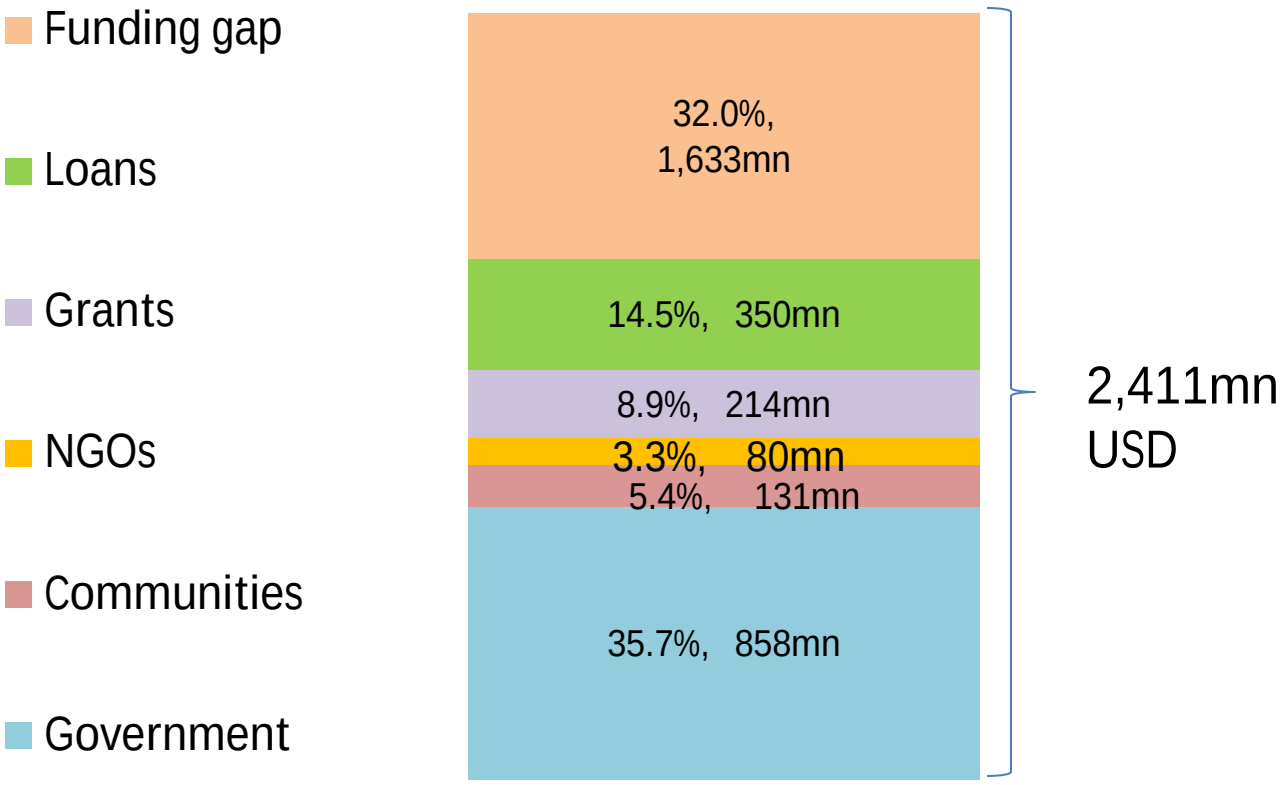
Close to 800 towns can at most cover O&M.

Need for private participation

- Phase I (Jul 13-Jun 15) of OneWash National Program (OWNP) prioritizes low-cost water supply facilities

- Government expects MFIs to play a role

Funding Plan



Need for private participation

- Phase I (Jul 13-Jun 15) of OWNP - program prioritizes low-cost water supply facilities, constructed by local artisans through SS, CMP or supported by NGO.
- Self-supply constrained due to lack of finance
- In sanitation, households expected to make own investment but no financing facility available
- Government expects MFIs to play a role

Ethiopian Microfinance Landscape

- As on December 2013, Ethiopia had 31 licensed MFIs with 3.1 million active borrowers and loans outstanding of 13 billion ETB (682.6 million USD)

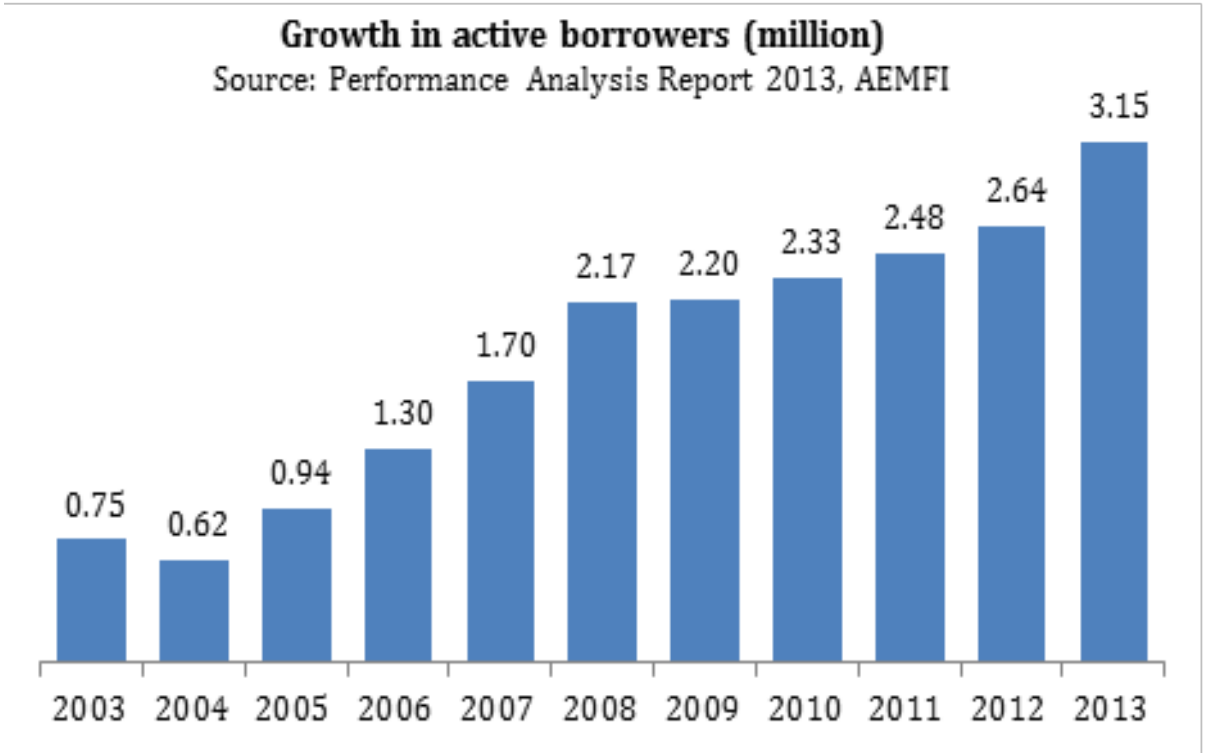
- MFIs are concentrated in the five regions of Addis Ababa, Oromiya, SNNPR Amhara and Tigray. Respective regional government owned MFIs have maximum outreach in each of these regions.

Top MFIs in Ethiopia

Outreach (as of 31 December 2013)			
MFI Name	**Active borrowers**	**Loans Outstanding ETB (Mn)**	**Loans Outstanding USD**
ACSI	8,94,867	4,480	$228,252,341
OCSSCO	8,42,819	2,732	$139,193,169
DECSI	3,93,413	2,609	$132,926,419
OMO	3,27,888	585	$29,816,514
ADSCI	2,30,839	1,253	$63,863,405
Wasasa	70,630	207	$10,550,459
Busaa Gonofa	67,787	161	$8,205,912
Vision Fund	58,269	275	$14,016,310
Sidama	47,810	46	$2,344,546
SFPI	36,842	107	$5,453,619
Others	178,576	514	$26,197,757
Total (31 MFIs)	**3,149,740**	**12,969**	**$661,009,174**

Source: Association of Ethiopian MFIs (AEMFI)

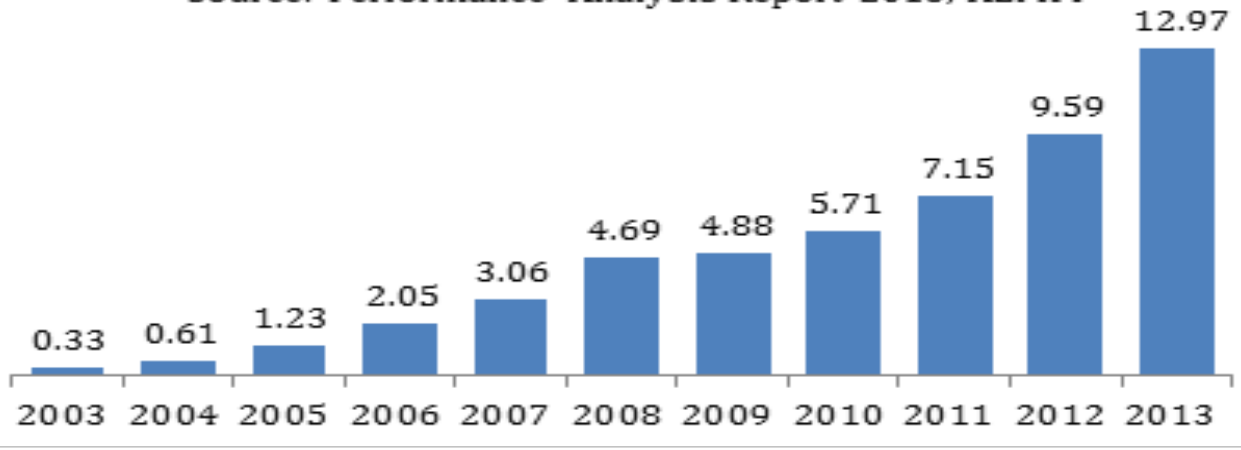
MFIs in Ethiopia



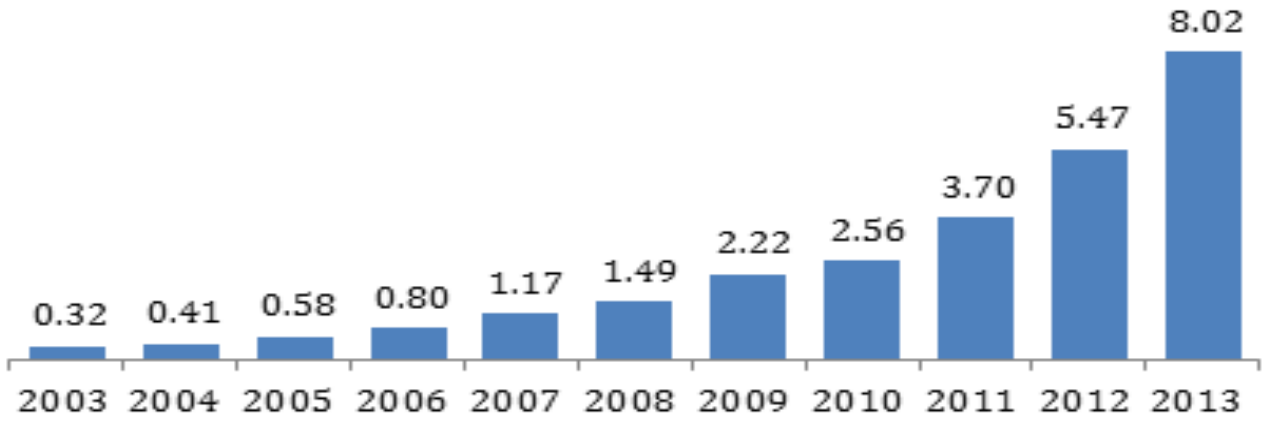
Source: Association of Ethiopian MFIs (AEMFI)

MFIs in Ethiopia

Growth in loans outstanding (ETB Billion)
Source: Performance Analysis Report 2013, AEMFI

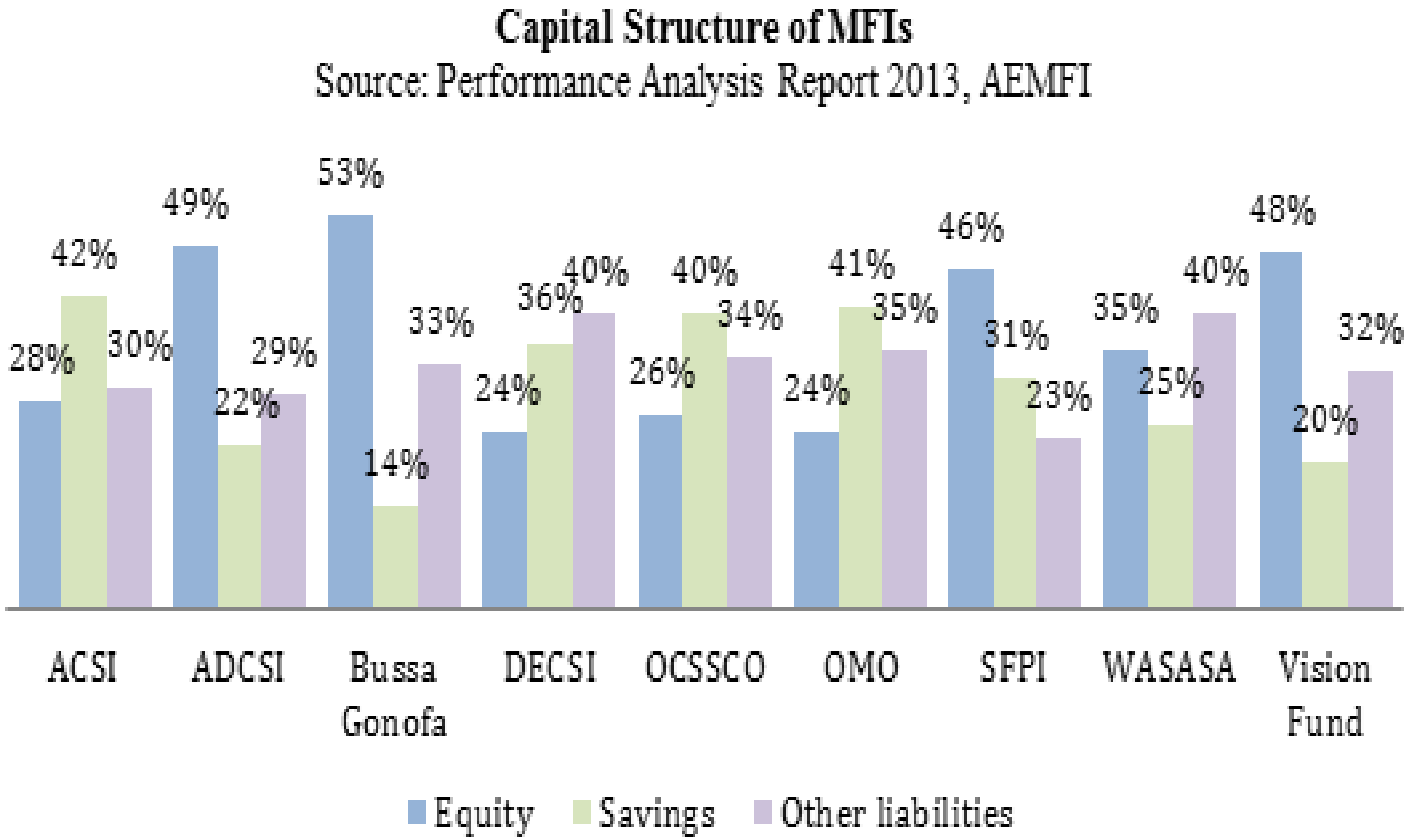


Growth in total savings (Bn ETB)
Source: Performance Analysis Report 2013, AEMFI



Source: Association of Ethiopian MFIs (AEMFI)

MFIs in Ethiopia



Source: Association of Ethiopian MFIs (AEMFI)

MFIs in Ethiopia

	Key profitability and return indicators		
MFI	Return on Assets (RoA)	Return on Equity (RoE)	Operational Self Sufficiency (OSS)
ACSI	6.60%	23.50%	214%
ADCSI	3.10%	6.30%	166%
Bussa Gonofa	14.10%	26.80%	159%
DECSI	1.90%	7.80%	172%
OCSSCO	5.40%	20.70%	160%
OMO	1.40%	5.90%	116%
SFPI	6.80%	14.70%	143%
WASASA	6.40%	18.50%	163%
Vision Fund	-2.60%	-5.30%	86%

Source: Association of Ethiopian MFIs (AEMFI)

Microfinance participation in WASH

- So far very limited participation of MFIs in WASH

- In September 2012, workshop was organized for consensus building on provision of microfinance for WASH but has not resulted in any substantial engagement

Constraints for MFIs

- Lack of understanding of MFIs on **WASH issues** and of the market
- Perception of **high credit risk** owing to its non-income generating nature
- Lack of understanding of the **requirements** from the financial product and the **physical products** to be financed
- Lack of **credit enhancement and risk sharing mechanisms** for market making
- Inadequate **engagement** between WASH sector and MFIs

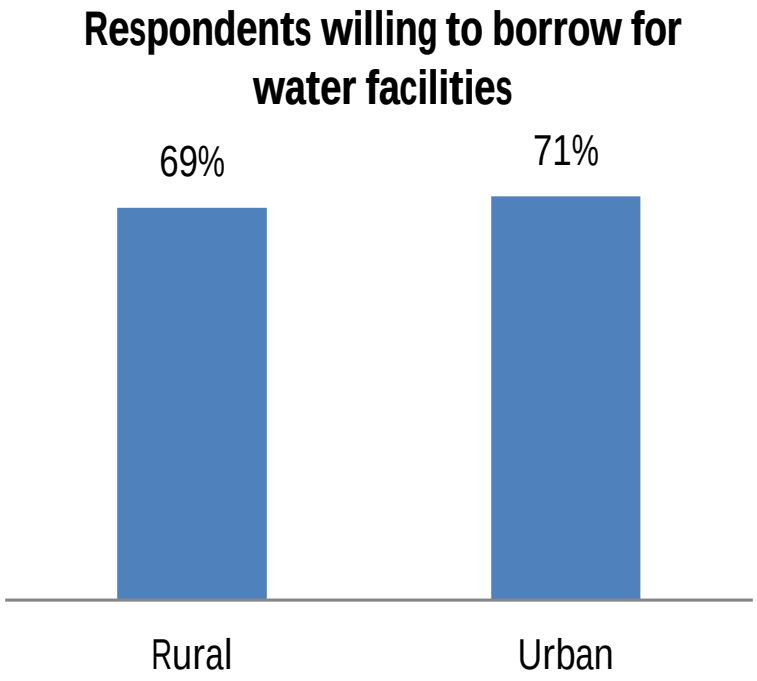
MFI involvement in WASH

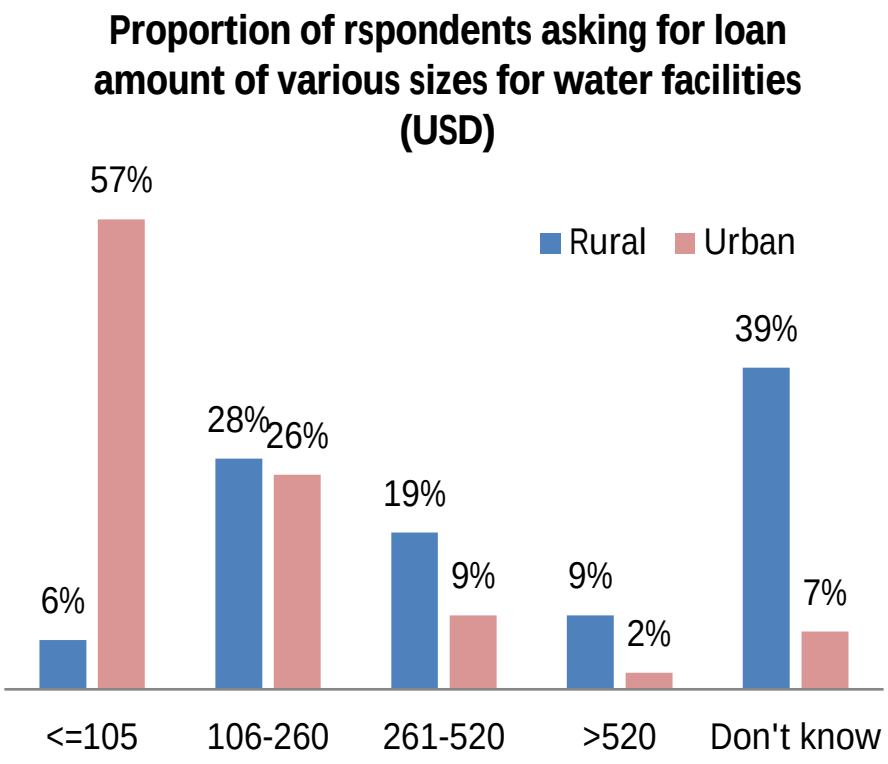
MFIs involvement in the sector

- OMFI-JICA (until Dec 2016, 200 rope pumps to be installed in 4 woredas in SNNPR)
- OCSCO-ROSA (until June 2015, 500 toilets, Oromiya Adama city)
- WASTE in Abraminch
- Intermediaries in CMP modality

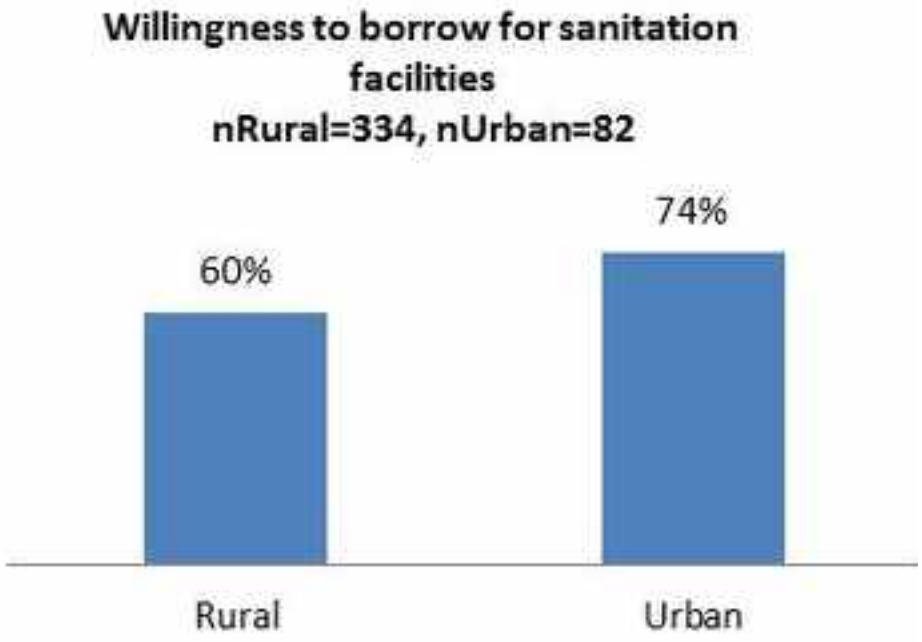
- **Upcoming –** MWA-CNHF focus on SS (Jul 2014), 23 woredas in 4 regions (Amhara, SNNPR, Oromiya and Benishangul)

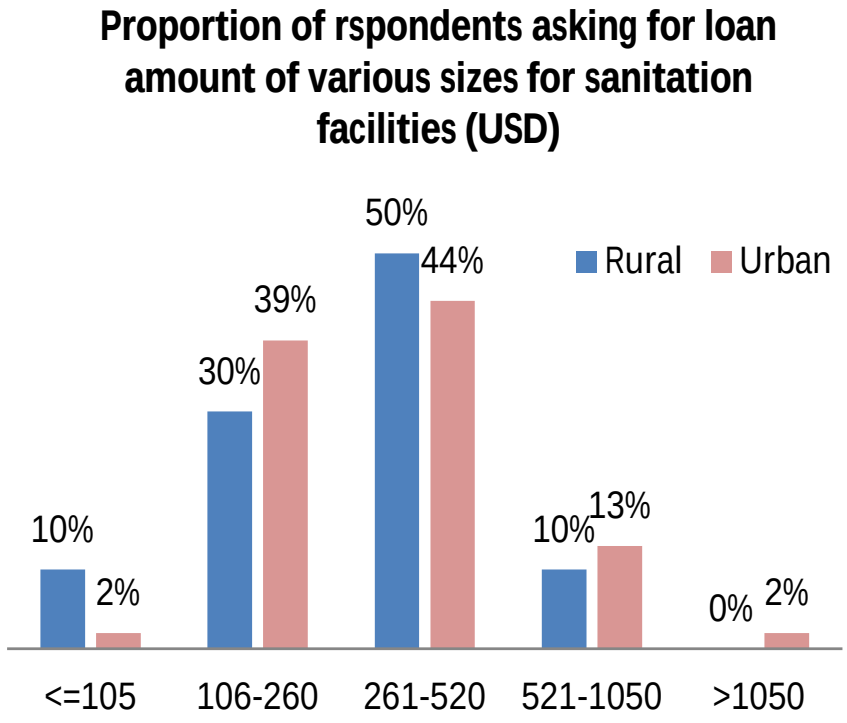
Demand for credit - Water



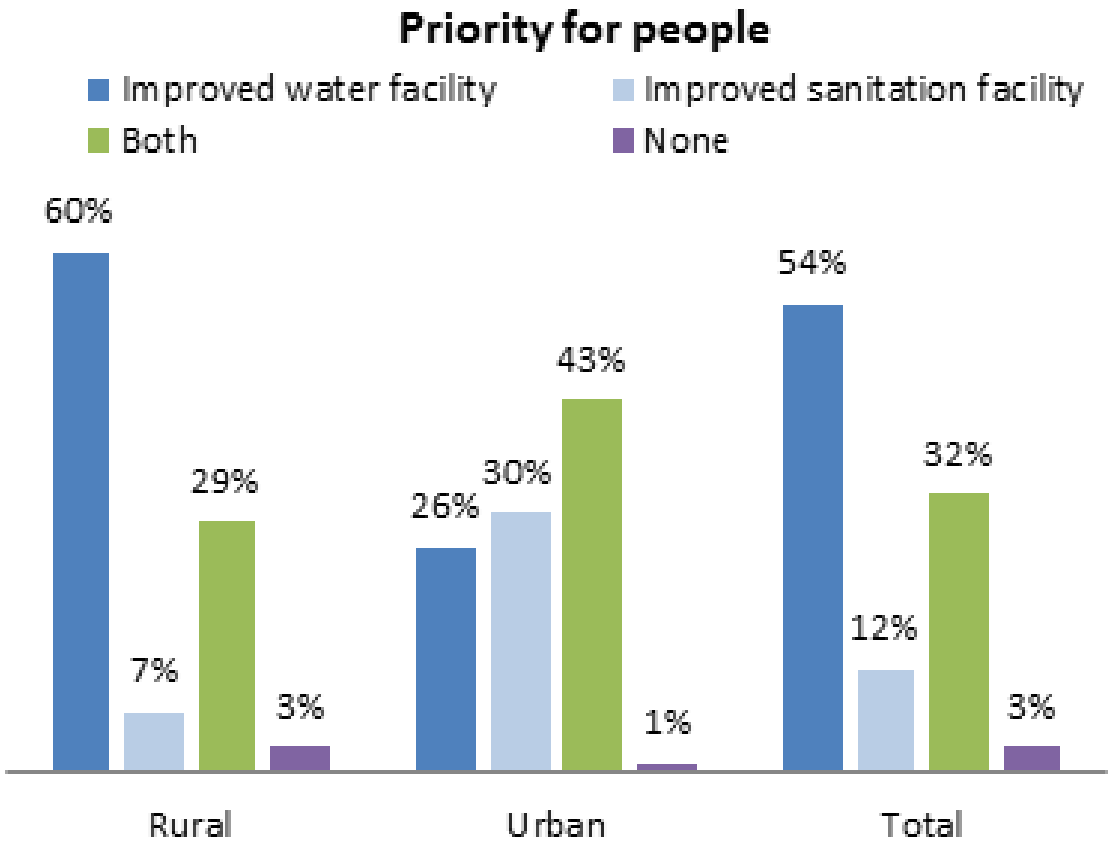


Demand for credit - Sanitation





Demand for credit - Sanitation



Potential market segments for credit

	Rural		Urban	
	Segment	**Products**	**Segment**	**Products**
Water	Household water facility	Shallow wells, rope pumps, hand pumps, RWH, water tanks, pipe connections, **MUS projects**	Household water connection	Piped connection
Sanitation	Household toilets	Pits with slabs	Household toilets	VIP, bathrooms

- **Microenterprises (traders) – suppliers of WASH parts, artisans wanting to establish or expand business**
- **WASHCOs – well managed and viable ones, needing funds to expand scheme or for repairs and maintenance.**

Models

	Rural		Urban	
	Segment	Model	Segment	Model
Water	Household water facility	Individual and Group based	Household water connection	Individual
Sanitation	Household toilets	Individual	Household toilets	Individual

Water quality

Poor in rural areas from unprotected sources but may not translate in demand for water cleaning products in short-term.

- In rural areas priority is to get sufficient water, quality not priority.
- In urban areas people consider water from pipe connections to be clean and safe.
- Most people do not use any process to clean water.

Opportunities for WaterCredit: Water

- **Lack of financing sources under Self Supply:** MF can accelerate SS

- **Partial subsidy approach under self supply:** Subsidy of 50% is available under SS for group schemes. This subsidy can be structured as a guarantee to facilitate lending by MFIs.

- **Multi use water services (MUS):** There is increasing focus on MUS. As same water source is used for drinking, household use, cattle, enterprises and irrigation. Perceived credit risk could be lower in such schemes. However, this might take the focus away from financing core drinking water products.

Opportunities for WaterCredit: Water

- **Weak supply chain :** Supply chain is currently weak and enterprises will need to come up as more WASH schemes are implemented forming potential market for MFIs.

- **Low focus on rainwater harvesting:** In areas of low ground water, potential for financing RWH structures and water tanks exist.

- **Capacitating and financing WASHCOs:** There is potential to collaborate with WASH-NGOs and COWASH to identify good WASHCOs who need funds for expansion or for their repair and maintenance.

- **Lack of financing sources for pipe connection in urban areas:** Initial investment between 700 to 2,000 ETB (37-105 USD) required for connection can be financed.

Opportunities for WaterCredit: Sanitation

- **Lack of financing sources for sanitation:** Household to be self-financed. Pilot of similar initiatives carried out under ROSA project in Arbaminch has shown encouraging results.

- **Weak supply chain:** As in water, the supply chain in sanitation is weak. There is opportunity to work with WASH-NGOs to develop capacity and finance small enterprises. Leverage SanMark efforts.

- **Lack of designs:** There is scope for improving designs of toilets to improve their acceptability.

Institutional gaps

- **Lack of institutional financing mechanism for MFIs –** line of credit, guarantee mechanism, FLDGs, soft loans
- **Limited involvement of MFIs with WASH**
- **Limited experience of existing WASH stakeholders in engaging with MFIs**

Recommendations

- Create favourable policy and institutional financing for MF
- Engage MFIs in a viable business mode
- Explore alternative channels - SACCOs

Recommendations

Type 1 intervention: Create favourable policy environment and institutional financing mechanism

- WASH stakeholders should work together to create favourable policy environment towards sustainable market based solutions.
- Join the stakeholder forums (Multi Stakeholder forum and Sanitation Marketing Multi Stakeholder Forum) to work towards creating an institutional financing mechanism for WASH in the country.
- Agencies like DBE or WRDF with support from MOFED can create dedicated line of credit, soft loans, or guarantee fund for MFIs. (E.g. RUFIP project)
- Stakeholders that can play an important role - IRC, MWA, SNV, iDE, WSP, COWASH and AEMFI

Recommendations

Type 2 interventions: Work with MFIs

- Sensitize MFIs on WASH; involve senior managers; have WASH champions
- Create awareness in sector, collaborate with WASH-NGOs on areas such as:
  - Choosing similar geographies, demand creation
  - Collaborate with existing projects of NGOs, create credit risk sharing mechanism
  - Project learning sharing
  - Training and orientation of MFIs
  - Identification of artisans and suppliers, their capacity building and linkage with MFIs
  - WASH product, toilet design
  - Explore potential in sanitation marketing

Recommendations

Type 2 interventions: Engage MFIs (contd..)

- Develop products not just for households but also for small common user groups, MUS schemes and for WASH entrepreneurs.
- WSP – works with microenterprise agency, can link entrepreneurs to MFIs
- Explore the possibility of developing products for WASHCOs and SACCOs.
- Align efforts with Multi Stakeholder Forum and Sanitation Marketing Multi Stakeholder Forum and share the progress in the forum.
- Engage with government and leverage their efforts; share information

Recommendations

Type 3 intervention: Work with select SACCOs

- Can engage on limited scale with SACCOs as they have capacity issues currently.
- Develop simple products for household WASH financing and some small common user group financing.
- A simple MIS may need to be developed for SACCOs to be able to track the WASH loans separately.
- The possibility of working with SACCO Unions should be explored. Some SACCO Unions have good capacity.
- Engage with Cooperative Agency while working with SACCOs.

Conclusion: Favourable environment for WaterCredit initiative

- **Demand is high** for improved water and sanitation services

- WASH is **high priority for government**, has ambitious targets

- Government is promoting **households to self-finance** their WASH needs under self-supply and with no subsidy for sanitation, finance is essential

- **Strong network** of MFIs, WASH-NGOs and SACCOs in the country.

- MFIs, AEMFI, COWASH and various WASH-NGOs have shown great **interest in collaborating for WASH financing**

- **MFIs have good presence** in regions where WASH activities are concentrated

Question & Answer

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