



WATERCREDIT MARKET ASSESSMENT IN ETHIOPIA –DISSEMINATION WORKSHOP

July 23, 2014

(Workshop Summary)

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WATERCREDIT MARKET ASSESSMENT IN ETHIOPIA

Introduction

The WASH Ethiopia movement, in collaboration with Water.org and COWASH hosted a Sector Learning and Sharing Forum that was focused on dissemination of the findings of Ethiopia WaterCredit Assessment.

The one day workshop was held on 23rd July 2014 at Desalegn Hotel in **Addis Ababa**. The workshop was attended by 70 representatives from microfinance institutions (MFIs), Banks, NGOs and Government. The main objectives of the workshop were:

- To share the findings of market assessment and
- To determine the course implementation of WaterCredit and related initiatives in Ethiopia

Water Credit is an innovative initiative of Water.org that puts microfinance tools to use in the water and sanitation (WASH) sector. Launched in 2003, it is the first comprehensive program of its kind in the World that connects the microfinance and WASH communities to scale up access to credit and capital for individual and household based WASH needs and does so with multiple models across multiple countries.

At its core, WaterCredit seeks to partner with micro finance institutions (MFIs), WASH NGOs (NGOS working on water & sanitation issues), WASH suppliers and utility companies with the objective of helping financial institutions (FIs) or other stakeholders to develop, pilot and roll out financial products focused on the water and sanitation needs of clients.

Water Credit loans can be used for purchase of water access (water connections and meters), digging, drilling and improvement of wells for household usage; construction and/or rehabilitation of toilets and bathrooms; purchase of rainwater harvesting tanks; and water pumps, among others. Water.org assists MFIs/FIs develop financial products suitable for the local context. Water.org does not propagate any particular technology or WASH solution. The FIs have the flexibility to develop and determine product terms that they are comfortable lending on and finance whatever WASH products that are most appropriate in the local context for the people

Water.org currently implements WaterCredit in India, Bangladesh, Uganda, Indonesia, Peru and Kenya and intends to scale up and expand Water Credit activities, in terms of geography, financing models, loan products and scope of partnership. Water.org is exploring the potential of initiating WaterCredit in Ethiopia and with this objective it had conducted the WaterCredit market assessment. The assessment was conducted in collaboration with various relevant stake-holders from WASH and microfinance sector in the country.

Workshop Presentations

Key-Note Address

Ato¹ Abiy Girma, National Coordinator of the National WASH Coordination Office at the Ministry of Water, Irrigation and Energy (MoWIE) delivered the key-note address. He highlighted the existing water resource potential in the country and the challenges that impede effective and efficient utilization of the available resources. He informed that not more than 3% of the water resource potential of the country has been utilized yet, whereas only 0.3% of the water resources being utilized at present are used for domestic water supply services.

He identified shortage of financial resources, huge investment requirement for the development of water resource projects and low level of infrastructure development as the key challenges faced by the sector. He cited, existence of various relevant policies and strategies among the enabling environment that has been created to achieve the targets indicated in the Growth and Transformation Plan (**GTP**), which is to provide access to safe drinking water for 26.6 million rural and 4.4 million urban inhabitants respectively and to ensure access to sanitation to more than 6.7 million households in addition to 6,122 schools and 7,037 health posts.

According to estimates, a total of US \$ 2.4 billion is required to provide these services, out of which 47% and 33% would go to rural and urban water supply services respectively; while another 16% and 4% would be allocated to the provision of sanitation services in rural and urban areas. This will still leave a financial gap of US\$ 777 million, which is expected to be covered by the government, NGOs, communities and donor agencies in the form of grants and loans.

The national WASH program highlights the crucial role played by private suppliers, artisans and other private sector service providers in establishing efficient supply chains for WASH products, spare parts and repair services and in supporting self-supply activities. Ato Abiy said that a favorable local market in the country to the Water Credit will enable faster scale up of access to improved water and sanitation facilities through microcredit and savings initiatives.

Ato Abiy also identified the challenges faced by MFIs that limit their involvement in the WASH sector. He mentioned following challenges impeding the involvement of MFIs in WASH sector:

- MFIs do not have knowledge about the specific products for WASH and small scale irrigation sector

¹ In Amharic language Ato means Mr., W/ro means Mrs. and W/t means Miss

- MFIs do not consider WASH as a business proposition; therefore there is lack of information about best practices of WASH financing by MFIs in Ethiopia.

He further outlined the opportunities available to MFIs in the WASH sector. According to him, MFIs can provide financial services to WASH service providers such as artisans or artisans associations that are engaged in construction of water supplies and small scale WASH products for self supply schemes at household level and small community water schemes under Community Managed Projects (CMP) as well as construction of household toilets and its parts. In addition to these, artisans engaged in construction of water treatment and storage equipments can also be benefitted by the financial services by MFIs.

Water Credit experience from Kenya, Uganda and India

Ms Elizabeth Were from Water.org shared the experiences of WaterCredit from Kenya, Uganda and India. Some important points mentioned by her were:

- Urban poor without water connections pay 5 – 10 times more for water than those having water taps
- Women spent 200 million work hours each day globally to collect water.

She said that MFIs' involvement in WASH financing is needed as there was a lack of adequate grant funding that could go around ensuring the provision of these basic services to the needy population. She informed that globally, WaterCredit has 35 partners in seven countries including India, Bangladesh, Kenya, Uganda, Peru, Philippines and Indonesia.

More than 366,000 loans have been provided to reach out to 1.6 million beneficiaries for water and sanitation facilities with a total loan disbursement of US \$1.88 million, out of which, 45% had gone for water and 51% for sanitation. The loans were provided at an average interest rate of 18.12% with average repayment tenure of 17.75 months. 56% of the total borrowers belonged to the income category of less than US\$ 1 per day at purchasing power parity (PPP), while 25% belong to the income category of less than US\$ 1.25 per day. 91% borrowers were women, while 79% borrowers belonged to rural areas.

Findings of WaterCredit market assessment in Ethiopia

WaterCredit market assessment in Ethiopia was conducted by a consulting firm from India known as M2i consulting (**M2i**) during March-April – 2014. The assessment was conducted in eight woredas in Amhara, Oromiya, SNNPR and Addis Ababa. The assessment process included 16 focus group discussions (FGD) and 416 community interviews, in addition to the interviews conducted with various stakeholders including line ministries, MFIs and NGOs in the sector.

According to the Ethiopia Demographic and Health Survey (EDHS) in 2011, 59% of the rural population and 6% of the urban population in the country was dependent on

unprotected water sources. Based on the National WASH Inventory results in 2010, the national rate of non-functionality of facilities was 25.5% ranging from 34.1% in Afar to 20.4% in Amhara regions. EDHS (2011) also revealed that 86.9% of the urban population and 91.1% of the households in rural areas did not practice household water treatment. The UNICEF's Joint Monitoring Programme (JMP) 2012 reported that 27% of the urban and 23% of the rural population have access to improved sanitation facilities, while the rate of open defecation (OD) practices in urban and rural areas was 8% and 43% respectively.

The national policy guidelines prescribe full cost recovery for water supply projects in the urban areas, whereas in the rural areas, the capital investment on rural water supply projects are covered by the government and the communities are expected to cover the operations & maintenance costs on their own. However, the assessment revealed that the WASHCOs have not been able to recover the operation and maintenance costs due to:

- Lack of suppliers
- Improper training of community and
- Lack of ownership by the communities, which have led to increased dependence on government

In the urban areas, 800 towns were somehow able to cover the operations & maintenance costs, while 80 towns were able to recover operations & maintenance costs as well as the depreciation by developing a strict cost design. Only 63 towns with population of more than 30,000 were able to move towards full cost recovery (FCR). The One Wash National program, which is being implemented in two phases, (Phase-I from Jul 2013 to June 2015) and (Phase-II from July 2015 to-2020) has given priority to low cost water supply facilities and expects MFIs to play an important role.

As on Dec. 2013, there were 31 licensed MFIs operating in Ethiopia with an outreach to 3.1 million active borrowers with total loan outstanding of ETB 13 billion (US\$ 682.6 million). Most of the MFIs are concentrated in five regions of Addis Ababa, Oromiya, SNNPR (Southern Nations, Nationalities and Peoples Region), Amhara and Tigray with respective regional MFIs having maximum outreach in their specific regions.

As per the data obtained from the Association of Ethiopian MFIs (AEMFI), among all the MFIs in the country, Amhara Credit & Savings Institution (ACSI) had the maximum loans outstanding of ETB 4,480 million (US\$ 228,252,341) with 894,867 active borrowers, followed by Oromiya Credit and Saving Share Company (OCSSCO) having total loans outstanding of ETB 2,732 million (US\$ 139,193,169) and 842,819 active borrowers.

The data showed a steady growth of microfinance in the country in terms of its outreach to borrowers. The number of active borrowers increased from 0.75 million in 2003 to 3.1 million active borrowers a decade later. The corresponding growth in loans outstanding

also increased from ETB 0.33 billion in 2003 to ETB12.97 billion in 2013. Similarly, savings have also grown from ETB 32 billion to ETB 8.02 billion in the corresponding period.

The assessment found that there was very limited participation of MFIs in the WASH sector. Though a workshop was organized in Sep 2012 to build consensus on provision of microfinance services for WASH, no significant involvement has emerged after it. The factors identified that resulted in inadequate level of participation of MFIs in the WASH were:

- Lack of understanding among MFIs on WASH issues and the market potential
- The perception of high credit risk owing to the activities being non-income generating
- Lack of understanding about the market requirements (physical & financial products to be offered)
- Absence of credit enhancement and risk sharing mechanisms needed for market development

The assessment also highlighted mentioned some efforts being made towards involvement of MFI's in WASH, these included:

- Partnership between Omo microfinance Institution (**OMFI**) and Japan International Cooperation Agency (**JICA**) to help install 200 rope pumps in four Woredas in SNNPR by Dec. 2015.
- Partnership between Oromiya Credit and Saving Share Company (OCSSCO) and Resource Oriented Sanitation Concepts for per-urban areas in Africa (ROSA) Project in Oromiya, which aimed at construction of 500 toilets in Adama city by June 2015.
- WASTE's involvement in Arba Minch and
- The upcoming Millennium water Alliance (MIWA) and Conrad N. Hilton Foundation (CNHF)' involvement in the promotion of self supply in 23 Woredas in Amhara, SNNPR, Oromiya and Benishangul Gumuz regions

Findings

Some of the important findings of the assessment on market potential of WaterCredit are as follows:

- 71% respondents expressed their willingness to borrow for water facilities in urban areas, while in rural areas 69% respondents expressed their willingness to borrow for water facilities.
- The loan size demanded by the respondents varies considerably. In the urban areas, 57% respondents desired loan size of less than US\$ 105, while 26% desired a loan size between US\$106 and US\$ 260.

- In the rural areas 28% respondents desired loan size between US\$106 and US\$ 260, while only 6% respondents desired a loan size of less than US\$ 105
- 74% respondents in urban areas expressed their willingness to borrow for sanitation facilities, while 60% respondents expressed their willingness to borrow for sanitation facilities
- In terms of prioritization, in rural areas priority given for access to improved water facilities (60%) exceeds far more than the one given for improved sanitation facilities (i.e. 7%).
- In the urban areas, the priority given to improved sanitation facilities (30%) was slightly more than the one given to improved water facilities (26%).
- Among all the respondents, 54% gave maximum priority to improved water facilities, while 32% gave maximum priority to have both the facilities and 12% gave maximum priority to have improved sanitation facility.
- The potential market segmentation indicated that rural households require water facility products such as shallow wells, rope pumps, hand pumps, rainwater harvesting, water tanks, pipe connections and multiple use water services (MUS) projects, whereas urban households demand piped water connections.
- In sanitation, rural households favor pit latrines with slabs, while urban households prefer Ventilated Improved Pit (VIP) latrines and bathrooms
- The preferred model of loan disbursement varied from individual to group methods for the loans for water facilities among rural households, while for toilet facilities the preferred model was individual method in both rural and urban households.
- The study also noted that poor water quality from unprotected sources in rural areas may not translate in demand for water cleaning products in short term as rural households' priority was to get sufficient water volume regardless of its quality.
- Lack of financial sources for self supply provides an opportunity for MFIs to support Self Supply which allows partial subsidy approach of 50% for group schemes.
- Multiple Use Water Services (MUS) also provides an opportunity as the same source is used for drinking, household use, cattle, enterprises and irrigation which may also reduce the perceived credit risk.
- Weak supply chain and low focus on rainwater harvesting present some opportunities to MFIs for WASH financing in water sector.
- There is potential to collaborate with WASH-NGOs in capacity building and financing WASHCOs for expansion and repair& maintenance of water supply schemes.
- Lack of financing sources for piped connection in urban areas also presents an opportunity for investment. An initial investment between ETB 700 – ETB2000 (US\$ 37 – 105) is required to set up household pipe connection

- In sanitation, weak supply chain and the need for improved toilet designs are some of the opportunities that are available for the provision of financial services.
- Lack of institutional financing mechanisms for MFI in terms of line of credit, guarantee mechanisms, access to soft loans and limited experience of existing WASH stakeholders in engaging with MFIs were the institutional gaps that impede MFI's participation in the WASH.

The study recommended that agencies such as the Development Bank of Ethiopia (DBE) and Water Resource Development Fund (WRDF) can create dedicated line of credit, soft loans, or guarantee fund for MFIs to provide financial services to WASH initiatives. It also recommended that there was a need to sensitize MFIs on WASH, involve senior managers and work in collaboration with WASH-NGOs on demand creation and establishing credit risk sharing mechanisms among others.

In conclusion, the assessment pointed to the presence of high demand for improved water and sanitation facilities. It also mentioned the priority given to WASH by the government, which is trying to encourage the households towards self-finance of their WASH needs under self-supply modality with no subsidy for sanitation facilities.

Presence of a strong network of MFIs, WASH-NGOs and Savings and Credit Cooperatives (SACCO) s in the country and their willingness to actively collaborate for WASH financing can be leveraged to create an enabling environment for WASH financing and WaterCredit initiatives in Ethiopia.

Earlier Efforts

Federal ministry of Water& Energy in collaboration with the Netherlands Embassy and COWASH Project had organized a workshop on micro-credits for WASH and small scale irrigation facilities at Queen Sheba hotel in Addis Ababa on 21st Sep. 2012. Before that training was organized by NETWAS in Nairobi on July 2013 on microfinance for water & sanitation services to explore opportunities for sustainable scale-up of these services in Ethiopia.

The workshop was attended by representatives from various agencies including Ministry of Agriculture (mOA), Ministry of water, Irrigation & Energy (MOWIE) NGOs and the donor agencies. H.E. Ato Kebede Gerba, state minister in MOWIE addressed the participants in the workshop.

During the workshop, MFIs' role in the implementation of WASH/MUS projects were discussed, which included the provision of saving accounts for WASHCOs' up-front cash contributions in CMP approach as well as savings accounts for WASHCOs' maintenance funds savings. In CMP, MFIs are also involved in the transfer of funds for communities as well as for the provision of credit for individuals in WASH/MUS projects. It was expected

that in future MFIs would provide credit for WASHCOs, provide loans for the establishment of supply chain outlets and offer commercial credits and micro-insurance for WASH/MUS/energy services. It was observed that there were greater opportunities available for possible credit interventions in sanitation sector than in drinking water sector. It was observed that micro-finance in WASH/MUS should provide finance for WASH products; WASH insurance, WASH fund transfers and private sector development. It was also mentioned that though, drinking water supply projects were not seen as attractive credit projects, credits for productive uses were actually been used for drinking water supply projects.

The workshop concluded with formation of a MFI/WASH coordination committee. The committee included representatives from MOWIE, MOA, Ministry of Health, Water and Sanitation forum (WSF), AEMFI and donor representatives chaired by MOWIE.

The committee was entrusted with the responsibility of developing a WASH/MFI framework and to prepare a concept paper on its implementation along with its situational analysis. The committee was also given responsibility to participate in various supply chain and MFI workshops, to establish WASH-MFI network and organize a second stakeholders' workshop. As reminded by Arto Suominen from COWASH, the current workshop was one of the various responsibilities given to the coordination committee.

Panel discussion

A panel discussion on “the *conditions required for MFIs to provide financial services to WASH initiatives*” was held in the afternoon session. The panel included, Ato Oliver Jones from WSP-World Bank, Ato Abiy Girma from National WASH Coordination Office (MoWIE), Mr. Yonas Ashagari, Emmanuel Development Association (EDA) and Ato Teshome Yohannes from Bussa Gonofa MFI. Key highlights from the panelists included the following:

The panelists agreed that there was a need of availability of clear and properly articulated policy on the WASH financing. The policy should clearly communicate to the community that there was no subsidy available for WASH and they need to meet their WASH needs by their own means. Panelists agreed that MFIs should have access to relevant information and knowledge about WASH, which can help them make the required decision for their participation in the WASH sector. They suggested that pilot tests of some appropriate technology options be carried out at some identified areas to showcase the applicability of financial services provision to WASH initiatives.

Some panelists recommended creation of a guarantee fund for MFIs to motivate them to enter the WASH sector. According to them, it is the necessary condition to kick start microfinance services in the WASH sector. Contrary to the suggestion, other panelists suggested a provision of a revolving fund in form of soft loan as they felt that provision of

guarantee fund may not be a sustainable approach for long term impact. There was a consensus among the panelists that savings services were an integral part of WaterCredit schemes to encourage active participation of the community in the WASH financing. Some panelists suggested that Ministry of Health, Ministry of Urban Development Housing and Construction (MoUDHC) or Federal Micro and Small-scale Enterprises Development Agency (FeMSEDA) or AEMFI may be given the responsibility to lead such initiatives. But some panelists differed with the suggestion and favored Federal Ministry of Finance and Economic Development (MoFED) as the lead institution as it was their main responsibility to oversee financial issues of any kind in the country.

The panel also deliberated on the possibility of providing credit services to public institutions such as Schools and Health centers. It was pointed that cost of construction for WASH facilities in such institutions are usually borne by the government, whereas the institutions have to mainly cover the cost incurred on operations & maintenance of the facilities. Additionally there were no clear directions or policy with regards to the mandate of such public institutions to access credit from the financial institutions for the development or expansion of the WASH facilities. Considering these points, panel suggested that a beginning can be made by offering financial services to business entities who are interested in providing WASH services to these institutions, as an entry point to start the provision of financial services to such institutions, thereafter other options may be explored to broaden the scope of the services in the future.

The panel also discussed in detail various options available for demand creation and gave suggestions to strengthen the efforts to raise awareness among the MFIs and other stakeholders including the leadership. The possibility of using health extension workers to promote the availability of financial services for WASH activities was considered. But the idea was dropped on the pretext that it may have negative impact on their credibility that has been built in the community if a particular technology promoted by them does not perform as per the expectations. Instead it was suggested that sales agents can be used to promote available services and options available for WASH initiatives in different localities.

It was also pointed that various context specific appropriate technologies need to be identified and developed to roll out effective financial service provisions in the WASH sector. Strengthening of WASHCOs and establishing their legal status also identified as a major factor that could help in provision of financial services to ensure sustainability of WASH interventions.

Panel also touched upon the issue of developing supply chain in the WASH sector. It discussed the possible role of national and international companies who are involved in production and dissemination of WASH products. Possibility of using their existing business network to make WASH products available to the users was considered a feasible

option. It was proposed that Federal Micro and small enterprise Development Agency (FeMSEDA) can lead and promote various supply chains by employing the graduates of Technical & Vocational Education Training Colleges (TEVETs). The experience from Tigray region was shared as an example. In Tigray region, revolving fund enterprises were set up to provide spare parts and WASH products to the community as per demand.

The Way Forward

The workshop ended with the formation of a core group. The core group included representatives from various interested and relevant agencies. It included representatives from various stakeholders such as government, Development partners, MFIs, NGOs and Private sector. Government was represented by MoFED, FeMSEDA and NWCO, while development partners were represented by WSP and USAID. AEMFI and Bussa Gonofa represented the MFIs, MWA and Ethiopian WASH Alliance (EWA) represented the CSOs, and the private sector was proposed to be represented by WSCA and Tulip. In addition to these other institutions such as JICA, Water.org and COWASH were also expected to play important role to take the initiative forward. There are many steps that need to be taken as the next step after the workshop. Some of the possible steps that may be taken are analysis and review of all the policy related discussions, documentation of best practices and identification & selection of potential areas for conducting pilot tests to develop the linkage between MFIs and WASH. The core group is expected to plan the next steps and to prepare an action plan that will help in promoting the involvement of MFIs in the WASH sector