

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. 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.

The estimated global demand for microfinance for water and sanitation is **\$12 billion**, which would meet the watsan needs of **hundreds of millions** of people.

Why is WaterCredit Needed?

The amount of public and private financing currently available to finance the watsan needs of the developing world 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). 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 expertise.

Historically, the use of public and development funds for watsan programs has benefited those who need the programs the least: 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 six hours per day walking to/from water sources and queuing for water – preclude activities such as income generation and education, 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 recognizes 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, provide strategic watsan expertise, and expand the impact that microfinance for water, sanitation, and hygiene can provide.

What Does WaterCredit Provide?

WaterCredit brings together watsan non-governmental organizations (NGOs), microfinance institutions, commercial banks, financial intermediaries, and related service providers to increase access to safe water and sanitation among impoverished households through the creation of watsan loan and savings products. WaterCredit focuses on individual- and household-level microloans that are typically provided through self-help group models and targets a price range appropriate for clients at the base of the economic pyramid.

Currently, WaterCredit microloans are made for household water connections, toilets, sinks, tube wells, and rainwater harvesting equipment. 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 purview of MFIs. Moving forward, Water.org will continue to review opportunities to expand WaterCredit for micro-utilities, small water- and sanitation-related businesses for income-generating purposes and provide seed and growth capital for watsan entrepreneurs with scalable business solutions.

WaterCredit Today

- 14 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.
- \$2.3 million invested by Water.org in WaterCredit, which has leveraged approximately \$5 million in additional capital from financial institutions.
- More than 24,000 loans have been made and more than 182,000 people benefited directly from WaterCredit.
- Borrowers have taken \$3.1 million in WaterCredit loans to date. The average WaterCredit loan size is \$130.
- 90% of WaterCredit loan recipients are women.
- Average global WaterCredit loan repayment rate is 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.

Water.org does not provide loans directly. Rather, we see our role as a facilitator of upstream and downstream investments 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 counsel directly to these watsan NGOs and MFIs as needed.

WaterCredit provides smart subsidy capital to fund the “software” costs of watsan loan product development, market assessments, community mobilization, education/training, and capacity building. In certain cases Water.org may provide credit enhancements such as guarantees or standby letters of credit to MFIs for their watsan portfolios. Water.org does not 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.

How Does WaterCredit Work?

WaterCredit represents a multi-faceted approach to mitigate the watsan needs of communities throughout the developing world. Partnership and innovative financing models for MFIs and WSH NGOs are the foundation upon which WaterCredit programs can be scaled. This is complemented by microfinance and watsan consulting and advisory services, online and offline learning platforms for the WaterCredit community, and other linkages that can develop over time both within and beyond the formal WaterCredit ecosystem.

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 product 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.

WaterCredit currently operates in India, Kenya, and Bangladesh, and has partnerships with non-profit MFIs, for-profit MFIs, and non-profit watsan NGOs. We have recently certified WaterCredit partners in Uganda as well, with pilot programs underway in 2010. We are growing WaterCredit 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 East and West Africa, Southeast Asia, and Latin America, and expand our network of partner organizations and funding commitments accordingly. We also actively engage with local and international microfinance networks and apex organizations towards these ends.

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.

Information regarding MFI partnership criteria is available upon request and provided online at www.water.org/watercredit.



Gary White, Water.org executive director and co-founder in Bangladesh to discuss WaterCredit in a community.

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:



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)

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.



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.

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.



Woman utilizes her new hand pump made possible through a WaterCredit loan in Bangladesh.

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. 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 hand pumps, 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. For these and related reasons, Water.org does not currently engage in CBO-led financing models.

Watsan + Microfinance Consulting and Advisory Services

In addition to developing dedicated WaterCredit programs within the Water.org partner network, the Water.org team can advise external stakeholders such as development banks, microfinance associations and innovative 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 us 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 we are able to leverage lessons learned elsewhere, build upon other stakeholders' knowledge of new geographies, and foster additional cross-cutting linkages as a result.

Learning Platforms

WaterCredit reflects a foray into new territory for both the microfinance and watsan communities. As such, Water.org recognizes the need for information to be shared efficiently on multiple levels and the importance of enabling watsan and microfinance practitioners – whether or not part of the official WaterCredit network – to learn from one another.



WaterCredit learnings in Kenya hold promise for others.

The WaterCredit learning platform is manifest in several ways, the principal of which is the WaterCredit website (launching in 2010). This website is intended to be a “technical university” for anyone interested in the intersection of watsan and microfinance. It is not devoted to the promotion of WaterCredit alone, but rather seeks to encourage (micro) financial innovations that address watsan issues more broadly.

The public WaterCredit website provides reports and other information related to these topics and encourages submissions from individuals and organizations regardless of affiliation with Water.org. This is complemented by a password-protected site for WaterCredit partner

organizations; here they can 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 who wish to launch their own loan portfolios focused on water- and sanitation-related products and services, both now and in the future.

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:

- Offers **new, scalable, and sustainable loan products** that supports critical basic needs;
- Establishes **in-house water, sanitation, and hygiene expertise**;
- Empowers **female clients** and their families
- As a result of watsan loans, clients’ time can be used for other **productive activities** such as **income generation** and **education**;
- **Addresses and achieves multiple Millennium Development Goals (MDGs)** simultaneously;
- **Reduces the spread of water-borne diseases**, bolstering the amount and quality of time available to clients
- Over time, WaterCredit creates the potential for financing of small **water-based enterprises**;
- In certain cases, WaterCredit results in an **increase in discretionary, disposable income** when borrowers can access water directly rather than only from the local “water mafia”;
- Creates **linkages** between MFIs and watsan NGOs, services provides, and potential funders.



WaterCredit 2.0: The Next Wave

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

- Partnering with organizations that can build and operate WaterCredit at a **“game-changing” scale**;
- Working with a **diverse network of MFI partners** 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;
- Providing the **management nexus** between good capital and good watsan investment projects;
- Engaging civic organizations, such as local governments and water utilities, over time to **foster growth of civic capital and grass-roots, public sector investment in sustainable solutions**;
- **Abstaining from interfering with effective credit** and environmental services markets, and refraining from making investments that distort such markets;
- 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.

In order to reach its goals for WaterCredit, Water.org is attracting a blend of smart subsidy (grant) capital to certify new MFI partners and establish and scale WaterCredit programs throughout the developing world. We also seek leveraged investment capital for current partner MFIs’ portfolio growth. We believe that an additional \$20 million in smart subsidy capital could attract as much as \$80 million in leveraged social and commercial capital over the next five years. This would allow us to reach more than 2.1 million beneficiaries directly and create numerous indirect “ripple effects” extending water and sanitation far beyond the communities served. As costs per beneficiary continue to decrease and our partners achieve greater scale, our outreach will further increase and position us to provide transformational funding to tackle additional identified financial bottlenecks in the watsan sector.

Water.org projects to spend approximately 65% of these funds in Asia, 20% in Africa and 15% in Latin America; anticipated funding will dovetail with expected new program growth in these regions. We have identified several new countries for potential expansion, based on a combined assessment of the microfinance and watsan sectors. We have also built a robust pipeline of potential new partner MFIs in the countries where we already operate. We invite 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 us.



What is 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 Mr. Damon, and WaterPartners International, which was co-founded by Mr. 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 thousands of people in South Asia, Africa, and Latin America.

FOR MORE INFORMATION

More information about WaterCredit is available on the WaterCredit website: www.water.org/watercredit. For additional information, contact April Rinne, Director of WaterCredit at arinne@water.org.

