Kenya Water Sector

Opportunities for the Dutch Water Sector

Dutch Government asked Aidenvironment to advice on potential Product Market Combinations for the Dutch Water Sector in 12 developing countries, Kenya being one of them, and how the Dutch Water Sector can position itself in order to get a better access to the market.

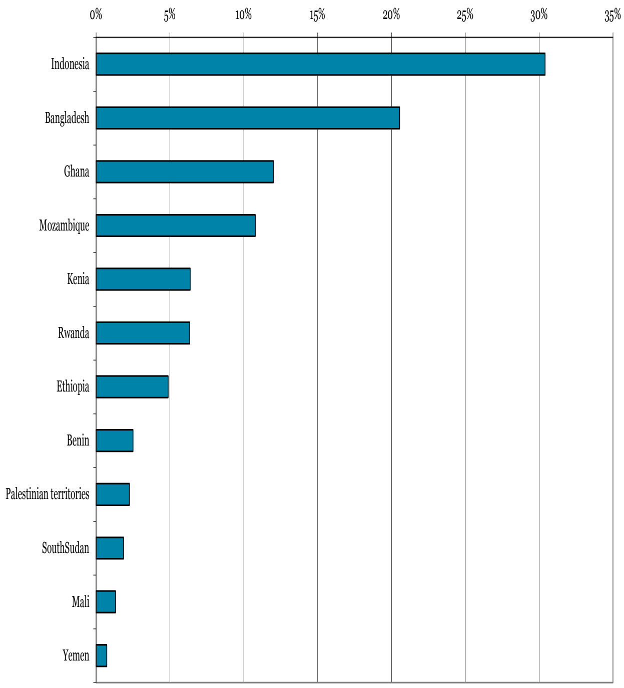
These reports describe the physical 'water situation', how the water sector is being organized, the legal and policy framework, trends and entry barriers in a simple way as well. Finance and climate change are special topics in each report. These reports are available on the aidenvironment website.

Demand:

Kenya is a water scarce country with almost 80% of the lands being classified as arid to semi arid. Compared to other water OS countries, the water sector in Kenya is quite developed and the government actively pursues a number of development goals related to water. Many of the new modes of development collaboration have been tried and tested in Kenya, such as PPP alliances with local companies, governments and organizations, additionally, consortia in Kenya pioneered innovative finance for WASH. On the downside, many NGOs operate in Kenya on a project basis and while this has had a positive effect on service provision for many people, there also exists competition over water users' participation, project fatigue and disinterest in operation and maintenance.

Current interest and activities of Dutch organizations:

Kenya ranks first in the activities of Dutch NGOs in the water sector, leading to a well-established network and knowledge base of Dutch organizations in the country. Interest of Dutch organization also includes the agricultural and particularly horticultural sector, where water demands and water treatment continues to be an issue, particularly with the foreseen expansion of irrigated agriculture. The larger infrastructural developments in the harbors and along the coast also provide engages some of the larger Dutch Civil engineering companies.



Breakdown of Dutch exports in the water sector to the 12 OS-countries, in % of turnover, source: Web survey Panteia, 2014/2015

Potential product market combinations:

Product market combinations are seen in innovative financial instruments in the WASH sector where blended finance and private equity can be explored for service provision. Opportunities for the water sector in connection with agriculture exist in irrigation or water management or in connection with climate change. Other PMCs include climate smart agriculture or climate resilient agriculture/pastoralism. With 80 % arid to semi arid lands it makes sense to focus on water provision for climate resilience.

Suggestions on positioning strategies for future activities:

Even though Kenya still lags behind in the provision of safe drinking water and sanitation (MDG achievement), many international and local NGOs and PSOs are represented in Kenya. Organizations without their own project funds need to be aware that program niches are few and competition is fierce. Further development of nexus links (WASH and Food security, WASH and innovative finance, WASH and ICT) provides new opportunities since Kenya is known to be a relatively stable environment for piloting and innovation. PPPs stand out as the best way to engage in the WASH market.

Successes and lessons learnt: examples

Kenya stands out as a country with many successes, possibly also because it is the testing ground of so many innovations. The list of successes includes several smaller organizations that piloted innovative water purification systems. Reaching scale with these systems continues to be a challenge.

Producing purified water on an industrial scale now is the Dutch Water Ltd in Mombasa which has managed to conquer the local market: "Dutch Water Limited was set up with the objective of producing as cheap as possible healthy drinking water to the Kenyan population living in the major cities (...). Due to fact that DWL is the only company that produces good quality drinking water at 10 to 20 times less than is usual within this sector, it has seen a spectacular growth in sales since 2009."

At the level of IWRM two programs stand out as successful approaches towards water management. Particularly for Dutch organizations and made possible by the EKN is the Naivasha Basin program. It entailed an assessment of the watershed and a research into the potential for Payment for Ecosystem Services or, in this case, payment for watershed services to improve the quality of lake Naivasha.

One of the most pioneering programs was the The Upper Tana Program led by ISRIC. The idea was that smallholder farmers improve green water management by enhancing rainwater management at smallholder level: "Green Water Credits (GWC) is a financial mechanism that supports upstream farmers to invest in improved green water management practices. To achieve this, a GWC fund needs to be created by downstream private and public water use beneficiaries. Initially, public funds may be required to bridge the gap between investments upstream and the realization of the benefits downstream." This would help the blue water resource management of larger industrial users such as Delmonte. The program was funded by IFAD. Unfortunately there was no follow up from the study, one of the key issues mentioned by the report (although this was not marked as the reason which it was not taken further) was the large number of stakeholders involved in the Tana as well as from the government.

Facts and Figures

Government type:	Democratic republic
Language:	English, Kiswahili, local native
Population:	45,010,056
Population growth:	2.11%
Economic growth (GDP growth in %):	5% (2014), 4.7% (2015), 4% (2016)
GDP (PPP):	USD 79.9 billion (2013) comparison to the world: 82
GDP (PPP) per capita:	USD 1,800 (2013)
Unemployment rate (in%):	40%
Inflation rate + forecast 2020 (in %):	6.09% (2014), 7.33% (2015), 7.33% (2020)
Foreign direct investments (in % of GDP):	0.9%
ODA in % of GNI:	5.3%
Imports:	USD 15.86 billion (2013)
Import partners:	India (20.9%), China (15.4%), UAE (9.8%), Saudi Arabia (6.9%)
BTI index on banking system:	7. In Kenya the informal sector is large, because it is expensive to start a formal business. In the year 2013 a new Micro and Small Enterprise Development Act came into force, which should ease the access to credit and should regulate the formal sector better.
Doing business index:	137 out of 189
WEF Global competitive index:	90 out of 144

Trade and Aid strategies

Aidenvironment advises Water Sector players how to combine goals on Trade and Aid. Our advice strengthens the reputation and license to operate of businesses, opens new windows for finance, and enhances growth while contributing to development goals.

Our team performs market research and advices on effective Public Private Partnerships and engagement strategies, and facilitates organizations in tapping into local networks and finance.

Interested?

Contact Frederik Claasen to find out what we can do for you.

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