

WaterCredit

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 work in the water and sanitation (watsan) sector. It is the first comprehensive program of its kind 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. Through WaterCredit, Water.org aims to channel and redeploy financial resources more efficiently, enabling increasing numbers of people to meet their water and sanitation needs through demand-driven, market-based services and reducing the need for never-ending subsidy.

The world's poor pay on average 5 to 10 times more for water than their middle-class neighbors, representing an estimated \$12B market.

Why is WaterCredit Needed?

WaterCredit seeks to tackle two related goals: lack of access to clean water and safe sanitation, and lack of access to finance to procure it among economically active poor people throughout the developing world.

The amount of public and private funding currently available to finance global watsan needs falls short of fulfilling the demand. It is estimated that investments in the watsan sector must grow between \$10 and \$30 billion annually to reduce the number of people without access to watsan by 50%, as defined by the Millennium Development Goals (MDGs). There will never be enough subsidies in the world to solve this challenge. New models of financing and market engagement are needed to achieve the goal of universal watsan access for all.

Historically, the use of public and development funds for watsan programs has benefited those who need such support the least: members of society who already have access to water systems. Meanwhile, lower income individuals typically pay higher prices for vended water (up to 5-10 times greater) and risk consuming unsafe water. Often these are the same poor people who also lack access to the formal financial sector, due to their lack of assets (which makes them "unbankable" in the eyes of many financial providers). In addition, the billions of hours of "unproductive" time that is used to fetch water – women and girls often spend up to six hours per day walking to/from water sources and queuing for water – preclude activities such as income generation and education that 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 many people in the developing world who can finance access to safe water and sanitation if they are able to pay for these services over time, as well as have a voice in their development and operation. Furthermore, WaterCredit recognizes that there are microfinance institutions (MFIs) that are interested in expanding their portfolios in scalable, sustainable ways – with watsan falling squarely within their clients' basic needs. WaterCredit's role is to link these stakeholders with one another, provide strategic expertise to help MFIs develop and deploy watsan loans, and thereby expand the reach and impact that microfinance for water and sanitation can achieve.

What Does WaterCredit Provide?

WaterCredit brings together MFIs, watsan non-governmental organizations (NGOs), commercial banks, financial intermediaries, governments, water authorities, and other watsan service providers to increase access to safe water and sanitation among economically active poor households through the creation of watsan loan products (and savings products where possible). WaterCredit focuses on individual- and household-level microloans that are typically provided through MFI self-help group models and target a price range appropriate for clients living at the base of the economic pyramid.

Currently, WaterCredit loan products are offered for household water and sewerage connections, toilets, sinks, tube wells, and rainwater harvesting equipment. While Water.org currently does not provide financing for larger watsan investments such as micro-utilities or water kiosks, which (given their higher loan size) fall beyond the customary scope of MFIs, Water.org continually reviews opportunities to expand WaterCredit for micro-utilities and small watsan-related businesses for income-generating purposes, and to provide seed and growth capital for watsan entrepreneurs with scalable business solutions.



An estimated 73 billion hours are lost annually in the developing world as a result of people spending time collecting and queuing for water.

WaterCredit Today

- More than 60,600 loans have been made, and more than 340,500 people have benefited directly from WaterCredit loans.
- 24 active WaterCredit Partner Organizations in India (since 2004), Bangladesh (since 2003), Kenya (since 2005) and Uganda (since 2010), reflecting a blend of non-profit and for-profit entities.
- Nearly \$4 million in smart subsidies to WaterCredit Partner Organizations has leveraged approximately \$8 million in additional capital investments from commercial financial institutions.
- \$8.5 million in WaterCredit loans have been made to borrowers to date.
- The average WaterCredit loan size is \$141.
- More than 84% of WaterCredit clients are women.
- Average global WaterCredit loan repayment rate (since 2007) is 97%.

Water.org does not make microloans directly. Rather, Water.org sees its role as a facilitator of upstream and downstream investments and an accelerator of natural market processes. As such, Water.org connects partner MFIs and watsan organizations with one another to develop watsan financial products and provides strategic counsel directly to these partners as needed.

WaterCredit provides grant capital to underwrite start-up and related “software” activities of developing watsan portfolios, including product development and marketing, market assessments, community mobilization, watsan education/training, and institutional capacity building. In certain cases Water.org may provide credit enhancements, such as guarantees and standby letters of credit, to MFIs to assist portfolio growth. Water.org typically does not provide funding for the loan portfolio itself or related “hardware”; these costs are expected to be borne by MFIs, client and community contributions, and other sources of external capital.

How Does WaterCredit Work?

WaterCredit represents a multi-faceted approach to meeting the watsan needs of people throughout the developing world. Partnerships, innovative financing models, and investments into market development for watsan lending for MFIs and watsan organizations form the foundation upon which WaterCredit programs are being scaled. This is complemented by a variety of WaterCredit learning platforms for the broader microfinance and watsan communities, organizational consulting and advisory services, and other strategic cross-sector linkages both within and beyond the formal WaterCredit ecosystem.

Partnership

WaterCredit creates a new space at the intersection of watsan and microfinance, providing a new way to finance the supply of 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 and households that do not have access to traditional financial markets. This approach efficiently matches capital with watsan demand and MFI clients' ability to repay, thereby empowering people to address their own watsan needs. As WaterCredit loans are repaid, this capital is redeployed to additional people in need of safe water and sanitation.

WaterCredit loans are repaid through a variety of means: typical family income, cost-savings as a result of having a water connection (which can significantly lower a family's average water expenditures), and opportunities to generate additional income by regaining time previously spent fetching water that can now be used for productive purposes. In this way WaterCredit loans are highly income-enhancing and, in some cases, directly income-generating. Water.org expects that income-generating opportunities will increase with scale.

WaterCredit is committed to using different models for partnership and product delivery. This selection depends heavily on the local lending/financing context, the state of the local watsan sector (including coverage rates and identified gaps), as well as local laws and regulations governing MFIs, NGOs, and investments.

Similarly, WaterCredit seeks MFI partners that represent a diversity of legal structures, sizes, geographic reach, and overall scope of microfinance activities. Water.org has considerable experience with identifying, evaluating, and certifying organizations for WaterCredit partnership. As part of this, Water.org conducts WaterCredit readiness assessments and also engages specialist consultancies regarding local issues, as appropriate.

WaterCredit currently operates in India, Bangladesh, Kenya, and Uganda, and has partnerships with non-profit MFIs, for-profit MFIs, and non-profit watsan NGOs. WaterCredit is growing globally in terms of breadth and depth of microfinance sector partners, countries, and financing models.

A core WaterCredit objective is to launch programs in new countries in Latin America, Southeast Asia and Africa, and to expand the WaterCredit network of partner organizations and funding commitments accordingly. Water.org also actively engages with local and international microfinance networks, associations, and apex organizations toward these ends.

The role of MFIs within WaterCredit is catalytic. Water.org strongly encourages interested MFIs to propose WaterCredit models, products, and lending methodologies that they believe are suitable to their particular needs, clients, goals and circumstances. Candidate MFIs are also encouraged to highlight the areas of watsan expertise and other "software" activities where strategic support from Water.org and local watsan service providers would be most helpful.

Information regarding MFI partnership criteria is available upon request and on the WaterCredit website, <http://watercredit.org>.



WaterCredit clients and their families benefit in many ways, including increased time for income-generating activities.

Financing Models

As noted above, WaterCredit does not promote any one particular lending methodology or MFI approach, and Water.org acknowledges that “one size does not fit all” in the watsan and microfinance sectors.

Therefore, as the watsan needs of communities and MFIs’ ability to meet them evolve, Water.org anticipates additional financing models to develop that are appropriate to local context and scalable. Water.org stands ready to assist MFIs in these efforts by providing technical expertise and strategic advice regarding delivery of quality watsan services.

SMART SUBSIDIES

Water.org provides a variety of capacity-building grants to its partners for specific purposes. Water.org calls these “smart subsidies” because, unlike traditional grant capital, they are targeted expressly at specific activities that unleash watsan bottlenecks and enable MFIs to launch, expand, and scale their watsan portfolios, thereby enhancing both efficiency and impact. These activities include, but are not limited to: watsan market assessments; baseline client demand surveys; loan product development, structuring, roll-out and marketing; sanitation and hygiene education and related community-based outreach; and watsan loan tracking technology. Water.org also invests smart subsidy capital in external monitoring, auditing, and evaluation of its WaterCredit partners and watsan portfolio performance. Rather than subsidizing interest rates for MFIs, smart subsidies are designed to build MFIs’ capacity to access capital from commercial sources.

WaterCredit partners are expected to play a leading role in the collaborative process that defines organizational needs and projected expenses in a way that shows shared commitment to the scalability and long-term sustainability of their WaterCredit loan portfolios. For MFIs, this means cost-sharing of certain activities and actively seeking additional sources of external capital to ensure continued WaterCredit portfolio growth.

Key to the success of the capacity-building model funded by smart subsidies is Water.org’s ability to provide strategic watsan expertise and referrals that would otherwise be unavailable, and that in turn prompt MFIs and watsan NGOs, along with funders and other stakeholders, to come forward and play a leading role in the development of sustainable financial solutions for the watsan needs of the communities in which they operate. Over time, as these local cross-sector contacts deepen and internal expertise grows, Water.org is able to taper off its intervention in such situations and shift its efforts to new and younger partners where its support is more critically in demand. The net results of this process include various economic efficiencies and the creation and building-up of local capacity and expertise, which are fundamental keys to long-term sustainability.



Above, WaterCredit loan holders hold their loan documents. Below, the loan disbursement process takes place at WaterCredit partner offices where loan payments are tracked for water and sanitation connections in India.



SUPPLEMENTAL FINANCIAL MECHANISMS

In addition to smart subsidies, WaterCredit provides and/or facilitates the following types of financing to further promote its partners' watsan portfolio expansion and scale:

Credit Enhancements: Under certain circumstances, WaterCredit facilitates various forms of credit enhancement to its lending partners to help attract additional capital to WaterCredit programs.

Examples of credit enhancements that may be used by WaterCredit partners include: guarantees; first loss loan reserves; standby letters of credit; and foreign exchange mitigation instruments. Water.org considers the need and amount of credit enhancement on a case-by-case basis, taking into account local law, products offered projected portfolio growth, the partner's financial soundness and its ability to structure and manage these tools.

Revolving Loan Fund: In select cases, Water.org may provide grant capital to watsan NGOs that have established or seek to establish a microfinance unit for WaterCredit loans, but do not have access to other forms of outside capital. (As stated previously, Water.org's smart subsidy approach with MFIs does not subsidize the cost of capital, including interest rates.) This is an important step to bring NGOs into the watsan finance space; due to NGOs' typical lack of financial market access, additional capital to spur such engagement is often required. This seed capital may be used to fund activities such as mobilization of women into self-help groups (SHGs), health and hygiene education, financial management training, and technical assistance. With these funds, the participating watsan NGO is subsequently able to set up a revolving loan fund (RLF) to make loans to 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. As with MFIs, watsan NGO SHGs repay the loans on pre-negotiated terms that ensure loan portfolio sustainability.

Learning Platforms

WaterCredit represents a foray into new territory for both the microfinance and watsan sectors. As such, Water.org recognizes the need for information to be shared efficiently on multiple levels, both online and offline. Water.org is also keenly aware of the importance of enabling watsan and microfinance practitioners – whether or not part of the official WaterCredit network – to learn from one another, and seeks to promote a variety of cross-sector educational opportunities accordingly.

The WaterCredit learning platform is manifest in several ways, the principal of which is the WaterCredit website: <http://watercredit.org>. This website is a public resource with information for anyone interested in the intersection of water, sanitation and microfinance. More generally, its objective is to encourage and highlight financial innovations that address watsan issues across a broad spectrum. To that end, Water.org welcomes submissions regardless of formal affiliation with WaterCredit.

Content currently on the WaterCredit website includes information about how WaterCredit works, WaterCredit Forums and other cross-sector workshops, dynamic mapping features, and a variety of papers and reports focused on microfinance for water and sanitation. In the future, Water.org may develop a password-protected site for WaterCredit partner organizations to connect directly with Water.org and others in the WaterCredit network. Together, these offerings serve the overarching goals of the WaterCredit learning platform to provide insight and guidance to those organizations that wish to launch their own loan portfolios focused on water- and sanitation-related products and services, both now and in the future.



World Water Day Celebrated in Tamil Nadu, India. Water.org is committed to promoting WaterCredit research, learning, and knowledge dissemination, and seeks to generate a movement – and spur opportunities for microfinance, water and sanitation innovation – that extends far beyond the organization itself.

Watsan + Microfinance Consulting and Advisory Services

In addition to developing dedicated WaterCredit programs with certified partners and learning platforms to serve the broader microfinance and watsan communities, the Water.org team advises external stakeholders (such as development banks, microfinance associations, and private sector organizations) about the viability of watsan and microfinance initiatives throughout the developing world. Water.org is uniquely positioned in this regard because it has in-house watsan and microfinance experts that actively collaborate and build best practices together. This enables Water.org to share information effectively and efficiently, both internally and with external partners. This is especially the case in countries where Water.org does not currently operate, as the team is able to leverage lessons learned elsewhere, build upon other stakeholders' knowledge of new geographies, and foster additional cross-cutting linkages as a result.

WaterCredit MFI Benefits

For MFIs seeking to grow, expand their activities, effectively meet the core needs of their clients, and pursue their social mission, WaterCredit offers many benefits. A WaterCredit portfolio:

- Offers **new, scalable, and sustainable financial products** to meet critical basic needs;
- Establishes **in-house water, sanitation, and hygiene expertise**;
- Empowers **female clients** and their families;
- Facilitates **increased time for clients that can be used for productive activities** such as **income generation** and **education**;
- **Addresses and achieves multiple Millennium Development Goals (MDGs)** simultaneously;
- **Reduces the spread of water-borne diseases** among clients and their families;
- Creates the potential for financing of small **water-based enterprises** over time;
- **Increases discretionary, disposable income** when borrowers can access water directly rather than only from the local "water mafia"; and
- **Creates valuable, efficient linkages** between MFIs, watsan organizations, service providers, governments, and funding institutions.



WaterCredit learnings in India hold promise for others.



WaterCredit: The Next Chapter of Innovation

WaterCredit is currently at an inflection point and is poised for significant growth. To meet projected expansion goals and strategic objectives, Water.org is:

- Managing complex programs on the ground, and partnering with organizations that can build and operate WaterCredit portfolios at a **“game-changing” scale**;
- Working with a **diverse set of MFI partners**, funders and other financial institutions to attract **additional capital** to the WaterCredit ecosystem;
- Identifying and prioritizing **new markets and models for WaterCredit expansion**;
- **Directing “smart subsidies” to MFIs** to establish WaterCredit portfolios;
- **Consulting with socially motivated and blended-value investors in search of bankable deals**;
- Engaging civic organizations, such as local governments and water utilities, to **foster the growth of civic, grassroots, and public sector capital in watsan solutions and systems** over the long-term;
- **Refraining from making investments that distort** credit and environmental services markets; and
- Playing an active role to **improve knowledge and foster best practices** within the watsan and microfinance sectors, recognizing the value of **exchanges and partnerships**.

Water.org is well-placed to work directly with philanthropic donors and social and commercial investors to take WaterCredit to new levels of global scale. Water.org has continually grown its program and funding base, including a \$4.1 million grant from PepsiCo Foundation (to seed WaterCredit in south Asia), a \$3.6 million grant from The MasterCard Foundation (for WaterCredit expansion in east Africa), a \$3 million grant from Caterpillar Foundation (for WaterCredit expansion in India and an assessment of Indonesia), and an additional landmark \$8 million grant from PepsiCo Foundation (for further WaterCredit expansion in India). With complementary social and financial return objectives, WaterCredit provides a unique opportunity for these and other like-minded funders to make an impact while jumpstarting market-based solutions to the global water and sanitation crisis.

In order to achieve a long-term, global WaterCredit market, Water.org seeks early, catalytic philanthropic investors to scale portfolios in current geographies while expanding into new markets. Water.org projects that an additional \$20 million in philanthropic capital could attract as much as \$80 million in social and commercial investment capital over the next five years, quadrupling the size of today’s WaterCredit market. This expansion could reach more than 2.1 million people with new or improved access to water and sanitation, provide a new customer base to water and sanitation service providers, spur increased demand for services across the market, and incentivize broader national and foreign investment in watsan infrastructure improvement and expansion.

An important element of Water.org’s next stage of growth will focus on connecting investments in WaterCredit and partnerships with MFIs directly with public and private utility providers and their investors. This direct connection will improve investor confidence in expanding service provision to the poor – a customer base that is typically overlooked. The success of WaterCredit demonstrates that poverty is not absolute and that there is a significant segment of the poor who are willing and able to pay for services when affordable financing is available. Over the long term, as additional investments are made to expand WaterCredit and watsan service provisioning, the level of philanthropic investment required to jumpstart this market will decline, thereby allowing subsidies to be strategically channeled to the absolute poor for whom credit-based solutions may not be viable.

As part of a global review, Water.org has identified several new countries for potential expansion, while continuing to focus on building a robust pipeline of potential new partner MFIs in the countries where Water.org currently operates. Water.org invites MFIs, watsan organizations, catalytic philanthropists, and social investors interested in providing safe water and sanitation access to the world’s poor in innovative, scalable ways to join Water.org and WaterCredit on this journey.

ABOUT WATER.ORG

What is Water.org?

Water.org is a U.S.-based non-profit organization that has transformed hundreds of communities in Africa, South Asia, and Central America by providing access to safe water and sanitation over the past 21 years. Founded by Matt Damon and Gary White, Water.org works with local partners to deliver innovative solutions for long-term success. Learn more and make a difference at <http://water.org>.

FOR MORE INFORMATION

More information about WaterCredit is available on the WaterCredit website, <http://watercredit.org>, and also on the main Water.org website, <http://water.org/watercredit>.

For additional information, please contact April Rinne, Director of WaterCredit, at arinne@water.org.

