

WaterCredit 2.0

Water.org's Initiative to Increase Access to Credit and Capital for Safe Water and Sanitation

WHAT IS WATERCREDIT?

WaterCredit is an initiative of Water.org that puts microfinance tools to use in the water and sanitation (watsan) sector. It is the first comprehensive program of its kind in the world that connects the microfinance and watsan communities to scale up access to credit and capital for individual- and household-based watsan needs and does so with multiple models across multiple countries. In turn, the WaterCredit partnership models and financing mechanisms serve to channel and redeploy financial resources more efficiently and effectively to enable increasing numbers of people to meet their drinking-water and sanitation needs.

WHY IS WATERCREDIT NEEDED?

The amount of public and private financing currently available to finance the watsan needs of the developing world doesn't come close to fulfilling the demand. It is estimated that watsan sector investment must grow between \$10 and \$30 billion annually to cut in half the number of people without access to watsan as defined by the Millennium Development Goals (MDGs). Watsan organizations that can tap access to credit are few and far between, as are microfinance institutions (MFIs) with dedicated watsan loan portfolios or in-house watsan expertise.

Historically, the use of public and development funds for watsan programs has benefited those who need the programs the least: wealthier members of society who already have access to water systems. Meanwhile, lower-income members have paid higher prices for vended water (up to 5-10 times greater) and have risked consuming unsafe water. Further, the billions of hours of "unproductive" time that is used to fetch water – women and girls often spend up to 6 hours per day walking to/from water sources and queuing for water – preclude activities such as income generation, which could occur if access to clean water was closer to home and watsan services more reliable.

WaterCredit was designed to solve these problems. WaterCredit starts from the premise that there are people in the developing world who can finance access to safe water and sanitation if they can pay for these services over time, as well as have a voice in their development and operation. Further, WaterCredit assumes that there are financial institutions that are interested in expanding their portfolio of products and services in scalable, sustainable ways. WaterCredit's role is to link these stakeholders with one another, and to provide strategic watsan expertise and support in order to leverage the impact that microfinance for water, sanitation and hygiene can provide.

More than 300 million people lacking access to safe water and sanitation could meet their own needs if they had access to affordable credit.

WHAT DOES WATERCREDIT PROVIDE?

WaterCredit brings together watsan non-governmental organizations (NGOs), microfinance institutions (MFIs), commercial banks, other financial intermediaries, and related service providers to increase access to safe water and sanitation among impoverished households in developing countries through the creation of loan programs for watsan products and services. Currently, loans are made for things such as household water connections, toilets, sinks, tubewells, and rainwater harvesting equipment. In the future there is also potential to fund small water-based enterprises.

WaterCredit does not aspire to be a world water bank that provides loans directly. Rather, we see our role as a facilitator of upstream and downstream investment and an accelerator of natural market processes. As such, we connect partner watsan NGOs and MFIs to one another to develop watsan loan products, and we provide strategic advice directly to these watsan NGOs and MFIs as needed.

WaterCredit provides smart subsidy capital to fund the “software” costs of watsan loan product development (e.g., community mobilization, education and training), market assessments, and capacity building. In certain cases we may provide credit enhancements such as guarantees or standby letters of credit to MFIs for their watsan portfolios. We do not intend to provide funding for the loan portfolio or related “hardware” directly; these costs are expected to be borne by MFIs, client and community contributions, and other sources of external capital.

WATERCREDIT TODAY

- 11 WaterCredit Partner Organizations in India (since 2004), Bangladesh (since 2003) and Kenya (since 2005), reflecting a blend of non-profit and for-profit entities.
- \$1.4 million invested by Water.org in WaterCredit, which has leveraged approximately \$4 million in additional capital from commercial banks.
- 12,000 loans have been made and 130,000 people benefited directly from WaterCredit (through Women’s Self-Help Groups, family and community).
- Borrowers have taken \$1.8 million in WaterCredit loans to date. The average WaterCredit loan size is \$148.
- 90% of WaterCredit loan recipients are women.
- Average global WaterCredit loan repayment rate is 91%, and in the last two years it has averaged 95–98%.



With funding from Water.org, S. Gandhamani took out a loan for a water supply tap at her home. She also uses the wastewater that runs from the drainage area around her new tap for a banana tree garden she planted. Selling bananas has added the equivalent of five weeks of wages to her annual income.

HOW DOES WATERCREDIT WORK?

Part 1: Partnership

WaterCredit creates a new space at the intersection of watsan and microfinance, and a new way to finance the supply and access to water and sanitation in the developing world. At its core, WaterCredit promotes partnerships with MFIs and watsan NGOs to catalyze the provision of small loans to individuals, households, and communities in developing countries that do not have access to traditional credit markets. This approach efficiently matches watsan and finance expertise and empowers people to address their own water needs. And as WaterCredit loans are repaid, this capital can be redeployed to additional people in need of safe water.

WaterCredit is committed to using different models for partnership and loan delivery, depending on local needs and lending context, the state of the watsan sector and identified gaps, as well as local laws and regulations governing MFIs, NGOs and investment opportunities.

Similarly, WaterCredit seeks MFI partners that represent a diversity of legal structures, sizes, geographic reach, and overall scope of microfinance activities. We have considerable experience with identifying, evaluating and certifying organizations for WaterCredit partnership. As part of this, we conduct WaterCredit readiness trainings and also engage specialist consultancies regarding local issues, as appropriate.



Gary White, co-founder of Water.org, meets with stakeholders in Bangladesh to discuss WaterCredit in their community.

WaterCredit currently operates in India, Kenya, and Bangladesh, and has partnerships with non-profit MFIs, for-profit MFIs, and non-profit watsan NGOs. We are growing WaterCredit globally in terms of both breadth and depth of microfinance sector partners, countries, and financing models. Moreover, we are actively engaging with local and international microfinance networks and apex organizations.

The role of MFIs within WaterCredit is catalytic. We strongly encourage interested MFIs to propose WaterCredit models, products, and lending methodologies that they believe are suitable to their particular needs, clients, and circumstances. Candidate MFIs are also encouraged to

highlight the areas of watsan expertise and other “software” support where strategic support from Water.org and local watsan NGOs would be most helpful.

More detailed MFI partnership selection criteria are available upon request, and this information shall also be provided on the WaterCredit website.

Part 2: Financing Models

As noted, WaterCredit does not espouse any one particular lending methodology or MFI approach, and we acknowledge that “one size does not fit all” in the watsan and microfinance sectors. Therefore, as the watsan needs of communities and the MFIs’ ability to meet them evolve, we anticipate additional financing models to develop that are appropriate to the local context. Water.org stands ready to assist MFIs in these efforts by providing watsan technical expertise and strategic advice regarding delivery of watsan services, both directly and through local partner watsan NGOs. WaterCredit models that have been successfully launched in partnership with MFIs and watsan NGOs to date include:

Smart Subsidies

Capacity Building: Water.org provides a variety of capacity-building grants for different purposes. These include, but are not limited to: market assessments and related start-up expenses; initial loan product development and roll-out costs for MFIs; financial management training for watsan NGOs; hygiene education and related community-based outreach; marketing; and loan tracking technology.

We expect potential WaterCredit partners – both MFIs and watsan NGOs – to be part of the collaborative process that defines needs and appropriate expenses in a way that shows shared commitment to the scalability and long-term sustainability of any WaterCredit loan portfolio. For MFIs, this means actively seeking additional sources of external and commercial capital to ensure continued WaterCredit portfolio growth. To this end, we also invest in external monitoring, auditing, and evaluation of our WaterCredit partners and watsan-program performance.

Key to the success of the capacity-building model is Water.org’s ability to provide catalytic grant capital and strategic watsan expertise that would otherwise be unavailable, and which in turn prompts MFIs and watsan NGOs, along with other funders and stakeholders, to come forth and play a leading role in the development of sustainable watsan loan portfolios for their clients and communities.



Mandadramla holding her loan tracking card. Her loan came from the revolving loan fund for rural water and sanitation connections in rural India. Melanduvlar, Tamil Nadu, India.



Woman proudly shows her loan repayment card for her new, safe water connection thanks to a WaterCredit loan. Khajapettai Main, Tamil Nadu, India.

Financial Mechanisms

Credit Enhancements: Moving forward, WaterCredit anticipates providing various forms of credit enhancement to its lending partners to help attract additional capital to WaterCredit programs and bring them to scale more efficiently.

Examples of credit enhancements include guarantees, first loss loan reserves, standby letters of credit, and foreign exchange mitigation instruments. We consider these arrangements on a case-by-case basis, taking into account local law and related requirements, projected growth, financial soundness, and the partner organization's overall ability to structure and manage these tools.

Revolving Loan Fund (RLF): In this model, Water.org provides grant capital to watsan NGOs that have established (or that seek to establish) a microfinance unit for WaterCredit loans, but that do not have access to other forms of outside capital and do not otherwise engage in lending activities. This seed capital may be used to fund a variety of software activities, including mobilization of women into self-help groups (SHGs), health and hygiene education, financial management training, and technical assistance.

Thanks to these funds, the participating watsan NGO is able to set up an RLF that makes loans to local SHG borrowers. The organization is expected to grow the WaterCredit RLF over time by harnessing additional internal resources and attracting additional clients. Ultimately the watsan NGO may choose to partner with an MFI to expand its water-based financing activities.



Woman utilizes her new hand pump made possible through a WaterCredit loan in Bangladesh. WaterCredit has a disproportionate positive effect on women clients.

SHGs repay the loans (with interest) on pre-negotiated terms that ensure loan portfolio sustainability. To date, the RLF model has been very successful; however, partner organizations face hurdles to scale as demand for these loans has outstripped supply of capital to deploy.

Direct Lending: In this model, Water.org directly provides loans to watsan NGOs in-country to dig boreholes, install handpumps, and provide other water services to local communities, which are operated and maintained by community based organizations (CBOs). The CBOs charge service fees for water collected and delivered, which provide a stream of income from which to make loan repayments. Although there is great potential for this model under the right circumstances, early experience illustrates that it can be particularly difficult to manage in places with no functioning water infrastructure. It is also very important to take local law and ownership issues into account.

WATERCREDIT BENEFITS MFIs

For MFIs seeking to grow, expand their activities, and effectively meet the broader needs of their clients and communities, WaterCredit offers many advantages:

- Offering a **new, scalable, and sustainable loan product** that focuses on one of society's most basic needs
- Ability to **address and achieve multiple Millennium Development Goals (MDGs)** simultaneously
- Development of **in-house water, sanitation, and hygiene expertise**
- Disproportionate positive effect on **women clients**
- As a result of watsan loans, clients' time can be used for other **productive activities** such as **income generation** and **education**
- **Decrease of water-borne disease** bolsters amount and quality of productive time available to clients
- Over time, potential for financing of small **water-based enterprises**
- In certain cases, **increase in discretionary disposable income** when borrowers can access water directly rather than only from the local "water mafia"
- Linkages to other watsan NGOs, service providers and funders with potential for **future collaborations**

WATERCREDIT 2.0: THE NEXT WAVE

WaterCredit is currently at an inflection point and is poised for significant growth in the next three years. This expansion will be guided in part by a set of core principles, built into WaterCredit programs globally. We are:

- Partnering with organizations that can build, operate and transform WaterCredit at a **"game-changing" scale**
- Utilizing a **diversity of MFIs** and related financial organizations to develop, finance and **attract additional upstream capital** to WaterCredit where possible
- **Directing "smart subsidies"** to microfinance start-up and community development activities
- **Abstaining from interfering with effective credit** and environmental services markets, and refraining from making investments that would distort such markets
- Providing the **management nexus** between good capital and good watsan investment projects
- Playing an active role to **improve knowledge and foster best practices** within the watsan and microfinance sectors, recognizing the value of **interchange of ideas and "thought partnerships"**

Water.org is well-placed between philanthropic donors and commercial investors to scale WaterCredit. These donors and investors have complementary social and financial return objectives, and WaterCredit provides the link between funders and the myriad local organizations and other stakeholders that want to scale up watsan access. As part of this, Water.org is managing complex watsan projects on the ground, consulting with investors in search of bankable deals, and transferring its expertise to other organizations interested in credit-based approaches in the watsan sector.

WATERCREDIT 2.0: THE NEXT WAVE cont.

In order to reach its goals for WaterCredit over the next three years, Water.org is attracting a blend of smart subsidy (grant) capital and leveraged investment capital. We seek to raise an additional \$10 million in smart subsidy capital to enhance the more than \$4 million already raised. We project that this combined \$14 million program could attract another \$30 million in leveraged investment by the end of 2012 and a total of \$75 million by the end of 2014. As costs per beneficiary continue to decline, this would allow us to reach more than 7.5 million beneficiaries.

Water.org intends to spend approximately 50% of these funds in Asia, 40% in Africa and 10% in Latin America. Fiscal modeling for the WaterCredit program yields the following estimated beneficiaries and costs per region over the next three years:

- Asia: 675,000 beneficiaries at an average cost of \$10.67
- Africa: 300,000 beneficiaries at an average cost of \$18.17
- Latin America: 40,000 beneficiaries at an average cost of \$42.00



Ramya with her family's new toilet, made possible by a WaterCredit loan.
Keelakarthisaipatti, Tamil Nadu, India.



New Water.org spring cachement system in Tigray, Ethiopia.

ABOUT WATER.ORG

Water.org is a U.S.-based non-profit organization committed exclusively to providing safe drinking water and sanitation to people in developing countries. We do this through a blended platform approach that involves local partners, community involvement, appropriate technology, integration of health and hygiene education and innovative funding.

Social entrepreneur Gary White and actor Matt Damon co-founded Water.org in 2009 to address the global drinking water crisis in a new, sustainable way. Water.org is the result of a merger of H2O Africa, co-founded by Damon, and WaterPartners International, which was co-founded by White in 1990. Since 1990, Water.org's innovations in programs and financing, including WaterCredit, have led the way in addressing the global water crisis and have resulted in safe water and sanitation access for hundreds of communities in South Asia, Africa, and Latin America.

FOR MORE INFORMATION

More information about WaterCredit is available on the WaterCredit website: www.water.org/watercredit.

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