

March 2020

WaterCredit in Ethiopia

Program evaluation brief

Key Insights

Program Performance

- All program targets were exceeded, with significant scale occurring in the last 18 months of the program

Program Sustainability

- All partner MFIs are on track to operating sustainable WaterCredit portfolios, repayment rates exceed 95%

Household Level

- At least 90% of clients interviewed were satisfied with all aspects of the program

Systems Level Impact

- Three significant shifts in policies and practices were achieved, proving to be critical to promote WSS financing
- Potential for Scale Partner MFIs indicate that there is still an unmet demand for WSS financing among their clients

With support from the Conrad N. Hilton Foundation, this report presents the highlights of an end-of-program evaluation of a water supply and sanitation (WSS) initiative which took place in Ethiopia between September 2014 – August 2019. At the time of the evaluation, the initiative had mobilized \$1.54 million in capital and improved the lives of 59,859 people across four regions in Ethiopia.

Background: International NGO, Water.org, partnered with five local microfinance institutions (MFIs) to develop loan products that would enable Ethiopians living at the base of the economic pyramid (BoP) to gain access to safe water and sanitation through its flagship WaterCredit initiative. Over the course of the program, Water.org partnered with two public MFIs, Addis Credit and Savings Institution (ADCSI) and Amhara Credit and Savings Institution (ACSI), and three private MFIs, Vision Fund, Metemamen, and Specialized Financial and Promotional Institution. This program represents the first successful iteration of Water.org's flagship WaterCredit model in Ethiopia.

Using a mixed methods approach, the evaluation assessed the following aspects of the program:

- Grant performance: program achievement with respect to key targets
- Household level impact: client loan satisfaction, loan usage, and motivation to take out loans
- Program sustainability and effectiveness: impact on partner microfinance institutions progress and sustainability of WSS loan portfolios, effective use of philanthropic funds
- System level change: degree to which collaboration among WSS stakeholders in Ethiopia was improved

Key findings

Grant Performance: The evaluation used partner performance and program monitoring data to assess the degree in which the program met its key impact targets.

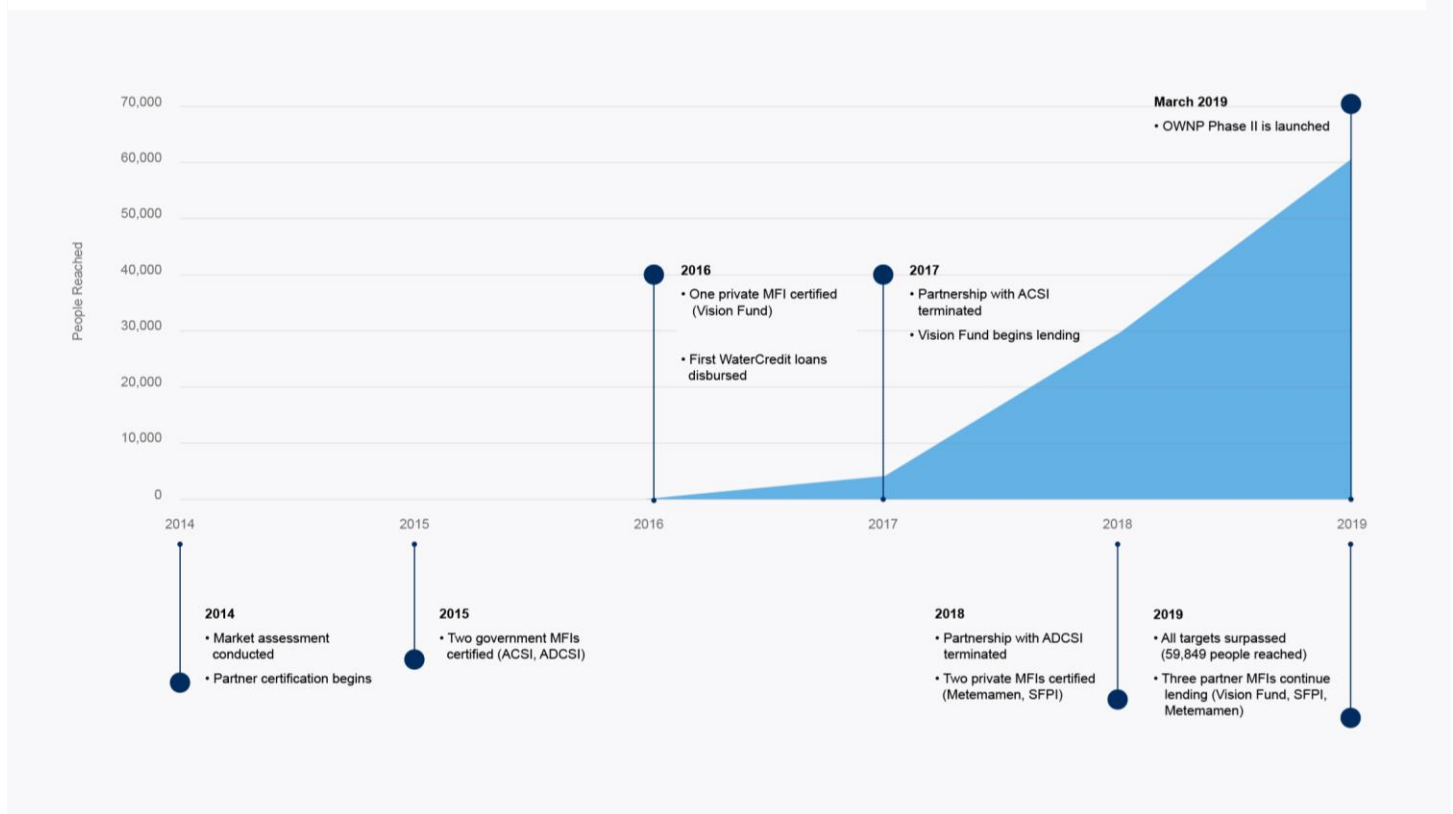
As shown in Table 1, all program key targets were exceeded. In Figure 1, it is of note that more than 90% of the program impact was achieved in the last 18 months of the program, demonstrating the ability of WaterCredit to rapidly scale once partners have conducted pilot programs.

Table 1 Performance against key program targets

	Target	Results
Local Partner MFIs Certified	2	5 ¹
WaterCredit Loans Disbursed	8,000	8,002
People Reached	40,000	59,859
Capital Mobilized	\$1.2 million	\$1.54 million



Figure 1 Cumulative People Reached and Key Program Milestones (2014-2019)



¹ Two MFI partnerships (ACSI, ADCSI) were terminated due to significant delays in meeting loan targets. It is rare that Water.org terminates partnerships with their partners. However, these partners presented significant and unanticipated operational challenges. Three MFI partners continued lending through program end.

Figure 2 Household Income Level



Client Profile: Water.org program monitoring data showed that the program reached those living in poverty (see Figure 2). The majority of the households (96%) earned less than \$6 per day. This clearly demonstrates the ability of WSS financing to reach people living at the base of the economic pyramid.

Repayment Rates: The average repayment rates for all the partners were greater than 95%, signaling that not only were households willing to take out a loan for water and sanitation, but they were also able and willing to repay that loan.

Loan Characteristics: The average loan size was \$193, with a 19.49% effective interest rate and a 13-month average loan term.

Loan Types: The loan types varied across all partners, with most loans disbursed for sanitation purposes (40%) followed by water quality (38%) and water (21%).

Geographic Location: The majority of the borrowers were located in the Oromia region (3,183), followed by SNNPR (2,316), Amhara (1,384), and Addis Ababa (386). Most borrowers were located in urban (58%) or peri urban (26%) areas, while only 15% were located in rural areas.

Household Improvements: Randomly selected interviewed clients reported improvements in their household water and sanitation sources.

Prior to receiving the water improvement, more than 70% of clients interviewed used a shared water source, with nearly 40% getting their water from rivers, wells, water vendors, and kiosks.

- *After:* After obtaining their water improvement, 73% of respondents had a primary water source on their own plot/yard, and 27% had a water source within their own dwelling.

Prior to receiving the improvement, the majority of respondents (39.6%) were using the outdoors as their primary sanitation solution, while another 35.8% were using a shared facility.

- *After:* After obtaining their improvement, 100% of clients interviewed were no longer using alternative sanitation solutions while at home.

Client Loan Satisfaction: At least 90% of household clients interviewed were satisfied with the all aspects of the program. While the majority of respondents did not feel any improvements to the program were necessary, several respondents indicated that larger loan amounts and lower interest rates would improve the loan products.

Household Motivations: Of the clients interviewed during the program monitoring visits, the top five motivators for availing loans for a water and/or sanitation improvement were found to be reasons of 1) better health, 2) to save time, 3) convenience, 4) dignity and 5) safety. This demonstrates that households find the WSS loans valuable to improving aspects of their overall wellbeing.



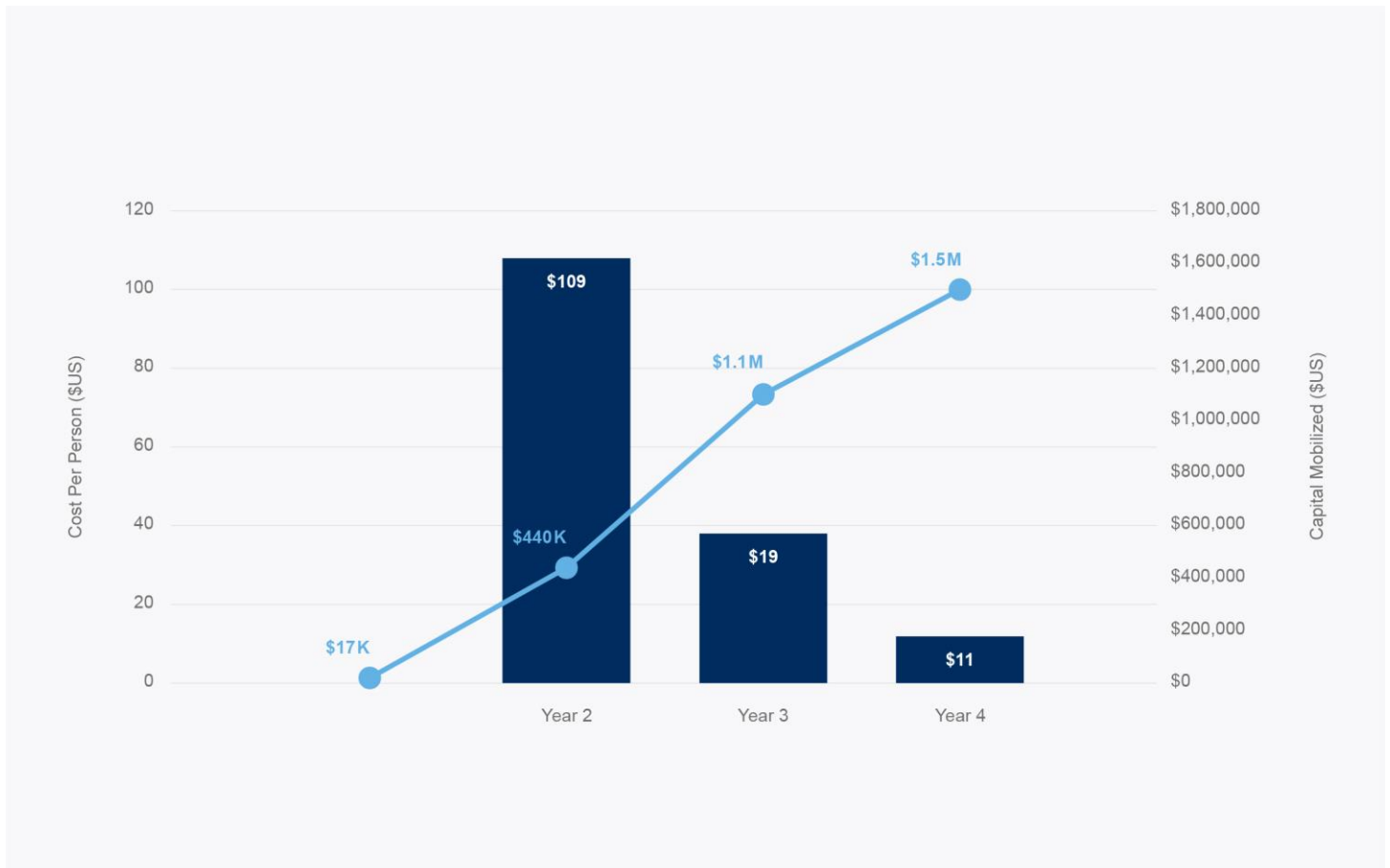
Commercial Benefits: The partner MFIs observed several commercial benefits of WSS lending. They perceive WaterCredit as a benefit to their brand reputation and client retention, as well as a means to improving their client income (due to time savings as a result of receiving their improvement).

Efficient Use of Funds: The \$1.3 million program grant mobilized more than \$1.5 million in capital. As shown in Figure 3, the cost per person in year 2 was relatively high, at \$109. However, as the program progressed, partner disbursements decreased and the private MFIs continued to rapidly scale their WSS lending, resulting in a dramatic reduction of cost per person reached. With \$642,419 in total program disbursements given to partners, the average cost per person reached decreased to \$11 by program end.

Program Sustainability and Effectiveness: The partners reported the WSS portfolio as a percentage of the total loan portfolio of an estimated 2%, which is notable as this was achieved in less than three years of their partnerships with Water.org. The three private partner MFIs (Metemamen, SFPI, Vision Fund) have continued WSS lending since the program end while also receiving continued technical support from Water.org staff in country, an early indication of sustainability. As shown in Figure 4, all partners achieved sustainability scores greater than 65% using Water.org’s sustainability assessment tool and are on track to enter the “Sustain and Grow” phase of their programs



Figure 3 Capital Efficiency



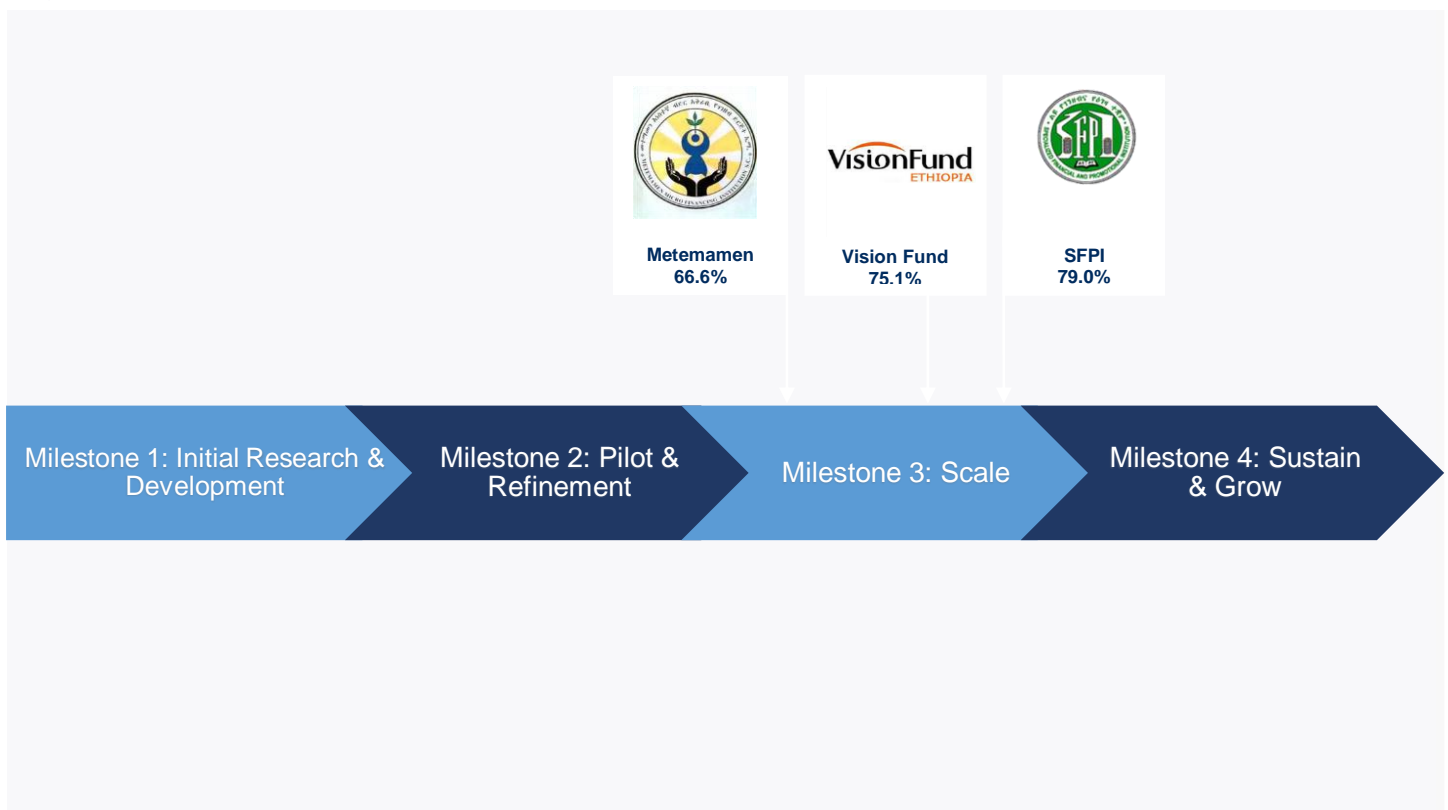
Systems Level Impact: The impact of the program at the systems level was assessed based on shifts in policies and practices with key sector stakeholders in the country through Outcome Harvesting. This method assessed the level of contributions made by Water.org and the significance of outcomes. Under the program, three significant outcomes were achieved.

- In March 2019, the government of Ethiopia (led by Ministry of Water, Irrigation and Energy) released One WASH National Program II (OWNP) Policy with language mandating financial institutions to integrate WASH into their loan portfolios.
- From 2016-2019, 5 MFIs in Ethiopia included WASH loans into their portfolio and 4 started providing loans to clients living at the base of the economic pyramid.
- In August 2017, Fana Broadcasting Corporate hosted an engagement forum talking about the importance of private financing in the WASH sector.

Water.org made direct contributions to each of these outcomes with support ranging from: coordination of meetings and site visits, provision technical assistance to MFIs, and participation in government working groups.



Figure 4 Partner Sustainability Scores of 3 Private Partner MFIs²



² Scores were calculated using Water.org's WaterCredit Sustainability Tool which uses qualitative and quantitative techniques to determine the sustainability of a partner's water and sanitation portfolio, the potential challenges to scale, and the partner's technical capacity, through the use of scorecards, discussions, activity assessments.

How did the program achieve success?

At the end of the program, the partner MFIs were surveyed about their experience with the program. Overall, partner feedback on the program was positive.

The partners identified several factors which were important to the success of the program:

- Adoption of internal policies for transparent and smooth implementation of the WSS loan
- Creating a strong linkage with product suppliers and manufacturers
- Supervision and technical support programs organized by Water.org among participating MFIs
- Promotion and marketing to community members to stimulate demand and increase awareness
- Rolling out WSS products to all branches
- Designing WSS products with different loan sizes based on the client needs
- Water.org's acceptance and buy-in at the federal, regional, and district government levels

Establishing an evidence base of partner performance in Ethiopia, along with consistent and regular collaboration with the Ministry of Water, Irrigation, and Energy (MoWIE) allowed Water.org staff to make the case for the inclusion of provisions for WSS financing in the OWP Phase II. This demonstrates significant progress at the systems level by raising the importance of WSS financing at the national level.



What were the program challenges?

While general feedback on the program support was positive, MFI partners and Water.org staff pointed to similar significant challenges experienced.

Loan Capital: The most consistent challenge reported by all partner MFIs was the severe shortage of loanable capital that could be used for water and sanitation financing at the household level. Partners indicated that there is high demand among their clients for WSS loans, however this demand, combined with lack of loan capital, is increasing at a rate which they may not have capacity to meet.

Supply Chain: The supply chain for WSS products is also a key challenge reported by the partner MFIs. In Ethiopia, the supply chain is made up of enterprises primarily concentrated in larger, urban areas which makes getting products and works to rural areas a significant challenge for MFIs trying to scale outreach.

Administrative Costs: The partners also reported a high burden of administrative costs required to maintain the program (i.e. staffing).



The way forward for WSS financing in Ethiopia

There are several factors that Water.org and partner MFI staff in Ethiopia identified that would moderately or significantly increase the number of branches lending for water and sanitation:

- Continued financial and technical support from Water.org
- Access to more capital for WSS loans
- Greater awareness & understanding of sanitation/health benefits among target population
- More favorable government policies and/or targets to incentivize WSS lending
- Greater willingness and interest of MFI field officers to promote WSS loans
- More widespread public water supply infrastructure
- Better coordination between NGO/MFI partners

In 2018, Water.org conducted a market reassessment in Ethiopia. This assessment concluded that in order for funds to be allocated to the W sector, a directive should come from the government via the initiative of the four ministries responsible for the OWNP II (Water, Health, Finance, and Education).



Conclusion: Program performance demonstrates that financing is a viable solution for meeting the WSS needs of households living at the base of the economic pyramid in Ethiopia. However, there appears to be a substantial, unmet and latent demand for WSS financing among surveyed partners. While all partners are continuing to lend, they will be unable to meet this demand. This presents a significant opportunity and challenge for WSS financing to expand across Ethiopia.



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Water.org is an international nonprofit organization that has positively transformed more than 27 million lives around the world through access to safe water and sanitation. Founded by Gary White and Matt Damon, Water.org pioneers market-driven financial solutions to the global water crisis. For more than 25 years, they've been providing families with hope, health and the opportunity to break the cycle of poverty.

