



## **WATERCREDIT MARKET ASSESSMENTS IN UGANDA AND KENYA EXECUTIVE SUMMARY**

### **Background Information on the Market Assessments**

WaterCredit, an initiative of Water.org, puts microfinance tools to use in the provision of water and sanitation in developing countries. Water.org contracted MicroSave, a boutique microfinance advisory firm, to conduct market assessments in Kenya and Uganda in order to determine the demand and potential for establishing WaterCredit among microfinance institutions (MFIs) in partnership with Water and Sanitation (WSH) organizations. The assessment also aimed to identify opportunities to link the microfinance and water sectors, to determine the expertise each sector would require, and to identify challenges and bottlenecks that may affect effective delivery of microcredit for WSH-related purposes.

MicroSave reviewed WSH related documents and conducted a series of interviews with WSH organizations, MFI management and MFI clients. These exercises culminated in two dissemination workshops, held in Nairobi and Kampala, which brought together 59 stakeholders including MFIs, Banks, WSH organizations and Service Providers, Wholesale Lending Institutions (WLIs)<sup>1</sup>, a World Bank representative, and various representatives of government-affiliated Water Boards. The stakeholders discussed and made recommendations regarding potential WaterCredit product concepts and delivery/partnership models to enable successful roll-out of WaterCredit in East Africa.

This report presents the findings and recommendations of these assessments.

### **WSH Landscape in Kenya and Uganda**

Water is critical in human life yet many people do not have access to clean and safe water. Although the number of people in the world with access to safe water has improved (reduced to less than one billion), but people without appropriate sanitation facilities remain high. About 2.6 billion people in the world lack adequate sanitation facilities. In Sub-Saharan Africa (SSA) alone, approximately 330 million people lack access to water and 565 million people lack access to sanitation. Reports indicate that SSA is making the slowest progress among all regions towards meeting the Millennium Development Goals (MDGs) related to water and sanitation.

Kenya has a population of 40 million people and is directly affected by water scarcity. About 40% of its population (16 million people) do not have access to clean, safe water. With respect to sanitation, approximately one in five (21%) people practice open defecation or have inadequate access to appropriate sanitation facilities.

In Uganda, the National Water and Sewerage Corporation (NWSC) is by far the largest supplier of safe water and sanitation facilities in Uganda. However, their coverage is also limited. Because of this and

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<sup>1</sup> WLIs are financial institutions that provide credit to MFIs and SACCOs who in turn on-lend it to their clients.

other factors, out of a total population of 30 million people in Uganda, approximately 40% lack access to an improved water source while 57% do not have access to improved sanitation facilities.

The water sector in Kenya and Uganda has three primary financing sources: public funds; donor funds (usually international donors); and individual savings. WSH organizations mainly work in remote rural areas where there is a high incidence of water scarcity. These organizations occasionally access government funds through local authorities. There are limited commercial funds invested in the water sector, mainly due to limited knowledge of the viability of investing in the sector.

MFIs lending for WSH-related products and services primarily target the purchase of water storage tanks and toilet construction. MFIs interviewed for these assessments estimated that less than 5% of their loan portfolio has been invested in WSH activities and facilities. Both WLIs and MFIs interviewed suggested that there is need to develop financial products to improve access to water and sanitation facilities and services among microfinance clients. However, MFIs and SACCOs need financial and technical support to expand credit to the WSH sector. Financial support may include grants or targeted subsidies, wholesale loans and credit guarantee schemes. WaterCredit's "smart subsidy" approach, in which an MFI's start-up costs related to WSH product development are funded by a strategically focused grant, offers a unique opportunity for innovation and facilitation of sustainable, scalable credit for WSH to the low-end market segments in Kenya and Uganda.

Effective delivery of credit to the WSH sector often calls for multi-sector partnerships with private and public organizations. Depending on the circumstances, these partners may include WLIs, MFIs, WSH organizations and service providers, business development service (BDS) providers, WSH technical experts, public and/or private water boards, and governmental authorities.

### **Opportunities to Link the Microfinance and WSH Sectors**

Some of the opportunities to link the financial and WSH sectors and to provide WSH-related finance by MFIs (and possibly other funding organizations<sup>2</sup>) include:

- Household water connections, construction of sanitation facilities, and water storage tanks;
- Low-cost, high-efficiency drip irrigation solutions for small-scale farming;
- Community-based water and sanitation schemes to improve supply to peri-urban communities;
- School-based WSH facilities and awareness programs;
- Small-scale fish farming for rural communities for income generation and domestic consumption;
- Domestic biogas production facilities using animal and domestic waste to improve usage of clean and cost effective energy; and
- Other community water-based energy projects, such as mini-hydroelectric generation.

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<sup>2</sup> MFIs typically provide individual and household-level loans, through either individual or group-based lending methodologies. They do not usually loan to community based organizations, schools or other organizations with higher funding needs.