

WaterCredit Advisory Services

Global Engagement Update

October 2014

Current Partnerships

Equitas (a microfinance institution (MFI) based in Chennai, India, with 1.9 million clients): Water.org CEO Gary White handed out the first sanitation loans from this initial WaterCredit Advisory Services (WCAS) engagement in August 2014. The goal of the partnership is to reach at least 30,000 households in a three-year period.

New Partnerships

ASA Philippines (MFI based in Manila, with a presence in 80 of 82 states in the Philippines): Through this WCAS engagement, Water.org seeks to reach a minimum of 2,000 households with water and/or sanitation loans in a nine month pilot. ASA Philippines decided to begin its WCAS program with a pilot in nine disparate, poor states, because they suspect that the learnings will be very different in the varying topography of the island-nation, therefore they can adjust and fine-tune their water supply and sanitation (WSS) product offerings post-pilot, for the roll-out.

Satin Creditcare Network Ltd. (MFI based in Delhi, with a branch network in ten states in Northern India): Through this WCAS engagement, Water.org seeks to reach a minimum of 2,000 households with water and/or sanitation loans. Satin would like to use the (expected) success of the pilot to fundraise for the dedicated WSS loan capital from social investors.

In both of these new engagements, Water.org is contracting third-parties for the following work:

- Targeted market research in the pilot areas;
- Water, sanitation and hygiene (WASH) education curriculum development;
- Training of MFI staff on WASH education and how to use the curriculum to trigger loan demand;
- Training of local masons on appropriate technology and construction techniques; and
- Training MFI staff on loan verification.

In order to advance these negotiations, the WCAS team has utilized had a local consultant in the Philippines and the Water.org microfinance Institution program manager in India. This model of staff-sharing between WCAS and WaterCredit Programs allows for close coordination with the Regional Managers.

Alternative Channels

Water Operators – Cambodia: An August trip to Cambodia was extremely informative. With the assistance of a local consultant, Kakada Dourng, Water.org learned that a combination of state-owned utilities and private water operators supply safe water to households in Cambodia. There are currently 15 state operators situated in Phnom Penh and major cities in Cambodia, while there are about 300 private operators across the country, which account for less than 30 percent of all

water connections. (The Phnom Penh Water Service Authority (PPWSA),¹ a state-owned operator, serving Phnom Penh and the capital city of Kandal province, account for 72 percent of all water connections in Cambodia, indicating the real urbanization of Cambodia's population.)

Water.org plans to capitalize on a productive relationship with the World Bank's Water & Sanitation Program (WSP) by working with a number of private water operators who have participated in WSP's capacity-building program. These operators have built piped-networks and treatment plants, and serve paying customers in the rural areas. A sample private water operator with 5,000-10,000 customers in a newly-licensed area may gain 50 percent of those customers within the first six months of offering service; Water.org can assist with attracting the remaining 50 percent.

Our proposal is to offer qualified operators WASH education and outreach materials to market their water connection services. Once materials have been drafted for one operator, they can be shared with all the operators in the program. Water.org may also provide WASH education training and incentives for one-two years of mobilization agents to increase uptake in coverage areas. A third prong of the assistance would be guidance on development of an operator-financed, installment payment plan (or introduction to a local MFI branch if the operator wants to outsource the financing), to capture the poorer households who need help paying for the US\$100-\$130 water meter and connection fee. Water.org would tailor the intervention for each operator's needs.

The economics of the situation are highly promising for Water.org in terms of philanthropic investment. Water.org estimates that it would cost approximately US\$10,000-\$15,000 for one-time WASH material creation and training and mobilization. With 7,000-10,000 potential households, this engagement would cost around US\$1 per beneficiary or less. Water.org plans to pilot several of these engagements in FY15.

Water operators – Paraguay: In November 2014, Water.org's WASH engineer in Lima, Peru, Humberto Cáceres, will travel to Asuncion, Paraguay, to assist Fundación Paraguaya (FP), an MFI, in developing a work plan for a collaboration with Advisory Services. This promises to be an informative engagement, because in addition to making individual and group loans to poor micro-business owners in peri-urban and rural areas, Fundación Paraguaya counts among its clients, Aguaterias (private water operators) and Juntas (community water associations). The State has a relatively low-functioning water utility, hence the profusion of alternative water suppliers in peri-urban areas in Paraguayan cities.

Aguaterias function similarly to the private water operators in Cambodia, in that they are responsible for their cap-ex investments, and they are generally well-managed by well-connected businessmen. Fundación Paraguaya extends loans of 7-10 years, with an average value of US\$75,000 to the Aguaterias. Juntas, on the other hand, are managed by representatives from the community, predominantly without a business background, and the individuals only stay in office for 2-4 year terms, so they do not have the same incentive to continue repaying their loan, even though the Juntas only pay for maintenance to their network infrastructure, hence their loan payments are relatively low. While still undefined, one of WCAS' roles in this upcoming

¹ WSP (2014) White Paper: Private Piped Water Suppliers in Cambodia- A market opportunity for bank.

engagement will be to advise Fundación Paraguaya on ways to lower their risk profile on their portfolio.

Remittances –Bangladesh: For the past two months, Water.org has worked with a local consultant in Dhaka to research the remittance landscape in Bangladesh, and the potential to create specific WSS remittance products. The consultant's activities include a combination of: market research, WSS financial product design, systems development, product marketing, and presenting the WaterCredit program to financial institutions, product manufacturers, domestic and international remittance services and mobile network operators (MNOs).

The idea is to pilot domestic, urban-to-rural, WSS remittance products via the MNO. (ie: urban-based family members in Dhaka, with relatively higher income levels, will purchase and pay for, over time, WSS products to be installed in the home village of their relatives.) Another angle we will explore is the remittance market of the diaspora, which currently contributes to 30 percent of Bangladesh's GDP. This concept presents a huge opportunity for WCAS growth, because remittance capital is new money, outside the "closed system" of microfinance institutions. Once consultant's report is finalized in early November, WCAS staff will travel to Bangladesh to follow-up on identified potential partners for a pilot.

Remittances – Peru: In Peru, Humberto has begun by meeting with a local remittance provider and identifying a nationwide product manufacturer to supply the WSS product materials. The remittance flows in Peru are interesting, because while Japan traditionally absorbed many Peruvian immigrants, this wave is now over ten years old, these "new Peruvians" are no longer new but well-established, and their families in Peru do not need basic toilet connections or improvements, having already benefitted from remittance flows and made the necessary home improvements. However, new remittance flows to Italy and Spain show a recent wave of younger and poorer Peruvian immigrants, with whom Water.org would like to pilot this concept.

Water.org would assist with:

- A market assessment to judge demand;
- Developing marketing material appealing to the diaspora;
- Technical assistance developing the remittance product; and
- Securing the participation of the WSS materials provider.

In Peru, due to higher costs (US\$1,000 to construct toilets at 5x the cost in India and Bangladesh), there may need to be a financing component for part of the total cost of the WSS product, as the average remittance size is around US\$200. In this case, we will also need the participation of a bank or cooperative, to offer a loan package for the outstanding amount. Water.org is also considering WSS remittance pilots in the Philippines, Indonesia and India.