

The Challenge Fund

Pioneering a revenue-based financing model for small-scale water providers in Kenya

Aqua for All, with Family Bank, Sidian Bank and private sector service providers in Kenya have designed a Challenge Fund which will enhance creditworthiness for small water infrastructure projects to expand and improve water services especially in peri urban and rural areas. The Fund features a “revenue-based loan financing” solution, to address the lack of collateral which has been a major hurdle in the water sector.

There are over 20,000 small, piped water operators and point sources in the Kenyan market, of which 7,000 are small community-based systems. However, unlike public water service providers that receive funding for infrastructure expansion and improvement, these small-scale water providers (SSWPs) are often short of capital, which limits their ability to provide reliable services and expand their coverage.



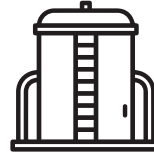
The Context

Are you aware that in Kenya, only 26.3 million out of the total national population of 48.4 million live within the service areas of regulated water service providers? (WASREB Impact Report 14). A large share of this unserved population lives in peri-urban and rural areas and largely rely on small-scale water providers.



Who can apply?

- Community water projects with piped water systems
- Women and Youth WASH enterprises with piped water systems
- Private water projects serving the community with piped water systems
- Registered as a Society/ Water User Association (WUA) by the registrar of societies, a Trust or Company with piped water systems
- SSWPs located in Kajiado, Kiambu, Machakos, Makueni, Nairobi, and Nakuru counties.



Which investment projects are eligible?

- Household and water kiosk connections
- Moveable assets such as pipes, fittings, meters, and pumps
- Smart technologies like smart metering, sensors
- Pipeline extensions and storage tanks
- Repairs or upgrades of pumping capacity
- Source development (excluding boreholes)
- Solar system installations.

The financing gap and viable investment opportunity

A recent study commissioned by Aqua for All revealed that the small-scale water provider market in Kenya presents a viable investment opportunity for domestic lenders to contribute to the goal of universal access. According to the study, about 52.6% of the surveyed small-scale water providers in Nairobi, Nakuru, Makueni, Machakos, Kajiado and Kiambu counties need financing, valued at more than KES 1.4 billion (€ 11 million). However, barriers such as inadequate licensing frameworks and the absence of bank-worthy collateral limit their ability to access.

Aqua for All, with local commercial banks and private sector service providers in Kenya have designed a Challenge Fund which will enhance creditworthiness for small water infrastructure projects to expand and improve water services especially in peri urban and rural areas. The Fund features a “revenue-based loan financing” solution, to address the lack of collateral which has been a major hurdle in the water sector.

By investing in small-scale water providers, we can bridge the access gap to clean and reliable water supply in Kenya and contribute towards achieving the SDG 6 (6.1) goal of universal access.



Components of the Challenge Fund

The Challenge Fund provides technical assistance and innovative financing to SSWPs in peri-urban and rural areas across six counties, to expand and improve water services.

How it works:

A. Technical Assistance: Expert Support for Water Providers and Lenders

1 Component 1 - A Strong Regulatory Framework

A supportive regulatory environment is essential for private investment in the water sector. The Fund will work with the Water Services Regulatory Board (WASREB), county governments, and the Water Resources Authority to explore and design a delegated service provision agreement for small, piped operators in peri-urban and rural areas of Kenya.

2 Component 2 - Transaction Advisory

Many SSWPs lack the capacity to develop investment projects that can attract commercial financing, while lenders may not fully understand their operations. The Fund will provide technical assistance to help both parties identify/ develop investable projects and facilitate an efficient loan application process via a new digital platform - [FundMyWater](#).

B. Blended Structure: Innovative Finance Solutions for SSWPs

3 Component 3 - De-risking Lending via FundMyWater E-platform

The FundMyWater platform will ringfence SSWP revenues, integrating their operations with lender systems for real-time debt service settlements and monitoring of operations and impact. This digital platform will provide an online deal platform for lenders to connect with a pool of SSWPs and transact efficiently with the technical assistance of pre-qualified transaction advisors.

4 Component 4 - Financing SSWPs Based on Cashflows

Working with Family Bank and Sidian Bank, the Fund will roll out a new revenue-based model for SSWPs based on cashflows. SSWPs will be able to pay back the loans using the revenue they generate from their water services.

5 Component 5 - Grants for Pre-defined Outputs/outcome

To encourage SSWPs to perform well and meet pre-defined outputs or outcomes, the Challenge Fund will also provide grant incentives to borrowers, which also eases their loan burden and derisks the banks. SSWPs which achieve specific goals will be rewarded with grant incentives based on pre-defined outputs or outcomes.



FundMyWater

FundMyWater is an innovative finance matchmaking platform that tackles the financing challenges of small-scale water infrastructure projects in Kenya and aggregates pipeline for lenders. **FundMyWater** leverages technology to make water infrastructure investments fast, collaborative, secure, and economically viable for financiers, funders, and service providers.

This platform enables lenders to connect with a pool of SSWPs and transact efficiently with the technical assistance of transaction advisors via an online deal platform.

Expected Results

The Challenge Fund aims to help 150 small, piped water providers raise KES 330 million (€ 2.7 million) for micro and small water infrastructure investment projects over the next two years. The Challenge Fund will provide new or improved access to water for 200,000 people across Kenya, and build the capacity of two commercial banks to develop cashflow financing products for water infrastructure projects in Kenya.

The implementation of this programme will demonstrate the viability of the revenue-based financing approach as well as the scalability of the innovative online matchmaking platform.



Grantee and Fund Manager

Under the Challenge Fund, Aqua for All will provide grants for technical assistance and capex incentives to SSWPs, as part of blended finance structure. Aqua for All will also oversee the execution of the Challenge Fund.

Transaction Advisor

Rural Focus Ltd is a private sector engineering and consultancy company will provide transaction advisory services and technical assistance on regulation of SSWPs.

Technology Partner

Smart People Africa Ltd is a private technology company, with experience in implementation of ERP systems for about 50% of the public water utilities in Kenya. SPA has designed and will manage.



Join us in expanding and improving water and sanitation services for communities in Kenya!

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Lending
partners

