The Water Sector Trust Fund is a state corporation established under the Water Act 2016. It seeks to increase water access in low-income areas, reduce poverty and improve people's lives.

The Water Sector Trust Fund (WSTF) is a state corporation of the Ministry of Water and Sanitation in Kenya. It was established to improve the development and management of water services in low-income, marginalised and under-served areas.

Its mandate is to help the under-served or any vulnerable group in society and it specifically focuses on key inclusivity parameters such as income, location, gender and accessibility. The WSTF applies inclusivity practices through transparency, a community engagement model, performance-based financing mechanisms, a water operational model and initiatives favouring women and small enterprises. Its procurement procedures comply with the Access to Government Procurement Opportunities (AGPO) initiative, which is a government-led affirmative action program set up to empower young people, women and people with disabilities by providing them with more opportunities to do business with the government.

The WSTF is not a major individual infrastructure project, but rather an overarching program that includes projects of various sizes. They typically involve the provision of metered water connections, network extensions, public sanitation facilities, yard taps or water kiosks. Nonetheless, the WSTF has been selected as a case study to demonstrate how low-income areas can be identified and targeted, and how output-based funding can be applied.
Project Overview

**Key words**  
Gender, employment, community engagement and transparency, financing, entrepreneurship

**Sector**  
Water

**Background**  
The Government of Kenya has been striving to improve water access for people in low-income areas for decades. However, it faces several challenges, including the limited capacity of small-scale service providers, limited water resources, drought and sustained poverty.

**Size**  
- USD 107 million (KES 11 billion)
- More than 2,200 projects
- Has helped more than five million vulnerable people
- The average size of the output-based aid (OBA) financed projects is USD 1.7 million

**Stage**  
The WSTF has been operating since March 2015. Its work is ongoing.

**Why of interest**  
The WSTF provides conditional and unconditional grants to the counties to help finance the development and management of water services in marginalised and under-served areas, including:
- the development of water services in rural areas that are not commercially viable for licensees;
- the development of water services in under-served, low-income urban areas; and
- improving transparency through online tracking and reporting of water access, using the MajiData Platform.
WSTF projects are included in the Access Government Procurement Opportunities (AGPO) initiative, the national program that helps businesses owned by women, young people and people with disabilities to access government tenders.

**Project objectives**  
WSTF’s strategic objectives have been defined for the period 2018 to 2022:
- to mobilise USD 310 million (KES 31.9 billion) for WSTF investments by June 2022;
- to diversify and sustain partnerships;
- to develop and implement business models for revenue generation (i.e. on-lending, reserve and guarantee funds mechanisms, consultancy); and
- to establish the Levy, Endowment and Revolving funds.

**Project Lifecycle Assessment**  
**Project preparation** – eligibility criteria to apply for funding (see details under Affordability and Optimising Finance). Output-based financing mechanism to engage the private sector and boost financial viability.

**Project procurement** – procurement mechanisms are transparent with pre-qualifications and reduced competition for women, young entrepreneurs and people with disabilities (as part of the AGPO program).

**Construction** – no specific inclusive technical design specifications, except for public sanitation projects.

**Project monitoring and evaluation** – use of MajiData to monitor the number of households and people who have improved water access.

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*1 Output-based aid is an innovative approach to increasing access to basic services. It refers to development aid strategies that link the delivery of public services in developing countries to targeted performance-related subsidies.

*2 MajiData is a pro-poor online database that contains facts and figures on water and sanitation for Kenya’s low-income urban areas (www.majidata.go.ke). It has satellite-linked data on water supply, sanitation and solid waste disposal, population, land ownership, land use, area layout, habitation patterns and types of housing, socioeconomic infrastructure and quality of life.

*3 All public sanitation projects should include one disabled toilet, a room with baby changing and breast-feeding facilities, and a dedicated waiting area.
**Project Description**

Kenya has a population of 46 million people, of which a third still rely on surface water or unimproved water sources, such as ponds, shallow wells and rivers, while, as of 2015, 49% of Kenyans use open defecation or unimproved sanitation solutions\(^4\). Many of these people live in rural areas and urban slums. Only nine out of 55 public water service providers in Kenya provide continuous water supply, leaving people to find their own way of meeting their basic needs\(^5\).

The WSTF has a mandate to improve water access and water access quality in low-income areas in Kenya. It acts as a driving force, using an innovative financing mechanism, community engagement, empowerment, and technical assistance to reach 1.6 million households and more than eight million people. The online database, MajiData, provides a definition of a low-income area by capturing population, layout and infrastructure, land ownership, type of housing, water supply and sanitation, socioeconomic situation and community characteristics\(^6\). The application of inclusive principles is essential to achieve the overall target of improving access for 2.95 million people in under-served areas.

This project is relevant to a number of Action Areas. Most relevant is the Action Area of **Affordability and Optimising Finance**, which will be the main focus of this case study. The WSTF provides subsidies to help make projects financially viable and increase water accessibility. **Stakeholder Identification, Engagement and Empowerment** is also covered in this case study, due to the establishment of an online database mapping low-income areas and capturing information on their quality-of-life. The Action Area covering Policy, Regulation and Standards is also relevant, as the Water Act 2016 sets out the regulatory framework for the financing mechanism and the required mandates to all institutions involved, however this Action Area will not be covered in this case study. Other inclusivity measures such as capacity building, private sector participation, and project planning development and delivery are also present in the WSTF.

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\(^4\) Joint Monitoring Program (JMP) Kenya data, (WASH 2015).


\(^6\) Definition of low-income areas in Kenya (WASREB 2018a)
Implementation
A tailored financing model has been developed to support the overall objective of the WSTF.

Financing eligibility criteria
The WSTF can allocate funds from the World Bank, the Government of Kenya and other contributors. Water service providers (WSP) need to file an application to the WSTF to be eligible for finance. Help is provided during the application process in the form of process outlines, forms and spreadsheets. The eligibility criteria are as follows:

- compliance with the Water Regulatory Service Board and support from the county government;
- statement of clear ownership;
- the WSP must be able to prove the project is technically feasible and commercially viable;
- the WSP has secured commercial loans from a commercial bank;
- the project is located in a low-income area;
- it contains an agreed water tariff and operation and maintenance costs, which are not subsidised; and
- a willingness-to-pay analysis and definition of subsidy requirements have been conducted (up to 60% of consumer connection fees may be subsidised).

Subsidy application and allocation process
The financing mechanism is enabled by the Water Act 2016, which sets the regulatory framework for the financing process. The subsidy is paid only after outputs are verified, based on successful completion and evaluation using a standard evaluation form. The form summarises the conditions, operations, maintenance and usage from the perspective of the water facility operator, the verification agent itself, customers/end users and the Public Health Officer. The evaluation process also captures gender, disability and affordability information in relation to access and participation in operations.

The application and subsidy allocation processes are defined in detail by the WSTF following the regulatory requirements. In summary, the process includes the following steps:

1. The WSP provides an overview of the project and requests technical assistance funds to develop a financially feasible project.
2. The application is submitted to the WSTF and commercial lender, together with a request for a subsidy.
3. The application is assessed based on financial, commercial, and technical feasibility. The WSTF considers the application for the subsidy. If it is satisfactory, a conditional loan offer from a commercial bank and certificate of eligibility are issued.
4. The WSTF conducts an independent baseline assessment and agrees on outputs against which the subsidy will be paid.
5. A subsidy agreement is signed by the WSTF, and upon acceptance of the conditional loan offer by the WSP, the WSTF releases 10% of the subsidy to the WSP.
6. The technical assistance funds are approved to help the WSP implement and oversee the project and deliver the service to customers.
7. When the project has been implemented, it is independently verified. The outputs are assessed against the project’s objectives. If successful, this is followed by a recommendation to the WSTF that the subsidy is released.
8. The subsidy is paid, and the project continues. Customers will start paying connection fees and their monthly water bills and proceeds are used to cover operating and maintenance costs and repay the outstanding balance on the WSP’s loan to the commercial bank.

To determine the affordability of the water tariff and the size of the subsidy required, the WSP needs to conduct and submit a willingness-to-pay analysis, as set out in Appendices 11 and 12 of the Tariff Guidelines. There are some limitations on the size of the subsidy. A cap on the subsidy is calculated on a per beneficiary basis (USD 115 per beneficiary) and the maximum subsidy is 60% of the amount borrowed for the investment.

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9 Water service providers are small or medium-sized privately-owned companies that submit a business case and funding proposal to the WSTF. After the project is implemented, they operate and maintain the water supply facility.

10 As per national water tariff guidelines.

11 The assessment forms are part of the toolkit available online. Depending on the project, some differences apply.

12 Tariff guidelines provide guidance on tariff setting, willingness-to-pay studies and the calculation of the subsidy requirement as per Appendices 11 and 12 under WASREB – Tariff Guidelines, (WASREB, 2002).
Technical Assistance

The need for technical assistance has been recognised by the WSTF. A WSP may apply for help from the WSTF to develop a “bankable” proposal and seek funding to support the implementation and supervision of the project (i.e. construction supervision).

Supervision and Monitoring

During early project assessment and after project delivery, the independent verification agent from the WSTF undertakes the following:

- a baseline assessment and output verification;
- an assessment of sub-project costs and eligibility for a subsidy; and
- a confirmation of investments made in the targeted low-income areas.

This information is submitted to the WSTF and also shared with MajiData.

During operations and maintenance, the Water Service Regulatory Board undertakes monitoring and reporting on WSP compliance. Monitoring is also undertaken by the WSTF through MajiData. The project evaluation results are captured and linked to the database. MajiData is being updated to also include operational monitoring data on a project basis.

How inclusivity has been addressed

The identified practice is an online database which identifies communities to be targeted for improved water access and stores information on their quality-of-life.

Implementation

Database capturing information on quality-of-life indicators

Communities are identified and targeted for projects using the WSTF’s online database, MajiData. This database has mapped over 1,880 urban settlements considered to be low-income areas. Information is based on 22 quality-of-life indicators including water supply, sanitation and area characteristics.

When the WSP applies for the subsidies, the communities to receive improved water access are identified and captured as part of the project proposal.

Community engagement

Formal engagement with communities is an important part of the project. A communal structure has been established so individuals from local water communities can liaise with the respective regional water service board, which oversees asset management and contracting with water service providers. In addition to the communal structure, the project evaluation and monitoring data details the extent to which people benefit from water access and how satisfied they are with the service. This information is used by the WSTF to make improvements and inform the development of projects being considered for other locations.

13 Maps & Data, (WASREB 2018b)
14 This could be an improvement to an existing water access point (e.g. water tap instead of an open well) or completely new water points.
## Benefits Realisation

<table>
<thead>
<tr>
<th>Identified benefit</th>
<th>Benefit description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reducing poverty and income inequality</td>
<td>Improving people's lives through increased water access, which can lead to more time for income-earning activities, better health and hygiene, and a cleaner environment.</td>
</tr>
<tr>
<td>Social equity and social stability</td>
<td>A system for communication and collaboration is provided through community groups, water service boards and water service providers, leading to improved engagement and less conflict. Providing low-income areas with access to water also reduces social differences and unevenness in relation to county water supply, security, hygiene and sanitation.</td>
</tr>
<tr>
<td>Increasing gender equity</td>
<td>Improved access to water means that women and children spend less time fetching water. Women have also been employed by water service providers for operation and maintenance tasks, giving them additional income and job opportunities.</td>
</tr>
<tr>
<td>Integration of small business opportunities</td>
<td>The financing mechanism offers incentives to establish a registered water service provider and helps grow existing businesses through project implementation, operation and maintenance activities. Transparent programs and training for small businesses to participate in the tender process are provided through the AGPO initiative.</td>
</tr>
<tr>
<td>Increasing affordability and accessibility</td>
<td>As of June 2016, projects benefitting from OBA financing have reached 21,650 people. Competitive and cost-effective structures (through performance-based subsidies) for water supply have been established; subsidies are assessed on a case-by-case basis, and projects consider a community's willingness-to-pay.</td>
</tr>
</tbody>
</table>
## Stakeholders

<table>
<thead>
<tr>
<th>Key beneficiaries</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communities without access to improved water resources</td>
<td>The WSTF seeks to help these communities. They are engaged through community groups and outreach and can also take a proactive role in operational and maintenance activities.</td>
</tr>
<tr>
<td>Women and children</td>
<td>Women and children are encouraged to engage with this project and use improved water sources. Women are urged to participate in the operation of water projects, such as kiosks. The WSTF encourages women to get involved in operational and maintenance activities.</td>
</tr>
<tr>
<td>Water users’ associations</td>
<td>Water users’ associations implement their own projects in rural areas, working closely with the water service boards.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Institutional stakeholders and partners</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water service providers</td>
<td>The water service providers implement and provide water supply and sanitation services in urban and rural areas. They can be small or medium-sized companies.</td>
</tr>
<tr>
<td>Water service boards</td>
<td>The water service boards oversee the community organisations and water service providers in rural and urban programs.</td>
</tr>
<tr>
<td>County governments</td>
<td>The 2010 amendment to the Constitution of Kenya saw the devolution of the government to 47 counties. They are in close cooperation and coordination with the Water Resources Management Authority.</td>
</tr>
<tr>
<td>Water Resources Management Authority (WRMA)</td>
<td>This state corporation operates under the Ministry of Water and Irrigation and is mandated to lead water resources management in the country. It provides technical advisory services and assists water resources user associations (WRUAs) in developing sub-catchment management plans.</td>
</tr>
<tr>
<td>Kreditanstalt für Wiederaufbau (KfW, German Development Bank) and Gesellschaft für Internationale Zusammenarbeit (GIZ, German Agency for International Cooperation)</td>
<td>KfW has a component of Aid on Delivery (AOD) to provide a 40% subsidy to water service providers for commercial loans aimed at improving service delivery. GIZ is the technical arm of Germany’s Federal Ministry for Economic Cooperation and Development (BMZ) and assists the WSTF with technical issues. Its technical advisors are stationed at the WSTF.</td>
</tr>
<tr>
<td>The World Bank</td>
<td>The World Bank provides output-based aid (OBA) of an up-to 60% subsidy for commercial loans to water service providers who, in turn, will increase connections to low-income areas.</td>
</tr>
<tr>
<td>International Fund for Agricultural Development (IFAD)</td>
<td>Funding instrument for grants to WRUAs and community forest associations (CFAs) for natural resources management.</td>
</tr>
<tr>
<td>Other institutions</td>
<td>Various countries and institutions offer assistance to help improve access to water services in Kenya (e.g. Bill and Melinda Gates Foundation, European Union, Finland, Sweden, Denmark).</td>
</tr>
</tbody>
</table>
Lessons Learned

Success factors

A comprehensive project lifecycle approach tailored to its mandate forms the basis of the WSTF. Policy interventions were necessary to define the regulatory framework that enables the financing, community engagement and implementation mechanisms across all project stages. In parallel, key areas addressed at the project level are: (a) financing; (b) supervision; and (c) capacity building of local implementers and water service providers or utilities.

Data-driven decision-making and continuous monitoring are enabled through MajiData. This online tool monitors and tracks the improvement in water access and services in the identified low-income areas. It defines the criteria against which proposals are evaluated and approved. Data captured from project evaluation and monitoring is also used to inform future projects.

Structured and transparent community engagement is enabled through a clear governance structure with defined reporting and monitoring lines; that is, the Water Resource Management Authority, county governments, water service boards, water service providers and community groups.

A long-term focus on the overall objective to improve livelihoods around water resource management, as well as gender and social inclusion, ensures the sustainability of the Water Resources Management Authority’s activities and thus, conservation and protection of the catchments.

Key challenges

The WSTF’s mandate is set by the Water Act 2016. This triggered several changes, which the affected organisations and stakeholders needed to recognise and adapt to, such as:

- more responsibility for water and sanitation provision, operation and maintenance has been transferred to the counties. Service providers have a legal mandate to implement water projects that support communities in the long-term. This may result in a lack of coordination and communication in line with the mandated approval processes.
- moving from grants to subsidies and commercial financing that creates self-sustaining water services that are credit worthy. Financial institutions have needed more time than expected to familiarise themselves with the new terms and conditions. Workshops, seminars and open days have been organised to support that process.
- there are not enough financially viable project proposals. However, there is an attempt to address this with funding to help develop acceptable proposals (for technical designs, project cash-flows, environmental and social management plans and social connection policies, which are prerequisites for eligibility under the subsidy program).
- low-income households often struggle to raise the connection fee. This is an ongoing inclusivity challenge that is being addressed with different loan structures and subsidies.
- there is increasing demand for water facilities but a shortage of commercial structures. Other counties are calling for the introduction and improvement of water and sanitation services because their existing infrastructure cannot meet the needs of the growing population. However, appropriate commercial structures have not yet been developed. Particularly in low-income areas, if people are either unable to pay the connection fees or unwilling to pay for improved water sources, service providers will not invest in infrastructure upgrades. Therefore, there is a need to develop and promote commercial structures, either through grants, subsidies or loans being undertaken by the WSTF, which can sustain investments in these areas.

Figure 2. Source: Water Sector Trust Fund (https://www.waterfund.go.ke/rbf)
References


Interviews

