



Local financing mechanisms for water supply

Increasingly popular micro-finance products are targeted towards income generation activities rather than water and sanitation, as this is not perceived to be so attractive by micro-finance organisations.

However, various financing mechanisms can contribute to the delivery of a sustainable and pro-poor water and sanitation service. As part of this, local financing schemes providing small loans or grants based on revolving and social and development funds are available to local stakeholders.

Microfinance provides access funds to those who are too poor to raise money by any other means. Local level micro finance relies on the principles of social and economic solidarity and is aimed at rural and urban communities with minimal opportunities for earning high incomes.

This briefing note provides examples of local financing mechanisms promoted by NGOs, micro-credit organisations and local government bodies, with examples from Ghana, Kerala (India), Cote d'Ivoire, Uganda and Cambodia.



Headline facts

- The potential of going to scale with local financing mechanisms for water supply focusing on equity (poverty and gender) is not yet realised.
- NGOs not specialised in credit are playing an important role in facilitating local finance mechanisms or acting as intermediaries between micro finance organisations and the poorest clients.
- Sustainability of services requires that financial allocations are firmly linked with empowerment and participation of beneficiaries.
- With institutional strengthening of microfinance structures and improvements in the legal, financial and business environment, microfinance can be developed to enhance the flow of funding to the sector to leverage existing funding sources.



Local Financing Mechanisms in Ghana

Mobilisation of funds

Until the 1990s, the water and sanitation sector in Ghana was under public sector management. Deteriorating sector performance has led to a series of reforms, including restructuring, private sector involvement and community management. This new policy orientation, however, is problematic for the poorest and most vulnerable communities which are required to finance the full cost of operation and maintenance (O&M) of their systems.

There are instances in which subsidies have been given in very poor communities and in those suffering guinea worm and buruli ulcer. However, the real challenge is to increase funds available at community level to sustain the level of continuous financing of operation and maintenance. Locally managed micro-financing systems have been suggested as a possible solution to this and as the potential means by which to move the poor permanently out of poverty.

Microfinance in Ghana

Although microfinance in Ghana is relatively undeveloped, economic reform and financial liberalisation policies now offer increased possibilities for microfinance institutions and products which have the potential to reach the poorest.

Informal financing mechanisms for operation and maintenance in Upper East Region

The women of Zorkor-Kanga in the deprived Bongo district have successfully developed a Susu scheme, an indigenous financial model to pool resources to maintain their water systems. The Susu consists of the collection of regular fixed sums of money from groups of villagers. A loan is then given to one person at a time, until each member of the group is served. About 400 women are involved and 140 homes benefit.

Beginning in 1999, mobilisation of funds has increased using income from ventures such as land preparation, planting, harvesting and housing construction. Beneficiary groups have joint responsibility to pay back the loan with a flat interest rate at the end of the agreed period. In areas of intense poverty, low interest rates are set to entice women to borrow higher amounts to undertake productive activities. By 2004, US\$1.12 was mobilized representing huge savings by one of the poorest communities in the country, enabling the water systems to run continuously throughout the year. Full loan repayments are recorded for each loan cycle.

Pooled resources and revolving funds for capital cost and operation and maintenance

The Association of Water and Sanitation Development Boards (AWSDBs) was established in 1995 in a CIDA-funded rehabilitation project involving 14 communities. A minimum deposit was required for O&M, except from the poorest communities, representing 5% of project capital costs. The communities formed a private association to save the deposit which was then transferred to the watsan sector agency (CWSA). Accumulation of funds has since grown and 22 more communities have joined.

A key strategy for the mobilization of deposits was to establish a reserve fund which is put into short term high return investments. The interest represents a large capital base for member boards in each district for their watsan activities. Credit provision began in 2001 with monies given to 20 water boards for major replacement works. No interest was charged on loans until 1994. Loans granted to member boards have varied from of ₵2m (\$220) to ₵50m (\$6,000), with an average of ₵14m (\$1,555).

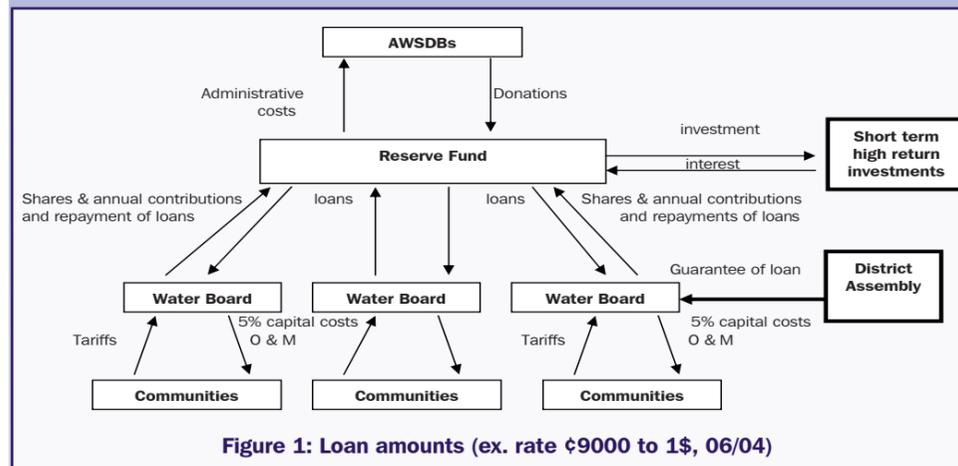


Figure 1: Loan amounts (ex. rate ₵9000 to 1\$, 06/04)

The AWSDBs have now begun to ensure profitability by charging commercial rates. However, a low rate of loan recovery (32%) and continuous withdrawal is depleting reserves available for investment and for operational expenses. Low investment means low returns, reducing its ability to support member boards.

Constraints and opportunities

The main constraints to the success of the AWSDBs are:

- slow level of loan recovery;
- lack of autonomy of boards;
- lack of planning and management skills;
- macroeconomic instability; and
- rising poverty levels.

The main opportunities presented are:

- rapid development of micro finance due to economic reforms and financial liberalization;
- capacity building by the government micro finance programme;
- scaling up potential of the AWSDBs country wide;
- leverage of additional resources by financially sound AWSDBs;
- linkages between AWSDBs/Susu groups;
- promoting the expansion of micro finance through NGOs; and
- local government socio-economic reforms.

Organisational and operational features of AWSDBs and Susu Groups

	AWSDBs	Susu Groups
Organisational characteristics	Credit union	Rotating savings and credit association
Clientele/target group	Water & sanitation board	Community groups
Financing	Members savings	Water revenue & incomes
Product features	Medium size loan & savings product	Small size loan
Conditions for membership	Member of savings & credit association	Member of community group & economic group
Business strategy	Group review	Group review
Guarantees (collateral)	District authority	Group solidarity

Other Local Financing Mechanisms

Rural Infrastructure Fund in Cambodia

GRET, an international NGO, has a Rural Infrastructure Fund (RIF) with a public development bank. This provides medium term loans to local commercial banks to finance investors of piped water systems, providing a guarantee (30%) in case of default. The private sector has installed ten water systems (representing coverage of up to 85%), connecting households with water meters with bills paid monthly.

Graduated taxes in Uganda

District Local Governments in South West Uganda devised an innovative method of financing their rural water supply schemes through a user fee payable with the collection of normal local taxes, which are means tested, with exemptions for the poorest. Funds are collected centrally at the sub-county office, and audited to minimise mis-use. This scheme is not viable in areas of poor graduated tax collection returns, and is susceptible to possible abolition as a vote winning measure during political campaigns.

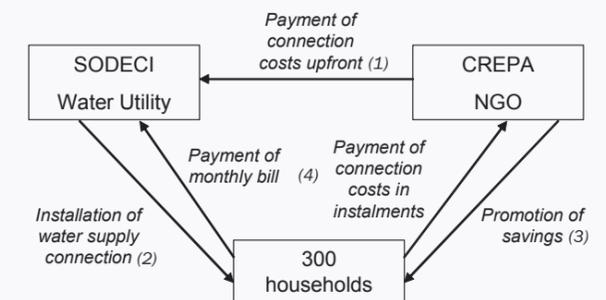


Figure 2: NGO intermediaries in Cote d'Ivoire

NGO intermediaries in Cote d'Ivoire

CREPA, a regional NGO, acts as intermediary between the water company and households. The connection fee is initially paid by CREPA, but then recouped. This is possible due to savings made by households who formerly paid informal water vendors. The advantages of this scheme are that it encourages the savings capacity of women, provides illegal water vendors with alternative employment as bill collectors, and raises awareness about water wastage and consumption by children.

Rural bankers in Kerala

60,000 women's self help groups have been set up in the past eight years under a government programme. A contribution of 25% is required for new water supply systems, added to a government grant. The schemes depend on a local 'champion' in the neighbourhood, with the community providing the labour. Payment is by water tariff depending on usage, the revenue from which is used for O&M. Most self-help groups have also set up micro credit schemes, charging interest at around 12%, for income generation and health related expenses. The repayment rate is high at 95%.

Key elements of an enabling environment

At policy level

- Political support and a legal framework are required in order for private sector investments and micro finance institutions to develop.
- The perceived transparency of financing processes is vital to their sustainability.

At the sub-national level

- Decentralisation is perceived as a crucial element of an enabling environment, because it allows a focus on local level priorities within the planning process.

At community level

- Awareness raising about savings and management of funds is relatively simple and highly effective.
- By recognising the concept of social capital, local financing mechanisms can be sustainable through mutual trust and social pressure.
- I/NGOs and local champions can be the link between finance organisations/ water utilities and the poorest to guarantee loan repayments. Micro finance brings real benefits to the community, without the burden of debt.



This briefing note supports the delivery of pro-poor water and sanitation interventions through viable, innovative financing mechanisms, and strategies to promote these at regional and national level.

Key references

- CHORD. 2000. *Inventory of Ghanaian Microfinance Best Practices*. Report for Ministry of Finance. Non-Banking Financial Institutions Project. Accra
- Daley-Harris, S., 2002. *Pathways Out of Poverty: Innovations in Microfinance for the Poorest Families*. CT Kumarian Press. Bloomfield.
- Gallardo, J., 2002, *A framework for regulating Microfinance Institutions: The Experience in Ghana and the Philippines*. Washington, D.C: The World Bank, Policy Research Working Paper No. 2755

Briefing Note source material by Maxwell Agbenorheri (TREND) and Catarina Fonseca (IRC).

DFID Resource Centre in Water, Sanitation & Environmental Health
www.Lboro.ac.uk/well

Briefing Note compiled by Julie Fisher of WEDC

Photographs by Richard Franceys, Rebecca Scott, and M. Sohail

For further information, contact: WELL

Water, Engineering and Development Centre (WEDC)
Loughborough University
Leicestershire LE11 3TU UK

Email: WELL@Lboro.ac.uk
Phone: 0 (44) 1509 228304
Fax: 0 (44) 1509 211079
Website: <http://www.Lboro.ac.uk/well/>



WELL is a network of resource centres:

WEDC at Loughborough University UK
IRC at Delft, The Netherlands
AMREF, Nairobi, Kenya
IWSD, Harare, Zimbabwe
LSHTM at University of London, UK

TREND, Kumasi, Ghana
SEUF, Kerala, India
ICDDR, B, Dhaka, Bangladesh
NETWAS, Nairobi, Kenya
NWRI, Kaduna, Nigeria

This note was funded by the UK Department for International Development (DFID). The views expressed, however, are not necessarily those of DFID.

Published by WEDC on behalf of WELL