

# Improving the performance of water entrepreneurs in urban Kisumu, Kenya

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Master Operators (MOs) are small-scale semi-autonomous water providers who serve low-income areas in Kisumu, overseen by Kisumu Water and Sewerage Company (KIWASCO) through a Delegated Management Model. MOs extend the supply network to many of the city's poorer residents for a fair price and have helped to semi-regulate previously informal water services. However, they have a poor growth and performance record. This Practice Note outlines KIWASCO's management model and how these social entrepreneurs can improve their business sustainability while continuing to extend services to low-income customers.

## Water supply in Kisumu

Kisumu is the third largest city in Kenya, with an estimated population of half a million people, around 60% of whom live in informal settlements. Kisumu has the worst health indicators and highest poverty levels of any city in the country.

In 2010, only 65% of the water requirements of Kisumu city residents were met, and this figure concealed discrepancies between richer and poorer areas. In 2013, more than three-quarters of the city's water was consumed by those who had piped connections into their houses – less than 10% of the city's population. The majority of KIWASCO's 53,000 water connections are active, but most of these remain in middle- to higher-income settlements and very few are found in lower-income areas.

It is estimated that over 60% of the population living within KIWASCO's service area reside in informal settlements (planned and unplanned) such as Manyatta, Obunga, and Nyalenda.



Image: A Master Operator in Kisumu. Credit: Stone Family Foundation

## Master Operators and informal urban settlements

As part of its efforts to extend services to all residents of Kisumu, KIWASCO has implemented a Delegated Management Model (DMM) through which independent providers supply water to households and water kiosks in informal settlements. A pilot in Nyalenda successfully provided approximately 25,000 people with KIWASCO-supplied safe water; the DMM subsequently expanded to six more informal settlements.

KIWASCO selects MOs through a competitive process and sells those MOs water under a bulk supply tariff. MOs then bill customers, collect revenue and sell new connections to households and water kiosk vendors. MOs have four main responsibilities: 1) to acquire new customers, 2) to reduce levels of non-revenue water (NRW), 3) to bill water that is delivered, and 4) to collect revenues from households and water kiosks connected to the water network.

## Advantages of the Delegated Management Model

This Delegated Management Model has advantages for customers, MOs and the utility. KIWASCO's administration costs are lowered and illegal connections to the water network are reduced; those living in informal settlements can access water closer to their homes at an affordable rate and can make regular payments locally; and the MOs can keep any profits that they make over and above what they pay KIWASCO for the water. As a result, KIWASCO field staff report that NRW in the areas they oversee has reduced significantly, by up to 40%.

MOs therefore play a key role in KIWASCO's pro-poor efforts: low-income residents now pay less for water when compared to middle- and high-income customers than was previously the case.

**Table 1:** Key barriers to MO business growth and coverage expansion

<b>No long-term business strategy</b>	Only 20% of the MOs had written business plans and most did not have valid business registration certificates. The latter was a particularly significant barrier for MOs hoping to partner with financing institutions who require such documentation.
<b>High operational costs</b>	Printing and distributing bills to customers was a considerable operational expense, but only five MOs had digitised their business. In addition, MOs did not commonly keep records and were therefore unaware of whether their business was making a profit or a loss. Overall, only around a third of MOs were able to break even each month.
<b>Poor or absent marketing strategies and initiatives</b>	Potential customers were not aware of services, prices or advantages of using MOs services, and MOs did not communicate their official institutional affiliation with KIWASCO to potential customers.
<b>Ineffective customer relations and management</b>	MOs did not have a formalised channel of communication with existing customers; subsequent delays in responding to customer complaints or problems with connections meant that accounts went dormant or inactive, further reducing revenue.
<b>Weak human resource capacity</b>	Though all MOs had employed staff and, in some instances, had executive committees headed by community-based organisations, none had job descriptions for staff or executives. Roles commonly overlapped and led to operational inefficiencies.

### Balancing commercial growth and sustainability: Key recommendations

Well-designed business growth strategies will be crucial for MOs if they are to expand water coverage in their neighbourhoods. As a first step, business registration certificates should be updated, and their renewal included in each MO's business plan.

KIWASCO could provide business management training for MOs, including marketing, financial management and record keeping. In addition, digitising billing processes will improve efficiency and revenue collection, and lower operational costs. Holding regular 'clinics' with customers will sensitize them about new products or procedures, including making complaints or alerting MOs to issues with infrastructure. Increasing training for MOs on customer management and care will aid customer retention.

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## Barriers to coverage expansion and Master Operator profitability

Despite the potential profitability of this model for MOs, connection rates remain low and coverage in some low-income areas has stagnated.

A WSUP assessment of 23 MOs in 2017 found that weak business management and a lack of entrepreneurial skills were the primary reasons why coverage was not expanding in MOs' neighbourhoods. Key barriers as identified in the assessment are listed in Table 1.

Very few of the MOs had explored the possibility of commercial finance; the majority continue to rely on monthly revenue collected from customers' bills and new connections rather than exploring the possibility of accessing small loans from financial institutions.