



The Global Partnership on Output-Based Aid

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Role of OBA in Successful Utility Reform in Water & Sanitation

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Outline of the Presentation

1

OBA, Development Challenges & GPOBA

2

Background to interventions in Kenya

3

Projects overview: Kenya urban watsan OBA Fund & Nairobi sanitation project

What is OBA?

Output Based Aid is a results-based financing (RBF) mechanism

OBA schemes provide a performance-based subsidy **to facilitate access to basic services for poor households**. The subsidy complements or replaces user fees and is payable upon the achievement of measurable results

1. **Straight OBA subsidy:** reimburses the service provider a fixed amount for every connection made
 - ▶ Ideal where large utilities are extending connections/services to the urban poor and there is a stable cost structure
2. **“Complex” OBA subsidy:** incorporates aspects of a VGF but with pro-poor focus. Subsidy per connection varies and is a percentage of project cost
 - ▶ Ideal where connection costs vary across projects and there is a need to subsidize upstream infrastructure to reach low-income consumers

The Challenges...



1

Poor people in urban, peri-urban, and rural areas lack access to basic services

2

Public and private service providers lack incentives to serve the poor

3

There is a “gap” between cost of service and user’s ability to pay

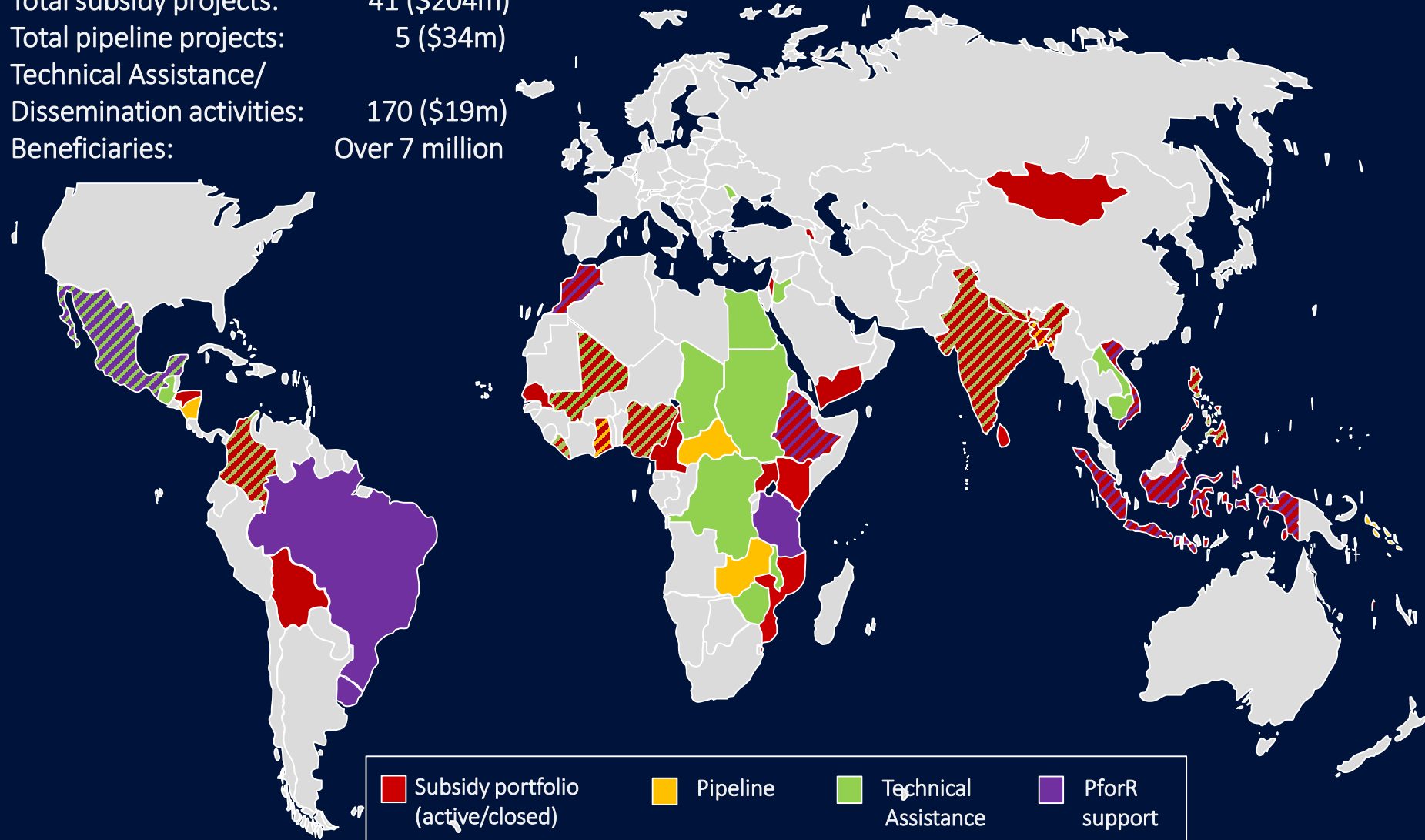
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Poor accountability for results

...need for an innovative financing mechanism


GPOBA around the World

Total subsidy projects: 41 (\$204m)
Total pipeline projects: 5 (\$34m)
Technical Assistance/
Dissemination activities: 170 (\$19m)
Beneficiaries: Over 7 million



GoK & World Bank interventions in Kenya

GoK & IDA



Sector reform creates framework for autonomous WSPs -> improve utility performance & service delivery

Tariff reform & ring-fencing of revenues improves commercial viability of WSPs

Soft loans to support infrastructure development under WaSSIP

WSP / GPOBA

- ▶ Community providers face growing population, increased investment needs, and lack access to finance (public funding is ad hoc & for poorer areas)
- ▶ Pilot blended finance approach for communities (commercial loans + subsidies)
- ▶ Support utilities to access commercial loans for investment

Kenya microfinance for community project results

200 million grant 

35 communities accessed: **300 million** in loans

and raised: **100 million** in equity contribution

200,000 people received access to new/improved
water supply

Lessons Learned

- Strategic grant can leverage commercial capital
- Economic returns for Shs 160-800 for every Shs 80 invested
- Repayment performance is good because of strong customer WTP and project ownership
- Commercial lender preference for urban/peri-urban model, especially with WSPs
- Quickly implementable projects with large # of customers performed best

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Scale-up through 2 projects

1

Kenya urban water and sanitation OBA fund
for low-income areas

▶ \$11.8m grant

2

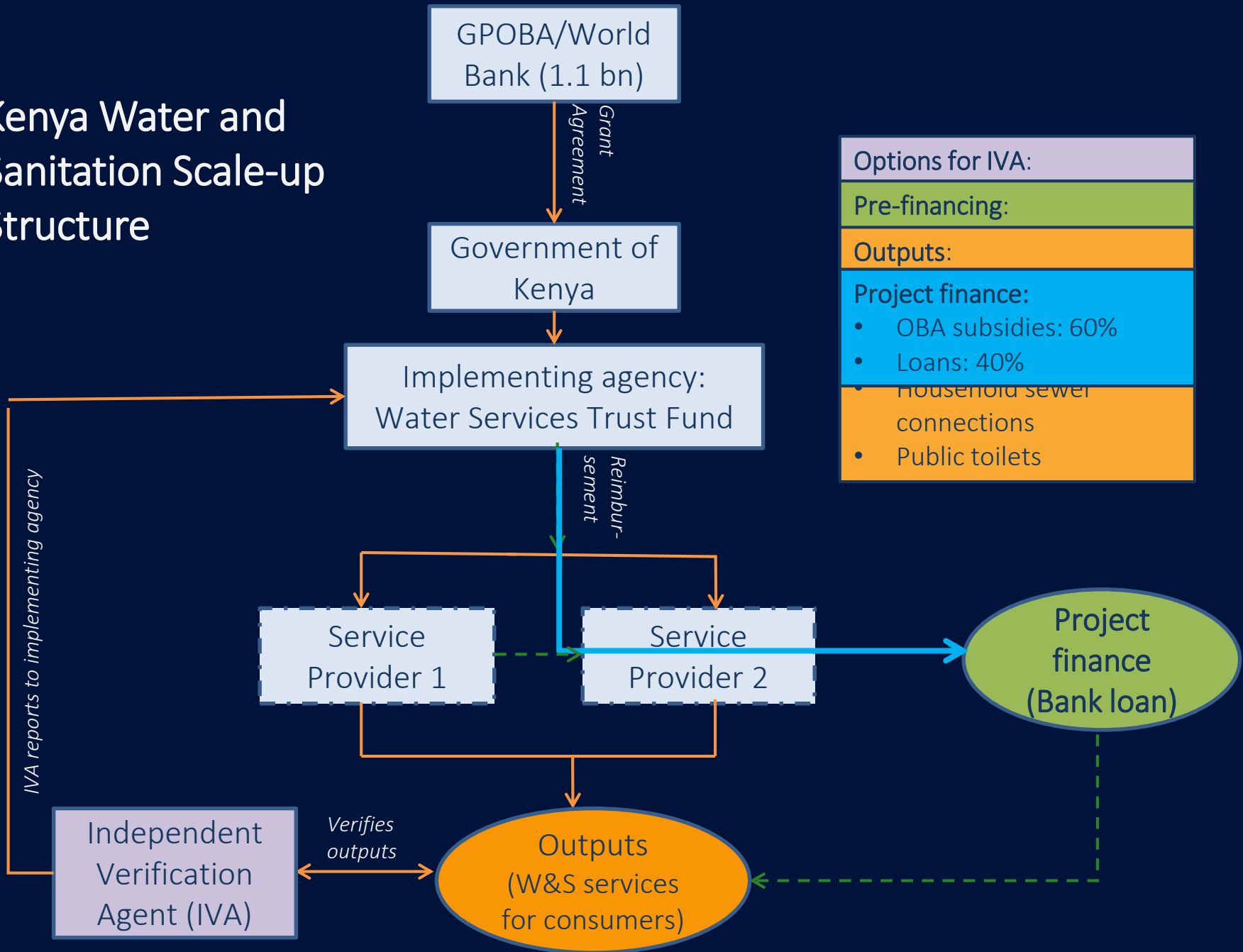
Nairobi sanitation project

▶ \$4.3m grant

**Common
objective**

Support well functioning utilities to access loan
finance for capital investment to extend watsan
services to low-income areas

Kenya Water and Sanitation Scale-up Structure



Eligibility Criteria

- WSP extends services to low-income areas mapped in WSTF *majidata* database
- Projects are financed by commercial lender
- Technically feasible, positive cash flows, + financial & economic returns
- 60% Subsidy does not exceed Shs 10,000 per capita
- WSP is licensed and meets statutory requirements
 - Urban is a name - viable rural / peri-urban projects are welcome!
 - Licensed private operators & communities are also eligible for funding the project



Procedure – Kenya OBA fund



Types of investments

Output Targets

- ▶ New water connections
- ▶ New sewer connections
- ▶ Public water points
- ▶ Public toilets

- ▶ Utility decides investment mix

Investments

- ▶ Network extensions
- ▶ Source augmentation, treatment and distribution
- ▶ Sewerage treatment and distribution
- ▶ Public toilet infrastructure

Include connection fees in the project cost & pass the benefit to the consumer !!!

Sample Calculation

Output	# connections / facilities	# beneficiaries	Cost	Cost per beneficiary
Water connections	2,000	10,000	200,000,000	20,000
Sewer connections	500	2,500	75,000,000	30,000
Public toilets	10	3,000	5,000,000	166
Water kiosks	20	2,000	2,500,000	1,250
		19,500	282,500,000	14,500



WSP / county contribution	12,500,000
Loan (2+8 years)	270,000,000
Interest during construction @14%	37,800,000
Max subsidy	184,700,000
Subsidy per capita check	9,470

Disbursed on loan agreement signing (10%)	18,470,000
Disbursed on construction & output achievement (65%)	120,055,000
Final disbursement (3 months – 25%)	46,175,000
<i>Monthly loan repayment w/o subsidy</i>	<i>5,347,000</i>
<i>Monthly loan repayment max subsidy</i>	<i>2,138,000</i>

Plan your outputs wisely – subsidy is payable against verification that outputs are installed and functional!!!

Kenya Water and Sanitation Scale-up:

Expected development impact



- ✓ 850 m subsidies will leverage 1.5 bn in private loan finance for county water service providers
- ✓ 200 m technical assistance and implementation support
- ✓ 150,000 poor will gain access to water and sanitation services

Commercial Financing of Sewerage Services for the Urban Poor in NCWSC

The Nairobi Sanitation OBA program is seeking to increase access to water and sewerage services in informal settlement communities in Nairobi.

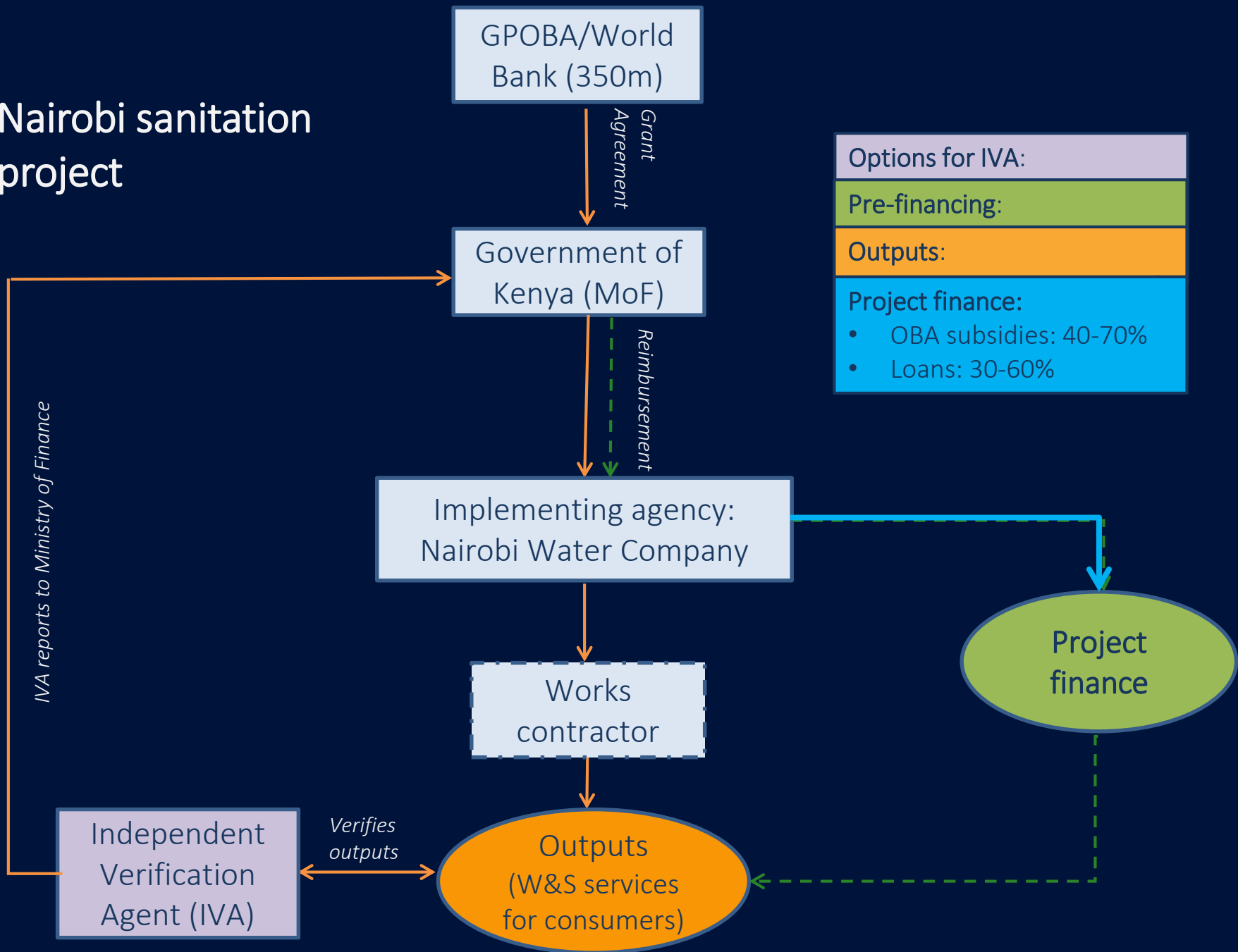
The project aims to connect 16,000 informal settlement households (80,000 people) to the water and sewerage network of Nairobi City Water and Sewerage Company (NCWSC).

The project requires NCWSC to pre-finance all capital costs through commercial financing. Upon completion and achievement of target project outputs NCWSC will receive an output based subsidy.

Project Funding

- NCWSC will borrow at commercial levels to finance the project. The project cost is expected to be approximately **KES 634 million**.
- Expected loan tenor is **60 months**.
- The cash flows from operations of NCWSC will be used as primary security for the lending.
- Third party credit enhancements may also be available.
- The Nairobi Sanitation OBA project will shift the performance risk to the service provider (NCWSC) by disbursing the subsidy only after independently verified outputs have been delivered.

Nairobi sanitation project



Project progress

- Negotiated loan offer with commercial bank for KShs 600m
- Sanitation solutions design and project mapping completed (include sketches)
- Tender documents for works contracts issued
- IVA contracted

Nairobi Sanitation project

Expected development impact

- 
- ✓ \$350 m subsidies will leverage 600 m in loan finance;
 - ✓ 16,000 households will gain access to improved sanitation

Thank You!