

# MARKET ASSESSMENT FOR WATERCREDIT IN TANZANIA



## EXECUTIVE SUMMARY

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## BACKGROUND

**Water.org is a US-based Non-Governmental Organisation (NGO), focused on pioneering innovative, market-based solutions in order to increase access to water and sanitation services at the base of the pyramid.** Since 2003, Water.org has been implementing WaterCredit, which provides support to financial institutions (FIs) to develop loan products for water supply and sanitation (WSS) services at the household level. The approach is based on the recognition that some FIs are interested in expanding their portfolio into water and sanitation-focused products, in scalable and sustainable ways. Water.org, through WaterCredit, provides strategic expertise and/or financial support to help FIs develop a WSS product line within their portfolio. The application of the model is country specific. While in some countries such as India, the model included partnerships with NGOs, in other countries as in Kenya, WaterCredit was implemented directly by FIs, without support from specialized NGOs.

**In recent months, Water.org has been exploring “Alternative Channels” for water and sanitation financing.** Such alternative channels include mobile banking. This approach would also involve working with new stakeholders, such as mobile phone service providers and has the potential to increase Water.org’s reach and impact. Water.org is also seeking to identify opportunities to support small and medium-size enterprises (SMEs) involved in water and sanitation service delivery. In addition, Water.org is interested in exploring possible synergies with agricultural and housing lending.

**As the NGO is seeking to extend its operations to Tanzania, Water.org commissioned a market assessment for introducing the WaterCredit model and the potential of alternative financing channels.** The specific objectives of this market assessment are to:

- Identify gaps and opportunities for Water.org in the water and sanitation markets in Tanzania;
- Identify demand for WaterCredit and/or alternative financing channels;
- Identify trends and performance of the Tanzanian financial sector, especially in microfinance and social lending sub-sectors (including housing and agriculture); and
- Identify potential partners among FIs, government institutions and services providers for rolling-out WaterCredit and/or alternative financing channels.

The market assessment was conducted through a desk-based research to review water and sanitation markets and the financial sector (with a focus on lending to social sectors) and field visits to identify the value proposition and interest from stakeholders for launching WaterCredit in Tanzania and/or using alternative financing channels.

## MAIN FINDINGS

### The situation of water, sanitation and financial services in Tanzania

**Tanzania is one of the fastest growing economies in Africa, but, economic growth has not benefited all areas of the country equally.** Rural areas in particular remain generally very poor, with around one third of the rural population being classified as living below the poverty line according to the 2012 national survey (National Bureau of Statistics, 2014).

**The country has failed to achieve the Millennium Development Goals (MDGs) for water and sanitation.** The sector has made little progress towards achieving the MDG for water with national coverage standing at 45% (JMP). The majority of those without access to water services live in

rural areas: 54% of the rural population still lacks adequate water services. As for sanitation, the JMP estimates that over 83% of the population does not currently use improved facilities. Sewerage services cover only a fraction of major cities in the country, while private sector provision is non-existent (aside from some pilot projects). As a result, the whole sanitation service chain is weak, resulting in environmental and health hazards related to unsafe management of human excreta, to which urban populations are the most exposed.

***Nonetheless, the country has made good progress in organising the provision of water services.*** The National Water Policy delegates the management of municipal water services to different entities: Urban Water and Sanitation Authorities in large urban areas (UWSSAs), District and Town Water and Sanitation Authorities (DWSSAs) for towns and Local Government Authorities (LGAs) for rural areas. In addition, Community-based Water Services Organisations (COWSOs) are legally recognised and have been delegated responsibility for the management of water services in many rural areas.

***Despite this institutional set-up, the limited capacity of actors constrains the maintenance and extension of adequate water service provision.*** In urban areas, many UWSSAs, including DAWASCO, report poor operational performance. Non-Revenue Water is very high for many UWSSAs, while production and distribution capacity has not kept up with urban growth. Although the cost of connection is relatively low, individual household connections are rare. In Dar Es Salaam for example, where connection costs are TZS 26,000 or USD 11.7, out of a population of over 4 million people, there are only 615,000 individual household connections. Further, poor operational performance leads UWSSAs to adopt rationing strategies and even those consumers who are connected to the formal network receive water only intermittently. As a result, populations have to resort to coping strategies, which include storing water and/or buying water from private vendors. These private vendors usually charge a premium on water sold to reflect the cost of transport and added profit.

***In rural areas, many COWSOs also exhibit poor operational and financial performance.*** The situation is compounded by the lack of clear responsibility for financing repairs, resulting in non-functionality and in system break down over time. Because of limited opportunities for economies of scale, tariffs (including connection costs) in rural areas appear to be up to 10 times higher than in urban setting, although rural populations are generally (much??) less able to pay.

***With regards to sanitation, services responsibility mainly rests with LGAs, as the majority of Tanzanians use onsite technologies.*** However, to date, sanitation is treated as a cross-sectoral issue with over-arching responsibility falling under the Ministry of Health; the National Sanitation Policy drafted in 2011 remains to be approved and fully applied. LGAs have responsibility for enforcing the construction of appropriate onsite technologies, while households are responsible for financing. However, as there are no appropriate guidelines to support LGAs in improving the environment for sanitation services, (e.g. demand creation, enforcement, supporting the supply chain, etc.), sanitation is often relegated to the bottom of LGAs' priorities.

***Relatively few actors are currently seeking to develop water and sanitation markets through the improvement of access to finance for water and sanitation service providers, including households who have to finance their own facilities.*** Some UWSSAs do access commercial loans, with technical support from the Ministry of Water and some donors (e.g. AFD and KfW). It is not clear whether similar initiatives are under way to build COWSOs' capacity. However, initial findings indicate that the Tanzanian water sector is only just recognizing the need to professionalize the management of water services in rural areas.

**Some donor and NGO-led initiatives have contributed to spur the development of the market segment for sanitation financing.** In particular, WaterAid Tanzania has put a lot of effort into building the capacity of sanitation entrepreneurs involved in pit latrine emptying. In addition, a DFID-funded action-research project implemented between 2013 and 2015 contributed to the creation of a working group dedicated to sanitation (labelled “SanFin-Tz”) and provided training to selected organisations, which provide financial services for sanitation. These efforts resulted in the implementation of pilot projects, with a few loans provided to sanitation entrepreneurs and some to households. These initiatives have yet to scale-up and would require continuous support from the government and development partners to do so successfully.

**The scoping of the financial sector in Tanzania indicates that there are opportunities to tap into the development of financial services to extend access to water and sanitation services.** Formal financial service providers are varied, ranging from large commercial banks to cooperative groups, so-called NGO-MFIs (which are credit only institutions) and mobile banking providers.

**Tanzania has one of the lowest rate of access to formal financial services in the East Africa region.** According to the World Bank Global Financial Inclusion Database (Global Findex), only 19 % of Tanzania’s population had an account at a financial institution in 2014. However, financial inclusion appears wider when including mobile accounts, resulting in access rate of 40% (representing 20 million people) according to the World Bank Findex.

**Studies highlight the striking rise of mobile banking and its role for extending financial inclusion.** Findex estimates that 32% of Tanzania’s population now has a mobile account, while the National Council for Financial Inclusion estimated the figure to be as high as 43% or 9.8 million as of 2013. According to the Council, “the advent of mobile phone financial services during the recent five years has revolutionized the landscape of financial services in Tanzania”. This impact is largely due to the spread of mobile money agents over the territory. The Council estimates that mobile phone agents outnumbered all other financial access points’ by almost 30 to 1 in 2016.

**The scoping study also identified a wide range of water and sanitation product manufacturers which could be suitable partners for potential FIs.** The market for water products (storage tanks, pipes, rain harvesting facilities, etc.) in particular appears to be dynamic. Because sanitation is a side-line for many masons, the market for sanitation products (slabs, construction, etc.) appears to be more fragmented.

**Tanzania clearly presents a huge market opportunity to launch WaterCredit and/or alternative financing channels.** The market assessment carried out interviews with key informants in-country and focus group discussions, which enable a number of key findings to be drawn, as presented below.

## **What is the value proposition of WaterCredit?**

**There is a role for WaterCredit in enhancing water and sanitation conditions through improved financing mechanisms, whether in the rural or urban water sub-sector,** WaterCredit could support households in acquiring water facilities. These can be in the form of individual solutions, such as rainwater harvesting (RWH) technologies, borehole drilling or network-based solutions such as connections to existing networks (managed by urban utilities, so called UWSSAs or rural water committees, so called COWSOs). With regard to **sanitation**, as the

needs are immense, the integration of sanitation financing within FIs' portfolio would be of important value for the sector. In terms of sanitation technologies, the short-term solution is on-site sanitation, especially targeted at landlords looking to improve their sanitation facilities. Where tenants are the majority, as in many urban unplanned settlements, the lack of enforcement may hinder efforts to scale-up sanitation financing.

The country has a good network of water-related product manufacturers that would enable the deployment of a range of water and sanitation solutions. Some COWSOs and UWSSAs could be potential partners for reaching the under-served. In recent years, initiatives have taken place, often with donor backing, to support some UWSSAs in extending their production and distribution network. Some COWSOs, albeit in limited numbers, are also showing good operational performance.

***There is appetite from potential partners, for example, from the water sector and financial institutions, for WaterCredit and other forms of financing solutions for water and sanitation.***

All key informants met with in the water sector indicated strong interest for such an initiative. In particular, DAWASCO and Mwanza UWSSA consider WaterCredit to be a welcome initiative that could support their efforts to extend their networks. On the donors' side, long-term partnerships with KfW and WSP can be envisaged as both are supporting the development of commercial lending to the water sector.

Some financial institutions and mobile network operators have the appetite to venture into new sectors, while others show limited interest to take on new products. There is therefore a mix of perception and attitude towards new products especially in the social sectors and in particular in the WASH sub-sector. However, there is scope for Water.org to partner with one or more financial institutions that showed strong interest in developing new products to finance water services. Although smaller institutions (NGO-MFIs) do show a strong interest, larger ones, with larger portfolios and human resources, are better placed to launch WaterCredit at scale. Mobile network operators are active in Tanzania and therefore offer a great opportunity to channel financial products, especially to facilitate repayments of WASH services.

Financial institutions, however, expressed the need to clearly understand the business value proposition of any water-related financial products before confirming their buy-in. Therefore, going forward there will be the need to demonstrate the business case of WaterCredit in order to secure the buy-in of FIs, especially the larger ones.

***There is demand from potential beneficiaries (i.e. households and water and sanitation enterprises), for facilitating access to finance, whether through WaterCredit or alternative financing channels.*** Although the scope of the focus group discussions conducted in Mwanza as part of this assessment is limited, some preliminary conclusions with regard to demand for water and sanitation financing can be drawn. A key constraint for many households is that they are tenants, with limited incentive to invest in home improvement, including water and sanitation facilities. It must be noted that, concerning sanitation, stricter enforcement of environmental regulation is required in order to trigger stronger demand from landlords. Some landlords did indicate that the availability of savings or credit facilities could incentivize them to invest in water and sanitation.

***The market assessment therefore confirmed the value proposition of WaterCredit from households' perspective, and to some extent, potential enterprises that could benefit from business loans.*** The key elements of this value proposition are: (i) *availability* – as WaterCredit

would offer a new product that was not already easily available; (ii) *affordability* – as beneficiaries would be able to spread the cost of their investments over time; (iii) *quality* – as the products that would be marketed would provide sustainable access to water and sanitation improvements; and (iv) *attractiveness* – as products would be tailored to households' aspiration. In this respect, bundling water and sanitation products along with home improvement or agriculture packages could contribute to increased attractiveness of the new products.

Based on this market assessment three strategic options, have been identified, as presented below; these represent (in sequential order) possible short, medium and long-term scenarios, each of which bring their own benefits and challenges.

## Strategic opportunities for introducing WaterCredit

### **Option 1: Implementing “WaterCredit Plus” in Tanzania**

Water.org could implement WaterCredit in Tanzania, via building capacity of the selected FIs to incorporate water and sanitation products in their portfolio. These products would be targeted at households looking to improve their water and sanitation facilities and could take the form of credit or saving products. Saving products are possible where the FI has the capacity to take deposits or where the FI is collaborating with an aggregator (e.g. Selcom) to take deposits. This strategy would bear fruits over the short-term (within 2 years) as it would enable responding to basic needs for water and sanitation improvements,

### **Option 2: Supporting water supply and sanitation (WSS) service providers**

This approach entails financial institutions to introduce special lending mechanisms for WSS service providers into their existing portfolios. These can be private, public or community-based WSS service providers. Water.org would provide support to the financial partner in order to build their capacity to appraise loans and identify clients. This option presents a medium to long-term strategy to engage in the water markets in Tanzania (5 to 10 years): private sector provision is only emerging, while public service providers have only recently accessed commercial lending. Community-based water service providers (i.e. COWSOs) have yet to prove that they can present bankable projects. This option would yield more significant results where efforts to support FIs are combined with efforts to support businesses themselves in presenting bankable projects.

### **Option 3: Supporting the development of alternative sanitation services in urban and peri-urban areas**

In the long-term, Water.org could support solutions that will enable the development of alternative and sustainable sanitation solutions. In particular, solutions such as condominal sewerage, which could provide a lasting solution in densely populated urban areas, could be supported. However, such technologies are still being piloted and lessons are still being extracted in order to scale-up the approach. As Tanzania continues to be affected by a sanitation crisis, Water.org's experience in brokering partnerships between the water and sanitation sectors and financial institutions is an invaluable addition to efforts to tackle this challenge.

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