

Attachment-2

Presentation of WSTF

WATER SECTOR TRUST FUND

PRESENTATION AT THE MINISTRY OF WATER, SANITATION AND IRRIGATION



Ministry of Water, Sanitation and Irrigation



Presentation by

*Mr. Willis Ombai
Ag. Chief Executive Officer*

26th May 2022



Water Sector Trust Fund
P.O. Box 49699-00100 | Tel: (020) 272 9017, 18, 19 | Email: info@waterfund.go.ke | Site: www.waterfund.go.ke

Concept Development

Water Fund has developed a Concept for Water Sector Loan Facility

Concept originally was called Revolving Fund

Change of name was informed by feedback from The national Treasury

Transition From

Result Based Financing

- **Output Based Aid**
- Aid on Delivery

Towards Loan Facility



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Blended Financing

Concept utilizes blended financing between Public and Private Sector funds

As Transition From

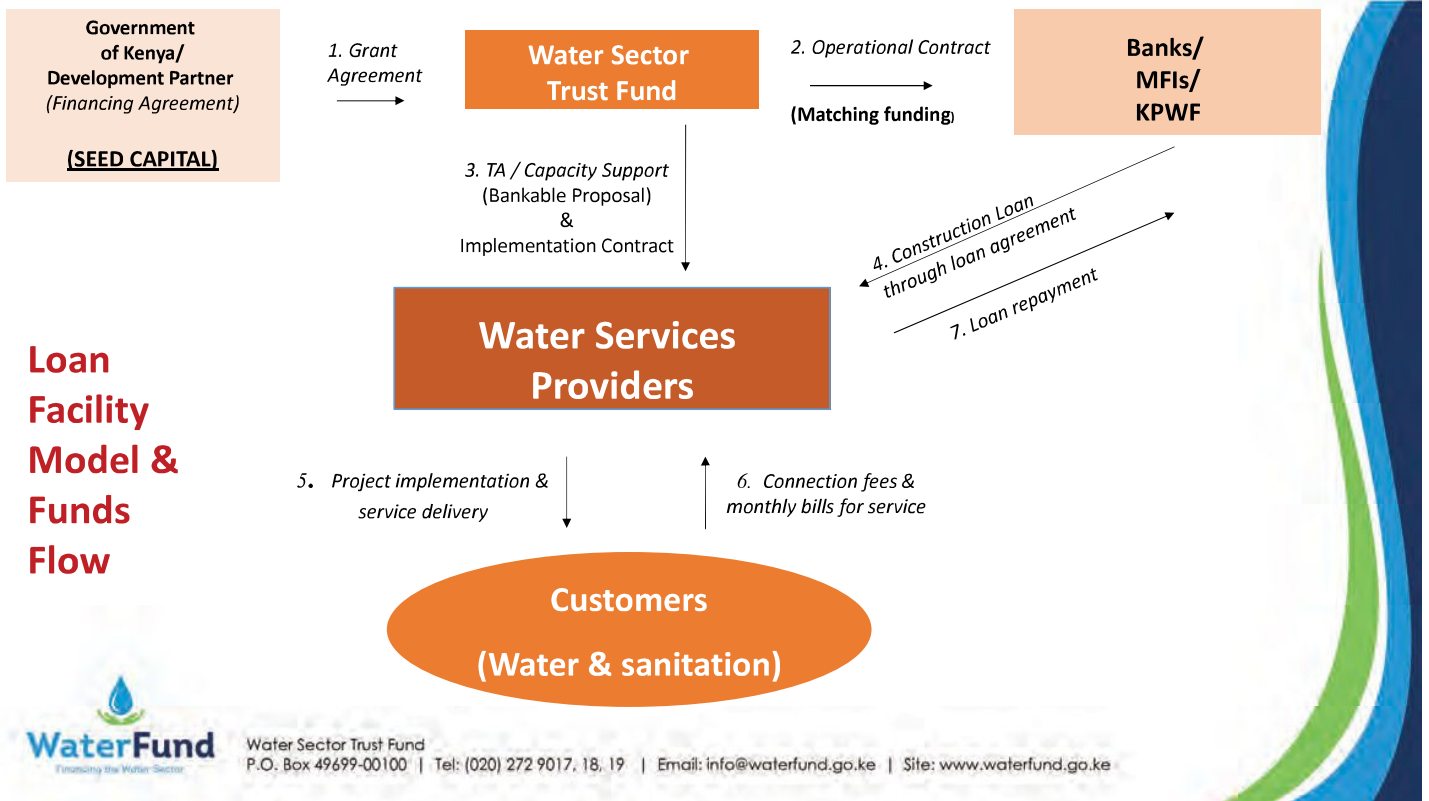
Result Based Financing (Proof of Concept)

- **Output Based Aid**
- Aid on Delivery

Towards **Loan Facility**



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Stakeholder Engagement

WaterFund has held various consultation forums and received feedback in developing the concept.

Stakeholders consulted include:

- Ministry of Water, Sanitation and Irrigation
- The National Treasury & Planning
- COG & County Governments
- Water Sector Institutions
- Water Services Providers
- Development Partners (Including JICA)
- Financing Institutions including Kenya Pooled Water Fund & Private Sector
- Civil Society



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Feasibility Study

WASH-FIN USAID has offered to support a feasibility study and contract has been awarded

Feasibility study will provide more details and clarification on demand, supply, capacity and implementation issues

This is for strengthening, but RBF is the key experience WaterFund is relying on

Feasibility to be conducted and completed by August 2022



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Concept Submission to MTEF

WaterFund has submitted the concept for inclusion in MTEF (Budget & Programming process)

This is necessary to access seed fund from the Government

Loan Facility requires seed from GOK to be sustainable

WaterFund is also seeking seed fund from Development Partners



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CLSG II

- Conditional Liquidity Support Grant Phase II is an opportunity for seed fund
- Water Companies that don't meet 70% score of the balanced score card will be required to refund the balance of the funds e.g., to return 31% if only 69% is achieved.
- Companies achieving 70% and above will not refund but will retain CLSG II funds as a grant.
- The portion repayed to WSTF will form part of the seed.
- CLSG I and II are financed by the World Bank

- WaterFund requires at least Ksh.500 million seed to start, but even Ksh. 100 million can provide one or two projects



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Critical Component – Seed Fund

- Seed Fund remains the greatest hindrance to start of the Loan Facility
- If WaterFund gets the seed today, the implementation of the Facility begins today.



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**Kisumu – Ground Water
Storage Tank 229m³, water
Pumping Station and raised
Storage Tank 82m³**



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Nyeri Sewer Pumping Station



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Embu Sewer



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DRAFT

MINUTES OF JOINT COORDINATING COMMITTEE (JCC) MEETING ON PROJECT FOR STRENGTHENING CAPACITY OF WATER SERVICE PROVIDERS ON FORMULATING BANKABLE PROJECT PLANS HELD IN MAJI HOUSE, 6TH FLOOR BOARDROOM ON 30TH NOVEMBER 2022 AT 9.00AM

MEMBERS PRESENT

NAME	POSITION
MWSI	
1. ENG. S.A.O. ALIMBA	WATER SECRETARY, CHAIRPERSON
2. ENG. PATRACIA KIARIE	DD/OC, PROJECT COORDINATOR
3. ENOCH OMWERI	ENGINEER I
4. FESTUS MUTUKU	SENIOR SUPERINTENDENT WATER ENGINEER
JICA HQ	
5. KOTOMI NARITA	PROJECT COORDINATOR
JICA KENYA OFFICE	
6. MR. KENJI HAYASHI	SENIOR REPRESENTATIVE
7. AKIKO KAWATA	REPRESENTATIVE
8. JOHN GITAU MUNGAI	SENIOR PROGRAMME OFFICER
WASREB	
9. ENG. PETER NJAGGAH	DIRECTOR LICENCING, STANDARDS AND ADVOCACY
10. ENG. NEVILLE YATOR	STANDARDS
11. JAMES KINGUTU	MANAGER LICENSING
WSTF	
12. RUTH NG'ANG'A	GENERAL MANAGER/FUND DEVELOPMENT
WASPA	
13. CPA INYANGALA LIYENGWA	FINANCE AND MOBLIZATION OFFICER
JICA CONSULTANT TEAM	
14. MASAYUKI FUJII	TEAM LEADER/WATER SUPPLY PLANNING 1
15. SHOHEI YAMAMOTO	DEPUTY TEAM LEADER/WATER SUPPLY PLANNING 2
16. KAZUNARI KIMURA	DEPUTY TEAM LEADER/FINANCIAL ANALYSYS/BUSINESS PLANNING1
17. SATAKO SHIBATA	FINANCIAL ANALYSYS/BUSINESS PLANNING2
18. TAISUKE WATANABE	WATER SUPPLY PROJECT DESIGN 1
19. ENG. OMURWA ARAKA M.	NATIONAL ENGINEER
20. GEORGE KARANJA	COORDINATOR

NAWASCO (NANYUKI WSP)

- | | |
|--------------------------|------------------------------|
| 21. ENG. KENNEDY GITONGA | MANAGING DIRECTOR |
| 22. MAINGI CHARLES | NON-REVENUE WATER MONITORING |

RUJWASCO (RUIRU-JUJA WSP)

- | | |
|-----------------|-------------------|
| 23. MARY MWANGI | TECHNICAL MANAGER |
|-----------------|-------------------|

EWASCO (EMBU WSP)

- | | |
|-------------------|-------------------|
| 24. DICKSON NJIRU | MANAGING DIRECTOR |
|-------------------|-------------------|

MUWASCO (MURANG'A WSP)

- | | |
|--------------------------|-------------------|
| 25. ENG. DANIEL NG'ANG'A | MANAGING DIRECTOR |
|--------------------------|-------------------|

MEWASS (MERU WSP)

- | | |
|--------------------|-------------------|
| 26. ROBERT MIRURI | GENERAL MANAGER |
| 27. KENNEDY KILALI | TECHNICAL MANAGER |

AGENDA

1. Address from the Chairperson
2. Self-Introduction from the Attendees
3. Speech From:
 - JICA Nairobi Office
 - JICA Mission From HQ
4. Explanation of Results of the Study by JICA Consultant Team
 - Selection of Five Pilot WSPs/Outline of the Selected Projects
 - Proposed Implementation Schedule and Activities for Output-1,2,3 and 4 in the Project
 - Explanation of Challenges in Commercial FinanceAnd Question and Answer Session
5. Policy Of Tariff Setting (or Just Speech) from WASREB CEO
6. Speech From WASPA CEO
7. Explanation of Proposed Projects from Five WSPs
 - EWASCO (Embu WSP)
 - MUWASCO (Murang'a WSP)
 - RUJWASCO (Ruiru-Juja WSP)
 - NAWASCO (Nanyuki WSP)
 - MEWASS (Meru WSP)
8. Explanation of Loan Facility Progress from WSTF CEO
And Question and Answer
9. Closing Remarks from the Ministry

1. ADDRESS FROM THE CHAIRPERSON.

The Chairperson, Eng. Alima opened the meeting by welcoming the members.

In his address, he reminded members that we had just finalized the project on non-revenue water reduction, and now this project has started. He also said that a project on dissemination of the lessons learnt from the non revenue project is scheduled to commence soon. He therefore thanked JICA for this project and said that it will go along way in helping WSPs to obtain loans from commercial banks.

He also thanked the five pilot WSPs and urged them to show the same commitment like for the non-revenue water project whose success rate was 85%.

2. SELF-INTRODUCTION FROM THE ATTENDEES

The members made self-introduction.

3. SPEECH FROM:

● JICA NAIROBI OFFICE

Mr. Kenji, Senior Representative, JICA Kenya Office thanked Eng. Alima for hosting and chairing the meeting. He said that JICA truly values the Ministry's leadership and support for this technical cooperation highly appreciate the good relationship between JICA and the Kenyan counterparts and recognize the cordial relationship in furthering the ideals of JICA's international cooperation activities through implementation of various projects including this technical cooperation. JICA's has been supporting the water sector dates back to 1977 when the first Japanese experts were dispatched to the Ministry of Water and Irrigation. Since then, JICA has collaborated with the Ministry in many projects all over the country in urban water supply and rural water supply projects.

He emphasized that construction of water supply facilities does not guarantee availability of the resource in a sustainable manner and that proper management of the water service providers (WSPs) including appropriate operation and maintenance of the facilities is the key to sustainability. The mutual understanding of this fact by the Ministry and JICA is what gave birth to this kind of Project as this one. This technical cooperation is designed to enhance the efforts of WSPs, with support from the Ministry, Water Services Regulatory Board (WASREB) and the Water Sector Trust Fund (WSTF) to practically support financial stability of WSPs.

Water sector is largely comprised of county-owned and run infrastructure and not all water service providers have a credit rating or palatable risk profile that is sufficient to sustain a loan in the eyes of commercial banks but there are, however, a few examples where financial resources were successfully made available for water services providers, so this technical cooperation has the potential to create an environment that is conducive to the roll-out of water projects.

The journey in implementing this technical cooperation will not be easy and will definitely require strong commitment from all the actors and the allocation of both human and financial resources. He was however encouraged to note that the Ministry is committed and dedicated in the implementation of the

this technical cooperation and trusted that the County Governments and all the other participating institutions are also committed.

He concluded by appreciating the long history of JICA's collaboration with the Ministry and other water sector institutions and also expressed his appreciation to all JCC attendants.

- **JICA MISSION FROM HQ**

Ms. Narita from JICA HQ said that she was pleased to attend the meeting and expressed hope that the water supply situation of the Kenya will be improved through implementation of this technical cooperation.

4. EXPLANATION OF RESULTS OF THE STUDY BY JICA CONSULTANT TEAM

Mr. Fuji, JICA Study Team Leader made a presentation (attached as Appendix -1) and gave the background of the project as follows:

- The Sustainable Development Goals (SDGs) and the MWSI's National Water and Sanitation Investment Program (NAWASIP) goal is to achieve 100% access to safe water by 2030.
- Public funds could cover only about 40% of the funds needed.
- There is therefore an urgent need to establish a system in which WSPs will rely not only on public funds, but also funds from commercial banks and international donors.

He said that the project is expected to increase financial loans toward WSPs and hence increase access to safe water. He depicted the growth and challenges of the water sector on a spiral diagram where improvement in management and finance of WSPs will lead to WSPs investing in system improvement which will lead to increase in number of customers and hence increase in tariff revenue. He said the problem in the water sector is the low tariff that leaves WSPs without any surplus above O&M cost and insufficient subsidy from public funds. This implies that WSPs therefore cannot access commercial loans from commercial lenders because of the low credit worthiness and lack of capacity and experience to get the funds.

He said the ongoing/planned intervention is to increase the water tariff level so that the O&M coverage rate will increase from around 100% to 150% (as stated in NAWASIP).

He said that the goal of the project is to facilitate financing of WSPs through blended, commercial, or capital market finance with the following project outputs:

Output 1: Improved capacity of pilot WSPs to develop bankable project plans

Output 2: Improved capacity of pilot WSPs to negotiate with financial organizations in order to receive financing for a bankable project plan

Output 3: "Guidelines on Bankable Project Plan Development for WSPs" is prepared and utilized

Output 4: An Annual Action Plan is developed by MWSI based on the lesson learned through Output 1 and 2.

The project implementation structure involves capacity building of the Pilot WSPs through MWSI and WASREB to access financing from commercial banks and the Water Sector Loan Facility.

- **SELECTION OF FIVE PILOT WSPs/OUTLINE OF THE SELECTED PROJECTS**

Mr. Fuji, JICA Consultant Team Leader said that the preliminary study had targeted 13 WSPs from the 9 WWDAs. These were Embu, Ngagaka and Meru from Tana; Murang'a and Ruiru-Juja from Athi; Mavoko from Tanathi, Nakuru and Nanyuki from Central Rift Valley; Eldoret from North Rift Valley; Kisumu and Nzoia from Lake Victoria South; Isiolo from Northern; and Mombasa from Coast whereby a total of 35 projects were submitted to the JICA Consultant team for evaluation. After evaluation, 5 Pilot WSPs (Ruiru-Juja, Murang'a, Embu, Nanyuki and Meru) were then selected based on their willingness to apply for commercial loan, their relatively good financial condition that can enable the WSP to qualify for commercial loan and availability of well formulated project. The project proposals from Ruiru-Juja, Murang'a and Embu seem to be bankable.

For Meru WSP and Nanyuki WSP, the proposed priority projects have significant impact on the current water supply system or significantly increase water supply capacity. Hence, it was concluded that it is necessary to conduct a project formulation and financing proposal for the entire water supply coverage area (called Overall Project Implementation Plans (OPIP)), including the priority projects and also the bankable project for 100% water service coverage by 2030, as stated in the Kenya Vision 2030. Detailed design and preparation of bidding document for the bankable project will commence after OPIP is formulated.

- **PROPOSED IMPLEMENTATION SCHEDULE AND ACTIVITIES FOR OUTPUT-1,2,3 AND 4 IN THE PROJECT**

The project implementation will start in beginning of 2023 with preparation of the projects concept notes starting from Embu WSP, Embu WSP and Ruiru-Juja WSP with bankable projects, while Nanyuki WSP will commence the preparation of OPIP from beginning of 2023 and Meru starting from beginning of 2024.

- **EXPLANATION OF THE CHALLENGES IN COMMERCIAL FINANCE**

The main challenges are the WSP's low profitability and creditworthiness, the current conditions of commercial loan (interest rates, loan period, collateral, guarantee, etc.) does not meet requirements of WSPs and, capacity inadequacy of WSPs to prepare business plans and negotiate with financing sources.

The several documents will be required to apply for the bank loans so requested to start preparation of the following documents:

Step	Documents
1. Bank Sounding	- Concept Note on the project to be applied
2. Initial Application	- Copy of Business Registration (Certificate of Incorporation) - Copy of Memorandum and Articles of Association. - Copy of Service Provision Agreement (License to provide water and sanitation services) - Audited accounts for the last 3 years. - Copy of Kenya Revenue Authority PIN Certificate Company and Directors. - Latest 12 months bank statements - Aged list of debtors and creditors
3. During Negotiation	- Financial model including projection for the period of repayment etc.

In the 3rd JCC meeting which to be made in June, JICA Consultant Team will explain the progress of the achievement:

【Progress on Output 1&2】

- Progress of Detailed Design Works for proposed projects
- Progress of OPIP
- Progress of Loan negotiation with Commercial Banks for proposed projects

【Confirmation of Results of Study on Financial Sources】

- Result of Study on Capital Market Financing in Kenya
- Result of Feasibility Study on Water Sector Loan Facility

【Confirmation on Activity Plan for Output-3&4】

- Plan for Preparation of “Guidelines on Bankable Project Plan Development for WSPs (WASREB and JICA Consultant Team)
- Plan for Preparation of Annual Action Plan for Promotion of Commercial Loan, Blended Financing and Capital Market Financing (MWSI and JICA Consultant Team)

AND QUESTION AND ANSWER SESSION

Eng. Alima, the Chairperson and Mr. Kenji Hayashi of JICA Kenya Office thanked Mr. Fujii for a good presentation.

Mr. Hayashi of JICA Kenya Office enquired the reason Nakuru and Kisumu were not chosen as pilot WSPs. Mr. Fujii answered that Nakuru WSP applied for and received PPP financing and therefore the project had to be cancelled. On the other hand, Kisumu WSP submitted a very big project to which the JICA Team recommended to carry out overall project plan to identify a bankable project. However, Kisumu said they were not willing to this proposal. Eng. Alima, the Chairperson said that willingness on the part of the WSP is the key. He said that Kisumu had also been listed for the Kenya Pooled Water Fund project though it did not proceed.

5. POLICY OF TARIFF SETTING FROM WASREB CEO

Eng. Njaggah of WASREB started by referring to the Sessional Paper No. 1 on water policy and specifically water pricing and stated that full cost recovery is the most important. He then made a presentation (attached as Appendix-2) and said that a good tariff structure should be fair and practical and sustainability of WSP depends on the following four aspects:

- Policy and political environment
- Management capacity
- Technical capacity, infrastructure, and water source
- Social and cultural factors
- Financial sustainability

He said that the policy on water tariff in Kenya is clear but political interference is common. He also said that the willingness to take commercial loan depends on the management capacity, technical capacity, financial capacity, etc of a WSP. He said that financial sustainability depends on sufficient and predictable revenue flows to meet financial obligations, efficient service delivery and progressive realization of universal coverage. He said the 3Ts (Taxes; Transfers - ODA ; Tariffs*) are essentially the ultimate source of finance which provide the future cash flows to fulfil budgetary requirements and that tariff is the most reliable of the 3Ts. The three types of tariff adjustment as:

- Regular Tariff Adjustment (RTA)- comprehensive review of the tariff undertaken no more frequently than a set period 3-5 years which is a fixed tariff structure
- Automatic Tariff Adjustment (ATA)- Like RTA, but tariff changes every twelve months during the Tariff Period, in line with changes in the underlying cost of service and performance. Periodic review by the Regulatory Board is done every 4- 5 years.

He said that indexation commenced July 2018 which yielded:

- Extra Ordinary Tariff Adjustment (ETA) which is granted under extraordinary circumstances of abnormal changes in operating conditions for a maximum period of 12 months.

Automatic RTA was used in the year 2009 when the WSPs were going down but that many WSPs are stuck with it due to the mentioned political interference and have not applied for review. He said that indexation

ensures WSP's inefficiencies are not rewarded but penalized instead. He said that indexation has shown that the problem with WSPs are the high non-revenue water and personnel cost (e.g. where a WSP declares it has 100 staff but has also 200 undeclared casual workers). He said that indexation is meant to protect consumers from such inefficiencies.

He concluded by saying that the current tariff (pricing) for water is based on a cost recovery model whereby operation, maintenance, debt service, investment and asset renewal are included and that the tariff should be adequate to cover the justified costs of the water service provider.

Mr. Hayashi, JICA Kenya Office enquired whether costs such as depreciation and amortization are included in the tariff. Eng. Njaggah replied that they are not included since they are WSPs inefficiencies.

6. SPEECH FROM WASPA CEO

Certified Public Accountant Inyangala Liyengwa of WASPA appreciated MWSI and JICA for coming up with this project and expressed hope that it will be cascaded to other WSPs.

7. EXPLANATION OF PROPOSED PROJECTS FROM FIVE WSPs

● EWASCO (EMBU WSP)

Mr. Dickson Njiru, Managing Director EWASCO made a presentation (attached as Appendix-3) on the proposed Kanyuambora New Water Treatment Plant Scheme Construction Project to treat, transmit and distribute 11,000m³/day of water and increase the population served from 45% to 82% at an estimated cost of Kshs 300 million.

Eng. Alima, the Chairperson enquired the number of additional connections that will result from the new project. Mr. Dickson Njiru said that the number of connections is expected to increase from 2,800 to 15,000 in the targeted supply area.

● MUWASCO (MURANG'A WSP)

Eng. Daniel Ng'ang'a, Managing Director MUWASCO made a presentation (attached as Appendix-4) on the proposed Karichiungu Water Supply Project involving a new raw water transmission mains, treated water mains and rehabilitation of Kiharu water treatment plant to provide additional 2,000m³/day at a cost of Kshs 90 million into the water supply.

Eng. Alima, the Chairperson enquired the reason the total population in the service area is very low at only 101,200 people. Eng. Daniel Ng'ang'a replied that there are several other WSPs in Murang'a County and MUWASCO's mandated area covers only two sub-counties.

Eng. Alima, the Chairperson said that the problem with WSPs is overstaffing and compared Tokyo's 3800 staff who produce millions of m³ of water against Nairobi's 3,800 staff who produce just thousands m³.

- **RUJWASCO (RUIRU-JUJA WSP)**

Ms. Mary Mwangi, Technical Manager RUJWASCO made a presentation (attached as Appendix-5) on the proposed 25Km mix of transmission and distribution pipes to Gitothua, Biashara, Theta, Membley and Gitambaya areas to increase water coverage at a cost of Kshs 250 million.

Eng. Alima, the Chairperson enquired the reason there are large unserved areas surrounded by served areas within the WSP's mandated area. Ms. Mary Mwangi replied that there are no pipe network in those surrounded areas and that these are some of the areas targeted by this project.

Eng. Alima, the Chairperson also enquired whether the WSP is benefiting from the new Karemuni II Dam water. Ms. Mary Mwangi replied that the WSP is receiving 47,000m³/day from the dam which they are not able to distribute due to lack of distribution network and hence the urgency of this project.

- **NAWASCO (NANYUKI WSP)**

Mr. Maingi Charles, NAWASCO made a presentation (attached as Appendix-6) on the proposed Gakawa Water Project with an estimated cost of Kshs 825,878,722 to Improve water supply by 7,500 m³/day and serve additional 20,000 people. He said that due to the heavy investment required, the project will need to first undergo formulation of the appropriate project plan including project schedule, required tariff level, project cost, and project funding plans under the OPIP. Selection of the Bankable Project for carrying out the detailed design including the tender document preparation (specification, drawings, design, BOQ) will then follow.

Eng. Alima, the Chairperson enquired why the current per capita water production (116 l/c/d) is very high compared to the Per Capita consumption (40 l/c/d) resulting in very high average tariff. Eng. Kennedy Gitonga, Managing Director NAWASCO replied that this is caused by the effect of large consumption by some customers such as the army barracks.

Eng. Alima, the Chairperson also noted that the additional water from the project is very low at 7,500m³/day compared to the cost of the project. Eng. Kennedy Gitonga replied that Nanyuki is situated in the leeward side of Mt. Kenya hence lacking adequate water resources.

- **MEWASS (MERU WSP)**

Kennedy Kilali, Technical Manager MEWASS made a presentation (attached as Appendix-7) on the proposed project estimated at Kshs 790,496,960 involving construction of two major transmission lines to Meru Town and Ruiru area. He said that due to the heavy investment required, the project will need to first undergo formulation of the appropriate project plan including project schedule, required tariff level, project cost, and project funding plans under OPIP. Selection of the Bankable Project for carrying out the

detailed design including the tender document preparation (specification, drawings, design, BOQ) will then follow.

8. EXPANATION OF LOAN FACILITY PROGRESS FROM WSTF CEO

Ms. Ruth Ng'ang'a of WSTF made a presentation (attached as Appendix-8) on the highlights of the Draft Report of Water Fund Feasibility Study on Effective Demand (for loan facility to WSPs) carried out by KPMG through USAID WASH-FIN funding. The study involved 37 WSPs and the following were the finding:

- Many WSPs are repaying loans ahead of tenor - Loans between Ksh. 20m and Ksh. 499 M
- At least 7 loans have been fully repaid - (*e.g., Kisumu, Embu (2), Nyeri, Muranga South, Murang'a, Mathira*) - Embu repaid two loans; Murang'a South repaid one with repayment of the second ongoing.
- Several WSPs have taken commercial loans even without WSTF subsidies
- Loans without WSTF Subsidy - 5 WSPs – (*Meru, Nakuru, Nyahururu, Ngagaka, Ngandori Nginda*). These are loans between Ksh.4m and Ksh.105m using WSP land or vehicles as collateral.

She said that there lessons learnt indicate that there is:

- Increased Appetite for commercial loans by WSPs
- Timely / early repayments
- Capacity for higher loans
- Bankability of Projects
- Need to capacity building to bring in more WSPs

She concluded by saying there is need for JICA to work with WSTF to improve the uptake of loans by WSPs.

AND QUESTION AND ANSWER SESSION

Eng. Alima, the Chairperson thanked the 5 Pilot WSPs that had taken decided to take up commercial loan and said that indeed, WSPs are bankable. He also enquired about some counties like Kajiado where it seemed that WSPs had died. Eng. Njaggah of WASREB replied that the issue is related to political interference by the Governors.

Mr. Hayashi, JICA Kenya Office enquired whether the revenue collection efficiency by WSPs factors in the time of collection. He also enquired whether in operation and maintenance cost coverage, WSPs include depreciation and amortization costs for tariff setting. Eng. Njaggah of WASREB replied that depreciation,

amortization, bonuses and penalties costs are WSP inefficiencies and therefore are not included in O&M cost for tariff setting to protect consumers. Further, Eng. Daniel Ng'ang'a, Managing Director MUWASCO informed that revenue collection efficiency is monthly based hence the time factor does not apply.

Eng. Njaggah of WASREB also said that there is a change in perception by the WSPs and they are saying that "we can do business with banks".

Mr. John Gitau of JICA Kenya Office said that there is need for WSPs to assign one staff to be attending such meeting as the JCC for consistency like in the last non-revenue project.

Eng. Patricia Kiarie of MWSI said that commercial loan interest rate is high for WSPs and there is need to talk to banks to have negotiated rate. Eng. Njaggah of WASREB agreed by saying that the National Bank has a special facility for water.

Ms. Ruth Ng'ang'a of WSTF, informed that WSPs are negotiating for themselves with banks and there is now need for sector negotiation with banks to bring the rates down.

9. CLOSING REMARKS FROM THE MINISTRY

Eng. Alima, the Chairperson thanked all participants and said that we already have lessons learnt. He added that there is now need to do the last mile connectivity and a strong message should be sent to WSPs so as to increase revenue collection. He said that he was happy with the revenue collection efficiency of 95% to 96% reported in the meeting. He advised WSPs to avoid exaggerated bills since Kenyans are now able and ready to pay bills. He urged WSPs to continue expanding their water coverage.

He further said that Governors should know that WSPs are there for a purpose and stop interfering.

In his closing remarks, he thanked JICA for their support in this and other projects and also in the upcoming dispatch of a urban water expert and hoped that the collaboration will continue.

For
MINISTRY of WATER, SANITATION
AND IRRIGATION

For
JICA TEAM

Eng. S.A.O Alima
Water Secretary
Ministry of Water, Sanitation and Irrigation
The Republic of Kenya

Mr. Masayuki FUJII
Team Leader
JICA Team

**Project for Strengthening capacity
of Water Service Providers
on Formulating Bankable Project Plans**

JCC Meeting

Nov. 30, 2022

**Nippon Koei Co., Ltd.
Deloitte Tohmatsu Financial Advisory LLC
Nihon Suido Consultants Co., Ltd.**

NK · DTFA · NSC JV

1

Time Table of JCC Meeting

09:00-09:05	Address from the Chairperson (MWSI)
09:05-09:10	Self-Introduction
09:10-09:15	Welcome Remarks (JICA Nairobi Office)
09:15-09:45	Report of Project Activities(JICA Consultant Team)
09:45-09:55	Question and Answer (1)
09:55-10:05	Policy of Tariff Setting (WASREB)
10:05-10:10	General Overview of WSPs (WASPA)
10:10-10:35	Explanation of Proposed Projects (Embu, Murang'a, Ruiru-Juja, Nanyuki, Meru)
10:35-10:45	Progress of Establishment of Revolving Funds (WSTF)
10:45-10:55	Question and Answer (2)
10:55-11:00	Closing Remakes (MWSI)

NK · DTFA · NSC JV

**Project for Strengthening capacity
of Water Service Providers
on Formulating Bankable Project Plans**

Report of Project Activities

Nov. 30, 2022

**Nippon Koei Co., Ltd.
Deloitte Tohmatsu Financial Advisory LLC
Nihon Suido Consultants Co., Ltd.**

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(1) Background

1) Background of the Project

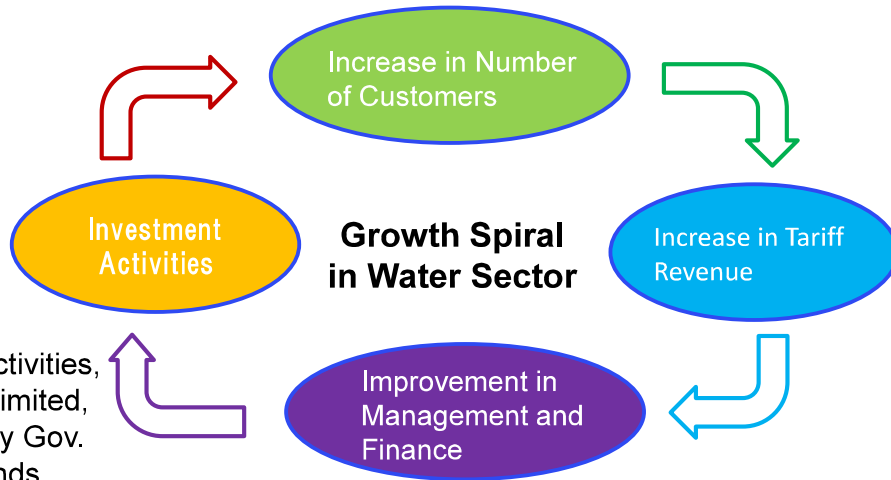
- Goal of NAWASIP (National Water and Sanitation Investment Program, MWSI) and SDGs (Sustainable Development Goals) : Achieve 100% access to safe water by 2030
- To achieve to NAWASIP and SDGs Goal in Kenya, the public funds could cover about only 40% of the funds needed.
- Therefore, there is an urgent need to establish a system in which WSPs (Water Service Providers) rely not only on public funds, but also funds from commercial banks and international donors.

2) Expected Impact of the Project

- Financial loans toward WSPs are enhanced, and access to safe water in Kenya is increased.

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(2) The Consultant's understanding on Growth Spiral of Water Sector and Challenges



[Point-2]

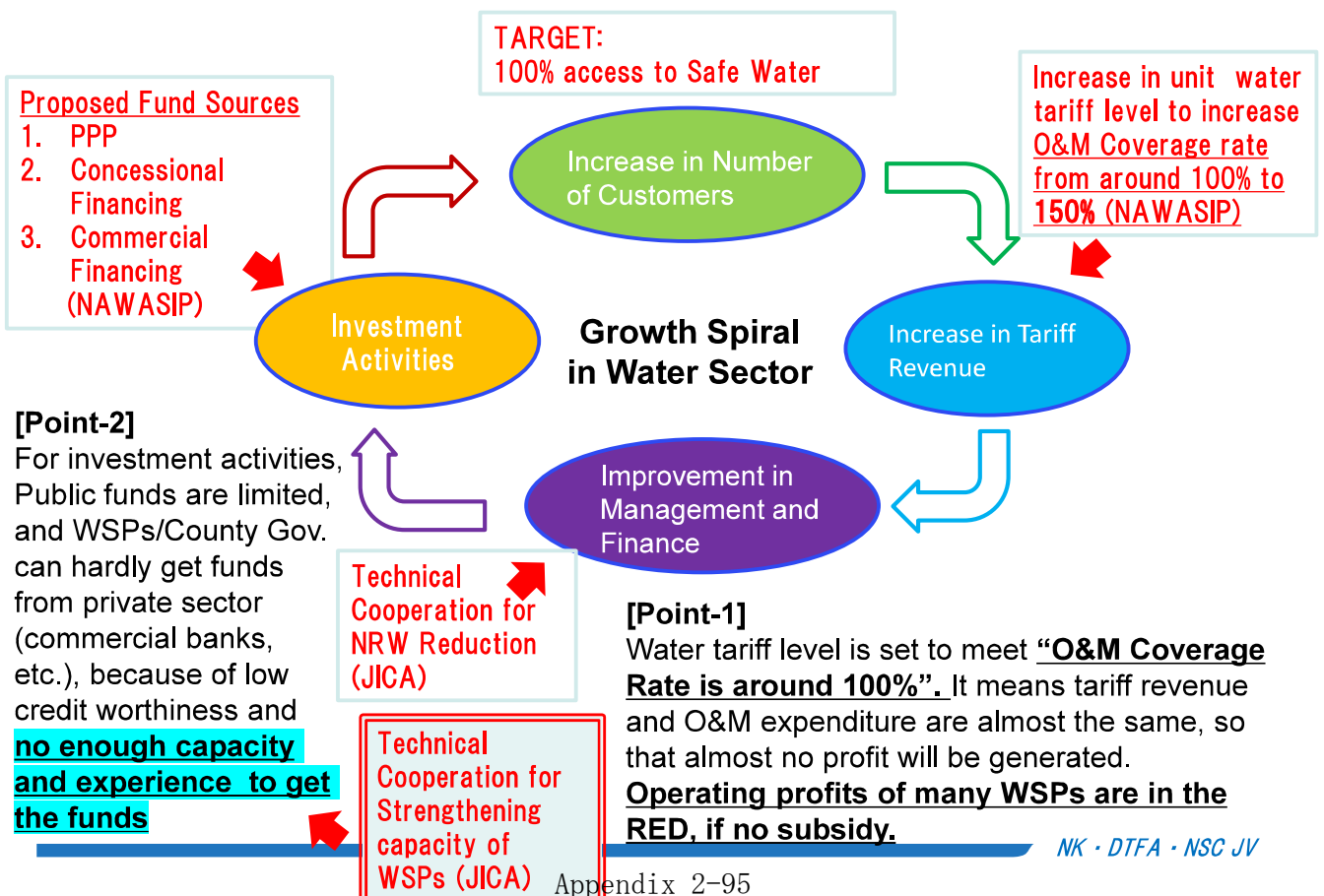
For investment activities, Public funds are limited, and WSPs/County Gov. can hardly get funds from private sector (commercial banks, etc.), because of **low credit worthiness and no enough capacity and experience to get the funds**

[Point-1]

Water tariff level is set to meet "**O&M Coverage Rate is around 100%**". It means tariff revenue and O&M expenditure are almost the same, so that almost no profit will be generated. **Operating profits of many WSPs are in the RED, if no subsidy.**

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(3) On-going Measures, Planned Measures



[Point-2]

For investment activities, Public funds are limited, and WSPs/County Gov. can hardly get funds from private sector (commercial banks, etc.), because of low credit worthiness and **no enough capacity and experience to get the funds**

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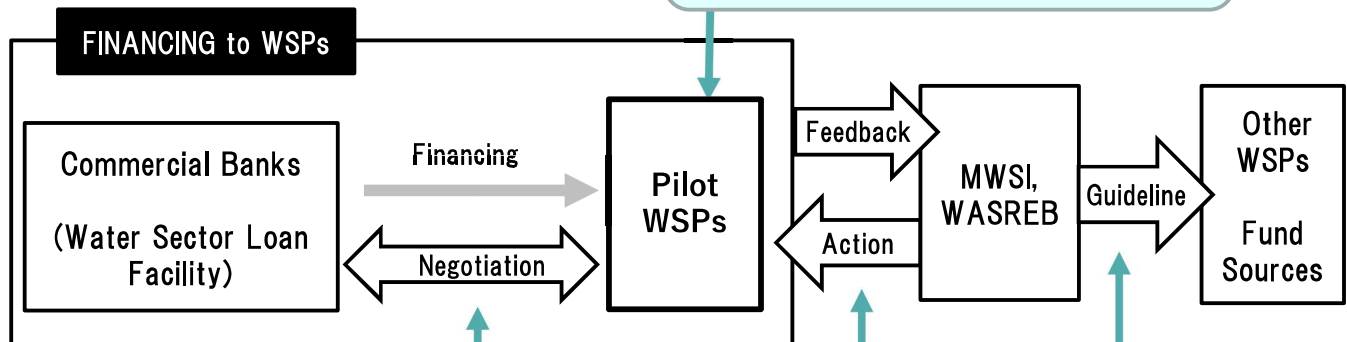
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(4) Implementation Structure of the Project

Expected Goals: Financing to WSPs through blended financing, commercial financing, or capital market financing, will be facilitated.

Output 1: The capacity of pilot WSPs to **develop bankable project plan** is improved.



Output 2: The capacity of pilot WSPs to **negotiate with financial organizations in order to receive financing for a bankable project plan** is improved.

Output 3 **“Guidelines on Bankable Project Plan Development for WSPs”** is prepared and utilized.

Output 4 **Annual Action Plan** is developed by MWSI, based on extracted lesson learned through Output 1 and Output 2.

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Project for Strengthening capacity of Water Service Providers on Formulating Bankable Project Plans

JCC Meeting

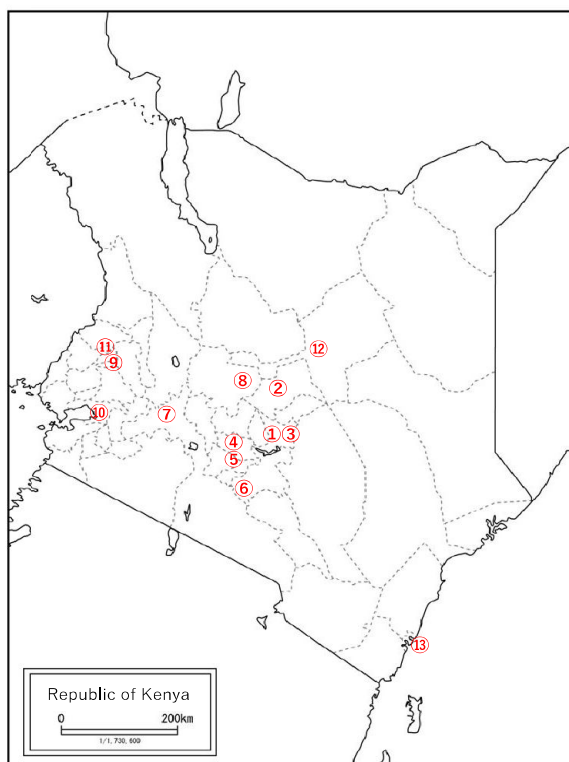
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(5) Target 13 WSPs for Preliminary Study

List and Location of Target 13 WSPs for Preliminary Study



No.	WWDA	WSPs
1	Tana	Embu
2		Meru
3		Ngagaka
4	Athi	Murang'a
5		Ruiru-Juja
6	Tanathi	Mavoko
7	Central Rift Valley	Nakuru
8		Nanyuki
9	North Rift Valley	Eldoret
10	Lake Victoria South	Kisumu
11	Lake Victoria South	Nzoia
12	Northern	Isiolo
13	Coast	Mombasa

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(5) Projects proposed by WSPs (1/4)

WSP	No.	Name of Project (Number: Priority)	Expected Source of Finance confirmed by WSP	Proposed Scope of Works (Tentative)	Expected Benefit	Level of Cost (M Kshs)
Embu	1	1) Expansion of Mukangu Water Treatment Plant (WTP) with Re-alignments of Raw Water Main	- Blended Finance - Commercial Finance	Capacity: 10,000 m ³ /day (28,000 m ³ /day to 38,000 m ³ /day) Raw Water Main: 2.0 km (Dia: 400 mm of Ductile Iron Pipe)	Service area coverage: 59 % to 80 % Increase the served population: 195,000 to 240,000	250
	2	2) Kanyuambora New Water Treatment Scheme Construction Project	- Blended Finance - Commercial Finance	Capacity: 11,000 m ³ /day Distribution Pipe: 60 km (Dia: 32 - 225 mm)	Service area coverage: 20 % to 60 % Increase the served population: 36,000 to 120,000	300
	3	3) Rehabilitation of Kangaru, Muchonoke, Gachoka, Kanothi pipelines	- Blended Finance - Commercial Finance	Pipeline: 50 km (Dia: from 200 - 315 mm)	NRW: 43% in 2017 to 20% (One of several projects)	175
	4	4) Construction of storage tanks in Kanothi, Kanyuambora, Gachoka and Kithimu areas	- Blended Finance - Commercial Finance	Capacity: 1,000 m ³ ×5 Distribution main: Pipeline: 50 km (Dia: from 160 - 315 mm)	Service area coverage: 67 % to 80 % Increase the served population: 195,000 to 240,000	200 (125+75)
	5	5) Construction distribution network	- Blended Finance - Commercial Finance	Length: 115 km from DN 90 - DN 200mm	additional 30,000 connections	340
Meru	6	1) Installation of parallel raw water transmission main in Kathita	- AOD (under evaluation) - Own Fund	Capacity: 7,000 m ³ /day Transmission main: 3.7 km (Dia: 300 mm)	Customer increment : 10 % to 12.5 % Billing increment: 7.5 % to 12.5 % Revenue increment: 5 % to 12.5 %	40
	7	2) Construction of Mutuaru new water supply system including intake, raw water main, WTP and transmission main	- Blended Finance - Grant - Concessional Loan	WTP Capacity: 30,000 m ³ /day Raw water main: 8 km (Dia: 450 mm) Transmission main: 11km (Dia: 300mm)	To boost the water supply within SPA to meet the demand (m ³) in 2040	791
Ngagaka	8	1) Construction of new water supply system including intake, raw water main, Irangi WTP, Wanjira tank and transmission pipeline to Runyenjes town	- Grant from WWDA	Capacity: 6912m ³ /day (Additional) Raw water main, Transmission main Tank: 225 m ³ ×2no, RC (Steel)	To boost the water supply within runyenjes town to meet the demand (6780 m ³ /day) in 2032	157
Murang'a	9	1) New Muranga Municipality Bulk Water Project	- AOD - Grant - Concessional Loan	Construction of intake, WTP and distribution lines in Murang'a Municipality Intake, WTP capacity : 25,000m ³ /day, Raw water main: 9 km (Dia: 500 mm) Transmission main: 85 km (Dia: 200 – 450 mm)	Service area coverage from 2022 to 2030: 35 % to 100 %/increase the served population in 2040: 102,000 to 391,817	2,000
	10	2) Construction of an intake and raw water main to Kiawambeu	- AOD (under evaluation)	Capacity: 5,000 m ³ /day Raw water main: 12km	Service hours: 18 in 2020 to 24 in 2023	150
	11	3) Construction of intake and raw water main and rehabilitation Kiharu treatment works	- AOD - Grant - Concessional Loan	Capacity: 1,500 m ³ /day Raw water main: 8.3km (Dia: 200mm)	(Additional 1,000m ³ of water to ease rationing)	50

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(6) Projects proposed by WSPs (2/4)

№	WSP	№	(Number of Projects) Name of Project	WSP Finance confirmed by Executive Director of	(Location) Proposed scope of Works	Expected Benefit	(M KSh) Cost Level of
5	Ruiru-Juja	12	1) Construction of distribution pipeline in Mugutha, Ruiru East, Mombasa bypass, Ruiru town estates and Kenyatta road	- Own fund	Distribution: 25.4 km (Dia: 250, 315 mm)	Improve hours of water supply services: 12 hours in 2021 to 24 hours in 2024 NRW: 32% in 2021 to 25% in 2024	150
		13	2) Construction of boreholes in Mwhiko, Ruiru and Juja and solarization of boreholes and solar hybrid in treatment plants	- Own fund	10 boreholes capacity: 3,000 m3/day Payout time: 10 years Solarization: 10 boreholes	Reduction of O&M cost: 10 %	220
		14	3) Rehabilitation of distribution pipeline in Kahawa sukari and Juja, smart metering of DMA bulk meters and purchase of consumer water meters for reduction of NRW	- Blended Finance - Commercial Finance	Distribution: 40 km (Dia: 350mm-225mm) Smart meter: 40	NRW: 32% in 2021 to 25% in 2025	230
		15	4) Construction of backwash recirculation system in Juja WTP and installation of remote monitoring systems in Ruiru and Juja WTP	- Own fund	Backwash recirculation system: 1000 m3/day remote monitoring system: for 2no WTP. Parameters: Flow, residue chlorine, turbidity, PH	Reduction of O&M cost: 5 %	25
6	Mavoko	16	No information have been received.	No willingness to use the commercial finance or blended finance.	-	-	-
7	Nakuru	17	1) Installation of Smart meters in all zones	- AOD (under evaluation)	Installation of 8,535 Smart meters of 1/2",3/4",1" and 2"	Reduction of NRW, O&M cost, meter inaccuracies and real time meter data relay NRW: 31% to 21%	152
		18	2) Installation of Solar panels for pumping high efficient pumps (for development and improvement of Boreholes)	- Commercial Finance	Solar panel: 95 kWh Payout time: 7 years Pump: 100 m3/h and ,90 m3/hr. numbering 24 boreholes	Reduction of O&M cost: 35 % Payout time: 7 years	270
		19	3) Production optimization project at Kabatini	- Blended Finance - Commercial Finance	1. 8 nos. boreholes, 2. Rising main 600mm from Kabatini to Mereroni, 3. Transmission lines from Mereroni to prison reservoir and distribution line to CBD and 4. Improvement of distribution system	Boosting of production volumes from kabatini from the current 17000 m3/ day to 35000m3/day	720
		20	4) Network improvement/extension and NRW reduction and management project.	AOD (under evaluation)	Network extension at Neyland, Kiamunyeiki, Mireri/ Nguta, kiondoo and mzee wanyama, sinking of 1 no. borehole at mzee wanyama and social connection policy.	Increase water coverage, improvement in revenue and increase in service hours	95

(6) Projects proposed by WSPs (3/4)

№	WSP	№	(Number of Projects) Name of Project	WSP Finance confirmed by Executive Director of	(Location) Proposed scope of Works	Expected Benefit	(M KSh) Cost Level of
8	Nanyuki	21	1) Distribution network rehabilitation in Nanyuki town and Upgrading of Kanyoni WTP	- Commercial Finance and - Loan Facility and any other available fund source	The project scope will be determined based on the results of the OPIP. The assumed scope of commercial financing and Loan Facility and other source of fund are as follows: 【Using Commercial Financing (CF)】 Raw water main (4.6 km), distribution pipeline (12.9 km), and replacement of AC/GI pipeline (6.9 km) 【Using Loan Facility (LF) or other fund】 Distribution pipeline (605km), transmission pipeline (12km), replacement of AC/GI pipeline (14km), water line (10 nos), borehole (10 nos), storage tank	NRW: 32 % in 2021 to below 25 % in 2026	CF: 100 LF: 1,100
		22	2) Construction of Honi river new water supply system	- Blended Finance - Grant - Concessional Loan	Intake capacity: 10,000 m3, Raw water main: 66 km (Dia: 450mm-250mm) WTP capacity: 7,000m3 Transmission main: 48.4km (Dia: 110mm-63 mm)	Service area coverage: 83 % to 98 % Increase the served population: 141,971 to 152,083	800
9	Eldoret	23	1) Development of DMA (District Mater Area) in ELDOWAS Service Area	- AOD (under evaluation)	Creation of hydraulically isolated DMAs in Southern Service Area includes replacement of pipelines, installation of isolation valves, meters and consumer meters. Overhaul of the network within the target area.	NRW: 40% in 2021 to 35 % in 2023 (Final target: 20 % in 2027) (One of several projects)	110
		24	2) Installation of Transmission pipes from Chebara WTPs	- Blended Finance	Capacity: 22,000 m3/day to 29,000 m3/day Transmission main: 18 km (Dia: 500 15km - 600 mm 3 km)	Service area coverage: to increase service hours from an avera18 hours to 21 hours per day	Between 550 to 635
10	Kisumu	25	1) WTPs and Transmission pipes from proposed Rainbow & Buoye WTPs (Lake side) Western side and Eastern side of Kisumu	- Blended Financing - Commercial Finance	Construction of 2 WTPs with capacity of 65,000 m3/day in total Construction of new transmission pipeline (600 mm x 40 km)	Increased water coverage from 83% to 88%	264
		26	2) Distribution Pipeline Overhaul	- Commercial Finance (Proposal has been submitted to LVWATSAN)	Millimani 350 mm Distribution Main Overhaul Asbestos Overhaul 225 mm	Stabilize supply, reduce NRW	66 (42-22)
		27	3) Replacement of the pump and installation of VFDS	- Commercial Finance	Rehabilitation of multistage pumps and preparation of VFDS system	Stabilize supply, reduce intermittency and maximize operations with limited energy and personnel costs	71 (39+32)

(6) Projects proposed by WSPs (4/4)

№	WSP	№	(Name of Project)	WSP Finance contribution of	(Project Name)	Expected Benefit	(Total Cost)
11	Nzoia	28	1) Installation of ERP, Smart meter for commercial consumers across the cluster	- AOD (under evaluation)	Number of meter: 1000	Metering: 95% to 100%	35
		29	2) Solar panel installation and rehabilitation of the Pump systems in Matisi Water Supply Scheme	If viable by WSTF, - Blended Finance - Commercial Finance	No information from WSP	No information from WSP	33
		30	3) Leak detection equipment with technical knowledge transfer	- Own Fund	Equipment: Leak Detection equipment, GIS system, Pressure loggers, software, insertion flow meters	NRW: 48% in 2016 to 40% (Final target: 35% in 2027) (One of several projects)	10
		31	4) Elevated Reservoir tank at Matili Technical Training Institute	If viable by WSTF, - Blended Finance - Commercial Finance	Volume 265m ³	No information from WSP	-
		32	5) Additional Water intake for Kimilili WTP	If viable by WSTF, - Blended Finance - Commercial Finance	Construction of new dam or new cross weir on River Kibuk Production capacity: 1,500m ³ /day to 5,000m ³ /day even during dry season	Increase the production capacity of Kimilili WTP with 3.3 times	200
		33	6) Expansion of Kapkateny WTP and construction of new transmission and distribution pipelines	If viable by WSTF, - Blended Finance - Commercial Finance	Capacity of WTP: 4000m ³ /day to 9000m ³ /day	Reduce utilizing Matisi WTP for reduce power consumption. Increase the production capacity of Kapkateny WTP with more than twice	3000
12	Isiolo	34	No information have been received.	No willingness to use the commercial finance or blended finance.	-	-	-
13	Mombasa	35	1) Rehabilitation/Expansion of Mombasa water supply distribution Network -Lot 1B Island Mombasa county	- AFD, WB - Blended Financing - Commercial Finance	Network rehabilitation and replacement of pipes of 94.59 km and reinstatement of 4,000 customer meters.	Reduction of NRW and reaching more customers.	1,216
		36	2) 61 hydraulically isolated DMA to cover the whole of the service area.	- AFD, WB - Blended Financing - Commercial Finance	Reduce NRW to recommended level, Create DMAs, Isolation of Water Storage Tanks, Customer Meter Survey and database upgrading, customer meter accuracy survey, (replacing, reactivation, and installing of new connections)(100,000 meters by 2028 after Mwache Dam), design of DMAs, restructuring network and removal of spaghetti lines, staff needs assessment, relocation of duties to align with the NRW Procedures and training and equipping.	Reduction of NRW and reaching more customers.	2,288

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(6) Selection of Pilot WSPs

【Criteria for Selection of Pilot WSPs】

First Phase: Evaluation on conditions of WSP

- Criteria 1: Willingness to apply Commercial Loan
- Criteria 2: Financial Condition which could get Commercial Loan.

Second Phase: Evaluation on conditions of Project proposed by WSPs

- Criteria 3: No overlapping financial plan, such as by using AOD, own fundings and other financial assistance.
- Criteria 4: Project, which is formulated clearly
- Criteria 5: Project Effect, which is expected to solve major challenges of WSP
- Criteria 6: Scale of project, which is suitable for commercial loan.

Selection	WSPs
Target 13 WSPs	Embu, Meru, Ngagaka, Muranga'a, Ruiru-Juja, Mavoko, Nakuru, Nanyuki, Eldoret, Kisumu, Nzoia, Isiola, Mombasa
After First Phase Evaluation (8)	Embu, Meru, Muranga'a, Ruiru-Juja, Mavoko, Nakuru, Nanyuki, Kisumu
After Second Phase Evaluation (5)	Embu, Meru, Muranga'a, Ruiru-Juja, Nanyuki,

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(7) Overview of Pilot WSPs

The financial conditions and performance indicators of pilots WSPs are shown in the table below;

WSP		Embu	Meru	Murang'a	Ruiru-Juja	Nanyuki
BS*	Non current assets (M Ksh)	686	228	278	123	256
	Total assets (M Ksh)	1,073	395	434	480	440
	Equity ratio	53%	52%	41%	61%	58%
	Liquidity ratio	133%	104%	105%	200%	103%
	Debtor days (AR/revenue per day)	258	152	188	45	162
PL*	Revenues (M Ksh)	722	217	258	665	408
	Operating income (M Ksh)	325	9	23	57	-12
	Operating income (excluding grant) (M Ksh)	31	-8	-17	50	-74
	EBITDA (M Ksh)	422	31	46	78	15
Tariff and Perform. Indicator **	Average Tariff (Ksh/m3)	60	62	64	73	117
	O&M Cost Coverage	147%	103%	104%	143%	111%
	Non-Revenue Water	38%	19%	25%	36%	40%
	Number of Staff per 1000 connections	4	7	6	6	6
	Personnel expenditure as % of O+M Costs	41%	44%	51%	35%	48%
*	2020/2021 WSP financial information					
**	Impact report N. 14, 2022					
	■ : Good ■ : Acceptable ■ : Not Acceptable					

The details analysis will be completed in next year.

(8) Target Projects and Project Activates in Optut-1&2 (2023-2025)

WSPs	Target Project	Project Cost	Project Activities	
			2023-2024	2024-2025
Ruiru-Juja	Expansion and Replacement of Distribution Pipes	Around 250 M Ksh	BPP + F/A + D/D	—
Muranga	Construction of Intake and Raw Water pipes and Reh. of Water Treatment Plant	Around 90 M Ksh.	BPP + F/A + D/D	—
Embu	Construction of Water Treatment Plant, Transmission and Distribution Pipes	Around 300 M Ksh.	BPP + F/A + D/D	—
Nanyuki	To be clarified through Overall Project Implementation Planning	To be estimated after formulation of target project	OPIP + BPP	F/A + D/D
Meru	To be clarified through Overall Project Implementation Planning	To be estimated after formulation of target project	—	OPIP + BPP + F/A + D/D

OPIP: Overall Project Implementation Planning: Review of all projects to achieve 100% access to water

BPP: Bankable Project Plan; Concept Note for selected bankable project)

D/D: Detailed Design; including preparation of D/D drawings, Bill of quantity, Cost estimate, Bidding documents

F/A: Financial Advisory; preparation of a full sets of documents for loan application and assist for negotiation

(9) Implementation Schedule in 2023-2024 (Total Period: 2022 – 2025)

Works	Activities	2023												2024			
		1	2	3	4	5	6	7	8	9	10	11	12	1	2		
Output (1)	EMBU	TOR Preparation/ Procurement of L. Consultant	■														
		Survey and Detailed Design Works			■												
		Tender Documents Preparation and Approval									■						
	MURANG'A	TOR Preparation/ Procurement of L. Consultant			■												
		Survey and Detailed Design Works				■											
		Tender Documents Preparation and Approval									■						
	RUIRU-JUJA	TOR Preparation/ Procurement of L. Consultant					■										
		Survey and Detailed Design Works							■								
		Tender Documents Preparation and Approval														■	
	NANYUKI	TOR Preparation/ Procurement of L. Consultant							■								
		Overall Projects Implementation Plan									■						
	MERU	Confirmation of TOR and Procurement Method															■
Output (2)	Bank Sounding		■														
	Financial Simulation			■													
	Preparation of Initial Application Documents			■													
	Assitant for Credit Assesment by Bank				■												
	Negotiation on Loan Condition						■										
	Loan Agreement, and Approval Procedure (Board, County, WASREB)								■								

- 1) The schedule above is tentative, may be modified to meet the situation.
- 2) The Works for Output-3 "Guideline" and Output-4 "Action Plan" will be carried out , by using progress results and Lesson Learned from the progress of Output-1&2.
- 3) The activities of the Project will be continued by the end of 2025.

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(9) Necessary Action for Promotion of Commercial Loan to WSPs (Output-4)

Challenges	Measures to be Considered for Action Plan
1) WSP's low profitability and creditworthiness	1-1) Set suitable water tariff to cover O&M and investment costs 1-2) Reduce non-revenue water rate in order to reduce operating costs 1-3) Prepare a budget for (pro-poor) capital spending 1-4) Clarify the financial resources (PPP, concessional loans and commercial loans) for each project 1-5) Clean up WSP legacy loans
2) Current conditions of commercial loan (interest rates, loan period, collateral, guarantee, etc.) does not meet requirements of WSPs	2-1) Establish low-interest loan facilities (Water Sector Loan Facility for Blended Financing) 2-2) Development of a new capital market financing scheme 2-3) Transfer collateralizable assets to County Gov./WSPs 2-4) Establish a guarantee scheme (donor/government funds)
3) No enough capacity of WSPs for business plans preparation and negotiation with inancing sources	3-1) Improve capacity to develop bankable project plan and capacity to negotiate with organizations of possible fund sources 3-2) Prepare Guideline for identification, selection and prioritization of project for commercial loan

(10) Necessary Documents for Bank Loan Application

The following documents are required for Bank Loan Application

Step	Documents
Bank Sounding	- Concept Note on the project to be applied
Initial Application	- Copy of Business Registration (Certificate of Incorporation) - Copy of Memorandum and Articles of Association. - Copy of Service Provision Agreement (License to provide water and sanitation services) - Audited accounts for the last 3 years. - Copy of Kenya Revenue Authority PIN Certificate Company and Directors. - Latest 12 months bank statements - Aged list of debtors and creditors
During Negotiation	- Financial model including projection for the period of repayment etc.

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(11) Next JCC Meeting

1) Expected Date of Next JCC Meeting

May or June, 2023

2) Expected Agenda of Next JCC Meeting

【Progress Report on Output 1&2 from JICA Consultant Team】

- Progress of Detailed Design Works for proposed projects
- Progress of Loan negotiation with Commercial Banks for proposed projects

【Confirmation of Results of Study on Financial Sources】

- Result of Study on Capital Market Financing in Kenya
- Result of Feasibility Study on Water Sector Loan Facility

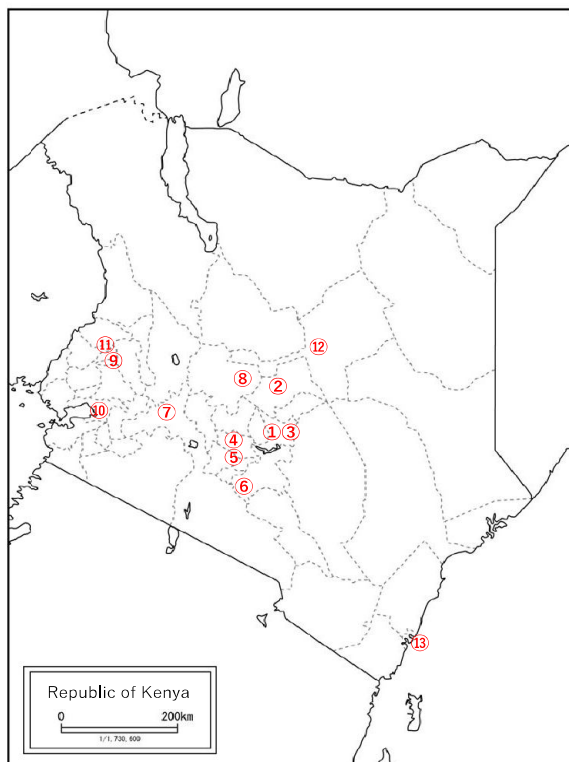
【Confirmation on Activity Plan for Output-3&4】

- Plan for Preparation of “Guidelines on Bankable Project Plan Development for WSPs (WASREB and JICA Consultant)
- Plan for Preparation of Annual Action Plan for Promotion of Commercial Loan, Blended Financing and Capital Market Financing (MWSI and JICA Consultant)

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Murang'a	9	1) New Muranga Municipality Bulk Water Project	- AOD - Grant - Concessional Loan	Construction of intake, WTP and distribution lines in Murang'a Municipality Intake, WTP capacity : 25,000m ³ /day, Raw water main: 9 km (Dia: 500 mm) Transmission main: 85 km (Dia: 200 – 450 mm)	Service area coverage from 2022 to 2030: 35 % to 100 %/increase the served population in 2040: 102,000 to 391,817	2,000
	10	2) Construction of an intake and raw water main to Kiawambeu	- AOD (under evaluation)	Capacity: 5,000 m ³ /day Raw water main: 12km	Service hours: 18 in 2020 to 24 in 2023	150
	11	3) Construction of intake and raw water main and rehabilitation Kiharu treatment works	- AOD - Grant - Concessional Loan	Capacity: 1,500 m ³ /day Raw water main: 8.3km (Dia: 200mm)	(Additional 1,000m ³ of water to ease rationing)	50

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(6) Projects proposed by WSPs (2/4)

№	WSP	№	(Number of Projects) Name of Project	WSP Finance provided by	(Description) Project scope of Works	Expected Benefit	(If Known) Cost Level of
5	Ruiru-Juja	12	1) Construction of distribution pipeline in Mugutha, Ruiru East, Mombasa bypass, Ruiru town estates and Kenyatta road	- Own fund	Distribution: 25.4 km (Dia: 250, 315 mm)	Improve hours of water supply services: 12 hours in 2021 to 24 hours in 2024 NRW: 32% in 2021 to 25% in 2024	150
		13	2) Construction of boreholes in Mwhiko, Ruiru and Juja and solarization of boreholes and solar hybrid in treatment plants	- Own fund	10 boreholes capacity: 3,000 m3/day Payout time: 10 years Solarization: 10 boreholes	Reduction of O&M cost: 10 %	220
		14	3) Rehabilitation of distribution pipeline in Kahawa sukari and Juja, smart metering of DMA bulk meters and purchase of consumer water meters for reduction of NRW	- Blended Finance - Commercial Finance	Distribution: 40 km (Dia: 350mm-225mm) Smart meter: 40	NRW: 32% in 2021 to 25% in 2025	230
		15	4) Construction of backwash recirculation system in Juja WTP and installation of remote monitoring systems in Ruiru and Juja WTP	- Own fund	Backwash recirculation system: 1000 m3/day remote monitoring system: for 2no WTP. Parameters: Flow, residue chlorine, turbidity, PH	Reduction of O&M cost: 5 %	25
6	Mavoko	16	No information have been received.	No willingness to use the commercial finance or blended finance.	-	-	-
7	Nakuru	17	1) Installation of Smart meters in all zones	- AOD (under evaluation)	Installation of 8,535 Smart meters of 1/2",3/4",1" and 2"	Reduction of NRW, O&M cost, meter inaccuracies and real time meter data relay NRW: 31% to 21%	152
		18	2) Installation of Solar panels for pumping high efficient pumps (for development and improvement of Boreholes)	- Commercial Finance	Solar panel: 95 kWh Payout time: 7 years Pump: 100 m3/h and ,90 m3/hr. numbering 24 boreholes	Reduction of O&M cost: 35 % Payout time: 7 years	270
		19	3) Production optimization project at Kabatini	- Blended Finance - Commercial Finance	1. 8 nos. boreholes, 2. Rising main 600mm from Kabatini to Mereroni, 3. Transmission lines from Mereroni to prison reservoir and distribution line to CBD and 4. Improvement of distribution system	Boosting of production volumes from kabatini from the current 17000 m3/ day to 35000m3/day	720
		20	4) Network improvement/extension and NRW reduction and management project.	AOD (under evaluation)	Network extension at Neyland, Kiamunyeke, Mireri/ Nguta, kiondoo and mzee wanyama, sinking of 1 no. borehole at mzee wanyama and social connection policy.	Increase water coverage, improvement in revenue and increase in service hours	95

(6) Projects proposed by WSPs (3/4)

№	WSP	№	(Number of Projects) Name of Project	WSP Finance provided by	(Description) Project scope of Works	Expected Benefit	(If Known) Cost Level of
8	Nanyuki	21	1) Distribution network rehabilitation in Nanyuki town and Upgrading of Kanyoni WTP	- Commercial Finance and - Loan Facility and any other available fund source	The project scope will be determined based on the results of the OPIP. The assumed scope of commercial financing and Loan Facility and other source of fund are as follows: 【Using Commercial Financing (CF)】 Raw water main (4.6 km), distribution pipeline (12.9 km), and replacement of AC/GI pipeline (6.9 km) 【Using Loan Facility (LF) or other fund】 Distribution pipeline (605km), transmission pipeline (12km), replacement of AC/GI pipeline (14km), water line (10 nos), borehole (10 nos), storage tank	NRW: 32 % in 2021 to below 25 % in 2026	CF: 100 LF: 1,100
		22	2) Construction of Honi river new water supply system	- Blended Finance - Grant - Concessional Loan	Intake capacity: 10,000 m3, Raw water main: 66 km (Dia: 450mm-250mm) WTP capacity: 7,000m3 Transmission main: 48.4km (Dia: 110mm-63 mm)	Service area coverage: 83 % to 98 % Increase the served population: 141,971 to 152,083	800
9	Eldoret	23	1) Development of DMA (District Mater Area) in ELDOWAS Service Area	- AOD (under evaluation)	Creation of hydraulically isolated DMAs in Southern Service Area includes replacement of pipelines, installation of isolation valves, meters and consumer meters. Overhaul of the network within the target area.	NRW: 40% in 2021 to 35 % in 2023 (Final target: 20 % in 2027) (One of several projects)	110
		24	2) Installation of Transmission pipes from Chebara WTPs	- Blended Finance	Capacity: 22,000 m3/day to 29,000 m3/day Transmission main: 18 km (Dia: 500 15km - 600 mm 3 km)	Service area coverage: to increase service hours from an avera18 hours to 21 hours per day	Between 550 to 635
10	Kisumu	25	1) WTPs and Transmission pipes from proposed Rainbow & Buoye WTPs (Lake side) Western side and Eastern side of Kisumu	- Blended Financing - Commercial Finance	Construction of 2 WTPs with capacity of 65,000 m3/day in total Construction of new transmission pipeline (600 mm x 40 km)	Increased water coverage from 83% to 88%	264
		26	2) Distribution Pipeline Overhaul	- Commercial Finance (Proposal has been submitted to LVWATSAN)	Millimani 350 mm Distribution Main Overhaul Asbestos Overhaul 225 mm	Stabilize supply, reduce NRW	66 (42-22)
		27	3) Replacement of the pump and installation of VFDS	- Commercial Finance	Rehabilitation of multistage pumps and preparation of VFDS system	Stabilize supply, reduce intermittency and maximize operations with limited energy and personnel costs	71 (39+32)

(6) Projects proposed by WSPs (4/4)

№	WSP	№	(Name of Project)	WSP Finance contribution of	(Project Name)	Expected Benefit	(Total Cost)
11	Nzoia	28	1) Installation of ERP, Smart meter for commercial consumers across the cluster	- AOD (under evaluation)	Number of meter: 1000	Metering: 95% to 100%	35
		29	2) Solar panel installation and rehabilitation of the Pump systems in Matisi Water Supply Scheme	If viable by WSTF, - Blended Finance - Commercial Finance	No information from WSP	No information from WSP	33
		30	3) Leak detection equipment with technical knowledge transfer	- Own Fund	Equipment: Leak Detection equipment, GIS system, Pressure loggers, software, insertion flow meters	NRW: 48% in 2016 to 40% (Final target: 35% in 2027) (One of several projects)	10
		31	4) Elevated Reservoir tank at Matili Technical Training Institute	If viable by WSTF, - Blended Finance - Commercial Finance	Volume 265m ³	No information from WSP	-
		32	5) Additional Water intake for Kimilili WTP	If viable by WSTF, - Blended Finance - Commercial Finance	Construction of new dam or new cross weir on River Kibuk Production capacity: 1,500m ³ /day to 5,000m ³ /day even during dry season	Increase the production capacity of Kimilili WTP with 3.3 times	200
		33	6) Expansion of Kapkateny WTP and construction of new transmission and distribution pipelines	If viable by WSTF, - Blended Finance - Commercial Finance	Capacity of WTP: 4000m ³ /day to 9000m ³ /day	Reduce utilizing Matisi WTP for reduce power consumption. Increase the production capacity of Kapkateny WTP with more than twice	3000
12	Isiolo	34	No information have been received.	No willingness to use the commercial/finance or blended finance.	-	-	-
13	Mombasa	35	1) Rehabilitation/Expansion of Mombasa water supply distribution Network -Lot 1B Island Mombasa county	- AFD, WB - Blended Financing - Commercial Finance	Network rehabilitation and replacement of pipes of 94.59 km and reinstatement of 4,000 customer meters.	Reduction of NRW and reaching more customers.	1,216
		36	2) 61 hydraulically isolated DMA to cover the whole of the service area.	- AFD, WB - Blended Financing - Commercial Finance	Reduce NRW to recommended level, Create DMAs, Isolation of Water Storage Tanks, Customer Meter Survey and database upgrading, customer meter accuracy survey, (replacing, reactivation, and installing of new connections)(100,000 meters by 2028 after Mwache Dam), design of DMAs, restructuring network and removal of spaghetti lines, staff needs assessment, relocation of duties to align with the NRW Procedures and training and equipping.	Reduction of NRW and reaching more customers.	2,288

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(6) Selection of Pilot WSPs

【Criteria for Selection of Pilot WSPs】

First Phase: Evaluation on conditions of WSP

- Criteria 1: Willingness to apply Commercial Loan
- Criteria 2: Financial Condition which could get Commercial Loan.

Second Phase: Evaluation on conditions of Project proposed by WSPs

- Criteria 3: No overlapping financial plan, such as by using AOD, own fundings and other financial assistance.
- Criteria 4: Project, which is formulated clearly
- Criteria 5: Project Effect, which is expected to solve major challenges of WSP
- Criteria 6: Scale of project, which is suitable for commercial loan.

Selection	WSPs
Target 13 WSPs	Embu, Meru, Ngagaka, Muranga'a, Ruiru-Juja, Mavoko, Nakuru, Nanyuki, Eldoret, Kisumu, Nzoia, Isiola, Mombasa
After First Phase Evaluation (8)	Embu, Meru, Muranga'a, Ruiru-Juja, Mavoko, Nakuru, Nanyuki, Kisumu
After Second Phase Evaluation (5)	Embu, Meru, Muranga'a, Ruiru-Juja, Nanyuki,

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(7) Overview of Pilot WSPs

The financial conditions and performance indicators of pilots WSPs are shown in the table below;

WSP		Embu	Meru	Murang'a	Ruiru-Juja	Nanyuki
BS*	Non current assets (M Ksh)	686	228	278	123	256
	Total assets (M Ksh)	1,073	395	434	480	440
	Equity ratio	53%	52%	41%	61%	58%
	Liquidity ratio	133%	104%	105%	200%	103%
	Debtor days (AR/revenue per day)	258	152	188	45	162
PL*	Revenues (M Ksh)	722	217	258	665	408
	Operating income (M Ksh)	325	9	23	57	-12
	Operating income (excluding grant) (M Ksh)	31	-8	-17	50	-74
	EBITDA (M Ksh)	422	31	46	78	15
Tariff and Perform. Indicator **	Average Tariff (Ksh/m3)	60	62	64	73	117
	O&M Cost Coverage	147%	103%	104%	143%	111%
	Non-Revenue Water	38%	19%	25%	36%	40%
	Number of Staff per 1000 connections	4	7	6	6	6
	Personnel expenditure as % of O+M Costs	41%	44%	51%	35%	48%
*	2020/2021 WSP financial information					
**	Impact report N. 14, 2022					
	■ : Good ■ : Acceptable ■ : Not Acceptable					

The details analysis will be completed in next year.

(8) Target Projects and Project Activates in Optut-1&2 (2023-2025)

WSPs	Target Project	Project Cost	Project Activities	
			2023-2024	2024-2025
Ruiru-Juja	Expansion and Replacement of Distribution Pipes	Around 250 M Ksh	BPP + F/A + D/D	—
Muranga	Construction of Intake and Raw Water pipes and Reh. of Water Treatment Plant	Around 90 M Ksh.	BPP + F/A + D/D	—
Embu	Construction of Water Treatment Plant, Transmission and Distribution Pipes	Around 300 M Ksh.	BPP + F/A + D/D	—
Nanyuki	To be clarified through Overall Project Implementation Planning	To be estimated after formulation of target project	OPIP + BPP	F/A + D/D
Meru	To be clarified through Overall Project Implementation Planning	To be estimated after formulation of target project	—	OPIP + BPP + F/A + D/D

OPIP: Overall Project Implementation Planning: Review of all projects to achieve 100% access to water

BPP: Bankable Project Plan; Concept Note for selected bankable project)

D/D: Detailed Design; including preparation of D/D drawings, Bill of quantity, Cost estimate, Bidding documents

F/A: Financial Advisory; preparation of a full sets of documents for loan application and assist for negotiation

(9) Implementation Schedule in 2023-2024 (Total Period: 2022 – 2025)

Works	Activities	2023												2024			
		1	2	3	4	5	6	7	8	9	10	11	12	1	2		
Output (1)	EMBU	TOR Preparation/ Procurement of L. Consultant	■														
		Survey and Detailed Design Works			■												
		Tender Documents Preparation and Approval									■						
	MURANG'A	TOR Preparation/ Procurement of L. Consultant			■												
		Survey and Detailed Design Works					■										
		Tender Documents Preparation and Approval									■						
	RUIRU-JUJA	TOR Preparation/ Procurement of L. Consultant					■										
		Survey and Detailed Design Works							■								
		Tender Documents Preparation and Approval													■		
	NANYUKI	TOR Preparation/ Procurement of L. Consultant							■								
		Overall Projects Implementation Plan									■						
	MERU	Confirmation of TOR and Procurement Method														■	
Output (2)	Bank Sounding		■														
	Financial Simulation			■													
	Preparation of Initial Application Documents			■													
	Assitant for Credit Assesment by Bank				■												
	Negotiation on Loan Condition						■										
	Loan Agreement, and Approval Procedure (Board, County, WASREB)								■								

- 1) The schedule above is tentative, may be modified to meet the situation.
- 2) The Works for Output-3 "Guideline" and Output-4 "Action Plan" will be carried out , by using progress results and Lesson Learned from the progress of Output-1&2.
- 3) The activities of the Project will be continued by the end of 2025.

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(9) Necessary Action for Promotion of Commercial Loan to WSPs (Output-4)

Challenges	Measures to be Considered for Action Plan
1) WSP's low profitability and creditworthiness	1-1) Set suitable water tariff to cover O&M and investment costs 1-2) Reduce non-revenue water rate in order to reduce operating costs 1-3) Prepare a budget for (pro-poor) capital spending 1-4) Clarify the financial resources (PPP, concessional loans and commercial loans) for each project 1-5) Clean up WSP legacy loans
2) Current conditions of commercial loan (interest rates, loan period, collateral, guarantee, etc.) does not meet requirements of WSPs	2-1) Establish low-interest loan facilities (Water Sector Loan Facility for Blended Financing) 2-2) Development of a new capital market financing scheme 2-3) Transfer collateralizable assets to County Gov./WSPs 2-4) Establish a guarantee scheme (donor/government funds)
3) No enough capacity of WSPs for business plans preparation and negotiation with inancing sources	3-1) Improve capacity to develop bankable project plan and capacity to negotiate with organizations of possible fund sources 3-2) Prepare Guideline for identification, selection and prioritization of project for commercial loan

(10) Necessary Documents for Bank Loan Application

The following documents are required for Bank Loan Application

Step	Documents
Bank Sounding	- Concept Note on the project to be applied
Initial Application	- Copy of Business Registration (Certificate of Incorporation) - Copy of Memorandum and Articles of Association. - Copy of Service Provision Agreement (License to provide water and sanitation services) - Audited accounts for the last 3 years. - Copy of Kenya Revenue Authority PIN Certificate Company and Directors. - Latest 12 months bank statements - Aged list of debtors and creditors
During Negotiation	- Financial model including projection for the period of repayment etc.

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(11) Next JCC Meeting

1) Expected Date of Next JCC Meeting

May or June, 2023

2) Expected Agenda of Next JCC Meeting

【Progress Report on Output 1&2 from JICA Consultant Team】

- Progress of Detailed Design Works for proposed projects
- Progress of Loan negotiation with Commercial Banks for proposed projects

【Confirmation of Results of Study on Financial Sources】

- Result of Study on Capital Market Financing in Kenya
- Result of Feasibility Study on Water Sector Loan Facility

【Confirmation on Activity Plan for Output-3&4】

- Plan for Preparation of “Guidelines on Bankable Project Plan Development for WSPs (WASREB and JICA Consultant)
- Plan for Preparation of Annual Action Plan for Promotion of Commercial Loan, Blended Financing and Capital Market Financing (MWSI and JICA Consultant)

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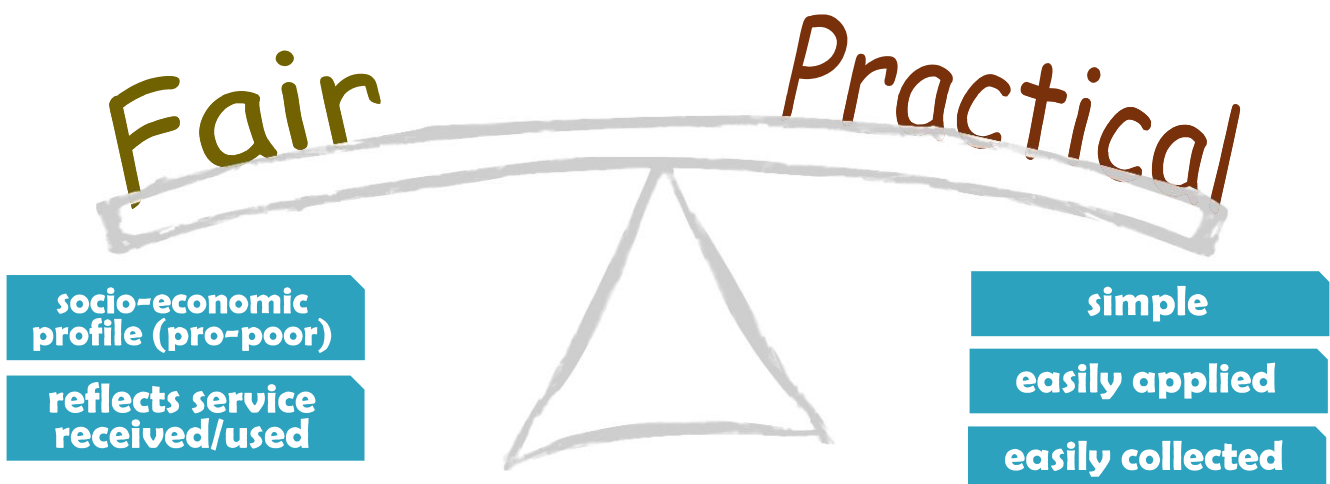
WATER SERVICES REGULATORY BOARD

GUIDING PRINCIPLES OF WATER PRICING IN KENYA.



INTRODUCTION- What makes a good tariff structure?

- Improving water use efficiency,
- Enhance social equity
- Driving investments
- Securing financial sustainability of WSPs.



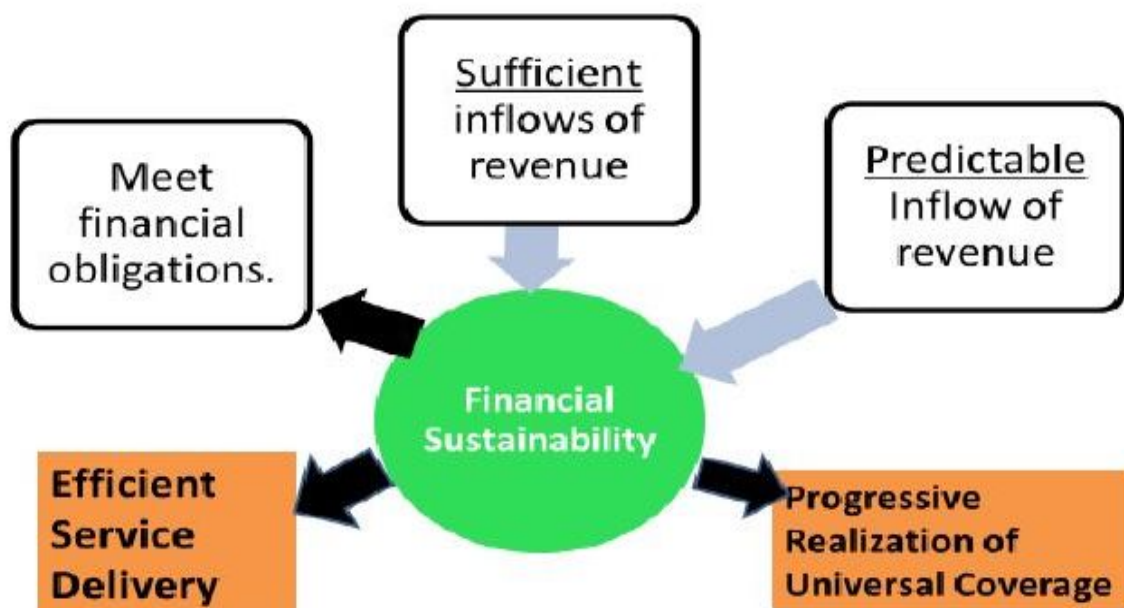
Sustainability of WSP

Depends on

- Policy and Political environment
- Management Capacity
- Technical Capacity..infrastructure..Water source
- Social & Cultural Factors
- Financial Sustainability



Financial Sustainability



Predictable & Sufficient Financing

Required for :

- O+ M costs
- Improving Quality of service(reliability, DWQ)
- Infrastructure development.....new & replacement



Sources of Finance

6

The 3Ts (Taxes; Transfers - ODA ;Tariffs*) are essentially the ultimate source of finance which provide the future cash flows to fulfil budgetary requirements.

- Tariff is the Most Reliable of the 3Ts



WSP With Tariff

WSP's
Financial
Sustainability



Tariffs

Transfers

Taxes



WSP Without Tariff

WSP's
Financial
Sustainability



Transfers

Taxes



Tariff Adjustments

Types Of Tariff Adjustment

- ❑ **Regular Tariff Adjustment (RTA)**
 - comprehensive review of the tariff undertaken no more frequently than a set period 3-5 years.fixed tariff structure
- ❑ **Automatic Tariff Adjustment (ATA)**
 - ❑ Similar to RTA, **but** tariff changes every twelve months during the Tariff Period, in line with changes in the underlying **cost of service** and **performance**.
 - ❑ Periodic review by the Regulatory Board (4- 5 years)

Indexation commenced July 2018

- ❑ **Extra Ordinary Tariff Adjustment (ETA)**
 - ❑ Extra Ordinary Circumstances: abnormal changes in operating conditions
 - ❑ Maximum Period: 12 months



Current Pricing Model for Water

- ❖ **Tariff (price) of water is based on a cost recovery model.**
- ❖ **The costs considered for tariff determination are illustrated below.**

Operations	Maintenance	Debt Service	Investment	Asset Renewal
<ul style="list-style-type: none"> • Direct Costs (e.g. electricity, chemicals) • Staff Costs • Administration • Board of Directors • Regulator costs 	<ul style="list-style-type: none"> • <u>Periodic</u> ✓ <i>time-based/ Routine</i> • <u>Preventive</u> ✓ <i>Based on random insp.</i> • <u>Corrective</u> • <u>Predictive</u> ✓ <i>experience</i> • <u>Overhaul</u> 	<ul style="list-style-type: none"> • Principal • Interest <p>*on CAPEX</p>	<ul style="list-style-type: none"> • Infrastructure • Operational Assets • Administrative Assets • Software 	<ul style="list-style-type: none"> • Replacement of Ageing/ Obsolete Assets

- ❖ **Tariff should be adequate to cover the justified costs of the water service provider.**



Cost Provisions Not Allowed in Tariff Determination

- ❖ Provisions for Depreciation
- ❖ Provisions for Amortization
- ❖ Provisions for Bad and Doubtful Debts
- ❖ Provisions for Dividends Payments
- ❖ Provisions for Bonus Payments
- ❖ Provisions for Penalties



Indexation

Adjustment for Efficiency to Protect Consumers

- ❖ The formula utilizes the Inflation rate, based on the overall CPI, and adjusts for the utility's efficiency.
- ❖ The two efficiency measures that directly impact on tariff level are applied:
 - I. Non Revenue water (NRW)
 - II. Personnel Expenditure (PE)
- ❖ The implication of the efficiency adjustment is that the utility **ONLY** gets the full inflation adjustment if it meets the **NRW and PE targets set in the tariff**. Therefore, the consumers do not get overcharged for the utility's inefficiencies.



Indexation.....Cont.

The Formula

- ❖ The Index for water services at time t is calculated as follows:

$$Iw_t = X (I_t)$$

Where:

- Iw_t = Index for water services at time t
- I_t = Overall inflation rate at time t (CPI)
- X = Discount on CPI measured against performance benchmarks

- ❖ The performance discount is calculated as follows;

$$X = 0.5 \left[\frac{TNRW_t}{NRW_t} + \frac{Tpe_t}{PE_t} \right]$$

Where:

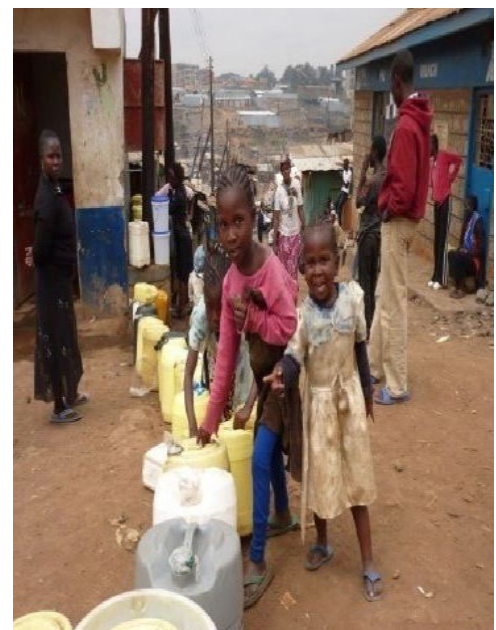
- $TNRW_t$ = Target for Non-revenue water for time t
- NRW_t = Actual Non-revenue water at time t
- Tpe_t = Target personnel costs to total overheads
- PE_t = Actual Personnel costs to total overheads



Conclusion

□ Cost Reflective Tariff Ensure:

- Financial Sustainability of a WSP leading to improved and efficient service delivery.
- Making access to drinking water affordable for different income groups.- tariffs should not be too high to drive consumers to unsafe alternatives .
- Sending appropriate price signals to users about the relationship between water use and water scarcity;
- Accessing to blended financing options(OBA, AID, commercial loans, etc)



-ENDS-



30TH NOVEMBER 2022

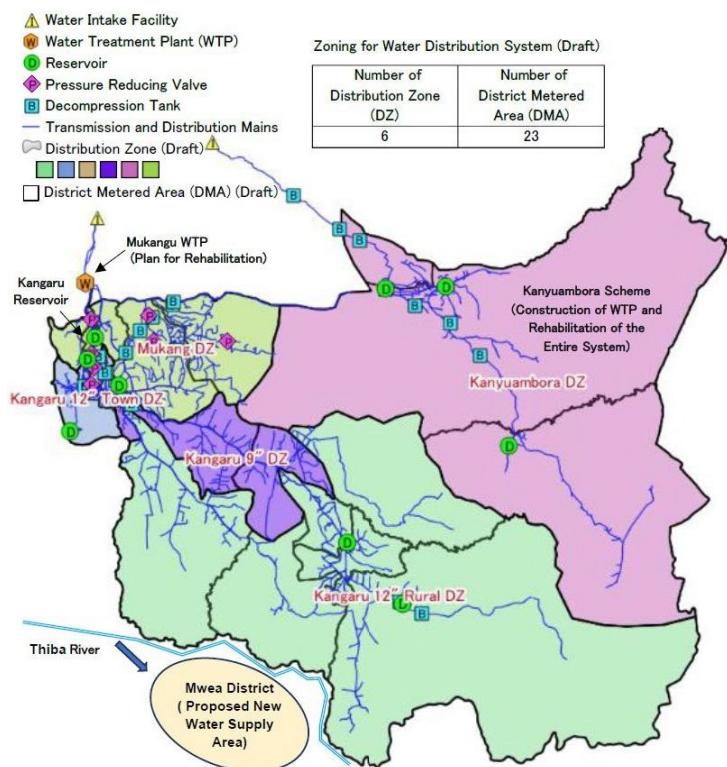
Embu WSP (EWASCO)

A. Basic Information of EWASCO

B. Challenges of EWASCO

C. Outline of Bankable Project

A. Basic Information of EWASCO (1/2) 1



A. Basic Information of EWASCO (2/2) 2

Major Indicator	EWASCO
Total Population in Service Area	227,545
Total Population Served	172,085
Water Coverage (%)	76
Number of Total Connections	39,836
Number of Active Connections	37,817
Total Water Produced (Mil m ³)	8
Non-Revenue Water (%)	38
Production Per Capita (l/c/d)	122
Consumption Per Capita (l/c/d)	58
Number of Staff Per Thousand Connections	4
Water Supply Hours (h/d)	24
Revenue Collection Efficiency (%)	80
Unit Cost of Water Produced (Ksh/m ³)	30
Average Tariff (Ksh/m ³)	60
O&M Cost Coverage (%)	147

B. Challenges faced by EWASCO (1/2)

3

No.	Challenges	Reason
1	Reduction in customer service	•Lack of staff education and training
2	High NRW ratio	<ul style="list-style-type: none"> •Aging water pipes •Aged meters and their accuracy •High water pressure in the pipe in some slopy areas. •Illegal connections •Defective meter
3	Delays in rehabilitation and expansion of existing facilities due to lack of funds	<ul style="list-style-type: none"> •Low water tariff •Not enough new customers (the expansiveness of the area) •Extensive water distribution network

B. Challenges faced by EWASCO (2/2)

4

No.	Challenges	Reason
4	Insufficient water supply system capacity due to increased water demand	<ul style="list-style-type: none"> •Rapid population growth in recent years •Expansion of urban areas •An increased service area to supply water
5	Insufficient amount of water source and water intake capacity (Mwiria intake)	•Excessive abstraction from the river irrigation & other uses.
6	Increase of water treatment cost	•Deterioration of water quality due to human activities in the catchment area
7	Occurrence of intermittent water supply in some areas	<ul style="list-style-type: none"> •Lack of distribution reservoirs and water storage facilities •Unplanned expansion of water distribution network

Item	Description
Project Name	Kanyuambora New Water Treatment Plant Scheme Construction Project
Source of Finance	Commercial Finance
Expected Cost of Project	300,000,000.00 Kshs (Depend on the bankable project and loanable funds)
Proposed Lending Period	10 Years
Project Benefit	Increase of served population from 45% to 82% in Kanyuambora water service area
Term of Reference	<p>Currently, Kanyuambora water distribution scheme is distributing the chlorinated raw water to the downstream of the distribution area. In order to distribute the upper section of Kanyuambora water scheme with treated water, a new water treatment plant is to be constructed in the down stream of the existing Thuci intake weir.</p> <p>The project components are;</p> <ul style="list-style-type: none"> ▪ WTP Capacity: 11,000 m³/day. ▪ Transmission Main: 15 km HDPE Diameter 225mm, PN16 ▪ Distribution Main: 45 km HDPE Dia. 32 mm to 160 mm

END

Murang'a WSP (MUWASCO)

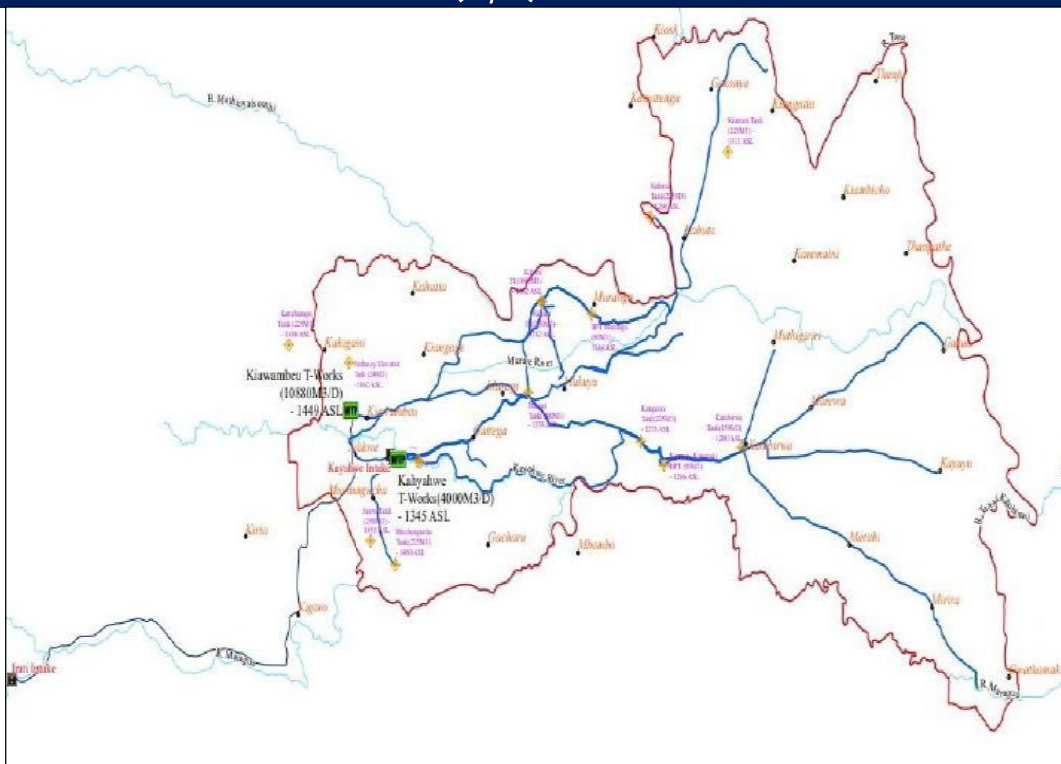
A. Basic Information of MUWASCO

B. Challenges of MUWASCO

C. Outline of Bankable Project

A. Basic Information of MUWASCO (1/2)

1



A. Basic Information of MUWASCO (2/2)

2

Major Indicator	MUWASCO
Total Population in Service Area	101,200
Total Population Served	97,152
Water Coverage (%)	96%
Number of Total Connections (Oct 2022)	19,940
Number of Active Connections (Oct 2022)	16,551
Total Water Produced (Mil m ³) – 2021	3.0
Non-Revenue Water (%)	25
Production Per Capita (l/c/d)	50
Consumption Per Capita (l/c/d)	37
Number of Staff Per Thousand Connections	7.5
Water Supply Hours (h/d)	24
Revenue Collection Efficiency (%)	95
Unit Cost of Water Produced (Ksh/m ³)	30
Average Tariff (Ksh/m ³)	60
O&M Cost Coverage (%)	147

B. Challenges of MUWASCO

3

No.	Challenges	Reason
1	Insufficient water supply system capacity due to increased water demand	<ul style="list-style-type: none"> • Rapid population growth in recent years • Expansion of urban areas
2	NRW	<ul style="list-style-type: none"> • Old dilapidated infrastructure • Illegal connections • Old and Defective meters
3	Insufficient funds	<ul style="list-style-type: none"> • There is little available for rehabilitation and expansion of infrastructure
4	Non-recovery tariff	<ul style="list-style-type: none"> • Regular tariff application yet to be approved by WASREB

C. Outline of Bankable Project

4

Item	Description
Project Name	Karichiungu Water Supply Project
Source of Finance	Commercial Finance
Expected Cost of Project	90,000,000 Kshs (Depend on the bankable project and loanable funds)
Proposed Lending Period	10 Years
Project Benefit	Expanded water supply coverage and improved pressure in the areas due to an increase in water supply volume (1,000 m ³ /day)
Term of Reference	The project entails construction of river intake, raw water transmission mains (200mm, 8.3 km), treated water mains and rehabilitation of Kiharu WTP

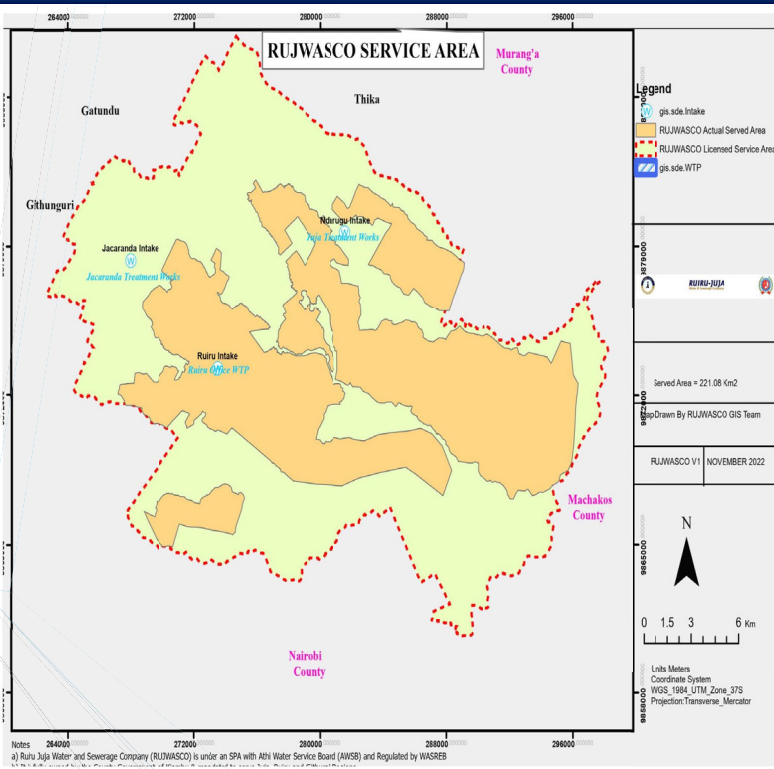
END

RUJWASCO (RUIRU/JUJA WSP)

- A. BASIC INFORMATION OF RUJWASCO**
- B. CHALLENGES OF FACED BY RUJWASCO**
- C. PROJECT EXPLANATION**

30TH NOVEMBER 2022

A. Basic Information of RUJWASCO



Major Indicator	RUJWASCO
Total population in service area	604,578
Total population served	430,867
Water coverage (%)	71%
Number of total connections	44,507
Number of active connections	41,034
Total water produced (Mil ³ m ³) ^{**2}	11
Non-revenue water (%)	34
Production per capita (l/c/d)	73
Consumption per capita (l/c/d)	45
Number of staff per thousand connections	5
Hours of supply (h/d)	20
Revenue collection efficiency (%)	96%
Unit cost of water produced (Ksh/m ³) ^{**4}	35
Average tariff (Ksh/m ³) ^{**5}	89
O&M Cost Coverage (%)	107

B. Challenges of RUJWASCO

No.	Challenges	Reason
1	Insufficient water supply system capacity due to increased water demand	<ul style="list-style-type: none"> Expansion of urban settlement into the service area Rapid development of industries and businesses that requires huge water volumes
2	High NRW ratio	<ul style="list-style-type: none"> Dilapidated plastic water pipes that are prone to frequent leaks Frequent pipe burst resulting from construction activities Illegal water connections
3	Insufficient water system for the uptake of new volumes from Karimenu dam	<ul style="list-style-type: none"> Existing transmission mains and distribution network is constrained in supplying the extra volumes from Karimenu II dam
4	Intermittent water supply in some areas	<ul style="list-style-type: none"> Lack of adequate distribution network to meet current water demand Unplanned expansion of water distribution network that requires realignment and upgrading
5	Gap in customer service	<ul style="list-style-type: none"> Lack of sufficient staff education and training on customer service

C. Outline of Project

Item	Description
Project Name	Membley pipeline project (Tatu city-Membley and Gitambaya), Theta pipeline project (Ruiru town-Mataangi-Darasha pipeline project)
Source of Finance	Commercial Finance
Expected Cost of Project	250,000,000 Kshs
Lending Period	XXXX Years
Project Benefit	Increase service hours from 15 to 24hrs/day and reduce non revenue water from 38% to 25%
Term of Reference	<p>The project targets two supply areas: Gitothua, Biashara and Theta wards. The project proposes;</p> <ul style="list-style-type: none"> to develop a new distribution mainline, 5km to Theta from Ruiru town & upgrade the 8.5Km distribution pipeline Mataangi -Darasha from DN 6" & 4" PVC to DN 8" HDPE and <p>The second project aims;</p> <ul style="list-style-type: none"> to develop a new 11.8km transmission mainline to Membley estate & Gitambaya of diameter ranging between 315mm and 500mm.



END

30th November 2022

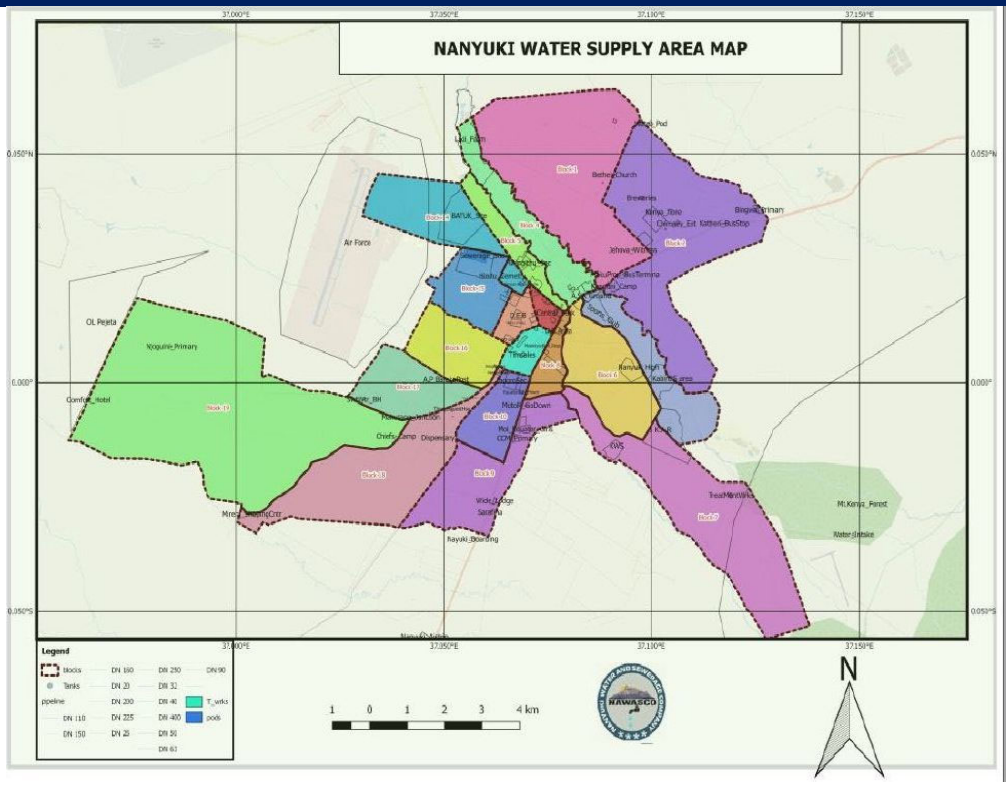
Nanyuki WSP (NAWASCO)

A. Basic Information of NAWASCO

B. Challenges of NAWASCO

C. Outline of Bankable Project

A. Basic Information of NAWASCO (1/2) 1



A. Basic Information of NAWASCO (2/2) 2

Major Indicator	NAWASCO
Total Population in Service Area	130,585
Total Population Served	122,516
Water Coverage (%)	93
Number of Total Connections	18,942
Number of Active Connections	17,443
Total Water Produced (Mil m ³)	4.6
Non-Revenue Water (%)	32
Production Per Capita (l/c/d)	116
Consumption Per Capita (l/c/d)	40
Number of Staff Per Thousand Connections	5
Water Supply Hours (h/d)	23
Revenue Collection Efficiency (%)	96
Unit Cost of Water Produced (Ksh/m ³)	79
Average Tariff (Ksh/m ³)	111
O&M Cost Coverage (%)	121

B. Challenges of NAWASCO (1/2)

3

No.	Challenges	Reason
1	Inadequate water supply	<ul style="list-style-type: none"> • Global climate change • NAWASCO is on the leeward side of Mt. Kenya and therefore receives low rainfall • Lack of adequate water reservoir to satisfy water demand
2	High maintenance cost	<ul style="list-style-type: none"> • Aging pipe network inherited from municipal council • Undersized and unplanned water pipes causing frequent leaks and bursts • Ingress of silt which eventually finds its way to the treatment works and affects operations at the flocculation chambers
3	High NRW	<ul style="list-style-type: none"> • Aging infrastructure • Lack of active leakage control mechanism • Old and under-registering customer meters. • Old storage structures leading to water leakages

B. Challenges of NAWASCO (2/2)

4

No.	Challenges	Reason
4	Vandalism	<ul style="list-style-type: none"> • Water appurtenances chambers are covered with a metallic material which are prone to vandalism
5	Financial constraints	<ul style="list-style-type: none"> • Multiple legislations affecting the same organization(e.g. NEMA, WRA, WASREB, KEBS demand levies from company's income)
6	Lack of enough water storage facilities	<ul style="list-style-type: none"> • Population growth verses the existing infrastructure and priority to water and sanitation extension
7	Insufficient capacity of the water treatment plant	<ul style="list-style-type: none"> • Design capacity needs improvement to allow proper treatment, especially during the rainy seasons.

Item	Description
Project Name	Overall Project Implementation Plans
Source of Finance	Commercial Finance
Expected Cost of Project	825,878,722 Kshs (In case of Gakawa Water Project) (Depend on the bankable project and loanable funds)
Proposed Lending Period	15 Years
Project Benefit	<ul style="list-style-type: none"> • Improve water supply by 7,500 m³/day • Serve additional 20,000 people
Term of Reference	<p><u>First Step;</u> Formulation of the appropriate project plan including project schedule, required tariff level, project cost, and project funding plans.</p> <p><u>Second Step;</u> Selection of the Bankable Project for carrying out the detailed design including the tender document preparation (specification, drawings, design, BOQ)</p>

END

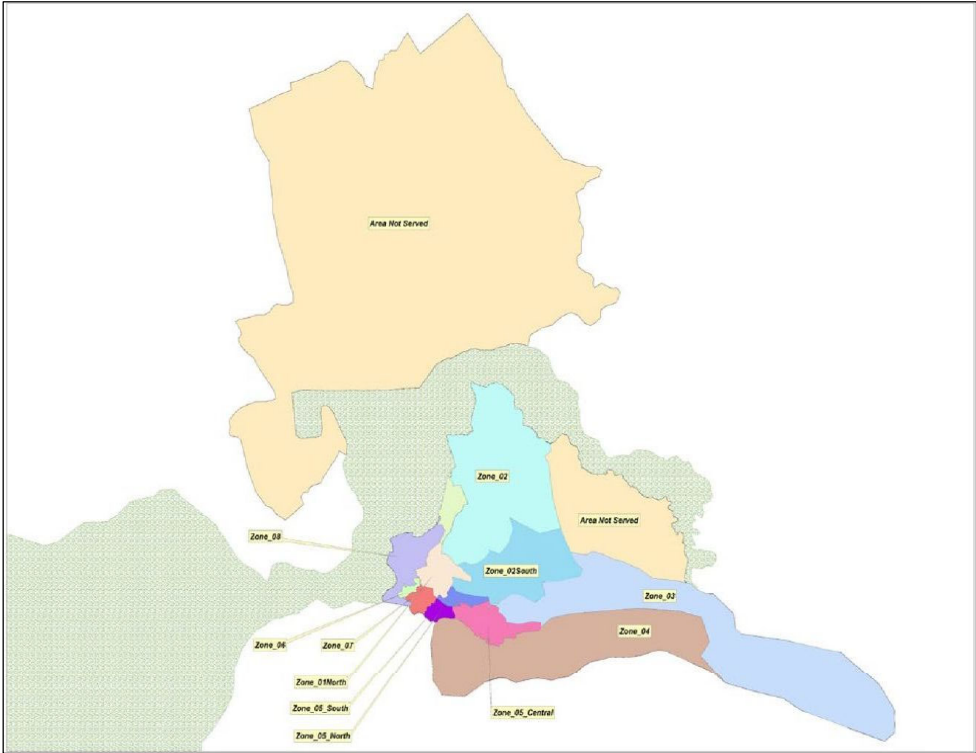
Meru WSP (MEWASS)

A. Basic Information of MEWASS

B. Challenges of MEWASS

C. Outline of Bankable Project

A. Basic Information of MEWASS (1/2) 1



A. Basic Information of MEWASS (2/2)

2

Major Indicator	MEWASS
Total Population in Service Area	170,686
Total Population Served	124,472
Water Coverage (%)	70
Number of Total Connections	19,399
Number of Active Connections	15,642
Total Water Produced (Mil m ³)	3.2
Non-Revenue Water (%)	18
Production Per Capita (l/c/d)	71
Consumption Per Capita (l/c/d)	50
Number of Staff Per Thousand Connections	7
Water Supply Hours (h/d)	20
Revenue Collection Efficiency (%)	96
Unit Cost of Water Produced (Ksh/m ³)	69.04
Average Tariff (Ksh/m ³)	57
O&M Cost Coverage (%)	95

B. Challenges of MEWASS (1/3)

3

No.	Challenges	Reasons
1	Inadequate amount of raw water source and water intake capacity	<ul style="list-style-type: none"> • Rapid population growth in recent years due to devolution • High expansion rate of urban and peri-urban areas • Only 70% of the SPA is covered • Excessive abstraction of raw water around our existing intake by the community prioritizing for irrigation purposes as opposed to drinking. • Uncontrolled development of intakes by water users
2	High cost of Non-Revenue Water management	<ul style="list-style-type: none"> • Intermittent water supply. • Budget constraints for adequate NRW reduction measures. • High water pressure in the pipe due to hilly terrain within our supply areas. • Infrastructural vandalism of existing structures arising from developments on way leaves (Road upgrading and internet laying).

B. Challenges of MEWASS (2/3)

4

No.	Challenges	Reasons
3	Increase of water treatment cost(Pumping and chemical requirement)	<ul style="list-style-type: none">• Deterioration of water quality due to human activities within the catchment area.• Abrupt change in cost of production inputs.
4	Occurrence of intermittent water supply in some areas	<ul style="list-style-type: none">• Lack of adequate distribution reservoirs and water storage facilities.• Water demand is higher than production.

B. Challenges of MEWASS (3/3)

5

No.	Challenges	Reasons
5	Fluctuating raw water quality and quantity.	<ul style="list-style-type: none">• Inadequate raw water to treat during extended dry periods.• Highly turbid raw water during rainy weather seasons.
6	Rampant damage to water pipes due to road construction	<ul style="list-style-type: none">• Lack of inter-agency stakeholder consultation by road contractors• No administrative system for checking the location of water infrastructure and reimbursement of damages incurred during construction.

Item	Description
Project Name	Overall Project Implementation Plans
Source of Finance	Commercial Finance for the Bankable Project
Expected Cost of Project	790,496,960 KES (Depend on the bankable project and loanable funds)
Proposed Lending Period	10 Years
Terms of Reference	<p><u>First Step</u> Formulation of the appropriate project plan including project schedule, required tariff level, project cost and project funding plans.</p> <p><u>Second Step</u> Selection of the Bankable Project for carrying out the detailed designs including tender documents preparation (specification, drawings, design, BOQs)</p>

END

PRESENTATION AT THE MINISTRY OF WATER, SANITATION AND IRRIGATION

Presentation by

*Ms. Ruth Nganga
General Manager, Fund Development*

30th November, 2022

WaterFund Feasibility Study – Effective Demand

➤ Highlights: Study by KPMG through USAID WASH-FIN funding (*Draft Report*)

Many WSPs repaying loans ahead of tenor

- Loans between Ksh. 20m and Ksh. 499 m

At least 7 loans fully repaid

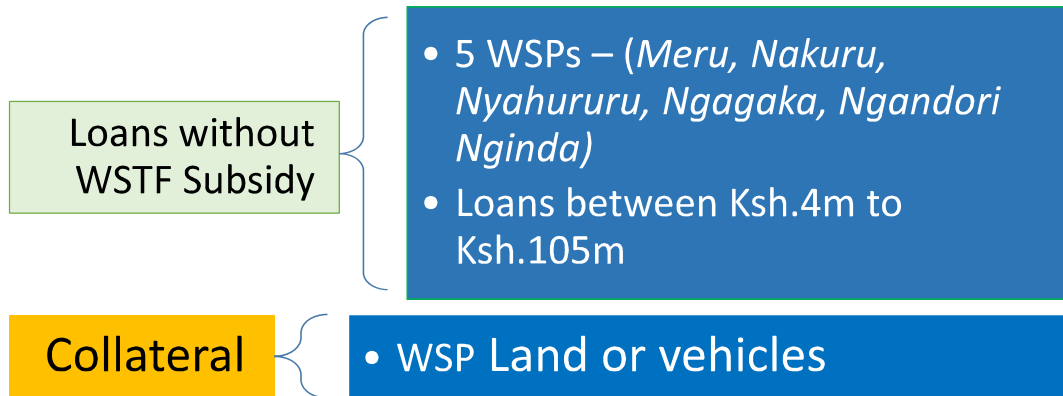
- (*e.g., Kisumu, Embu (2), Nyeri, Muranga South, Muranga, Mathira*)

* Embu repaid two loans

* Muranga South repaid one; Second repayment ongoing

Feasibility Study – Effective Demand Cont’d

➤ Several WSPs have taken commercial loans even without WSTF subsidies



Water Sector Trust Fund
P.O. Box 49699-00100 | Tel: (020) 272 9017, 18, 19 | Email: info@waterfund.go.ke | Site: www.waterfund.go.ke

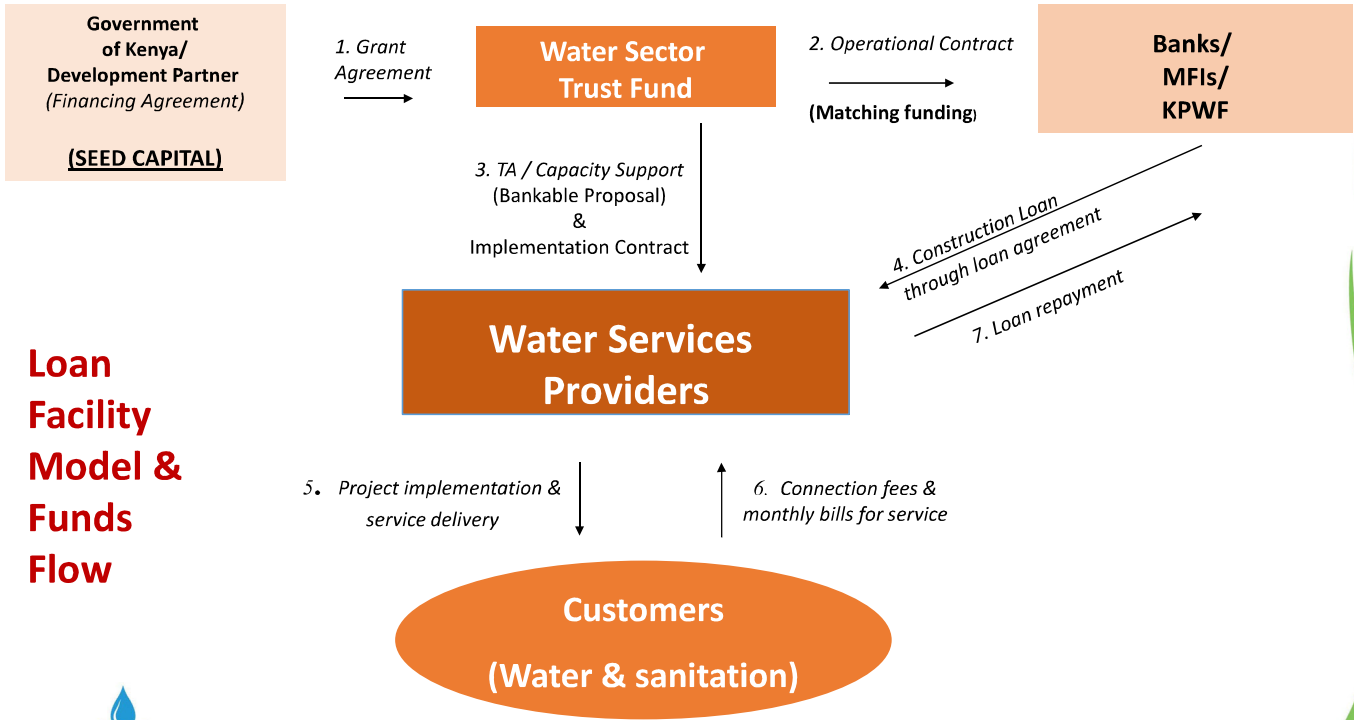
Conclusion / Key Lessons



-
- Increased Appetite for commercial loans
 - Timely / early repayments
 - Capacity for higher loans
 - Bankability of Projects
 - Capacity building – include more WSPs



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Kisumu – Ground Water Storage Tank 229m3, water Pumping Station and raised Storage Tank 82m3



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Nyeri Sewer Pumping Station



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Embu Sewer



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Appendix - 3
Minutes of Meeting
(Interview, Discussion)

Minutes

JICA Legal Consult

Meeting WSTF **Meeting Reference Number:** WSTF_21042022
Date: 21 April 2022 **Time:** 1100 hrs EAT
Venue: CIC Building, Upper Hill **Minutes prepared by:** Tollander

Invitees	Title/Designation
1. Willis Ombai	Ag. CEO, WSTF
2. Ruth Ng'ang'a	Manager, Partnership Development & Resource Mobilisation, WSTF
3. Fidelis Tamangale	Manager, RBF
4. Wesley Chelule	Program Officer
5. Audrey	Resource Mobilisation
6. Ochieng	Research
7. Nyakio	Program Assistant, RBF
8. Masayuki Fujii	JICA Team (Lead delegate for JICA team)
9. Kazunari Kimura	JICA Team
10. Nogami Masaharu	JICA Team
11. Satoko Shibata	JICA Team
12. Tollander Wabwire	JICA Team

Absent with apologies

Invitees	Title/Designation
1. NA	

Proceedings:

CEO

- WSTF is a state corporation involved in the financing of projects through other partners, WWDA, International NGOs, devolved and community organizations, which WSTF work with, and always in partnerships.
- Established since the Water Act 2002.
- Running annual budget for KES 5-6 billion [mostly from WB, EU, Gates, KfW, Finland, Sweden (SIDA), Denmark]
- WSTF has run Programs such as RBF, Rural Investments, Urban Investments, Water Resources & Climate Change, and Research Financing around supply and sanitation, as per Water Act, 2016.

Ruth

- Project follows previous discussions between MWSI and JICA, agreeing that building the capacity of WSPs to access commercial funding is a result of this Project.

CEO/Ruth

- WSTF had interest in the selection process for the target WSPs.
- If not finalized, WSTF could make some input, based on our knowledge
- WSTF has 9-10 WSPs with support from our OBA, there was a proposition to move a tier lower to build the capacity of the weaker ones. For instance, Embu has already done 2 OBAs, and one AOD (i.e., over-trained).
- If soft components (TA) is the focus of JICA's intervention, please go WSP with lower creditworthiness.

Fidelis

- Noted that the WASREB rating was not a scientific/credit rating, but rather, a shadow rating that may not be the most expeditious. Looking at management, documentation of submission, and a 'poor' ranking may not be reflective of the actual performance of WSPs. JICA team runs the risk of missing out WSPs which really need support. Naivasha was a case in point. Rated low but performed well on the ground.
- When running OBA (ended) and AOD (KfW) to support WSPs to access financing, WSTF drew some lessons:
 - a) WSPs have challenges with Technical Capacity, and that is a gap that can be filled.
 - b) Banks use conventional financial ratios to appraise WSPs which does not sit well with the nature of the business, as those parameter throws off most WSPs, and have only recently begun considering the expected cash flows, collections improvement, etc. of proposed projects.

Ruth

- **Revolving Fund (RF)**
Blended with a commercial loan, with the objective of recouping it.
Timelines: targeted to get seed fund from July 2022/23.
Developing a grant concept (returnable) with WB, which might realize 2 years from now.
Still pursuing government for seed, and process subject to lobbying and budgetary procedures.
5-yr target was KES 1-5 billion, but piloting can begin with as low as KES 50 million.
Commercial Banks are ready and willing for finance with RF.
DFC and SIDA do give guarantees.
Some of the Banks already have some of these guarantee windows from development Agencies.
WSTF will do a call to Propose, but some shy away because of lack of capacity.
We select on a case-by-case basis depending on need (including lowering the ticket sizes).

Fidelis

- Criteria (revenue, non-revenue component) tool, Word doc/template to write.
- Consultancies can come in to build the capacity of weak WSPs to respond to opportunities
- Commercial rates are currently at about 11-13%, with other expenses including appraisal fees and establishing fees.

- Aim of the RF is to help reducing interest rates to about 8-9% depending on how funds costs will be negotiated for.
- Ticket sizes maybe 20-250 million, the preferable range for short projects, usually 5-10 years.
- Grace period provided, within which WSP will be servicing the interest on the agreed draw-down.
- Banks set repayment dates and escrow accounts have been used to help to mitigate that problem. That is why none of the OBA participating WSPs went into default.
- Blending share has been at 50/50 by default but can vary. Only WSTF may not likely go beyond 70%.
- Our reviews upon receiving proposals include a field verification to do some shadow appraisals to look at designs, draft cash flow, and then goes to the bank, which does their detailed financial due diligence and proper credit rating (because Banks have access to financial and credit information of the WSPs) as well as the expertise.
- Most Banks have shown interest, key among them Cooperative, Equity, Family Bank, Sidian, National Bank, NCBA, Stanbic.
- Consider looking at what Equity Bank has been doing, but they were not under our Program.
- Procedure for obtaining applications:

WSTF has a fund > Open invitation to WSP Concepts (spelling out areas that can be supported) > BoQ, timelines, high-level financials to check if loan amount can be sustained with existing tariff [Decision], analysis of debtors/creditors, O&M of entire enterprise and project on its own > if good, Detailed Proposal, requiring field verifications with consultants/engineers who can do designs and package a 'bankable' proposal > Commercial Bank [do own due-diligence].

- None of these WSPs qualify for commercial loans based on purely financial ratios.
 - Mechanism under AOD has worked because of blending and phasing the projects to lower the cost of financing and fit them within loan tenures and acceptable value for money thresholds, respectively.
 - WSTF is willing to refer WSPs to the Project for collaboration. Some funds may be available to support that, specifically on areas of supervision and review on behalf of the technical manager, a window of JICA's possible input.
 - [AOD \(KfW\)](#)
 - EUR 2.6 million (KES 340 million, est.), to be used as a subsidy, paying off 50% of the borrowed funds against completed milestones (pre-agreed targets, outputs [50% subsidy], outcomes (remaining 50% subsidy).
 - WSTF has advertised, deadline 10 May (30-day window)
 - Need to select top 5-8 WSPs, with KES 150 million as maximum project cost/WSP, with a 10% equity requirement.
 - *Concept* from WSP > TF reviews > Max KES 7.2 million that can go to consultants to help develop bankable proposals.
 - Some Banks have DFC guarantees, but they are difficult to realize. 50% of the defaulted amount, which comes after complete exhaustion of possible reasons for default.
 - Bank guarantees are also possible instruments, but these are expensive.
 - Debentures against movable assets, since most WSPs do not have immovable assets. Debentures are often taken at just 20% of the value because these are depreciating assets.
 - Counties are sole shareholders (owners) of the WSPs, even though the latter are Limited entities under the Companies Act. A commercial bank will not finance a Government body. But Counties can help their WSPs but on a willingness. They are, however, not bound legally to bail out the WSPs in the event of default. It is prudent to involve them in the process and to have their goodwill.
 - WSTF indicated that they could notify JICA team when they qualified the target WSPs under AOD to afford opportunities for collaboration.
-

Minutes

Meeting USAID **Meeting Reference Number:** USAID_25042022
Date: 25 April 2022 **Time:** 1000 hrs EAT
Venue: USAID, Office of Economic Growth, and Integration, (OEGI), Gigiri, Nairobi **Minutes prepared by:** Tollander

Invitees	Title/Designation
1. Amanda Robertson	Team Leader for WASH investments in Kenya and Senior Water Advisor, OEGI
2. Esther Njuguna	Water, Sanitation and Hygiene Finance – WASH-Fin Kenya Team leader.
3. Masayuki Fujii	JICA Team (Lead delegate for JICA team)
4. Kazunari Kimura	JICA Team
5. Nogami Masaharu	JICA Team
6. Satoko Shibata	JICA Team
7. Tollander Wabwire	JICA Team

Absent with apologies

Invitees	Title/Designation
1. NA	

Proceedings:

Amanda

- USAID WASH team in Kenya has a budget of \$20M, some of which goes directly to WASH-Fin (whose mandate is to drive increased investment in the WASH sector), looking at both public and private investments.

Esther

- WASH-Fin has existed for the last 6 years and is in its final year, and it will be closing out.
- Largely designed for public water service providers (WSP).
- Although there has been a marked improvement in service provision over time, there are still several challenges, including efficiency, governance issues, and County understanding of the role of WSPs, after they took over from central government following the promulgation of the new Constitution in 2010.
- WASH-Fin sought to help the WSPs access commercial financing.
- To mitigate the impacts of Covid-19, which rendered some otherwise creditworthy WSPs financially unsustainable, WASH-Fin collaborated with other Programs targeting the sector such as the World Bank OBA program to help the providers stay afloat (conditional liquidity grant).
- Some WSPs have never accessed even concessional funding, let alone commercial, due to lack of capacity or adverse governance situations.
- USAID has supported a private water company (Sanitation) to develop financial models for accessing finance. So far, accessed \$5million.
- Fund flow: US Government > Tetra Tech (a Consulting and Engineering Firm) > WASH-Fin Program

Amanda

- Post WASH-Fin, USAID hopes the US government will continue to fund WASH-finance efforts, even though the sector has been de-prioritized at the larger Programmatic level.

Esther

- USAID has worked with WASREB to improve governance and develop business plans of WSPs, as a requirement for accessing finance. MWSI on tracking expenditure on WASH Programs to support planning and budgeting processes based on sector documents/policy papers.

Amanda

- Some of the key challenges in the sector include the lack of an overall financing strategy for the sector. A task force has been put together around legacy debt, and financing has been promising, but that can be challenged by impending change of administration (elections).
- USAID has been following the development of the revolving fund. They are currently procuring the services of a Consultant to assess feasibility.

Kazunari

- JICA Team is focused on supporting WSPs to access commercial financing. Would USAID support availing a guarantee scheme, such as what was in place for WB OBA, for purposes of facilitating access to commercial funds?

Amanda

- Yes. USAID has the Development Credit Authority Guarantee (DCAG) now, provided to de-risk investments generally and has been applied in Kenya and elsewhere. USAID has used it with Banks. USAID can provide some more information on how the bank applies to obtain. They go through rigorous vetting processes and can be requested, once an institution is on-boarded. We have had another with KPMF as well, and for OBA (Nyeri, Embu being examples benefitting from it). USAID has applied it for a variety of needs across the water sector (flexible), as well as outside of the water sector.
- On ease/difficulty of obtaining the Guarantee, our experience has been to work with some specific Banks (Bank applies to the Credit Authority, interview, decision). The decision to give/not to give is centralized in WA, but USAID gives recommendations to support the decision. KCB, Equity, Sidiyan, and Cooperative Banks, tend to be familiar with the facility because they have gone through the vetting process at least once. No sense of how many get approved, against how many do not.

- WASH-Fin worked with a WSP to put together an application to the Bank. Then Bank would ask for the guarantee scheme from Development Finance Corporation, which would find it easier to pass if the WSP had been working with the WASH-Fin Program.
- If WSP met all the OBA conditions, a 60% subsidy, paid directly to the bank on behalf of the WSP would be activated. This did not, therefore, apply to a pure commercial financing situation, due to the intervention of WB OBA support, in that instance. The 50% guarantee in place would mean the Bank was more/less fully covered, then the de-risking encourages them to lend.
- If a subsidy mechanism, such as was in place from WB, happens not to be in place, DFC would still consider applying the guarantee for pure commercial financing. The existence of a Program like the WB OBA was not a condition. It was an opportunity to collaborate.
- USAID may not guarantee 100%. The Banks are required to establish escrow accounts and charge some assets in the form of Debentures to further increase the collateralization.

Kazunari: On whether this guarantee information is something WSPs are privy to.

- Bank works directly with the banks. The WSP may not know about the existence of the guarantee until they go to the Bank.
- Kenyan WSPs ticket sizes tend to be smaller (\$1-2 million), guarantee level, but they might be larger elsewhere.
- USAID has worked with KPWF, (+2016), Embu, Kisumu (under KIWASH – 2012-2016)

Esther

- Loans are generally small because there are other limiters, including WASREB tariff approval, to allow for accommodation of additional expenses.
- Some WSPs are mature (e.g., Nyeri), they have participated in various programs including OBA
- Other weaker ones have also taken small loans and paid up.
- Key challenges while working with WSPs while deploying the Guarantee include:
 - Government approvals (Ministry, Treasury, etc) hold back the WSPs to obtain needed clearance for the entity to drawdown. (These delays might not be applicable here).
 - Commercial loans are at the WSP-bank level. So fewer hurdles, including notifying and getting a go-ahead from County, WASREB tariff approval

Amanda

- The Guarantee process is not linked with TA, but it has mostly been through collaboration. That includes WSPs that JICA is currently aiming to select, it would be good to see if there is an opportunity to compare notes, should there be some overlap of targets.
- WASH-Fin is a TA outfit to the national Government and WSPs.
- USAID has supplied support to WSTF to identify a consultant to do the feasibility of a revolving fund in Kenya. Process underway (USAID/WASH-Fin TA to WSTF).
- OBA ended by natural lapsing of the Program timeline (supported 60%)
- AOD is ongoing (supporting 45-50%)

Esther

- Given the level of sector maturity, it would be good to consider a 'soft-landing' for WSPs and not to go for 100% commercial (Opinion). Not many WSPs can or will be willing to go for pure commercial funds, largely because of a lack of capacity to manage commercial funds, and low surplus cash flow.
- Our interaction with OBA came in towards the end (Nyeri, Mathira), while looking for additional financing, even though they accessed the Guarantees, separately from the WASH-Fin.
- WASH-Fin also provided some training to 13 financial Banks + their Association (KBA).
- Consider supporting smaller, weaker WSPs. Coverage is still low and financing support will be useful.

Amanda

- Screening for a financial Bank to qualify for the DFC (DCG) does not take long (a few months), depending on strength of the application. USADI schedules a call to identify loose ends and close, but the process can be delayed by other events such as elections.

- Promised to investigate fee structuring for guarantees and requested the JICA team to share information on WSPs that will eventually be selected for purposes of exploiting synergies.
 - Other ongoing/upcoming DFC Programs include:
 - DFC/MoH/UNICEF, focusing on sanitation and behaviour change in 15 Counties in Western Kenya where coverage is least – New, January 2022
 - Sanitation, where coverage is high but looking to develop markets for WASH products (AMREF/RTI) in March 2022
 - Expecting an award next week working in 8 Counties in Western Kenya, a follow up on KIWASH, looking at a TA intervention to strengthen the professionalization of WSPs (small and large). Willing to share information on this, once JICA WSPs are selected.
 - North East Kenya for water provision in less populated regions.
 - Guarantee schemes are ongoing, and not related to any Program. Relationships are maintained with banks.
 - Additional Banks can apply but will have to go through some rigorous screening process. The process has already been undertaken by Cooperative Bank, KCB, Sidian, Family and Equity. Can investigate the process through the DFC Guarantees office to shed some more light on the application process.
 - There was an attempt to give TA to Banks towards accessing guarantees and to support WSPs.
-

Minutes

Meeting KPWF **Meeting Reference Number:** KPWF_26042022
Date: 26 April 2022 **Time:** 0900 hrs EAT
Venue: Delta Hse, KPWF Offices, Westlands **Minutes prepared by:** Tollander

Invitees	Title/Designation
1. Eng. Robert Bunyi	Director, KPWF
2. Ng'ang'a Mbage	KPWF(EY)
3. A (Alec Kimathi?)	KPWF
4. Masayuki Fujii	JICA Team Leader
5. Kazunari Kimura	JICA Team
6. Masaharu Nogami	JICA Team
7. Satoko Shibata	JICA Team
8. Tollander Wabwire	JICA Team

Absent with apologies

Invitees	Title/Designation
1. NA	

Proceedings:

A

- Responding to Kazunari's statement to prioritize commercial funding, KfW's recent call to WSPs is a little different this time. The utility can receive 50% from a Donor.

Robert

- On capital markets financing, mentioned as one of the sources of financing earlier by Kazunari, there are 3 things KPWF is doing now:
 - a) **Shutting down KPWF.** The company began in 2017 by the Dutch government as a 5-year program, which came to an end in December last year (2021). Mid last year, questions as to whether the scheme should continue or not. The decision was a 'no' because the government did not sign an agreement with the Dutch government to promote capital markets financing for WSPs. The government was hesitant because of fear that if the WSPs did not pay loans, private investors would take over the companies. KPWF clarified that that would not happen, and the likely route would be to have the WSP re-negotiate their loans towards sustainability and repayment. The government had not fully understood capital markets financing for WSPs. Second, Kenya's debt picture has recently turned negative. Treasury became more stringent on borrowing and decided that KPWF should not do off-balance-sheet borrowing. Instead, it was recommended that the on-balance sheet would be the way forward.
 - b) The Dutch government offered to do a joint study with GoK, looking into capital markets financing, prerequisites, and operationalization. Today this assessment (benchmarking) study is ongoing.
 - c) Legally, we may close out by December 2022. But we may stay one to hand over the WSP projects.

Ng'ang'a

- On shedding light on the study stated that the joint Government of Netherlands (Dutch)/GoK plus several other partners, **including JICA**, capital markets study, have commissioned the study to assess operationalization of the capital markets financing for WSPs with the following outputs:
 - a) To seek to understand what can be agreed upon to realize the dream of capital markets financing.
 - b) Today Government of the Netherlands was requested by GoK for funding to support the study.
 - c) The Netherlands showed a willingness to provide the TA.
 - d) Today, tendering process has begun, and a Consultant is sought to begin work around the week of 4 July 2022, to last 3.5 to 4 months.
 - e) Expecting to have a water sector workshop, in January 2023, where findings will be tabled, with sessions of implementation and task sharing.
 - f) We hope the GoK will own the results and drive the dream of capital markets financing.
 - g) By January 2023 we will be in a better position to see where we are with this prospect. This will be a collaborative process, reaching out to a wide network of partners, development partners, government agencies, local investors, etc. to understand issues and come up with a roll-out plan.

Robert

- With regards to the JICA project, KPWF will have an idea of who carries on KPWF activities. There is a possibility, that there will be another organization carrying on the activities of KPWF.
- **Second**, KPWF has been working on some WSPs, and our aim is to find an entity that can take over the initiatives we began with these companies and link them to commercial financing.
- KPWF has identified Qua for All (AfA: part of the Netherlands Government initiatives), to whom we are transferring the WSPs agreeing to commercial financing.
- AfA has a formal agreement with local Banks, including the National Bank of Kenya (NBK), and Family Bank of Kenya, among others, which committed KES 5Billion for onward lending to the water sector through the agreement.
- WSPs of interest include Thika, Embu, Meru, Nanyuki, Naivasha, Eldoret, Kisumu, Nyeri, and possibly Nakuru.
Thika: Has a project we supported/designed to improve efficiency improvement for flow of water and mini hydro to eliminate excessive power consumption. They have party initiated the project on their own in

portions, (from their own internal funds) and are now looking for commercial funding to implement. AfA's role is to help them negotiate with banks for affordable financing. Thika are currently borrowing commercial funds. Financials: Strong balance sheet. Collateral challenge, good management and a strong Board, good relationship with the County government. New Governor will bring in some change.

Embu: Embu needed to expand water treatment by adding 10,000 cm³ to the existing capacity. When they went to get the approval of water extraction from the Water Resources Authority, adequacy feasibility was challenged. Many people are irrigating on the river and are now going up deeper into the Forest (Mt. Kenya) to extract more water. TA could be needed and a discussion could be useful. They are on the other hand looking at investing more in distribution lines and borehole drilling and reaching areas that currently do not receive water. Embu has governance issues that are also impacting on their capacity. Embu is not ready to borrow immediately.

Meru: We designed 3 phases: Parallel transmission line to existing one. Current one does 8,000 cM³. They seek to push the capacity up to 16,000 with the parallel line in place. Their treatment works can do 16,000 but it currently does 8,000 [Under-capacity]. Re-enforcement of distribution lines in town, and new treatment works with an intake from the Mt. Kenya forest. They have started implementing the parallel treatment lines. They also have an old forest intake, and they need to re-design it, at KES 800 million, but they need TA to re-design it. They are willing to borrow with AfA help from Banks. Meru is borrowing. Financials: Weak financial position. The tariff is old, last reviewed in 2011. Currently reviewing tariff. There is potential to improve and by next year, the financial position may improve, but a change of government will affect the governance of the company as currently constituted.

Nanyuki: Nanyuki wants to go to Aberdare forest (one of the forests bordering the town) and have a new intake and transmission line 66kms away, est. at KES 800 million and they need the design. KPWF supported them to replace the asbestos cement pipes in town with HDBEs and extend the network towards the airport and reinforce town connections, through a commercial bank loan. KES 130 million. KES 10 million is earmarked for designs for Aberdare. Financial: Good management. Financial statements are not good. When DD is done, then questions arise and may need TA on management accounting. Financially strong, good board, good management. The 66KM away in another County, may call for consultations, and have no experience in any financing projects, like OBA/AOD. It may not be the most urgent project. NRW is at 22% but still good room for improvement. Adjusted tariff last year and are now making a surplus of KES 9 million a month. Have military as a customer with 7-8 months with a late bill of KES 9 million per month as well.

Naivasha: In Nakuru County. Seeking to extend service in Kinamba (15,000 people) for KES 150 million, in-house, seeking to borrow commercially. They already have a loan with Cooperative Bank. They also want to move water to Mai Mahiu. KES 60 million est. 10,000 people. They also need TA for designs for the two projects. They are ready to borrow. KPWF advised them to take a loan for the smaller project 50M and add 5 million to support designs. Financials: Strong financials, good tariff (current), good management team.

Eldoret: We did sewer connections. KES 1.2 billion, but KPWF focused on a component valued at KES 700 million to do 5,000 connections. In a recent meeting, they implemented one phase from internal sources. Today, they are planning to go to Chebar, an existing facility to rehabilitate and direct water to their treatment plants. The AfDB did some design works but un-sure if it covered this water supply yet. Financials: KES 1.5 billion debt forgiveness, good tariff and a good financial position. However, not efficient money managers. There is a risk of misappropriation. Managing director just changed. Question mark on governance issues.

Kisumu, Nyeri: Yet to meet these 2. Kisumu Financials: Good, professional team, good Board and County relationship. KPWF designed a water supply project from a Spring but has since been laid aside because the water supply turned out to be inadequate. AFD (French), EUR 55 million with components, with KES 3 billion earmarked to Kisumu. Signed, and another in the plan. A lot of money flows into Kisumu. Lake Victoria South WWDA or the Ministry of water would be good sources of information. County facing

accelerated impacts of Climate change. There have been plans (under AFD project, 2015) to get water from Nandi County to supplement pumping with some Gravity. However, forests in Nandi have been cleared and it is no longer feasible. Support can focus on protecting forests at the source would help, otherwise, Kisumu has gone back to 80-90% pumping, expensive.

Nakuru: Has many challenges with high demand. They have good designs (following a lot of assistance partnerships), but very low water supply cf. demand 73,000 and 100,000 in the next 2 years. Supply < 32,000cM3. Nakuru would like to implement efficiency projects in energy and NRW. They have energy inefficiency pumps that need solarisation. They would like to replace water meters to improve revenue generation and smart metering. Replacing all borehole pumps (broken or energy inefficient pumps) will reduce costs by 33%. Optimizing existing ones will add 20,000cM3 per day. On average EUR 2 million. 18-20 months' pay-back period. Financials: Good, current tariff, good management but low production. For this company, optimization of existing infrastructure can be a quick one yielding an estimated 65,000cM3/day. There is an emergency Covid-19 project by National Government, doing at least 13 boreholes (Athi WWDA) in Nakuru to enhance water production. Before Covid-19, had made some order of 17 pumps from Denmark. Supply chain breakdown meant these were not delivered.

- Biggest problem WSPs are facing is offering collateral, and the ability to negotiate. AfA is supporting this.

A

- With OBA/AoD, banks are freer to lend, but without these subsidies, the Central Bank of Kenya (Regulator) requires that all loans be fully (100%) secured, yet these WSPs do not have that. AfA, will seek to find a work-around to have banks lend without necessarily having to use collateral. DfC, SIDA, and GuarantCo (a semi-private entity), or the Dutch government, are possible sources of guarantees.
- Some utilities have some assets. For example, Eldoret secured a KES 500 million with Family bank against their land in the name of the Company, and not under county. If an asset is an on-balance sheet under the WSP (essentially incorporated as a limited company), then it might qualify for collateral, unlike those in the name of the municipality, County or WWDA's (essentially public assets).
- Most WSPs do not have such assets.
- If the utility has a surplus, some have used it to buy land or invested them in high-return financial instruments, or bought assets.

Robert

- Eldoret used a no-objection from the county to offer the surplus land (400 acres, bought 3 years ago for a future sewer plant) as collateral to a commercial bank. The legal complication could be that the County, which owns the WSP, would have an interest in how much land is used as it is earmarked for the public good. Local County could challenge the selling of such land. The process of how a WSP could offer such assets for securitization is open to debate.

Ng'ang'a

- Process can be subjective. There is a stipulated process for how a WSP can borrow, what assets can be used, and what can't be used.
- Upon default and an asset is at risk, a local County government can challenge the auctioning of such land. A lender trying to enforce a recovery process can be complicated.

A

- A different situation is Kisumu. Kisumu rents, but requested land from County, where they can put up an asset. But the title deed was in the name of the County. The transaction was not approved by WASREB at the point of tariff adjustment due to the lack of a title from an entity that essentially owns the WSP.

Robert

- There is a problem with collateral.
- KPWF may need special-purpose collateralization instruments or revolving guarantees.

A

- Partial credit guarantees provided by DFC or SIDA are not attractive to banks. Providers do due diligence after their own due diligence (a process that takes 8 months to sort a single missed repayment). So, they are not very attractive to commercial banks either.

Ng'ang'a

- This is one reason capital markets option was a more reasonable way because of in-built credit enhancements to make it more attractive. KPWF is still very keen to investigate this as a real option/solution.
- Nakuru indicated an interest in participating in our KPWF hand-over efforts.

Robert

- At the time the communication was made, AfA was not yet in the picture. Only 5 WSPs indicated interest.
- Willingness to take commercial financing among WSPs has increased. The county does not have money, National Government goes for the large projects, donors do not have the cash to give them, and the pressure to supply is on the WSPs, forcing them to focus on efficiency and commercial sources.
- Capacity to do it is still low. That is where the biggest support is needed.
- KPWF has worked with about 14 WSPs. The first batch included 6: Kisumu, Eldoret, Thika, Nakuru, Embu, and Nanyuki. Some of these have changed the projects, e.g., Kisumu, Embu, and Eldoret. Other, same projects were designed by KPWF.
- For projects KPWF was looking to support, designs (engineering/technical) done, looking for almost USD 20 million.
- Others, not in Batch 1, but with done designs include Meru and Nyeri.
- KPWF can organize a meeting with AfA to clarify boundaries between their role and yours, sometime next week.
- Thika, Nakuru, Nanyuki, and Embu are good WSPs to visit because of their financing experience.

Ng'ang'a

- Embu and Eldoret had sewer components. The rest are water supply.

Robert

- There is a need to focus on Ministry, and WASREB because sometimes, there are some disconnects when it comes to financing. Especially WASREB, due to approvals of tariff towards financing.

A

- Kisumu: There is the problem of old defunct municipal debts which still must feature, and that pulls down the debt recovery ratio, keeping them from qualifying for a loan. For Banks to unlock funding, we propose that the defunct debts be written off to allow them new opportunities to access financing.

Robert

- From our observation, there is competition for funds in Government, especially between WWDA and WSPs. E.g., meter replacements, which can be done by the utility, can face headwinds from the WWDA who might want to do the same. Political dynamics cannot be managed by the County as well. But WASREB could be a good mediator.
- Murang'a never did OBA but a good company with potential as most water is gravity. Governor has been a problem, but he will be out-going. Even with low project IRR, they still need financing because they have good customers and cheap gravity-based sources.

A

- Have several projects but pick one where there is no supporting partner.
- Gathaka is small but performs well, with no technical capacity with regards to commercial financing.
- Ruiru is good. Was best performing a year back. Has water and wants to expand the network.

Robert

- Was not among our projects but have a water source problem. The utility has potential. A transmission line from Mt. Kenya to Isiolo is in place but dilapidated, done by WWDA. Not a high-performing candidate, but still can grow given the right investments.
- Mavoko is good, with a new Belgian project of 11,000 M3, lots of customers, no network but new treatment plants, and a very good commercial financing candidate looking at last-mile connectivity.

- Trans Nzoia is owned by both Uasin Gishu and Webuye. Cross-county issues may arise and are worth factoring into your decisions.
 - The *Project preparation manual* would be very useful for the sector for financiers to lend. It will help the WSPs understand requirements. If it can be accepted by the Ministry, then the banking sector will accept it, to help the Banks understand what to look for in prospective WSPs. If WASREB agrees to it, it will enforce the recommendation and make it a requirement for WSPs to adopt.
 - WB credit rating tool kit was designed in 2015 in preparation for implementation of OBA. We think it is not deep enough for usage by a WSP. It could do with some improvements.
-

Minutes

Meeting World Bank

Meeting Reference Number: WB_26042022

Date: 26 April 2022

Time: 1400 hrs EAT

Venue: Virtual_Zoom

Minutes prepared by: Tollander

Invitees	Title/Designation
1. Joy Busolo	Team Leader, WB
2. Lewinda Sara	WB
3. Pascaline Ndung'u	WB
4. John Gitau	WB
5. Masayuki Fujii	JICA Team
6. Kazunari Kimura	JICA Team
7. Masaharu Nogami	JICA Team
8. Akiko Kawata	JICA, Kenya office
9. Yamamoto	JICA Team
10. Satoko Shibata	JICA Team
11. Tollander Wabwire	JICA YTeam

Absent with apologies

Invitees	Title/Designation
1. Leonida	Water and Sanitation specialist (expected but no-show)

Proceedings:

Pascaline

- On responding to why the OBA ended. Can share OBA report details if needed. The program ended because the project came to a natural end. Key lessons can be found in our detailed reports, which we will share. Key among them is that WSPs have the potential to service facilities if they are well incentivized.

Joy:

- Lending to WSPs based on books may not work as well as was observed under OBA for reasons that the WB Program operated based on project objectives with specific support/subsidy in place, i.e., ideal but a demonstration of what incentives can do. The approach was not purely commercial. It was performance-based financing, which did not require traditional collateral but rather depended on the ability to achieve agreed milestones.

Pascaline

- On Masaharu's question regarding the difficulty to get a WSP to access commercial funding, WSTF, which was preparing to set up a revolving fund, cooperated with WB to obtain seed money.
- WB provides a conditional liquidity grant, to WSPs on a performance basis. This was designed to act as a repayable grant, which would in turn be used to begin the Fund as seed. That was our Covid-19 recovery plan through WSTF. If the WSP performed, the grant was converted to non-repayable. WB was, however, not involved in the setting up of the revolving fund.

Joy

- In response to the question on whether WB would be willing to provide a guarantee scheme alongside SIDA, DFC, KfW among others, it is possible to get some guarantee for commercial financing. But now, WB does not have a scheme in place for this specific geographical region. WB has run similar in other parts of the world.
- Radesh, (task-team leader) is a contact person with experience in OBA. Contacts can be shared.

Pascaline

- If have any specific questions on challenges with lending to WSPs as experienced under OBA, please share via email and we can have the right resources respond to them in detail.
 - Not aware of any updates on the pre-OBA WB credit toolkit (2015).
 - WB supported 11 WSPs with water meters and access to water chemicals in Meru and Embu (Urban projects)
 - In responding to the question on whether WB worked with WSPs to design the performance-based financing, the design of the toolkit took longer than anticipated, and the Program will be closing out this year. So instead, WB went for the liquidity grant, to cover operational and maintenance (O&M) costs.
-

Minutes

Meeting KfW **Meeting Reference Number:** KfW_27042022
Date: 27 April 2022 **Time:** 1500 hrs EAT
Venue: Riverside Square, Riverside Rd **Minutes prepared by:** Tollander

Invitees	Title/Designation
1. Sheila Karimi	Senior Programs Coordinator, KfW
2. Masayuki Fuji	JICA Team
3. Kazunari Kimura	JICA Team
4. Masaharu Nogami	JICA Team
5. Satoko Shibata	JICA Team
6. Tollander Wabwire	JICA Team

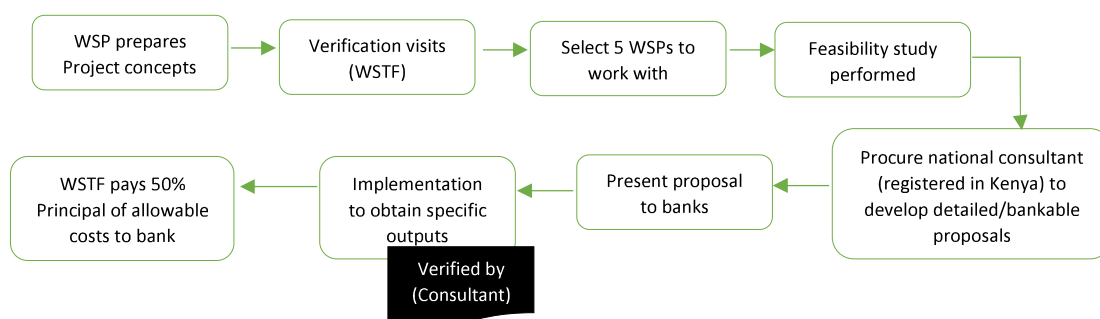
Absent with apologies

Invitees	Title/Designation
1. N/A	

Proceedings:

Sheila

- KfW has just sent out a call for proposals from WSPs through KPWF
- KfW has been in discussion (for the last 5 years) with stakeholders on how WSPs can obtain commercial financing.
- KIFFWA, a Netherlands capital markets financing tried to bring in European countries, but it does not seem to have picked, owing to the weak capacity of both the WSTF and the WSPs.
- Most WSPs are weak due to poor governance structures, and lack of collateral.
- For the German Development Cooperation (GiZ), water is no longer a priority sector.
- Even though KfW is still interested in water, KfW happens to work under GiZ, and therefore, getting guarantees for water is a challenge, even though GiZ still has an interest in the Fund (started and fundraised for them).
- Since we began working with the WSTF between 2016-18, there have been no new commitments on water.
- The proposal to turn WSTF into a Bank was not found to be a feasible idea. It would take; goodwill from the government, some benchmarking on what has worked elsewhere, and capacity, which the Fund did not have, in our opinion, regulatory hurdles.
- AoD was worth about EUR 3.5 million. The current AoD will continue for 3 years, but after the end of the AoD, the water sector will no longer be a priority sector for the German government and the AoD may be terminated.
- KfW will send one international consultant to WSTF to provide administrative support to WSTF and two local consultants to conduct TA for the Bankable Project formation of WSPs. The consultant is currently being selected.
- The WSTF/KfW has been having discussions since 2011, but nothing has taken off, largely because of a lack of capacity in the Trust Fund's part.
- Under AoD, we can currently screening about 5 WSPs, given the level of funding available.



- Going by the portfolio size, KfW considers AoD to be a small/medium-size program seeking to help WSPs improve efficiency, reduce NRW, grow connections and install smart metering.
- Sheila promised to share the AoD manual with the JICA team for further reference.
- As soon as the 5 WSPs are selected, KfW will be willing to share that information, although it might take some time.
- Commercial funding for WSPs. DFC guarantee scheme came into place when AOD first came in and Banks were willing to lend because of the de-risking prospect, where 50% of the Principal was offset by the guarantee.
- Most WSPS stay away from pure commercial funding due to the high cost of financing (currently playing at around 13%, market rates).
- This has made some Utilities seek alternatives such as pumps and pipes in the case of Nakuru and Embu respectively, in place of direct funding, with an understanding to split revenues to offset the value of the equipment.

Minutes

Meeting KfW **Meeting Reference Number:** KfW_29062022
Date: 29 June 2022 **Time:** 1400 hrs EAT
Venue: Riverside Square, Riverside Rd **Minutes prepared by:** Tollander

Invitees	Title/Designation
1. Sheila Karimi	Senior Programs Coordinator, KfW
2. Nogami Masaharu	JICA
3. Satoko Shibata	JICA
4. Tollander Wabwire	JICA

Absent with apologies

Invitees	Title/Designation
1. Fuji Masayuki	JICA

AoD Proceedings:

Sheila:

- KfW does not have details of the selection process. Although we are financing the Program, the WSTF is in a better position to give details on this.
- The fund (WSTF) sent out an RFP for WSPs to apply and got over 30 responses to an estimated EUR 25 million combined pre-screening request.
- We estimate that the Fund may end up with a EUR 10 million shortlist, but KfW may not fund all because of budget constraints.
- We have not capped the applications. We are receiving applications as long as they pass the Fund's screening, despite the limited budget.

Next steps of AoD

- Next, the applications (Concept notes) will be reviewed by our consultant, who will delve further into the bankability of the proposals. KfW, through their project Consultant, will launch a tender for local consultants to apply for supporting WSPs to develop bankable business plans, [*an element that Masaharu noted overlaps with some of our JICA project objectives*].
- The Trust Fund (WSTF) is said to have some local banks already approaching them over the pipeline of applicants.
- KfW's AoD funds are limited and will largely hinge on bankability. There is a possibility that we may only fund about 5, and have the rest linked directly to financial institutions without the subsidy.
- AoD will cover 50% of the principal with allowable costs, subject to the auditor's report on spending. There is a specific need for TA for AoD, but this will be supervised by the consultant.
- KfW does not have a guarantee component.

Structure of application

- RFP requested a concept note with financial statements, audited accounts, and estimated ask.

What Commercial Banks are looking for

- Generally, most local banks have very short (2-5 years) loan tenures, an element that is not suited for the nature of development that a typical WSP would want to do.
- A cheaper line of credit would have helped to reduce interest rates (cost).
- Banks often focus on the ability to pay (*their definition of 'bankability'*). This is where audited accounts come in here. Most projects (as stand-alone), do not often meet this criterion, i.e., cannot self-finance.

What KfW consider as 'bankable'

- Increasing efficiency, or revenues of a utility, unlike the Banks' perspective where it means the ability to repay a facility based on current revenue flows.
- KfW will consider projects to be AoD only after banks accept them.

Some key challenges with financing WSPs

- Most WSPs still suffer governance problems, including political interference [*she noted that there is a correlation between governance and financial performance*].
- If a county is highly dependent on the support and goodwill of its respective County, there is a likelihood that it may also suffer interference.
- Collateral issues. WWDA transfer of assets to Counties, at some point there were valuations.... Counties were willing to take assets but not liabilities. Gave examples of large infrastructure done, can be handed over to utilities, but most are weak to even operate and so sustainability is still a problem, leading to quick degeneration. How can such assets be protected (any legal framework?).

Other actors

- Water.org (which has been here for at least 10 years), is bridging the gap between MFIs working with water companies and individuals seeking connections.

KfW's view on the possibility of political disruption

- No major political disruption from the coming elections because they are a funding institution working through a government entity (WSTF), and because by the time the funding is ready for disbursement, the election period will be over (November/December).
- Selection by the WSTF may end in September. A clear pipeline may be seen towards the end of this year.

Way forward for KfW and JICA project

- Collaborations with WSTF's pipeline can give JICA some insights on who we can work with on the JICA project, based on who gets AoD and who does not, if there are common WSPs of interest, based on JICA's selection criteria.
 - JICA and KfW agreed to keep the discussion lines open.
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Minutes

Aqua for All (AfA)

Meeting Aqua for All **Meeting Reference Number:** COB/KE_22062021
Date: 21 June 2022 **Time:** 10:00 hrs EAT
Venue: Deloitte Kenya Office **Minutes prepared by:** Tollander

Invitees	Title/Designation
1. Sammy Muvela	Aqua for All
2. Masayuki Fuji (Online)	JICA Team (Team Leader)
3. Shohei Yamamoto	JICA Team (deputy team leader)
4. Taisuke Watanabe (Online)	JICA Team
5. Cavan GOH Wei Yung	JICA Team
6. Kazunari Kimura (Online)	JICA Team (Deputy team leader)
7. Nogami Masaharu	JICA Team
8. Satoko Shibata	JICA Team
9. Wabwire Tollander	JICA Team

Absent with apologies

Invitees	Title/Designation
1. NA	

Short List Project

- ✓ The candidates for WSPs to be supported by AfA are: 1. Nanyuki WSP, 2. Meru WSP, 3. Muraga South WSP, 4. Thika WSP, and 5. Naibasha WSP. Among these WSPs, the Nanyuki WSP and Meru WSP are also candidates for support by the JICA team.

Nanuki

- ✓ Nanyuki has 2 proposing projects;
 1. Rehabilitation of distribution work: Nanyuki WSP has already prepared detailed designs but financial viability is uncertain. The project will improve the NRW, since the study of NRW has revealed that their problem is commercial losses, rather than technical losses. AfA will meet with them on Wednesday and receive the concept report for the project. Internally, the project description document is done but not ready for circulation.
 2. Transmission pipe construction work (New source from Aberdare. Abstraction 62-66 KM to an existing plant. 16,000 M3 added to their system. Project cost is EUR 8 million): No preliminary design (and detail design) has been prepared. KfW took the approach of finding a partner who could do the detailed designs. WSP has had experience of similar Project (42KM transmission pipeline). They might need technical support. WSP has talked with the banks for this project. The banks include Family, Sidian, National, and Coop. AfA is asking WSP to propose several Banks and to obtain several quotes for support. AfA helps to know Bank requirements (have 3 sets of documents that WSP need to prepare).
>>(Yamamoto) The total project cost is KES 1.3 billion. But this figure is large for commercial financing, so JICA team is proposing to select a component that is most urgent and implement. However, if components are split, new designs may be required

Meru

- ✓ Meru WSP also has 2 proposed projects;
 1. Parallel Pipeline (New line to support existing one, which has a problem for capacity and is under-performing). The total project costs are EUR 1.5 million (EUR 600,000 for piping alone, with connections accounting for the rest of the cost. AfA will have the full details for the project. Planning to use customer deposits to finance the project. AfA is expecting less customer deposit (< \$200,000) than WSP is reporting. There is a risk of performance because deposits may not be adequate. AfA is asking them to obtain a loan facility to augment their actual deposits. The project will bring new connections, increases water flow (have more water than the system can carry). By Thursday, AfA will have receive the concept note. AfA proposed that they begin discussions with Banks on this project. This project also applied for AoD.
 2. Mutwaru River intake Project. Developing a new source from the mountains to increase the area covered and decrease/discontinue pumping. The project cost is EUR 7-8 million, with the possibility of getting to EUR 10 million. The concept notes for this project are ready to submit.

Murang'a South

- ✓ Muranga’s South has 3 loan offers for the connection project (Family, National, and Equity). They do not have detailed designs and part of the loan may go towards those. A loan of up to US\$250,000 will be provided for the detailed design.. With 30,000 waiting connections.

Naivasha

- ✓ Ongoing negotiations with 3-4 Banks (National, Family, Sidian).

Thika

- ✓ The project detail is not opened. But the detail design of the project has completed.

Proposed Loan-term for Commercial bank

- ✓ Interest rates should be less than 12%. The rate above this, will not work for WSPs. The interest rate is “contractual”, i.e., not fixed, and not variable.
- ✓ Loan processing fees/appraisal fees is 1-2.5%. Annual review fee is not applied.
- ✓ Loan term is for 10-12 years
- ✓ WSPs do not have collateral, therefore they should go revenue-based lending approach. Family Bank now appreciates that. National Bank consider to deal with 3rd Party Guarantees.

Bank requirements

1. Corporate profile (Corporate compliance, internal approvals, CVs)
 2. Financial information (If audited, and the project viable from a cash-flow standpoint, then good to go).
 3. Project information (Costs and Bill of quantities, concept notes, financial forecast).
- ✓ Detailed design is a regulatory issue (WASREB, WARMA), but the bank does not care whether they have it or not.

Request for JICA team

- ✓ AfA requesting detailed designs from the JICA team, for *Embu, Nakuru, and Eldoret*.
- ✓ Nakuru Urban (Designs complete).

Discussed progress on the following WSPs, which were also on JICA Team’s radar:

Utility	Status	Bank	Note
Nanyuki			
Meru			
Eldoret	AfA to look at project viability. 1: Transmission pipe 2: Smart meter with Family Bank loan	Family Bank	Eldoret prefer to blended finance
Embu	Detailed design is not available. The intake project has encroachment problem.		

Nakuru Urban	Detailed design is complete. Lease financing for Smart meter, Solar system Boreholes		Candidate for JICA Project Support
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The other

- ✓ There is an NRW conference coming up at the end of the month.
 - ✓ KPWF has been struggling to develop a detailed design for five years. However, AfA thinks the first thing WSP and consultants need to clarify is not to design individual projects, but to develop an overall plan (master plan). For example, in some cases, such as Embu, Nanyuki, and Kisumu, incoherent designs that are not based on a water master plan have resulted in utilities having to abandon projects mid-project.
 - ✓ There is a gap in the division of roles between WWDA and WSP, which complicates the management of WSP.
 - ✓ A \$10 million infrastructure bond issue was approved for the county government of Nanyuki. A larger system of financing through municipal bonds has been implemented. This could become a benchmark.
-

Minutes

Meeting	Aqua for All	Meeting Reference Number:	AfA_05102022
Date:	05 Oct 2022	Time:	0900 hrs EAT
Venue:	Deloitte Place, EA	Minutes prepared by:	Tollander

Invitees	Title/Designation
1. Sammy Muvela	Technical and business consultant, AfA
2. Kazunari Kimura	JICA
3. Satoko Shibata	JICA
4. Tollander Wabwire	JICA

Absent with apologies

Invitees	Title/Designation
1. NA	N/A

Purpose: Update on what AfA has been doing since last meeting, and to further explore possibilities of collaborating in the marketplace for impact (Can the JICA team build on efforts invested by AfA?)

Sammy

- To date, Murang'a South has made significant progress. Not our (JICA) candidate, but Aqua is closing a financial deal (USD 8 million) with the National Bank of Kenya (NBK). Their project seeks to improve the distribution network. They seek to make 10,000 new connections to raise the total connections to 40,000.
- Despite being a simple project, we think that JICA's participation would be crucial as they still need a lot of support in terms of design.
- I will share the concept paper.
- There was a USD 2 million component, as part of the USD 8 million above, where AoD was applied. The Utility has a USD 1.35 million offer letter, with agreed terms on interest and collateral arrangements. This has been finalized and AfA came in to provide cash or guarantee from a third party. The guaranteeing partner, in this case, is AGF.
- The utility has Annual T/O < USD 1.5 million, without the project, with a relatively low tariff (.35cts/M cubic). we think that this Utility's financials are good and don't really need the guarantee after all. Demand for their service is strong.
- [total purse for AOD at AfA, USD 6 million]. So, it is unlikely that the WSP will get more than 50% of the contract from AfA alone.
- Most utilities have not invested in design. Usually, you need DD before getting disbursement. Loans must be approved at the County. Murang'a South already got the green light. It can take about six months to a year, starting with a letter of no-objection, for the project proposal to the Board of Directors and the County, after which you submit a financing proposal to County for a no-objection.
- Board meetings are typically held on a quarterly basis, bare minimum, as stipulated by the Law. It is however possible to have special boards (extraordinaire), or Board Committee meetings.
- One needs to watch out for requirements of the Public Finance Management Act (PFMA). e.g., you can have an offer letter and a disbursement, but if a DD is missing, then the PFMA will still catch up with you.

Some indicative timelines

- a) Financing proposal. Gets approved (after which you start consulting with the Bank), and if passed you get a letter of 'No-Objection'.
 - b) Document assessment (1 month or so)
 - c) Initial application (you must provide a financial model)
 - d) Get offers from Banks (several)
 - e) Select an offer, to get County approval for that loan negotiation. [3 months]
 - f) Offer negotiation [may take another 3 months].
- We have learned that utilities are good at collecting revenues, but bad at modelling the finances. A model is needed early into the process of supporting a utility to access commercial finance. Since you are not offering collateral, you must build your case around the numbers to give the Bank some comfort right from the onset.
 - Don't start a project that the County is not aware of. It will hit a snag very fast.
 - Most utilities do not have approvals or 'no-objections' from the Board. But the Board has to have information about it'.
 - Aqua does not have capacity to give and supervise technical support. That is why we think a close collaboration with JICA can yield better impact, especially where we work on common Utilities
 - Nanyuki (urban rehabilitation, system, distribution, new source) project is estimated at USD 12 million. So will break it down to \$ 1 million. They were to issue a County Bond.

- Other Utilities we think are ripe for commercial funding include:
Nakuru,
Murang'a
Ruiru-Juja
Meru (feasibility study)
 - We need another meeting.
-

Minutes

African Development Bank

Meeting AfDB **Meeting Reference Number:** COB/KE_22062021
Date: 21 June 2022 **Time:** 14:00 hrs EAT
Venue: AfDB Nairobi Office **Minutes prepared by:** Tollander

Invitees	Title/Designation
1. Chris Mutasa	AfDB Water Sanitation
2. Emily Kilongi	AfDB Water & Sanitation engineer, Task Manager for Kenya Programs
3. Kazunari Kimura (Online)	JICA Team (Deputy team leader)
4. Nogami Masaharu	JICA Team
5. Satoko Shibata	JICA Team
6. Webwire Tollander	JICA Team

Absent with apologies

Invitees	Title/Designation
1. NA	

Water Sector Financial Environment in Kenya

- ✓ Most WSPs are willing to take loans from banks, but the challenge is that WSPs and projects are not attractive to lenders. Their financial situation is not very strong, and there are also governance issues and political interference. In addition, they are often unable to lend because commercial lenders check their creditworthiness after taking legacy debt into account.
- ✓ There are on-going discussions at MWSI and Cabinet about how to deal with the debts that WSP has incurred.
- ✓ From the technical aspect, the high NRW (45-50%) has a significant financial impact. Also, most WSPs (e.g. Limuru, Kikuyu), have no gravity system, thus have high operational costs, electricity bill for pumping and treatment costs relative to the size of WSPs.
- ✓ WSPs with higher the target population are more viable the project. Therefore, in some counties, WSPs are considered for integration into clusters, to form critical mass. For example, Kiambu had 9 WSPs and is considering forming a cluster. In a single cluster, WASREB can provide guidance on whether different tariff can be set for different areas within the same county, such as urban and rural areas.

AfDB Support to the Water Sector

- ✓ In support of the WSP in the water sector, several projects have been implemented. For example, Kenya Towns, the Sustainable WaSH Program, and the Nairobi River Sewerage Improvement
- ✓ AfDB is now focusing on last mile connectivity
- ✓ The Athi/Thwake (Makueni/Kitui boundary) dam (multi-purpose dam) is underway at the concession loan.
- ✓ AfDB loans are usually Sovereign lending. The AfDB also does have a window to deal with non-sovereign operations (private companies and state-owned institutions, including WSPs). However, there are no cases of actual direct loans to WSPs
- ✓ AfDB also considering the “Line of Credit to commercial banks” for onward lending to WSPs. Lines of Credit to the commercial sector has been made, but not developed a line of credit specifically for the water sector. Whoever becomes the potential beneficiary will be needs to do some serious marketing.

Cooperation with JICA project

- ✓ JICA's efforts in this project will be highly correlated with the financial improvements from the projects that AfDB is currently undertaking. AfDB would like to share information and collaborate among the projects.
- ✓ AfDB plans to conduct a sustainability study of WSPs and is currently procuring a consultant. In this process, AfDB plan to provide support for the development of business plans for the WSPs. the study will last one year and is scheduled to be completed in 2023. AfDB would also like to refer to the results of JICA's study for this project.

WSTF “Loan Facility”

- ✓ AfDB has not launched or considered seed funding for the Loan Facility by WSTF. AfDB has not been approached directly by the WSTF. However, if WSTF demonstrates a need and lobbies, the AfDB could consider providing a loan to the Loan Facility through the Ministry of Finance.
-

Minutes

Meeting	AGF	Meeting Reference Number:	AGF_300920221600
Date:	30 Sept 2022	Time:	1600 hrs EAT
Venue:	Africa House, Muthangari Lane	Minutes prepared by:	Tollander

Invitees	Title/Designation
1. Maureen Kayamba	Regional Head, East Africa, AGF
2. Jessica Obonyo	Analyst, AGF
3. Mike Njeka	Analyst, AGF
4. Kazunari Kimura	JICA
5. Satoko Shibata	JICA
6. Tollander Wabwire	JICA

Absent with apologies

Invitees	Title/Designation
1. NA	N/A

Purpose: Explore collateralization mechanisms for water sector at AGF

Maureen

- Africa Guarantee Fund (AGF) began with EUR 50 million seed, from Africa Development Bank (AfDB)
- The fund focuses on SMEs.
- Presence in Kenya, Togo, Arusha, and Mauritius
- Fund has 8 institutional shareholders (European DFI) and AfDB.

Products

- a) Loan products (portfolio guarantee facility), flagship, to Banks. large ticket, subject to collateralization, for de-risking lending 80% total exposure, Individual guarantee facility).
 - b) Fundraising (lower end of tier 2. Focused to SME as per mandate (15% of total exposure)
 - c) Equity guarantees (investment into an SME investee)
 - d) Complementary program (TA to financial institutions), matching grant, towards scaling up lending to SME. Good AQR (CBK <5%). If above double digit, partner with such a Bank to improve AQR.
- Several Banks have entered into agreements with AGF to guarantee SMEs. The agreements are sector agnostic.
 - Family Bank has a EUR 15 million credit line.
 - AGF guarantees only 50% on a credit facility obtainable by an SME, the only exceptions being women/women-led enterprises and environmental sustainability focused projects, which can obtain up to 75% cover.
 - Agreed to share detailed features of products (in ppt deck).
 - AGF also has a TA product, which typically kicks in after on boarding of an SME under the cover.
 - AGF sometimes networks for investor-ready SMEs, by way of 'teasers'/short profiles seeking to draw investor interest.
 - Most guarantees offered by AGF do not go beyond 10 years. Equity and another Dutch entity have 10-year guarantee agreements with AGF, often guaranteeing non-standard products, often bundled in a portfolio, based on commonality of certain product features.

Cost of the product

- Guarantee fees (are risk-based) and will typically differ from Bank to bank.
- Facility fee (1%, paid for by the Bank), an admin fee.
- Utilization fee (2-3% pa on outstanding). Negotiable and differing from bank to bank.
- AGF uses a model that drills down the quality of a lender, so utilization fees can be standardised.

Maureen

- It takes about 2 months to approve a Bank, inclusive of usual back and forth, to the point of signing a term sheet, obtaining approval, and final roll out.
- Promised to share a 'Green mapping' of projects.
- WSPs, like any other SME, can approach AGF directly to seek referrals to Banks.
- Typically, AGF is not designed to process transactions of less than EUR 1 million.

Thresholds:

Portfolio (\$10-13 million)
Loan individual \$5 million

Other guarantee firms in this space:

Africa Trade Insurance (ATI).
Guarantco - equipment

Features and differences with other Funds

AGF - SME focused (risk and syndications). Rolling, can re-draw over the same period from repayments made up to several sides.

IFC report, \$ 331 billion risk appetites, for SME lending in SSA.

Afri-Exim (1994)

DFC, sector specific and not rolling.

Maureen committed to sharing: exclusion list, green mapping, women categories, and the presentation deck used on the material day.

Take offs:

Are there other Partners (PPPs), KfW is a shareholder. Other multilaterals that are willing to come on-board.

Share teasers with AGF, for introduction to AGF contacts. Banks are interested in good portfolios.

TA (training of recovery teams, front-end staff, certifications, most trainings outsourced from likes of Frankfurt School, Germany)

Minutes

Meeting Sidian Bank **Meeting Reference Number:** Sidian_25042022
Date: 25 April 2022 **Time:** 1400 hrs EAT
Venue: Sidian, Office Kilimani, Nairobi **Minutes prepared by:** Tollander

Invitees	Title/Designation
1. Chege Thumbi	CEO
2. Loise Mwangi	Head of Branches
3. John Patrick Kamau	Senior Relationship Manager
4. Masayuki Fujii	Team Leader, JICA Team/delegation
5. Kazunari Kimura	JICA Team
6. Nogami Masaharu	JICA Team
7. Satoko Shibata	JICA Team
8. Tollander Wabwire	JICA Team

Absent with apologies

Invitees	Title/Designation
1. NA	

Proceedings:

Loise

- Introduction of the Bank. Sidian Bank is formerly K-rep Bank, a Tier-3 local bank (by capital base). Bank has been in existence since 1984 and is currently profitable.
- Have 43 branches across the country, represented in 23 Counties.
- KES 43 billion balance sheet size.
- WaSH is a strategic sector for the Bank.
- *Aqua for All* partnership came in strongly during the Covid-19 period to cushion SMEs in WaSH.
- Last year December, we signed up with *Water Equity Fund* supported with additional funding for WaSH SMEs (KES 564 million worth of support).

Chege

- Bank has supported several WSPs (under WB OBA/WSTF and DFC guarantees). Most have gone well, including Murang'a & Nyeri. Murang'a did about \$ 1million.
- Murang'a Water has requested additional financing (Phase 2, 6M USD). Bank cannot help them individually with bankability, but will be able to finance with partners. Bank would like JICA to assist them to become bankability.
- WSPs need bankability support and document management.
- In some financing models, some Partners lend to banks, who do onward lending to WSPs.

Kazunari

- In response to Chege's question on whether JICA finances, said they do not. JICA comes in as a bilateral partner to the government but does not lend directly to WSPs. In our case, it is TA.

Loise

- In response to a question on whether the Bank has any experience with fully commercial financing, outside of OBA/AOD schemes: Bank has financed WSPs mostly under OBA. But Bank also have had lending to other WaSH SMEs (not included under the 88 WASREB regulated ones), and private community service providers (not public). Loise was to check how many were supported under OBA. Chege mentioned an original list of 8.
- Bank has experience funding non-regulated WSPs. Some have connections of >500, mostly grown over time. Common facilities were boreholes, connections, solarisation, and laying down infrastructure.
- Average lending amount to such is on a need basis, but mostly below KES 30 million.
- Needs are higher than what we have lent. Mostly come for investments, alternative energy requests, and less on working capital.
- DFC is supplying guarantees for the public ones, at a 50% portfolio guarantee through the lender. The other 50% give other forms of security. Those who have some collateral, e.g., Muguga, have given it as security.
- Bank manages collections for Nanyuki and Nairobi.

Chege

- Criteria for choosing WSPs to support? DFC contracted a 3rd party focusing on Bankable projects to bring good ones to the Bank, which did its own due diligence, and the DFC would give the guarantee. WSTF and WB gave concessions (refunds/rebates) on interest costs, effectively reducing the cost.
- Interest rates (commercial funding) go to about 15%.
- Security (which is property of the Public) is of no value to the Bank. Bank goes for guarantees from County/national governments, DFC guarantees, and Debenture (Empowers the bank to identify an administrator in its interest.) among others. Where WB rebates were available under OBA, upon achievement of milestones, meant that borrowing was at nil interest.
- We re-enforce cash-flows and ensure governance is on top.
- Most guarantees so far have been around 50% or more.
- It is not so much about profitability. It is more on the ability to pay, positive cash-flows, to ensure that loans given can be paid.

- When assessing eligibility, Bank looks at Project viability, and the Company as a whole, to ensure existing cash flow can support an additional project. The CAPEX, and additional OPEX for overall viability, unless the new project is totally stand-alone/unrelated.
- Last time Bank checked, DFC had about 34 applications.
- Typical loans are between 5-10 years but will largely be on a case-by-case basis and demonstrate of ability to pay.
- Bank would be fine with not more than \$2 million per WSP, for now.
- Bank would need a party like JICA, to support screening to have worked with them to produce bankable projects.
- Interest rates are variable. Rarely on a fixed-rate basis.
- Grace-period is provided for all, depending on when the actual project is set to start generating revenues for servicing repayments.

Loise

- On revolving fund (under WSTF), still at the discussion stage. WSTF sent in a Consultant to the Bank to assess interest in the scheme. According to Chege, the bank would be keen to participate in the revolving fund. The bank is yet to join AOD.

Challenges:

- The ability to present bankable projects to the Bank is a challenge.
- Another challenge is securitization. It is not possible to take a legal charge over public asset.
- Seasonality. Revenues go down during rainy seasons. Creates cash-flow challenges
- Efficiency (cash management, metering technology, alternative energy)

Chege

- Interest rates are almost the same for all banks (about 13%).
 - Risk-based pricing, required of the banks by the regulator, applies the same methodology to arrive at the rate required by law, often 2-3 points above the base lending rate of the regulator.
 - Fees have been consolidated into the interest rates (courtesy of the central Banks), except third-party fees like legal fees, administration fees, etc.
 - Bank does not do technical due diligence. They rely on independent consultants (contractors) to confirm the technical elements, a requirement/inclusion in the submitted application packs by the WSPs.
 - Bank suggest partnering with JICA Team on Murang'a, who have already put in requests and has had preliminary meeting.
-

Minutes

Co-operative Bank of Kenya Ltd

Meeting	Co-operative Bank of Kenya Ltd	Meeting Reference Number:	COB/KE_22042022
Date:	22 April 2022	Time:	10:00 hrs EAT
Venue:	Co-operative Bank HQ (3rd Floor, CIC Plaza Block 'B', Mara Road Upper Hill)	Minutes prepared by:	Nogami

Invitees	Title/Designation
1.	CEO
2. Noel Kodhe	Sector Head- Energy & Natural Resources
3. Mwanzia Kasalu	Relationship Manager for water sector
4. Masayuki Fuji	Team (Lead delegate for JICA team)
5. Kazunari Kimura	Team
6. Nogami Masaharu	Team
7. Satoko Shibata	Team

Absent with apologies

Invitees	Title/Designation
1. NA	

Proceedings:

Kimura will briefly introduce the background of this project, expected goals, outcomes, and timeline. Below are comments and questions from the bank.

Loans to WSPs

- (Mwanzia) Banks can lend to WSPs but require collateral or securities guarantees; even if WSPs' cash flow is sufficient to finance the loan, banks require collateral or guarantees.
- (CEO) Because WSP is a public asset, its water use tariffs are limited and controlled by WASREB; when WSP receives a loan from a commercial bank, WASREB will consider a special rate increase. If approved, it would make it easier to provide loans.
- (CEO) Require a letter of support from the national government when providing loans to WSPs. Currently, WSP is owned by the county and should be protected by the national government to strengthen the security for the project. That way, the WSP can easily obtain financing from the bank. If there is a problem with the tariff, the issuance of a letter of support will also make it possible to amend the tariff to correct the problem.
- (Noel) Because the bank is purely commercial, the terms of the loan are the same as general loans to other entities, even though the water is a public asset and the WSP is a public entity.
- (Noel) Generally, Grace period is the construction period, but it varies from case to case. Tenure could be 36 months or longer and varies from project to project.
- (Noel) When a bank makes a loan to a WSP, the WSP sets up an escrow account, a special account that is different from a typical bank account, so that it can guarantee repayment of the amount due and the interest rate.

Collateral/Guarantee

- (Mwanzia) International donors such as USAID and the Swedish government provide guarantees, which the bank also leverages (Mostly OBA, it seems).
- (Noel) Others, such as GIZ, are also considering providing guarantees. Commercial banks, including foreign banks (Private Equity) also provide guarantees (details cannot be provided without NDA).
- (Mwanzia) Collateral is also required for working capital loans.
- (Mwanzia) Collateral for WSPs are land, guarantees, buildings (real), vehicles, and other mobile assets (amount borrowed). WSPs in Kenya do not have these assets, which is a challenge for banks to lend to WSPs.
- (Mwanzia) Loans to WSPs require collateral, guarantees, and hybrid guarantees of the same valuation (100%). Debenture does not mean so much in terms of loan to WSPs.
- (Noel) The county cannot provide a guarantee without the consent of the council.

Experience to loan to WSP

- (Mwanzia) For long-term loans, there is a track record of financing with guarantees to WSP (believed to be the case with OBA). Loan amounts vary depending on the situation of the WSPs, but average around Ksh. 100 million with collateral and guarantees.
- (CEO) The bank was the first to offer the OBA program. It has already provided OBA to 7-8 WSPs.

Eligibility of WSP

- (Noel) The minimum requirement for a WSP to receive financing is that the WSP's cash flow be sustainable, and the project's revenue-generating effects, project cash flow, and water loss rate are important to the review process.
- (CEO) Governance of the WWDA is important in assessing the WSP. This is because WWDA's supply water to WSPs and WSPs distribute water. Therefore, if the governance of WWDA is not sustainable, WSP will not be able to supply water. Of course, the governance of the WSPs themselves is also important. Most public WSPs are owned by counties, and WSP governors are sent by the counties. Therefore, county governance is also important. The Bank checks the political situation and corruption in the WSPs, WWDA's and counties.
- (Noel) Banks evaluate the FIRR; if the FIRR is lower than the interest rate, banks will make loans fully secured by collateral or guarantees.
- (Noel) Even if the FIRR is lower than the bank's interest rate (13%), the bank can still finance the WSP with collateral and guarantees, in which case the loan must be fully secured.
- (CEO) FIRR must be justified and approved by the WSP's government committee prior to any loan to the bank.
- (CEO) Assets not listed on the books are also considered in the valuation process, as many assets owned by WSP have been depreciated and are not listed on the books, but are used as assets of WSP.

Appraisal Phase

- Evaluate net income, depreciation, and actual cash flow. Of particular importance to WSP is the cash flow. Banks look at the 5-year IRR.
- Essentially, water supply services (e.g., treatment plants and piping) are considered 30-year assets.
- Banks will request a higher WSP tariff (likely to be requested from WASREB via WSP).

Purpose of loan

- In the projects that bank finance, the emphasis is on improving commerciality/revenue and efficiency (e.g., smart meters, monitoring, etc.).
 - Even if the IRR of the project itself is low, financing can be provided if there is a reasonable reason/explanation. For example, water meter provision projects are typically calculated with a 5-year lifetime, but in reality, water meters are used for more than 5 years. Therefore, the bank will also consider the actual improvement in profitability as one indicator.
-

Minutes

Meeting	Cooperative Bank	Meeting Reference Number:	Coop_0607202214
Date:	06 July 2022	Time:	1400 hrs EAT
Venue:	CIC Building, Upper Hill	Minutes prepared by:	Tollander

Invitees	Title/Designation
1. Mwanzia Kasalu	Relationship Manager, Corporate Banking, Water sector.
2. Fuji Masayuki	JICA
3. Kimura Kazunari	JICA
4. Shibata Satoko	JICA
5. Tollander Wabwire	JICA

Absent with apologies

Invitees	Title/Designation
1. NA	N/A

Purpose: To obtain the Bank's insights on the bankability of shared teasers.

Mwanzia: The key issue we face when working with WSPs is the need for a guarantee to address the collateral issue. WSPs do not have security.

None of the WSPs have a problem paying but Banks still ask for collateral.

Documentation may not be the most pressing issue.

Teaser A-1

The grace period is too long. Suggested 1 year while paying interest.

4 years ok, depending on the nature of the project.

3-years too long to install solar panels (I would go for 6 months only).

On loan amounts, we usually ask customers to co-pay, so each party puts skin in the game.

The loan amount and project size cannot be the same for that reason (70;30 ration bank to customer).

On collateral, the Bank has partnered with organizations like DFC covering 50% of loan amounts. We require 100% coverage, as a Bank policy, and following the regulatory expectation.

On OBA, there was no requirement for collateral coverage. Special arrangements for that program included a guarantee scheme, while the rest of the exposure was covered by other mechanisms, including taking the collection accounts and setting up escrows and debentures.

Currently, we provide loans, on a case-by-case basis, using debentures, a 50% guarantee from other entities (offering guarantees), and the rest through other sources of securitization, including cash-cover. Even if cash flow is adequate towards repayment, we still need a guarantee to cover the loan 100% as a regulatory requirement, based on the classification of this kind of loan [referring to Prudential guidelines]. We can consider lending to this particular project if the above elements are met.

We have existing agreements with some guarantee providers.

We also have experience implementing guarantee schemes on some of our assets in the water sector.

A-2

6-months grace period. 3 years project period is too long.

Any project increasing income, or reducing losses, is a good project [Rule of thumbs]

Smart meters will bring efficiency and reduce NRW. Good project, just like the solar one.

Repayment period 10 years, not bad, but feels this will be on the higher side.

Project 1 is better than 2, because of the short repayment and less exposure.

Repayment periods also need to map political transitions to avoid disrupting the projects.

B-1

Debt ratio up.

Low revenues, and a very long repayment period will make it a hard sell.

NCFO (Net cash from operations), is a key indicator [cf'able to our EBITDA].

If cash flow is good, management/governance, and repayment history is good, we can consider it.

Said he would need to consult on the guarantee fees.

Vincent Kihara, Head of coop banking

Noel Kodhe, Head of the corporate sector (water, energy & petroleum)

Relationship Managers (Mwanzia, water).

Notes: Securitisation

Prudential Guidelines, 2013, sect. 1.4.4 „Credit Risk” - is defined as the current or prospective risk to earnings and capital arising from an obligor’s failure to meet the terms of any contract with the bank or if an obligor otherwise fails to perform as agreed.
