

Water Quality Loans | Policy Update

Water.org counts water quality products via financing as part of our impact. Addressing water quality challenges is a part of the organizational FY 18-22 strategy and is a specific objective under the vision of SDG6. Water.org encourages water quality improvements that target the base of the pyramid and address water quality challenges through a market-based approach.

Specific policy & practice requirements are in place to ensure a balanced product portfolio and the quality standards of the water quality products that enable safer water for those we serve.

Policy Requirements

Our policy for water quality loans is as follows:

- 1) A 35% global portfolio cap on water quality loans is in place across all countries.

Responsible: MEL monitors the global portfolio and notifies International Programs leadership if it approaches 35%.

Accountable: Chief Programs Officer

- 2) Water quality loans shall be counted as impact in a similar fashion as other water and sanitation products. Staff should adhere by our impact guidelines, found on the MEL Hub, on counting impact from water quality products.

Responsible: Program Managers

Accountable: Country Directors

- 3) Intervention designs: Program staff shall encourage partners to consider diverse loan products that include both access and quality per demand. For intervention designs that specifically include water quality loans, the designs should incorporate the purpose, value, and how the partner will manage the risk and monitoring of water quality products.

Responsible: Program Managers

Accountable: Country Directors

- 4) Monitoring: Among direct (L1) interventions, Water.org's standing recommendation is for partners to monitor and report upon the subcategory of WSS loan products including water quality loans and partners shall do so when feasible. Teams would need to closely monitor:

- a. The percent of water quality products as it relates to the entire portfolio
- b. Income levels of water quality loan borrowers to ensure they do not skew too much toward lower (<\$1.90) or higher (>\$6/day) income groups.

Responsible: Program Managers

Accountable: Country Directors

- 5) Water.org monitoring visits: Water.org staff shall conduct household visits among water quality loan takers for interventions with more than 25% of their WaterCredit portfolios being water quality loans. The monitoring visits would provide information on what type of water quality products are being purchased, which in turn would inform strategies with partners. Monitoring visits would be conducted by staff or 3rd party.

Responsible: Program Managers to conduct program monitoring visits and identify budget during the design phase if the intervention is expected to have more than 25% of loans for water quality.

Accountable: Country Directors

- 6) Direct (L1) intervention partners offering more than 10% of water quality loans across their portfolio are required to develop and provide the following to their clients:
- Information that summarizes how filters are certified by testing organizations
 - Disclose that not all filters are certified
 - Disclose which filters that are being recommended or required by the partner have been certified by a testing organization and of their results.

Collective (L2) intervention partners are not required to provide the above information to their clients, as we typically have less control with how the partners are reaching their clients. However, Water.org staff should develop and provide the partners a primer with information summarizing what filters are certified in the country and of their results and encourage partners to provide this information to their clients.

Responsible: Program Managers
Accountable: Country Directors

- 7) Water.org staff conduct an annual assessment to 1) learn if any new local water quality certification bodies are available in their markets and update country materials 2) review products listed or promoted by active partners for quality 3) and advise partners accordingly.

Responsible: Program Managers
Accountable: Country Directors

Background materials

The following reference materials provide background information that have informed this policy update.

1. Summary of the water filter certification research from June 2018
2. Water quality loan policy key changes from April 2018
3. Water quality policy guidelines from February 2018

For convenience, these reference materials are found below.

Summary of water filter certification research from June 2018

Summary

In April 2018, the Water Quality Loan Consultation Group released key changes to Water.org's guidelines for considering, measuring, and reporting water quality (WQ) improvements arising from WaterCredit lending. Water quality loans were approved by leadership and fully counted as part of Water.org's metrics. However, questions remained about the quality of the water quality loan products and if further policy was needed.

As a next step, the Monitoring, Evaluation, and Learning (MEL) team conducted research to understand what type of water quality products are offered by our partners and to assess which of these products have been tested and certified to industry standards. Surveys were conducted in our top water quality loan markets; India, Philippines, and Indonesia. The aim of the research is to develop recommendations for the organization concerning our water quality loan product types based on the research findings.

We identified the Water.org partners disbursing water quality loans and surveyed the respective Program Managers. The questionnaire asked for product details on manufacturer, brand name or model, and product description. This research was limited because not every partner disclosed product information, the response rate was 20 out of 25 partners, and we did not have individual loan record data on the specific Water Quality product types.

To understand which water quality loan products have been tested and certified we used data from the most reputable water quality product testing bodies including the NSF Intl., the American National Standards Institute (ANSI) and the Water Quality Association (WQA)¹.

Findings

The findings of our initial review show that most water quality products in the WaterCredit lending portfolio are certified and verified. The reality is that certification bodies are not always accessible and products that are certified are not always available in local markets. We recommend the following for active partnerships offering water quality products:

The first review of the current water quality products concluded in June 2018. As of June, our partners have disbursed over 80K water quality loans. These loans have been disbursed in six countries and make up 3% of the global WaterCredit portfolio, with the highest share in the Philippines.

We are aware that our partners have promoted about 30 unique water filter products. The majority of the filters are certified. Over 60% of these products have been certified by either NSF Intl. or a 3rd party laboratory. Within the Philippines all the filter products have certifications, which comprises nearly 50% of the water quality loan portfolio.

Country	Water Quality Loans	Filter Products Available	Products with Certifications	Percent of Products with Certification
Philippines	38,605	3	3	100%
India	23,610	14	9	64%
Cambodia	9,747	4	3	75%
Indonesia	7,234	6	3	50%
Bangladesh	979	4	1	25%
Ethiopia	159	NA	NA	

¹ NSF Standards for Water Treatment Systems ([available here](#))

Water.org Water Quality Loan Policy | key changes

Summary

The CEO and President have recently reviewed and made changes to Water.org’s guidelines for considering, measuring, and reporting water quality (WQ) improvements arising from WaterCredit lending. These changes are the result of recommendations made by the Water Quality Loan Consultation Group which was comprised of representatives from IP. The group conducted a series of data analyses, surveys, and focus group discussions to determine the best options for adjusting the WQ loan policy.

Context

The interest in re-evaluating the organization’s WQ loan policy stemmed from a number of contextual factors, including the following:

- The inclusion of water quality via financing within our strategic guardrails, which was noted as an area for future growth to achieve greater impact.
- Feedback from partner organizations believe that there is higher demand for WQ products than what is manifested and counted within our current programs.
- Members of our existing and potential donor base that continue to remain interested in achieving water quality improvements.
- Water quality is now a specific objective referenced under achieving the vision of SDG6.

Key Policy Changes

In November 2013, Water.org began enabling its WaterCredit partners to offer WQ loans to their clients for WQ improvements. The key changes to this policy are summarized in the table below:

Previous Policy (2013)	Current Policy (2018)
Loan Cap	
<ul style="list-style-type: none">• Targets for water quality products vis a vis partners’ WaterCredit portfolios and caps water quality loans will be set at no more than 25% of the overall water portfolio.• Water.org will not include water quality improvements within its impact numbers of loans and people reached.	<ul style="list-style-type: none">• The individual program cap of 25% or less has been lifted. Water.org will have a global cumulative cap across all countries, partners, and programs of 35% (with the possibility of eventually raising to 50%).• People reached through water quality improvements are now be counted in our organizational official numbers. We will be retroactively counting people reached since FY16.
Advice and Guidance	
<ul style="list-style-type: none">• Water.org does not attempt to delineate specific water quality products or set criteria that water quality products must abide by for our partners.• We provide accurate, locally-available data to partners so they can understand the variety of options available in the market and set loan sizes and terms accordingly.• Water.org should take an active role in providing accurate, locally-available data to partners so they can understand the variety of options available in the market and set loan sizes and terms accordingly.	<ul style="list-style-type: none">• Water.org will continue to refrain from endorsing specific products.• We will research the top 3 filters on the market in India, Philippines, and Indonesia.• We will reach out to NSF (National Sanitation Foundation) and to relevant in-country local agencies that focus on testing filters to gather any relevant information and share this across our in-country partner networks.• Water.org will provide country teams with a list of filters that are meeting the basic standards.
Other decisions	
	<ul style="list-style-type: none">• We will look at country level distributions of people reached by income and consider how to set targets for reaching income levels at the BOP for all loan types.

Next Steps

The MEL team will work across regional and country teams to operationalize these changes for existing and new partnerships. Please reach out to them if you have any questions.

Executive Summary

This document outlines a set of recommendations to the CEO and President regarding changes to Water.org's water quality loan policy put forth by the Water Quality Loans Consultation Group. It also includes background on the current loan policy, an overview of the approaches used to arrive at these recommendations, and other options considered by the group.

Background and Context

In June-July 2017, Water.org's Director of International Programs (now Chief Programs Officer) prepared and discussed a proposal with the CEO and President to review and suggest potential recommendations for changes to Water.org's guidelines for considering, measuring, and reporting water quality improvements arising from WaterCredit lending. With the support of leadership, the CPO convened a Consultation Group to consider what changes, if any, should be made in light of the new five-year strategic plan and the inclusion of quality measures under the definition of improved services in the UN/WHO JMP framework. The Consultation Group was comprised of representatives from the IP's regional teams (Global Operations) and its Global Practice areas (MEL, EP and WaterCredit Adoption). The group was also responsible for soliciting input across country and functional teams to gauge their perceptions of current WQ policy applications on the ground.

The interest in reevaluating the organization's WQ loan policy stems from a number of contextual factors. Most recently, water quality issues were considered in the development of the organization's recent strategic plan, wherein improving water quality via financing was included within our strategic guardrails and was noted as an area for future growth to achieve greater impact. Moreover, water quality is now a specific objective referenced under achieving the vision of SDG6. Previously, quality measures were not considered under the definition of improved services in the UN/WHO JMP framework. They are now specifically referenced as important toward achieving safely managed water supplies.

Prior to and during the review process, some country team members (and their US counterparts) have also asked whether we should consider raising the 25% cap on counting water quality improvements within a given partners' WaterCredit portfolio or eliminating it altogether considering our new strategy and feedback from partner organizations. Some believe that there is higher demand for WQ products than what is manifested and counted within our current programs. Members of our existing and potential donor base also continue to remain interested in achieving water quality improvements.

Current policy

In November 2013, Water.org began enabling its WaterCredit partners to offer WQ loans to their clients for WQ improvements and have these loans count as part of our organization's overall reporting of objectives and impact. This shift in practice occurred in response to suggested demand for WQ products from partners, interest from some of our restricted funding donors around water quality objectives, and to align more closely with the mission of the organization. This resulted in the development of a loan policy which included the following:

The current policy includes targets for water quality products vis a vis partners' WaterCredit portfolios. If partners have specific water access targets, Water.org first works with them to establish those targets and then caps water quality loans at no more than 25% of the overall water portfolio. If partners are achieving their targets on the water access improvement side, they may be allowed to increase the percentage of their WaterCredit portfolios dedicated to water quality on a case by case basis.

Water.org does not attempt to delineate specific water quality products or set criteria that water quality products must abide by for our partners. We provide accurate, locally-available data to partners so they can understand the variety of options available in the market and set loan sizes and terms accordingly.

Approach and Findings

The following mission questions were used to guide the Consultation Group in its approach to determining what policy changes might be needed:

- To what degree should Water.org prioritize water access over water quality vs. allowing partners to offer whichever set of WSS products and consumers to decide which WSS products to choose based on their local markets?
- What is Water.org's approach to water quality at an organizational level? For example, do we guarantee "safe" water in our interventions vs. facilitating market-based approaches that can improve water quality but not uniformly across all loans & partnerships.
- What is the optimal level of guidance that Water.org should provide to its partners and others in the marketplace regarding use of financing for water quality products? For reference, the new strategy noted that Water.org will not endorse specific water quality or treatment devices to its partners or to other stakeholders. The current strategy does allow Water.org to consider a role in advising partners regarding what criteria we may consider important for them and their clients to apply when making decisions about offering and purchasing water quality products.

Methodology

The group conducted a series of data analyses, surveys, and focus group discussions to determine the best options for adjusting the organization's WQ loan policy.

1. Water quality loan data analysis

The MEL team conducted an analysis of existing WQ loan data from the WaterPortal to determine the distribution and characteristics of WQ loans in our current partner portfolios. Results showed that WQ loans constitute roughly 2% of the organization's global WaterCredit portfolio, with approximately 35,000 loans disbursed to date. Other key findings include:

- 9% of partners are disbursing more WQ loans than they are presently allowed to count to date (although we believe some under-reporting in this area is likely)
- The majority of WQ loans disbursed to date are in South Asia (India) and Southeast Asia (Philippines)
- Average loan size for WQ loans is smaller compared to other loan types
- Average monthly household income for WQ loan borrowers is higher compared to non-WQ loan borrowers. The distribution of PPP-adjusted income for WQ loan borrowers is towards the higher end of the spectrum when compared with that of non-WQ loan borrowers, but a large majority of WQ borrowers are still under \$6/day
- As of August 2017, approximately 4,648 WQ loans have been reported by partners and not counted to date (this number is dependent upon the final number loans disbursed per partner)

2. Focus group survey

A survey was distributed to select members of the country teams via Survey Monkey to gauge their impressions of partner and borrower feedback on WQ loans. Overall, results validate trends observed in the WQ data analysis. In general, the country teams surveyed perceive WQ loans as an easy sell and the need for WQ improvements has come up in different ways (through partners and client feedback). Key findings from the survey include:

- Water quality loans are offered to clients at different cycles and as both stand-alone & top-up loans
- Terms and conditions for WQ loans sometimes vary compared to other WSS products (i.e. more often they feature smaller loan sizes and shorter repayment periods)

- Partners and clients have mostly positive feedback on water quality products:
 - Partners feels that WQ loans are a more affordable loan product which brings in new BOP customers and are simpler products to sell than other WSS financing products
 - Clients understand the benefits of better quality water: lower disease incidence (anecdotal) and cost savings (health expenses, less bottled water expenses, etc.).
- Most partners are not reaching/exceeding 25% cap on counting WQ loans
- There is a perceived limited degree of in-country WQ product standards
- There is interest among WO staff to provide some guidelines on evaluation of WQ technologies:
 - Some staff would prefer that Water.org not offer any guidance given perceived risks to Water.org and/or partners if water quality problems persist.
 - Surveyed WO staff proposed different ideas for offering guidance, including: making formal allegiances with product suppliers, developing WQ product primers made for partners and/or clients, raising more awareness on risks of poor water quality, and outlining benefits and appropriate use and maintenance of WQ products to consumers.

Based on analysis of data and survey results, the Consultation Group developed a set of options for A) adjusting the WQ loan cap & B) providing advice and guidance on WQ technologies.

Options Considered

A) Options for the WQ Loan Cap

- Selectively remove/raise the 25% cap (in instances where the cap is limiting impact)
- Keep the cap at 25%
- Remove 25% cap
- Raise the cap to 35%
- Set separate WQ targets

B) Options for Water.org provided guidance

- Water.org partners with other NGOs who specialize in WQ product evaluation and guidance (i.e. Water for People, Safe Water Network)
- Water.org enters into formal allegiances with product suppliers
- Water.org develops WQ product primers which are made available to partners and/or clients
- Water.org helps partner staff raise more awareness on risks of poor water quality
- Water.org helps partners explain benefits of WQ products to consumers
- Water.org helps partners explain appropriate use and maintenance of WQ products to consumers

3. Follow-up survey

A follow-up survey was subsequently sent to the same focus group asking for feedback of the proposed options for adjusting the loan cap and for providing advice and guidance on WQ technologies. The survey results were as follows:

- ***A majority of respondents want to remove or selectively raise cap in countries where the 25% cap is limiting impact:***
 - There is ongoing interest among the country teams in maintaining or adjusting cap to make it less stringent in certain circumstances (with criteria applied) or to have separate sets of targets.
 - Most would be in favor of cap removal.
 - While most partners have not yet reached the cap, the Philippines provides an interesting case study on the reasons behind their high number of WQ loans:
 - Partners find it easier to give WQ loans first (i.e. serving as a gateway loan to other WSS financing products)
 - After an initial spike in loans for filters, water & sanitation loans increase.
 - WQ loans do not surpass water access loans in overall partner portfolios.
- ***Respondents have varying opinions on what Water.org should be providing in terms of advice and guidance on WQ technology.*** The most popular options were:

- Water.org develops and makes available WQ product primers to partners and/or clients
- Water.org helps partners raise more awareness on risks of poor water quality
- Water.org helps partners explain benefits of WQ products to consumers
- Water.org partners with other NGOs that evaluate WQ products

Recommendations

The Consultation group proposes the following recommendations for leadership consideration:

WQ Loan Cap

- 1) Remove the 25% overall cap on WQ loans. As safely managed water is part of the JMP ladder, Water.org should encourage improvements at all levels of the JMP standards for those living at the base of the economic pyramid. Further, the organization's message "safe water and sanitation for all" implies that Water.org needs to value water quality as well as water access. Removing cap restrictions signals to the organization, as well as partners and donors, that water quality improvements are important to improve people's livelihoods within a market-based model.
- 2) Design programs such that partners and Water.org would set overall targets, including access and quality improvements, based on market demand. Setting separate targets for WQ would give partners more flexibility to disburse loans which respond to customer demand. Target setting and refinement would require diligent work with partners to understand demand for various products and to accordingly make projections.
- 3) Monitor and refine projections in both areas over time. If market results are not readily available, partner portfolios could be used for projections. Teams would need to closely monitor the income levels of WQ loan borrowers to ensure they do not skew too much toward lower (ultra-poor) or higher (>\$6/day) income groups.

Advice and Guidance

The level of advice and guidance Water.org would provide on WQ technologies should be context dependent. Water.org should continue to engage in the following areas based on context:

- 1) Advocate for water quality improvements through supporting the design and distribution of educational materials (i.e. primers)
- 2) Offer technical assistance to partners on the importance of and options for water quality products in the marketplace
- 3) Remain technology agnostic as an organization. Water.org will not endorse or recommend specific water quality products.
- 4) Encourage and facilitate dialogue between implementing partners and WSS suppliers where such collaborations could increase the scale, quality, and affordability of partners' WaterCredit portfolios
- 5) Link partner institutions to locally available resources which either collect water quality information or can conduct testing upon request

In addition, Water.org should further explore partnerships with NGOs in some countries that specialize in water quality. Connecting best in class NGOs in this area to financial partners during loan product development could expand our partnerships while also relieving us of the reputational risk associated with inaction or bad action vis-a-vis water quality. For example, the EP team has already facilitated partnerships with UNICEF and IRC at a global level. A few country teams also have good relationships with organizations like Water for People and Safe Water Network. These can serve as examples of how different NGOs can partner for collective impact.

Next Steps

Pending approval of these changes by leadership, the Consultation Group would work with the MEL team to make and communicate policy adjustments across the organization. The MEL team will also work across region and country teams to operationalize these changes for existing and new partnerships.