



GLOBAL WATERS



Reaching the new Global Goals for safe water and sanitation will take an enormous investment. Kenyan banks and utilities — with some international support — are making water access a commercially viable business, while serving the needs of the poor. Photo credit: Bobby Neptune Photography LLC

Putting Local Wealth to Work for Safe Water Access

March 28, 2016

Peaceful, jacaranda-shaded Embu, Kenya resembles many small cities in East Africa: bustling on market days, dusty and a little sleepy the rest of the week. But, water is always a major concern of its residents.

Though Embu is situated near several rivers in the shadow of Mount Kenya, the county government struggles to bring water to the town and neighboring villages through an aging network of leaky pipes dating to the 1970s. Currently, more than half of people in Embu do not have access to improved water service.

“People used to spend half a day collecting water — and water quality was very poor,” said H.M. Kerungendo, the managing director of the [Embu Water and Sanitation Company \(EWASCO\)](#).

Globally, satisfying water and sanitation needs will take enormous investments that are beyond the ability of Official Development Assistance (ODA) or public financing

alone. In Kenya, water utilities face an estimated \$2.6 billion financing gap — or more than 10 times the Kenyan government's budget for water supply and sanitation for 2015–16.

Closing these gaps will require new solutions and new funding sources, including mobilizing domestic capital and capacity.

Bringing Water Utilities Out of the Shadows

In Embu, expanding access to water services came in the form of a unique partnership among a bank, a utility company, the U.S. Agency for International Development (USAID) and the World Bank's [Water and Sanitation Programme](#) (WSP).

In 2011, WSP released a shadow credit rating report that helped attract commercial bank interest in the water sector. Establishing credit ratings helps financial institutions to understand how the water service providers will be able to service loans, and makes the lending to the water sector more attractive and transparent.

In 2012, as part of a strategy to connect local utilities to local financial markets and reduce their reliance on central government transfers and donor support, USAID [provided a loan guarantee](#) through its Development Credit Authority to Kenya Housing Finance (KHF), a local financial institution. Under the terms of the agreement, USAID agreed to take 50 percent of the repayment risk on each loan KHF made to water companies.

The credit guarantee was complemented by capacity building efforts provided through USAID and the [International Finance Corporation](#) (IFC). USAID's advisors helped Mr. Kerungendo and his EWASCO colleagues develop a proposal for a loan from KHF and a business plan to support loan repayment. The IFC also worked with EWASCO to undertake an audit that led to improvements in their business processes, financial management and planning.

This support helped make the Embu water utility more attractive as a potential borrower to Kenyan lenders.

From Loan to Pipeline

In May 2014, KHF approved a nearly \$1 million loan to EWASCO — the largest commercial loan ever made to a Kenyan water utility.

“The guarantee allowed my bank to make a loan to EWASCO, our first loan in the water sector”, says Anne Murugu, a KHF Loan Officer. Kenyan banks have historically shied away from the water sector, due to borrowers’ lack of collateral and borrowing experience.

Over the following year, the utility used the loan proceeds to install 18 miles of new pipe in peri-urban areas of Embu county, significantly improving the water supply for 100 schools, 15 clinics and 50,000 community members.

“We had lots of problems regarding water. Before the pipeline, we would wake up very early and walk up to 9 kilometers to fetch water. We spent hours searching for water because it was rationed”, recalls Jemimah Wagathare, a resident of Embu’s

suburbs.

By bringing these pieces together — the needs of people with financing and technical solutions, Kenya and its global partners are creating the foundation for a sustainable, inclusive and commercially viable water sector.

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Additional Resources:

- [USAID — Development Credit Authority Impact Brief](#)
- [WSP — Turning Finance into Services for the Future](#)

This article appears in Global Waters, Vol. 7, Issue 1; for past issues of the magazine, visit Global Waters' homepage on [Globalwaters.org](#).

