Country Note 16.1
Kenya

Local financing mechanisms for water supply in Kenya

Background

Access to safe water and adequate sanitation is the foundation of health and a key step out of poverty. In recognition of the vital role of safe water provision for development, the United Nations Millennium Development Goals includes a target to halve the proportion of people without sustainable access to safe drinking water by 2015.

A key constraint in realization of this goal in Africa is inadequate financial resources to develop water supply services. Public finance allocated to community water supply development is insufficient, even to sustain the current service levels, let alone to improve these services and extend them to those areas not yet served.

In 2002 Kenya government passed a new Water Act, opening the sector to numerous institutional changes, including decentralized water provision where the responsibility of water service provision has now been shifted from the government to the communities. This arrangement was necessitated by the fact that the government was finding it increasingly difficult to meet the cost of water provision.

Small-scale water service providers, such as community based organizations and independent private providers are being increasingly recognized as significant providers of water services in Africa. Collectively, they provide services to over 10% of urban and 30% of rural households in Kenya – accounting for over 30% of sector spending. Access to finance and credit facilities is however severely restricted to such small-scale providers. As they have the potential to save, borrow and invest for better services, sector policies should provide an enabling environment to foster such initiatives.

A recent EU water initiative inquiry found that in several African countries Kenya included, only a select few outside the international development community were acquainted with innovative finance options and programmes. There is therefore an information gap to be bridged

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Headline facts

- Inadequate financial resources and inappropriate financing mechanisms are often cited as constraints to achieving sustained, expanded and improved water services in Kenya.
- A little over 1% of Kenya's national public expenditure is allocated to the water supply and sanitation sector – an allocation that is clearly inadequate to finance the ever-increasing demand for water.
- Private sector investment has been identified as one of the key long term financing solutions. However, uncertainty of achieving adequate returns on their investment remains a significant barrier to securing private sector investments.
- As additional sector finance is sought, there is an emerging consensus that current expenditure needs to be more efficient and effective in order to achieve rapid and sustainable progress.
- Where poverty restricts direct user payment for basic services, financing mechanisms such as pro-poor targeted subsidies, micro-financing and credit facilities are recognized as effective means of meeting the finance gap. In Kenya, their practical application still needs to be more widely explored, understood and disseminated.

Local Financing Mechanisms in Kenya

A number of channels are used to fund water supply schemes in Kenya and include:

- Government of Kenya budget which is the dominant channel for financing water sector in Kenya.
- Local Authority budgets
- Non Governmental Organizations who implement water projects directly or indirectly through community based organizations.
- Internal generation by service providers mainly local utilities, Community based organizations and Private small scale providers. The money generated is used for repair and maintenance of the water facilities or expanding the investments.
- Other direct expenditures by communities and households. This includes money paid to small scale water vendors, and water kiosk operators.

Donor Funding

Almost 70% of donor resources allocated to the development of new community-based water schemes are routed through NGOs. The approaches taken by these NGOs vary – some NGOs fully fund water schemes while others operate on a cost-sharing basis with the target communities. Many however appear to operate in isolation to local government agencies.

SIDA support to the transfer of RWS schemes to CBOs in Kenya

Recently, the Swedish International Development Agency (SIDA) has begun to fund the transfer of government-implemented schemes to communities. The community must apply through a proposal that is vetted by the government before funds are released The program favors low technology, such as gravity schemes and small systems. SIDA requires that the beneficiaries make a significant contribution towards the capital cost of the rehabilitation of the system. The level of contribution has ranged from 10 to 50 percent. Operation and maintenance of the rehabilitated scheme then become the responsibility of the community. Though at present no effort has been made to link with credit for the community to meet its share, this is a potential opportunity, particularly given the improved outreach of microfinance in Kenya. This will, however, require a clear policy on community share in capital costs and efforts to link with Micro Finance Institutions and the Co-operative sector.

Private Small-Scale Service Providers (PSSPs)

PSSPs include service providers in informal settlements, those catering to special demands of the rich and commercial establishments. They may be water resellers, (kiosk operators), water vendors, water truckers, borehole operators and small water network operators. The water and sanitation Program –AF found that 1 in 4 of Kenya's urban residents depend on small scale service providers for their water needs. They play a very important role especially informal settlements where the main utility supplies are missing. Most PSSPs meet their running costs through user charges. Limited access to credit facilities for capital investment is one of the main constraints to market entry and the expansion of services provided by these small providers.

Community Financing

Kenya's national water policy promotes community operation and maintenance of water supply systems. The role of community-based organizations has therefore become more significant. Water committees, selected by the communities, are often entrusted with this responsibility. Communities raise maintenance funds by charging for water at the point of delivery (such as 2 KShs. for a 20 litre jerrican)[1]. In most cases however households pay a fixed monthly contribution, or help raise money as and when required, to carry out repairs or expand the scheme. Some agencies promote using bank accounts to secure maintenance funds, but the resulting bank charges often deter communities from doing this

This typically requires committee members (often voluntary) to be trained in financial management, book-keeping and maintenance procedures.

A case of Nderu water project.
Nderu water project is a community project operating two boreholes, which provide water for the Community within the project area. The project dates back to 1926 when a settler sank one borehole to obtain water for his personal use. After independence the county council of Kiambu took over the operation of the borehole and extended the distribution network. The council continued with the operation of the water facility but with great difficulty. In 1990, mainly due to financial difficulties, the facility broke down and the power supply was disconnected. In 1992 the Community members approached the county council of Kiambu and were allowed to revive and manage the water project. Kshs 140,000 (US$4,500) was borrowed from two institutions in the community. Thairira Technical Institute and Mirithu Secondary School. The loan proceeds were used to rehabilitate the borehole and pay outstanding electricity bills. Normal water operations resumed later in 1992, and after only six months of operation the community had collected enough revenue to pay back the loan after meeting its operation costs. The project serves about 1,200 families and has been running smoothly since

[1] KShs = Kenyan Shillings.

Self-Help Financing of Rural Water Supplies

About 30% of Kenya's rural population who have access to safe water are served by community-managed schemes, developed by self-help groups. A self-help group typically constructs a water supply system to serve around 500 households. Capital may be raised from the community's own resources, or with contributed funds from government, NGOs or external support agencies.

Self-help groups usually set the household contribution required to receive an in-house supply, while providing water to others through public tap stands. The revenue generated is used to support operation and maintenance of the facility.

Constraints of Institutional Financing

Many constraints face existing financing arrangements, affecting the effectiveness with which sectoral finances are secured and delivered in Kenya.

- Given their limited collateral, it is difficult for Community Based Organizations to access credit services.
- There is often inadequate political will and commitment to creating an environment that will encourage and enhance investment in the water sector.
- Local authorities often lack incentives to improve financial performance, particularly where there is weak, or non-existent, performance-based monitoring.
- The CBOs have very low capacity on financial management and accountability.

An environment should therefore be created to enable these service providers access credit facilities.

Emerging Financial Mechanisms

The water sector reform framework envisages more streamlined sector financing, with greater emphasis on achieving sustainable revenue.

One of the financing avenues outlined in the new Water act is the Water services Trust Fund (WSTF). This fund is financed mainly by the government and its development partners. It mobilizes resources to support communities that cannot afford water service because of extreme poverty. In the past two years, the Government of Kenya in partnership with the Swedish and Danish governments have given the trust fund Kshs. 750 million which has already been disbursed to 102 community water and sanitation projects.

Again under the new reforms, revenue is going to be generated by Water Service Providers (WSPs) through tariff payments by the consumers. This is seen as a significant source of sector finance that will be increasingly relied on and will be used for extension and improvement of the water provision service.

The Kenyan Government has established a special fund which draws its finances from the national budget. The money is distributed equally across all parliamentary constituencies in the country and finances priority projects as identified by the respective communities. Water supply ranks high among priorities in many regions in Kenya and as such the kitty has been used to fund many water projects across the country.

Other Potential Financing Mechanisms

Microfinance for Community-Managed Rural Water Service pilot project in Kenya.

A new pilot project being designed in Kenya aims to facilitate access to microfinance for community managed rural piped water supply projects on a commercial basis. The performance risks are taken by the water project entity that will be eligible for a partial Output-Based Aid (OBA) subsidy on delivery of outputs to refinance a part of the loan and keep the debt repayment affordable. Water and Sanitation Program - AF is facilitating the K-Rep Bank and the Nairobi Water Services Board to develop this pilot project with assistance from the Global Partnership on Output-Based Aid (GPOBA).

This innovative financing arrangement offers two distinct potential benefits to the rural water sector: it leverages resources, and contributes to sustainability and effective use of resources.The approach is also designed for potential scaling up through a special OBA window at the national Water Services Trust Fund and a new business line for the K-Rep Bank, a Kenyan-based microfinance institution.

This Country Note identifies the key financing mechanisms for supporting water services in Kenya.

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