

Waste Ventures Fund - the case study - Part A



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Chapter 1. Introduction: Waste Ventures Fund

Over the years WASTE staff observed that local banks rarely service the small urban environment private sector. The latter includes solid waste collectors and recyclers, small companies that empty septic tanks and pits and the like. From interactions between the private sector and WASTE's partners, it emerged that loan and credit demands of private sector operators were too large for most micro finance institutions, yet too small for normal banking operations.

This observation was made explicit under the Integrated support for Sustainable Urban Environment (ISSUE) programme 2003-2006 by setting up the Waste Venture Fund. It proved quite difficult to start the WVF as the focus of ISSUE was ecological sanitation, quite a new concept to our partners and the countries they were operating in. Its successor programme, imaginatively called ISSUE-2, had a wider thematic scope of mixed smart and sustainable sanitation solutions to address the sanitation problems in the intervention areas including innovative financing strategies.

1.1 Initial actions

Initial actions were all taken under the ISSUE programme. WASTE initiated a survey in Costa Rica in order to get a clear picture of local demand for credits and supply hereof. Later this was done in Mali and Kenya. The surveys also initiated discussion with the financial sector on how to break the deadlock. The surveys showed that there is demand for relatively small loans (below € 50,000), yet this demand needed to be translated in a manner acceptable to the financial sector.

Banks reconfirmed their reluctance to work with the sector due to high-risk perceptions, high transaction costs, (sometimes) legal obstacles and generally unfamiliarity with the sector. Discussions were thus initiated how to tackle some of these real concerns.

1.2 Early start – Costa Rica

Costa Rica has a relatively well-developed financial sector. It also features a national guarantee scheme for small and medium enterprise support containing about Euro 24 Million. Following extensive negotiations agreements were reached between (1) WASTE and its local partner, and between (2) the local partner, a bank and the national guarantee scheme on the Waste Ventures Fund (WVF). As the bank despite having a national guarantee was very cautious, the initial coverage by the Waste Ventures Fund for urban environmental enterprises was 50% of the loan amount with the national guarantee and the enterprise each backing 25%. Additionally some of the strict technical –legal requirements for lending to the sector were waived.

One year later the bank requested that their share in the guarantee would be increased to 50% and the WVF share reduced to 25%. Two more years down the line the bank and the national guarantee scheme were sufficiently convinced about viability of small scale urban environment enterprises that they no longer require the WVF. Their experiences and the WVF is now exported from Costa Rica to neighbouring Nicaragua.

Looking at the environmental and social impacts a rosy picture emerges. WASTE oil from cruise ships is now processed and recycled instead of dumped in the ocean. Solid waste is

collected and recycled and in one case turned into handicrafts. Details on the WVF are provided in Chapter 2. A full fledged non-edited case study on the WVF in Costa Rica (July 2010) has been prepared too.

1.3 Experiences elsewhere

In Mali a detailed survey was conducted targeting both demand and supply side. Demand side was well represented by loan services relating to purchase of equipment for emptying septic tanks and pits. A contract was signed with an organisation that itself guaranteed 60% of the loan. They have developed two types of loan products and are in the process of developing more. So far four loans have been given. The WVF scheme in Mali is detailed in Chapter 3.

In Kenya, a detailed survey was conducted, demand identified and the vibrant financial sector was reviewed. Our local partner identified the financial institutions and following complex negotiations process a contract was drawn up. At the time of approving the first loans, post-election violence erupted, and all applications were on hold. Earlier applicants did not return and a new set of applicants has now been issued loans. The WVF scheme in Kenya is detailed in Chapter 4.

In India the WVF aimed at promoting an innovative sanitation system (urine diversion). The underlying financials were a mix of guarantees with a local bank, subsidised revolving loan fund to cover higher investment costs and developmental funds to hardware manufacturers and relevant applied research. The use of grants is excluded from the description of the WVF scheme in India in Chapter 5.

Several of our partners worked out similar schemes. As most of these schemes are more recent, it is more difficult to report on results. The update of the WVF – expected to be released in December 2011 – will contain these new schemes from Nicaragua (a MFI, an association of MFIs and a WASTE partner with funding from an external party, incidentally results from the WVF are already available) the Philippines (a MFI, and a WASTE partner) Serbia (a MFI and various local institutions with whom WASTE partners), Malawi and several from India (an entire programme FINISH, a guarantee fund, a first loss guarantee and a revolving fund).

Generally speaking a SWOT of the current WVF is below.

Strengths	Weaknesses
Sustainable interventions; cost effective; not disturbing local financial market; can be upscaled easily; release funds for items that can NOT be commercially financed; mobilises higher amount of local resources	Time consuming; negotiations may take time; it starts very local, upscaling support structure needs to be thought of at an early date; technical support basis has to be included; proposals are often not in the right format for banks
Opportunities	Threats
Local resources applied in addressing local problems; increased reach of financial sector; interventions aimed at targeting the poor, informal and small scale sector; improvement environment and social conditions;	Local urban environment private sector is often informal and may be subject to (political) interference; large scale donor funded interventions using grants may destroy loan based system

Conclusions and recommendations in full are in Chapter 6.

Chapter 2. Costa Rica

Basic objectives of WVF Costa Rica were to:

- ^ Provide underwriting for sanitation and waste projects or initiatives that lack sufficient collateral to access bank credit in as much as they are compliant with local requirements¹
- ^ Provide loans for the intangible matter in as they are compliant with local requirements¹
- ^ Facilitate ties with the public institutions involved in the projects or initiatives to which underwriting or loans are to be given to channel the needs of the beneficiary business population to manage the transfer fund.

2.1 Preparatory phase

Market assessment (demand side)

The main limitation on the sector to obtain financing in the National Banking System is that most of them are not suitable for credit because their collateral is weak. There is a lack of statistics about funding for these companies since they are still in legal limbo, so when they take out loans it is in their personal name making recordkeeping difficult.

In addition, the FOMEMIPYME and the Banco Popular see the Waste Venture Fund (WVF) as a chance to support the sector and thus begin to create a profile as a bank that supports the environmental portion.

Though MSMEs in the sector show positive financial results, the potential number of MSME that work formally in the water and sanitation sector in the country is not large enough to attract financial institutions (FI). Their growth is incipient. Some companies have several years of experience, yet they are still in the informal sector.

Market assessment (supply side)

In 2003 research was also done to find what was provided by the national financial system; the study analyzed national banks, NGOs and other private banks. The conclusion was that the Banco Popular through FODEMIPYME had the best conditions and complied with the objectives and interests that are very similar to what was expected with the WVF.

No specific assessment was carried out on FODEMIPYME. It was created by law 8262 “Law on Strengthening Small and Medium Enterprises,” as an entity what would support the MSMEs. The state would provide the study on the funds needed for financing (9 billion colones or Euro 24,37 million against then exchange rate), the physical structure, and staff, along with the policies for attending to the sector.

1 In the context of Law 8262 and other applicable norms.

2.2 Financial instrument description

It was decided based on the above studies to opt for a guarantee mechanism.

The contract was signed by Banco Popular, FODEMIPYME and ACEPESA as the local counterpart with WASTE endorsement. Their main roles are outlined below.

ACEPESA's responsibilities are: make the WVF available to Costa Rica's low-income companies and micro, small, and medium enterprises dedicated to developing sanitation production activities in as much as it has to do with projects or initiatives that intend to carry out productive sanitation activities and that are economically, environmentally, and socially viable. Therefore, and being the party responsible for managing the ISSUE Program, as set forth in the contract entered into by ACEPESA and WASTE on June 24, 2005, a pledge was made to keep the funds invested in the Banco Popular, i.e., in certificates, securities or other vehicles and to leave them in custody endorsed over to the Banco Popular during the lifetime of this agreement until all of the loans that were backed or guaranteed by the fund have been paid off so the funds needed to provide collateral for these loans would exist.

Likewise, ACEPESA will act as the technical counterpart in selecting the beneficiaries for the WVF so it would be a requirement for the potential clients to be able to opt for the benefits in this agreement. Therefore, it would have to do the following:

1. Supervise the projects financed or backed based on this agreement.
2. Hold the documentation in custody that is generated based on this agreement and keep the information and the data confidential to which it has access as a consequence of carrying out this agreement.
3. Provide technical authorization to the collateral and guarantees in a relationship that does not exceed the amount of the fund.

The Banco Popular's responsibilities are: make the Bank's developmental lines of credit available to Costa Rica's low-income companies and micro, small, and medium enterprises dedicated to developing sanitation production activities. This is the area of the Banco Popular in charge of serving micro, small, and medium enterprises. (called Mipymes Banking). To do so, it must follow the Banco Popular's General Credit Bylaws and other applicable norms.

Likewise, it will attempt to facilitate ties with the public institutions involved in the projects or initiatives that are to receive underwriting or loans to channel the needs of the beneficiary business population.

FODEMIPYME is an organization that was legally created in 2002 and backed by the state. It was created with a fund of 9 billion colones (Euro 24,37 million) provided by the state.

FODEMIPYME's responsibilities are: provide low-income companies and micro, small, and medium enterprises dedicated to developing sanitation production activities with access to the array of specialized financial services for this segment, inasmuch as they observe the requirements, stipulations and other applicable norms and it has to do with productive projects or initiatives that are economically, environmentally, and social viable, which should be documented in the necessary technical studies. These services include the following:

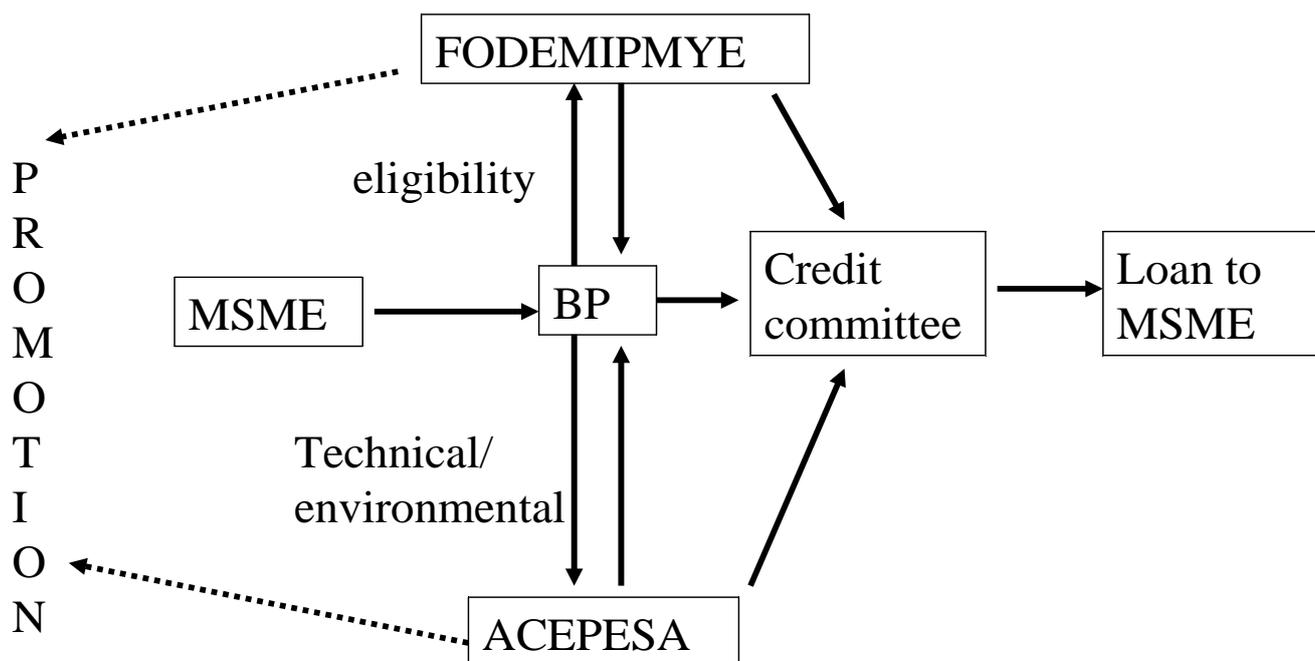
1. Provide underwriting for the development of sanitation projects or initiatives that lack sufficient collateral to access bank credit inasmuch as they comply with the requirements established for the purposes of Law 8262 and the other applicable norms.

2. Grant loans for the intangible matter stated in Law 8262 and other applicable norms inasmuch as they comply with the requirements established for those purposes.
3. Facilitate ties with the public institutions involved in the projects or initiatives to which underwriting or loans are to be given to channel the needs of the beneficiary business population in the context of Law 8262 and other applicable norms to manage the transfer fund.
4. It will help from the technical – financial stance to manage the WVF to ensure proper management of the funds. This work will be paid a commission of 15% on the yield the fund generates. This amount will be paid annually and will be deducted from the income the fund generates. An indefinite contract was signed with them to manage the fund. As for the WVF, the signed contract is a guarantee that it will continue functioning even if the ISSUE Programme has ended in 2006.

WASTE transferred 84,800 Euros in 2005. The risk distribution was as follows: The WVF covers 25%, FODEMIPYME covers 50% and the other 25% is covered by the company.

2.3 Application process

The MSMEs presents the project to the FI. The FI asks ACEPESA for the technical – environmental backing. For this ACEPESA visits the company and then it issues an opinion about approval and the FI continues the process. This has been depicted graphically below.



In ISSUE 1, ACEPESA provided follow-up and technical assistance to the companies; however, once the program ended in 2006, it only continued to work with new applications. From 2007 ACEPESA receives 10% of the interest generated by the guarantee fund deposit to follow up on the proposals.

The WVF supports a sector with which ACEPESA has worked since its foundation. It is also one of the WASTE's social sectors. In addition, due to its characteristics, it has not had access to formal credit and the guarantees that match its reality.

FODEMIPYME is an institution created to work with the sector so it has a series of conditions that favor the process; it has the best interest rates on the market and the best terms; and the staff is trained in providing personalized services. The interest rates match the company's development; therefore, any company that demonstrates that, during the period being analyzed, it was well managed will receive a lower interest rate for the following period.

The products offered are adapted to the water and sanitation sector. They are tailored to the company. They support the company in doing the financial and economic analysis as well as assistance in all steps in the process. FODEMIPYME works with all the economic sectors in the country. FODEMIPYME and Banco Popular staff was trained at the beginning of the contract in some of the specifics of the water and sanitation sector?

2.4 Scheme details

Salient features of the scheme are presented in tabular form below.

Preparation period	Well over one year
Starting date	2005
Contract period	Indefinite
Type	Guarantee scheme
Guarantee distribution	25% WVF; 50% FODEMIPYME; 25% beneficiary
Awareness clients	Actively promoted. Through its staff, FODEMIPYME is constantly locating new clients. Several workshops have been held with ACEPESA to disseminate the information and there are publications in the press and elsewhere.
Interest rate	Below market rate
Application fee	FI charges a single application fee when the process begins.
Who manages WVF	FODEMIPYME. It is paid a commission of 15% on the yield the fund generates. This amount is paid annually and deducted from the income the fund generates.
Technical services	ACEPESA receives 10% of the interest generated by the guarantee fund deposit to follow up on the proposals.
Exit strategy	None. WVF will remain at FODEMIPYME. This was done at the request of WASTE and particularly the donor. It had to be out of the WASTE's books once the ISSUE 1 Programme ended.
Credit committee	Credit committee comprises a representative from ACEPESA, FODEMIPYME and the Banco Popular. 3 institutions have a right to speak and vote.
New products	None
MSME tracking	FODEMIPYME follows up on the companies; there have been defaults and payment agreements have been reached. There has been no breach of contract. This is documented by FODEMIPYME.
Target group	MSMEs urban environment
Targets	Not specified

- ⤴ Coverage identical for all companies, remains stable.
- ⤴ As the WVF has done its task, the partners have now increased their clientele to waste water water treatment for coffee cooperatives.
- ⤴ WV focuses on increasing the competitiveness of low-income sector. Particularly the micro, small and medium enterprises dedicated to carrying out productive sanitation activities Costa Rica, i.e. solid waste management and sanitation. The basic diagnostic study on sanitation sector financing opportunities demonstrated was conducted to identify projects or initiatives that are economically, environmentally, and socially viable.

- ⤴ The contract does not specify targets in terms of the number of borrowers or the volume of loans given to MSMEs of the water and sanitation sector. As it is revolving, hopefully all the possible applications can be taken care of.
- ⤴ FODEMIPYME is responsible for recording / monitoring on PAR, interest rate, default rate, and risk management procedures (the maximum amount of one loan, for one client, etc.)
- ⤴ The contract between ACEPESA, FODEMIPYME and Banco Popular states that, to evaluate the results, the parties will prepare a quarterly report listing the situation in relation to the projects involved in this agreement, the loan and collateral situation involved, and the activities carried out. The assessment of the results will be done based on the indicators that were previously stated by the parties' representatives. FODEMIPYME provides ACEPESA with a financial report every month.
- ⤴ The contract has an article on arbitration but not a penalty system for non-respect of the reporting duties.
- ⤴ WASTE prepared a form to systematize the experiences. In addition, in 2008, a consulting project was prepared to systematize the process experience.

2.5 Results

Number of loan applications received 18 / approved 16 / disbursed 16

Portfolio 100% environmental sanitation MSMEs

Sectors - collateral has been provided in the following sectors

Services: 20%

Commerce: 13%

Industry: 67%

The outstanding number of loans for 2011 using the WVF and FODEMIPYME is 12. Their approximate total amount is Euro 279,512.

So far there has not been any liquidation or recovery process for any of the loans issued with WVF. However, there is one case where an entrepreneur has missed two repayment dates.

Liquidity position of the fund as of December 31, 2010, it has a value of Euro 73,191 (US\$97,000). This lower value has been solely due to a depreciation of the US\$. The certificates are current.

The share of the water and sanitation sector in the total portfolio is 10%.

The FI has assessed the methodologies in other markets. These are being innovated with environmental sanitation policies.

Bank executives have been trained about issuing collateral and especially about the WVF.

Some executives have explored the possibility of underwriting Asadas (local water cooperatives), so FODEMIPYME is proposing to ACEPESA that WVF is used (FODEMIPYME 2: WVF 1) is support.

2.6 Lessons learned and future plans

- ⤴ The WVF has been very successful.
- ⤴ The guarantee itself has served its purpose, it has given the financial institutions confidence in working with the urban environment sector.
- ⤴ The scheme has now been operational for a number of years. Defaults have been minimal.
- ⤴ It has taken over one year to set it up (excluding the study), practically due to the fact that two contracts needed to be drawn up and there was a time loss encountered in translation.
- ⤴ The MSMEs shy away from going into debt or from innovation since they are afraid that the investment will not be recovered over time, hence the number of takers is relatively low.
- ⤴ The increased confidence of the financial sector became apparent after one year. The guarantee scheme itself was modified after only one year of operation. Initially the WVF guaranteed 50% of the loan, FODEMIPYME 25% and the beneficiary 25%. After one year this was changed to WVF 25%, FODEMIPYME 50% and the beneficiary 25%.
- ⤴ In 2008 another modification was made, in which the technical partner (ACEPESA) would be entitled to 10% of interest on the deposit for their work. This was proposed initially but not found acceptable at that time (and also not that needed as ACEPESA could get its work paid for out of the then ISSUE programme.
- ⤴ Lending to the water and sanitation sector will continue even when the guarantee scheme ends, as it is one of the key social interventions areas for the BANCO POPULAR and FODEMIPYME.
- ⤴ The main drawback of the scheme has been the limited number of takers. Since the Costa Rica financial sector no longer needed the funds from WVF, it was attempted to transfer funds elsewhere (Nicaragua), yet for legal reasons this was not feasible.
- ⤴ So as an alternative strategy to increase the number of takers, the target group has now been expanded to one of the larger economic sectors, coffee.
- ⤴ Most new applicants are micro-processing plants for coffee, a process carried out by small producers where multiple benefits are obtained such as better prices, lower use of fossil fuels, organic waste is produced that can be reused on the farms and 90% less water is used than for a traditional process.

3. Mali

The Waste Venture Fund objective in Mali was to support durable solutions to sanitation funding problems towards:

- the emergency of an real dynamic entrepreneurship around sanitation management,
- the reduction of foreign grants part on behalf of local resources raising to assure a permanent sanitation financing.

The establishment of WVF in Mali has been a participatory process in four stages:

3.1) Preparatory phase: Study on small and medium enterprises funding opportunities in sanitation sector in Bamako and Segou,

3.2) Funding institution selection by ALPHALOG, CVECA (Self Managed Village Savings and Credit Bank) was selected as financial partner

3.3) Development of sanitation related financial products

3.4) Monitoring of funds

3.1 Preparatory phase

A basic diagnostic study on the financial sector (banking and micro-finance) and sanitation sector financing opportunities was conducted in Bamako and Segou in order to determine:

- The experiences of financial institutions in sanitation funding
- The available financial products
- Partnership possibilities with the interested financial institutions

ALPHALOG participated in the study to better understand the sanitation financing questions. Also it helped it to underline or motivate the choice of the partner financial institution, the development of selection criteria (partnership conditions, coverage and representation of the network) as well as the type of financial instrument to be selected.

3.2 Financial instrument description

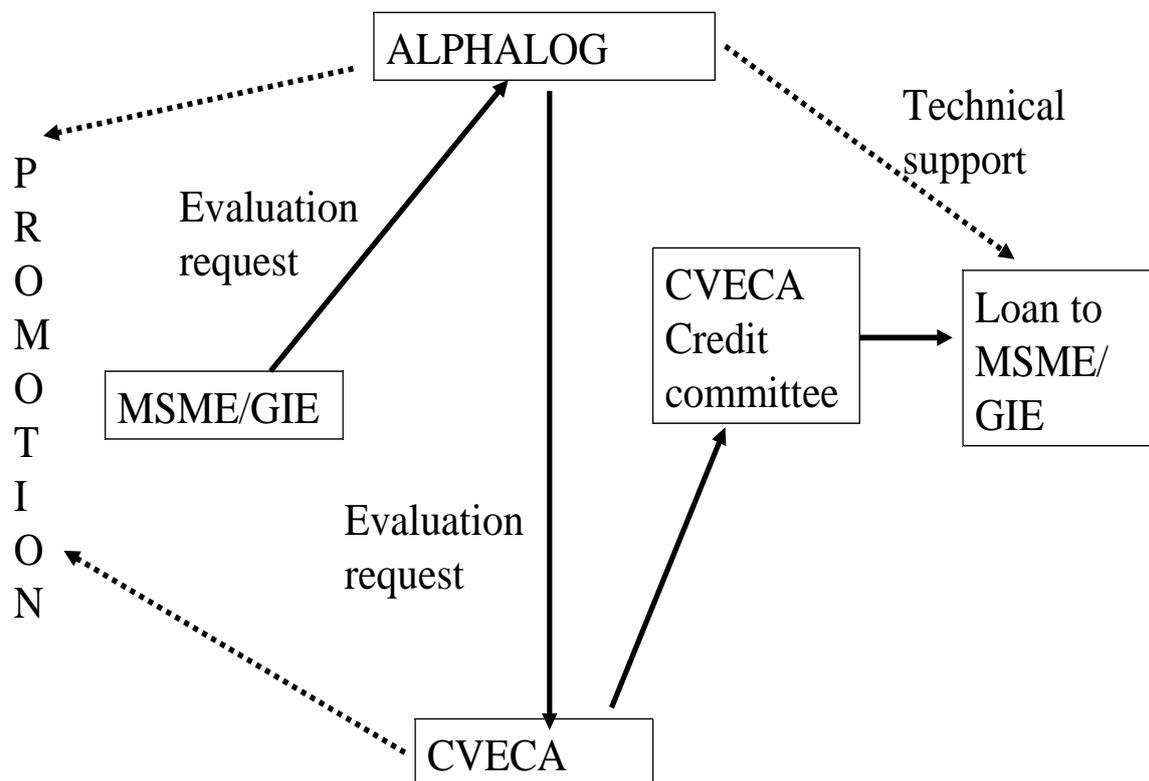
It was decided to opt for a guarantee mechanism. As a first step an agreement (protocol) was signed with the parties selected. The selected party (CVECA) was to put up 60% of the guarantee, the WVF 30% and the beneficiary 10%.

The agreement specified all the roles of the different organisations; the conditions and modalities of functioning of the WVF, and the rules and responsibilities of interested beneficiaries. The agreement was duly signed by CVECA and ALPHALOG, the WVF contained FCFA 24 million (Euro 36,580).

Beneficiaries needed to have a bankable project in sanitation domain; their organisation needed to be legally constituted, (geographically) operational in the area of Niono and needed to have an account in CVECA

3.3 Application process

Loan request to be addressed to ALPHALOG or CVECA. Loan request should detail the project, the administrative aspects and the amount requested for. The application process is depicted below.



- Study of the loan request by ALPHALOG
- If positive ALPHALOG passes it on to CVECA
- If positively evaluated, approval of CVECA credit committee
- Lastly financing of project

3.4 Scheme details

As a first step two financial products were established; short term and middle term sanitation credit.

The scheme was advertised via series of meetings between concerned actors (CVECA, ALPHALOG, beneficiaries). These meetings followed a clear sequential path: In the first meeting: expressing financing needs by beneficiaries, presentation of financial products by CVECA. In the next meeting(s): negotiation between parties on types and specifications of sanitation financial product.

Characteristics of the two financial products

Short Term Sanitation loan	Mid Term Sanitation loan
Amount : 100.000 FCFA to 1.000.000 FCFA (Euro 152 to 1,524) Prior condition beneficiary needs to have an account at saving bank (25,000 FCFA or Euro 38) 10% personal contribution Admin fee: 500 FCFA (Euro 0,76) 2% monthly interest Duration: maximum 12 months Monthly instalments Late repayment: 1% day penalty during 15 days	Amount : FCFA 500,000 to 3,000,000 (Euro 762 to 4,573) Prior condition beneficiary needs to have an account at saving bank (25,000 FCFA or Euro 38) 10% personal contribution Admin fee: 2,000 FCFA (Euro 3,05) 1,5% monthly interest, Duration: maximum 2-3 years Late repayment:1% for day penalty during 15 days

CVECA tracks the beneficiaries financially (refunding, loan management); technical support by ALPHALOG. Meetings between ALPHALOG and CVECA are regular.

3.5 Results

Study on financing possibilities of small and middle enterprises in the domain of sanitation in Bamako and Segou

Signed agreement with CVECA (financial partner)

Establishment of two financial products

Funding of four sanitation project by three GIE promoters. All projects concern equipment for collection of sewage

Total loan volume Euro 12,150

Constraints encountered; levelling of loans to FCFA 3,000,000 (Euro 5,504)

Non existence of long term financial product

Monthly repayment constraint for beneficiaries (cyclical collection by GIEs)

Interest rate is high according to beneficiaries (GIEs)

3.6 Lessons learned and future plans

Involvement of all the actors in the process of developing financial products was considered a success factor. Interest of different partners in sanitation (CVECA, ALPHOLOG, GIE) can be capitalised upon for instance in being more flexible in adapting internal processes. Yet more frequent interaction would be beneficial.

The fact that the city council offers as of yet no support can influence the mechanism negatively. By law they need to monitor sanitation laws and to prevent illegal operators from operating. This unfair competition can thus negatively influences the licensed GIEs' incomes.

Small loan size, short duration coupled with simple application process motivates GIEs. The possibility to take short term loan is seen an apprenticeship to manage the mid term loan. Regular repayment facilitates access to new credit. Their knowledge is the best non financial guarantee.

Existence of support structure facilitates refunding. Yet there has not been a mechanism to cater to the technical (ALPHALOG) / financial (CVEC) support services financially.

Proper execution gave confidence to all the partners, particularly CVECA.

Beneficiaries have been trained technically, yet much less in business planning, marketing, project management, legislation and finance.

Recommendations

The interest earned on the fixed deposit should be allocated to pay for ALPHALOG's technical services. Also part of the interest earned could be allocated for CVECA's financial and business support.

There is a need to expand the clientèle basis by including new types of clients, such as women sanitation groups, geographical expansion (into the Segou zone) and development of different financial products. These could be ranging from long term products to interest differential and linking it to different financial products (credit fund).

Lastly it would be highly recommended if the WVF approach could be followed throughout and result in a harmonization of approaches and funding mechanisms of different interventions in Segou region

Chapter 4. Kenya

The Waste Venture Fund objective in Kenya was to support durable solutions to sanitation funding. For this the involvement of the local financial sector was considered essential.

4.1 Preparation phase

A market demand assessment was carried concurrently together with the assessment of financial institutions in Nakuru that would be best suited to administer Waste Venture Funds (WVF) for purposes of providing guaranteed credit loans for hardware investments in waste management and sanitation activities.

Generally, lack of tangible collateral securities by informal sector operators in waste management and sanitation in Nakuru was found to be a major hindrance towards accessing loans in mainstream banks. It is a common practice amongst many MSME not to channel all income to a bank account, yet the banks want to see this traceability to assess bankability status. However, this does not mean most MSME are not bankable.

Many MSMEs in the sector show positive financial results. They also desire to access bank loans for investments as long as the lending terms are favorable to them at their level – that is, (a) loan interest rate at one digit level (below market rate), (b) flexible repayment terms and (c) innovative ways of assessing collateral out of the assets they possess. In the latter case, for instance, a landlord who owns a residential plot with 30 tenant households each paying USD 12.00 per month should be considered bankable if he requires a loan to improve sanitation facilities for his household tenants, even if he does not have an active bank account. Taking this example into account there are enough MSMEs working formally in the W&S sector in the country to attract financial institutions (FIs).

The next step was to select the FI in Nakuru. WASTE's partner Practical Action commissioned an assessment study of FIs in Nakuru. The report proposed one of the FIs operating in Nakuru for consideration to administer WVF.

Based on the three client criteria above Family Finance (now Family Bank) was the most appropriate FI in Nakuru then. It was the FI most willing to consider (a), i.e. to adjust interest rate downwards from market rates to 10% annually on reducing balance, presence in Nakuru was remarkable and well established. Also it was willing to extend loans to a completely new sector (urban sanitation and waste management) which was not considered as potential by main line banks. Other FIs that were considered were Equity Finance (now Equity Bank), Kenya Rural Enterprise Programme (K-REP), among others.

Apart from the study (reflecting FI stability), no separate financial assessment of the FI was done, though local partner's management did a cross check on the FI.

4.2 Financial instrument description

It was decided based on the above studies to opt for a guarantee mechanism. The contract was signed by Practical Action working in Eastern Africa and Family Bank in Kenya (Nakuru Finance House Branch). WASTE Netherlands has a contract with Practical Action for WVF through ISSUE 1 contract. As per article 11 of the contract between Practical Action and Family Bank, the duration of the agreement is pecked at 5 years from the date of signing the contract (30th March 2007). However this is subject to extension by the two parties but the extension need to be done three months before expiry of the contract period.

Their main roles are outlined below.

Family Bank²:

- ⤴ Generally management of the WVF (Euros: 67,480.00) on behalf of Nakuru ISSUE Consortium
- ⤴ Establish a loan portfolio for the MSME sector – the bank was to entertain loan applicants against a minimum 50% guarantee from own resources and a maximum of 50% to be guaranteed by Waste Venture Fund.
- ⤴ Assess and provide guaranteed loans to MSME in Nakuru in line with ISSUE programme objectives
- ⤴ Market the product to the target MSME together with other products.
- ⤴ Make reports to Practical Action on the progress of the WVF operation
- ⤴ Within Nakuru, credit manager at finance house branch is in charge, at head office level, Credit Manager at the Family Bank in Nairobi. Is in charge

Practical Action

- ⤴ Creating awareness in the field to potential clients through social marketing activities
- ⤴ Technical advice for clients in their various information needs – waste management enterprises, sanitation; yet there is no specific technical component s of yet
- ⤴ Introduction and linkages of potential clients to Family Bank and Municipal Council of Nakuru for appropriate support as per the clients proposal.
- ⤴ Sits in the management committees of the WVF - operation matters as well as in loans approval forums.
- ⤴ Monitoring the funded clients for proper usage of the funds in the target areas in line with WVF objectives.

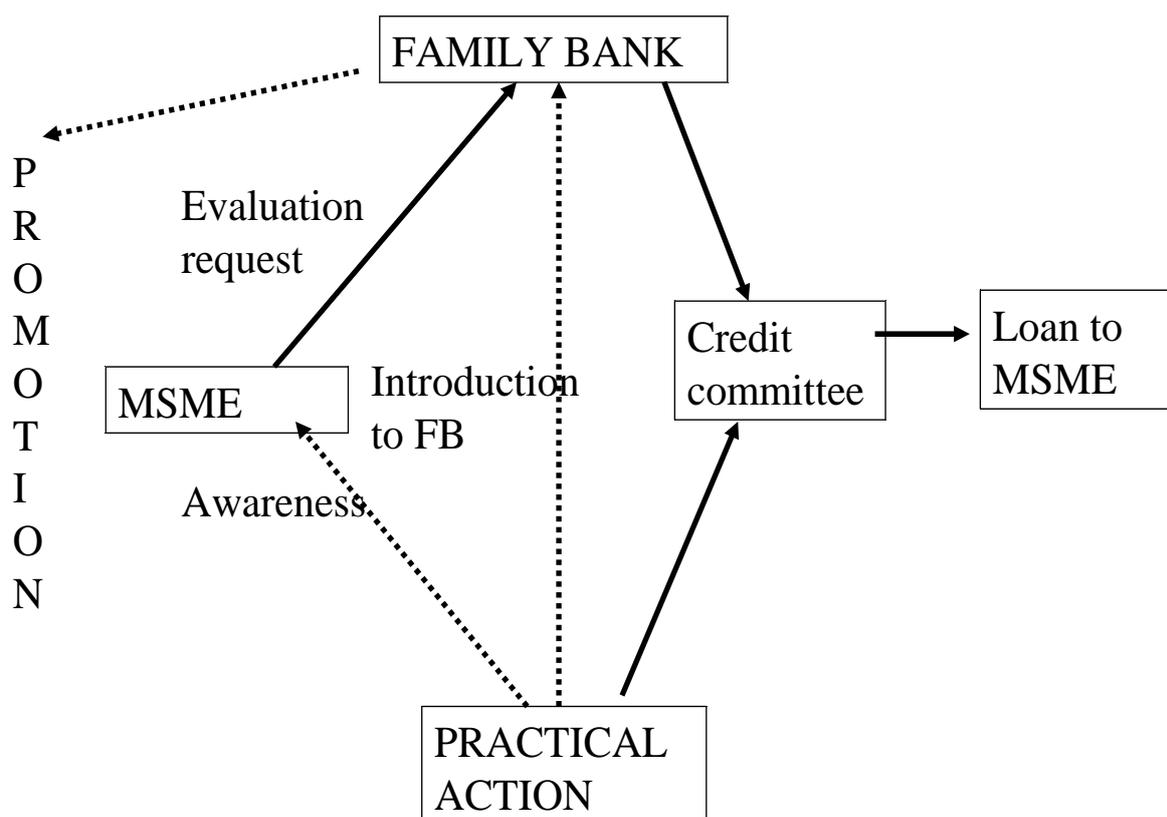
WASTE

- ⤴ Commissioned and reviewed the study
- ⤴ Draft agreement with FI, review of various drafts, review of reports
- ⤴ The money was transferred to Practical Action together with other ISSUE 1 funds. Then Practical Action transferred the WVF as guarantee funds to Family Bank upon signing the MOU to administer it and extent loans for hardware investments in waste and sanitation enterprises in Nakuru.

2 The FI is officially called Family Bank Co Limited – a locally registered banking institution in Kenya whose operations are governed by banking regulation of the Central Bank of Kenya. It started as Family Finance financial institution in Kenya in 1984. Since then, the institution has been lending business loans to MSME sector clients in Kenya. Family Bank aims to be the premier bank in Kenya offering micro enterprise loans. This fits in well with WASTE and Practical Action objectives of providing a sustainable financing framework for micro enterprises – especially in sanitation and waste management. Thus micro enterprises are a major target by Family Bank. It also provides all types of personal loans (for various purposes) and business loans to clients.

4.3 Application process

First, Practical Action carries out sanitation social marketing in the field – that is, creating awareness for the financing opportunities for those willing to improve sanitation facilities and do other waste management investments. Second, those willing to access the funds approach Practical Action office for further information, advice and support. Thirdly, they are introduced to the Family Bank to present their simple proposal for WVF loans – the bank then conducts the bankability assessment to the client and if successful, the loan is provided. The operation of the scheme is depicted below.



4.4 Scheme details

Salient features of the scheme are presented in tabular form below.

Preparation period	Two – three years
Starting date	2007
Contract period	Indefinite
Type	Guarantee scheme

Guarantee distribution	Loans are backed by a 50% WVF guarantee while the bank caters for the other 50%. This in case of a total default by a client which subject to the bank having followed all due diligence procedure in assessing and approving the loan.
Awareness clients	The clients are aware of the guarantee provided by WVF as Practical Action together with the Family Bank has carried out a lot of awareness campaigns. Developed and produced marketing posters and brochures to market the product in Nakuru.
Interest rate	Interest rate currently is 9% per annum on reducing balance. It's lower than the market rate which stands on average (January 2011) at 17% annually.
Application fee	No loan processing fees charged to clients for WVF loans.
Who manages WVF	Overall administration and book keeping records is done by Family Bank using their systems. The interest on the deposit in the family bank has not been earmarked other than an admin fee to Family Bank.
Technical services	No specific technical services are included
Exit strategy	The contract include an exit strategy and repayment procedure for the remaining funds as this calls for a review of the MOU.
Credit committee	Both family Bank and Practical Action are in the credit committee with voting rights.
New products	This has been suggested severally during ISSUE 2 District Consortium quarterly meetings as well as during WVF management committees. The bank has been positive about the issue.
MSME tracking	In case of (total) default, Family Bank is to notify Practical Action officially. Then the management committee of the WVF meets to deliberate of the subject matter and suggest possible recommendations for recovery of the funds from clients. However, as a last alternative, the amount due is to be split 50% from the guarantee fund and 50% from Family Bank.
Target groups	WVF loans are for only hardware investments in sanitation and waste management enterprises in Nakuru. Financing outside this area is done by the Banks other non – guaranteed loan products.
Targets	Not specified, demand for the loans has been rising overtime – for those who finally qualify plus those who do not.

No specific training of the staff that serves the W&S sector was done initially. Later on this was considered.

Terms and conditions for WVF lending including purpose is well spelt out in the MOU.

Risk management procedures include loan ceilings. Generally, accessible loans range from Ksh. 10,000 – 300,000 (which can be handled from Nakuru Family Bank branch level. However, any amount above this can be processed but must be vetted first at Management committee of the WVF for approval or otherwise.

Family Bank reports to Practical Action and then Practical Action to WASTE Netherlands. Yet there is no penalty system for non-respect of reporting duties.

4.5 Results

Over 40 clients have received WVF loans.

Out of these 5 are waste management enterprises totaling Ksh. 1,500,000 (€ 15,000)

35 are sanitation improvement loans for households totaling Ksh. 4,606,000.00 (€ 46,060).

By end of 2010, total of Ksh. 6,106,000 (€ 61,060) loans had been disbursed since inception.

Average total outstanding loan amount as at December 2010 is Ksh. 2,692,832 (€ 26,928).

There were 5 others whose application went through but they declined to take the loans following instability that occasioned Kenya due to political instability in early 2008.

Default, so far one client, total loan balance of around Ksh. 320,000 (€ 3,200). She was one of the post election violence victim in Kenya in 2008.

4.6 Lessons learned and future plans

The scheme can be considered successful as the Family Bank is interested to continue and more and more applications for loans are being received.

Lending to the W&S sector when the guarantee scheme is terminated will continue as this is a sustainable way of financing investments. However, there is need to negotiate with the FI for the continuation in the absence of the guarantee scheme, as it will lead to a rise of the lending interest rate by the bank. The amount of the rise will determine if it is a viable business product.

There were no prior experiences to borrow from. Hence all parties started from scratch. For instance, if the NGO dominates awareness creation/marketing campaigns of the loan scheme rather than the bank, then there is a tendency for community to think that the financing scheme is NGO's money – leading to repayment hitches.

The high FI staff turn-over result in time lag for every new team to learn the operational processes of the scheme.

The major drawback is that the scheme was a bit unprofitable to the Family Bank in terms of returns compared to normal loans at market rates. This caused some apparent sluggishness in the implementation of the fund among the officers. It may be investigated if the admin fee (interest earned on fixed deposit) should be increased so as to make the fund compete with other loan schemes of the Family Bank.

Initially there were no readily available technical designs and allied costing to support the clients with and helping assessing how much loans to give. It took more time designing this for each client initially.

Local artisans initially didn't have proper construction skills for sanitation facilities. ISSUE 2 project had to build their capacity to strengthen their construction skills under the capacity building objective.

There was little knowledge on the operation and management of the ecological sanitation facilities which was a new technology to both artisans and household users. We had to rely initially to a partner's project (ROSA) for communities to learn from pilot facilities before people could accept to take loans to construct them.

A lot of awareness campaigns selling the health and economic benefits was needed initially to convince landowners to invest in improved sanitation for their household clients. This was because plot based sanitation facilities doesn't generate direct income per se to the landlords.

The technical support services are not mentioned separately, nor is any arrangement made for paying for these (e.g. out of the interest earned on the fixed deposit or via successor fee payable by the respective MSME)

Chapter 5. India - Musiri

Objective: The Waste Ventures Fund (WVF) was sanctioned under the ISSUE Programme with the primary aim of promoting entrepreneurs to set up industrial or business ventures to promote sustainable sanitation by providing basic requirement toilet (hardware).

5.1 Preparation phase

Based on more than 15 years of practical experiences, SCOPE found that getting finance for sanitation projects was very necessary for the construction of the toilets.

The bankers in Musiri were sceptical about the idea of advancing loans for the toilets or sanitation related activities. Sanitation was of low priority not only to the bank but also to the householders as it does not give direct returns though it has many long term invisible returns.

It required sustained motivation of householders, entrepreneurs, government officials, political representatives and NGOs for changing the cultural habits of the people. SCOPE which was creating awareness on toilets for the householders had found that many of them were ready to construct toilets, but had no funds. In this context SCOPE persuaded the entrepreneurs already in the field to take up fabrication of UDDT pans (both ceramic and fibreglass) and hollow blocks (for toilet construction).

Similarly self help groups, typically groups of some 10-15 women (quite popular in (Southern) India), are also willing to take sanitation loans. Based on the NGO's assessment, demand is large enough to attract financial institutions (FIs), provided intensive awareness campaign about sanitation are launched beforehand.

SCOPE was already working with WASTE in sanitation promotion and particularly ecological sanitation. SCOPE also worked closely with urban local bodies, government, NGOs, financial institutions, funding agencies in the field of water & sanitation.

5.2 Financial instrument

The idea to get a financial party directly involved, so as to open up the urban environmental sector to the the financial sector, was not quite understood by the local partner.

Instead it suggested an alternative hybrid arrangement, that would facilitate and support implementation in the long term and would thus be sustainable in a different manner. The WVF was deposited in the bank (local branch of the Indian Bank), and the Indian Bank keeping the amount as guarantee advanced loans to entrepreneurs, SHGs and individuals. After some hesitation this was accepted by WASTE. Therefore the parties to the contract are only two, yet SCOPE works with the local branch of the Indian bank, who do not feature in the contract.

WASTE transferred the funds (Euro 40,000) in 2006, it also gave guidance and MOU drafting SCOPE, a registered Trust since 1986, has the following roles: Distribution of loans, accounts, reporting, supervision.

SCOPE is the first stop for the MSME to present his/her project. SCOPE will technically evaluate and recommend or not and uses its deposit as an external guarantee for the MSME to draw a loan amount from the Indian bank.

An agreement has been made reached SCOPE and Indian Bank with a duration of 3 years, only a Tamil version exists. MSMEs are made aware of the scheme, the conditions for different MSMEs are similar, i.e. interest rate 10% (below market rate). There is no registration or fund activation fee.

It is not known but rather likely that the Indian Bank funding is refinanced by the National Bank for Agriculture and Rural Development (NABARD) as part of the SHG – bank linkage programme. This refinancing is at low interest rates (hovering around 7%).

Indian Bank used the WVF deposits and the likely NABARD refinance to provide loans directly to SHGs to help them pay their contribution for toilet construction.

Extending loans to SHG became necessary as the prices of building materials increased substantially. This rise in cost resulted in the costs of all models of toilets increasing. For example cost of UDDT rose from Rs. 4,500 to Rs.10,000. Many families were not able to pay their contribution (Ranging from Rs.1,300 to Rs.7,800). The Government incentive for any form of toilet was only 2200. The Indian Bank advanced 60 loans to SHGs and to 145 individuals. Their repayment was very good.

Seeing the success of the Indian Bank in the field other financial institutions like HDFC, IOB and State Bank of India extended total amount of Rs.81 Lakhs of which 78 lakhs already repaid by the SHGs and individuals. A total of 1215 toilets have been constructed in Musiri District.

5.3 Application process

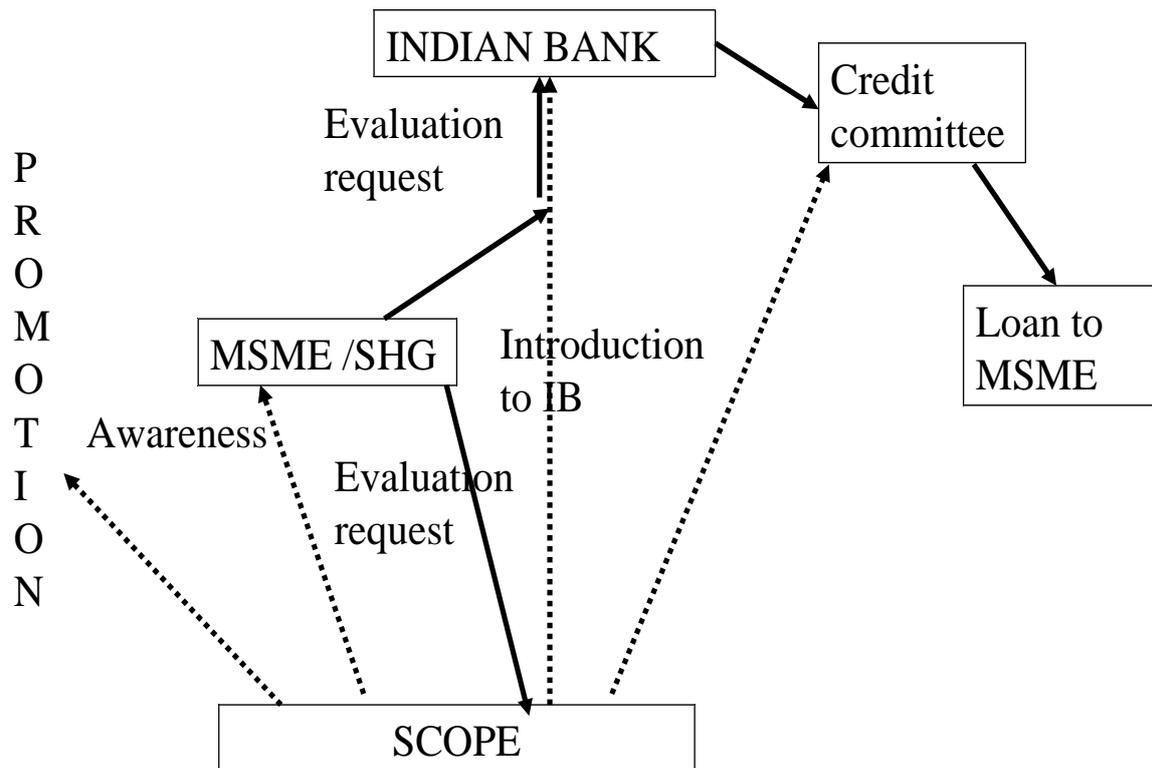
SCOPE is the first stop for the MSME to present his/her project.

SCOPE will technically evaluate and recommend or not.

The Indian Bank will evaluate creditworthiness of the clients. The loan officer takes into account total income and expenditure of the family. Along with considering the housing standard and details of properties, the loan officer will look into the genuineness of the applicant; check whether she/ he is in the SHG/ Youth club; already availed loan and repaid it; whether she is capable of repaying the loan; study the source of income and their expenditure and their savings; assess their capacity to repay the loan; able to contribute some amount towards construction (sanitation capacity); no defaulter of any Bank / NGO

The Indian Bank in case of MSMEs or individual sanitation loans uses the WVF deposit as an external guarantee.

The application process is depicted graphically below.



5.4 Scheme details

The scheme specifies interest rate (maximum 10%). In terms of risk management there are ceilings for different categories. There is a maximum loan amount of INR 200,000 (Euro 3,570) per SHG (group consisting of 15 to 20 members). Maximum loan amount for enterprises is INR 500,000 (Euro 8,928).

The Indian Bank reports half yearly and this and the contract includes a penalty for non-observance.

Salient features of the scheme are presented in tabular form below.

Preparation period	Unknown
Starting date	2006
Contract period	Indefinite
Type	Hybrid scheme
Distribution	For MSMEs WVF deposit as first loss guarantee; for SHG deposit as multiplying factor

Awareness clients	Actively promoted through SCOPE; MSMEs are promoted through SCOPE in support of its sanitation drive. The scheme is advertised to the beneficiaries.
Interest rate	Below market rate
Application fee	None
Who manages WVF	SCOPE. It collects the interest (Euro 3,222 till date).
Technical services	SCOPE
Exit strategy	The exit strategy is to use the remaining funds for further construction of toilets in the coming years.
Credit committee	Indian Bank. SCOPE is a member (observer) of the credit committee.
New products	One new product that was developed was the financial package in support of a bio-gas linked toilet. Several new tools were developed specifically for the WVF: MoU and contract, analysis methodology, fund transfer procedures, client visit guidelines, studies etc. In addition some work required specific attention: awareness raising, biogas linked toilet through the District Rural Development etc.
MSME tracking	Indian Bank monitors loan repayment. In case any default the Indian Bank will send notice to the beneficiary. SCOPE monitors in more general terms the loan repayment (No Default).
Target group	Sanitation in specific geographical area (Musiri)
Targets	Not specified

SCOPE (Turnover Euro 160,000) previously did most of the sanitation work itself. Now it has parceled off several activities to MSMEs such as production of hollow blocks, production of construction materials for toilets (mosaic pans, cement pans, P-traps) and construction of toilets.

5.5 Results

120 loan applications were received; out of which 110 were approved; and 94 disbursed. Majority of loans was for Self Help groups (92) and 2 for MSMEs in sanitation. Segmented differently 65 loans were for sanitation and 29 for hygiene. The average total loan amount outstanding is INR 4,250 (Euro 75). There were no defaults till date.

The majority of the funding, however, was directly used for its intended purpose as can be seen below.

Subject	WVF beneficiary parties	Outcome (do they overlap) YES	Loan (Euros)	Repayment rate %	Interest rate%	Amount in bank for continuation activities 31-12-2010 (Euro)
Construction Individual Household toilets	145 individual houses + 81 SHGs with 1215 owners	1360 toilets	135000	100%	10%	29000
Production of hollow blocks	Mr. Muthukumaran	2005 toilet materials	8200	100.00%	10%	NA
Production of hollow blocks 2 nd unit	Deva Cement Works	2,700 toilet materials	5000	100%	10%	NA
Total			148200			29000

In pursuit of sanitation SCOPE also used the WVF for grant support for 4 different projects (a total of Euro 10,475 for UDDT pans (ceramic (small scale and large scale) and fibreglass and agricultural research).

5.6 Lessons learned and recommendations

1. The scheme is considered partially successful, as it is not yet clear if the Indian Bank is interested to continue this scheme, particularly the MSME loan support if no fixed deposit exists. Also their role in the entire process is somewhat limited.
2. It will be extremely difficult to replicate this experience elsewhere due to the omnipresence / overriding role of the NGO.
3. Getting loans from the banks for water & sanitation is very difficult. SCOPE has taken a lot of efforts, so that the bankers have agreed to sanction the loans.
4. A new product was developed, a special scheme for Toilet linked Bio gas through District Rural Development agency
5. Also on the demand side, SCOPE has to educate and convince the people to construct toilet and use it, as sanitation is a low priority sector for them.

6. Getting government subsidy is difficult as they have several norms and procedures. It takes long time and the people lose interest.
7. New Training for loan officers: Training to the staff on credit system was conducted by inviting resource persons every six months. The Loan officers and other workers will attend the training. Key functionaries underwent training in reputed revolving loan fund (WVF) organizations. The intensive training covered criteria of genuine beneficiaries, collection of application, processing it, recommending for loan, monitoring the construction, putting it in usage, follow-up, repayment etc.
8. Exposure visits were arranged to best practice models, so far, on water and sanitation with the WVF. So that they can understand the procedure to be followed and the challenges/ difficulties faced while implementing and how to overcome it.
9. Providing technical backup guidance and provision of MIS and capacity training to the staff members helped to improve the work. The training helped the staff team involved in this program acquiring adequate skills to develop own report generations and appropriate documentation. Monthly Loan Tracking Formats were made familiar. SCOPE developed and maintained borrower-wise and loan product-wise information.
10. The WVF will be slowly depleted as the Loan Revolving Fund diminishes over time (not inflated corrected). It would have resulted in a substantial number of toilets having been constructed. If SCOPE's services can be paid only out of the interest generated on the fixed deposit, it is an innovative manner of achieving sanitation numbers with relatively low grant amounts.
11. It is recommended to replicate and upscale the Indian Bank support scheme to MSMEs to different areas and new sectors.

Chapter 6. Summary, conclusions and recommendations

The conclusions from the four cases, Costa Rica, Mali, Kenya and India have been presented in tabular form below.

- I) The main conclusion is that WVF has been successful in so far as it has convinced financial institutions to get involved in the small scale urban environment sector. The urban environment sector often being informal, unrecognised, unregulated, under-capitalised and in all cases unfamiliar has simply not been on the radar screen of local financial institutions. This sector was prior to WVF pretty much a no-go area for financial institutions and this change has been the major achievement.
- II) Urban environment MSMEs often generate substantial cash flows and have need for a financial institutions that can offer cash transaction support services. The WVF has involved financial institutions and they have gained practical experience in working with the sector. We can safely say that without the WVF this experience would not have been gained.
- III) At the same time we recognise the shortcomings in the WVF as it has been implemented. First and foremost setting limitations on its use, both sector-wise and geographically, has restricted the number of borrowers. Those that have been built up the confidence are encouraged to expand both geographically or sector-wise provided the environmental / social angle remains intact.
- IV) WASTE should have issued clear guidelines and criteria. For instance WASTE should have insisted on a local study for demand and supply and provided a draft ToR to all partners. Also financial templates for reporting should have been provided too to our NGO partners.
- V) There has been lack of training offered. This should have been offered as part of the package. Our local partners should all have been on the same wavelength, thus again WASTE could and should have been more actively involved, should have steered the process more clearly.
- VI) At the same time there is a limit to steering from the outside. One should not lose its partners in the process, and since it is a learning curve, one should allow all time to learn for the partners involved as the case of Costa Rica clearly shows, whereby after one year the guarantee coverage of WVF was reduced by half and again two years later the interest on the fixed deposit was used to provide technical services. This was presented on the outset, but partners were not ready for it at that time, and needed to gain practical experiences before accepting this.
- VII) The contracts or agreements should minimally describe an expansion and / or contingency plan. If after a given time period the number of loan applications has been x, the defaults y, then the partners should do z.
- VIII) Though for administrative / policy reasons none of the contracts had a proper exit strategy, it may be discussed with the donor beforehand, if this could be tackled differently.

Country	Costa Rica	India	Kenya	Mali
WASTE's partner	ACEPESA	SCOPE	Practical Action	ALPHALOG
Type of partner	NGO	NGO	INGO	NGO
Financial partner	Banco Popular	Indian Bank	Family Bank	CVECA-ON
Type of financial partner	Listed Bank	Government Owned Bank	Housing finance co.	Credit cooperative
Other partners	FODEMIPYME			
Type of partner	National guarantee scheme			
Preparation time	1 -2 years	2 years	2- 3 years	2 years
Starting date	2004	2006	2007	2006
Market demand study done	yes	no	yes	yes
Market supply study done	yes	no	yes	yes
Bottlenecks demand	Mismatch	Awareness	Interest rate	No product available
Bottlenecks supply	No market potential seen & legal	No market potential seen	No market potential seen	No market potential seen
Non-financial interventions	Legal modifications + techn/ soc assessment by partner	TA SCOPE; Awareness SCOPE	Promotion scheme PA/FB; awareness creation PA	TA ALPHALOG
Type of financial instrument selected	guarantee	hybrid	guarantee	guarantee
Amount	Euro 84,000	Euro 40,000	Euro 77,000	Euro 35,580
Main intervention strategy	Promotional; TA; Fin. assessment:	Promotional: TA	Promotional;;Low interest	Promotional; TA
Date + result	18 loans (no defaults)	110 loans approved; 94 disbursed, 2 MSME; no defaults	40 loans, 5 MSME waste mgt; 35 san impr loans. 1 default (post-election violence)	4 loans (no default)
Interest	Below market rate	Below market	Below market	Below market
Short conclusion	Positive: bank has taken over; small market – need to expand into different areas (coffee market)	Mixed; FI is not at core and thus difficult to replicate, yet some activities sustainable	Positive; FI involved, demand growth, support costs may need to be modified	Positive, FI is involved, demand to expand (areas, target groups and products)
Recommendation	Expansion into new sectors (coffee) including WW treatment	Restrict use of grants; leverage funds against deposits to be explored. MSME increase to be explored	Need to expand, support cost structure to be derived at.	Need to expand to more clients, new areas, and increased products. Support cost structure to be derived at.

- IX) The key outcome of **getting the financial sector involved in urban environment** should have been the guiding principle, not maximising counterpart contributions (which allegedly was an important objective too).
- X) WASTE believes that with the said experiences we should be quite ready and prepared to implement similar kind of mechanisms elsewhere more efficiently.
- XI) Additionally the experiences and lessons learned of the WVF have been replicated in new areas and new countries. Some of these experiences are so recent that we can not yet report on results. Additionally some concepts on local financing are still under development / negotiation. If these will be put into practice and together with results of the other experiments come in we shall report on those in an update.
- XII) We believe it is quite important to emphasise that these avenues can be seen as cross roads as well, which direction or role do financial institutions see for themselves, what role can an intermediary as WASTE play herein, what will be the role of international financial institutions and last but not least what will be the role of development cooperation in this.
- XIII) As we are dealing with changing behaviours in the financial world and by nature bankers are conservative³, we are talking about a change process that takes time. We believe that opportunities exist yet we fully realise that we cannot expect changes overnight. In the update of the WVF (December 2011) we shall feature some of the more recent experiences.

3 I for one, would not like to bank with a very innovative and risk taking banker.