



**USAID**  
FROM THE AMERICAN PEOPLE



PHOTO CREDIT: WATERAID/REMISSA MAK

## Increasing Financing for Private Water Operators in Cambodia

### USAID's Water, Sanitation and Hygiene Finance (WASH-FIN) Program Country Brief Series

**INTRODUCTION.** Despite some progress in recent years, access to WASH services remains unequal and relatively low in some areas in Cambodia. As of 2020, an estimated 57 percent of the population in urban areas had access to safely managed drinking water, while this figure was only 18 percent in rural areas.<sup>1</sup> This disparity between urban and rural areas is even more pronounced once income levels are considered. Cambodia's Sustainable Development Goals (SDGs) for WASH include

#### Key Takeaways

- Decentralization Reforms Remain Incomplete and Require Transition of Coordination Role to Sub-National Administrations
- Improvements in Licensing Framework Helped Strengthen Sustainability of Private Water Operators (PWOs), but Advisory Support and Delegation of Licensing Authority to the Sub-National Level Remains Critical.
- Small and Medium Enterprise Bank Should be Adequately Capitalized and Tailored to Private Water Operator Needs.
- Technical Assistance can Overcome Barriers Related to High Collateral and Due Diligence Requirements and Contribute to Improved Lending Opportunities
- Cambodia Water Supply Association's Advisory, Training and Advocacy Support are Valued by PWOs but the Organization Requires Additional Support to Best Serve its Members in the Long-Term.

<sup>1</sup> WHO/UNICEF JMP. (2021). <https://washdata.org/> (Updated April 2021). "Safely managed" drinking water and sanitation services is defined as having drinking water at home that is free from contamination and available when needed, and toilets from which excreta are treated and disposed of safely.

the need to address inequalities, achieve universal access by 2030, and ensure access to safely managed sanitation and water supply, rather than only supplying “basic services.” However, the country’s low piped water supply coverage and the lack of sustained investment in infrastructure continue to present major barriers to the timely achievement of the SDGs. As of 2018, Cambodia was facing an annual investment gap of US\$191 million to adequately expand water services to meet intermediate 2025 SDG targets.<sup>2</sup>

These challenges only begin to hint at the complexity of financing and supplying safe water in Cambodia. USAID’s Water, Sanitation and Hygiene Finance (WASH-FIN) program, which began in Cambodia in August 2017, aims to help increase access to finance for urban water operators in order to increase household access to safe drinking water. This brief provides a summary of the technical assistance support, key results, lessons learned, and recommendations for increasing access to finance for private water operators (PWOs).

**CONTEXT.** Drinking water in Cambodia is provided through a combination of state-managed water providers and private water operators. Due to the lack of government capacity, insufficient budgets to address demand for improved service delivery, and the difficulties of developing and operating water systems in sparsely populated regions, the government has historically been unable to meet the overall demand for household piped water services. More than 600 PWOs who develop and operate private water systems, have emerged to fill the gap in service provision. The ad hoc way PWO service provision developed proved unorganized, and the Government began to regulate their operations starting in 2014. The Ministry of Industry, Science, Technology & Innovation (MISTI) is responsible for the oversight and monitoring of both the public and private operators, including the issuance of licenses for water supply provision. For private water operators, MISTI has also taken on the role of processing applications and issuing licenses for the operation of water supply schemes in areas not covered by public water service providers. The WASH sector has also been strongly influenced by several key developments described in the following paragraphs.

**Decentralization and Deconcentration:** Cambodia’s system of governance has long been a top-down structure with funding and WASH services provided directly by the national government. Following some preliminary reforms in the 1990s, the National Committee for Sub-National Democratic Development (NCDD) was established in 2008. In 2008, the “Organic Law”<sup>3</sup> was enacted, which called for reassignment of key services, including WASH services and operations, to sub-national government administrations, of which implementation began in 2009.<sup>4</sup> However, this process remains incomplete and underfunded—there are still many challenges related to the devolution of decision-making and financial responsibilities, which continue to require the coordination and approval of multiple central government ministries.

**Water Policy and Licensing Reforms:** There were no drinking water quality standards in Cambodia until the 1990s, when the government began adopting guidance from the World Health Organization (WHO).<sup>5</sup> In 2003, the government established the National Water Supply and Sanitation Sector Policy,

---

<sup>2</sup> USAID’s WASHFIN. (2018). Cambodia Landscape Assessment Report.

<sup>3</sup> The official name for this legislation is the Administrative Management of Capital, Provinces, Municipalities, Districts and Khans.

<sup>4</sup> Niazi, Tariq H. (2011). Deconcentration and Decentralization Reforms in Cambodia: Recommendations for an Institutional Framework. *Asian Development Bank*. <https://www.adb.org/sites/default/files/publication/28879/deconcentration-decentralization-cambodia.pdf>

<sup>5</sup> Vanny L., Jiwen G. and Seingheng, H. (2015). Phnom Penh’s Municipal Drinking Water Supply: Water Quality Assessment. *Sustainable Water Resources Management*. 1: 27-39. <https://link.springer.com/article/10.1007/s40899-015-0004-9>

which provided strategic guidance on increasing water services in urban and rural areas.<sup>6</sup> The enactment of additional laws over the next decade led to the establishment, formalization, licensing, and oversight of PWOs. In 2014, Regulation (Prakas) No. 461 outlined the procedures for issuing, revising, suspending, and revoking permits for water supply operators that failed to meet minimum service standards. More critically, the 2014 regulation increased license terms from three to twenty years, which provides PWOs with a more realistic timeframe to meet the service coverage objectives outlined in their investment plans and required by the terms of their license. This longer time window allowed them to plan, make investments in capital expenditures, and generate sufficient revenue to recover investment costs, including the repayment of debt with longer maturities.<sup>7</sup> However, further regulatory revisions may be necessary as PWOs continue to face challenges in formally establishing new businesses, obtaining the necessary permits for new works construction, and enforcing contracts.<sup>8</sup> Even with this government effort to formalize the informality of the sector, recognizing the ad hoc nature in which PWOs emerged to respond to the demand for water, there are still challenges, including years-long wait times for new licenses and a lack of local transparency once licenses have been granted.

Despite the above milestones, only 28 percent of the total population currently has access to safely managed drinking water supply<sup>9</sup> with most of this service provision concentrated in larger towns. In addition, less than half of Cambodia's provincial capitals have functioning public piped water systems. Further, many small-scale private piped water schemes are still in the process of developing operational and management capacity, which restricts their service reach. There are also additional geographic areas that appear suitable for piped water supply services but remain under- or unserved due to the lack of investment.

**DEVELOPMENT CHALLENGES.** PWOs have helped to bridge the finance gap within the WASH sector, yet several critical challenges remain. The service coverage of licensed private water systems is insufficient to meet current demand let alone to address future demand within their respective licensing areas. Some existing or prospective PWOs may also face competitive tariff or expansion competition pressures due to the presence of nearby state-owned utilities. Additionally, some PWOs operate within areas with relatively small populations, which limits their ability to establish a commercially viable service provision.

Once established, PWOs also have difficulty growing their individual businesses—and expanding access to piped water—due to capital investment constraints. A USAID WASH-FIN assessment found that potential lenders were unfamiliar with the piped water supply business, making them more reluctant to lend to PWOs. This resulted in PWOs being subjected to high collateral requirements and high interest rates. It is not uncommon for banks to require physical collateral (e.g., land and buildings) with a value equal to 100 to 300 percent of the loan and to insist that property titles be kept at the bank even after a collateral assessment.<sup>10</sup> Although the Royal Government of Cambodia capped interest rates at 18 percent in 2017, the average lending rate starts at 12 percent for bank loans and 15 percent for

---

<sup>6</sup> See footnote 4.

<sup>7</sup> Licensing terms were amended due to the creation of MISTI in 2013 along with some advocacy work of CWA. Licenses are now issued by MISTI.

<sup>8</sup> According to the World Bank's Doing Business 2020, Cambodia ranked 187<sup>th</sup> (out of 190 countries) for starting a business, 178<sup>th</sup> in dealing with construction permits, and 182<sup>nd</sup> in contract enforcement.

<sup>9</sup> WHO/UNICEF JMP. (2021). <https://washdata.org/> (Updated April 2021).

<sup>10</sup> USAID's WASH-FIN. (2018). Cambodia Investor Landscape Assessment Report. [https://www.globalwaters.org/sites/default/files/USAID%20WASH-FIN%20Cambodia\\_Investor%20Landscape%20Report.pdf](https://www.globalwaters.org/sites/default/files/USAID%20WASH-FIN%20Cambodia_Investor%20Landscape%20Report.pdf)

microfinance loans,<sup>11</sup> which is prohibitively expensive for some PWOs.<sup>12</sup> Moreover, many PWOs are small family-run businesses and they often lack the capacity, experience, and financial resources to prepare regular financial statements or other documents that are typically required to even submit loan applications. Many PWOs also tend to have inadequate business management capacity and lack sufficient knowledge about how to improve their creditworthiness. All these factors create challenges for when PWOs apply for financing from historically risk-averse financial institutions.

To address these challenges, USAID's WASH-FIN Cambodia program was designed to close financing gaps to help achieve universal access to water supply. Existing institutions, such as MISTI and CWA recognized the importance of improving access to commercial finance for small and medium enterprises (SMEs) but lacked the expertise to provide technical assistance or advisory services. WASH-FIN built on earlier efforts to support PWO access to finance by the World Bank and AFD (Agence Française de Développement) and described in more detail [here](#). To address these capacity gaps, the program has been providing technical assistance in the following areas: (i) improving the business and financial operations of PWOs to improve creditworthiness and increase access to finance; (ii) building the capacity of CWA to assist PWOs to improve their business and operational activities; and (iii) strengthening governance and increase coordination between government and water sector institutions. These activities, described in greater detail below, have been instrumental in providing technical assistance to over 41 PWOs and mobilizing more than US\$ 4.1 million to date for PWO infrastructure projects.<sup>13</sup> While a previous AFD loan program relied on concessionary finance and partial credit guarantees<sup>14</sup>, WASH-FIN was able to build upon this work and mobilize this amount with only technical assistance. This represents a progression in the sector, however the large numbers of PWOs requiring finance suggests that additional credit enhancements may be needed to deepen access to more PWOs.

## I. Assessing and Improving PWO Operations

Program activities have focused on building the credibility and capacity of PWOs through the development of technical assessments, detailed business plans, and in-depth design studies. This work has also strengthened the relationship between local authorities and PWOs in line with the government's process of decentralization and deconcentration reforms.

**Selection of PWOs:** The program hosted a stakeholders' meeting to identify and design approaches for technical assistance that would help to improve operations, fortify creditworthiness, and increase commercial loan access for PWOs. PWOs were informed about the WASH-FIN program and introduced to an application form to apply for assistance under the program. Of the 86 PWO participants, 41 that satisfactorily submitted the application form were selected for the first field assessment. A survey was conducted by the program and CWA to further narrow down the number of PWOs.<sup>15</sup> The following criteria was used: 1) PWO was a member of CWA and in possession of a valid license; 2) PWO management demonstrated willingness to partner with WASH-FIN, and had needs that matched the technical assistance available from WASH-FIN; and 3) Select financial and operational data

---

<sup>11</sup> Heng, D., Chea S., and Heng. B. (2021). Impact on Interest Rate Cap on Financial Inclusion in Cambodia. IMF Working Paper.

<sup>12</sup> Prakas on Interest Rate Ceiling on Loan. (2017). Unofficial Translation from the Royal Kingdom of Cambodia. [https://www.nbc.org.kh/download\\_files/legislation/prakas\\_eng/Prakas-on-Interest-Rate-Cap-Eng.pdf](https://www.nbc.org.kh/download_files/legislation/prakas_eng/Prakas-on-Interest-Rate-Cap-Eng.pdf)

<sup>13</sup> This represents the amount of funding that the WASH-FIN program has helped mobilize in Cambodia as of April 2022.

<sup>14</sup> World Bank (2016). Facilitated Access to Finance for Domestic Private Water Operators in Cambodia.

<sup>15</sup> For further details, see WASH-FIN Cambodia PWO Selection Report, 2018. This report describes the process by which the WASH-FIN program selected a subset of PWOs to work with each year, with the goal of working with as many as possible over the life of the project.

was weighted and ranked including: number of households (connections) under the license; potential for expansion based on current service coverage within the license area; monthly consumption in dry season by connection; monthly consumption during wet season by connection; debt relative to total assets. This process led the team to sort PWOs into engagement readiness categories, and the team then went on to conduct field visits and collect more detailed information from PWOs in the categories of greater readiness. Table I provides a summary of some of the key business characteristics of the PWOs that were evaluated.

	# PWO	# PWO Staff	# Households Under License Area	# Current Connections	# Staff per 1,000 Connection	% of Total Market Served
<b>PWOs with Over 2,500 Connections</b>	7	17	9,589	4,880	3.4	51%
<b>PWOs with 1000 - 2,500 Connections</b>	15	7	4,925	1,650	4.2	34%
<b>PWOs with under 1000 Connections</b>	19	5	4,032	548	9.2	14%
<b>All PWOs</b>	41	8	5,308	1,691	5.6	32%

**Technical Trainings:** Following the initial selection of PWOs for the first field assessment, the WASH-FIN program began providing support by conducting training sessions on demand generation (local study visits, door-to-door campaigns, employment of marketing staff, etc.) to increase overall connections for PWOs. Other trainings focused on water quality and production (e.g., jar tests),<sup>16</sup> water quality monitoring, and chemical input use, energy consumption, and water loss management. Following the initial trainings, PWOs requested support to better understand the engineering challenges relating to water service provision. As a majority of PWOs in Cambodia are family-owned businesses and most owners do not possess engineering skills and do not employ a proper technician, the training helped to fill a critical gap. The WASH-FIN program and CWA engineering teams also provided intensive on-site and remote individual coaching to approximately 30 PWOs on routine water quality testing and management, which has helped to encourage increased investment in water quality and monitoring.

Later trainings focused on helping PWOs to develop a better understanding of the water treatment process, distribution system and technical management of their system, and operation and utilization of water quality testing kits provided by USAID to ten PWOs working with the program. This has encouraged the PWOs to learn more about the kits and how to use them to track their water quality following national drinking water guidelines. The program has additionally been following up regularly

<sup>16</sup> A jar test is a pilot-scale test of the treatment chemicals that a water treatment plant tends to use and helps the treatment plant estimate the minimum chemical doses needed to achieve water quality goals.

with the recipients and providing technical support as needed. CWA intends to continue offering training on water quality, building on previous trainings supported by the WASH-FIN program.<sup>17</sup>

## **2. Assisting with Preparation of Key Financial and Business Documents**

After conducting technical assessments, one of the program's main tasks has been to provide advisory assistance to increase access to financing. This work was initially informed by a financial landscape review of the banking sector in Cambodia, which helped to identify potential lenders and summarize lending terms, so that PWOs could take advantage of the best possible loan conditions.<sup>18</sup> The program then worked with each participating PWO to assess their respective financial strengths and to improve accounting systems and preparation of financial statements. While many PWOs' financial position is strong, many have difficulty demonstrating this as many do not keep comprehensive financial records – for example, while records of customer billing are often up to date, many PWOs keep no formal records of expenditures. The financial management support was intended to strengthen their accounting practices, build out their financial documentation, and improve the transparency and reliability of financial records of each participating PWO, which is a prerequisite for private financing.

**Financial Statement and Financial Model Preparation:** Once the relevant financial information was gathered, the program assessed the PWO's historical financial performance based on key factors such as revenues, profitability, assets and liabilities, customer payment history, collection efficiency, etc. This information was used to develop Excel-based financial models that included income statements, cash flow statements, and balance sheets. The financial statements and financial model have helped the PWOs to better understand their current financial position, manage operations, estimate their capacity for business growth, develop multi-year plans, and forecast the impacts of service expansions. The PWOs have also used the financial statements and financial models to support loan applications. Eight PWOs received support with the development of a business plan and financial model.

**Preparing Business Plans and Teaser Documents:** Business plans helped the PWOs map out their strategy for achieving growth and also serve as an effective marketing tool to help demonstrate financial strength, repayment ability, and seriousness to potential lenders. The WASH-FIN program has worked with PWOs to develop comprehensive business plans covering topics including historical trends, five-year goals, resources needed, capital improvement plans, institutional improvement plans, financial plans, tariff history, future projections and risks. By the end of September 2020, the WASH-FIN Cambodia program and CWA helped prepare seven PWO business plans. Four of these business plans have been subsequently revised in response to increased financing needs and were submitted to banks in support of follow-on loans.

## **3. Build the Capacity of CWA to Assist PWOs, Share Knowledge, and Liaise with Financial Institutions**

Since its inception, the program has worked to strengthen CWA as an organization that can continue to be a technical assistance and knowledge resource for PWOs after the program concludes in 2022. As of 2021, CWA staff have gained experience working on PWO technical assessments, business plans,

---

<sup>17</sup> WASH-FIN held trainings in Takeo, Phnom Penh, Banteay Meanchey, and Battambang Provinces, with PWOs from surrounding areas also participating. Each training consisted of multiple sessions covering water production and distribution facilities, system capacity issues, water quality, etc.

<sup>18</sup> USAID's WASH-FIN. (2018). Cambodia Investor Landscape Assessment Report. [https://www.globalwaters.org/sites/default/files/USAID%20WASH-FIN%20Cambodia\\_Investor%20Landscape%20Report.pdf](https://www.globalwaters.org/sites/default/files/USAID%20WASH-FIN%20Cambodia_Investor%20Landscape%20Report.pdf)

expansion proposals, and loan applications, which has enhanced its ability to continue to support and advocate on behalf of member PWOs. Through CWA's experience working in partnership with the WASH-FIN program, CWA has developed a direct relationship with MISTI, particularly with the department that handles legal issues and project development.<sup>19</sup> This was codified through a Memorandum of Understanding (MOU) between MISTI and CWA in October 2019, which the program helped develop and facilitate.

In addition to directly assisting PWOs with financial documentation preparation, the program and CWA have worked closely with seven local financial institutions to raise awareness and understanding of lending opportunities in the water sector. After developing the financial landscape review mentioned previously, the WASH-FIN program organized two workshops with banks, MFIs, and water operators to discuss sector-specific challenges and opportunities. The workshop in 2019 also included presentations of potential projects by the PWO owners and generated great interest from lending institutions. The workshop specifically highlighted successful cases in which operators had provided strong business plans and presented investment needs. Several of those banks have since provided WASH-FIN program-supported PWOs with commercial loans, including some with more favorable terms, including reduced interest rates and/or reduced requirements for collateral.

In parallel, the program also organized two workshops for PWOs to share their experiences working with the program and CWA, and to discuss how improved financial and business management resulted in improved access to commercial financing. This peer-to-peer experience sharing event encouraged additional PWOs to seek information about how to apply for bank loans and to learn more about general lending terms, conditions, and requirements. After the workshop took place, the WASH-FIN program continued to help with this knowledge transfer by directly responding to inquiries made to CWA and to the program about banking procedures and guidelines.

#### **Box 1: Commercial Bank Exposure to Finance Limitations for PWOs**

- Local lenders rarely lend based on business plans or future cashflows, locking out promising PWOs that meet most of the criteria except possession of hard collateral. Understanding this has helped to lower collateral requirements in some cases.
- Entrepreneurs often have poor accounting practices and mix personal expenses with business expenses making it difficult to track margins and overall PWO profitability. This is not a practice amenable to financial institutions, and there is growing awareness among PWOs that these practices must be improved if they have an interest to seek external financing.
- PWO infrastructure is often destroyed during local infrastructure development with no compensation or recourse. This and low enforcement around dealing with water theft contribute to losses impacting PWOs' profitability.
- Lenders expressed concern over the integrity of some entrepreneurs and PWO business vision, which contributed to different risk monitoring and assessment strategies among banks.

#### **4. Submitting Financing Applications and Closing Transactions**

Following the preparatory work described above on both the demand and supply of finance, the WASH-FIN program has helped PWOs prepare and submit loan applications that properly articulate their business needs and comply with the requirements imposed by lending institutions. To date, the program

<sup>19</sup> In the past, MISTI has worked closely with the NGO GRET on technical water issues, so hopefully the government agency will continue to liaise directly with CWA going forward.

has helped five PWOs close 14 loan transactions between 2019 – 2021, as well as assisted four PWOs in assessing their respective ability to contribute more of their own funds (“own equity”) in their businesses. The total value of these transactions and own equity contributions to date is just over US\$ 4.1 million. Some PWOs have received more than one loan as a result of the program’s assistance. For example, Kampong Chamlong Water Supply (KWS) was able to close five consecutive loans and has rapidly invested in service improvements and infrastructure expansion. The individual loans and own equity contributions supported by the WASH-FIN program are detailed in Table 2 below.

**Table 2: Secured Loan Transactions and Own Equity Contributions Supported by WASH-FIN Program Assistance**

PWO	Lender	Use of Funds	Key Terms	Amount (US\$)
Kampong Chamlong Water Supply (KWS)	Rural Water and Sanitation Team (RWST) <sup>20</sup>	Construction of new water treatment plant, storage tank and pipes purchase and installation	Seven-year loan at 13.44 percent interest rate without collateral	150,000
Kampong Chamlong Water Supply (KWS)	Idemitsu Saison Microfinance Cambodia Plc (ISC)	Expanding service areas and treatment plants	Ten-year loan at 10.2 percent interest rate with 30 percent collateral	350,000
Kampong Chamlong Water Supply (KWS)	Advanced Bank of Asia, Ltd (ABA) Bank	Construction of a water treatment plant, water storage tank, expansion of piped networks, and refinance of previous US\$ 500,000 in loans	Ten-year loan at 7.25 percent interest rate with 170 percent collateral	1 million
Kampong Chamlong Water Supply (KWS)	Phillip Bank	Expansion of piped networks	Ten-year loan at 9.25 percent interest rate for OD of US\$ 150,000 and nine percent interest rate for term loan of US\$ 350,000 with 66 percent collateral	496,314
Kampong Chamlong Water Supply (KWS)	Phillip Bank	Expansion of piped networks	Fifteen-year loan at nine percent interest rate with no collateral requirement	200,000
Kampong Chamlong Water Supply (KWS)	AMK Microfinance	Expansion of piped networks	Eight-year US \$300,000 loan at 9.96 percent interest and seven-year US \$100,000 loan at 6.48	400,000

<sup>20</sup> RWST is a private lending facility established by several PWOs to address their mutual need for financing.



PWO	Lender	Use of Funds	Key Terms	Amount (US\$)
			percent interest with 60 percent collateral.	
Leng Kheav Prek Ambel Water Supply (LKPAWS)	Idemitsu Saison Microfinance Cambodia Plc (ISC)	Renovation of water treatment plant, installation of pipe distribution network	Ten-year loan at 10.2 percent interest rate with 30 percent collateral	100,000
Leng Kheav Prek Ambel Water Supply (LKPAWS)	AMK Microfinance	Piped network expansion and storage	Six-year loan at 12 percent interest rate with no collateral	267,000
Bovel Water Supply (BWS)	ABA Bank	Renovation of existing treatment plant, additional main HDPE pipe installation	Ten-year loan at nine percent interest rate with 160 percent collateral	250,000
Bovel Water Supply (BWS)	Sathapana Bank	Refinance, piped network expansion, and new excavator equipment	Seven-year loan at seven percent interest. Collateral over 100 percent but no processing fee. Collateral was business land equal to 3,787 m <sup>2</sup> .	150,000
Chi Kreng Water Supply (CKWS)	Idemitsu Saison Microfinance Cambodia Plc (ISC)	Renovations for 100m <sup>3</sup> of a water treatment plant and installation of a piped network	Ten-year loan at 10.2 percent interest with 20 percent collateral	160,000
Khor Bunheat Water Supply (KBWS)	Idemitsu Saison Microfinance Cambodia Plc (ISC)	Renovation of a water treatment plant and installation of 16,000m of piped network	Ten-year loan at 10.2 percent interest with collateral	130,000
Khor Bunheat Water Supply (KBWS)	Canadia Bank	Piped network extension and refinance of the loan with ISC	Seven-year loan at seven percent interest. Collateral: owner's house, water supply station, rice mill, and a plot of land	200,000
Own equity contributions from four PWOs	N/A	Working capital, as described in business plans	N/A	328,325
<b>TOTAL<sup>21</sup></b>				<b>4,181,639</b>

<sup>21</sup> As of March 2022.

The commercial loans shown above have originated from seven financial lending institutions listed above. Loan amounts have ranged from US\$ 100,000 to US\$ 1 million, with loan durations from seven to fifteen years and annual interest rates from 7 to 10.4 percent, with the exception of the one from AMK with an annual interest rate of 12%. In addition, the WASH-FIN program was able to help many of the PWOs negotiate reduced collateral requirements. Whereas local banks typically require collateral equal to 200 percent (or more) of the total loan value, the PWOs that received loans after the WASH-FIN program's assistance were asked to provide collateral ranging from zero to 170 percent of the loan amount. Financial institutions have cited that the provision of proper business plans was an important factor in helping to de-risk these loans.

Two of the PWOs that obtained loans with the program's assistance, BWS and KBWS, did so through the new Small and Medium Enterprise Bank of Cambodia (SME Bank) SME Co-Financing Scheme that the Royal Government of Cambodia recently established to address economic challenges for small and medium enterprises due to COVID-19.<sup>22</sup> To date, 34 financial institutions have signed on to participate in the co-financing mechanism.<sup>23</sup> The Cambodian government and the consortium of participating banks have each agreed to contribute US\$ 50 million. This is contingent on the funds being lent at a competitive seven percent interest rate. With the program's guidance, BWS and KBWS obtained loans worth US\$ 150,000 and US\$ 200,000, respectively.

For other PWOs that have been unable to secure a loan thus far, either due to low debt service capacity or weak assessments from the Credit Bureau of Cambodia (CBC)<sup>24</sup>, the program has continued to provide technical assistance to improve business plans, operations, and financial performance. For instance, the program has provided support to a PWO that was not able to obtain a new loan due to a history of loan repayment delays. Guidance was provided on the relation between timely and consistent loan repayment and access to new financing. The PWO agreed to work on improving the repayment of its outstanding loans. Since this support was provided, the PWO was introduced to ABA Bank, which has since notified the PWO that it may be eligible for new financing after six months of on-time repayment of prior loans.

## **5. Improving Coordination and Knowledge Sharing Within the WASH Sector**

The Royal Government of Cambodia continues to encourage the decentralization and deconcentration reforms across many sectors, including WASH. These reforms are intended to gradually devolve administrative and financing responsibilities to local authorities, e.g., districts and communes, for water services in their local jurisdiction, and to encourage better governance. In line with these reforms, the program and CWA have committed to working more closely with NCDD, the entity responsible for implementing decentralization reforms. The WASH-FIN program's approach has involved encouraging the direct participation of NCDD and MISTI in commune and district meetings when water issues are discussed. The program has also supported communities to voice their concerns and to foster discussions about potential solutions to improve and expand water services.

---

<sup>22</sup> The Royal Government of Cambodia may provide up to US\$ 300 million under this scheme.

<sup>23</sup> <https://ibccambodia.com/wp-content/uploads/2020/04/Government-Officially-Launches-a-100-Million-Fund-for-SMEs.pdf>

<sup>24</sup> CBC assessments are mostly voluntary for borrowers, but encouraged by lenders as applicants can potentially obtain more competitive terms with a positive assessment.

From July 2019 to September 2021, the program provided support and capacity building to CWA to help organize meetings between the PWOs and Sub National Administration (SNA). This has contributed to the delivery of 34 PWO-SNA meetings (three Provincial; 12 District; and 19 Commune) and 21 Water Tours. A total of 1,819 individuals participated in these sessions.

Provincial meetings bring together all PWOs operating in the province to meet their government counterparts (all technical line departments, including government water utility authorities) concerned with water management and supply. The meetings provide an opportunity to present challenges and problems faced by PWOs and SNAs to a panel of provincial leadership, MISTI and NCDD, who then try to provide responses and take actions to problems during the meetings and/or clarify overlapping/unclear mandates that can then catalyze further action and/or discussion at the national level.

The commune and district meetings, which were conducted in-person pre-COVID-19, have not only helped PWOs comply with MISTI licensing requirements but have also enabled PWOs to present their views and seek potential solutions regarding operational challenges from local authorities and other key stakeholders. The WASH-FIN program has helped facilitate discussions concerning existing water production, distribution infrastructure, construction of new infrastructure, capital improvement plans, tariffs, connection fees, and other issues requiring increased coordination among these parties. The meetings have also led to the creation of a coordination mechanism between infrastructure sectors at the local level, such as when road construction may damage water pipes. An additional outcome is that these meetings have raised the awareness of the importance of access to safe drinking water, provided further justification for existing water tariffs and helped to generate demand for water supply services.

In order to provide further transparency on PWO operations among households and local stakeholders—such as local government officials, elected councilors, village leaders, and village representatives—the program frequently organized study tours to visit the facilities of local PWOs immediately following meetings. These tours allow PWO participants and local stakeholders to observe demonstrations of water treatment processes and water quality testing. The study tours help to build confidence in the quality of the water provided and help to attract demand for piped water.<sup>25</sup>

The program has also encouraged CWA to hold plenary discussions with development partners active in the local WASH sector, including Water.org, UNICEF, WaterAid, East Meets West (EMW), and 3i. The meetings and discussions help organizations to share current activities and approaches and provide a chance to collaborate and increase impact. In addition, and through CWA, the program has worked with other development partners such as UNICEF, EMW, and WaterAid on policy advocacy and guidelines on water resiliency, connection subsidies, and training guidelines.<sup>26</sup> The implementation of the WASH-FIN program's activities has highlighted the need to better coordinate these efforts among the various development partners to avoid potential duplication of efforts. In this way, development partners can maximize the impact of limited funding while delivering assistance in a more organized and systematic manner.

---

<sup>25</sup> As of 2020, WASH-FIN and CWA organized commune meetings and eight district meetings followed by 16 local water tours at PWO water supply stations. These events gathered between 15- 49 participants including from commune councils, district administrations, PWOs, the Secretariat of NCDD, MISTI, and other relevant stakeholders.

<sup>26</sup> The Standard Operational Procedures on drought and flood resiliency that CWA has prepared for MISTI are in draft as of this writing. The guidelines for a pro-poor subsidy for household connections has been approved by MISTI but has not yet been adopted.

## LESSONS LEARNED

### 1. Decentralization Reforms Remain Incomplete and Require Transition of Coordination Role to SNAs

Decentralization is ongoing but full decentralization remains slow and protracted, and many of the 2008 reforms remain under “discussion.” In particular, the shifting of water functions to local governments at the district and commune level has not happened. District and commune authorities need to be empowered as the main coordinator with PWOs. For this to be achieved they need enhanced capacity and guidance. MISTI and NCDD should provide clear guidance in terms of policy, regulation, monitoring, and stakeholder coordination. The national government needs to establish a clear chain of authority for WASH at the sub-national administration levels. At present there are seven different ministries overseeing water resources in collaboration with provincial governors. This has resulted in the inability of governors to prioritize the protection of water resources and inefficient resource allocation. SNAs hold the potential to better manage issues at the local level and mobilize resources, and this in turn impacts PWO business and ability to access finance.

Part of the WASH-FIN program capacity building, designed to help CWA with better governance in water supply delivery, has taken a bottom-up approach to facilitating coordination between PWOs and local authorities and stakeholders. The program has facilitated numerous dialogues between PWOs and sub-national government entities to help build on the decentralization of administrative roles and responsibilities in the water sector. The program facilitated 19 PWO-Commune meetings, 12 PWO-District/Municipal meetings, 21 local PWO facility tours, and five PWO-SNA provincial meetings. During the PWO-SNA provincial meetings, the WASH-FIN program and CWA collected key challenges and proposed solutions that will be consolidated in a report and shared with MISTI and other national ministries to foster further discussion and a sort of action plan to address issues.

### 2. Improvements in Licensing Framework Helped Strengthen Sustainability of PWOs, but Advisory Support and Delegation of Licensing Authority to the SNA Level Remains Critical

If government budgets and other factors continue to limit state-run water utilities to only half of the provinces in Cambodia, then it needs to help create and nurture private water operators to meet demand. Importantly, in 2014, the regulator increased the PWO license term from three years to 20 years. This helped increase opportunities for investment by providing a longer, more secure payback period for investments. The technical assistance provided by the WASH-FIN program to PWOs has demonstrated the importance of financial and engineering advisory support. Continued capacity support should be explored through government or development partners. Government can also help strengthen PWOs and created opportunities for their growth by: (i) encouraging increased lending opportunities at affordable rates; (ii) reviewing existing regulation within the banking and financial sector to ensure that it is conducive to lending to the water sector and not limited to businesses that have hard titles and high value collateral; and (iii) simplify the licensing process through devolution of licensing authority to the sub-national administration. Left unaddressed, these issues will not only continue to restrain the ability of PWOs to obtain financing, but also potentially impair the ability of PWOs to meet their requirements for existing loans.

### 3. SME Bank Should be Adequately Capitalized and Tailored to PWO Needs

The SME Co-Financing Scheme, newly established by the Royal Government of Cambodia and initially capitalized at US\$50 million, has already proved beneficial to a few PWOs. The bank should be fully

capitalized and better structured to more efficiently channel funds in general and to the water sector in particular. It may be beneficial for MISTI to discuss with the Ministry of Economy and Finance the potential significance of this financing source to PWOs. Additional potential actions that can be taken to help improve the ability of PWOs to access this funding include but are not limited to: (i) greater support and guidance to PWOs in preparing loan applications; (ii) reduced collateral requirements; (iii) direct interest rate subsidies; and (iv) establishment of a separate lending window for PWOs, where borrowing requirements could be more easily tailored for them. The establishment of a lending window could be facilitated through a multilateral or bilateral financing institution. SME fund capitalization could potentially be achieved through a partnership with a private lending institution. For example, the private lender could provide additional capital to the fund in exchange for tax incentives. The WASH-FIN program and CWA will continue to work closely with participating banks, MFIs, and key stakeholders to encourage higher allocations for the WASH sector, help tailor the funds to meet the needs within the WASH sector, and to improve the lending terms and conditions for eligible PWOs.

#### **4. Technical Assistance Can Overcome Barriers Related to High Collateral and Due Diligence Requirements and Contribute to Improved Lending Opportunities**

Several PWOs working with the WASH-FIN program are still unable to obtain loans because of extremely high collateral and comprehensive due diligence requirements imposed by lenders. The ability of PWOs to obtain financing is limited because their property is not valued highly enough to meet collateral requirements of most lenders. An additional and related barrier is the large amount and type of information requested by lenders as part of their due diligence process. High collateral requirements particularly impact rural water providers, which incur relatively high capital and operational expenditures in order to meet coverage needs over wide geographic areas.

The program demonstrated that it is possible to negotiate reduced collateral requirements, as was the case for WASH-FIN program supported PWOs. The provision of proper business plans, and financial and accounting files in order were highlighted by financial institutions as an important factor in helping to de-risk these loans. Future capacity building efforts ideally should work in partnership with financial institutions and interested borrowers, e.g., PWOs, to help complete the due diligence process during the loan application, including business plan assistance. These efforts have the secondary benefit of providing financial institutions with a better understanding of the nature of PWO's business operations.

However, it is important to note that the prior AFD PWO finance program mobilized similar resources over a similar time period utilizing concessionary wholesale finance combined with partial credit guarantees.<sup>27</sup> While WASH-FIN built on this program and mobilized resources solely with technical assistance, considering the number of PWOs in need of capital investment, credit enhancements will likely be required to enable lower creditworthy projects or PWOs. The SME Bank can help in this regard but bringing PWOs more quickly up the credit ladder to access private capital may require financial support.

PWOs and CWA should continue to develop and maintain strong relationships with financial institutions and explore ways in which high collateral requirements could potentially be relaxed. For example,

---

<sup>27</sup> See: AFD, Cambodia (No date): Access to finance for Small Enterprises in water and electricity sector and World Bank (2016): Facilitated Access to Finance for Domestic Private Water Operators in Cambodia

changing banking sector regulation to allow for more lending on (future) cashflows<sup>28</sup> or lower collateral requirements that increase access to finance could be explored. Government could also play an important role by engaging with private financial institutions to de-risk loans to PWOs. Targeted government support to PWOs could also include concessional finance schemes or subsidies, similar to those provided to public utilities.

#### 5. CWA's Advisory, Training and Advocacy Support are Valued by PWOs but CWA Requires Additional Support to Best Serve its Members in the Long-Term

CWA has increasingly been filling a critical gap for PWOs through advisory and advocacy support, and the demand for its services exceeds its capacity. It has been proven to be effective in training implementation co-organized with the WASH-FIN program. CWA membership has increased from 145 to 253 PWO members since it began work with the program, and this is attributable to CWA's relevance to PWO needs. However, the overall goal is for CWA to be able to provide technical advisory support to PWOs over time, in the absence of support of a development partner. The challenge is that CWA will be unable to grow and expand its services without a self-sustaining budget and increased staff. The Cambodian government could help address this problem by ensuring that CWA has sufficient and reliable sources of financial resources through direct budgetary allocations. Precedent for government support already exists for other industry associations, such as the Cambodia Rice Federation (CRF), which received a low-interest loan from the Rural Development Bank. CWA may also consider the establishment of a fee mechanism to partially cover its operations and seek additional opportunities to provide services with other donors or implementing partners, as it has done through its support under the WASH-FIN program. It has also been suggested that CWA charge for PWO trainings, but this is not achievable in the short-term.

The long-term sustainability of CWA would in turn benefit numerous communities by improving water services and the devolution process itself. The majority of PWOs are not like other industry investors, who come with large sums of money. PWOs often invest all family assets into their businesses. The government does not have the capacity to reach all small towns and people with piped water supply. As such, helping CWA to help PWOs is a win-win situation, as it means helping the government and the country to achieve access to safe and reliable water.

**ABOUT THE WASH-FIN PROGRAM:** USAID's WASH-FIN program works in collaboration with national governments, development partners, financial institutions, service providers, and local stakeholders in eight countries. The program's Country Briefs summarize the development challenges, activity design, and results to date for each country of operation. The briefs focus on the lessons learned and their applicability in each country as well as for USAID and the broader global water and sanitation sector.

---

<sup>28</sup> Cash-flow based lending is a method by which some companies are able to borrow money based on the projected strength of future business earnings rather than on collateral.