



# WATER, SANITATION, AND HYGIENE FINANCE (WASH-FIN)

WASH-FIN Year 4 Annual Report

October 2019–September 2020



**October 2020**

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Cover photo: Participants at the SVWSUO Business Plan Dissemination Workshop in Kathmandu held January 21–22, 2020.

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## **DISCLAIMER**

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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# ACRONYMS AND ABBREVIATIONS

ABA	Advanced Bank of Asia
ADB	Asian Development Bank
AdeM	Maputo Regional Water Company ( <i>Águas da Região de Maputo</i> ) (Mozambique)
AFD	<i>Agence Française de Développement</i> (French Development Agency)
AIAS	Water and Sanitation Infrastructure Administration ( <i>Administração de Infra-estruturas de Água e Saneamento</i> ) (Mozambique)
AURA	Water Supply and Sanitation Regulatory Authority ( <i>Autoridade Reguladora de Água</i> , Mozambique)
DBSA	Development Bank of Southern Africa
BDS	Business Development Specialist
BGR	<i>Bundesanstalt für Geowissenschaften und Rohstoffe</i>
CCA	Climate Change Adaptation
CIG-Zambia	Cities and Infrastructure for Growth-Zambia
CLSG	Conditional Liquidity Support Grants
CMU	Concession Management Unit
COG	Council of Governors
COP	Chief of Party
COR	Contracting Officer's Representative
CPCSP	Ministry of Water and Sanitation's Board of Project Planning, Coordination, and Monitoring
CRM	Customer Relationship Management
CS-TAP	Customer Service Turnaround Project (South Africa)
CTL	Country Team Leader
CU	Commercial Utility (Zambia)
CWA	Cambodian Water Supply Association
DDL	Development Data Library
DFI	Development Finance Institution
DILG	Department of Interior and Local Government
DMF	Delegated Management Framework
DNAAS	National Directorate of Water Supply and Sanitation (Mozambique)
DOH	Department of Health
DPR	Detailed Project Report
DQA	Data Quality Assessment
DWS	Department of Water Supply
DWSSM	Department of Water Supply and Sewerage Management (Nepal)
EMMP	Environmental Mitigation and Monitoring Plan
ENPHO	Environment and Public Health Organization
EWSC	Eastern Water Supply Company
FEDWASUN	Federation of Drinking Water and Sanitation Users (Nepal)
FIPAG	Fund for Investment Ownership and Water Supply Assets ( <i>Fundo de Investimento e Património do Abastecimento de Água</i> ) (Mozambique)
FPA	Private Water Provider ( <i>Fornecedor Privado de Água</i> ) (Mozambique)
FSM	Fecal Sludge Management

FSTP	Fecal Sludge Treatment Plant
GDP	Gross Domestic Product
GIZ	German Development Agency ( <i>Deutsche Gesellschaft für Internationale Zusammenarbeit</i> )
GoP	Government of the Philippines
I&P	<i>Investisseurs &amp; Partenaires Sénégal</i>
IEE	Initial Environmental Examination
IMDF	INCA Municipal Debt Fund
INCA	Infrastructure Finance Corporation Limited
ISA	Infrastructure South Africa
ISSAU	Institutional Support and Service Advisory Unit (Nepal)
IT	Information Technology
IWM	Integrated Waste Management
JV	Joint Venture
KEA	USAID/Kenya and East Africa
KM	Knowledge Management
KPWF	Kenya Pooled Water Fund
KUKL	Kathmandu Upatyaka Khanepani Limited
LGU	Local Government Unit
LOP	Life of Project
LWSC	Lusaka Water Supply Company
LWUA	Local Water Utilities Administration (Philippines)
LWWSP	Lusaka West Water Supply Project
M&E	Monitoring and Evaluation
MAWASCO	Mathira Water and Sanitation Company (Kenya)
MCMS	Municipal Central Management System
MDG	Millennium Development Goal
MEP	Monitoring and Evaluation Plan
MFI	Microfinance Institution
MIH	Ministry of Industry and Handicraft
MISTI	Ministry of Industry, Science, Technology, and Innovations (Cambodia)
MoWS&I	Ministry of Water, Sanitation, and Irrigation (Kenya)
MPWT	Ministry of Public Works and Transport (Cambodia)
MuAN	Municipal Association of Nepal
MWDSEP	Ministry of Water Development, Sanitation, and Environmental Protection (Zambia)
MWSC	Mulonga Water and Sanitation Company (Zambia)
NCDD	National Committee for Democratic Development
NGO	Nongovernmental Organization
NEDA	National Economic and Development Authority (Philippines)
NRW	Non-Revenue Water
NWSC	Nepal Water Supply Corporation and National Water and Sewerage Corporation (Uganda)
NWSSTC	National Water Supply and Sanitation Training Center (Nepal)
O&M	Operations and Management
OCA	Open Capital Advisors
OECD	Organization for Economic Co-operation and Development

ONAS	<i>Office National de l'Assainissement du Sénégal</i> (National Sanitation Agency of Senegal)
PAAS	Senegal Sanitation Project
PADD	Policy Analysis and Development Division (Cambodia)
PEA	Political Economy Assessment
PNDDAA	National Sustainable Sanitation Development Program (Senegal)
PPP	Public-Private Partnership
PRONASAR	National Rural Water and Sanitation Program (Mozambique)
PWO	Private Water Operator
PWSSMP	Philippine Water Supply and Sanitation Master Plan
RDQA	Remoted Internal Data Quality Assessment
RFA	Request for Approval
SA5	5th Supplementary Agreement (Southern Africa)
SDG	Sustainable Development Goal
SDP	Sector Development Plan (Nepal)
SECO	Swiss State Secretariat for Economic Affairs
SINAS	National Water Sector Information System (Mozambique)
SLA	Service Level Agreement
SOP	Standard Operating Procedure
SOPHEN	Society of Public Health Engineers (Nepal)
SOW	Scope of Work
SPEED+	Supporting the Policy Environment for Economic Development
SSP	Sanitation Service Provider
STTA	Short-Term Technical Assistance
SVWSUO	Surkhet Valley Water Supply User's Organization (Nepal)
SWM	Solid Waste Management
TDF	Town Development Fund (Nepal)
TNC	The Nature Conservancy
UFF	Unified Financing Framework for Water Supply and Sanitation Services (Philippines)
URAF	Unified Resource Allocation Framework (Philippines)
USD	United States Dollar
USAID	United States Agency for International Development
VGf	Viability Gap Financing
WASH	Water, Sanitation, and Hygiene
WASH-FIN	Water, Sanitation, and Hygiene Finance
WASREB	Water Services Regulatory Board (Kenya)
WATIH	West Africa Trade and Investment Hub
WGA	WASH Governance Advisor
WHO	World Health Organization
WSC	Water and Sanitation Company (Zambia)
WSP	Water Service Provider
WSS	Water Supply and Sanitation
WUIIV	Water Unite Impact Investment
WUSC	Water Users' and Sanitation Committees (Nepal)
ZESCO	Zambia Electricity Supply Corporation



## EXECUTIVE SUMMARY

The Water, Sanitation, and Hygiene Finance (WASH-FIN) Program has attained a series of important technical and operational milestones in Year 4, making considerable progress toward reaching its primary objectives of closing financing gaps to achieve universal access to water and sanitation. During its fourth year of global project implementation, WASH-FIN has continued to provide technical and capacity-building assistance to small and medium-sized water and sanitation utilities; form important partnerships with the water, sanitation, and hygiene (WASH) sector stakeholders and financial institutions; and reached several milestones through publication of knowledge management products and engagement in global thought leadership opportunities and on-demand work. WASH-FIN's fourth year saw the conclusion of two of its country-level activities, in South Africa and the Philippines. Country activities established in Year 3 in Mozambique and Zambia started developing local governmental and subcontract relationships that advanced project activities detailed in Year 4 work plans.

The COVID-19 pandemic impacted WASH-FIN's ability to conduct activities in the timeframe established in Year 4 work plans. Country-level teams in all of WASH-FIN's eight countries of operation were able to transition to remote work status efficiently. This allowed for work to continue as key deliverables and activities were effectively coordinated with WASH-FIN subcontract partners. WASH-FIN established country-specific COVID mitigation contingency plans that ensured that staff, partners, and stakeholders remained safe during this time, and into eventual re-opening stages. Regional travel for all WASH-FIN teams and international travel for home office staff was suspended in mid-March 2020. In Cambodia, where the COVID-19 case load has been substantially low, regional travel resumed in June to allow staff and subcontract partner Cambodian Water Supply Association to visit regional private water operators. As of the writing of this report, all WASH-FIN staff are working remotely except for in Cambodia, following their respective national and local government guidelines. As the COVID-19 situation evolves, the team anticipates additional impact to WASH-FIN programming, at least through Q1FY21. Despite these global challenges, WASH-FIN has continued to work diligently to reach the milestones and achievements summarized within this report.

This Year 4 Annual Report summarizes the key achievements of WASH-FIN during the 12-month period beginning October 1, 2019 and ending September 30, 2020. While the full report will address ongoing activities and their associated milestones and achievements in detail, this Executive Summary highlights some of WASH-FIN's most notable Year 4 advancements and achievements.

### **KNOWLEDGE MANAGEMENT:**

Knowledge sharing and learning are fully integrated into project activities to better strengthen the capacity of WASH authorities, service providers, and local financial institutions. During Year 4, WASH-FIN has accomplished a few major knowledge management milestones. WASH-FIN submitted Country Case Studies for Kenya, Senegal, and South Africa for USAID review. In response to the COVID-19 pandemic, WASH-FIN Kenya developed technical briefs in collaboration with Water Services Regulatory Board (WASREB) on topics related to the effect of the COVID-19 pandemic on WSPs and WASH-FIN's efforts to assess the financial stress put on WSPs by the effects of the pandemic. In addition, in Senegal WASH-FIN developed public awareness videos and the Mozambique activity produced a pamphlet to provide guidance to service providers as well as to the general public to promote the safety of consumers during the pandemic. WASH-FIN also hosted knowledge sharing workshops on the following topics: lessons learned in financing PWOs with PWOs stakeholders (Cambodia), business planning for water utilities (Nepal) and virtual training for stakeholders on the UFF appraisal model (Philippines); webinars on COVID-19 and the WASH sector; and participated in international conferences such as

## LESSONS LEARNED:

In Year 4, the link between WASH finance and governance was re-emphasized by the COVID-19 pandemic which brought to the fore the centrality of water and sanitation as both a public health and economic good. The pandemic also highlighted the disconnect between political rhetoric around the importance of WASH and the reality of limited financing for the sector. WASH was rightly put at the forefront of government response, but the financial and technical fragilities of the sector were exposed almost immediately. In this section of the report the experience and lessons learned from the WASH-FIN portfolio are shared and contemplated. The observations reinforce the need for a back to basics approach that positions water service providers as the critical institution for delivering reliable water and sanitation services and provides the appropriate resources and enabling environment, including finance from all available sources. The examples show not just challenges, but also opportunities for governments to rethink how they deliver essential water and sanitation services and how to optimize available resources, whilst also making service providers more resilient to future uncertainties. This is key not only to fighting COVID-19, but most importantly to the realization of the goal of universal water supply and sanitation coverage.

## ON DEMAND:

In Year 4, WASH-FIN was made aware of an opportunity in the Dominican Republic to support development of a Blended Revolving Fund for rural WASH investments. A SOW was approved, and consultants began a scoping effort for an activity design. In the wake of the COVID-19 pandemic, an opportunity emerged to collaborate with the World Bank on their COVID-19 Financial Assessment Tool for service providers. WASH-FIN was already doing stress testing on the financial impact of COVID-19 in Kenya and the collaboration resulted in a request for a review of the World Bank tool as part of the peer review process. In Q4, a webinar was organized to familiarize water service providers with the tool, and it is being considered in other WASH-FIN countries. Other On-Demand activities included reviewing a concept note for an innovative Franchised Service Delivery Model from a US not-for-profit organization and continuing to follow-up with the World Bank on support for a potential bond issuance for the National Water and Sewerage Corporation (NWSC) of Uganda.

## RESOURCE MOBILIZATION:

WASH-FIN has mobilized a total of USD 21,415,618 over the life of the project thus far, out of a total target mobilization of USD 103 million. Out of the cumulative total, WASH-FIN has mobilized USD 9,727,913 in Year 4 in Southern Africa, Kenya, Cambodia, Senegal, and Nepal.

## COUNTRY ACTIVITIES

WASH-FIN implements activities in **Cambodia, Kenya, Mozambique, Nepal, the Philippines, Senegal, the Southern Africa region, and Zambia**. The nature of WASH-FIN's global contract design presents significant opportunity to demonstrate technical successes across a wide variety of sector structures and maturities—thereby increasing the likelihood of replication and scale as these successes are solidified and disseminated to other global sector actors. The following is a summary of key achievements made by country activities across the WASH-FIN portfolio.

**Cambodia:** WASH-FIN continued working with 39 of the 41 private water operators (PWOs) originally selected for support. This work included technical assessments for 11 PWOs and assisting two others with initial data analyses. As a result, three financial institutions approved six loan transactions

totaling USD 2 million. Combined with PWOs reinvesting their own equity, a total of ██████████ in financing was mobilized for PWOs during Year 4. Out of that total, five PWOs invested a total USD ██████████ on climate change-related projects such as expansion and improvement of freshwater reservoirs and clean water storage. These investments resulted in an increase of 10,169 household connections serving approximately 50,845 people which is expected to increase further in Year 5. Advancing the training and community advocacy components of its workplan, WASH-FIN and the Cambodian Water Supply Association (CWA) facilitated 19 PWO-commune and district meetings aimed at solutions to locally identified water supply issues. WASH-FIN also conducted three water quality testing and management trainings for nine PWOs and organized 15 tours of water facilities to help community members see the challenges and benefits of producing clean piped water firsthand.

**Kenya:** WASH-FIN supported the Council of Governors (COG) in coordinating the WASH sector response to the COVID-19 pandemic. Related activities included facilitating discussions among all stakeholders; facilitating access to water treatment chemicals through engagement with the Ministry of Water, Sanitation, and Irrigation (MoWS&I) and development partners; and providing inputs for the COG’s weekly updates on the WASH considerations and effects of the COVID-19 pandemic. WASH-FIN also undertook four rapid assessments of the impact of COVID-19 on WSP operations, delivering four COVID-19 updates and sharing with sector partners. The updates covered the water treatment chemical supply chain, the role of WSPs in provision of water and sanitation services in informal settlements, the impact of electricity bills on operations and maintenance, and a financial stress test. The report on the WSP financial stress due to COVID-19 was featured on GlobalWaters.org. Additionally, WASH-FIN assisted the Water Service Regulatory Board (WASREB) to organize two knowledge sharing events with financial Institutions (local banks) and water services providers (WSPs). The events focused on bringing the two sectors together to discuss the potential of commercial financing in the Kenya WASH sector from both the demand and the supply side. Lastly, WASH-FIN Kenya participated in the African Water Association 2020 conference held in Kampala, Uganda, in February 2020 where they shared a success story on customer outreach support to Mathira Water and Sanitation Company (MAWASCO). This support contributed to MAWASCO reaching its target for customer connections and qualifying for a 60 percent subsidy on the World Bank-supported output-based aid program.

**Mozambique:** During FY 2020, WASH-FIN has continued to support the interwoven goals of increasing total investment by promoting greater private sector participation in the WASH sector, expanding water and sanitation coverage in urban, peri-urban, small town, and rural growth centers, and increasing the capacity of sector institutions. With respect to increasing private sector participation, the “PPP Structures for Secondary Water Supply Systems Report”, which summarizes three PPP models and provides recommendations for implementation was prepared and submitted to AIAS. WASH-FIN also revised lease contract documents used by AIAS to engage local private water operators. During program implementation, the Government of Mozambique received an unsolicited proposal by an international investor, AQUASWISS for a proposed concession to rehabilitate, expand and operate the Vilankulo water supply system. WASH-FIN is supporting AIAS with the due diligence process by commencing work on a feasibility study for the Vilankulo water supply system as well as supporting the review of the contract documents and the financial model. Additional efforts to support private investment include launching the tender for the Small Towns Infrastructure Fund. During this past year, WASH-FIN Mozambique also ramped up its support to sector institutions and service providers. This includes beginning work on a needs assessment to determine the types of technical assistance activities to be provided to at least 20 FPAs, such as improving operational activities, increasing efficiencies, and improving financial management practice. Work was also commenced on the development of a methodology and tools to enable governments at all levels to monitor performance of private operators in rural areas piped systems (PRONASAR systems). Support to the sector regulator, *Autoridade Reguladora de Águas* (AURA) involved engaging an institutional advisor to review of the legal framework pertaining to regulation of FPAs and PRONASAR piped services and the identification of the studies and

activities needed to implement these activities. WASH-FIN Mozambique also continued with the sector financial information flows tracking exercise, TrackFin.

**Nepal:** In Year 4 the Nepal activity concluded its support to the Surkhet Valley Water Supply Users' Organization (SVWSUO) and a national level workshop was held to disseminate the Business Plan, Cost and Tariff Review, and other governance and finance support provided by WASH-FIN. Progress continued with the Gulariya Municipality in preparing technical and financial documents required to outsource the operation of the city's Fecal Sludge Treatment Plant (FSTP) to a private operator. Key documents drafted included an Operation and Maintenance (O&M) Manual, a Service Level Agreement (SLA) and a business model was developed to underpin service delivery based on commercial approaches and cost recovery. Knowledge Management efforts advanced this year include a Financial Landscape Assessment of the WASH sector in Nepal, which is in its final stage of review. A new initiative started in Year 4 was based on a request from the Department of Water Supply and Sewerage Management (DWSSM) to develop a curriculum for FSTP/FSM design training for government engineers. A concept note was prepared, and sub-contractors began to develop the curriculum which is expected to enhance design capacity for systems to be built with available public funds. This progress was achieved despite disruptions and delays due to COVID-19. To understand the impact of COVID-19 on the WASH sector, a rapid assessment was conducted with a small group of water utilities to identify the impact on continuity of service provision as it relates to the utilities' operations and financial wellbeing. The results of the assessment are expected to inform sector actors as they recalibrate approaches to supporting resilient service provision.

**Philippines:** During year 4, WASH-FIN Philippines continued its support to the National Economic and Development Authority's (NEDA) efforts to operationalize the Unified Financing Framework (UFF). Additional revisions were made to the NEDA Board Resolution adopting UFF as the financing policy for the Water Supply and Sanitation Sector. WASH-FIN also continued assistance to NEDA and the three UFF implementing agencies: Department of Interior and Local Government (DILG), Department of Health (DOH) and the Local Water Utilities Administration (LWUA) identify their respective WSS investment programs for 2020. Year four focused heavily on the finalization of project deliverables that would support the effective implementation of the UFF, including: a) development of the UFF excel-based financial model and user manual; b) proposed program design and structure for setting up a municipal central management system c) proposed program design for the output-based aid blended finance program for the sanitation needs of low-income households; and d) the Capacity Development Plan for the UFF implementing agencies. In addition, WASH-FIN Philippines also worked with partners to consider next steps and handover of technical assistance support as the program concluded in Year 4.

**Senegal:** WASH-FIN Senegal's Year 4 activities were primarily focused on the financial capitalization process and strengthening financial skills. Sanitation service providers DELTA, DELVIC, and VICAS received transaction advisory support, and WASH-FIN's international subcontractor Open Capital Advisors (OCA) provided initial remote support to the Cohort 2 Tier 1 providers. WASH-FIN also worked closely with the Government of Senegal's National Office of Sanitation (ONAS) to assist them in their privatization efforts under the nascent National Sustainable Sanitation Development Program. In addition, WASH-FIN continued to advocate for increased WASH sector financing through the development of a WASH on-lending product. Lastly, WASH-FIN produced public communications products including a newsletter and two COVID-19 related videos.

**Southern Africa:** A major achievement for WASH-FIN's Southern Africa activity in Year 4 was the capitalization of the Infrastructure Finance Corporation Limited (INCA) Municipal Debt Fund in South Africa with an investment of USD 28 million. This will increase liquidity in the municipal infrastructure lending market, especially targeted at secondary cities. WASH-FIN also facilitated the approval of a transaction providing USD 250,000 in social impact investment for scaling of a fecal sludge management technology. WASH-FIN's support to the City of Cape Town's financial management reform efforts

focused on transitioning to local leadership and ensuring the long-term sustainability of the reforms. In the City of Mbombela, WASH-FIN continued to support the city's negotiations with its concession partner and to build the capacity of the city to effectively manage the concession to drive water and sanitation service improvements. Finally, WASH-FIN made significant progress on the study of innovative water and sanitation financing mechanisms for the National Treasury and Department of Water and Sanitation, which will help key stakeholders identify financing mechanisms to bridge the funding gap. WASH-FIN continued to share knowledge, including cohosting the third in a series of workshops on municipal water resilience, publishing a case study on the customer service reforms in Cape Town, and moderating a series of webinars.

**Zambia:** During its first year of operation, WASH-FIN Zambia focused on establishing working relationships with the selected partner commercial utilities (CUs) and the Ministry of Water Development, Sanitation, and Environmental Protection (MWDSEP). Using the creditworthiness assessment conducted by OCA, WASH-FIN developed work plans detailing priority areas for support for four partner CUs. Efficiency improvement activities were undertaken for Nkana Water (revenue improvement) and Eastern Water (operating cost control); these will be complemented with capacity building for select CU staff in Q1FY20. WASH-FIN also initiated a non-revenue water improvement activity aimed at providing support to the MWDSEP, Nkana, Mulonga, and Eastern Water and Sanitation Companies. At end of Q4FY20, WASH-FIN was in the process of finalizing procurement of a subcontractor to undertake this activity. During Year 4, support was also provided to Lusaka Water for the Lusaka West Water Supply Project by preparing a preliminary project brief outlining options for the public-private partnership (PPP) model. A detailed review of the Zambia PPP Legal and Regulatory framework was also undertaken as part of this support. As part of its effort to support the MWDSEP to develop a WASH sector financing framework, WASH-FIN, with support from OCA, undertook a financial landscape study to obtain a clear understanding of how the WASH sector can be more effectively financed with a focus on opportunities to increase funding from external financiers.

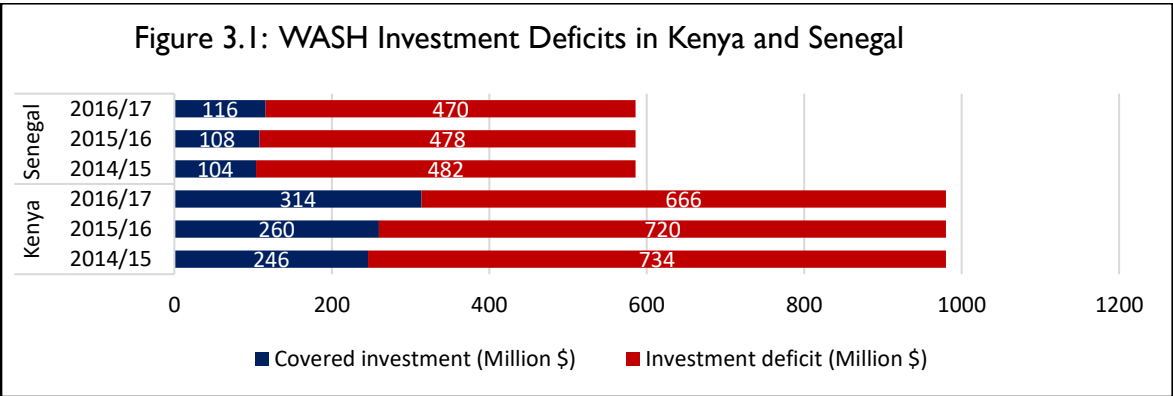


# LESSONS LEARNED

Throughout the implementation of the WASH-FIN activity, the link between WASH finance and governance has been well recognized. In Year 4, this link was re-emphasized by the COVID-19 pandemic which brought to the fore the centrality of water and sanitation as both a public health and economic good. The pandemic however also highlighted the disconnect between political rhetoric around the importance of WASH and the reality of limited financing of the sector. The COVID-19 pandemic has created some unprecedented challenges for water service providers that were already relatively weak financially. Their financial and technical fragilities were exposed almost immediately as the pandemic was declared and many countries scrambled to provide emergency water supply services, especially to those living in unplanned and under-served areas. As countries across the globe grapple with the uncertainty of the so-called “new normal” brought about by the pandemic, it is critical that governments pay greater attention to WASH service delivery by enhancing sector governance in order to facilitate access to all forms of available financing. This will call for a repositioning both public and private Water Service Providers (WSPs) as leaders in achieving greater efficiency and equity impacts. Drawing on experiences from the eight WASH-FIN countries, this section shares some lessons on key governance and finance challenges that can inform debate and action. As these examples show, there are many challenges but also opportunities for governments to rethink how they deliver water and sanitation services and how to optimize available resources, whilst also making service providers more resilient to future uncertainties. This is key not only to fighting COVID-19, but most importantly to the realization of the goal of universal water supply and sanitation coverage.

**Well-developed, high-level international commitments and political rhetoric on the importance of WASH have not yet translated into required increases in public funding.**

As indicated in this report, each country in which WASH-FIN is working needs to mobilize significant levels of funding to bridge the existing financing gap for WASH services. At the same time, all the respective governments have signed up to international commitments aimed at achieving universal access by 2030. However, the National WASH Accounts expenditure analysis from the TrackFin exercise in Kenya and Senegal shows that these high-level commitments made in 2015 have yet to translate into the required increase in public funding for the sector. Between 2014 and 2019, the analysis shows that WASH expenditure as a proportion of total government expenditure was consistently around 3 percent for Kenya and 7 percent for Senegal. On average, Senegal spent USD 365 million, whilst Kenya spent USD 586 million, annually. These expenditure levels were two-thirds below required capital investments (excluding recurrent and other costs) to achieve universal access, with Senegal having an annual average deficit of USD 476 million and Kenya a deficit of USD 706 million (Figure 3.1).



Furthermore, on a percentage of GDP basis, this spending was consistently and significantly below the Sanitation and Water for All (SWA) commitment each country made to spend 5 percent of GDP annually, with Senegal averaging just under 2 percent and less than 1 percent for Kenya. Clearly, whilst international commitments are important, much more needs to be done by countries to translate these commitments into reality. Financial and expenditure tracking tools such as TrackFin should be exploited more as performance monitoring and used to advocate for increased national budgets for WASH infrastructure investment, particularly if they can be institutionalized or incorporated within national tracking systems. Despite the above findings, it was encouraging to note that in both Kenya and Senegal, whilst development partner contributions were important, they were not, however, the major source of funding. In both cases, customer tariffs and domestic transfers were the largest sources comprising a total of over 70 percent of expenditures. This finding suggests that more needs to be done to deepen and sustain reforms aimed at strengthening operations of water service providers as financially viable corporate entities, to move the sector towards self-reliance whilst also enhancing the focus on the much-needed additional public investment.

### **The COVID 19 pandemic has highlighted the technical and financial fragility of existing water systems and the importance of fundamentals.**

The failure of governments to fully finance the water sector was brought to light this year by the COVID-19 pandemic. Firstly, the pandemic highlighted the inequity and costly impact of inadequate WASH service provision in low income informal areas. The pandemic brought to the fore, the inadequacy of existing water systems and the gaps and inequalities in water services provision especially as these relate to residents in informal settlements. In the case of Kenya for instance, 40 percent of the urban population lives in low income informal settlements and only 53 percent are served by WSPs<sup>1</sup>. In Lusaka, Zambia, approximately 70 percent of the urban population lives in informal settlements. Although an estimated 66 percent of urban population have piped water services as of 2015, this percentage decreases to 24 percent in peri-urban areas across Zambia.<sup>2</sup> The rest obtain water from alternative and generally inadequate and more expensive sources, including private boreholes, water vendors, and community water schemes. Once the COVID pandemic was declared in these and nearly all WASH-FIN countries, governments directed their water service providers to institute emergency measures such as no shut off policies for non-payment and delivering water to low income and other strategic public areas. These directives derive from and emphasize not just the inadequate physical systems, but most importantly an inadequate WASH governance system in which certain members of the population are condemned to receiving unreliable services which are only questioned, temporarily, in a public health emergency situation. Emergency responses are then provided such as those undertaken in Kenya including installation of water tanks, delivering clean water in tankers, setting up handwashing facilities, distributing soap in informal settlements, and conducting community outreach on good hygiene. Whilst these emergency measures bring about immediate relief to the target populations, they are nonetheless far from adequate, largely temporary, and not part of a long-term solution. They are also costly. Based on an assessment by USAID's WASH-FIN and WASREB in Kenya for instance, 88 public water service providers were expected to spend a total of USD 60 million over a four-month period. Had these resources been used as part of a concerted effort to serve the low-income areas, it could have provided permanent services for at least 445,000 people<sup>3</sup>. These responses whilst providing immediate relief to those most in need; nonetheless speak to the fact that the sector is "reactive" rather than "proactive". With better planning, the resources being applied to temporary solutions, could be

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<sup>1</sup> Water Sector Regulatory Board (WASREB), A performance report of Kenya's Water Services Sector, Issue 11 2019

<sup>2</sup> GIZ, Access to Water and Sanitation in Sub-Saharan Africa, January 2019.

<sup>3</sup> [https://www.dropbox.com/s/ov0jvh7cw4jqoea/Rethinking%20the%20Role%20of%20%20WSPs%20in%20Informal%20Settlements%20\\_Co-branded\\_6-24%20FINAL.pdf](https://www.dropbox.com/s/ov0jvh7cw4jqoea/Rethinking%20the%20Role%20of%20%20WSPs%20in%20Informal%20Settlements%20_Co-branded_6-24%20FINAL.pdf)

utilized to better effect, if invested in long term WASH provision solutions. This is particularly true given that COVID-19 is only the latest in a series of health pandemics requiring countries to ensure safe water supplies. However, unlike other medical emergencies such as cholera that do not last very long and tend to be confined within particular geographies, the anticipated drawn out nature of the COVID-19 pandemic and its impact on all settlement types, presents not just a challenge, but also an opportunity to shift the thinking on service provision to informal settlements from temporary to sustainable institutionalized solutions.

Secondly, the COVID-19 pandemic highlighted the financial fragility of the water service providers by deepening the challenging fiscal position of some water service providers and reducing the financial cushion of the stronger utilities. In response to the onset of the pandemic in March 2020, some countries including Kenya, Zambia and Nepal, issued moratoria on customer disconnection due to payment arrears to avoid service disruptions as a means of combatting the spread of the virus. This reduced revenue collection. At the same time, there were health related mandates, such as the use of PPE and hand sanitizer, among other items, which raised utility operational costs, at least in the short-term. These combined revenue and cost pressures had a noticeable impact. For example, stress test analyses of three Kenyan WSPs completed in June 2020 by WASH-FIN, determined that the COVID-19 pandemic decreased collection efficiency of revenues by 45 percent to 65 percent while increasing costs 8 percent to 19 percent in the first 3 months of the pandemic. The assessment also forecast that these water service providers would experience negative cashflows within 3 to 8 months, if nothing was done to assist them. A similar result was initially found in Zambia with one of the Commercial Utilities reporting that its collection efficiency dropped below 50 percent, due in part to the closure of a nearby large university. A similar assessment in Nepal found that the effect in the immediate aftermath of COVID-19 was not as severe though it was there. The immediacy of the negative financial impact together with the political nature of the directives points to the financial fragility of the sector and its vulnerability to political directions that have rather little regard for its financial well-being. This is further evidenced by the fact that pronouncements by governments on provision of free water and emergency measures, generally tend not to be accompanied by provision of funding to the water service providers to meet these obligations. This was indeed the case in the WASH-FIN countries discussed here. Even in cases like Kenya where the World Bank decided to reallocate existing financing to provide liquidity support to water service providers through the Conditional Liquidity Support Grant (CLSG)<sup>4</sup>, deliberations on the same has been going on for over 7 months with an apparent lack of focus on the emergency nature of the requirements. Thus, whilst financial support through mechanisms such as the CLSG in Kenya is absolutely welcome and necessary, it is important to think about facilities that can be more than a “one-off” solution. Countries need to consider putting in place mechanisms at the utility, national, and/or international levels, such as “rainy day” funds or liquidity facilities that can be tapped during emergencies.

**More resources can be leveraged from an increasing interest in private sector engagement but must be accompanied with provision of enabling frameworks to address some key challenges.**

Apart from improving the use of own resources, the sector might also want to pay attention to the apparent increasing willingness for greater engagement of private actors in the WASH sector. From the WASH-FIN activity, this interest seems to be taking three main forms:

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<sup>4</sup> Restructuring Paper on a Proposed Project Restructuring of the Water and Sanitation Development Project, Approved on April 26, 2017 to The Government of The Republic of Kenya.



1. Managing or developing a range of more traditional PPP projects (e.g. Mbombela in South Africa, PRONASAR in Mozambique, Nanyuki dam in Kenya, Gulariya SLA in Nepal, and Lusaka West PPP in Zambia);
2. Developing new forms of private sector engagement based on use of information technologies (e.g. meter financing in Lusaka Zambia); and,
3. Recognizing and encouraging small and medium scale private actors that have been working largely informally or formally but ignored by the public sector (e.g. the SSPs in Senegal, the FPAs in Mozambique and the PWOs in Cambodia).

Whilst many countries have a legal framework for managing traditional PPP processes, many still struggle with recognizing the small and informal operators. The cases of Mozambique and Senegal show that to fully embrace these operators, governments have to take a deliberate decision to create an enabling environment that allows them to thrive. In the case of Senegal, even though private sanitation service providers have been active since the early 2000s<sup>5</sup>, significant impetus to the sector was given by ONAS adopting in 2018, the vision for 2025, through the Senegal Sanitation Project (PAAS). The PAAS seeks to create a commercial and profitable value chain in on-site sanitation where fecal sludge management constitutes one of the flagship activities and promotes greater involvement of private operators in the sector. Similarly, in Mozambique, the government's decision to recognize the FPAs through the 2015 Decree<sup>6</sup> has given the private sector confidence and has in large part contributed to the successes scored by WASH-FIN thus far. In Nepal, the small private operators interested in FSM opportunities are largely from the Solid Waste Management sector, which has similar operations and a track record of recent management contracts.

Regardless of what type of partnership is envisaged, it is also clear that there are many challenges that countries seeking to work with the private sector must attend to. One common challenge across all countries is the limited capacity on both the private and public sector side. For the small-scale private actors, there is need to develop both technical and business management capacities. For example, in Senegal, Mozambique, Cambodia and Nepal, there is an apparent need for capacity development across the entire service chain (both water and sanitation) from development and operation of infrastructure and equipment, through to financial literacy and ability to interact with financial institutions. In cases where full PPPs are being pursued or already in place, public capacity must also be developed including in development and management of the PPP process. Examples of this include Nanyuki dam in Kenya, Zambia's LWWP and Nepal's Gulariya Service Level Agreement (SLA), in all these WASH-FIN is working to provide assistance on different elements from the technical, legal and financial perspectives. While examples of proper management of already executed PPPs include, Mozambique with the PRONASAR PPPs, in Mbombela in South Africa and with ONAS in Senegal). A final common thread across the WASH-FIN countries is also the need for either developing or streamlining legal frameworks for PPPs to make them more amenable for all players (e.g. in Zambia and Mozambique) as well as institutional and financial systems (e.g. Senegal ONAS and Cambodia's PWOs). These examples highlight that avenues for potential private investment in the WASH sector continue to evolve, and that enabling frameworks need to evolve appropriately. National governments should more closely monitor these changes and be ready to engage and provide necessary refinements to make the enabling framework appropriate to demand and local conditions.

**Governments need to continue finding new ways to support the private sector in the development and funding of new business models for sanitation.**

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<sup>5</sup> Diallo, Oumar, Senegal's Rural Water & Urban Sanitation Sectors Leverage Private Sector Participation to Improve Service, The World Bank, 2015.

<sup>6</sup> 'Regulamento do Licenciamento de Abastecimento de Agua Potavel or Fornecedores. Privados law 51/2015.

In the specific case of sanitation which lags behind water significantly, the public sector needs to pay closer attention to facilitating the private sector which has a high level of interest in participating in this space. In almost all countries, the sanitation sector has typically lagged behind the water sector with respect to providing full or partial service coverage to the majority of the population. In Senegal, private sector participation in sanitation has been growing, having followed the country's experience as a leader in PPPs in water supply. The sub-sector is dominated by 3-4 large private Sanitation Service Providers (SSPs) that compete for government contracts for emptying household latrines and septic tanks, and transporting septage to dumping sites, pumping stations, and fecal sludge treatment plants (FSTPs) which some SSPs operate. The large SSPs include firms that seek to use new technologies, such as the Janicki Omni Processor (J-OP), e.g. Delvic or new business models. There are also approximately 100 smaller firms that have short-term sub-contracts, e.g. 3 to 4 months, with the larger SSPs, primarily during rainy seasons or religious events when demand is high. The larger SSPs, such as DELTA, have been able to grow and sustain revenue to be eligible to receive a potential USD 1.8 million loan from the West African Trade and Investment Hub (WATIH), representing its first loan to a sanitation service provider. Development partner support, including that from WASH-FIN in Kenya, has been provided to Sanergy, which has a pay-for-service toilet model in peri-urban areas and Sanivation, whose business model seeks to derive revenues from the sale of treated products to agricultural entities. Operating in Durban, South Africa, LaDePa's business model is to sell FSM technology to sanitation service providers as well as organic fertilizer to agricultural producers, thereby trying to grow its business by attempting to serve two distinct markets. These initiatives along with similar strategies for water service have been able to work at a relatively small scale with a view of determining what might work at scale that would benefit larger populations. Once possible solutions have been market tested, the next step would be to find new potential sources of funding along with blended and private capital to achieve scale. The public sector can support these initiatives by adopting a legal and regulatory framework that supports these initiatives, reducing potential barriers to accessing financing, and serving as an intermediary between the supply and demand for capital.

**Deliberate collaboration between development partners can facilitate segmenting and effectively leverage all financial and technical assistance resources to maximize investment into the sector.**

WASH-FIN experience has shown that much can be achieved through a collaborative approach that allows different actors to bring their best resources to bear. This includes the value of technical assistance to convene other sector players. In Kenya, for instance, WASH-FIN convened the government and UNICEF to coordinate part of the early response to COVID-19 resulting in UNICEF providing water treatment chemicals. This was a type of leveraging which provided some financial relief for the water service providers, allowing them to use limited available funding for other operating expenses. Even greater leverage is expected from the ongoing collaboration between WASH-FIN and the World Bank on the Conditional Liquidity Support Grant (CLSG) which began in Year 4 and if well implemented will result in utilization of resources that otherwise would have paid for technical assistance for development of infrastructure and other operational activities.

Similarly, in Senegal, the partnership between WASH-FIN, *Délégation à l'Entreprenariat Rapide* (DER), Bill and Malinda Gates Foundation (BMGF), and the Association of Sanitation Service Providers to support ONAS to advance an innovative fund for Truck Fleet Renewal to leverage both public funds and private capital. The effort brings together technical assistance from WASH-FIN, financial resources from two financiers and a technical solution from the Association of Sanitation Service Providers.

In the Philippines, Mozambique and Zambia, WASH-FIN interventions are highlighting how development partners can leverage each other's knowledge for the benefit of the sector. In the Philippines, WASH-FIN supported the revision of the draft program design for the Output-Based Aid (OBA) blended

finance arrangement which was taken on by UNICEF for planned implementation of a pilot program in 2021. Similarly in Mozambique, WASH-FIN is building upon the study undertaken by UNICEF on the concept of a blended finance fund for the development of new water supply systems in small towns, to explore the feasibility in establishing such a fund. Finally, in Zambia, WASH-FIN is providing input to the Lusaka West PPP by reviewing the legal and institutional framework and preparing a business case, all of which will feed into feasibility studies being prepared by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Cities and Infrastructure for Growth–Zambia (CIG), and Bundesanstalt für Geowissenschaften und Rohstoffe (BGR). All these implementation experiences demonstrate that development partner collaboration is possible, can leverage impact and help to maximize investments into the sector.

**Given the limited fiscal space of governments and service providers, new and flexible approaches to support WASH service provision during shocks can have accumulating impact.**

These new approaches can involve direct and indirect liquidity support to service providers that does not involve taking on additional debt. As a point of reference, Kenya and Zambia have an estimated debt to GDP ratio of approximately 62 percent and 78 percent, respectively. Both countries also have relatively high budget deficits--7.5 percent of GDP in Kenya in 2020/21 and 8.2 percent of GDP in Zambia in 2019. An additional challenge is that many WASH providers in both countries still struggle with legacy debts; some stemming from sovereign loans taken on decades ago. As a result, Commercial Utilities in Zambia were largely ineligible to benefit from the government's COVID-19 fiscal stimulus package that included low-interest financing to maintain liquidity. A solution that emerged in Q4FY20 in Kenya does not involve new debt but instead the redirection of already allocated funds. The World Bank and National Treasury recently agreed to allocate the unused portion of an existing USD 330 million loan to target at least 35 WSPs in the form of grants. WASH-FIN agreed to support the Water Services Regulatory Board (WASREB) in evaluating WSP eligibility to receive this funding. Water service providers in Kenya and Zambia have also received support in the purchase of water treatment chemicals. Additionally, liquidity support can take place through the actions of domestic institutions, such an agreement between the Zambia Electricity Supply Corporation (ZESCO) and Nkana WSC regarding outstanding arrears that was supported by the national government as well as support from the Zambia Ministry of Health to expand water services in peri-urban areas in Lusaka. These examples highlight that be they large, or small, potential solutions to support the financial position of WASH service providers require coordination, political support, flexibility, and proper incentives.

**Countries interested in crowding-in private capital for the WASH sector must first determine the appropriate mechanisms allowed by the enabling environment.**

To bring all the above elements together and provide a framework that can deliver for the WASH sector, governments need to think about actualizing comprehensive financing mechanisms. Although it is widely accepted that funds and facilities to crowd-in private capital in the WASH sector have often failed to gain traction due to political and governance concerns, WASH-FIN experience shows that this assessment is incomplete. The rationale is that it is difficult to get institutional and political buy-in without the following key elements in place: (i) the type of financing mechanisms used; (ii) the parties responsible for capitalizing the fund or facility either through seed funding (e.g. national government, local government, development partners, or private financial institutions); (iii) the identification of a potential user fee to generate revenues including assessments by customer class and the establishment of subsidies for lower-income groups; (iv) the potential amount of financial resources generated and needed; (v) how these financial resources can be combined with other sources of funds as well as how funds; (vi) if/how financial resources will be reinvested; and (vii) how these resources can be potentially allocated by geography or project type. Issues around who pays, the amount of funding available, and the

investment allocation set the tone of the discussion within and among institutions as well as politically. The latter is critical since there is the practical reality of enabling legislation along with concerns regarding social equity. Without having these aforementioned issues in place beforehand, it becomes extremely challenging to obtain political and institutional consensus. As a result, funds with somewhat amorphous financing mechanisms and uses, such as the Blue Fund in Senegal have experienced challenges in reaching consensus. On the other end of the spectrum is Infrastructure Finance Corporation Limited (INCA) in South Africa, a private sector led with the mandate to on-lend to municipalities that was founded in 1996 and restructured in early 2010 that has tentatively reached close of finance for approximately USD 33 million in financing. WASH-FIN will consider these experiences and lessons in its support to the proposed revolving fund in Kenya, the Small Towns Fund in Mozambique, a proposed sector financing mechanism in Zambia, the Blended Revolving Fund concept being explored in the Dominican Republic, and similar initiatives.

## I.0 COUNTRY ACTIVITY UPDATES

This section provides details on WASH-FIN implementation in its eight countries of operation. The format for each country activity update is:

1. **Country Activity Snapshot:** This table summary presents the country activity location, objectives, key dates, and budget.
2. **Country Context and Overview of Year 4 Activities:** This section provides details on WASH opportunities and challenges and highlights details of WASH-FIN activities designed to address them.
3. **Project Implementation Update:** This section discusses progress made during Year 4, including knowledge management activities at the country activity level.
4. **Reflections on Implementation:** These are an analysis of sector trends, lessons learned, challenges, success stories, and COVID-19 adaptations.
5. **Delivery Progress Summary:** This table summary presents project activities, expected results, and an update on their achievement during the Year 4.
6. **Performance Indicator Targets and Results:** This section contains a table summary and narrative description of achievements in Year 4 against life-of-program targets as defined in WASH-FIN's Year 4 Monitoring and Evaluation (M&E) Plan.

### I.1 CAMBODIA

**TABLE I.1: CAMBODIA ACTIVITY SNAPSHOT**

<b>Activity Title</b>	<b>Expanding Access to Commercial Finance for WASH Investment in Cambodia</b>
<b>Location</b>	Locations with creditworthy private water operators (PWOs), with priority given to locations that overlap with USAID/Cambodia's Country Development Cooperation Strategy geographic priorities.
<b>Goal</b>	To expand the market for commercial lending into the WASH sector, complete loan agreements for private water service providers (WSPs) with the use of credit enhancements (where needed), and promote expanded opportunities for commercial finance aimed at sustainable WASH infrastructure and service delivery.
<b>Objectives</b>	<ol style="list-style-type: none"> <li>1. Creditworthiness and Market Assessment: Expand the market for commercial lending for WASH investments</li> <li>2. Access to Local Commercial Market Financing for WASH: Ensure completion of local bank loans to PWOs</li> <li>3. Capacity Building of Civil Society through the Cambodian Water Supply Association (CWA) and PWOs: Advocate to the Ministry of Industry, Science, Technology, and Innovations (MISTI, formally the Ministry of Industry and Handicraft [MIH]) and the National Committee for Democratic Development (NCDD) for greater regulation of water supply management</li> <li>4. Knowledge Management: Share and promote opportunities and approaches for mobilizing local commercial finance in the WASH sector</li> </ol>
<b>Start Date</b>	September 1, 2017
<b>Expected End Date</b>	July 30, 2021

<b>Activity Title</b>	<b>Expanding Access to Commercial Finance for WASH Investment in Cambodia</b>
<b>Total Budget</b>	\$3,000,000

### I.1.1 COUNTRY CONTEXT AND OVERVIEW OF YEAR 4 ACTIVITIES

Only 21 percent of people in Cambodia have access to a piped water supply,<sup>7</sup> and this is mainly concentrated in larger towns. A lack of public funding, and inability of municipal systems to serve growing populations has resulted in the growth of small, private water operators (PWOs) that have financed and constructed systems in many small towns. As of 2018, there were over 300 PWOs, of which 247 were licensed by the government. While these small systems provide much-needed services, there is still a large coverage gap in terms of areas that appear suitable for piped water supply services (either as expansion from existing schemes or as new schemes) but currently have no public funding or private interest in providing them. These coverage gaps are geographically spread across the country.

The goal of the WASH-FIN Cambodia activity is to increase commercial lending for PWOs in support of the Government of Cambodia’s promise to achieve universal WASH coverage by 2025. In line with this goal, WASH-FIN Cambodia has been implementing a series of coordinated activities including PWO business plan development, assistance with technically sound project investment proposals, and development of transparent accounting records and financial forecasting. All of these elements are intended to help improve PWO business and financial planning and to support PWO loan applications to lending institutions.

When WASH-FIN began working in Cambodia, it determined that much of its technical assistance would focus on supporting PWOs through the CWA. CWA is mandated to coordinate, support, and advocate for their members, approximately 180 PWOs operating across the country. CWA also serves as a knowledge hub and coordinates with all development partners working in the water sector. In addition to selecting CWA as a subcontract partner, in late 2017 and early 2018 WASH-FIN undertook a PWO selection process to determine which PWOs would receive technical assistance. A total of 41 PWOs from a pool of 86 eligible PWOs in ten provinces applied to receive support.<sup>8</sup>

In Year 4 (FY20) WASH-FIN continued to focus on enhancing PWO creditworthiness and increasing revenues through increased connections and improved water quality. Together with its partner, CWA, WASH-FIN built capacity in terms of PWO marketing skills and dialogues with their respective local administrations, aiming to raise awareness about ongoing challenges and to resolve local issues in a timely manner. During this reporting period, WASH-FIN assisted CWA with facilitation of meetings between PWOs and sub-national administration officials aimed at identifying solutions to local issues such as polluted water sources, shortages of water during the dry season, conflicts when laying pipes in the ground in front of people’s houses, pipe network damage due to local road development, and debt and late payment by water customers. These meetings were often timed to coincide with WASH-FIN-led “water tours” aiming to raise awareness about the water supply business and to demonstrate the water treatment process and water quality testing.

WASH-FIN continued to provide technical assistance to 39 of the original 41 PWOs<sup>9</sup>. Technical assistance varied depending on each PWO’s level of engagement; some worked intensively on business and technical documentation, whereas others were less involved and attended trainings and group

<sup>7</sup> WHO/UNICEF JMP, 2017 (updated July 2017)

<sup>8</sup> Eligibility criteria included a range of factors including interest in expansion and capital investment, willingness to share financial documentation with WASH-FIN, and other factors.

<sup>9</sup> Three PWOs withdrew from WASH-FIN support as they described the pre-requisite requirements for transparency and financial documentation as too burdensome.

meetings. In terms of direct assistance, WASH-FIN helped 11 PWOs with technical assessments, completed seven of the eleven reports on the assessments, updated one additional report, and assisted two others with initial data analysis. In terms of business plan development and commercial loan facilitation, FY20 was a successful year. Three different financial institutions approved six loan transactions totaling ██████████. This also led several PWO owners to contribute some of their own equity back into the companies, resulting in overall financing of ██████████ by the end of FY20. Out of the total amount of money raised, five PWOs have spent ██████████ on climate change-related investments such as expansion and improvement of freshwater reservoirs and clean water storage.

As part of strengthening water quality and building customer confidence in the same, WASH-FIN and CWA water engineers conducted three water quality testing and management trainings for nine PWOs with 18 participants in Takeo, Battambang, and Banteay Meanchey Provinces. Participants were selected based on interest and were clustered to train two to four PWOs at a time, thereby reducing cost and time for individual PWOs. Finally, WASH-FIN and CWA partners confirmed that participating PWOs have continued to increase piped water connections. As of June 2019, connections had increased by 10,169 (or approximately 50,845 people), and this number is expected to increase pending further documentation.

## **I.1.2 PROJECT IMPLEMENTATION UPDATE**

### **CATEGORY I: CREDITWORTHINESS AND MARKET ASSESSMENT**

In Year 4, WASH-FIN continued to strengthen the capacity of PWOs to enhance their creditworthiness and to collaborate with local lending institutions, both to share knowledge on the attractiveness of water sector investments and to encourage local banks to offer PWOs more reasonable loan conditions.

#### **Activity I.1: Financial Review of Private Water Operator Business Plans**

WASH-FIN and CWA kicked off the year with a newly revised template for PWO technical assessments that details PWO water business challenges from production to distribution systems. It provides appropriate recommendations to address current problems and future projections related to expansion and improvement. The template follows MISTI (formally called MIH) guidelines and standards.

Using this new assessment template, WASH-FIN and CWA worked with 11 PWOs on water production and distribution capacity assessments. Eight of these PWOs have now completed their technical assessment report or revision with proposed expansion and improvement projects.

#### **Activity I.2: Creditworthiness Assessments**

Creditworthiness is a significant concern for water supply businesses in Cambodia because many PWOs need huge capital investments that often require them to borrow money. In order to be perceived as creditworthy, PWOs must be able to understand, assess, and describe their financial histories to prospective lenders. To support this, WASH-FIN worked with PWOs to develop technical assessments of PWO water production and distribution system, as well as, financial and accounting systems. After technical assessments were conducted, WASH-FIN conducts financial reviews, encourages transparent accounting and financial practices, and offers assistance with business plan development.

During FY20, WASH-FIN conducted financial and accounting assessments for three PWOs, namely Kamchhay Mear Water Supply Station, Bek Chan Water Supply, and Lim Boren PWO. This joint exercise between WASH-FIN and each PWO's accounting staff/owner strengthened the PWOs' capacity to understand their internal accounting information and, most importantly, enabled PWO staff to understand their financial gains, losses, and debt service capacity before planning the proposed water

service improvement and expansion infrastructure projects as recommended in the technical assessment reports.

## CATEGORY 2: ACCESS TO LOCAL COMMERCIAL MARKET FINANCING FOR WASH

Overall, WASH-FIN Cambodia seeks to close financing gaps to achieve universal access to water supply through expansion of PWO access to finance. Creditworthiness and market assessment are often a pre-requisite for this process. As a result, and as WASH-FIN assistance with business planning continues to increase, WASH-FIN made significant progress on increasing access to commercial finance in FY20.

### Activity 2.1: Financial Proposals for WASH Infrastructure

In FY20 WASH-FIN worked with five PWOs, completed one business plan with financial and accounting documents (Ba Phnom), revised three business plans with financial and accounting documents (Kampong Chamlong, Prek Ambel, and Bovel), and conducted ongoing analyses of financial and accounting data (Bek Chan). Work with the latter continued for many months due to the large size of the business, challenges regarding financial and accounting disclosure from the company's accountant, the low rating from the Credit Bureau of Cambodia for past loans, and a new investment needed of between USD 1.5 million and 2 million. Support to this PWO is expected to continue through the Q1FY21.

### Activity 2.2: Transaction Facilitation and Advisory Support

As briefly mentioned in the country context, FY20 was a successful year for WASH-FIN Cambodia, with six closed loan transactions from three different financial institutions. As a result of WASH-FIN's assistance, four PWO owners also invested equity into their businesses totaling ██████████. Table 1.2 below is a summary of all PWOs with loan transactions and own equity contributions closed in FY20.

**TABLE 1.2: SUMMARY OF PWO TRANSACTIONS AND EQUITY CONTRIBUTIONS**

No	Name of PWO	Investment Amount (USD)	Source (Name of Lender/ Own Equity)	Transaction Status	Start Date and Loan Duration
1	Kampong Chamlong (KWS)	██████	ISC	Closed	October 24, 2019, for 120 months
2	Kampong Chamlong (KWS)	██████	Own Equity	N/A	Letter provided December 2019
3	Prek Ambel (Leng Kheav Prek Ambel Water Supply)	██████	Own Equity	N/A	Letter provided December 2019
4	Bovel (BVPW)	██████	ABA	Closed	December 19, 2019, for 120 months
5	Chikraeng (Siem Reap)	██████	ISC	Closed	February 21, 2020, for 120 months
6	Chikraeng (Siem Reap)	██████	Own Equity	N/A	Letter provided June 2020
7	Khoar Bunheat (KBHWS)	██████	ISC	Closed	April 3, 2020, for 120 months
8	Khoar Bunheat (KBHWS)	██████	Own Equity	N/A	Letter provided June 19, 2020
9	Kampong Chamlong (KWS)	██████	ABA	Closed	April 20, 2020, for 8 years for USD 650,000, and USD



No	Name of PWO	Investment Amount (USD)	Source (Name of Lender/ Own Equity)	Transaction Status	Start Date and Loan Duration
					350,000 provided thereafter.
10	Bovel (BVPW)	██████████	SATHAPANA	Closed	July 27, 2020, for 84 months
<b>TOTAL</b>		<b>USD ██████████</b>	<b>closed in FY20</b>		

In addition to helping PWOs explore different sources of finance, WASH-FIN also helped them negotiate for better loan terms—in particular, for lower collateral requirements, a source of major concern for PWOs. After providing the above banks with proper business plans and financial documentation, ISC greatly reduced its initial collateral requirements (to about 30 percent of the required loan amount), and ABA and Sathapana Bank reduced their interest rates to between 7 and 9 percent.

Currently, WASH-FIN and CWA are trying to facilitate two more loans (Prek Ambel and Ba Phnom PWOs) for ██████████, respectively, without a collateral deposit. WASH-FIN will continue to work with these PWOs and lenders to reach an agreement in Q1FY21.

### CATEGORY 3: CAPACITY BUILDING OF CIVIL SOCIETY THROUGH CWA AND PRIVATE WATER OPERATORS

This activity category is relatively new and began in FY19 as a response to increased demand to address challenges in the water sector as part of support to the Royal Government of Cambodia policy on water supply function re-assignment to district administration. This support involved helping CWA to highlight challenges faced by PWOs and providing inputs into the functional re-assignment policy development process. In terms of water service delivery, apart from a frequent lack of management skills and technical capacity, many PWOs face challenges that relate to water source pollution, shortage of water during the dry season, conflicts when laying pipes on private property, pipe network damage caused by road development, and debt loads caused by frequent late customer payments. To strengthen PWO operations and resolve some of these problems, WASH-FIN led CWA to facilitate meetings between PWOs and sub-national administration officials and helped them learn how to advocate for protection and promotion of their members’ business enabling environment in the water sector.

During this reporting period, 19 PWO-commune and district meetings were facilitated, and fifteen local water tours were conducted aiming to raise awareness about water supply business and demonstrate water treatment process focusing on water quality testing. A total of 674 people participated in these activities of whom 142 were female.

#### Activity 3.1: Identification of Roles and Responsibilities for Government and Professional Associations to Manage the Water Sector

In identifying local solutions to PWO water service delivery challenges, participants in the above meetings discussed roles and responsibilities of primary stakeholders including PWOs themselves, households/water users, local administrations and village representatives, line offices of MISTI and ministries (Agriculture, Water Resources and Hydrology, etc.). Details of meetings conducted include:

- *PWO-District Meetings:* Seven meetings held with 162 participants from the Policy Analysis and Development Division (PADD) of the National Committee for Democratic Development (NCDD); Provincial Department of Industry, Science Technology and Innovation; and Provincial Department of Public Works and Transport and included District Governors and Deputy District Governors,

Chief and Deputy Chiefs of Commune, Village Chiefs; representatives from commune schools and; PWO staff.

- *PWO-Commune Meetings:* Twelve meetings were held and organized for 281 participants that included representatives of NCDD-PADD and the District Council, Commune Councils, and villages in the commune and District Governors/Deputy District Governors; PWO staff; commune health center, police, and school staff; and WASH-FIN/CWA facilitators.

- *Local Water Tours:* WASH-FIN and CWA provided support for 15 water tours to water facilities hosted by their respective PWOs. In total, 483 people have participated in these tours. Attendees include representatives of NCDD-PADD, District Councils, and villages and District



Governors/Deputy of District Governors; Chiefs of Commune and Commune Councilors; PWO staff; commune health center, police, and school staff; and WASH-FIN/CWA facilitators. These local tours were frequently organized on the same day as the PWO/commune meetings.

The local water tours aimed not only to stimulate discussion but to also address some of these issues, such as promotion of water service and concerns over water quality. The tours helped participants to observe firsthand why these issues are so critical and how they directly or indirectly affect the entire community. At the meetings, some of the operational challenges shared by PWOs included a lack of budget to purchase sufficient filters to remove iron and manganese from the drinking water and a lack of sufficient financing to extend piped line system and need for more financial support. During meetings district officials share plans for upcoming infrastructure renovations and improvements to roads, bridges, and culverts that will help the PWO effectively operate.

### **Activity 3.2: Support of Water Supply Management Function Assignment Regulation Development**

While Cambodia continues to implement the devolution process, the water service delivery function continues to be re-assigned to district/municipality administrations. In this regard, meetings between PWOs, administrations, and other local stakeholders provide benefits not only for quickly developing local solutions, but also as input to the functional re-assignment process. WASH-FIN has kept minutes of these meetings and will form them into policy briefs/white papers on water supply function re-assignment in FY21. WASH-FIN plans to kick off this exercise with provincial meetings, followed by a national meeting at which CWA will be a main contributor to the functional re-assignment process.

## **CATEGORY 4: KNOWLEDGE MANAGEMENT**

Sharing lessons from implementation success and challenges with local stakeholders and key actors has been a priority for WASH-FIN. WASH-FIN captured lessons learned from its previous efforts and educated local financial institutions on WASH opportunities in order to mobilize local commercial finance in the WASH sector. Together with CWA, WASH-FIN organized workshops to share its

working approaches and lessons learned with PWOs, financial institutions, and others in FY18 and FY19. Unfortunately, some of the workshops planned throughout FY20 were canceled due to COVID-19. For those that were held, WASH-FIN avoided big gatherings and convened individual meeting with key stakeholders instead, in compliance with COVID-19 guidance.

#### **Activity 4.1: Gather Lessons Learned from Global WASH Financing Project**

WASH-FIN's Senior WASH Governance Advisor shared the water supply function delegation/devolution experience and institutional context of Zambia and Kenya with Cambodia's NCDD, the agency in charge of Cambodia's "decentralization" reforms. This meeting generated strong interest from NCDD to learn about WASH-FIN and led to discussions about possible technical assistance for water service delivery management functional re-assignment to local governments.

WASH-FIN supported and co-financed a bi-annual water conference and exhibition held in October, 2019. WASH-FIN played an active role in organizing and facilitating the event, and a representative from USAID/Cambodia delivered a speech on the opening session of the marketplace workshop.

#### **Activity 4.2: Knowledge Sharing with the Financial Community**

WASH-FIN hosted a workshop on Lessons Learned on Lending to PWOs in October, 2019. Sixty-four participants representing government ministries, lending institutions, impact investors, PWOs, and development partners attended this event. Following the workshop, WASH-FIN arranged follow-up meetings with several lending institutions including Advanced Bank of Asia (ABA), Philips Bank, J-Trust Bank, AMK, and ISC. Also, as a result of the workshop, Water.org contracted with CWA to provide a day-long training on Introduction to PWO Lending in November 2019.

Separate from workshops, WASH-FIN conducted meetings to present progress and potential pipeline of bankable projects to lenders such as J-Trust Bank, AMK, ISC, Chamroeun microfinance institutions (MFIs), and the Stone Family Foundation. WASH-FIN also conducted two, half-day meetings with ABA and Phillip Bank at their request in the second half of FY20 to discuss sector financing challenges.

### **I.1.3 REFLECTIONS ON IMPLEMENTATION**

PWOs need the technical capacity to design, construct, and operate their businesses, but the majority of these small/family-owned businesses lack these skills. Therefore, there has been high demand for technical assistance. For continuity purposes, WASH-FIN has embedded this technical assistance locally by supporting CWA in hiring two seconded full-time engineers and one part-time engineer.

PWOs also need to build up their financial and accounting skills, and local assistance could be provided in the future if PWOs are willing to cover this cost. To date, one of the WASH-FIN-supported PWOs has seen value in this type of support and has indicated willingness to pay for expert help on business and financial planning.

The numerous closed loan transactions offer evidence that strong business plans and financial models greatly strengthen a PWO's position when negotiating with banks, and often results in more favorable lending terms and conditions. These efforts are critical to help move the sector forward. The discussions with local stakeholders are similarly critical in that they support broader collaboration and understanding of various public and private perspectives as it relates to the enabling environment for reliable service delivery.

Finally, COVID-19 has impacted not only the WASH-FIN intervention, but also the WASH sector and PWOs, as well as the broader Cambodian economy. A study on the impact of COVID-19 in the WASH sector should be commissioned to understand the full scale and scope of the impact.

#### I.1.4 DELIVERY PROGRESS SUMMARY

Table I.3 below summarizes the Cambodia activities, their expected timelines and results, and an update on their status during Year.

**TABLE I.3: CAMBODIA DELIVERY PROGRESS SUMMARY**

Cambodia Activities	Expected Results	Year 4 Status Update
Activity 1.1: Financial Review of PWO Business Plans	<ul style="list-style-type: none"> <li>Self-selection and revalidation process for remaining PWOs conducted, 7 selected.</li> <li>7 PWO business plans drafted.</li> </ul>	<ul style="list-style-type: none"> <li>11 PWOs were selected for technical assessments; 9 with complete reports</li> <li>3 new business plans developed, and 3 existing business plans revised.</li> </ul>
Activity 1.2: Creditworthiness Assessments	<ul style="list-style-type: none"> <li>Comprehensive business plans and financial models developed for 7 PWOs.</li> </ul>	<ul style="list-style-type: none"> <li>3 new business plans developed, and three 3 business plans revised with financial models.</li> </ul>
Activity 2.1: Financial Proposals for WASH Infrastructure	<ul style="list-style-type: none"> <li>Technical and financial proposals for expansion of 7 PWO businesses submitted to lending institutions.</li> <li>Loan term sheets collected for 7 PWOs.</li> </ul>	<ul style="list-style-type: none"> <li>4 successful proposals (Bovel, Banan, Chikreng, Kampong Chamlong) submitted.</li> <li>2 unsuccessful proposals submitted.</li> <li>1 proposal being finalized (Bek Chan).</li> <li>Loan term sheets collected for 6 PWOs.</li> </ul>
Activity 2.2: Transaction Facilitation and Advisory Support	<ul style="list-style-type: none"> <li>At least 4 loan transactions made.</li> </ul>	<ul style="list-style-type: none"> <li>6 closed loan transactions made in the amount of USD 2.04 million from 3 different financial institutions</li> </ul>
Activity 3.1: Identification of Roles and Responsibilities for Government and Professional Associations to Manage the Water Sector	<ul style="list-style-type: none"> <li>At least 15 PWO/Commune Council meetings at which village and district representatives participate.</li> <li>Draft prospective functions and sub-functions on water supply management for different stakeholders.</li> </ul>	<ul style="list-style-type: none"> <li>19 PWO/commune and district meetings held followed by 15 local water tours.</li> <li>Ongoing.</li> </ul>
Activity 3.2: Support of Water Supply Management Function Assignment Regulation Development	<ul style="list-style-type: none"> <li>Sub-decree on water supply management function assignment drafted with PWOs and CWA.</li> </ul>	<ul style="list-style-type: none"> <li>Will be drafted in Q2FY21.</li> </ul>
Activity 4.1: Gather Lessons Learned from Global WASH Financing Project	<ul style="list-style-type: none"> <li>Second Lessons Learned Report published.</li> <li>Second Workshop on Lessons Learned in Financing PWOs with PWOs stakeholders.</li> </ul>	<ul style="list-style-type: none"> <li>Gathering lessons learned started; report postponed to Q1FY21.</li> <li>Cancelled due to COVID-19 pandemic.</li> </ul>
Activity 4.2: Knowledge Sharing with Financial Community	<ul style="list-style-type: none"> <li>Training on WASH and piped water supply for banks, MFIs, and impact investors.</li> <li>Workshop on Lessons Learned on Finance Transactions for Lending Institutions and Development Partners.</li> </ul>	<ul style="list-style-type: none"> <li>2 trainings conducted for Phillip Bank and ABA Bank separately; CWA met individually with other lenders (J-Trust Bank, AMK, ISC Chamroeun MFIs, and Stone Family Foundation).</li> <li>Workshop conducted Oct. 3, 2019.</li> </ul>

#### I.1.5 PERFORMANCE INDICATOR TARGETS AND RESULTS

Table I.4 below reports on WASH-FIN Cambodia's Year 4 and cumulative results against targets established in WASH-FIN's Year 4 M&E Plan for four project indicators.

**TABLE I.4: CAMBODIA YR 4 PERFORMANCE INDICATOR TARGETS AND RESULTS**

WASH-FIN Indicators	LOP Targets (YR 4 MEP)	Previous Years' Achievements	Year 4 Achievements	Cumulative Achievement to Date
HL.8.4-1 Value of new funding mobilized to the water and sanitation sectors as a result of USG assistance	\$13,000,000	\$250,000	\$2,368,325	\$2,618,325
HL.8.3-3 Number of water and sanitation sector institutions strengthened to manage water resources or improve water supply and sanitation services as a result of USG assistance (Indicator Definition Customized)	1	1	-	1
EG.11-4 Amount of investment mobilized (in US\$) for climate change adaptation as supported by USG assistance	\$5,000,000	0	\$410,175	\$410,175
HL.8.1-3 Number of people receiving improved service quality from an existing basic or safely managed drinking water service as a result of USG assistance	25,000	0	50,845	50,845

*HL.8.4-1:* In Year 4 WASH-FIN helped 11 PWOs with technical assessments and assisted two others with initial data analyses. As a result of this work, three different financial institutions approved six loan transactions totaling ██████████, and four PWOs made own equity contributions totaling ██████████, leading to a Year 4 total of ██████████.

*HL.8.3-3:* WASH-FIN's direct institutional support to CWA has also consisted of (1) connecting CWA with sub-national and national government institutions in order to highlight challenges to piped water service delivery; (2) mentoring CWA on internal management, operations, and accounting principles; and (3) relationship-building between CWA and financial institutions and donors for the benefit of CWA's nearly 200 private water operator members.

*EG.11-4:* Some of the resource mobilized from loans and own equity contributions were utilized for improvement of water source such as rehabilitation of freshwater reservoirs, water treatment plant renovations or related construction, clean water storage expansion and/or related construction, additional push-pump purchases and installation (to reduce energy consumption) and piped network replacement and/or expansion. One of the PWOs also engaged in a solar energy project that was built with technical support from WASH-FIN and CWA to supplement about 30 percent of grid power and to save costs. WASH-FIN is in the process of analyzing the PWO's expenditures directly and indirectly to understand fully the contributions made to climate change mitigation and resilience efforts.

*HL.8.1-3:* WASH-FIN collected data on connection increases from a larger number of beneficiaries in FY20 and tried to capture the progress since June 2019 after conducting "demand generating and market skills" training for 26 PWOs. This training combined with PWO-local administration meetings and local water tours contributed to this increase in connections. The overall number of connections increased is higher than the original target.



## I.2 KENYA

**TABLE I.5: KENYA ACTIVITY SNAPSHOT**

<b>Activity Title</b>	<b>Expanding Access to Finance for Water, Sanitation, and Hygiene</b>
<b>Location</b>	Urban areas in Kenya with creditworthy or efficiently managed WSPs
<b>Goal</b>	To expand financing for viable utility companies aimed at increasing investment in expanded access to improve service quality of safe and reliable water and improved sanitation.
<b>Objectives</b>	<ol style="list-style-type: none"> <li>1. Financial Flow Tracking: Collect, analyze, and disseminate information about financial flows in the WASH sector.</li> <li>2. Creditworthiness and Investment Planning: Support targeted WSPs and government regulator to develop long-term capital investment programs, demonstrate creditworthiness, and develop bankable financing proposals for commercially viable projects.</li> <li>3. Transaction Facilitation: Facilitate transactions for resilient WASH investments by advising utilities and financial intermediaries including guarantors, brokers, and originators.</li> <li>4. Support of Water Sector Governance: Work closely with the national and county government to address existing governance challenges in the water sector, which have a direct bearing on growth and accessing of commercial financing in the sector.</li> </ol>
<b>Commencement Date</b>	April 1, 2017
<b>Expected End Date</b>	September 30, 2021
<b>Total Budget</b>	\$5,077,097

### I.2.1 COUNTRY CONTEXT AND OVERVIEW OF YEAR 4 ACTIVITIES

Access to water and sanitation services remains a significant challenge in Kenya. Currently, just over half the Kenyan population have access to clean water, and only 16 percent have access to sewer networks and 31 percent to improved sanitation. The Government of Kenya has set an ambitious target of universal access to WASH by 2030. This will require greater financial resources to make these services available to all Kenyans. The total investment needed to reach universal access by 2030 is estimated at USD 12.9 billion, while the current available government budget for water and sanitation is USD 5.6 billion, leaving a USD 7 billion gap. To bridge this gap, resource mobilization from all sources, including the private sector, is critical.

The goal of the multi-year Kenya activity is to expand financing for viable water and sanitation service providers and to increase investment in the expanded access to, or improved service quality of, safe and reliable water and adequate sanitation. To achieve this goal, WASH-FIN provides technical assistance and capacity building support to public Water Service Providers (WSPs) and other WASH service providers, and partners with national and county governments, development partners, local financial institutions, and other stakeholders to support access to additional capital for sustainable, climate-resilient water and sanitation infrastructure. By exploring new sources of finance, WASH-FIN Kenya is intended to complement and leverage funding from traditional sources such as transfers, taxes, and tariffs, and support Kenya on its journey to self-reliance.

In Year 4, WASH-FIN activities were heavily impacted by the COVID-19 pandemic that led to reduction in revenue collection by the WSPs and subsequent decline in their creditworthiness. In response, WASH-FIN modified its activities and focused on partnering with other sector players to facilitate access to liquidity financing for the WSPs. Because of the uncertainty brought about by COVID-19, WASH-FIN also played a key role in undertaking rapid assessments on various aspects of utility operation to inform sector decision-making. WASH-FIN also played a facilitatory role assisting the

Council of Governors (COG) to provide timely information on their WASH interventions, whilst also engaging in discussions with stakeholders on support to the WSPs. These activities have positioned the Kenya activity to continue playing a meaningful role as the WSPs seek to regain their financial strength and eventually be able to return to accessing and utilizing commercial financing.

Even as the WSPs were struggling to cope with the pandemic, private sanitation service providers (SSPs) continued to explore ways to finance the expansion of their activities. WASH-FIN therefore continued to work with Sanivation and this support contributed to a debt transaction that mobilized USD 650,000. Discussions also advanced with Sanergy-Fresh Life Initiative which is looking to define a financing mechanism that will help them scale up their sanitation service with full engagement of the public sector.

Year 4 also saw movement on the part of Laikipia County government, which managed to unlock the Nanyuki Dam PPP project by obtaining approval from both the Kenya Forest Services and the National Treasury to proceed with preparation of technical studies to inform the dam design and the social and environmental impact assessment. This has further opened up the space for WASH-FIN to engage with efforts linked to private sector participation. The work with both the SSPs and Laikipia County point to an opportunity for the sector to leverage further financing from the private sector. Even though this type of engagement is complicated, it is still nonetheless an important opportunity which the Government of Kenya may wish to pay closer attention to facilitate even greater financial leveraging from this group of players.

## **I.2.2 PROJECT IMPLEMENTATION UPDATE**

### **CATEGORY I: TRACKING OF WASH EXPENDITURE**

The main objective of tracking WASH expenditure is to prepare WASH accounts that show WASH expenditure at the country level, thus contributing to a greater understanding of expenditure patterns in the WASH sector. In order to enable sound, evidence-based planning and budgeting decisions, comprehensive information on sources of WASH financing, distribution of financing within the WASH sector and its uses, and the main financing agents or units is required.

#### **Activity I.1 Tracking of WASH Expenditure**

From the onset of the WASH-FIN activity in Kenya in FY17, WASH-FIN has worked in collaboration with the World Health Organization (WHO), Ministry of Health (MoH), and Ministry of Water, Sanitation and Irrigation (MoWS&I) to track national WASH expenditure. In a first phase, the group used the TrackFin tool to review expenditure covering FY14/15 and FY15/16. Through WASH-FIN, USAID fully supported and financed a second round of TrackFin in FY19 and tracked WASH expenditures at national and county levels for FY16/17, disseminating results in 2019. In Year 4 WASH-FIN worked closely with WHO and MoWS&I to consolidate the findings from the two initial phases in order to reflect on the improved tracking methodology. The stakeholders also agreed to undertake a comparison of the different methodologies being used to track public expenditure in WASH in order to contribute to potential institutionalization of the TrackFin approach. WASH-FIN set out to conduct a third round of tracking WASH expenditure for FY17/18 and FY18/19 to cover expenditures on water resources, water supply, sanitation, and hygiene, as well as for household and private sector expenditures. The onset of the COVID-19 pandemic and the attendant public health control measures impacted the delivery of the TrackFin activities, which WASH-FIN will now undertake in Year 5.

### **CATEGORY 2: CREDITWORTHINESS AND INVESTMENT PLANNING SUPPORT**

Creditworthiness is key to accessing repayable financing for water utilities. From its inception in Kenya, WASH-FIN has carried out creditworthiness assessments for 20 WSPs as well as a detailed diagnostic

review of key drivers of low creditworthiness. These reviews are key to understanding the status and specific needs of WSPs being supported in their path to taking on commercial finance.

### **Activity 2.1: Provide Technical Assistance to WSPs to Improve Creditworthiness**

The results of a 2019 assessment undertaken by WASH-FIN identified high debtor days as one of the key drivers of low creditworthiness among WSPs. High debtor days refers to the number of days a WSP takes to collect revenues from the time a bill is issued. WASH-FIN developed a scope of work for a study on debtor days and identified WSPs for the study. The study could not commence in Year 4 due to the onset of COVID-19 pandemic and will now be realigned to take account of the new reality.

### **CATEGORY 3: TRANSACTION FACILITATION**

Since its inception, WASH-FIN has worked with 20 WSPs to undertake debt capacity assessments, legacy debt restructuring proposals, and to develop proposals and facilitate potential financing transactions. Of these, 11 have improved their creditworthiness through WASH-FIN's technical assistance.

### **Activity 3.1: Provide Transaction Advisory Services to Creditworthy WSPs**

In Year 4 WASH-FIN had planned to support four creditworthy WSPs (Nanyuki, Embu, Nakuru, and Murang'a) and one near-creditworthy WSP (Kirinyaga) with preparation of documentation needed to access commercial financing. WASH-FIN undertook creditworthiness review for four of the WSPs (Nanyuki, Embu, Kirinyaga and Murang'a) in Year 3 and for Nakuru Water and Sanitation Services Company (NAWASSCO) in Year 4. Additional activities undertaken in Year 4 included:

- Preparation of a technical proposal and financial model for Nanyuki Water and Sanitation Company;
- Preparation of debt capacity assessment for Embu and Kirinyaga WSPs; and
- Training of financial and technical team at Embu Water and Sanitation Company on use of the Debt Capacity Assessment tool.

The onset of the COVID-19 pandemic and the attendant impact of reductions in WSPs' revenue collection, coupled with uncertainty on recovery time, disrupted WASH-FIN's support. Presently, the sector has shifted its focus from commercial loan transactions to ensuring that WSPs have adequate liquidity to sustain service delivery during the pandemic. In light of this development, WASH-FIN refined its approach and collaborated closely with the Water Services Regulatory Board (WASREB) and Water Sector Trust Fund (WSTF) to support WSPs accessing conditional liquidity support grants (CLSGs) that the World Bank will provide.

Based on discussions between USAID/Kenya & East Africa and Laikipia County Government, WASH-FIN was invited to support Laikipia County to further their engagement in the Nanyuki Dam Public Private Partnership (PPP) project. The PPP dam project is a government priority and the first in the Kenya WASH sector to receive approval from the PPP Unit in the National Treasury to move to transaction phase. WASH-FIN had however experienced compliance hurdles due to the proposed site being located in a UNESCO Heritage site within a protected forest and national park. Following lengthy agreements between USAID/KEA and Laikipia County, the county government received a letter of no objection from the Kenya Forest Services allowing them to proceed with site investigations on the proposed dam site. In addition, Laikipia County government committed to funding the environmental and social impact assessment study whilst the National Treasury gave a letter of comfort to have USAID support the dam project. Based on these developments, WASH-FIN support will commence in Year 5.

### **Activity 3.2: Provide Transaction Advisory Services to Sanitation and Fresh Life Initiative (Sanergy)**



In Year 4 WASH-FIN continued to support Sanivation and Fresh Life Initiative (Sanergy), private sanitation companies adopting novel technologies and approaches to the provision of sanitation services in non-sewered areas within the informal settlements in Naivasha and Nairobi, respectively. For Sanivation, WASH-FIN Kenya prepared templates for investor outreach, impact positioning, and operational dashboards and financial models for scaling up waste processing facilities. Using these templates and models, Sanivation has been engaging investors to raise required capital, which has resulted in them closing a financial transaction of ██████████ in convertible debt.

For Fresh Life Initiative (Sanergy) WASH-FIN provided early stage support to conceptualize a suitable financing model for scaling up services in non-sewered areas in the informal settlements within Nairobi City County. WASH-FIN provided a draft “three statement financial model” and provided input into the review of the strategic plan of Fresh Life Initiative as the basis for further support in Year 5.

### **Activity 3.3: Knowledge Sharing with Financial Community**

In partnership with WASRE, two separate knowledge sharing events were organized for financial institutions (commercial banks) and WSPs, respectively. For the banks, the focus was sensitizing them to the water sector as a potentially viable market that could take on commercial debt. For the WSPs, the focus was on the application of business planning and project preparation as a precursor to accessing repayable finance for water and sanitation project development. Plans for a joint knowledge sharing forum for financial institutions and the WSPs were suspended due to the onset of COVID-19.

## **CATEGORY 4: GOVERNANCE IN THE WASH SECTOR**

The WASH-FIN Kenya activity is being implemented in a context of ongoing sector legal and institutional reforms ushered in by the Constitution of Kenya 2010 and the Water Act 2016. These sectoral reforms and the attendant devolution framework continue to present challenges due to unresolved institutional set-ups and lack of clarity on roles and responsibilities of the various sector institutions. Efforts to bring the national and county government institutions together to address the ongoing challenges resulted into the development and signing of the Inter-Governmental Water Sector Consultation and Cooperation Framework in 2018. This framework has yet to be operationalized, however. Cognizant of the direct and indirect WASH governance challenges related to accessing requisite financial resources for investment, WASH-FIN built in an activity to support key players in the sector to address the issues through greater understanding of the political economy issues in the sector, and facilitating sector dialogue.

### **Activity 4.1: Review Political Economy of WASH Devolution Process**

In Q2FY20, WASH-FIN Kenya commenced a Political Economy Assessment (PEA) meant to inform national dialogue on WASH sector governance. The study continued albeit at a slower pace due to the onset of COVID-19. Using online platforms, a total of 29 virtual interviews were conducted and a draft report was prepared and is expected to be finalized and disseminated in Q1FY21.

#### **Activity 4.1A: Review the Progress, Opportunities, and Challenges of the Kenya Pooled Water Fund**

The Kenya Pooled Water Fund (KPWF) is an innovative financing mechanism initiated by the Dutch government that seeks to raise finances from the capital markets for on-lending to water service providers. USAID and other development partners provided technical support and offered credit guarantees to the mechanism. The anticipated bond issuance did not materialize, and KPWF requested that USAID withdraw its guarantee. In order to learn from the process, USAID requested a review of the KPWF case to identify lessons and potential opportunities for similar future endeavors. During FY20, WASH-FIN conducted a total of 22 virtual interviews and prepared a draft report which is expected to be finalized and disseminated in Q1FY21.

## **Activity 4.2: Support Ministry of Water and Sanitation, Council of Governors and WSPs to address Governance issues in the WASH Sector**

From the beginning of Year 4, WASH-FIN worked collaboratively with the MoWS&I, WASREB, and COG to set up a steering committee to oversee a national dialogue on the water sector. The original aim was to address issues of intergovernmental relations that have beset the sector since the onset of national devolution. The dialogue is expected to be largely informed by the PEA mentioned in activity 4.1 above. With the onset of the COVID-19 pandemic WASH-FIN quickly redesigned the engagement of a Governance Consultant to charge her specifically with coordinating the efforts of the COG to advocate for an appropriate allocation of relief funding to the WASH sector, managed at the County level. As a result of these efforts and other engagements, approximately \$58 million in relief funding from the World Bank has been dedicated to the water and sanitation sector locally, and WASH-FIN is in the final stages of formalizing a partnership with the World Bank. WASH-FIN will support WSPs to successfully access World Bank funding and to develop longer-term utility turn-around plans to enable them to continue to adapt to the challenges created by the pandemic.

## **Activity 4.3: High-Level Panel on Financing**

WASH-FIN Kenya continued to engage with stakeholders, including MoWS&I officials, county governments, development partners, and WSPs. It is envisaged that this high-level panel will be informed by the activity in Year 5 intended to support the introduction of a revolving fund at the Water Sector Trust Fund.

## **ADDITIONAL CATEGORY 5: KNOWLEDGE MANAGEMENT**

WASH-FIN participated in the African Water Association 2020 conference held in Kampala, Uganda, in February 2020 where they shared a success story on customer outreach support provided to Mathira Water and Sanitation Company (MAWASCO). This support contributed to MAWASCO reaching its target for customer connections and qualifying for a 60 percent subsidy through the World Bank-supported output-based aid program.

In response to the COVID-19 pandemic, WASH-FIN undertook rapid research and produced four surveys to assess the impact of COVID-19 on WSPs. As a result of the research WASH-FIN produced three technical briefs, in collaboration with WASREB on the following topics:

- The role of public WSPs in service provision to informal settlements,
- The need to maintain the supply chain for water treatment chemicals, and
- The impact that COVID-19 has had on the WSPs' financial health

WASH-FIN shared the briefs with sector partners and its report on financial stress on WSPs due to COVID-19 was featured on GlobalWaters.org.

### **I.2.3 REFLECTIONS ON IMPLEMENTATION**

Like in other countries, the COVID-19 pandemic imposed a financial strain on both national and county governments who focused on ensuring health facilities would be able to cope. While the government of Kenya pronounced water services as the greatest defense against the virus, this was not accompanied by any significant funding to increase water and sanitation services provision. A directive by government required water services providers to provide free services in informal settlements and not to disconnect consumers regardless of their billing arrears. The increased cost combined with the reduced revenue from other customers increased the financial stress of the utilities. For example, WASH-FIN's study showed that many WSPs managed to collect only about one third of their normal payments. Collections were particularly difficult in the first few months of the pandemic.

This loss of revenue had an immediate impact on WASH-FIN programming in Kenya. While the core objective of WASH-FIN was to raise financing from non-traditional sources, the impact of the COVID-19 pandemic on WSP revenue collection resulted in a sharp drop in creditworthiness impacting their potential for accessing commercial financing. The pandemic reinforced the critical role of public sector financing for WASH services. As the pandemic persisted, it became apparent that the gains made to mobilize non-tradition financing including commercial loans, could be lost if the WSPs were not supported to maintain minimum levels of liquidity and over time regain their pre-COVID-19 creditworthiness status. This requires increased funding from the public sector and re-building of the economy to enable the users to once again pay for WASH services.

These factors led WASH-FIN to reposition its’ activities and shift from commercial financing to supporting access to liquidity support for the WSPs. Through sustained engagement with sector stakeholders, WASH-FIN managed to get a space to provide technical assistance to WASREB in the roll out of the World Bank-funded CLSG program. While this assistance will focus initially on financial liquidity, it will also support development of financial recovery and business turn around plans to help WSPs bounce back to their pre-COVID-19 status. As Kenya moves forward, it will also be important that government with its sector partners focus on building sector resilience to guard against the risk of total collapse in case of future pandemics.

Aside from the financial challenges, the pandemic also showed the continued need for improving governance in the water sector. The WASH-FIN engagement at the COG highlighted the existing lack of coordination between the national and county governments, which in part played a big role in the delayed financing for the liquidity support program. The mistrust between the two levels of government at times got in the way of the sector presenting a united front and therefore contributed to a slow and difficult engagement with National Treasury. It is critical that if the water sector players want to be seen and heard, a means must be found to work together better and with a united voice.

Besides the technical issues raised by the pandemic, COVID-19 also impacted the functioning of the WASH-FIN Kenya office. Whilst WASH-FIN was able to quickly adapt to teleworking, this new way of engagement presented some challenges for certain partners who were delayed in their recognition of this new reality. Although many are now relatively comfortable with teleworking, the gradual re-opening of the country by the government has also meant that many organizations are moving back to the old way of engaging, holding in-person meetings. Depending on how the pandemic plays out over the coming months, this could still be a challenge that WASH-FIN will need to address in order to effectively deliver results in Year 5.

#### 1.2.4 DELIVERY PROGRESS SUMMARY

Table 1.6 below summarizes Kenya activities, their expected timelines and results, and an update on their completion during Year 4.

**TABLE 1.6: KENYA DELIVERY PROGRESS SUMMARY**

Kenya Activities	Expected Results	Year 4 Status Update
Activity 1.1: Tracking of WASH Expenditure	<ul style="list-style-type: none"> <li>TrackFin Phase III report completed and disseminated to stakeholders.</li> <li>National and county government WASH expenditures tracked.</li> </ul>	<ul style="list-style-type: none"> <li>Combined WASH accounts draft report for TrackFin I and II prepared; MoWS&amp;I to give direction on setting up of technical team and commencement of TrackFin III program.</li> </ul>
Activity 2.1: Provide Technical Assistance to WSPs to Improve Creditworthiness	<ul style="list-style-type: none"> <li>Creditworthiness of two WSPs improved.</li> <li>Lessons learned on improving creditworthiness documented and disseminated.</li> </ul>	<ul style="list-style-type: none"> <li>Activity delayed due to COVID-19 pandemic; expected completion in FY21.</li> </ul>

Kenya Activities	Expected Results	Year 4 Status Update
Activity 3.1: Provide Transaction Advisory Services to Creditworthy WSPs	<ul style="list-style-type: none"> <li>At least five public WSPs supported in efforts to access financing.</li> </ul>	<ul style="list-style-type: none"> <li>Activities put on hold due to COVID-19 and the strain it has placed on WSP finances. Engagement to be revised to address higher-priority WSP needs for support in Year 5.</li> </ul>
Activity 3.2: Provide Transaction Advisory Services to Sanitation and Sanergy	<ul style="list-style-type: none"> <li>Sanitation supported to access financing for scale up activities.</li> <li>Document on key lessons learned in supporting sanitation enterprises.</li> </ul>	<ul style="list-style-type: none"> <li>Impact positioning materials for outreach to potential financiers, dashboards for internal operations finalized and handed over to Sanitation.</li> <li>Sanitation closed financial transactions amounting to ██████████</li> <li>Draft financial model developed for Sanergy.</li> </ul>
Activity 3.3: Knowledge Sharing with Financial Community	<ul style="list-style-type: none"> <li>Training materials for financial institutions developed and disseminated.</li> <li>At least two trainings held for financial institutions on financing WASH.</li> </ul>	<ul style="list-style-type: none"> <li>Knowledge sharing materials prepared and shared with financial institutions and WSPs.</li> <li>2 knowledge sharing sessions for WSPs and financial institutions conducted.</li> </ul>
Activity 4.1: Review Political Economy of WASH Devolution Process	<ul style="list-style-type: none"> <li>Paper outlining key political-economy issues affecting WASH sector documented and used to engage stakeholders.</li> </ul>	<ul style="list-style-type: none"> <li>Political Economy Assessment (PEA) commenced but not completed in FY20; expected to be finalized and disseminated by the end of Q1FY21.</li> </ul>
Activity 4.1A: Review the Progress, Opportunities, and Challenges of the KPWF	<ul style="list-style-type: none"> <li>Lessons learned from the KPWF process documented and disseminated.</li> </ul>	<ul style="list-style-type: none"> <li>Report on review of KPWF commenced but not completed in Y4 due to COVID-19; expected to be finalized by the end of Q1FY21.</li> </ul>
Activity 4.2: Support Ministry of Water and Sanitation, Council of Governors and WSPs to address Governance issues in the WASH Sector	<ul style="list-style-type: none"> <li>Engagement road map for MoWS&amp;I and COG on WASH sector governance developed.</li> <li>Dialogue sessions to resolve governance issues related to devolution conducted.</li> <li>Mission engaged to support the WASH sector sessions during the 2020 Devolution Conference (March 2–5).</li> <li>Peer-to-peer exchange visits conducted at the county level, and between Kenya and other countries.</li> </ul>	<ul style="list-style-type: none"> <li>PEA that would have led to a national governance workshop bringing the WASH stakeholders together to discuss the sector governance was placed on hold pending government action on COVID-19 mitigation planning.</li> <li>COVID-19-focused support to COG commenced immediately following request from COG for coordination in the sector.</li> </ul>
Activity 4.3: High-Level Panel on Financing	<ul style="list-style-type: none"> <li>Road map for coordinated approach and mechanism on supporting WASH sector in Kenya developed.</li> </ul>	<ul style="list-style-type: none"> <li>The activity is still pending and is expected to be accomplished in Year 5</li> </ul>

### I.2.5 PERFORMANCE INDICATOR TARGETS AND RESULTS

Table I.6 below reports on WASH-FIN Kenya's Year 4 and cumulative results against targets established in WASH-FIN's Year 4 M&E Plan for five project indicators.

**TABLE I.6: KENYA YR 4 PERFORMANCE INDICATOR TARGETS AND RESULTS**

WASH-FIN Indicators	LOP Targets (YR 4 MEP)	Previous Years' Achievements	Year 4 Achievements	Cumulative Achievement to Date
HL.8.4-1 Value of new funding mobilized to the water and sanitation sectors as a result of USG assistance	\$12,000,000	\$3,636,705	\$749,331	\$4,386,036
HL.8.3-3 Number of water and sanitation sector institutions strengthened to manage water resources or improve water supply and sanitation services as a result of USG assistance (Indicator Definition Customized)	1	1	-	1 (WASREB)
EG.11-4 Amount of investment mobilized (in US\$) for climate change adaptation as supported by USG assistance	\$6,000,000	\$837,500	\$709,100	\$1,546,600
HL.8.1-3 Number of people receiving improved service quality from an existing basic or safely managed drinking water service as a result of USG assistance	20,000	2,100	4,800	6,900
HL.8.2-7 Number of people receiving improved sanitation service quality from an existing "limited" or "basic" service as a result of USG assistance	5,000	2,100	20,190	22,290

*HL.8.4-1:* In Year 4 WASH-FIN made progress to support Water Services Providers and private sanitation companies to close financial transactions. With the onset of COVID-19, WASH-FIN support was redirected from a focus on accessing private finance to instead receiving grants to enhance continued provision of water and sanitation services. WASH-FIN prepared evidence-based briefs that were shared with the Council of Governors and WASREB which enabled 13 WSPs to receive water treatment chemicals from UNICEF amounting to [REDACTED]. Continued support to Sanivation, supported closing of transactions amounting to [REDACTED] in convertible debt and is expected to lead to further financial transactions in Year 5.

*HL.8.3-3:* WASREB was supported to update existing Business Plan Guidelines that were developed in 2007. Nakuru Rural Water and Sanitation Company (NARUWASCO) and Mavoko Water and Sanitation Company (MAVWASCO) were supported by WASH-FIN to develop business plans using the WASREB Business Plan Guidelines. These WSPs shared their experience with other water companies during a knowledge sharing forum organized by WASREB and WASH-FIN in February 2020.

*EG.11-4:* In FY20 [REDACTED] of funds mobilized were attributed to climate change adaptations based on revenues, (amounting to [REDACTED]), mobilized from additional water and sewerage connections for Mathira Water and Sanitation Company (MAWASCO) and Nyeri Water and Sanitation Company (NYEWASCO) respectively. The remaining funds were mobilized by Sanivation based on the calculation that 50 percent of the funds mobilized would be attributed to climate change mitigation as they are dedicated to tree preservation initiatives.

*HL.8.1-3:* During Year 4, WASH-FIN received data from Mathira Water and Sanitation Company as evidence of the people receiving improved water services as a result WASH-FIN support. As COVID-19 situation improves, the utility is likely to achieve its target in the coming year.

*HL.8.2-7:* During the year under review, WASH-FIN made good progress in the sanitation indicator. WASH-FIN provided support to Sanivation Company to update its financial models, operational dashboards, and impact positioning materials that enabled the company to mobilize additional financing to expand sanitation services to non-sewered areas in Naivasha town and reach additional people. In

Year 4, WASH-FIN received additional data from Nyeri Water and Sanitation Company (NYEWASCO) on new sewerage connections that enabled the utility to achieve its target for sewer connections for the World Bank supported Output Based Aid (OBA) project.

## I.3 MOZAMBIQUE

**TABLE I.7: MOZAMBIQUE ACTIVITY SNAPSHOT**

<b>Activity Title</b>	<b>Access to Finance for WASH</b>
<b>Location</b>	Urban areas and rural growth centers in Mozambique with private WSPs and water operators.
<b>Goal</b>	Expand financing for viable WSPs to enable them to invest in improving their service quality and/or increase client access to safe water and adequate sanitation.
<b>Objectives</b>	<ol style="list-style-type: none"> <li>1. Build the direct and indirect capacity of private water providers (<i>Fornecedores Privados de Água</i> [FPAs]) operating in peri-urban areas, and private operators within the rural water and sanitation program (PRONASAR) to improve and expand operations under existing service models.</li> <li>2. Improve legal framework and models that enable existing and new private actors to assume a larger role within the sector, including investment in construction of water treatment infrastructure, scaled piped systems, and sanitation services.</li> <li>3. Foster innovative financing mechanisms that crowd-in both donor funding and private sector financing to create newly commercially viable opportunities for private and public actors to deliver financially sustainable services at scale.</li> <li>4. Engage the Government of Mozambique to institutionalize sector investment monitoring through TrackFin to inform and improve sector planning.</li> </ol>
<b>Start Date</b>	November 1, 2018
<b>Expected End Date</b>	September 30, 2021
<b>Total Budget</b>	\$4,782,104

### I.3.1 COUNTRY CONTEXT AND OVERVIEW OF YEAR 4 ACTIVITIES

Mozambique’s water sector implementation plan for the Sustainable Development Goals (SDGs) envisions achieving universal coverage for both water supply and sanitation (WSS) services by 2029, from 2015 baseline figures of 47.0 percent in water supply coverage (36.1 percent rural and 82.5 percent urban) and 27.0 percent in sanitation coverage (13.2 percent rural and 57.0 percent urban). To achieve this objective, it is estimated that a total of USD 4.2 billion in additional investment will be required from 2015 to 2029. Nearly five years after the SDGs were announced, investment in the sector has lagged, with an average annual deficit estimated of roughly 58 percent. Similarly, progress in increasing services coverage has been lower than expected, and in some cases, it has decreased. By 2019, access to water services had decreased slightly in urban areas (79.2 percent) and increased slightly in rural areas (52.0 percent), while access to sanitation remains insufficient—57.9 percent and 31.9 percent of total in urban and rural areas, respectively.<sup>10</sup> In order to accelerate the expansion of WASH services, the Government of Mozambique needs to increase its financial resources allocation to the sector as well as encourage and enable innovative forms of financing, including greater private sector participation to complement traditional funding. Since the establishment of a delegated management framework in the water sector in 1999, the private sector has progressively been involved in the provision of water supply services. However, private sector participation has yet to be fully exploited to increase its total estimated participation in the sector from 19 percent in 2015 to the Government of Mozambique’s stated goal of 49 percent by 2029.<sup>11</sup>

To support the achievement of these aforementioned goals, WASH-FIN Mozambique seeks to provide strategic, targeted support to key public and private WASH actors in Mozambique, to promote private sector engagement and financing for improved WASH service delivery to populations in urban, peri-urban, small town, and rural growth centers, as well as promote sustainable sector financing solutions.

<sup>10</sup> Note: sector estimations not yet validated by the National Statistical Institute (INE).

<sup>11</sup> Government of Mozambique, Resolution No. 40/2018, dated October 24.



During this past year, WASH-FIN Mozambique began implementation and achieved the following:

- i. Prepared and delivered the “PPP Structures for Secondary Water Supply Systems” reference document to the Water and Sanitation Infrastructure Administration (AIAS) that summarizes three PPP models and provides recommendations for implementation with respect to secondary piped water systems;
- ii. Revised lease contract documents used by AIAS to engage local private water operators;
- iii. Supported AIAS in the review of an unsolicited proposal by an international investor, AQUASWISS to rehabilitate, expand and operate the Vilankulo water supply system under a concession contract;
- iv. Engaged an engineering firm to undertake water supply system feasibility study for the Vilankulo water system;
- v. Began a needs assessment of 40 private water providers (FPAs) to determine the types of technical assistance activities provided and to select approximately 20 FPAs to receive technical assistance related to operational activities, increasing efficiencies, and improving financial management practices;
- vi. Started preparation of a methodology and tools to enable governments at all levels to monitor performance of private operators in rural areas piped systems (PRONASAR systems);
- vii. Commissioned an energy efficiency study for FPAs and PRONASAR piped water supply systems, which was aimed at evaluating the potential use of solar energy to reduce operating costs, which ranges from 35 percent to 65 percent of total operational costs;
- viii. Engaged an institutional adviser to support the sector regulator, *Autoridade Reguladora de Águas (AURA)*, to identify the necessary activities and studies to prepare a comprehensive regulatory framework for piped services provision by FPAs and PRONASAR systems;
- ix. Initiated the procurement process for Small Towns Infrastructure Fund Feasibility Study, which is aimed at supporting the development of innovative and blended finance solutions to catalyze finance for the WASH sector, and;
- x. Continued with the TrackFin sector financial information flows tracking exercise.

The COVID-19 pandemic resulted in the inclusion of additional activities that were not foreseen at the time the Year 4 workplan was prepared. At the request of AURA, WASH-FIN prepared factsheets regarding the continuity of water services as well as health and safety practices during the pandemic. Due to potential concerns related to the financial impact of the pandemic on water service providers and to inform potential government and development partner responses, WASH-FIN initiated financial stress assessments for a sample of 10 service providers (FPAs and PRONASAR) across Mozambique.

### I.3.2 PROJECT IMPLEMENTATION UPDATE

#### CATEGORY I: CAPACITY BUILDING FOR WASH PRIVATE SECTOR ACTORS

The WASH sector in Mozambique consists of multiple actors, most of which lack sufficient capacity to fulfill their respective mandates. Rural WSS is under the responsibility of the National Directorate of Water Supply and Sanitation (DNAAS); water supply in small towns and sanitation in both small towns and large urban centers are under the responsibility of AIAS; and water supply in large urban centers is entrusted to the Water Asset and Investment Fund (FIPAG). DNAAS through the national rural WSS program (PRONASAR) and AIAS deliver piped water schemes in small towns and villages, respectively, and engage private operators through lease contracts to operate and manage these systems. In addition, private water providers (FPAs) have begun to enter the market and invest their own financial resources to provide piped water services in areas with relatively low coverage levels, initially in peri-urban areas and now expanding to small towns and rural areas. Specific challenges faced by FPAs include the lack of basic technical, business, and financial management skills and high energy costs. More generally, public sector utilities have high-water losses. Additionally, public institutions lack the mechanisms and tools to



monitor and evaluate the operational performance of piped water services provided by FPAs and PRONASAR systems.

During Year 4, WASH-FIN started implementing the identified and approved activities to address part of the above challenges: (i) building FPA capacity for managing business activities; (ii) preparing a strategy and tools for performance monitoring of PRONASAR piped systems; (iii) developing an energy efficiency study for both FPAs and PRONASAR piped systems; and (iv) conducting the Vilankulo water supply feasibility study. WASH-FIN also started preparing SOWs for FPA technical and financial management capacity building, a GIS-based tool for FPAs licensing management, and an NRW study for the water supply systems in the Maputo area.

### **Activity 1.1: FPA and PRONASAR Operators' Capacity Building**

#### *1.1.1: Technical and Financial Management Capacity Building for FPAs*

This activity was designed to complement an effort initiated by the USAID-funded Supporting the Policy Environment for Economic Development Project (SPEED+), which identified the weaknesses of FPAs in the basic technical aspects of water supply and financial management. It was agreed with USAID that WASH-FIN would inherit technical and financial management manuals under preparation by SPEED+ to conduct this activity. In Year 4 WASH-FIN received from DNAAS the final versions of the technical and financial management manuals prepared by the SPEED+ project. WASH-FIN then drafted the SOW for providing technical assistance for building capacity in these areas, which has been approved by DNAAS and the Association of Private Water Providers (AFORAMO). WASH-FIN will submit the SOW to USAID for review and approval early in Q1FY21.

#### *1.1.2: Business Development Capacity Building*

This activity is intended to provide tailored business development capacity building technical assistance to a limited number of FPAs in a pilot exercise. It comprises an initial baseline study targeting a pre-selected pool of FPAs, final selection of FPAs to participate in the Business Development Capacity Building program, and design of separate capacity building programs for each FPA targeted according to its specific challenges. The capacity development will focus on improving commercial and financial management, operational efficiencies, and cost reduction for approximately 20 FPAs and supporting them to raise capital, where applicable. The program was planned to cover the following geographic areas: Maputo metropolitan area, southern region provinces, and the Beira corridor, where 98 percent of FPAs are located. During Year 4, WASH-FIN prepared SOWs and USAID approved them, and individual consultants were recruited to implement the program. A baseline study to inform the final selection of FPAs was initiated and began designing capacity building programs in Q4. Initial challenges faced and being addressed through adaptation measures include security issues in the Beira corridor and the replacement of two junior consultants who declined their contracts. The capacity building activities are expected to be completed by the end of Q3FY21.

#### *1.1.3: Energy Efficiency Improvements for FPA and PRONASAR Systems*

Studies undertaken by USAID's SPEED+ project identified electricity expenditures as the largest cost component for FPA systems, especially following 2018 tariff increases by the national electricity utility. The Mozambique Electricity Utility announced in 2020 that it intends to further increase electricity costs by 10 percent to cope with its current financial challenges. To support both FPAs and PRONASAR operators in addressing energy cost challenges, in Year 4 an international solar energy expert was engaged to conduct a strategic analysis on the potential use of solar energy in small piped water schemes in Mozambique and simultaneously provide support to SPEED+ to facilitate solar energy adoption for some FPAs. The consultant delivered his first report on "Mozambique WASH, Power Sector, Weather Data, and Solar Simulation Modeling" after conducting his first field visit to Maputo. However, progress

has been delayed when the COVID-19 outbreak in March 2020 prevented the consultant's second field visit to Maputo for additional data collection. Arrangements for remote data collection were made in Q4 by leveraging support from the consultants hired for business development capacity activities. Progress for this activity is expected to be back on track in Q1FY21.

#### *1.1.4: Technical Assistance to PRONASAR Private Operators*

Private operators under PRONASAR are projected to cover 24 percent of Mozambique's population with piped water supply systems by 2024. This includes piped systems in rural growth centers, which are delivered by the public sector and operated by the private sector. WASH-FIN is building on AIAS's experience managing the performance of their operators to deliver appropriate strategies and tools for monitoring the performance of PRONASAR operators and the management of the PRONASAR program to inform capacity building activities. In Year 4, two individual consultants were approved to deliver this assignment—one lead and one supporting consultant. An Inception Report was completed and presented to DNAAS and data collection was initiated with central government institutions (departments and key PRONASAR donors) and at local level (provincial and district governments). Next step will be to prepare the respective draft report and potentially present the findings at the PRONASAR Piped Systems Sustainability Workshop and a final report is expected in Q1FY21.

#### *1.1.5: Market Segmentation Study for PRONASAR Donor Investments*

WASH-FIN intends to support the review of existing PRONASAR investments and the strategy for engaging private operators to provide better data on the PRONASAR system and encourage increased donor support for the program. Data collection for work is ongoing. Initial findings were expected to be presented at the PRONASAR Piped Systems Sustainability Workshop being prepared by DNAAS and initially scheduled for Q2FY20 but postponed due to COVID-19. The workshop is expected to be re-scheduled for Q1FY21.

### **Activity 1.2: Strengthening FPA Licensing Framework**

#### *1.2.1: Technical Assistance for Licensing*

Private water providers in Mozambique initiated their business informally, then the government recognized their contribution in expanding service coverage and approved Decree 51/2015, which established the legal framework for FPAs legalization and formalization. Since Year 3, WASH-FIN has supported the licensing and legalization of FPAs through capacity building to licensing authorities (districts and municipalities) as part of the implementation of Decree 51/2015. A local consultant (who became staff in Year 4) provided capacity building to local authorities in southern region provinces in licensing and resolving disputes related to coverage area overlaps. Additional support was provided to DNAAS in all FPA-related studies and activities supported by WASH-FIN and other actors, including FPA business development capacity building and bulk water selling model for SPEED+ supported FPAs. This support is ongoing and will expand to cover FPAs operating in northern region provinces.

#### *1.2.2: Development of a Geo-referenced Platform to Support FPA Licensing Management*

WASH-FIN envisions supporting the development of an online platform that overlays the coverage areas of different service providers. This tool will enable local authorities to make more informed decisions concerning the granting of FPA licenses to prevent potential overlaps in coverage areas between FPAs and FIPAG, as well as with AIAS expansion plans. During Year 4, WASH-FIN prepared a SOW in collaboration with DNAAS, and included technical staff involved in the management of the National Water Sector Information System (SINAS). Initial findings suggest that the tool can include additional information at the town level. Performance indicators of reporting FPAs would also be integrated into the SINAS database. Once DNAAS and other sector key stakeholders have completed its review, the SOW will be finalized and released to the market.

## Activity 1.3: Support to Specific PPP Engagements

### *1.3.1: Feasibility Study for Vilankulo Small Piped System*

WASH-FIN is providing support to AIAS to prepare a feasibility study for the development of a full-scale small piped system in Vilankulo, Inhambane Province. This feasibility study is needed to support the ongoing discussions between AIAS and AQUASWISS, a water treatment technology provider that has presented an unsolicited proposal for the development of the Vilankulo water supply system, estimated at USD 13 million, to expand services to cover current and future demand of Vilankulo and Mapinhane village over 20 years. In Year 4, WASH-FIN engaged a local subcontractor DHV to conduct the feasibility study. The subcontractor completed the Inception Report and prepared tools for a socio-economic survey, including households survey and data collection. Surveys and data collection were started, but the outbreak of the COVID-19 pandemic delayed field visits and the feasibility study report is now expected to be finalized in Q1FY21.

### *1.3.2: Development of Performance-based PPP Structuring with FIPAG*

With NRW at 39 percent in the Maputo/Matola/Boane water supply system in 2018<sup>12</sup>, FIPAG, the Maputo Regional Water Company (Águas da Região de Maputo (AdeM)), and WASH-FIN regard NRW reduction as a fundamental precursor to the potential introduction of any market-based finance for FIPAG. WASH-FIN plans to engage an engineering firm to review the Maputo water supply NRW reduction strategy, update it, develop a multi-year investment plan, including cost estimates, and evaluate the capacity for implementation through in-house resources (FIPAG and AdeM) or through external resources (performance-based contract). Based on extensive discussions with FIPAG and AdeM during Year 4, the SOW was updated to cover the seven most critical priority areas (Zona Verde, T3, Patrice Lumumba, Boane, Tsalala, Matola A, and Matola Rio). An updated internal cost estimate was prepared, and the SOW is ready to be released to market in Q1FY21.

## CATEGORY 2: IMPROVEMENT OF LEGAL FRAMEWORK FOR PRIVATE SECTOR PARTICIPATION

Private sector participation in Mozambique water supply services delivery started in 1998 following the approval by the government of the delegated management framework (DMF) for large urban areas with creation and establishment of FIPAG and the sector regulator, AURA (formerly CRA). In 2009, the government expanded the DMF to include water supply systems in small towns and sanitation in both small towns and large urban areas. The government created AIAS to manage investments and expanded the regulatory mandate to cover WSS services in both small towns and large urban centers. In 2019, the government expanded the regulatory mandate to cover all WSS services. However, the current legal framework remains incomplete. Although private operators have been providing piped water services in rural growth centers and FPAs in peri-urban areas, there are: (i) no regulatory mechanisms for services provided by these entities; (ii) no incentives for private operators to invest in service expansion; and (iii) no tools for monitoring performance. Since commencing work in Mozambique, WASH-FIN has been working to strengthen sector institutions to enable them to address these challenges.

## Activity 2.1: AIAS Advisory Services

### *2.1.1/2.1.2 AIAS Legal Advisory Services and Transactional Advisory Services*

WASH-FIN has been providing legal (HRA Advogados) and transaction advisory (Castalia) services to support AIAS in developing the necessary contractual tools to attract private investment to the secondary towns and villages under its mandate. The development and successful implementation of these contractual tools has potential to leverage up to USD 55 million in investment, with an initial USD

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<sup>12</sup> ARA, 2019

23 million for the first nine piped systems under discussion with a potential private partner. In Year 4, WASH-FIN prepared the “PPP Structures for Secondary Water Supply Systems Report,” a reference document for AIAS to consider possible PPP structures for secondary piped water systems. This deliverable was followed by a workshop with key local and international stakeholders, which was an important platform for discussing the challenges regarding the existing PPP legislation and potential ways that this legislation could be modified. Additionally, significant progress was made with respect to the preparation of draft lease documents with the final draft presented to AIAS and expected to be finalized within Q1FY21. The revised documents are intended to provide more clarity to the contracting process and incentives for increasing investment to expand services by private operators. Advisory services have also been provided to AIAS to review the draft concession contract and financial model as well as prepare supporting annexes to support AIAS in negotiations with Operation Water for a proposed concession for nine piped systems with a potential investment value of USD 23 million. If successful, the concession can be expanded to other systems and total investment could be increased to up to USD 55 million. At the end of Year 4, AIAS was preparing to present the draft concession documents to the Council of Ministers for the latter’s approval to pave the way for negotiations with Operation Water.

## **Activity 2.2: Development of Legal and Regulatory Framework to Enable New and Scaled Private Engagement**

### *2.2.1 Technical Assistance to AURA*

The Decree 51/2015 on the formalization and legalization of FPAs business is at an early stage of implementation. The sector regulator, AURA, has not yet begun regulating these services, nor has it begun regulating the PRONASAR piped water services. AURA requested support from WASH-FIN to assist in the development of a regulatory framework and tools for FPAs and piped water services in rural growth centers (PRONASAR systems). In response to this request, and to provide more certainty to the operating environment of these private actors, WASH-FIN hired an Institutional Advisor to help guide AURA’s strategy for developing a regulatory framework for these above activities. During Year 4, the Institutional Adviser delivered the following outputs: (i) review of the sector legal framework pertaining to regulation of FPAs and PRONASAR piped services; (ii) identification of needed studies and activities for developing the regulatory tools for the above services; and (iii) concept notes for identified studies and activities to inform preparation of the respective SOWs. In Year 5 strategic guidance on development of identified studies will be provided, including the preparation of regulatory tools for FPAs and PRONASAR piped systems that are supported by other partners.

#### *2.2.1.1 Study Tour for Regulatory Knowledge Sharing*

WASH-FIN initially proposed developing a study tour for members of AURA to learn from another regulator who has successfully implemented an effective regulatory framework for similarly sized service providers. However, AURA mobilized financial resources from another donor to prepare the regulatory tools for FPAs and PRONASAR piped systems and has already procured a subcontractor to conduct this study. As a result, WASH-FIN now considers that it will be more productive for the subcontractor to organize the study tour and is no longer considering support for this activity.

#### *2.2.2.2 Development of Data Management Platform*

WASH-FIN was considering supporting AURA in the preparation of an electronic data collection and management platform for FPA and PRONASAR systems regulation. AURA was at an advanced stage in developing a similar platform for systems in large urban centers and secondary systems. However, AURA later included this activity in a package funded by another donor and its development is ongoing. Therefore, WASH-FIN will no longer support this activity.

## **Activity 2.3: Sector Financial Information Tracking**

### 2.3.1 Sector Investment Assessment – TrackFin

WASH-FIN is supporting the first phase of TrackFin implementation for the WASH sector in Mozambique, which will better track expenditures and financial information in order to support government with planning and investment decisions. In Year 4, the subcontractor completed data collection at the central level and in three selected provinces—Nampula, Zambézia, and Gaza. A draft report was prepared to summarize and present the main findings to sector stakeholders and is under internal review. Once completed, it will be reviewed and validated by sector stakeholders including technical and financial staff from key institutions and others responsible for supporting the data collection and initial information review process with the final output expected in Q1FY21.

## CATEGORY 3: DEVELOPMENT OF INNOVATIVE WASH FINANCING MECHANISMS

### Activity 3.1: Small Towns Water Infrastructure Fund Feasibility Study

UNICEF led the initial development of a concept note for a blended finance fund to mobilize financing for the development of new water supply systems in small towns under the purview of AIAS. To date, UNICEF has commissioned a consultancy to propose a fund concept and develop a high-level financial model to explore potential feasibility and is currently conducting a technical engineering feasibility study that will include up to 35 selected secondary water systems. Following UNICEF’s failure to secure financing for the feasibility analysis and a request from USAID, WASH-FIN is working to build upon the initial UNICEF study to explore the potential feasibility for establishment of this blended finance fund. The study will also help evaluate potential alternative fund concepts and institutional structures to ultimately identify the concept with the greatest potential viability. During Year 4, WASH-FIN drafted the assignment SOW and discussed it with and obtained endorsement from major stakeholders (UNICEF and the World Bank). Additionally, a tender was issued to engage a subcontractor resulting in four proposals received and the evaluation and selection process is nearly concluded. Once approved, this assignment is expected to start in Q1FY21.

## ADDITIONAL CATEGORY 4: COVID-19 RESPONSE SUPPORT

WASH-FIN engaged in work responding to the COVID-19 pandemic this year that was not in the Year 4 Work Plan.

### Activity 4.1: COVID-19 Related Support

#### 4.1.1 COVID-19 Factsheets for AURA

During Year 4, WASH-FIN received a request to assist implementation of COVID-19-related activities following AURA’s request to USAID to support its “services provision continuity program.” To that end, WASH-FIN delivered printed pamphlets in two stages of 3,000 (A3 format) and 6,000 (A4 format). The factsheets provided guidance to WSS service providers and to the general public to ensure WASH service continuity as well as encourage the safety of staff and consumers during the pandemic.

#### 4.1.2 Financial Stress Assessment for Water and Sanitation Services Providers

The outbreak of COVID-19 pandemic brought unforeseen challenges to WSS services in Mozambique. Since the provision of water supply services is crucial to maintaining safe hygiene practices by the general public, the Government of Mozambique issued a directive for a no-shut off policy during the pandemic, regardless of the level of arrears by consumers. This directive, combined with potential reduced revenues due to the shutdown of economic activities, is likely to result in severe financial stress for WASH service providers. In order to inform potential financial and liquidity support, WASH-FIN

initiated a related financial stress assessment for a sample of ten service providers (FPAs and PRONASAR piped services) in three areas, beginning in southern provinces (Maputo, Gaza, and Inhambane). These stress tests will use a modified version of a World Bank financial assessment tool that WASH-FIN has been implementing in Kenya and Zambia. The initial results will be shared with the Government of Mozambique and UNICEF (with whom WASH-FIN is coordinating) once these become available in Q1FY21.

### I.3.3 REFLECTIONS ON IMPLEMENTATION

The WASH-FIN Mozambique program started in Year 3 and has been supporting the government’s decentralization process, initially taking place at the provincial level and to be expanded to the district level in 2025. This process has impacted sector institutions, with elected provincial governments expected to be responsible for rural WSS service, while the central government will continue to be responsible for WSS in urban areas and small towns. Part of the strategic support that WASH-FIN is providing to the sector institutions includes the design of the strategy and tools for the government to oversee and monitor the performance of PRONASAR piped systems. WASH-FIN is also providing support to WSPs to improve their respective operational performance, financial position, and efficiencies in service provision. Since decentralization is an ongoing process, WASH-FIN will monitor the successes and the challenges related to activity implementation and capacity building support, as well as providing recommendations for the government to consider based on conditions on the ground.

One major WASH-FIN Mozambique achievement was the completion of the “PPP Options Report” for secondary piped water systems, prepared in consultation with key stakeholders. WASH-FIN held a workshop in February 2020 attended by key-decision makers in the government, including representatives of the Ministry of Economy and Finance who are responsible for the review and implementation of the current PPP law. Workshop discussions helped to raise the key issues that might pose challenges to implementation of PPPs in the WASH and other social sectors under the current legislation. Following this workshop, WASH-FIN is providing additional support to review and refine the PPP legislation.

The outbreak of COVID-19 was a major challenge in Year 4 and the pandemic impacted program implementation, especially during Q3, when the Government imposed strict lock down measures. Adaptation measures identified and implemented gradually by the team included: (i) mandating remote working arrangements for WASH-FIN Mozambique staff; (ii) developing standard guidelines and procedures regarding in-country travel approved by USAID; (iii) shifting to remote data collection for international consultants, supported by local consultants, where applicable; and (iv) reducing the number of in-person meetings for program activities. WASH-FIN also adjusted in responding to help WASH sector institutions and operators address the health-related and financial impacts of the COVID-19 pandemic noted in 4.1 above.

### I.3.4 DELIVERY PROGRESS SUMMARY

Table 1.8 below summarizes Mozambique activities, their expected timelines and results, and an update on their status in Year 4.

**TABLE 1.8: MOZAMBIQUE DELIVERY PROGRESS SUMMARY**

Mozambique Activities	Expected Results	Year 4 Status Update
<i>FPA and PRONASAR Operators’ Capacity Building</i>		
Activity 1.1.1: Technical and Financial Management Capacity Building for FPAs	<ul style="list-style-type: none"> <li>Subcontractor (training institution) onboarded.</li> <li>First capacity building module (technical) implemented.</li> </ul>	<ul style="list-style-type: none"> <li>Training manuals prepared by SPEED+ received from DNAAS in Q3.</li> <li>SOW prepared, discussed with DNAAS and AFORAMO.</li> </ul>

Mozambique Activities	Expected Results	Year 4 Status Update
	<ul style="list-style-type: none"> <li>• Second capacity building module (financial) implemented.</li> </ul>	
Activity 1.1.2: Business Development Capacity Building	<ul style="list-style-type: none"> <li>• FPA assessments completed.</li> <li>• Component 1 – Technical management implemented.</li> <li>• Component 2 – Financial management implemented.</li> <li>• Component 3 – Business planning implemented.</li> <li>• Component 4 – Business consolidation, expansion and financing implemented.</li> </ul>	<ul style="list-style-type: none"> <li>• Consultants to conduct capacity building engaged.</li> <li>• FPA assessments started in Q4.</li> </ul>
Activity 1.1.3: Energy Efficiency Improvements for FPA and PRONASAR Systems	<ul style="list-style-type: none"> <li>• Renewable Energy Expert onboarded.</li> <li>• Commercial viability assessment completed.</li> </ul>	<ul style="list-style-type: none"> <li>• Consultant engaged in Q1FY20.</li> <li>• Energy assessments ongoing. It was delayed due to COVID-19, which prevented international travel to Maputo for additional data collection.</li> </ul>
Activity 1.1.4: Technical Assistance to PRONASAR Private Operators	<ul style="list-style-type: none"> <li>• Consultant onboarded.</li> <li>• Proposed technical monitoring strategy and tools completed by consultant.</li> </ul>	<ul style="list-style-type: none"> <li>• Both consultants (lead and supporting) onboarded.</li> <li>• Inception Report finalized.</li> <li>• Data collection at central and local levels ongoing.</li> </ul>
Activity 1.1.5: Market Segmentation Study for PRONASAR Donor Investments	<ul style="list-style-type: none"> <li>• Consultant onboarded.</li> <li>• Market segmentation report completed.</li> </ul>	<ul style="list-style-type: none"> <li>• Study ongoing by the same supporting consultant as for Activity 1.1.4.</li> </ul>
<i>Strengthening FPA Licensing Framework</i>		
Activity 1.2.1: Technical Assistance for Licensing	<ul style="list-style-type: none"> <li>• Completion of technical assistance for licensing by consultant.</li> </ul>	<ul style="list-style-type: none"> <li>• Technical licensing ongoing. Local consultant converted into full-time staff seconded to DNAAS, also supporting other FPA-related activities.</li> </ul>
Activity 1.2.2: Development of a Geo-Referenced Platform to Support FPA Licensing Management	<ul style="list-style-type: none"> <li>• Subcontractor onboarded.</li> <li>• Geo-referenced platform developed.</li> <li>• Licensing authorities trained.</li> </ul>	<ul style="list-style-type: none"> <li>• Development of SOW for GIS platform ongoing by WASH-FIN staff.</li> </ul>
<i>Support to Specific PPP Engagements</i>		
Activity 1.3.1: Feasibility Study for Vilankulo Small Piped System	<ul style="list-style-type: none"> <li>• Subcontractor onboarded.</li> <li>• Study completed.</li> </ul>	<ul style="list-style-type: none"> <li>• Subcontractor engaged in Q2.</li> <li>• Inception report completed.</li> <li>• Socio-economic study and household survey tools developed, and data collection initiated on the ground. Assignment affected by constraints imposed by COVID-19 on in-country travel restrictions.</li> </ul>
Activity 1.3.2: Development of Performance-Based PPP Structuring with FIPAG	<ul style="list-style-type: none"> <li>• Subcontractor/consultant onboarded.</li> <li>• NRW diagnostic study completed.</li> <li>• Strategy for next phase of support confirmed with FIPAG.</li> <li>• Performance-based PPP contract structure developed (if approach confirmed in study and by FIPAG).</li> </ul>	<ul style="list-style-type: none"> <li>• Draft SOW developed, to be finalized and issued to market in Q1FY21. This activity experienced significant delays due to the need for extensive discussions with beneficiaries (FIPAG and AdeM) to agree on scope and assignment geographical coverage.</li> </ul>
<i>Improvement of Legal Framework for Private Sector Participation</i>		



Mozambique Activities	Expected Results	Year 4 Status Update
Activity 2.1.1/2.1.2: AIAS Legal Advisory Services and Transactional Advisory Services	<ul style="list-style-type: none"> <li>• Modifications to existing lease contract model finalized.</li> <li>• Stakeholder workshop realized.</li> <li>• New PPP contract model developed.</li> </ul>	<ul style="list-style-type: none"> <li>• Revised lease contract documents drafted and presented to AIAS. Documents, including implementation manual to be finalized in Q1FY21.</li> <li>• Stakeholders workshop held in February 2020.</li> <li>• PPP Structures Report finalized.</li> </ul>
<i>Development of Legal and Regulatory Framework to Enable New and Scaled Private Engagement</i>		
Activity 2.2.1: Technical Assistance to AURA	<ul style="list-style-type: none"> <li>• Consultant onboarded.</li> <li>• Completion of technical assistance provided by consultant.</li> </ul>	<ul style="list-style-type: none"> <li>• Consultant engaged in Q1FY20.</li> <li>• Review of legal framework, identification of necessary activities and studies to be carried out, and preparation of concept notes for identified activities and studies completed.</li> <li>• Consultant to continue providing strategic guidance to AURA throughout FY21.</li> <li>• Ongoing procurement of Communication Specialist consultant to be seconded to AURA.</li> </ul>
Activity 2.2.1.1: Study Tour for Regulatory Knowledge Sharing	<ul style="list-style-type: none"> <li>• Regulatory best practices established</li> </ul>	<ul style="list-style-type: none"> <li>• Activity no longer to be supported by WASH-FIN due to support from another donor.</li> </ul>
Activity 2.2.2.2: Development of Data Management Platform	<ul style="list-style-type: none"> <li>• Improved tracking and storage of sector data to improve monitoring and enforcement</li> </ul>	<ul style="list-style-type: none"> <li>• Activity no longer to be supported by WASH-FIN due to support from another donor.</li> </ul>
<i>Sector Financial Information Tracking</i>		
Activity 2.3.1: Sector Investment Assessment - TrackFin	<ul style="list-style-type: none"> <li>• Presentation of preliminary report to the <i>Grupo de Agua e Saneamento</i> completed.</li> </ul>	<ul style="list-style-type: none"> <li>• Dataset finalized and presented to sector stakeholders.</li> <li>• Draft final report prepared and still to undergo validation by sector stakeholders, expected in Q1FY21.</li> </ul>
<i>Development of Innovative WASH Financing Mechanisms</i>		
Activity 3.1: Small Towns Water Infrastructure Fund Feasibility Study	<ul style="list-style-type: none"> <li>• Activity requested for WASH-FIN following UNICEF failure to secure financial resources for feasibility study component.</li> </ul>	<ul style="list-style-type: none"> <li>• SOW prepared, tender launched, and evaluation of proposals completed. Study expected to start in Q1FY21.</li> </ul>

### I.3.5 PERFORMANCE INDICATOR TARGETS AND RESULTS

Starting in Q3FY20, WASH-FIN Mozambique began reporting results against established indicator targets directly on USAID’s platform, DevResults. WASH-FIN created sub-indicators and submitted these to the USAID mission for approval. Changes made include: (1) *Indicator HL8.4-1*, with five sub-indicators: “Number of water supply systems selected for concession feasibility studies,” “Number of feasibility studies performed,” “Number of concession contracts drafted,” “Number of concession contracts negotiated and signed,” and “Amount of funds mobilized”; (2) *Indicator HL8.3-3*, with four sub-indicators: “Number of PPP models developed,” “Number of lease contracts standard documents improved,” “Number of regulatory frameworks developed,” and “Number of regulatory tools developed”; (3) *Indicator EG.11-4*, with five sub-indicators: “Number of water supply systems selected for concession feasibility studies,” “Number of feasibility studies performed,” “Number of concession contracts drafted,” “Number of concession contracts negotiated and signed,” and “Amount of climate change adaptation-related funds mobilized”; and (4) *Indicator HL8.1-3*, with three sub-indicators:

“Number of small private water provider trained in business development,” “Number of small private water providers trained in technical and financial management,” and “Number of existing consumers with improved services due to capacity building programs implemented.”

Table 1.9 below reports on WASH-FIN Mozambique’s Year 4 and cumulative results against targets established in WASH-FIN’s Year 4 M&E Plan for four project indicators.

**TABLE 1.9: MOZAMBIQUE YR 4 PERFORMANCE INDICATOR TARGETS AND RESULTS**

<b>WASH-FIN Indicators</b>	<b>LOP Targets (YR 4 MEP)</b>	<b>Previous Years' Achievements</b>	<b>Year 4 Achievements</b>	<b>Cumulative Achievements to Date</b>
HL.8.4-1 Value of new funding mobilized to the water and sanitation sectors as a result of USG assistance	\$10,000,000	0	0	0
HL.8.3-3 Number of water and sanitation sector institutions strengthened to manage water resources or improve water supply and sanitation services as a result of USG assistance (Indicator Definition Customized)	2	0	0	0
EG.11-4 Amount of investment mobilized (in US\$) for climate change adaptation as supported by USG assistance	\$5,000,000	0	0	0
HL.8.1-3 Number of people receiving improved service quality from an existing basic or safely managed drinking water service as a result of USG assistance	10,000	0	0	0

*HL.8.4-1:* WASH-FIN Mozambique has made progress with respect to the resource mobilization indicator. Although no new funding or finance has been mobilized this year, support has been provided for the development of a concession contract with a private investor, Operation Water. The concession documents are expected to be presented to the Council of Ministers for its approval by the government within Q1FY21 and contract negotiations will follow, thereafter. If the negotiations are successfully concluded, it is possible for the concession contract to be reach contractual close during Year 5. However, the project sponsor, Operation Water, will likely need to seek financing make it somewhat unlikely that the transaction will reach financial close during Year 5.

*HL.8.3-3:* AIAS receives WASH-FIN Mozambique technical assistance to develop a PPP framework that will help AIAS to attract private investment to the secondary towns and villages. During Year 4, WASH-FIN completed a PPP Options Analysis report, which evaluated potential PPP models for the development and operation of secondary piped water systems, and the contractual documentation mentioned above has already presented to AIAS and is expected to be finalized in the next few months. Additionally, WASH-FIN is supporting AURA to strengthen the regulatory framework to FPA and PRONASAR piped systems operations. During this reporting period, WASH-FIN worked with AURA to prepare concept notes for consultancies and activities required to develop and establish a regulatory framework and tools for FPA and PRONASAR services. While these activities were important milestones, WASH-FIN has not completed their institutional strengthening support to AURA. As a result, this indicator is marked as not having been completed in the above results table.

*EG.11-4:* Once any resources are mobilized in HL.8.4-1 above, a determination will be made as to if they meet the criteria for this indicator.

*HL.8.1-3:* The initial target was not achieved during Year 4; however, the initial assessment of 40 FPAs was used to select 20 FPAs as well as design specific content for business development capacity support was started in Q4. This capacity building activity is expected to enable the beneficiary FPAs to improve the quality of services provided to their current consumers. Although delayed, it expected that WASH-FIN project targets will be fully achieved during Year 5.

## I.4 NEPAL

**TABLE I.10: NEPAL ACTIVITY SNAPSHOT**

<b>Activity Title</b>	<b>Access to Repayable Blended WASH Financing for Local Bodies</b>
<b>Location</b>	Water user groups/water supply boards (WSBs) and municipalities/local bodies in mid-western and far-western Nepal (Provinces No. 5 and No. 6)
<b>Goal</b>	To develop and institutionalize a municipal WASH services model, based on viable commercial approaches to customer-centered service delivery, using cost-reflective tariffs and clear business plans that facilitate access to blended repayable finance from the Town Development Fund (TDF) or other forms from other sources.
<b>Objectives</b>	<ol style="list-style-type: none"> <li>1. Assistance to Establish a Viable Water Supply Model: Support Institutional Framework for Sustainable Service Delivery</li> <li>2. Creditworthiness Enhancement: Introduce commercial approaches, cost-reflective tariffs, business planning, and access to blended repayable or commercial finance</li> <li>3. Fecal Sludge Management (FSM) Institutional and Financing Model: Support Institutional Framework for Sustainable Service Delivery</li> <li>4. Knowledge Management: Ensure learning, sharing, replication, and uptake</li> </ol>
<b>Start Date</b>	August 1, 2017
<b>Expected End Date</b>	February 28, 2021
<b>Total Budget</b>	\$2,600,000

### I.4.1 COUNTRY CONTEXT AND OVERVIEW OF YEAR 4 ACTIVITIES

In Nepal, WASH-FIN is engaging to develop models for decentralized local/municipal WASH service delivery under the new federal structure in collaboration with central, provincial, and local governments. WASH-FIN/Nepal engages broadly in improving the enabling environment for WASH service providers and specifically in developing viable institutional and service delivery models.

In Year 4 the Nepal Activity continued to focus on advancing ongoing technical assistance including concluding its work with the Surkhet Valley Water Supply Users' Organization (SVWSUO), preparing the Gulariya Municipality effort for completion in Year 5, and inception phase of the Nepalgunj city-wide water supply coverage assessment. For SVWSUO, this included disseminating the business plan and related technical assistance and support provided by WASH-FIN over the past two years in a national workshop. The participants of the workshop included national government partners (Ministry/DWSSM), Physical Planning Ministry of Karnali Province, TDF, USAID and development partners, USAID PAANI project, SNV Netherlands Development Organization, WaterAid, JICA/MIPS, World Bank, and officials from selected water service providers. To further promote Nepal's water supply business plan efforts, the DWSSM Institutional Support and Service Advisory Unit (ISSAU) prepared a draft business plan directive which WASH-FIN supported with expert reviews.

For Gulariya municipality, efforts to develop the outsourced Integrated Waste Management (IWM) - Fecal Sludge Treatment Plant (FSTP) model were advanced and are nearing completion. In parallel, in Year 4 WASH-FIN provided support to Ministry of Water Supply/Department of Water Supply and Sewerage Management (DWSSM) to institutionalize business plans for water utilities and capacity building support for viable Fecal Sludge Management (FSM) and FSTP design and operational guidelines.

The emergence of the COVID-19 pandemic impacted the field level activity since March 2020, as the Government declared a strict lockdown and restrictions on movement throughout the country. In accordance with guidance from Tetra Tech and the USAID/Nepal Mission, WASH-FIN worked remotely, maintaining coordination and collaboration efforts with government partners and other stakeholders, building on relationships it had established during previous years.

In order to get a better understanding of the impact of COVID-19, as it relates to business continuity, financial position, and resilience of WASH service provision, WASH-FIN Nepal developed a questionnaire and completed a rapid assessment of water supply service providers. Other knowledge management activities included advancing reports to document the financial, institutional, and service delivery landscapes to be completed in Year 5.

## **I.4.2 PROJECT IMPLEMENTATION UPDATE**

### **CATEGORY I: ESTABLISH VIABLE WASH DELIVERY MODELS**

From its inception, the WASH-FIN Nepal activity design envisioned this category as a means to inform the development of viable service delivery models in the context of ongoing decentralization and devolution of responsibilities in the Nepal WASH sector. This re-structuring of the foundational pillars of government is expected to have positive effects on sustainable WASH service provision. However, it is an iterative, and evolving process and therefore a review of the prevailing institutional set-up as well as the emerging changes in sector laws, policies, and regulations being formulated was required. These changes will impact sector reforms and restructuring of policies and strategies for strengthening institutional capabilities and accountability. In light of this, this category consists of activities to review and analyze the current institutional set up and service delivery models vis a vis the new constitution as a foundation for developing enhanced water supply service delivery models that incorporate fundamental principles such as; performance, efficiency and utility governance improvements before large scale investments in new infrastructure; cost recovery and cost reflective tariffs, and, building off of these; seeking opportunities to leverage tariffs and government transfers with appropriate levels of repayable finance to expand and improve service delivery. Finally, the results of developing these models would be disseminated for uptake by government and its partners.

These government legislative and policy making processes were underway when the Nepal activity began, so as it waited for their conclusion, WASH-FIN used the review and analysis to underpin its technical assistance to develop and institutionalize decentralized WASH service delivery models.

By the end of Year 4, the process had not been completed, so WASH-FIN continued to apply the knowledge and insights gained in this category through its technical work with partners Surkhet Valley Water Supply Users' Association (SVWSUO – water supply) and the Gulariya Municipality (sanitation). Major accomplishments in applying this knowledge in Year 4 included as it relates to technical assistance to strengthen governance at SVWSUO, and then the dissemination of the SVWSUO business plan supported by WASH-FIN in a national workshop (see success story). WASH-FIN also applied this knowledge as part of various reviews, analysis and benchmarking of Fecal Sludge Management (FSM) service delivery on behalf of the Gulariya Municipality. This included extending to related sectors such as Municipal Solid Waste (MSW) in Nepal and other outsourced service delivery models from Nepal and other countries. WASH-FIN also used this review and analysis in other categories.

#### **Activity I.1: Review Institutional Framework for WASH Services**

The review of the institutional framework was identified as a need in the concept note, and given the dynamic nature in Nepal, on-going review has been required. WASH-FIN continued to undertake this activity in Year 4 as part of the support to develop and institutionalize commercially viable institutional models for WASH services. This included incorporating the new approach of the Ministry of Water Supply/DWSSM to transfer some WASH service delivery responsibilities to the provincial and municipal level governments according to project size and local capacity to provide the services. WASH-FIN also continued to review and monitor the progress of the Water Supply and Sanitation Act in Parliament and the Sector Development Plan (SDP) as well as other relevant laws, regulations and policies. WASH-FIN also continue to assess the working modalities of Water Users' and Sanitation Committees (WUSC),

Water Board, Municipality run Water Supply and Nepal Water Supply Corporation (NWSC) of Government with an eye towards the accountability chain, financial flows and opportunities for financing.

In Year 4, as the government processes related to the Water Supply and Sanitation Act and the SDP were expected to be completed, WASH-FIN began to think about capturing the final results in more specific reports on the institutional set-up as it relates to the enabling environment for viable service delivery models and how they are financed and implemented. WASH-FIN recruited and hired a Governance Specialist to take on this effort. The WASH-FIN Senior Governance Advisor began working on a knowledge product to analyze the current governance climate and report on actions related government and development partner documents. At the end of FY20, a concept note was developed to define the WASH-FIN deliverable to be completed in FY21 and was included in the Year 5 workplan.

### **Activity 1.2: Service Delivery Options Analysis – Water Supply**

In Year 4, WASH-FIN Nepal planned to include and expand on its prior benchmarking analysis of WUSC and Water Supply Board Management Models as input to technical assistance to Nepalgunj Sub-Metropolitan City to support the city's interest in exploring new water supply service delivery models. WASH-FIN envisioned engaging with Nepalgunj in this effort, starting with an assessment. WASH-FIN started its engagement with the Nepalgunj Sub-Metropolitan City in cooperation with the Nepal Water Supply Corporation (NWSC) to assess current NWSC water supply scheme in the city, and options for citywide coverage. This work originally intended to include technical, financial and accounting analysis, a gap analysis, and options analysis as part of planning and estimating capital investment needed, and potential pathways for city-wide coverage. A tripartite coordination meeting was held in Q2FY20 to kick-off the work in Nepalgunj and better understand the existing situation.

At this time, WASH-FIN discovered that NWSC was preparing a draft Detailed Project Report (DPR) for expanded and improved service delivery in Nepalgunj and that a draft DPR would be available. Separately, the sub-municipality was working with partners to prepare a WASH Plan. In light of this, the parties agreed that WASH-FIN should leverage these resources in its support to the Sub-metropolitan city so as not to duplicate them. It was further decided that a workshop and stakeholders meeting would be held in Nepalgunj on the process of the draft DPR and other related activities in the city. The workshop was planned for Q3FY20 and aimed to contribute to key WASH-FIN data points and identify gaps and how to fill those. Due to the COVID-19 situation, however, the workshop did not go forward as Nepalgunj borders the Indian State of Uttar Pradesh, and a district lockdown was imposed in a bid to contain the spread of the disease. Considering this, it was agreed with the Mayor of Nepalgunj to postpone the stakeholders meeting.

Towards the end of Year 4 the meeting was still unable to take place and proposed virtual meetings were not well received by the parties. Moreover, the draft DPR and financial data on the NWSC system requested earlier in the year had not been received. Due to these circumstances, in Q4FY20 the scope of this activity was expected to be reduced to support the Sub-metropolitan city on understanding the institutional options available, and potential pathways to achieve citywide coverage. To the extent that technical (draft DPR) and financial data is received in a timely fashion, it will be incorporated into the analysis. To this end, in Q4FY20 a Scope of Work (SOW) was prepared and recruitment started for a Senior Water Supply System Analyst and Institutional Development Advisor consultant to carry out activities in Nepalgunj Sub-metropolitan city in accordance with the information received and time remaining for WASH-FIN support.

### **Activity 1.3: Promote Institutionalization of WASH Service Delivery Models**

In parallel with the planned review and analysis of different WASH delivery model options, WASH-FIN Nepal continued to engage with local, provincial, and federal government actors to deepen their

understanding and institutionalize viable models. The primary service delivery model promoted this year was water supply business plans as the SVWSUO business plan supported by WASH-FIN was disseminated and promoted in a national workshop. The workshop covered the process and outputs of the technical support to the business plan, including a cost and tariff study, asset management guidelines, and other governance support (see section 4.2). A planned stakeholder workshop to receive feedback and further advance the Nepal directive was postponed due to COVID-19.

There was also considerable work done to support the Gulariya Municipality outsourced service delivery model for FSM and Integrated Waste Management (IWM). However, this work was not completed due to delays and disruptions caused by the COVID-19 pandemic (See Activity 3.2 for more details). The dissemination of this effort is now envisioned for Year 5.

## **CATEGORY 2: CREDITWORTHINESS ENHANCEMENT**

Creditworthiness is a measure of an entities ability to access finance (credit) from the available sources. Enhancement includes but is not limited to improvements in cost-reflective tariffs, business planning, efficiency improvements, and governance. Improvements in these areas enhances creditworthiness resulting in greater ability to access funding from a variety of sources, including blended, repayable, or commercial finance at optimal terms. Category 2 was included in the Nepal activity design in order to introduce commercial approaches, cost-reflective tariffs, business and financial planning, and access to blended repayable or commercial finance. In Year 4, this has included improvements to cost-reflective tariffs, governance, and asset management, and capital investment planning (SVWSUO). WASH-FIN also worked with Gulariya Municipality on preliminary improvements to the city's FSM, FSTP, and Solid Waste Management (SWM) service delivery and refining its business model as a means to build a foundation for enhanced creditworthiness in the event that finance is required for the outsourced service delivery model. These efforts are expected to improve the city's position in negotiations with potential private sector operators as well.

### **Activity 2.1: Business Plan and Business Model Development**

In Year 4, WASH-FIN Nepal concluded its formal technical support to the Surkhet Valley Water Supply Users' Organization (SVWSUO) primarily as it relates to implementing and disseminating the Business Plan, which was supported in prior years and completed in Year 3. However, after the COVID-19 pandemic, WASH-FIN continued to provide consultative support to SVWSUO in implementing components of the business plan. This included governance support to management and the board and advising on identification of staff capacity gaps and on establishing an asset management system. Development of a customer satisfaction survey was also envisioned, but this was put on hold due to COVID-19, as this would have to be conducted through in-person meetings with customers.

Stemming from the DWSSM presentation of the draft national Business Plan Directive in the dissemination workshop, WASH-FIN supported with a comprehensive review of the directive leveraging USAID efforts in Philippines, Kenya, and other geographies. WASH-FIN had envisioned continuing to support DWSSM on institutionalizing business plans, but this did not advance due to the disruptions of COVID-19.

WASH-FIN continued to refine the financial projections and business model for Integrated Waste Management (IWM) in Gulariya Municipality. The business model incorporates the operation and maintenance (O&M) manual and a draft Service Level Agreement (SLA) (see Category 3 below).

### **Activity 2.2: Cost-Reflective Tariffs**



This Year, WASH-FIN Nepal presented the draft Cost and Tariff Review update prepared for SVWSUO at the Business Plan Dissemination Workshop and shared its approach to cost reflective tariff setting as a key component of sustainable cost recovery service delivery models. The draft version of the Cost and Tariff Review Update Report was submitted to USAID after the workshop. As the pandemic began WASH-FIN received feedback from USAID which included a request to consider the implications of COVID-19 in on the report. As WASH-FIN was developing a rapid assessment of the impact of COVID-19 on a select group of water utilities, it was decided to wait for the results of that study to consider the implications of the pandemic on the tariff review. In Q4FY20, WASH-FIN evaluated the results of the COVID-19 rapid assessment (see below) in terms of how this might impact the tariff structure. The initial evaluation indicates that it is imperative that utilities continue to adjust tariffs and related financial policies to cover the true cost of providing the service and be better able to weather economic risks in the long run. The report was updated with an addendum to capture the final analysis and was re-submitted to USAID.

### **Activity 2.3: Improved Financial Reporting**

There was limited activity in this space in Year 4. As part of Activity 1.2 above, landscape of service delivery models, WASH-FIN Nepal planned to assess financial reporting and compliance more broadly with additional service providers, but this activity has also been impacted by COVID-19. It will not be continued in the Year 5 workplan, with the possible exception of the Nepalgunj Sub-metropolitan city work.

### **Activity 2.4: Development of Financing Proposals to Financial Institutions**

There was limited activity in this space in Year 4. Financing proposals were expected to prepare for SVWSUO and Gulariya Municipality, but both partners favored the grant from three tiers of government rather than a repayable loan from TDF. Considerable consultations were had with SVWSUO to discuss the tradeoffs of grant versus TDF finance; mainly in terms of accelerating service delivery improvements as envisioned in the capital investment plan contained within the business plan, but ultimately management was unconvinced. The shift to grant funds required a further review of costs and tariffs as the reduction of repayable finance changed the cost structure somewhat. Gulariya Municipality did invest modest own resources into FSTP improvements which should help when discussions with private operators begin.

During Year 4, WASH-FIN has advanced its work on the Financial Landscape Assessment. OCA engaged extensively with WASH-FIN to conduct preliminary desktop research, after which OCA held virtual interviews with a variety of stakeholders in the WASH sector including the Asian Development Bank, the World Bank, DWSSM, Kathmandu Upatyaka Khanepani Limited (KUKL), Bharatpur Board, NWSC Bhadrapur Jhapa, Lekhnath WUSC, and WaterAid. Interviews were also held with three financial institutions: Town Development Fund (TDF), Nepal Infrastructure Bank and a Microfinance institution. The Financial Landscape Assessment is envisioned to serve as a tool to assist water and sanitation service providers in Nepal to consider the tradeoffs of different types of financing. WASH-FIN submitted an overview of ongoing assessment progress and initial findings to USAID's Nepal Mission. OCA has submitted the draft report and review is ongoing. After finalization, it is expected to share it with USAID and Government of Nepal. This was moved to Category 4 in Year 5 workplan.

## **CATEGORY 3: FECAL SLUDGE MANAGEMENT INSTITUTIONAL AND FINANCING MODEL**

Fecal sludge management is a massive development challenge in Nepal identified during the WASH-FIN activity design stage. Although it is receiving growing attention from government and development partners, FSM remains nascent in Nepal and to date investments that have been made are few and ad

hoc. WASH-FIN's engagement since inception was to learn from past efforts in FSM in Nepal and other countries, monitor government and development partner initiatives, and frame solutions within a 'citywide service chain approach' and, define and promote viable business models for FSM services. WASH-FIN also aimed to work with local authorities to seek financing for viable FSM plans and encourage private sector participation and explore repayable funding from TDF.

USAID requested that WASH-FIN support the Gulariya Municipality in its efforts to improve Fecal Sludge Management (FSM) in the city center and support the operationalization of its fledgling Fecal Sludge Treatment Plant (FSTP) which at that time had been taken offline due to a flood. WASH-FIN worked to evaluate and explore institutional and financing models and then to apply those learnings to the Gulariya context in partnership with the municipality which expressed an interest in the potential to outsource the service to a private sector operator.

In Year 4 the work with Gulariya advanced to the point where financial projections and a model Service Level Agreement were refined and nearly finalized prior to the COVID-19 pandemic. The municipal council approved the outsourcing of the service to a private operator which WASH-FIN continues to support on. A new element of this FSM work was also advanced in Year 4 to support the DWSSM in developing a training curriculum for FSM and FSTP design that will further enhance FSM practices in Nepal with the aim of unlocking unspent public budget allocations.

### **Activity 3.1: Fecal Sludge Management Service Delivery Landscape Analysis**

WASH-FIN has conducted assessments and benchmarking of FSM service delivery in Nepal in the past, primarily as input into the Gulariya outsourced delivery and business model (See Activity 2.1 above). This provided some background on the extent of progress in this area in Nepal and through the process, it was found that there was considerable activities by other development partners including the Asian Development Bank (ADB), Bill and Malinda Gates Foundation, Global Green Growth Institute, and others in partnership with municipalities, local NGOs and civil society. To fully capture the state of the sub-sector currently, and also complement the practical experience of WASH-FIN with the Gulariya Municipality, WASH-FIN decided to consolidate the landscape analysis into a FSM Landscape Report. The report is part of a sub-contract with Environment and Public Health Organization (ENPHO) Nepal for FSM/FSTP Design Training with scope to prepare a comprehensive landscape assessment of current and planned FSM systems in Nepal. In addition to evaluating practices and service delivery models, areas for improvement, business models, and need for and potential sources of finance for sustainable service delivery, the assessment is expected to cover the extent to which municipalities are considering integration of FSM and SWM as it relates to the Total Sanitation Strategy promoted by the Government of Nepal. While largely relying on existing material from secondary sources, limited site visits will also be considered.

WASH-FIN also finalized sub-contracts with ENPHO Nepal and CDD India to undertake support to DWSSM on behalf of USAID to build capacity for FSM system design to help close a capacity gap that contributed to NPR 600 million (USD 5 million) of last year's budget related to sewerage going unspent, as described in Activity 3.2.

### **Activity 3.2: FSM Standards, Institutional and Financing Model**

In Year 4 WASH-FIN continued to advance FSM standards related to the IWM model with Gulariya Municipality and a new FSM training activity with DWSSM. Both were impacted by COVID-19-related disruptions, however (most critically at Gulariya Municipality) and the technical activity experienced setbacks. Thus, dissemination did not take place in Year 4 as planned.

**Gulariya Municipality.** Several Gulariya workstreams were advanced early in the year, including refinements to the business and financial model, a draft Service Level Agreement (SLA) and a draft

Operation and Maintenance (O&M) Manual for the FSTP. Midway through the year, WASH-FIN initiated a comprehensive review and update of the O&M Manual) for the regular operation of the plant. The rationale for the in-depth review of the O&M manual was that as the facility has been operating at a low and intermittent level since being built, it was important to scrutinize the documents to ensure they were appropriate in the context of finalizing the business model and Service Level Agreement for a private operator. It is also important as WASH-FIN will be disseminating the Gulariya effort and this will be a reference document for DWSSM and others in the sector. WASH-FIN will also look to incorporate this into the FSM Training (see below).

Early in this review, it was decided to narrow the scope of the operating manual to cover only FSM and not solid waste. WASH-FIN did review some of the data related to solid waste from the prior phase as part of further refining the business model. The standards in the various Gulariya documents underwent a considerable transformation through the contributions of WASH-FIN's FSM/FSTP Business Model Specialist. The Municipality endorsed the concept of an SLA model as the instrument to engage a private operator to manage the Integrated Waste Management (IWM) model serving four wards of the city including collection, processing, and opportunities for resource recovery. WASH-FIN supported the municipality in developing a Service Level Agreement (SLA) for outsourced service delivery, including a business model which will govern the arrangement with a private operator. WASH-FIN researched, drafted, procured an independent legal review, and another expert technical review as WASH-FIN worked with the municipality to understand the process. The Municipality endorsed this outsourced service delivery model. Due to COVID-19 constraints at the municipality, WASH-FIN provided remote support with the expectation to finalize the work sufficiently for the municipality to prepare tender documents to release for potential bidders to run the Integrated Waste Management (IWM) facility. As of the end of Year 4, the work had progressed significantly, but the municipality had yet to prepare drafts for review. As there will be limited time before the WASH-FIN activity closes out, WASH-FIN is considering the best way to take this activity forward in its Year 5 workplan.

**FSTP/FSM Training.** WASH-FIN developed a new activity in Year 4 in response to a request from DWSSM to enhance knowledge and build capacity in the area of the design of Fecal Sludge Treatment Plant (FSTP) infrastructure and Fecal Sludge Management (FSM) service delivery in Nepal. The activity is to develop an FSTP/FSM training curriculum to be used by the DWSSM's National Water Supply and Sanitation Training Centre (NWSSTC). WASH-FIN prepared a Concept Note with DWSSM and USAID input to define the scope and completed the procurement of two subcontractors to complete this work under the direction of WASH-FIN in partnership with DWSSM/NWSSTC. Due to the COVID-19 restrictions, a planned exposure visit to FSTP sites and sector institutions in India was cancelled at DWSSM's request.

Two subcontractors; ENPHO Nepal, and CDD India kicked off the effort in Q4FY20 and began the inception phase with workplan refinement, stakeholder and training institution consultations, preparation of a capacity assessment report and other interim deliverables. The activities under the inception and planning phase will form the foundation of the training curriculum development in Year 5.

#### **CATEGORY 4: KNOWLEDGE MANAGEMENT**

Knowledge Management (KM) has been a key component of the Nepal effort since the design of the activity. The rationale for KM was that as a focused effort engaging with a limited number of local partners over short periods of time there was a need for active engagement with other sector stakeholders. As WASH-FIN was originally requested to operate outside of Kathmandu, there were limited opportunities in prior years for intense engagement. Nevertheless, WASH-FIN did undertake several localized KM efforts in with SVWSUO in Birendranagar Municipality and Gulariya Municipality prior to Year 4. Early in Year 4, WASH-FIN completed a re-location of the project office to Kathmandu and began more intense and regular engagement with government and a broader set of stakeholders and

institutional actors across the public, private and civil society spheres that can benefit from WASH-FIN activities and experience. Unfortunately, after a well-attended and well received dissemination and sharing workshop held in the capital in January, the COVID-19 pandemic quickly disrupted opportunities for in-person knowledge sharing events. However, WASH-FIN finalized several reports and studies, and recruited a short-term KM Specialist to support the team as the country activity closeout approaches in Year 5.

#### **Activity 4.1: Stakeholders Engagement and Collaboration**

Year 4 began with normal engagement and collaboration with partners and stakeholders, initially from Gulariya, but later from Kathmandu. As restrictions due to COVID-19 were instituted, coordination meetings with Ministry of Water Supply and DWSSM continued to be conducted in-person and occasionally virtually. Virtual outreach and meetings were held with partners SVWSUO, Gulariya Municipality, and Nepalgunj Sub-Metropolitan City. Engagement also occurred with the Physical Planning Ministry of Province 5 & 6, TDF, Kathmandu Upatyaka Khanepani Limited (KUKL) and virtual connections were also established with WASH sector stakeholders including WaterAid, ADB, World Bank, UNICEF, UN Habitat, WHO, as well as National and International NGOs, Civil Society, and other stakeholders working in the WASH sector through the WASH Cluster. Opportunities to leverage these connections into collaboration were severely limited, however.

#### **Activity 4.2: Knowledge Sharing with Stakeholders**

In partnership with DWSSM WASH-FIN held a dissemination and knowledge sharing workshop highlighting the finalized SVWSUO Business Plan. Held from January 21-22, 2020 in Kathmandu, the event emphasized the process and results of WASH-FIN support to SVWSUO, and included sessions on performance improvements and efficiency, tariff review and adjustments, capital planning and asset management, and governance – all aspects of the SVWSUO business plan and related support. The workshop also featured an overview of USAID water supply business plan experience in the Philippines and Kenya, with an emphasis on the lessons from the institutional business plan guidelines established in each country. In addition, to further promote Nepal's water supply business plan efforts, the DWSSM Institutional Support and Service Advisory Unit (ISSAU) presented its draft business plan directive, which WASH-FIN also supported separately later in the year with an English translation and expert reviews from WASH-FIN Kenya and Philippines. Participants of the workshop included government partners (Ministry/DWSSM), Urban Water Supply and Sanitation Project, Physical Planning Ministry of Karnali Province, TDF, USAID and implementing partners, USAID PAANI project SNV Netherlands Development Organization, WaterAid, Japan International Cooperation Agency, World Bank, and officials from selected water service providers. It was well received by USAID, Government of Nepal and Development Partners.

WASH-FIN also organized various technical workshops with more targeted groups of partners in Year 4, such as the Gulariya Municipality, and the Toile Lane Organizations of Gulariya to share approaches and raise awareness on Integrated Waste Management (IWM) and the content of the IWM guideline. WASH-FIN has also organized Corporate Governance Training to Board and Management of SVWSUO towards the establishment of internal governance systems within the organization. WASH-FIN participated in and shared experiences with the National Sanitation and Hygiene Coordination Committee (NSHCC) of Ministry of Water Supply/DWSSM, which nominated WASH-FIN Nepal's Country Team Leader for the taskforce on Total Sanitation.

#### **Activity 4.3: Develop Knowledge Products**

In the first half of Year 4, several knowledge products were developed as part of the preparation of content for the SVWSUO Business Plan Dissemination Workshop. This included finalization of the

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update to the SVWSUO Cost and Tariff Review, a draft Asset Management Guideline and other governance related materials. After the workshop, WASH-FIN submitted a blog to document the experience and highlight business plans as a key institutional component of sustainable urban water service delivery. The blog also included learnings presented during the workshop from the development of WASH Business Plan Guidelines supported by USAID in Kenya and Philippines<sup>13</sup>.

Soon after the workshop, the development of knowledge products was also impacted by the COVID-19 pandemic. WASH-FIN sub-contractor Open Capital Advisors (OCA) was slated to undertake a Financial Landscape Study in Nepal to better understand the financing options available in the sector. As all flights were canceled, the interviews, research, and analysis were all conducted virtually, and the report is in the process of being finalized. In order to better understand the impact of COVID-19 on water utilities in Nepal WASH-FIN prepared and implemented a questionnaire and completed a rapid assessment of ten water utilities. The assessment focused on business continuity and operational and financial performance of utilities and the early findings were that impact on revenue and collections was pronounced, but generally utilities were weathering the shock reasonably well in the early months. However, the assessment also noted that if the situation does not improve, utilities are likely to experience financial and operational performance challenges. The report will be completed in Year 5 and shared with USAID and government partners.

Other KM efforts included the acceptance of a paper by the WASH-FIN Nepal Team Leader for the Third International Conference on “Water Security and Environment: Nexus and the SDGs” organized by the Society of Public Health Engineers, Nepal. Planned for April 8-10, the conference was postponed until further notice due to COVID-19 restrictions.

### 1.4.3 REFLECTIONS ON IMPLEMENTATION

As in other WASH-FIN countries, this was a challenging year for the WASH-FIN Nepal effort. On the one hand, WASH-FIN was well positioned early in the year having relocated operations to Kathmandu and delivering a successful major national workshop that brought a depth and breadth of knowledge sharing on water supply business plans. However, soon after the workshop, WASH-FIN sought to refocus in the near term on the Gulariya Municipality and getting the Nepalgunj work started, these activities were quickly disrupted by the pandemic. Indeed, WASH-FIN had to cut a field visit to Nepalgunj short and return to Kathmandu in early March and has not been able to travel outside of Kathmandu since. WASH-FIN made operational and technical adjustments in response to the COVID-19 pandemic including working remotely from home and putting all field level activities requiring travel on hold. Delays to some of the technical activities noted above, combined with WASH-FIN Nepal entering its final six months of operations have resulted in some of the scopes being revised (for example, the inception activities for the FSM/FSTP Design Training will now be done virtually), and others suspended (FSM/FSTP exchange visit to India and SVWSUO customer survey).

While WASH-FIN was able to work well on a virtual basis internally, in Nepal there were challenges working with local partners virtually. While development partners and sector stakeholders adapted well to virtual work, some government partners adjusted more slowly, especially the local partners which were being hit hard with the pandemic response and receiving technical assistance from WASH-FIN rightfully was less of a priority. There were also several changes in government officials at partners at local provincial, and national levels which took time to establish new coordination channels and bring new officials up to speed on WASH-FIN’s work.

Nepal government began to lift some restrictions and WASH-FIN participated in limited meetings and workshops in Kathmandu following good social distancing practice. If the situation does not improve, or

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<sup>13</sup> USAID, WASH-FIN Nepal, “How Business Plans can Help Water Utilities Reach Universal WASH Access”, August 2020: <https://www.globalwaters.org/resources/blogs/how-business-plans-can-help-water-utilities-reach-universal-water-sanitation-and>

gets worse, WASH-FIN is prepared to continue to carry out the planned activities virtually. The lingering effects of being directed to work with certain partners early in the activity also continued to be felt in year four. These became more pronounced when workstreams were nearing completion and a commitment to staying on the path began to waiver, or new, critical information emerged which was not shared earlier in the process. This presented challenges not only in terms of following through on plans, but also in incorporating all information into new plans. With such a large and diverse set of local service providers, and new institutional, service delivery, and financing options, future similar efforts to work on viable and cost recovery models in urban areas would benefit from a more objective and deliberative criteria-based selection of partners.

#### I.4.4 DELIVERY PROGRESS SUMMARY

Table I.11 below summarizes Nepal activities, their expected timelines and results, and an update on their completion during Year 4.

**TABLE I.11: NEPAL DELIVERY PROGRESS SUMMARY**

Nepal Activities	Expected Results	Year 4 Status Update
Activity 1.1: Review Institutional Framework for WASH Services	<ul style="list-style-type: none"> <li>Report on viable WASH service delivery options at municipal levels</li> </ul>	<ul style="list-style-type: none"> <li>Activity adjusted due to stalled finalization of new Water Supply and Sanitation Act from Parliament and SDP from Ministry of Water Supply; concept note developed. Activity to be completed in Year 5.</li> </ul>
Activity 1.2: Service Delivery Options Analysis – Water Supply	<ul style="list-style-type: none"> <li>Analysis and review leading to institutionalization of selected/proposed Models through/with DWSSM and Municipalities</li> <li>Engage with Nepalgunj Sub-Metropolitan City and NWSC for Assessment of current scenario, needs, and analysis of options.</li> </ul>	<ul style="list-style-type: none"> <li>Scope of Work (SOW) prepared for local STTA consultant and hiring process is ongoing.</li> <li>Draft DPR and financial statements of NWSC system have not been received as of year-end.</li> <li>Will be reconsidered in Year 5 workplan to provide more flexibility to provide meaningful support with time remaining.</li> </ul>
Activity 1.3: Promote Institutionalization of WASH Service Delivery Models	<ul style="list-style-type: none"> <li>Support SVWSUO for implementation of projects identified in business plan</li> <li>Sharing preliminary findings from Nepalgunj Sub-Metropolitan City on assessment and options analysis.</li> <li>Support DWSSM institutionalization of Business Plans.</li> </ul>	<ul style="list-style-type: none"> <li>Supported SVWSUO for the implementation business plan, corporate governance system and asset management.</li> <li>Work delayed due to COVID-19 travel restrictions, and documents not received. Activity to be completed in Year 5.</li> <li>Supported DWSSM for review of Business plan directive prepared by ISSAU consultant, it is in final stage of approval from Ministry of Water Supply.</li> </ul>
Activity 2.1: Business Plan and Business Model Development	<ul style="list-style-type: none"> <li>Engage with DWSSM on business planning initiatives and finalize resources and workstreams</li> <li>Support in business plan development for IWM service provider in Gulariya if needed</li> <li>Begin Nepalgunj Sub-Metropolitan City water supply capital investment and business planning</li> </ul>	<ul style="list-style-type: none"> <li>Business planning initiatives suspended due to COVID-19 pandemic.</li> <li>Business plan for IWM no longer envisioned due to delays; business model advanced and refined in Year 4 along with SLA and O&amp;M manual; will be completed in Year 5.</li> <li>Initiated in Year 4 will be continuing in Year 5, workstream gain whatever possible.</li> </ul>

Nepal Activities	Expected Results	Year 4 Status Update
Activity 2.2: Cost-Reflective Tariffs	<ul style="list-style-type: none"> <li>Updated Cost and Tariff Study report of SVWSUO</li> <li>Incorporate tariff analysis into business planning on water supply for Nepalgunj Sub Metropolitan city</li> </ul>	<ul style="list-style-type: none"> <li>Updated Cost and Tariff Study report of SVWSUO revised and submitted; further changes to consider COVID-19 impact for the tariff structure will be included as an addendum.</li> <li>It will be done based on available information in draft DPR report of NWSC and financial report of NWSC and Sub-Metropolitan city.</li> </ul>
Activity 2.3: Improve Financial Reporting	<ul style="list-style-type: none"> <li>Financial Reporting Assessment Report including sector readiness.</li> </ul>	<ul style="list-style-type: none"> <li>This work was delayed and will be assessed as part of final year work planning.</li> </ul>
Activity 2.4: Development of Financing Proposals to Financial Institutions	<ul style="list-style-type: none"> <li>Landscape of financial institutions and sources of finance for WASH service delivery models</li> <li>Next steps identified based on landscape findings</li> <li>Develop workstream for long-term capital investment planning for WASH service providers directly engaged by WASH-FIN</li> <li>Financing proposals developed for TDF or other sources as needed.</li> </ul>	<ul style="list-style-type: none"> <li>Financial Landscape Assessment has been completed by OCA and report is in the process of finalization.</li> <li>Financial Landscape Assessment report will be shared with USAID and Government of Nepal in Year 5.</li> <li>Completed for SVWSUO; will be considered for others as conditions permit.</li> <li>Both (SVWSUO and Gulariya Municipality) partners have prioritized grants over finance; proposals are not needed.</li> </ul>
Activity 3.1: FSM Service Delivery Landscape Analysis	<ul style="list-style-type: none"> <li>FSM Landscape Assessment of select municipal service providers; SOPs and Operational Manuals</li> <li>Institutional and Financial Framework options of FSM model</li> <li>Outsourced service delivery model for IWM</li> </ul>	<ul style="list-style-type: none"> <li>FSM Landscape Assessment initiated in Year 4, it will be finalized in Year 5. O&amp;M Manual has been revised and consolidated with refinements to format, graphics, etc.; independent engineering review put on hold due to COVID-19;</li> <li>IWM SLA and business model prepared and waiting for municipality to prepare bidding documents.</li> </ul>
Activity 3.2: FSM Standards, Institutional and Financing Model  (Moved to Category 4 in the Year 5 workplan)	<ul style="list-style-type: none"> <li>Operational Manuals and Environmental Mitigation and Monitoring Plan (EMMP) for FSTPs (developed for Gulariya, but applicable for wider use)</li> <li>Draft Institutional and Financial Framework for FSM; FSM Model and Financing Options</li> <li>Business Plan for Gulariya FSTP Operator</li> </ul>	<ul style="list-style-type: none"> <li>EMMP completed in Year 3. Manual in progress – to be completed in Q1FY20.</li> <li>Prepared as part of Gulariya effort; SLA, financial model, private sector participation.</li> <li>Business plan for operator did not happen due to COVID-19 delays to municipal procurement; will not be considered, but support will continue.</li> <li>Added FSM Training in Year 4; prepared concept note, procured sub-contractors, inception phase commenced.</li> </ul>
Activity 4.1: Stakeholders Engagement and Collaboration	<ul style="list-style-type: none"> <li>Continuous interaction with Nepalese WASH stakeholders such as Ministry of Water Supply, DWSSM, TDF, municipalities, WUSCs, Boards, The Federation of Drinking Water and Sanitation Users (FEDWASUN), Municipal Association of Nepal (MuAN),</li> </ul>	<ul style="list-style-type: none"> <li>Interaction with WASH Stakeholders continued through virtual channels. The stakeholder's consultation meeting with 42 concerned stakeholders were conducted virtually under FSM/FSTP training.</li> </ul>



Nepal Activities	Expected Results	Year 4 Status Update
	Society of Public Health Engineers (SOPHEN), and local NGOs.	
Activity 4.2: Knowledge Sharing with Stakeholders	<ul style="list-style-type: none"> <li>FSM Landscape dissemination Model Workshop</li> <li>Dissemination of IWM model incorporating FSM or Gulariya Municipality</li> <li>Experience sharing/learning visits for selected WUSCs to other similar projects in Nepal</li> <li>Dissemination of Nepalgunj Sub-Metropolitan City engagement; findings, results, next steps.</li> <li>International knowledge sharing/learning exchange for Ministry of Water Supply/DWSSM.</li> </ul>	<ul style="list-style-type: none"> <li>National level dissemination and sharing workshop held in January 2020.</li> <li>Due to the COVID-19 pandemic, there were limited knowledge sharing activities.</li> </ul>
Activity 4.3: Develop Knowledge Products	<ul style="list-style-type: none"> <li>Knowledge product concepts; themes include: the importance of cost reflective tariffs for sustainable service delivery; effective utility management experience in Nepal; efficiency gains and guidance note/brief.</li> <li>Final development and dissemination of knowledge products produced.</li> <li>Institutional Framework for WASH services prepared.</li> </ul>	<ul style="list-style-type: none"> <li>Financial Landscape Assessment report commenced</li> <li>Blog prepared on Business Plan dissemination</li> <li>COVID-19 impact assessment report started</li> <li>COVID-19 Risk Mitigation Plan completed</li> <li>Adjusted the KM section as part of Year 5 work planning to align with activity closeout.</li> </ul>

#### I.4.5 PERFORMANCE INDICATOR TARGETS AND RESULTS

Table 1.12 below reports on WASH-FIN Nepal's current and cumulative results against targets established in WASH-FIN's Year 4 M&E Plan for four project indicators.

**TABLE 1.12: NEPAL YR 4 PERFORMANCE INDICATOR TARGETS AND RESULTS**

WASH-FIN Indicators	LOP Targets (YR 4 MEP)	Previous Years' Achievements	Year 4 Achievements	Cumulative Achievements to Date
HL.8.4-1 Value of new funding mobilized to the water and sanitation sectors as a result of USG assistance	\$0M	\$0	\$10,257 <sup>14</sup>	\$10,257
HL.8.3-3 Number of water and sanitation sector institutions strengthened to manage water resources or improve water supply and sanitation services as a result of USG assistance (Indicator Definition Customized)	2	1	0	1
HL.8.1-3 Number of people receiving improved service quality from an existing basic or safely	25,000	0	84,893	84,893

<sup>14</sup> Collections efficiency improvements for the Surkhet Valley Water Supply Users Organization in Q1FY20.

WASH-FIN Indicators	LOP Targets (YR 4 MEP)	Previous Years' Achievements	Year 4 Achievements	Cumulative Achievements to Date
managed drinking water service as a result of USG assistance				
HL.8.2-7 Number of people receiving improved sanitation service quality from an existing "limited" or "basic" service as a result of USG assistance	5,000	0	71,644	76,644

*HL.8.4-1:* Support provided to SVWSUO to enhance operational efficiencies through a series of activities including identification of zero consumption meter readings, account receivable management, and the streamlining of management information systems. Based on documentation related to these efficiency gains, the utility has realized a total of ██████████ in increased revenue in Year 4.

*HL.8.3-3:* In addition to support to SVWSUO on institutional governance and to implement its Business Plan for water supply, in Year 4 WASH-FIN Nepal continued to support the Gulariya Municipality to develop an improved outsourced Fecal Sludge Management and Treatment Service Delivery Model. This support contributed to municipal governance decisions, and investments to improve the Fecal Sludge Treatment plant.

*HL.8.1-3:* Support provided to SVWSUO contributed to water supply service improvements in the utility's coverage area. Based on documentation provided by SVWSUO, 84,893 people received improved service quality from an existing basic or safely managed drinking water service in Year 4.

*HL.8.2-7:* Support provided to the Gulariya Municipality to develop an improved Fecal Sludge Management and Treatment Service Delivery Model contributed to 71,644 people receiving improved sanitation service quality from an existing "limited" or "basic" service.

## I.5 PHILIPPINES

**TABLE I.13: PHILIPPINES ACTIVITY SNAPSHOT**

<b>Activity Title</b>	<b>Unlocking Investment in the Urban WASH Sector</b>
<b>Location</b>	National-level WASH institutions (Manila)
<b>Goal</b>	To operationalize the UFF with an institutional structure that can rationalize financial flows into the WASH sector aimed at increased investment in improved quality of safe and reliable water and adequate sanitation services.
<b>Objective</b>	Support the operationalization of the UFF and the budget request for the 2020 UFF investment program.
<b>Start Date</b>	October 1, 2018
<b>Expected End Date</b>	September 30, 2020
<b>Total Budget</b>	\$1 million

### I.5.1 COUNTRY AND OVERVIEW OF YEAR 4 ACTIVITIES

The goal of this activity is to assist the Government of the Philippines to operationalize the Unified Financing Framework (UFF), a new financing policy aimed at increasing investments to achieve the target of universal coverage for WSS services by 2030, upgrade levels of service (i.e., from communal faucets to piped household connections), and improve quality of service. As a financing policy, the UFF will enable government to rationalize and prioritize allocation of public resources using an agreed set of criteria and leverage market-based debt and equity finance. Key strategies of the UFF include segmenting the market, steering utilities to the most appropriate sources of financing, and leveraging private sector resources to increase the pool of available capital. Public resources will be allocated for technical assistance to improve utility governance and efficiency of operations, increase capacity for viable operations, and prepare projects, as well as strengthen national and local institutions to enforce resource management, regulations, monitoring, and evaluation.

WASH-FIN supported the National Economic Development Authority (NEDA), the oversight agency for economic and development planning in the country, as well as other national implementing agencies, to operationalize the Unified Financing Framework (UFF) for Water Supply and Sanitation (WSS). The UFF is a financing strategy that rationalizes the use and allocation of public resources and promotes leveraging of these resources with commercial credit or private equity. WASH-FIN Philippines supported NEDA to facilitate approval and adoption of the UFF through the issuance of relevant policy measures. Operationalization of the UFF entailed backstopping the effort for approval of the operationalization plan from NEDA's Infrastructure Committee, drafting implementation guidelines, identifying institutional and structural challenges, preparing the UFF investment program and addressing the enabling environment.

Pending the issuance of the NEDA Board resolution that mandates the adoption of the UFF, NEDA, with support from WASH-FIN, convened several consultation meetings and workshops with WASH implementing agencies and service providers to draw up a pipeline of project proposals under the UFF. WASH-FIN assisted NEDA in developing the UFF grants protocol, which is another critical part of UFF operationalization. To support implementation of these sub-programs, WASH-FIN refined the UFF excel-based model for financial analysis of WSPs and developed an accompanying manual to outline the UFF program and provide step by step guidance on applications. In addition, WASH-FIN developed the program design and structure of the Output-Based Aid (OBA) with Blended Finance Program for the sanitation needs of low-income households.

In Year 4 WASH-FIN Philippines supported NEDA's efforts to operationalize the UFF, including providing technical assistance in revising the NEDA Board Resolution adopting UFF as the financing

policy for the WSS sector. The revised draft considered the recommendation of the Infrastructure Committee to designate the Sub-Committee on Water Resources as the steering committee for the UFF. Implementation plan revisions further clarified the institutional roles of key implementing agencies of the UFF. WASH-FIN also continued assistance to NEDA and the three UFF implementing agencies—the Department of Interior and Local Government (DILG), the Department of Health (DOH), and the Local Water Utilities Administration (LWUA)—to identify their respective WSS investment programs for 2020. To ensure that capacity to use the model is transferred to the UFF implementing agencies, WASH-FIN piloted the use of the model and manual during a multi-day training for LWUA and NEDA using real feasibility studies submitted to LWUA and NEDA.

As WASH-FIN Philippines came to a close in Year 4, there was a focus on the finalization of project deliverables to support the effective implementation of the UFF. These included: development of the user manual for the UFF Microsoft Excel-based financial model for assessing WSPs; proposed program design and structure for setting up a municipal central management system; and proposed program design for the output-based aid blended finance program for the sanitation needs of low-income household and the capacity development plan for the UFF implementing agencies. WASH-FIN Philippines also worked with partners to consider next steps in the process and handover of technical assistance support activities to others, including the USAID Safe Water Project. For instance, based on the OBA blended microfinance program for expanding access to sanitation to low-income households under the UFF that WASH-FIN developed the program design and structure for, UNICEF, in collaboration with Water.org, will implement a pilot program to test assumptions and refine the final program design prior to roll out by the Philippine government. DOH will be part of the implementation team of the pilot program.

## I.5.2 PROJECT IMPLEMENTATION UPDATE

### CATEGORY I: ASSIST APPROVAL, ADOPTION, AND PREPARATORY ACTIVITIES FOR THE UNIFIED FINANCING FRAMEWORK

Activities in Category I focused on the consolidation of the UFF implementation mandate through the NEDA Board Resolution, establishing operating guidelines and systems, and contributing to the improvement of the enabling environment for the UFF policy.

#### **Activity I.1: Establish UFF Operating Guidelines and Systems**

##### *Enabling Policy Instrument and Investment Program*

In FY20, the members of the Sub-Committee on Water Resources and the Infrastructure Committee received the revised draft NEDA Board Resolution adopting the UFF as the financing policy for WSS. The new Secretary of NEDA changed the title of the financing policy to Unified Resource Allocation Framework (URAF). The Infrastructure Committee agreed to circulate again the draft NEDA Board Resolution to the InfraCom member agencies and concerned government agencies. The draft NEDA Board Resolution articulates the adoption of the following under the URAF: (1) the three-pronged financing strategy (i.e., leverage access to market-based lending or private equity through rational provision of subsidies or credit enhancements for capital investments, target grants for the poorest households for water supply connections and basic sanitation services, and provide grants for strategic utility reform and capacity building activities); (2) prioritization and rationalization criteria for allocation of government funds for WSS projects; (3) various financing modalities; and (4) institutional arrangements for the implementation of the UFF. WASH-FIN helped revise the draft NEDA Board Resolution and the implementation guidelines annexed to the NEDA Board Resolution. WASH-FIN officially closed in 2020, and continuing tasks on the revisions and refinements of the implementing guidelines were turned over to the USAID Safe Water Project.

### *Development of the Viability Gap Funding (VGF) Model*

Recognizing the need for continued engagement on the VGF model use and to address broader efficiency, WASH-FIN conducted a second orientation on the model and utility reform to key stakeholders, with a complementary training on efficiency improvement planning in December 2019. Following model reviews and the additional workshop that pulled on participant feedback, WASH-FIN determined that the model should not be limited to VGF in coverage. The UFF model, formerly referred to as the VGF model, was revised to include a broadened application of the model to the various financing modalities under the UFF (i.e., VGF, grants/subsidies for efficiency improvement programming technical assistance for institutional strengthening, utility reform and capacity building). The user manual, which provides a stepwise approach on the use and application of the UFF model, was revised to include the various financing modalities under the expanded UFF. WASH-FIN conducted training and mentoring sessions on the use and application of the UFF model for appraising Water Supply and Sanitation (WSS) projects for the staff of LWUA and NEDA, who are involved in the evaluation and appraisal of WSS projects for funding under the UFF. The training and mentoring sessions were conducted in July and August 2020. Further details are provided in a Success Story on the training, found in Appendix A.

### *Efficiency Improvement Financial Model for Local Government Unit (LGU)-run Utilities*

The UFF now includes an EIP to provide performance-based technical assistance and grants to WSPs, particularly those that do not meet key performance benchmarks. Pending approval of the NEDA Board Resolution on the UFF, the EIP is yet to be discussed and approved. The adoption of the specific implementation guidelines for the EIP is yet to be further discussed with NEDA, DILG, and LWUA. The specific concept and design of the EIP is incorporated in the discussion of the UFF financing modalities in the User Manual of the Excel-based UFF model.

Utilities that do not meet specific benchmark indicators should go through an EIP process to ensure they are well-positioned to take on larger investment projects in a sustainable matter. The EIP will provide financial, (preferably in the form of performance improvement grants), and technical support to underperforming WSPs, provided they institute and implement performance improvement measures. Once the EIP is agreed to, LWUA for water districts and DILG for LGU-run utilities shall oversee implementation and monitor the achievement of the agreed upon performance targets.

### *Designing the Blended Finance Arrangement for Household Basic Sanitation Services under the Output-based Aid (OBA) Grant Component of the UFF*

WASH-FIN developed and formulated the program design and structure for the OBA with a blended finance arrangement for the sanitation needs of low-income households. The proposed program design and structure was developed in partnership with UNICEF and Water.org and presented to key stakeholders, to solicit comments and buy-in at the end of FY19 and during early FY20. Based on stakeholder feedback WASH-FIN finalized the proposed program structure and refined the various implementing measures that will support the pilot test. NEDA received the final draft of the proposed OBA program in September 2020. The regional offices of the DOH and the LGUs, where the OBA program will be implemented, are not yet in receipt of the draft implementing guidelines of the program. UNICEF agreed to fund the pilot testing of the program design in one province. Given the current COVID-19 situation, UNICEF plans to implement the pilot program in 2021.

## **Activity 1.2: Support Strengthening of UFF Enabling Environment**

### *Capacity and Institutional Development Program for the UFF*

A Capacity Building and Institutional Development Program for UFF implementing agencies was formulated to consider their roles and identify common tasks across implementing agencies, and the specific tasks unique to each. An assessment of the institutional readiness and human resource

competencies of the implementing agencies was conducted to ascertain their specific capacity and institutional development needs. The results were used as a basis for development of a capacity building plan. An initial draft was presented to NEDA and the implementing agencies for comment, after which it was revised and submitted as a final draft to NEDA.

#### *Municipal Central Management System (MCMS) for LGU-run WSPs*

WASH-FIN developed a model for setting up a municipal central management system (MCMS) for LGUs to support the Government of the Philippines's effort to compel LGUs to improve utility governance and performance. The central management system will allow LGUs to supervise decentralized providers, rationalize tariffs, and adopt sound and critical operating management systems (e.g., water quality management, customer data management, meter reading, billing and collection, and NRW management) with key performance indicators and business efficiency measures. The draft MCMS program was transmitted to USAID and the DILG for comments and presented in a virtual roundtable discussion attended by the key officers and staff of DILG, USAID, and the USAID Safe Water project (another technical assistance activity). The draft, which considers the comments during the roundtable, was supposed to be presented to select LGUs in late July but this did not occur due to COVID-19. The final draft of the Capacity Building and Institutional Development Program was transmitted to USAID and NEDA in August 2020. The Safe Water Project indicated interest in piloting the MCMS and continuing to engage LGUs for feedback.

#### *Communication of the UFF Implementation Plan*

To effectively communicate the UFF, NEDA's Assistant Secretary requested that WASH-FIN draft a policy note that discusses the rationale for harmonizing lending programs to ensure consistency with the principles of the UFF. The draft policy note was submitted to NEDA on December 11, 2019 (Box 1).

#### **Box 1: Overview of UFF Policy Note on Harmonization of Lending Programs for Water Supply and Sanitation Projects in the Philippines**

The principal mechanism for harmonizing (unifying) the financing framework is to reduce the implicit subsidies of several public lending windows by having them transition their loan products to cost plus pricing such that both public and commercial lending products converge on common interest rates and tenors for WASH entities of varying creditworthy status.

Following such harmonization, the residual financing policy objectives requiring governmental support will be achieved through a well-structured blending of grants together with appropriately priced loans to derive financially sustainable solutions.

This means that while the pricing of loan products can be rationalized on similar terms, grant funding can be financially engineered to achieve national government objectives for providing adequate financial support without jeopardizing the financial sustainability of either the borrower or the lender.

WASH-FIN Philippines joined NEDA in a meeting with the United Nations Development Programme (UNDP) regarding the formulation of a communication plan for the UFF. The communication plan will form part of the whole communication plan for the Philippine Water Supply and Sanitation Master Plan (PWSSMP).

WASH-FIN Philippines dedicated significant time to the planning and organization of a Study Tour for representatives from the primary UFF implementing agencies (NEDA, LWUA, DILG, DOH, DBM, and DOF) to visit the US. The main objective of the study tour was to impart to participants lessons from the experiences of federal grants and state revolving funds, particularly the impact on the water and sanitation sector's development goals, key success factors, and enabling conditions. With the insights

gained, WASH-FIN would facilitate an exchange of ideas among Philippine Government key implementers on the road map for the institutionalization of the Unified Financing Framework for Water Supply and Sanitation. Unfortunately, due to the situation with COVID-19 the Study Tour was canceled.

### **Activity 1.3: Knowledge Product Development**

During Year 4, WASH-FIN made progress on knowledge products including completion of the Assessment Methodologies for the Unified Financing Framework: User Guide. In addition, a draft country case study on the Philippines activity was developed, including key lessons learned as well as a draft document on the UFF strategy around segmenting utilities based on performance to target appropriate financing products.

### **CATEGORY 2: TECHNICAL SUPPORT FOR THE IMPLEMENTATION OF THE PHILIPPINE WATER SUPPLY AND SANITATION MASTER PLAN**

Category 2 originally aimed to support the implementation of TrackFin; however, NEDA requested that the TrackFin activity be dropped as it is not an immediate priority, and replaced with technical support for the amendment of the joint venture (JV) guidelines. WASH-FIN started and completed a “light touch” review of the JV guidelines. The amendments are intended to ensure transparency of JV agreements between water districts and private proponents. Given the increasing trend of JVs, the Government of the Philippines wanted to amend the guidelines to ensure transparency in the transactions as well as clarify the role of the LWUA economic regulator in the approval and implementation of JVs, which in almost all cases are essentially concession agreements.

Shortly after WASH-FIN conducted the initial review, NEDA changed its priorities again and requested WASH-FIN to instead focus more on the UFF and provide support for the review and implementation of the Philippine Water Supply and Sanitation Master Plan (PWSSMP). As such, the deeper JV review and guideline development did not move forward. To support the PWSSMP, WASH-FIN facilitated the internal planning among NEDA officers and staff to identify priority actionable measures to implement the strategic directions of the PWSSMP, categorized into eight key reform areas. Using an iterative process, the action plan and delineation of responsibilities and linkages across agencies involved in the PWSSMP implementation was prepared. WASH-FIN presented the action plan to concerned government agencies to obtain commitments on the implementation of the various PWSSMP tasks. The action plan was supposed to be presented to the InfraCom, but these meetings were postponed because of COVID-19. The action plan was, however, presented to development partners in September 2020.

### **ADDITIONAL CATEGORY 3: KNOWLEDGE MANAGEMENT**

WASH-FIN Philippines activities were limited during the final months of the project due to COVID-19 and the ensuing restrictions. Plans for a formal closeout activity with Government were canceled. The September Development Partners’ Forum on Water Supply and Sanitation, conducted by NEDA, served as an opportunity for acknowledgement of USAID WASH-FIN activities. NEDA provided the updates on the status of the NEDA Board Resolution adopting the Unified Resource Allocation Framework (URAF), formerly the UFF, and all government agencies engaged in the WSS sector made a presentation on their WSS-related activities and projects. Development partners (ADB, WHO, UNICEF, USAID, WB, GIZ, Netherlands Embassy, KOICA) also provide brief presentations on their key projects in the WSS sector. USAID Philippines presented the various USAID projects in the WSS sector, including WASH-FIN, presenting the major deliverables, which were well received by the participants. USAID shared that there would be continuity of some WASH-FIN supported activities through the new USAID Philippines Safe Water project.

In Year 5 WASH-FIN will submit to USAID for publication on GlobalWaters.org a Country Case Study that will discuss the project’s impact and lessons learned from implementation.



### I.5.3 REFLECTIONS ON IMPLEMENTATION

As the key structural reform in the WASH sector, the UFF (now URAF), when implemented, successfully could significantly increase investments in the sector and drive improvements in utility governance and economic regulations—leading to improved quality of services and financial sustainability of utilities. Pending the approval of the NEDA Board Resolution adopting the UFF as the financing policy for the WSS sector, the enabling environment for the UFF continues to face challenges. The absence of a coordinating apex body and the existence of highly fragmented institutions result in overlaps and gaps in institutional roles and responsibilities. For instance, self-regulation of utilities run by LGUs engenders politically motivated tariff setting and poor governance. Because of the fragmentation in the sector, WASH-FIN support to communicate and advocate for the specific reforms embodied in the UFF was of paramount importance.

The long and protracted approval of the NEDA Board Resolution indicates the continuing need to support communication, advocacy, and technical assistance activities initiated under WASH-FIN. Two of the final outputs of WASH-FIN (the proposed program design and structure for the OBA with blended finance for sanitation needs of low-income households and the proposed program design for setting up the MCMS) need to be implemented initially on a pilot basis to gather program feedback at the local government level. Similarly, the capacity building plan developed under WASH-FIN needs to be adopted and implemented by the concerned implementing agencies. Each agency will likely need to further build out their own capacity building plan based on the one developed under this activity.

As a result of the enhanced community quarantine imposed throughout the country due to COVID-19, most of the of final activities were done remotely including revision and finalization of deliverables and all consultations and meetings were done virtually. By the official close of the WASH-FIN office on April 30, 2020, most of the deliverables still needed to be revised and finalized. Because of this, three existing consultants were kept on as STTA from the head office, until all outstanding deliverables had been finalized and submitted to NEDA and USAID.

### I.5.4 DELIVERY PROGRESS SUMMARY

Table I.14 below summarizes Philippines activities, their expected timelines and results, and an update on their completion during Year 4.

**TABLE I.14: PHILIPPINES DELIVERY PROGRESS SUMMARY**

Philippines Activities	Expected Results	Year 4 Status Update
Activity I.1: Establish UFF Operating Guidelines and Systems	<ul style="list-style-type: none"> <li>An operational UFF with an institutional structure that can rationalize grant, concessionary, blended and/or commercial investment decisions, during its project preparation processes.</li> <li>Investment Program for 2020 and indicative requirements to 2030 to achieve universal access.</li> <li>UFF grant allocation operating guidelines.</li> <li>Financial analysis model for estimating VGF per project.</li> <li>Grant: MFI loan mix for basic sanitation of poorest households: design and implementation arrangement.</li> </ul>	<ul style="list-style-type: none"> <li>NEDA Board Resolution adopting the UFF as the financing policy for the WSS sector was revised and presented to the Sub-Committee on Water Resources and the InfraCom. The UFF was renamed as the URAF and was circulated to the members of the InfraCom for any additional comments. The revised draft that addresses the comments will be presented to the InfraCom.</li> <li>UFF implementation guidelines (initially called grants protocol) were revised based on initial comments of the InfraCom. This will be reviewed and revisited as soon as the NEDA Board Resolution is approved.</li> </ul>

Philippines Activities	Expected Results	Year 4 Status Update
	<ul style="list-style-type: none"> <li>Institutional and Capacity Development Program.</li> <li>Various knowledge products developed, such as UFF Strategy, Grants Protocol, and VGF.</li> </ul>	<ul style="list-style-type: none"> <li>The following deliverables were finalized and submitted to NEDA: <ul style="list-style-type: none"> <li>User Guide on the use and application of the UFF-excel based model</li> <li>UFF-Excel Based Model for the financial assessment of water service providers</li> <li>Program Design and Structure on Setting up the Municipal Central Management System</li> <li>Program Design and Structure for the Output-based aid with blended finance program for the sanitation needs of low-income households</li> <li>Capacity development plan for the UFF implementing agencies.</li> </ul> </li> </ul>
Activity 1.2: Support Strengthening of UFF Enabling Environment	<ul style="list-style-type: none"> <li>Improved understanding of financial flows within the WASH sector.</li> <li>Assist NEDA with the due-diligence and analysis of the ongoing effort to revise the NEDA JV Guidelines, which is one of the legal bases for water districts entering into PPP contracts.</li> </ul>	<ul style="list-style-type: none"> <li>Action plan for the key reform measures under the PWSSMP was prepared and drafted.</li> <li>Draft action plan presented to the various development partners during the Development Partners Forum held in September 2020.</li> </ul>

### I.5.5 PERFORMANCE INDICATOR TARGETS AND RESULTS

Table I.15 below reports on WASH-FIN Philippines's Year 4 and cumulative results against targets established in WASH-FIN's Year 4 M&E Plan for four project indicators.

**TABLE I.15: PHILIPPINES YR 4 PERFORMANCE INDICATOR TARGETS AND RESULTS**

WASH-FIN Indicators	LOP Targets (YR 4 MEP)	Previous Years' Achievements	Year 4 Achievements	Cumulative Achievements to Date
HL.8.4-1 Value of new funding mobilized to the water and sanitation sectors as a result of USG assistance	\$10,000,000	0	0	0
HL.8.3-3 Number of water and sanitation sector institutions strengthened to manage water resources or improve water supply and sanitation services as a result of USG assistance (Indicator Definition Customized)	1	1	-	1
EG.1.1-4 Amount of investment mobilized (in US\$) for climate change adaptation as supported by USG assistance	\$5,000,000	0	0	0
HL.8.2-7 Number of people receiving improved sanitation service quality from an existing	10,000	0	0	0

WASH-FIN Indicators	LOP Targets (YR 4 MEP)	Previous Years' Achievements	Year 4 Achievements	Cumulative Achievements to Date
"limited" or "basic" service as a result of USG assistance				

*HL8.3-3:* NEDA is the primary institution that has been supported in the establishment of the UFF mechanism. Trainings were also conducted with LWUA and DILG.

## I.6 SENEGAL

**TABLE I.16: SENEGAL ACTIVITY SNAPSHOT**

<b>Activity Title</b>	<b>Expanding Access to Finance for WASH</b>
<b>Location</b>	Dakar, Mbour, Diourbel, Saint Louis, and other locations within Senegal with SSPs demonstrating creditworthiness and efficient operations interested in accessing market finance.
<b>Goal</b>	To expand access to WASH financing by providing transaction facilitation for SSPs aimed at increasing investment in safe and reliable WASH services and providing support to the ONAS.
<b>Objectives</b>	1. Provide support to ONAS to improve financial performance 2. Provide capacity building and transaction advisory services to SSPs
<b>Commencement Date</b>	August 1, 2017
<b>Expected End Date</b>	August 1, 2021
<b>Total Budget</b>	\$4 million

### I.6.1 COUNTRY CONTEXT AND OVERVIEW OF YEAR 4 ACTIVITIES

Senegal represents a successful model of water sector reform, particularly in urban areas where one of the few functional PPPs for WASH exists on the African continent. Through this reform effort, responsibility for provision of WASH services has been segmented between urban and rural areas, with distinct service delivery models prevailing in each sub-sector. The success of these reforms is shown by the fact that Senegal met its Millennium Development Goal (MDG) target for drinking water by 2015.<sup>15</sup> However, the MDG for sanitation was not reached, owing partially to the fact that investments in sanitation lagged behind those in water. Furthermore, over the past decade, there has been a considerable gap between financial need and actual resources available. As of 2019, UNICEF estimated the government budget gap for WASH at USD 756 million per year, of which USD 329 million is needed for safely managed sanitation.<sup>16</sup> To close the gap, additional resources—including local commercial finance—must be mobilized, through either traditional banks or MFIs.

In Senegal, WASH-FIN aims to expand access to WASH financing by providing business development support and transaction facilitation to Sanitation Service Providers (SSPs) located in Dakar, Mbour, Diourbel, and Saint Louis. WASH-FIN also works closely with the Government of Senegal’s National Office of Sanitation (ONAS) as they undergo privatization efforts under the nascent National Sustainable Sanitation Development Program (PNDDAA). WASH-FIN additionally advocates for increased WASH financing, including through the development of a WASH on-lending product, and, primarily during its third year, through support to the Ministry of the Environment and Sustainable Development in the creation of a blended financing mechanism for the WASH sector called the Blue Fund.

This year, despite the pandemic, WASH-FIN Senegal was able to conduct its activities in a resilient manner. WASH-FIN support was mainly focused on supporting ONAS in creating an enabling environment for the implementation of the PNDDAA, a new fecal sludge market re-structuring strategy in which the private sector plays a key role. That support was provided by assisting ONAS with strengthening its financial performance in order to better support the private sector operators that directly manage sanitation services. For example, WASH-FIN assisted ONAS by improving its analytical accounting system and by strengthening the technical and financial abilities of its employees in charge of collaborating with the SSPs.

<sup>15</sup> 2015 Target and MDG Assessment: Progress on Sanitation and Drinking Water. UNICEF.

<sup>16</sup> UNICEF (2019). *Financement de l'eau potable et de l'assainissement. Présentation au Ministère de l'eau et de l'assainissement, République du Sénégal.*

In addition to supporting ONAS, WASH-FIN continued assisting with the transaction advisory process for Cohort 1 SSPs and strengthened the technical and financial abilities of the Cohort 2 Tier 1 SSPs. After scoping, auditing, and strengthening the financial literacy of the SSPs in the early years of WASH-FIN's Senegal Activity, Year 4 activities mainly focused on the financial capitalization process and strengthening SSP financial skills. DELTA, DELVIC, and VICAS (all from Cohort 1) received transaction advisory support, and the Cohort 2 Tier 1 SSPs were able to get remote support from subcontractor OCA.<sup>17</sup> This support resulted in a financial deal pipeline of USD 6 million under negotiation for both cohorts. Lastly, WASH-FIN contributed to the design and potential capitalization process of a WASH on-lending product, which is expected to operate as a Fleet Renewal Program, (discussed under Activity 4.1), to help SSPs replace aging trucks at a competitive price.

## **I.6.2 PROJECT IMPLEMENTATION UPDATE**

### **CATEGORY I: PROVIDE SUPPORT TO ONAS TO IMPROVE FINANCIAL PERFORMANCE**

All activities undertaken by WASH-FIN in support of sanitation service providers (SSPs) are indirectly in support of ONAS, the National Sanitation Agency of Senegal, which is tasked with the development and management of all sewer networks and wastewater treatment facilities, as well as the provision and management of onsite sanitation facilities. ONAS has developed a new fecal sludge market re-structuring strategy in which the private sector plays a key role (as ONAS will be contracting service delivery out to SSPs). The success of this model requires that ONAS is up to date in meeting its financial and technical obligations both to its suppliers and SSPs operating nationally.

ONAS had determined that system inefficiencies and challenges were affecting its ability to effectively manage wastewater treatment services across the country, and needed assistance assessing and improving these functions within the agency itself. In support of these efforts, WASH-FIN was approached by ONAS to provide technical assistance to improve its financial accounting system.

#### **Activity 1.1: Provide Technical Assistance to Improve Financial and Accounting System**

In Year 4 WASH-FIN provided support to ONAS to ensure an efficient collaboration between ONAS and SSPs across the country. WASH-FIN first hired a cost accounting consultant in charge of the audit and analysis of ONAS's existing accounting software system and practices. That task resulted in a business improvement plan and staff training plan, as well as a specific work plan with proposed recommendations to improve the analytical accounting system. ONAS accepted these recommendations and asked that WASH-FIN take the lead in their implementation.

In order to implement the action plan, WASH-FIN hired an analytical consultant and a Tompro specialist to support ONAS simultaneously.<sup>18</sup> The consultants have already completed database analysis, integration of the new accounting plan with the old structure, data updates, review of personnel and analysis of costs, and cost analyses of potential ONAS structural changes. The work done to date meets ONAS expectations, and the agency has responded positively. As a next step, four training sessions are planned to start mid-October in FY21, aiming to reinforce ONAS staff's knowledge of cost accounting and Tompro. The successful implementation of this training will support a better control of operating costs and cash flow, which will allow help ONAS to more efficiently oversee the sanitation sector.

#### **Activity 1.2: Provide Capacity Building Support to ONAS and SSPs in Financial Management**

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<sup>17</sup> Cohort 2 support was remote as a result of delays related to hiring a local business development consultant.

<sup>18</sup> Tompro refers to the accounting software used throughout ONAS.

ONAS also requested WASH-FIN assistance on training programs for SSPs and for ONAS staff who need to understand how to implement the PNDDAA. Two training themes for SSPs were identified: 1) technical operations related to health, safety, quality, and environmental standards, and 2) business management training including business formalization, financial operations, and marketing. Up to 50 SSPs were targeted for these trainings, which were intended to take place half in Dakar and half in a central region (Kaolack). (These SSPs were a completely separate group from the SSPs that WASH-FIN works with as part of its regular two cohorts.) WASH-FIN also planned to train 14 ONAS staff members during the other requested trainings.

Despite delays due to COVID-19, the Dakar sessions were held at the end of FY20 over four days with two sessions per day. Technical and business trainers conducted the sessions for seven staff members from ONAS (marketing and communications, and newly created Department of On-site Sanitation), and for 20 SSPs. WASH-FIN took all precautionary measures issued by health authorities to prevent the risk transmission of COVID-19 during these sessions.

At the end of the technical training for SSPs, a pre- and post-test analysis showed a minimum score increase of three points and average increase of 57 percent, indicating increased mastery of skills as well as strong interest from the attendees. As a result of both trainings, WASH-FIN delivered 50 certificates in technical and business trainings to both SSPs and ONAS staff. The consultant for the SSP business training will also provide continued assistance to two selected SSPs in FY21 by helping them submit registration paperwork to relevant authorities and identify new sources of work.

Lastly, during these trainings, ONAS took the opportunity to officially launch its new tool called “My ONAS,” a communications platform between the SSPs and their clients. The goal of this tool is to better address customer needs for improved quality of sanitation services. WASH-FIN is following developments on this tool as it will likely be utilized by some of the WASH-FIN-supported SSPs.

## **CATEGORY 2: PROVIDE CAPACITY BUILDING AND TRANSACTION ADVISORY SERVICES TO SANITATION SERVICE PROVIDERS**

WASH-FIN SSPs are divided into two cohorts, the first comprising the four largest SSPs (DELVIC, DELGAS, VICAS, and DELTA) and the second comprising less well established SSPs. WASH-FIN’s second cohort consists of approximately 25 SSPs, selected for their receptiveness to receive technical assistance as well as their interest in WASH-FIN’s approach to creditworthiness support. Selections were made based on a study WASH-FIN conducted to assess the needs of these small-to-medium-sized SSPs throughout the country including factors such as annual revenues, number of trucks, and credit history. The first cohort of SSPs are considered to be the most developed and to have the highest capacity to attract financing. Cohort II SSPs are divided into two tiers based on their readiness for capital investment; Tier I SSPs have potential to attract investment after receiving significant business management support, whereas Tier II SSPs are not yet ready to pursue financing but could benefit from pre-financing capacity building.

### **Activity 2.1: Transaction Support to Cohort I**

#### *2.1.1: Provide Technical Assistance to Develop Bankable Projects*

In prior years, WASH-FIN provided technical assistance to Cohort I to strengthen their financial management, with a key objective being the enhancement of their ability to communicate to investors and close transactions. Cohort I members were selected based on technical and financial criteria such as financial health, anticipated financing needs and dedication to securing commercial financing, the potential impact of their work (client base), and environmental sustainability.

Before SSPs are ready to accept WASH-FIN's complete package of transaction advisory services, WASH-FIN found during its initial work with Cohort I SSPs that they are also critically in need of business support. SSPs in Cohort I are weak in internal operations and lack consistently high-quality business and financial documents, such as balance sheets and financial statements that show revenue, expenses, and profit; payroll and other human resource documents; files on their customer; and service area maps. These documents are important for any business to function smoothly, and they are especially critical for businesses pursuing capital investments. Financial documentation helps businesses understand their own historical revenue flows, plan appropriate levels of expansion, and demonstrate to prospective lenders that the financing they are pursuing is viable and well-suited to their needs.

During this year, WASH-FIN continued supporting DELVIC and DELTA on business planning and financial modeling for their respective activities.

**DELVIC:** WASH-FIN, with the support of OCA, updated DELVIC's financial model using the latest operating performance information for the Janicki Omni Processor (Janicki OP), a new waste-to-energy technology from Sedron Technologies that Delvic is piloting. A series of sensitivity analyses were performed to evaluate the financial implications and refine the capital needed for the Janicki OP. The outputs from the updated financial model were critical in enabling DELVIC to update its business plan, investor pitch, investor teaser, capital raise strategy, data room structure, and investor list.

**DELTA:** WASH-FIN renewed its support to DELTA in the context of their application to the USAID West Africa Trade and Investment Hub (WATIH) and updating their strategic plan. Once WATIH's pre-approval was granted, WASH-FIN continued to support DELTA with the preparation of the full application for financing, which is expected to include the design of a tailored financial model and business plan and is meant to complement financing DELTA obtained from *Investisseurs & Partenaires Sénégal (I&P)*, a subsidiary of a French investment fund. DELTA's financial model is currently being finalized.

**VICAS:** WASH-FIN support for VICAS was mainly focused on the transaction advisory support as the company seeks additional financing.

### *2.1.2: Transaction Advisory Services for Cohort I*

WASH-FIN, with OCA, provides transaction advisory support to Cohort I SSPs DELVIC, DELTA, and VICAS. WASH-FIN supported DELTA, and DELVIC in the formulation of their capital raise strategies, and helped DELTA and DELVIC with presentations, business and financial documents, and financial teasers. WASH-FIN's support also included the identification of suitable financial institutions and funding mechanisms available to the SSPs.

**DELTA:** Due to DELTA's new strategy for the next five years and the company's interest in equity financing of [REDACTED], WASH-FIN engaged in discussions with I&P. In January 2020 I&P committed to a [REDACTED] equity investment in DELTA pending some remaining due diligence work.

WASH-FIN also facilitated discussions between DELTA and USAID's WATIH leading to DELTA's submission of a grant application for [REDACTED]. In June 2020 DELTA received notification that the company has passed the first round of approvals needed for a grant consideration of USD 1 million and is currently preparing a full project proposal for submission by October 2020. Contingent on receiving the I&P financing as well as the grant from WATIH, DELTA will self-finance the remaining funds needed for its capital investment plan in the amount of [REDACTED]

**DELVIC:** In FY20, WASH-FIN Senegal, with the support of OCA, offered investment readiness support to DELVIC related to the Janicki Omni-Processor. This support included updating investor materials, evaluating growth scenarios, and training DELVIC to build internal capacity to own and use the investor materials independently. Following the update to the financial model, OCA conducted a handover



training to enable DELVIC to use the investor materials for investor outreach and capital raises. The transition focused on enhancing DELVIC's understanding of the financial model and building DELVIC's capacity to independently interpret, update, and refine the investor materials. Support for this specific task is close to completion and is expected to conclude in the early portion of FY21.

**VICAS:** In 2019, WASH-FIN supported VICAS to obtain a USD 1 million line of credit to finance its working capital and improve its daily operations. As that financing maturity expires in September 2020, WASH-FIN has resumed discussions with VICAS to support its loan renewal application. Pending finalization of the renewal process, local bank BDK has granted VICAS a two-month extension.

### **Activity 2.2: Provide Technical Assistance to Cohort II SSPs to Improve Creditworthiness**

WASH-FIN has tailored its technical assistance approach to SSPs in Cohort II by dividing them into two tiers based on their level of business formalization and readiness for investment. Leveraging the tools developed by WASH-FIN to support Cohort I, WASH-FIN plans to provide technical assistance to SSPs in Cohort II, both in tiers I and II. WASH-FIN will collate trainings, templates, and best practices into a final financial manual that can be used by Cohort II SSPs to fashion strategies for approaching lenders and closing transactions. WASH-FIN's support to Cohort II SSPs is described in greater detail below.

#### *2.2.1: Provide Tailored Capacity Building and Technical Assistance to Cohort II, Tier I SSPs*

After delays due to lengthy recruitment and administrative approval processes, WASH-FIN hired a short-term Business Development Specialist to work with Cohort 2 Tier I SSPs. Unfortunately, the Consultant unexpectedly resigned shortly after beginning the assignment. WASH-FIN therefore restarted the recruitment process in Q4FY20.

#### *2.2.2: Provide Tailored Technical Assistance to Design Transaction Financial Tools*

Update will be provided in Q1FY21 report when a new Business Development Specialist is expected to start.

### **Activity 3.1: Provide Tailored Technical Assistance to Design Post-Transaction Tools to Ensure Loan Repayment**

This activity is intended to assist SSPs who have already obtained loans with maintaining their operational guidelines, maintenance schedules, and any other systems necessary to ensure consistent loan repayment. As no transactions were closed during the year, WASH-FIN did not provide this type of assistance.

### **Activity 3.2: Transaction Advisory Support for Cohort II, Tier I**

Upon completion of their business plans and financial models, WASH-FIN will prepare Tier I SSPs for transaction advisory support. As individual SSPs prepare to solicit financing, WASH-FIN will support their efforts by helping them to develop a brief "financial teaser" document that summarizes their current business operations and their plans for expansion given new capital injections. WASH-FIN will additionally support each of these 11–12 Cohort II, Tier I SSPs by helping them to develop relationships with potential local financiers by facilitating and participating in introductory meetings, accompanying the SSPs to follow-up meetings, and assisting with any requests from financial institutions for supplementary information. Should loan terms be proposed to the SSPs, WASH-FIN will provide support to allow SSPs to select the terms best suited to their needs.

A key deliverable of this activity is a Financing the Sanitation Sector Manual that will include the following: technical report detailing WASH-FIN's analysis of the most common and critical operational or financial management deficiencies and constraints across Cohort II, Tier I SSPs. The report will also detail the transaction advisory support provided to the Cohort II Tier I SSPs. The second deliverable is

individualized capacity building plans for select Cohort II, Tier I SSPs and the third is financial teaser documents for select SSPs.

While WASH-FIN has connected Cohort II Tier I SSPs with several financial institutions in the past, no progress was made this year on loan applications, as this is contingent on Activity 2.2 which has been delayed. This activity is expected to resume in FY21. In the meantime, WASH-FIN continues to make progress on the Fleet Renewal Program, (discussed under Activity 4.1), which will ultimately benefit Cohort II SSPs.

### **Activity 3.3: Provide Creditworthiness Capacity Building Support to Cohort II, Tier II SSPs**

Cohort II, Tier II SSPs have the least formalized operations of all WASH-FIN-supported SSPs and will require more basic assistance. WASH-FIN plans to support 13–14 small sanitation service operators under this activity, some of which have already undergone a technical and financial evaluation of creditworthiness by OCA.

The short-term Business Development Specialist will implement WASH-FIN's work on this activity; as described in Activity 2.2, this is delayed as WASH-FIN has just restarted the recruitment process. Once hired, the new BDS will help formalize SSPs' business operations by providing tailored guidance and support. Customized technical assistance plans will be prepared for each of the 13–14 SSPs that aim to strengthen their financial management and their ability to communicate with investors. This activity will assist SSPs in identifying critical constraints to their business operations and to make improvements to their administrative, financial, and accounting management so that they may be prepared to seek commercial loans. Technical assistance will conclude with the delivery of financial training kits that will include financial statements, strategic visions, business and/or expansion plans, financial models, teasers, sample loan application forms, and improved Excel/other software spreadsheets.

### **Activity 4.1: Support Financial Institutions to Design a Sanitation Sector Lending Product**

In Year 3 WASH-FIN began the process of helping financial institutions to gain a better understanding of the WASH sector through the preparation and dissemination of a sanitation market report. With the interactions between financial institutions and SSPs, the need for a WASH specific on-lending product became clear. In Year 4 WASH-FIN continued reaching out to financial institutions and designed a WASH-dedicated on-lending mechanism to facilitate SSPs' access to commercial loans.

Since the initial design of this mechanism, several of the stakeholders have expressed interest in contributing funds to the WASH sector. However, they each have their own requirements and complex procedures to follow, prolonging the timeline for SSPs to secure future investment using this mechanism. Thus far, GroFin, an impact investment fund has committed USD 500,000 as a result of WASH-FIN's advocacy for the mechanism; however, this amount will only be formally counted once it meets the defined requirements.

WASH-FIN, along with key stakeholders,<sup>19</sup> formed a working group to facilitate SSPs' continued access to commercial loans. The group, led by WASH-FIN, worked to formulate a Fleet Renewal Program to enable SSPs to purchase new sanitation trucks under favorable lending terms and purchase conditions, and with the inclusion of warranties and service contracts. This program could potentially be implemented under pilot conditions within a year, and WASH-FIN believes it will energize coordination between investors and SSPs.

WASH-FIN has also contributed to these efforts through extensive background research including an FSM Value Chain Complementary Study (see below), and a market study on the transportation-specific

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<sup>19</sup> This group includes ONAS, USAID representatives, and several financial institutions. WASH-FIN is unable to include their names as they are in the middle of active negotiations.

component of the FSM value chain. Both studies concluded that up to 254 old trucks need to be replaced in Senegal in order to address the demand for emptying services from households over the next ten years. The data was used to engage in discussions with TATA and SENBUS, two large truck manufacturers, to garner their participation in the Fleet Renewal Program mentioned above.

#### *Blue Fund FSM Value Chain Complementary Study*

Responding to a request from the Ministry of Water and Sanitation's Board of Project Planning, Coordination, and Monitoring (CPCSP) to conduct an FSM study, WASH-FIN engaged two consultants to prepare a study to help inform Blue Fund implementation by identifying and profiling the value chain of fecal sludge sub-sectors as well as other links such as toilet building, fecal sludge collection and transport, fecal sludge treatment, and recovery of sludge by-products.

At the conclusion of their research period, the consultants submitted four main deliverables: (1) market studies (*fiche marchés*), which highlight the existing gaps in the FSM market in terms of estimates of sludge produced and number of new trucks needed in each region of Senegal in order to address demand; (2) market analysis (*fiche d'opportunités*), which identifies opportunities for sanitation businesses to fill the gaps identified in the market studies profitably; (3) an investment sheet (*fiche d'investissement - type*), which defines how a new truck can be profitable; and (4) governance and legal fiscal framework sheet (*fiche gouvernance et cadre fiscal*), which highlights the institutional framework and tax regulations that govern the sector.

WASH-FIN has completed the review of the deliverables and expects to present the information to investors and other relevant stakeholders through a workshop, pending COVID-19 restrictions.

#### **Activity 5.1: Knowledge Management**

In Year 4, WASH-FIN continued its knowledge generation and sharing activities to fill gaps in coordination in the sanitation sector and produced two key deliverables:

**Manual of Training Materials for ONAS:** This curated collection of training materials focuses on SSP operations. Subsequent to the technical and business training conducted for SSPs and ONAS, WASH-FIN compiled a manual based on the training modules used. These comprise trainings on the technical aspects of SSPs' work (health, safety, quality, and environmental industry and national standards) and on best business practices (operational, management, and marketing practices, including business formalization, financial management; and increasing market access.

**Financing the Sanitation Sector Manual:** Building on its experience working with SSPs, WASH-FIN developed this Manual to details several key aspects of financing the sanitation sector in Senegal. The document provides practical guidance to SSPs regarding accessing commercial funding and outlining steps to investment readiness. The Manual draws from WASH-FIN's work supporting both small and large SSPs throughout its project and will be used to inform both SSPs and stakeholders in the sector more broadly in order to help the sector grow and enhance sanitation coverage in Senegal through privatization efforts. The manual will be finalized in FY21 based on lessons learned by the Business Development Specialist who will work closely with Cohort 2 SSPs. WASH-FIN will collaborate with Speak Up Africa to combine the technical material they have consolidated into a manual with WASH-FIN's finance-focused material in order to produce a comprehensive manual for SSPs that may also be a tool for ONAS to replicate in their on-going support to SSPs.

## Communication Activities

### Women’s Empowerment in the WASH Sector

**Event:** As part of International Women’s Day, WASH-FIN organized the Women’s Empowerment in the WASH Sector event and produced three videos: one focused on the event and two that related the story of two women leaders in WASH finance.



### Production of Quarterly Newsletter: In July 2020

WASH-FIN launched the quarterly newsletter entitled Xibaar. The newsletter is designed to highlight major WASH-FIN and partner activities, successes, and events in order to promote knowledge sharing and maintain strong stakeholder relationships. WASH-FIN Senegal has drafted the second issue of the newsletter, which will be published in October 2020.

**Media Engagement During SSP Training:** WASH-FIN and ONAS organized two training sessions for SSPs and ONAS staff. These training sessions, which are part of the implementation of the new strategy of the ONAS called National Program for the Sustainable Development of Autonomous Sanitation, aim to strengthen the skills of SSPs who play a key role in the implementation of this new strategy.

**Webinar on Management of the Post-COVID-19 Period:** WASH-FIN, in collaboration with Speak Up Africa, organized a webinar to identify challenges within the non-sewered sanitation sub-sector in the COVID-19 context and to better prepare for the implementation of concrete actions for better management of the post-COVID period.

**COVID-19 Risk Mitigation:** As part of SSP awareness-raising, WASH-FIN produced and disseminated two animated videos on mobile money and on barrier gestures.



**Digital Communication:** USAID/Senegal showcased WASH-FIN in Senegal for a week through their digital platform, Facebook, and Twitter. The aim is to increase the visibility of WASH-FIN and its key activities.

## ADDITIONAL CATEGORY 3: MONITORING AND EVALUATION

During Year 4, in the context of the pandemic, the USAID/Senegal Monitoring, Evaluation, and Learning Working Group organized a session to discuss “Innovative Practices to Continue Monitoring Programs in the Current Operating Environment.” To address COVID-19 impacts on project implementation, WASH-FIN conducted an assessment of COVID-19 impacts on SSPs. WASH-FIN also produced communication materials for SSPs to ensure COVID-19 precautions are taken. Indicators for these activities have been developed and submitted to USAID M&E staff for review. USAID M&E staff also advised on adapting WASH-FIN’s AMELP to incorporate new activities related to COVID-19.

### 1.6.3 REFLECTIONS OF IMPLEMENTATION

During the course of this year, WASH-FIN continued to emphasize the importance of a strong political will to support WASH service delivery, and was heartened to see ONAS promote onsite sanitation and empowerment of the private sector to drive improvements in WASH services. In recognition of WASH-FIN’s critical technical assistance work, ONAS selected WASH-FIN as its focal point to help mobilize financial resources for its on-site sanitation program (PNDDAA).

After working with sanitation operators for several years, recent feedback suggests that business development training (e.g., operations, accounting, and financial planning) for WASH operators is still highly valued and in demand. The program has been building on lessons learned from working with larger operators to focus on the smaller companies next year. WASH-FIN has also observed strong interest from financial institutions in capitalizing the WASH on-lending product which is expected to help mobilize resources for the smaller operators.

The COVID-19 crisis has caused some delays related to hiring consultants, meeting with smaller operators that are accustomed to doing business in person, and resulted in technical and strategic planning delays to the Omni-Processor work. However, development finance institutions and commercial financial institutions continue to express interest in providing financing to creditworthy WASH borrowers. The pandemic has also shown the necessity of improving collaboration and communication between different USAID mechanisms, and has led to partnerships and knowledge sharing that will benefit the sector as a whole.

#### I.6.4 DELIVERY PROGRESS SUMMARY

Table 1.7 below summarizes Senegal activities, their expected timelines and results, and an update on their completion during Year 4.

**TABLE 1.17: SENEGAL DELIVERY PROGRESS SUMMARY**

Senegal Activities	Expected Results	Year 4 Status Update
Activity 1.1: Provide Technical Assistance to Improve Financial and Accounting System	<ul style="list-style-type: none"> <li>• ONAS accounting system improved.</li> </ul>	<ul style="list-style-type: none"> <li>• Assessment of ONAS's existing accounting software system and practices conducted, improvements identified.</li> <li>• Two consultants hired to implement recommendations for accounting improvements (for cost accounting and Tompro).</li> <li>• Assignment ongoing.</li> </ul>
Activity 1.2: Provide Capacity Building Support to ONAS and SSPs in Financial Management	<ul style="list-style-type: none"> <li>• SSPs and ONAS staff have better understanding of financial processes.</li> </ul>	<ul style="list-style-type: none"> <li>• Two consultants hired (business and technical trainer).</li> <li>• Training modules developed.</li> <li>• Two training sessions held in Dakar for 25 participants from SSP and ONAS staff</li> </ul>
Task 2.1.1: Provide Technical Assistance to Develop Bankable Projects	<ul style="list-style-type: none"> <li>• SSPs are able to develop bank facing documents.</li> </ul>	<ul style="list-style-type: none"> <li>• Tailored financial model designed, teaser and capital raise strategy updated and handover sessions conducted for DELVIC.</li> <li>• Concept note designed for DELTA.</li> <li>• Tailored financial model designed for DELTA.</li> </ul>
Task 2.1.2 Transaction Advisory Services for Cohort I	<ul style="list-style-type: none"> <li>• Transactions closed for ideally three Cohort I SSPs (VICAS, DELTA, and DELVIC).</li> </ul>	<ul style="list-style-type: none"> <li>• USD 4.4 million mix blended fund request being submitted for DELTA.</li> <li>• USD 1 million transaction loan renewal being submitted for VICAS.</li> </ul>
Task 2.2.1: Provide Tailored Capacity Building and Technical Assistance to Cohort II, Tier I SSPs	<ul style="list-style-type: none"> <li>• SSP abilities are strengthened and they are in a better position to approach financial institutions.</li> </ul>	<ul style="list-style-type: none"> <li>• Task delayed caused by difficulties in the recruitment of a Business Development Specialist and COVID-19 restrictions.</li> </ul>

Senegal Activities	Expected Results	Year 4 Status Update
Task 2.2.2: Provide Tailored Technical Assistance to Design Transaction Financial Tools	<ul style="list-style-type: none"> <li>• SSP abilities are strengthened.</li> </ul>	<ul style="list-style-type: none"> <li>• Task delayed caused by difficulties in the recruitment of a Business Development Specialist and COVID-19 restrictions.</li> </ul>
Activity 3.1: Provide Tailored Technical Assistance to Design Post Transaction Tools to Ensure Loan Repayment	<ul style="list-style-type: none"> <li>• SSP abilities are strengthened.</li> </ul>	<ul style="list-style-type: none"> <li>• Task delayed caused by difficulties in the recruitment of a Business Development Specialist and COVID-19 restrictions.</li> </ul>
Activity 3.2: Transaction Advisory Support for Cohort II, Tier I	<ul style="list-style-type: none"> <li>• Technical assistance provided to enable closing of SSP transactions.</li> </ul>	<ul style="list-style-type: none"> <li>• Task delayed caused by difficulties in the recruitment of a Business Development Specialist and COVID-19 restrictions.</li> </ul>
Activity 3.3: Provide Creditworthiness Capacity Building Support to Cohort II, Tier II SSPs	<ul style="list-style-type: none"> <li>• 12 SSPs trained and given financial training kits.</li> </ul>	<ul style="list-style-type: none"> <li>• Task delayed caused by difficulties in the recruitment of a Business Development Specialist and COVID-19 restrictions.</li> </ul>
Activity 4.1: Support Financial Institutions to Design a Sanitation Sector Lending Product	<ul style="list-style-type: none"> <li>• Financial product developed in at least one institution.</li> <li>• Market research conducted to help inform sanitation investments generally, and development of the Blue Fund supported.</li> </ul>	<ul style="list-style-type: none"> <li>• Capitalization process under way in two financial institutions.</li> <li>• FSM value chain finalized, to be shared in Q1F21 with investors and other relevant stakeholders.</li> </ul>
Activity 5.1: Knowledge Management	<ul style="list-style-type: none"> <li>• Training materials on financial literacy for SSPs developed.</li> <li>• Sanitation Sector Manual finalized.</li> <li>• Blog post describing development and adaptation of sanitation sector lending product developed.</li> </ul>	<ul style="list-style-type: none"> <li>• Training material finalized and being compiled within one manual.</li> <li>• Manual finalized and will be shared with ONAS before combination with the technical manual prepared by Speak Up Africa.</li> <li>• Blog to be prepared after capitalization process is finalized.</li> </ul>

### I.6.5 PERFORMANCE INDICATOR TARGETS AND RESULTS

Table I.18 below reports on WASH-FIN Senegal's Year 4 and cumulative results against targets established in WASH-FIN's Year 4 M&E Plan for four project indicators.

**TABLE I.18: SENEGAL YR 4 PERFORMANCE INDICATOR TARGETS AND RESULTS**

<b>WASH-FIN Indicators</b>	<b>LOP Targets (YR 4 MEP)</b>	<b>Previous Years Achievements</b>	<b>Year 4 Achievements</b>	<b>Cumulative Achievement to Date</b>
HL.8.4-1 Value of new funding mobilized to the water and sanitation sectors as a result of USG assistance	\$2,000,000	\$1,000,000	0	\$1,000,000
HL.8.3-3 Number of water and sanitation sector institutions strengthened to manage water resources or improve water supply and sanitation services as a result of USG assistance (Indicator Definition Customized)	2	0	1	1
EG.11-4 Amount of investment mobilized (in US\$) for climate change adaptation as supported by USG assistance	\$1,000,000	0	0	0
HL.8.2-7 Number of people receiving improved sanitation service quality from an existing “limited” or “basic” service as a result of USG assistance	50,000	351,535	-	351,535

*HL.8.4-1 & EG.11-4:* In 2019, WASH-FIN supported VICAS to obtain a [REDACTED] line of credit to finance its working capital and improve its daily operations. These funds did not have a climate change designation. In FY21 WASH-FIN will support their loan renewal application with local bank BDK.

*HL.8.3-3:* WASH-FIN institutional strengthening support to ONAS this year included an assessment conducted of its financial accounting system as well as a detailed action plan to achieve the recommended improvements. Subsequent to that, WASH-FIN hired two consultants for the implementation of the proposed action plan, as well as two other consultants to conduct the technical and business training sessions as part of ONAS strengthening support for small scale SSPs.

*HL.8.2-7:* WASH-FIN is in discussion with the USAID Mission regarding previous reporting against this indicator via Year 5 PITTS. As the parties seek to define how collected data applies to the standard indicator definition, WASH-FIN has removed Year 4 achievements from its global Year 4 Annual Report.



## I.7 SOUTHERN AFRICA

**TABLE I.19: SOUTHERN AFRICA ACTIVITY SNAPSHOT**

<b>Activity Title</b>	<b>Expanding Access to Finance for WASH</b>
<b>Location</b>	<ul style="list-style-type: none"> <li>• Nationwide support to South Africa’s National Treasury and Department of Water and Sanitation</li> <li>• Targeted technical support to City of Cape Town Municipality and Mbombela Municipality</li> <li>• Regionally focused knowledge management activities</li> </ul>
<b>Goal</b>	To expand financing for viable municipalities aimed at increasing investment in expanded access to or improved service quality of safe and reliable water and adequate sanitation.
<b>Objectives</b>	<p>WASH-FIN works with South African national agencies, provincial governments, municipalities, and private sector technology providers to support greater leveraging of repayable finance to fund urgently needed capital investment in the sector. Specific objectives of WASH-FIN technical assistance include:</p> <ul style="list-style-type: none"> <li>• <b>Municipal Creditworthiness:</b> Assist municipalities with improving their creditworthiness to access financing from commercial lenders and capital markets. Promote understanding of municipal creditworthiness and the credit rating process through workshops for South African municipalities and other stakeholders.</li> <li>• <b>Municipal Financial Planning:</b> Assist municipalities in developing and refining long-term financial models to understand the costs and revenues from investment in WASH infrastructure. More accurate financial planning can help municipalities better understand the availability of their own revenues to fund further infrastructure investment.</li> <li>• <b>Project Preparation:</b> Ensure a sustainable pipeline of capital investment projects, provide technical assistance to municipalities in preparation of bankable feasibility studies for WASH infrastructure projects.</li> <li>• <b>Transaction Advisory Services:</b> where municipalities or private service providers demonstrate creditworthiness, sustainable financial planning, and bankable project feasibility, provide technical assistance in identifying, structuring, assessing, and securing financial transactions.</li> <li>• <b>Knowledge Management:</b> provide targeted capacity building using participatory and peer-learning approaches to disseminate and replicate knowledge. Organize workshops for municipalities and other government partners on creditworthiness, capital investment planning, water scarcity, and effluent reuse. Actively engage and share knowledge with the financial community about compelling investment opportunities in WASH sector.</li> </ul>
<b>Commencement Date</b>	June 1, 2017
<b>Expected End Date</b>	November 30, 2020
<b>Total Budget</b>	\$2,300,000

### I.7.1 COUNTRY CONTEXT AND OVERVIEW OF YEAR 4 ACTIVITIES

In Southern Africa, 77 million people lack basic access to drinking water, and 119 million people lack basic access to a sanitation facility. The world has set ambitious targets for universal access to water and sanitation by 2030, but an unprecedented mobilization of funding will be required to meet this goal. In South Africa alone, the funding gap for water and sanitation investment is estimated to be approximately USD 24 billion over the next ten years.

WASH-FIN provides technical assistance as a transaction facilitator and independent advisor, helping national government, local government, and private sector service providers to assess all available forms

of finance. It achieves its goals by playing an active role in project preparation, offering engineering and financial advisory services in the early stages of infrastructure development to ensure technical, economic, and environmental sustainability, and through identification and advice in the negotiation of financial transactions. WASH-FIN Southern Africa facilitates relationships between financial institutions interested in lending for WASH investments and government or private sector borrowers. The WASH-FIN Southern Africa activity, primarily focused on South Africa, began in 2017. Due to the level of sophistication of its financial markets and its prioritization of water, owing to its status as a water-scarce country, South Africa remains a promising WASH-FIN transaction country and a potential model for replication in the Southern African sub-region.

In FY19 USAID committed additional funding for the Southern Africa activity to extend operations to the end of FY2020. The WASH-FIN Southern Africa Year 4 work plan was revised to extend and build upon earlier successes including: (1) additional technical assistance to the City of Cape Town Water and Sanitation Department's efforts to reform and improve its financial management systems; (2) capacity building of the City of Mbombela to improve management of their water services PPP concession; (3) additional resources for the National Treasury study on innovative financing mechanisms for water and sanitation investments in South Africa; and (4) dissemination of lessons learned through an expanded KM effort.

A major achievement in Year 4 was the capitalization of the Infrastructure Finance Corporation Limited's (INCA) Municipal Debt Fund (IMDF) with an investment of [REDACTED] by the French Development Agency (AFD) and the Swiss State Secretariat for Economic Affairs (SECO), which will increase liquidity in the municipal infrastructure lending market, especially targeted at secondary cities. WASH-FIN provided early essential support to this transaction by completing credit assessments of the targeted municipalities and then continued to provide transaction support to the fund manager and investors.

WASH-FIN also facilitated the approval of a transaction providing [REDACTED] in social impact investment for scaling of a fecal sludge treatment technology in eThekweni Municipality. WASH-FIN provided the initial introduction to the social impact investor, prepared the financing application including business case and financial model, and supported the due diligence process. It is anticipated that the investor will eventually provide a greater sum of financing to allow the technology to be made available nationally.

WASH-FIN's municipal finance consultant has been embedded in the City of Cape Town's Water and Sanitation Department since early 2019 and provided leadership in support of its financial management reforms. The consultant's efforts during the reporting period focused on transitioning to local leadership and ensuring the long-term sustainability of the reforms.

In the City of Mbombela, WASH-FIN continued to support the city's negotiations with its concession partner and to build the capacity of the city to effectively manage the concession to drive water and sanitation service improvements. By the end of the reporting period, significant progress had been made to resolving the impasse in negotiations and a new agreement is expected by the end of the calendar year.

Finally, WASH-FIN delivered a baseline report and a gap analysis on the implementation of innovative financing mechanisms for water and sanitation to the National Treasury and Department of Water and Sanitation. These deliverables, coupled with the final report to be delivered early in FY21, will help the key stakeholders identify financing mechanisms to bridge the funding gap.

## I.7.2 PROJECT IMPLEMENTATION UPDATE

### CATEGORY 1: MUNICIPAL CREDITWORTHINESS

A significant barrier for investment in South African cities is lack of creditworthiness, especially amongst secondary cities. The South African Integrated Urban Development Framework notes that many of these secondary cities are “uncompetitive, have weak leadership and strategic planning, and struggle to attract human capital.”<sup>20</sup> WASH-FIN sought to address this challenge through the promotion of municipal creditworthiness and knowledge sharing workshops on the credit rating process, credit assessments and ratings, and helping municipalities to improve creditworthiness.

Since 2018, WASH-FIN has provided support to the Department of Cooperative Government and Traditional Affairs in helping the targeted secondary cities to address issues such as creditworthiness and long-term capital investment planning. In 2019 WASH-FIN also commissioned Global Credit Ratings to perform credit assessments of 20 cities to support development of the IMDF, a municipal infrastructure finance fund focused on secondary cities and smaller metropolitan areas. In 2020 WASH-FIN planned to support the IMDF by working on creditworthiness with targeted municipalities.

#### **Activity 1.1: Financial Management Technical Support to Targeted Municipalities to Improve Creditworthiness and Ability to Access Repayable Finance**

The bulk of this activity was completed in previous years. INCA identified several secondary city municipalities that would benefit from technical assistance aimed at improving financial management resulting in better creditworthiness. By providing this technical assistance, WASH-FIN can improve the pipeline of secondary cities capable of borrowing from the proposed IMDF described under Activity 4.5 below.

A workshop to coincide with the launch of the IMDF was originally planned for early June 2020; however, due to COVID-19 restrictions, the workshop will now be delivered as a webinar. The launch of the fund was also delayed due to COVID-19 impacts to the review and approval process by the lenders, so the webinar is now planned for early FY21. The objective of the webinar will be to (1) highlight the potential financing opportunities provided by the fund; (2) provide targeted municipalities with the tools necessary to access the fund, including a focus on the role of creditworthiness; and (3) demonstrate to domestic investors that the fund is a sustainable and safe vehicle for investing in creditworthy municipalities. More targeted technical assistance on creditworthiness enhancement will be developed based off this effort and municipal engagement. The workshop is expected to attract representatives from targeted municipalities, national and provincial treasury and cooperative governance officials, and domestic investors. The co-investors in the IMDF, SECO, and AFD have all expressed interest in co-hosting the webinar.

### CATEGORY 2: MUNICIPAL FINANCIAL PLANNING

In response to the 2018 drought crisis, the City of Cape Town embarked on an ambitious 20-year strategy to become a “water-sensitive city” that optimizes and integrates the management of water resources to improve resilience, competitiveness and livability for the prosperity of the people of Cape Town. Municipal financial health is critical for service delivery, long-term planning, and ability to leverage finance to achieve the objectives of the water strategy. More accurate financial assessment and planning can help municipalities better understand the availability of their own revenues to fund further infrastructure investment and identify problems and opportunities that need to be addressed to increase cash flow and improve sustainability, thereby strengthening resilience.

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<sup>20</sup> Development Bank of Southern Africa (DBSA), 2018

Since 2018 WASH-FIN has provided technical assistance to the City of Cape Town's water and sanitation department through the provision of a municipal finance specialist. The consultant supported several municipal finance reform activities, including: 1) development of a simplified financial revenue model to help the city make informed policy and investment decisions; 2) reform of the city's customer service operations to improve revenue collection, reduce inefficiencies, and build customer trust; and 3) improvement of financial planning for capital investments, including establishing a new operating unit focused on planning, budgeting, and monitoring the department's capital projects program.

Although activities related to City of Cape Town financial management were originally scheduled to conclude in early 2020, the COVID-19 pandemic and related economic challenges caused the city to request an extension of the support seen as critical to maintaining revenues and ensuring funding was available to support investment in water and sanitation.

### **Activity 2.1: Transition Leadership of Customer Service Turnaround Project to City Responsibility**

As part of the Cape Town Water Strategy, the city committed to support active citizenship by substantially improving customer management and engagement. In support of this initiative, WASH-FIN's consultant in the City of Cape Town's water and sanitation department led the city's Customer Service Turnaround Project (CS-TAP), involving the reform of the department's entire customer service approach. The primary objectives of CS-TAP included: 1) improve the responsiveness and effectiveness of the customer care and call center; 2) increase billing efficiency rates and accuracy; 3) increase collections and manage delinquent customers; 4) improve meter reading, meter accuracy, and meter replacement; and 5) streamline organizational structure. In addition to the customer engagement objectives, CS-TAP also sought to reduce commercial losses from non-revenue water loss and thereby increase revenues.

During Year 4, WASH-FIN's consultant continued to lead implementation of the Action Plan for the CS-TAP reforms and the AMI project, while preparing for handover to the newly restructured City Customer Service Division. During the reporting period, the consultant assisted the City with recruitment of a new Customer Service management team and then assisted with onboarding and capacity building of the team to ensure sustainable implementation of the reforms.

As a result of the reforms undertaken as part of CS-TAP, it became clear that the vast majority of the department's customer service issues emanated from multiple metering deficiencies that can only be resolved by upgrading the metering system to an Automated Metering Infrastructure (AMI) system, including replacing over 600,000 meters. In response, WASH-FIN assisted the department with strategic planning for the project, recruiting an Automated Metering Revenue (AMR) project manager and procuring a project management contractor to implement the AMI project. It is anticipated that this project will take at least eight years to complete after appointment of the selected project management contractor and cost approximately ZAR 3 billion (USD 170 million). Some of the expected outcomes of the AMR project include:

- Improved accuracy of metering resulting in better revenue collection;
- Reduced physical water losses due to real-time leak detection capability; and
- Improved customer service.

In late March 2020, in response to the COVID-19 outbreak, the consultant was expatriated to the United States; however, he continued to provide continuous remote support to Cape Town. In August 2020 the AFD issued a request for proposal for a consulting firm to provide ongoing technical support

to the City of Cape Town Water and Sanitation Department. WASH-FIN has further extended the consultant's contract to February 2021 to allow for transition to the new AFD consultant once selected.

### **Activity 2.2: Support City of Cape Town Water and Sanitation Capital Planning**

In 2020, WASH-FIN helped the Water and Sanitation Department establish a new operating unit focused on planning, budgeting, and monitoring the department's capital projects program. As an initial activity, WASH-FIN helped revise the FY19/20 capital budget projection, the medium-term revenue and expenditure forecast, and the ten-year capital budget.

Concurrently, WASH-FIN helped the department develop the organizational structure of the branch and recruit a suitably qualified branch manager. The new branch will help the department better implement its ten-year, ZAR40 billion (USD 2.4 billion) capital budget including the new augmentation schemes foreseen by the Cape Town Water Strategy.

In addition, WASH-FIN provided technical assistance per the request of the Water and Sanitation Department despite it not fitting squarely into the Work Plan. As part of the Cape Town Water Strategy, the department is seeking to control invasive and alien plants to improve water supply, thereby promising to maintain reliable revenue streams, which are threatened with reduced water supply. The Nature Conservancy (TNC) has been a key partner in this effort through its Cape Town Water Fund, which has been funded by philanthropic donations from major companies. The TNC and the City of Cape Town have sought to ensure the sustainability of this program by implementing a funding model. To facilitate this arrangement, WASH-FIN organized a series of high-level meetings with key stakeholders. Based on the outcomes of these engagements, WASH-FIN's consultant prepared an action plan highlighting the key remaining obstacles and providing recommendations for senior management.

### **Activity 2.3: Support to Western Cape Provincial Government – Customer Service Reform**

WASH-FIN originally sought to replicate the success of the Cape Town CS-TAP in other Western Cape municipalities in collaboration with a local NGO, GreenCape. However, GreenCape's expected contract with the Western Cape Provincial Government to provide municipal support did not progress as planned. Without a local partner, WASH-FIN was not able to identify interested municipalities to engage in the reform process. Instead, WASH-FIN prepared a detailed case study of the Cape Town CS-TAP, which was published on GlobalWaters.org, and could be used as a reference for other utilities and municipalities (see further details under Knowledge Management below).

## **CATEGORY 3: PROJECT PREPARATION**

According to the National Water and Sanitation Master Plan, the South Africa private sector has expressed a clear appetite for large scale investment in water and sanitation, but there is a lack of bankable projects. According to the Development Bank of Southern Africa (DBSA), there appears to be a lack of funding for projects at the pre-financing or early stage project development relative to more mature projects, which may contribute to the lack of projects available for financing.

In response, WASH-FIN sought to assist municipalities to develop bankable projects by providing early-phase assistance. In the City of Cape Town, WASH-FIN contracted a globally renowned water reuse expert to provide expert peer review services to guide the city's locally contracted engineering design consultants in their development of the basis of design, conceptual, and feasibility design packages for the various treatment and abstraction infrastructure components of the city's planned water reuse scheme. In the City of Tshwane, WASH-FIN engaged with the DBSA to help the city consider a range of feasible NRW reduction approaches and to structure the project in such a way as to attract financing. In the

City of Mbombela, WASH-FIN helped the municipality's consultant to review a range of options for providing water and sanitation services in the city including the potential for a PPP.

The work for the City of Cape Town and Tshwane Municipality was completed prior to the reporting timeframe, while the options analysis for the Mbombela Municipality was in preliminary phases by the end of the reporting period.

### **Activity 3.1: Assist City of Cape Town in Its Conceptual and Detailed Design for Large-Scale Water Reuse Infrastructure and 3.2: Assist Tshwane Municipality in Their Development of a Feasibility Study for a NRW Reduction Project**

This activity was successfully completed prior to FY2020, and no further activities were undertaken during the reporting period.

### **Activity 3.2: Assist Tshwane Municipality in Their Development of a Feasibility Study for an NRW Reduction Project**

Tshwane Municipality and DBSA have proceeded with the feasibility study, albeit at a much slower pace and at a reduced scale compared to original plans. The change in the scope and expected outcomes reduced the likelihood of the project reaching transaction stage in the near future. WASH-FIN did not include this activity in its Year 4 work plan and no activities took place during the reporting period.

### **Activity 3.3: Assist Mbombela Municipality with an Options Analysis for a PPP**

The City of Mbombela seeks to determine the best mechanism to deliver water services for all areas within its boundaries now and in the future. As such, it is considering several options for service delivery including a public private partnership. Section 78 of the Municipal Structures Act provides that when a municipality reviews its delivery mechanisms, it must first assess the provision of that activity through an internal mechanism, after which it may decide to explore the delivery of that activity by an external mechanism. Mbombela Municipality has contracted a consulting firm, PDG, to prepare a Section 78 options analysis; however, implementation of the analysis has been delayed by COVID-19. As a result, very few activities have occurred in the current reporting period. In August PDG submitted a draft baseline report to the city but as of the end of the year, Mbombela had not yet completed its review. WASH-FIN has offered to provide technical assistance to the city in 2021 including peer review of PDG reports, participation in steering committee meetings, and preparation of briefings for senior leadership.

## **CATEGORY 4: TRANSACTION ADVISORY SERVICES**

The National Water and Sanitation Master Plan estimates that the country's water and sanitation sector faces a funding shortfall of approximately USD 2.4 billion per annum. South Africa's municipalities are largely reliant on grant funding for water and sanitation services with approximately 70 percent of budgeted funding provided by transfers from the national fiscus. Meanwhile, South African municipalities borrow less than 15 percent of their capital expenditures. The low rate of municipal borrowing suggests that improving access to financing could help bridge the funding gap for water and sanitation.

Since 2018, WASH-FIN has assisted with financial structuring of WASH investments such that the use of all available grant funds is maximized as a means to leverage available commercial resources through blended finance structures and alternative financing mechanisms that expand the financing envelope. In particular, WASH-FIN has worked with the National Treasury to explore a range of financing mechanisms that could be utilized in South Africa. WASH-FIN has also worked to improve the performance of South Africa's oldest water services PPP in Mbombela Municipality. WASH-FIN has sought to increase liquidity in the municipal infrastructure lending market in cooperation with AFD and SECO through support to INCA. Finally, WASH-FIN has worked with social impact investors to promote investment in emerging fecal sludge treatment technologies.

#### **Activity 4.1: Facilitate Negotiation of Supplementary Agreement for City of Mbombela Water Services PPP Concession Agreement**

During the reporting period, WASH-FIN continued to assist the City of Mbombela with renegotiation of its existing twenty-year-old PPP for water and sanitation services, expected to result in the Fifth Supplementary Agreement (SA5) to the Concession Agreement. The negotiations are expected to result in a five-fold increase in capital investment and expansion of water services to an additional 120,000 people over the next five years.

The SA5 contract was scheduled to become effective as of November 2019. However, the negotiations have not progressed due to outstanding issues including the tariff structure and share of national grant transfers provided by the city to the concessionaire to subsidize service provision to the poor. These issues have become more complicated due to downward pressure on city budgets due to COVID-19 and the related South African recession.

In addition, there was a change in leadership at the City of Mbombela with the resignation of the municipal manager who had led the SA5 process in August 2019 and his replacement in November 2019 with the former Chief Financial Officer who had not previously taken a significant interest in the process. The new municipal manager has had different opinions on the direction of the SA5 negotiations and of the role of external consultants in the negotiation process. As a result, WASH-FIN has had less leverage to facilitate the negotiation process. This challenge was exacerbated by the attention of the municipal manager being dominated by the city response to COVID-19 to the exclusion of other service-provision issues.

Despite these challenges, WASH-FIN has continued to provide technical assistance to facilitate the negotiation process. WASH-FIN contracted a Legal Transaction Advisor to help facilitate the negotiations. The advisor has provided the city with a summary of all contract conditions and an assessment of the potential risks to the city if the Supplementary Agreement is not finalized. Together, the Legal Transaction Advisor and the WASH-FIN Team Leader have continued to advise the Municipal Manager on the negotiation process and strategy. WASH-FIN has also engaged with the National Treasury's PPP Unit to ensure that there is sustainable long-term support to the city in the negotiation process.

As of the end of the reporting period, there has been a series of meetings between the city and the concessionaire seeking a compromise in the negotiations and an agreement-in-principle was achieved in the first week of October. Both parties have committed to resolving the remaining issues prior to the end of the year and WASH-FIN will continue to support in Year 5.

#### **Activity 4.2: Capacity Building for PPP Concession Management Unit in Mbombela**

In order to realize the improved service delivery objectives of the PPP as envisioned by SA5 described above, the City's existing Concession Management Unit (CMU) must improve its ability to monitor performance, enforce contractual corrective actions, and resolve blockages to service delivery. To support the CMU, WASH-FIN contracted PDG to 1) develop SOPs for CMU functions, including reporting, assessment, and corrective actions; 2) training CMU staff on CMU functions in accordance with the SOPs; 3) assist with monthly and quarterly reviews of concessionaire performance; and 4) assist the municipality to draft scopes of work for external technical, financial and legal assistance for concession monitoring.

During the reporting period, PDG completed a diagnostic study of the current capacity and challenges of the City of Mbombela's CMU. The diagnostic concluded that the Unit is underperforming due to a lack of a clear mandate, ineffective monitoring procedures, and under-resourcing. The diagnostic study was presented to the city's senior management. In early FY2021, PDG will develop a Concession



Management Plan for the unit, provide remote training on the procedures provided in the plan, and assist the unit with a periodic review of the concessionaire.

The Mbombela CMU support activity was delayed by COVID-19. The initial work plan prepared by the WASH-FIN subcontractor envisioned in-person data collection through stakeholder meetings. Instead, the subcontractor was required to conduct virtual interviews, which took time to set up. In addition, the key informants were unavailable in the early part of the COVID-19 pandemic due to other urgent commitments. As a result, the diagnostic phase was delayed resulting in a knock-on delay to the development of the Concession Management Plan, which will be delivered by mid-October in FY21.

WASH-FIN also provided training for six key personnel from the city focused on the management and monitoring of PPPs. WASH-FIN's subcontractor, the NEPAD Business Foundation, delivered a week-long training based on APMG International's certified PPP Certification Guide Execution Course. The training was delivered virtually using APMG's online training platform. Following the training course, participants had the opportunity to take the APMG certification exam. Four of the six city staff successfully passed the exam and were formally certified as Certified PPP Professional Execution practitioners. The training will provide a solid foundation for the team to administer the PPP concession and will have long-term impacts as Mbombela will need to replace the concession within the next five years. The staff trained by WASH-FIN will likely play key roles in these discussions.

The PPP training was impacted by COVID-19. Travel restrictions did not allow for the planned in-person week-long training workshop. Instead, WASH-FIN's subcontractor planned to provide virtual training and the certification exam via the APMG online training platform. As a result of increased work commitments due to COVID-19 response, several city staff members including the Deputy Municipal Manager and the Head of Technical Services were unable to participate in the training; however, many key staff participated including the head of the CMU, the City Legal Officer, and the City Engineer.

The city's IT systems were also not compatible with the platform, resulting in delays to the training and requiring the participants to access the platform from home computers. (WASH-FIN had conducted a successful test of the online training platform on participants' laptops under remote work conditions but could not run an advance test of the platform over the city's IT system.) Many participants were not accustomed to online training and as a result engagement was difficult, resulting in reduced effectiveness of the training. WASH-FIN built contingencies into the subcontract by providing for additional study sessions and an opportunity to retake the certification exam. As a result of the various mitigation measures, WASH-FIN managed to achieve a 67 percent pass rate on a difficult certification exam.

### **Activity 4.3: Study on Applying Financial Mechanisms to Fund South Africa's Planned Water and Sanitation Investments**

In 2019 the South African National Treasury requested WASH-FIN support to study global best practice and innovations in financing mechanisms for the water and sanitation sector, and how these can be incorporated in the South African context. A Study Reference Group was established consisting of representatives from various departments at National Treasury and the Department of Water and Sanitation, as well as USAID Southern Africa Regional Mission. WASH-FIN serves as Secretariat of the Reference Group.

WASH-FIN subcontracted Pegasys, a local consulting firm, to assist in preparation of the study. A baseline report was submitted in December 2019, which included approximately 25 case studies of international and domestic innovative financing mechanisms for water and sanitation investments and a summary of the South Africa water sector funding situation.

Subsequent to the baseline report, WASH-FIN developed a gap analysis seeking to identify where proven financing mechanisms (as identified in the baseline) could be applied to address specific funding

constraints in the South Africa context. The gap analysis also analyzed the potential challenges to implementing these mechanisms, including regulatory, institutional, and technical constraints. The outcome of the gap analysis is the development of a handful of mechanisms (or a “toolbox”) that could be deployed in the sector to promote investment. The gap analysis was presented to the reference group in July 2020.

The final report for the study, expected to be delivered in October 2020, will incorporate this feedback to provide a road map for Treasury and the Department of Water Supply (DWS) to pursue in promoting innovative financing to increase investment in service delivery.

The study was delayed by COVID-19 especially during the period between submission of the baseline report and the gap analysis, when WASH-FIN engagement with the Study Reference Group was impacted by Treasury and DWS priorities for COVID-19 response.

#### **Activity 4.4: Implement Water Finance Strategy for National Treasury**

As reported to the USAID Southern Africa Mission via the COVID-19 Assessment of Planned Action form on May 11, 2020, implementation of the proposed pilot financial mechanism for Treasury was predicated on completion of the study included in the work plan under Activity 4.3. WASH-FIN engagement with the Study Reference Group has been significantly delayed due to Treasury and DWS priorities for COVID-19 response. Due to the study delays and ongoing impacts of COVID-19 on stakeholder availability, it is not anticipated that enough time remains for the WASH-FIN Southern Africa activity to make meaningful progress on this activity prior to activity closeout.

WASH-FIN has invested additional resources into the study to support the work undertaken by its subcontractor Pegasys. Specifically, WASH-FIN contracted a short-term Water and Sanitation Finance Researcher Consultant to research and prepare international case studies. WASH-FIN also contracted a short-term International Water Finance Advisor to review and improve deliverables prepared by the subcontractor. It may be possible in the coming months to work with the Study Reference Group, depending on their availability, to define a discrete activity that could promote the uptake and implementation of the recommendations of the study. WASH-FIN would then seek to use existing resources to deliver the activity.

#### **Activity 4.5: Provide Transaction Support for INCA Municipal Financing Mechanism**

Since 2018 WASH-FIN has been supporting INCA to develop and capitalize a municipal pooled infrastructure finance fund focused on intermediary cities and smaller metros. The fund has been initially capitalized by AFD providing USD 25 million senior debt and SECO providing a USD 3 million first-loss facility. A near-term objective of the fund is to crowd-in local institutional investors, as well as other DFI support, for a total fund target of USD 100 million. Early in the process of establishing the fund, WASH-FIN supported the credit assessments of 20 municipalities targeted by the fund for investment. These assessments demonstrated to the investors that there were enough creditworthy municipalities in South Africa that a pipeline of potential opportunities could be realized.

AFD and SECO approved their investments in July 2020. The transaction is expected to close in October 2020 and INCA plans to make a press statement announcing the IMDF by the end of the month. As described in Activity 1.1, WASH-FIN plans to co-host a webinar workshop following the launch of the IMDF.

#### **Activity 4.6: Transaction Support for Deployment of LaDePa Fecal Sludge Management Technology**

WASH-FIN facilitated an introduction of the manufacturer of the LaDePa FSM technology (PSSH LaDePa, a domestic small or medium enterprise) to Wellers Impact, who are managing the Water Unite

social impact fund promoting investment in water, sanitation, and plastics recycling especially in developing countries.

Fecal sludge is produced from the emptying of solids from pit latrine toilets and from the wastewater treatment process in sewered systems. In South Africa, sludge is typically disposed of by applying it to non-food agricultural lands as a soil additive; however, this approach is problematic because the sludge has a high water content (over 70 percent) resulting in high transportation costs and high levels of biological pathogens resulting in human health risks. The LaDePa FSM technology uses thermal treatment to dewater and pasteurize the sludge prior to disposal resulting in a dry material that can be safely handled and applied.

Significant investment has gone into the development of the LaDePa technology; however, additional funding will be required to manufacture additional units necessary to scale the technology. The technology provider will need to secure external financing to fund manufacturing costs which will be repaid from payment by the municipality. As the LaDePa technology is relatively new and has not been deployed at scale, many investors will see substantial risks investing in an emerging technology. Given the current weak financial status of South African municipalities and related poor creditworthiness ratings, there is also significant payment risk. As a result, PSS LaDePa has been unable to secure financing from domestic commercial banks and needed support from alternative sources.

In contrast to domestic financial institutions that lack sector expertise, social impact investment funds focused on water and sanitation solutions have stepped in to fill the financing gap. These funds are particularly attracted to these alternatives, which promote emerging pro-poor technologies with clear environmental and circular economy benefits, in contrast to traditional sludge treatment approaches that consider sludge as a waste output rather than a valued input. One such fund, the Water Unite Impact Investment Vehicle (WUIIV) managed by Wellers Impact, has allocated approximately USD 250,000 to cover the costs of the fabrication and delivery of the LaDePa treatment technology to eThekweni. The WUIIV, capitalized by a mix of funding from institutional investors and corporate donors, offers more competitive terms (lower interest rates, longer time horizons) than the commercial banking sector in return for strong performance on a double bottom line basis, namely considering a blend of financial returns and social impact.

WASH-FIN and OCA helped PSSH apply for approximately ██████████ in financing from the WUIIV for manufacture and installation of two LaDePa FSM treatment units to eThekweni Municipality, including preparation of the initial application, business plan, financial model, and a data room to support the due diligence process. WUIIV has approved the application for financing subject to receipt of a purchase order for the units from eThekweni Municipality. Unfortunately, the municipality currently lacks funding from its capital budget for the purchase which has delayed the transaction. The municipality is looking for alternative sources of funding and plans to issue a purchase order by the end of the year.

WASH-FIN is also collaborating with PSSH and the Water Research Commission of South Africa to create a potential sustainable funding model for LaDePa based on a circular economy approach to FSM. It is envisioned that LaDePa has the potential to be taken to scale and deployed nationwide and Wellers has indicated an interest in pursuing a larger transaction to support PSSH LaDePa's expansion.

## **ADDITIONAL CATEGORY 5: KNOWLEDGE MANAGEMENT**

### **Activity 5.1: Host Water Resilient Cities Workshop**

WASH-FIN, in collaboration with the South African Local Governments Association (SALGA), South African Cities Network, *Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)*, and the World Bank Water Resources Group 2030, hosted the 3rd Water Resilient Cities Learning Event in Port Elizabeth in November 2019. The event, entitled "Water as a Strategic Enabler for Economic

Development in Cities”, was well attended with approximately 70 participants including representatives from national and provincial government, municipalities, water boards, DFIs, bilateral donors, and the private sector. Participant surveys indicated a high degree of satisfaction with the event and a substantial increase in the understanding of water resilience management and financial planning.

### **Activity 5.2 Knowledge Materials on South Africa Water and Sanitation Financing**

WASH-FIN published a knowledge piece on GlobalWaters.org capturing the lessons learned from the City of Cape Town Customer Service Turnaround Project to promote replication in other South Africa and regional municipalities<sup>21</sup>. WASH-FIN plans to publish a case study on the Mbombela Concession once the SA5 negotiation process is completed in Q1FY21.

The Southern Africa Activity Country Team Leader moderated a series of seven webinars hosted by ROCKBlue targeted at municipal water services providers and utilities throughout Southern Africa and globally. Topics have included NRW reduction, access to finance, COVID-19 emergency response, and citywide-inclusive sanitation. The events were well attended with over 100 participants from over 40 countries representing a diverse audience including USAID, World Bank Group, and other DFIs, other bilateral and multilateral agencies, municipalities, utilities, local and international NGOs, and the private sector.

### **Box 3. RockBlue Utilities Performance Workshop – Victoria Falls, Zimbabwe**

The Southern Africa Activity Country Team Leader participated in this event to provide support to the ROCKBlue Performance Achievement Workshop Series (PAWS) Event #1. This workshop series is a key component of ROCKBlue’s overall approach towards improving performance of struggling utilities and municipalities in sub-Saharan Africa. The purpose of the workshop series is to effectuate measurable performance improvements for the represented utilities and municipalities, including: Lusaka Water and Sewerage Company (LWSC), Lesotho Water and Sewerage Company (WASCO), Lilongwe Water Board (LWB), and four municipalities in Zimbabwe (Ruwa, Mutare, Masvingo, and Kwekwe). The first event focused on finalizing the terms of ROCKBlue’s engagement with each of the utilities/municipalities and establishing short- and medium-term goals. WASH-FIN facilitated completion of a performance tracking form for the Kwekwe Municipality establishing clear performance objectives to be met in the coming months.



*RockBlue: RockBlue workshop participants pose after a long days’ work.*

<sup>21</sup> Lessons from Cape Town were shared in a case study published on March 15, 2020 on the WASH-FIN microsite on globalwaters.org at <https://www.globalwaters.org/resources/assets/wash-fin/customer-service-reform-water-and-sanitation-service-providers-cape-town>

### **Activity 5.3 Host a WASH-FIN Southern Africa Closeout Workshop**

The WASH-FIN Southern Africa activity has been extended to the end of November 2020. However, Southern Africa activities will continue on a limited basis in Year 5, thus no close-out workshop was held.

#### **I.7.3 REFLECTIONS ON IMPLEMENTATION**

Year 4 programming was significantly impacted by the COVID-19 pandemic. At the end of Q2FY20, the Government of South Africa implemented a nationwide lockdown, known as Level 5 Restrictions, that was originally scheduled for 21 days—until mid-April—but was subsequently extended to 45 days, lasting until the beginning of May. During this period, all international and domestic travel was prohibited, only essential services and workers could leave home, and residents were only allowed to leave home for essential activities. Between May 1 and October 1, the government gradually lifted restrictions to the current Level 1 allowing most of the economy to fully reopen with health precautions such as mandatory masks and personal distancing in place. However, work from home where possible orders are still in place and international travel remained prohibited throughout the reporting period, only opening to selected countries as of October 1. Personal travel to and from the US remains prohibited. Throughout the restrictions, WASH-FIN Southern Africa continued to implement activities using remote work technology.

South Africa's already struggling economy was hit hard as a result of the COVID-19 pandemic and the country official entered a recession in early September after recording negative gross domestic product (GDP) for four straight quarters. South Africa's GDP fell by just over 16.4 percent between the first quarter and second quarter of 2020, resulting in an annualized growth rate of -51 percent. The drop-off was greater than either the 2009 global financial crisis or the 1982 recession. Employment levels dropped with the economy shedding over 2 million jobs. Credit ratings agencies have downgraded South Africa's sovereign rating to junk status making the costs of borrowing greater.

Water service providers were also significantly impacted by COVID-19. The national government called for a massive roll-out of emergency water supplies to underserved communities to encourage handwashing. The economic downturn reduced the ability and/or willingness of many households and businesses to pay water service bills. In response to the impact on household and business incomes and in light of the role water supply plays in handwashing as a public health measure for coronavirus, the Department of Water and Sanitation placed a moratorium on water service disconnections which reduced the effectiveness of credit control and revenue collection.

Despite these challenges, there are some encouraging signs for South Africa's water sector. Cape Town continues to invest in reforms that improve revenue collection and improve financial planning, which will be increasingly important as the recession impacts revenues. There is increasing interest in inclusive sanitation with investment being made in fecal sludge management and non-sewered sanitation solutions. Water service providers are looking at diversifying water sources to build resilience including groundwater extraction, desalinization, and water reuse solutions. In addition, some municipalities are looking towards sustainable solutions such as controlling invasive water hungry plants and better utilizing stormwater.

Creative approaches to funding these investments will be critical to their success. The Office of the Presidency recently announced the creation of Infrastructure South Africa (ISA) a new agency tasked with implementing interventions to resolve key policy and regulatory bottlenecks leading to underinvestment in infrastructure. By spurring investment in critical enabling infrastructure, South Africa hopes to lay the groundwork for economic recovery. The agency has already published its list of priority infrastructure projects, including 11 major water and sanitation projects, that are envisioned to be ready for investment. A major initiative of the ISA and echoed in the National Water and Sanitation Master

Plan is a reinvigoration of public-private partnerships. The reform of the Mbombela water services concession facilitated by WASH-FIN could serve as a case study for better utilizing PPPs in the sector. Green financing and social impact investing are also emerging as important sources of financing for sustainable infrastructure. The National Treasury is in the process of creating a taxonomy for Green Finance which will help shape this market. Finally, Treasury is also showing a renewed interest in innovative financing mechanisms that can help spur much needed investment in the country.

Over the past three years, WASH-FIN raised USAID’s profile in the water and sanitation sector in Southern Africa. WASH-FIN has done this by 1) engaging with government at all levels to drive demand for water and sanitation investment; 2) building relationships in the private sector to encourage investment in the sector; and 3) collaborating with other development partners to promote best practices and knowledge sharing. As a result, USAID now has the opportunity to constructively influence stakeholders across the sector to increase investment and improve service delivery towards achieving universal access to safe drinking water and adequate sanitation. In order to maintain this momentum, WASH-FIN has proposed extending its presence in Southern Africa through Year 5 on a limited and cost-effective level of effort.

#### 1.7.4 DELIVERY PROGRESS SUMMARY

Table 1.20 below summarizes Southern Africa activities, their expected timelines and results, and an update on their completion during Year 4.

**TABLE 1.20: SOUTHERN AFRICA DELIVERY PROGRESS SUMMARY**

Southern Africa Activities	Expected Results	Year 4 Status Update
Activity 1.1: Financial Management Technical Support to Targeted Municipalities to Improve Creditworthiness and Ability to Access Repayable Finance	<ul style="list-style-type: none"> <li>Measurable improvement in creditworthiness in at least one municipality.</li> </ul>	<ul style="list-style-type: none"> <li>Delay in the INCA Municipal Fund transaction close has resulted in delayed implementation of this activity. Workshop expected to be delivered in early 2021.</li> </ul>
Activity 2.1: Transition Leadership of CS-TAP to City Responsibility	<ul style="list-style-type: none"> <li>City of Cape Town has adequate resources and a plan in place to embed reforms to customer service operations.</li> </ul>	<ul style="list-style-type: none"> <li>Completed in Q2.</li> </ul>
Activity 2.2: Support City of Cape Town Water and Sanitation Capital Planning	<ul style="list-style-type: none"> <li>City of Cape Town has established a Capital Planning Unit with adequate resources and systems in place to deliver capital investments.</li> </ul>	<ul style="list-style-type: none"> <li>Completed in Q2.</li> </ul>
Activity 2.3: Support to Western Cape Provincial Government – Customer Service Reform	<ul style="list-style-type: none"> <li>Western Cape municipalities have action plans for implementation of customer service turnaround projects resulting in significant increases in revenue collection to fund municipal water and sanitation investment.</li> </ul>	<ul style="list-style-type: none"> <li>Completed in Q2.</li> </ul>
Activity 3.1: Assist City of Cape Town in Its Conceptual and Detailed Design for Large-Scale Water Reuse Infrastructure	<ul style="list-style-type: none"> <li>No expected results established in Year 4 Work Plan</li> </ul>	<ul style="list-style-type: none"> <li>Activity completed in Year 3.</li> </ul>
Activity 3.2: Assist Tshwane Municipality in Their Development of a Feasibility	<ul style="list-style-type: none"> <li>No expected results established in Year 4 Work Plan.</li> </ul>	<ul style="list-style-type: none"> <li>Activity canceled after conclusion of Year 3.</li> </ul>



Southern Africa Activities	Expected Results	Year 4 Status Update
Study for an NRW Reduction Project		
Activity 3.3: Assist Mbombela Municipality with an Options Analysis for a PPP	<ul style="list-style-type: none"> <li>Mbombela will have an assessment of options for provision of water and sanitation services outside of the Concession Area prepared by others with input from WASH-FIN.</li> </ul>	<ul style="list-style-type: none"> <li>Delayed. Expected by Q2FY21.</li> </ul>
Activity 4.1: Facilitate Negotiation of Supplementary Agreement for City of Mbombela Water Services PPP Concession Agreement	<ul style="list-style-type: none"> <li>Supplementary Agreement for PPP Concession Agreement, resulting in commitments to five-fold increase in capital investment in water and sanitation.</li> </ul>	<ul style="list-style-type: none"> <li>Delayed. Expected by end Q1FY21.</li> </ul>
Activity 4.2: Capacity-Building for PPP Concession Management Unit in Mbombela	<ul style="list-style-type: none"> <li>Improved capacity of city to effectively manage Concessionaire to ensure investment of R100 million per annum resulting in provision of improved water services to 20,000 poor households (120,000 people); improved sanitation services to 25,000 households (150,000 people); and significantly reduce NRW losses.</li> </ul>	<ul style="list-style-type: none"> <li>Partially completed.</li> <li>PPP Training and CP3P certification provided to Mbombela staff.</li> <li>Concession Management Unit capacity building ongoing. Expected completion in Q1FY21.</li> </ul>
Activity 4.3: Study on Applying Innovative Financial Mechanisms to Fund South Africa's Planned Water and Sanitation Investments	<ul style="list-style-type: none"> <li>Treasury provided with enough basis to implement policy reform.</li> </ul>	<ul style="list-style-type: none"> <li>Delayed. Expected by end Q1FY21.</li> </ul>
Activity 4.4: Implement Water Finance Strategy for National Treasury	<ul style="list-style-type: none"> <li>Intervention will help Treasury implement recommendations of study, unlocking financing for investment in water and sanitation.</li> </ul>	<ul style="list-style-type: none"> <li>Activity cancelled due to delays to Activity 4.3.</li> </ul>
Activity 4.5: Provide Transaction Support for INCA Municipal Financing Mechanism	<ul style="list-style-type: none"> <li>Capitalization of fund valued at up to ZAR 500M (USD 30M).</li> </ul>	<ul style="list-style-type: none"> <li>Completed Q4FY20.</li> </ul>
Additional Activity 4.6: Transaction Support for Deployment of LaDePa FSM Technology	<ul style="list-style-type: none"> <li>Transaction closed for USD 250,000 social impact financing for FSM treatment in eThekweni.</li> </ul>	<ul style="list-style-type: none"> <li>Partially completed.</li> <li>Financing approved subject to purchase order from eThekweni.</li> <li>Expected Q1FY21.</li> </ul>
Activity 5.1: Host Water Resilient Cities Workshop	<ul style="list-style-type: none"> <li>Workshop delivered.</li> </ul>	<ul style="list-style-type: none"> <li>Completed Q1FY20.</li> </ul>
Activity 5.2: Knowledge Materials on South Africa Water and sanitation financing	<ul style="list-style-type: none"> <li>Publish knowledge piece on Cape Town CS-TAP.</li> <li>Publish knowledge piece on Mbombela PPP.</li> </ul>	<ul style="list-style-type: none"> <li>Partially completed.</li> <li>Cape Town CS-TAP case study published on GlobalWaters.org.</li> <li>Mbombela PPP KM delayed until FY21.</li> </ul>
Activity 5.3: Host a WASH-FIN Southern Africa Closeout Workshop	<ul style="list-style-type: none"> <li>Workshop delivered.</li> </ul>	<ul style="list-style-type: none"> <li>Southern Africa activities will continue on a limited basis in Year 5, thus no close-out workshop was held.</li> </ul>

### I.7.5 PERFORMANCE INDICATOR TARGETS AND RESULTS

Table I.21 below reports on WASH-FIN Southern Africa's Year 4 and cumulative results against targets established in WASH-FIN's Year 4 M&E Plan for four project indicators.



**TABLE I.21: SOUTHERN AFRICA YR 4 PERFORMANCE INDICATOR TARGETS AND RESULTS**

<b>WASH-FIN Indicators</b>	<b>LOP Targets (YR 4 MEP)</b>	<b>Previous Years Achievements</b>	<b>Year 4 Achievements</b>	<b>Cumulative Achievement to Date</b>
HL.8.4-1 Value of new funding mobilized to the water and sanitation sectors as a result of USG assistance	\$50,000,000	\$5,800,000	\$6,600,000	\$12,400,000
HL.8.3-3 Number of water and sanitation sector institutions strengthened to manage water resources or improve water supply and sanitation services as a result of USG assistance (Indicator Definition Customized)	2	2	-	2
EG.11-4 Amount of investment mobilized (in US\$) for climate change adaptation as supported by USG assistance	\$20,000,000	0	0	0
HL.8.1-3 Number of people receiving improved service quality from an existing basic or safely managed drinking water service as a result of USG assistance	50,000	0	0	0

*HL.8.4-1:* In February, 2020, the City of Cape Town confirmed that \$9,200,000 had been mobilized through the customer service turnaround effort led by the WASH-FIN Financial Specialist embedded in the Department of Water and Sanitation. This amount spans FY19 and FY20 of WASH-FIN, but the precise breakdown of resources mobilized quarterly is not clear given fluctuations with the nature of the work. In FY19 the WASH-FIN early estimates for resource mobilization estimated \$2,600,000 in Cape Town, as such the FY20 total is ██████████ in Southern Africa in Year 4, thereby bringing the total for the customer turnaround effort to the above ██████████ acknowledged by the City.

*HL.8.3-3:* WASH-FIN’s consultant continued to lead implementation of the Action Plan for the CS-TAP reforms and AMR project for the City of Cape Town Water and Sanitation Department. Support was also provided for establishment of a new operating unit focused on planning, budgeting, and monitoring the department’s capital projects program. Concurrently, WASH-FIN helped the Department develop the organizational structure of the branch and recruit a suitably qualified branch manager. WASH-FIN also provided training for six key personnel from the city focused on the management and monitoring of PPPs.

During the reporting period, WASH-FIN continued to assist the City of Mbombela with renegotiation of its existing twenty-year-old PPP for water and sanitation services, expected to result in the Fifth Supplementary Agreement (SA5) to the Concession Agreement. WASH-FIN provided capacity support to the Concession Management Unit (CMU) to improve its ability to monitor performance, enforce contractual corrective actions, and resolve blockages to service delivery. WASH-FIN also provided training for six key personnel from the city focused on the management and monitoring of PPPs.

*EG.11-4:* In 2019, WASH-FIN assisted the City of Cape Town (CoCT) and the Development Bank of Southern Africa to apply for ██████████ in Global Climate Fund (GCF) financing for their planned groundwater extraction project. WASH-FIN facilitated a number of meetings between GCF, DBSA, and CoCT and assisted in preparation of supporting documentation for the

application. However, CoCT decided to cancel the application in once it realized that GCF financing is awarded on a “least-concessional possible” basis.

*HL.8.1-3:* WASH-FIN expects that the City of Mbombela water services PPP renegotiations will be completed in 2021 committing both the public and private partners to capital investments that will improve water service delivery to over 80,000 residents.

## I.8 ZAMBIA

**TABLE I.22: ZAMBIA ACTIVITY SNAPSHOT**

<b>Activity Title</b>	<b>Expanding Access to Finance for WASH</b>
<b>Location</b>	Urban areas in Zambia with creditworthy WSPs
<b>Goal</b>	To expand financing for viable water and sanitation service providers aimed at increasing investment in expanded access to or improved service quality of safe water and adequate sanitation.
<b>Objectives</b>	<ol style="list-style-type: none"> <li>1. Technical Assistance to Target Commercial Utilities in Internal Efficiency Gains and Transaction Support</li> <li>2. Facilitate Establishment of the Water Sector Financing Mechanism</li> </ol>
<b>Commencement Date</b>	July 15, 2019
<b>Expected End Date</b>	September 2021
<b>Total Budget</b>	\$2,000,000

### I.8.1 COUNTRY CONTEXT AND OVERVIEW OF YEAR 4 ACTIVITIES

Zambia's long-term vision for the water and sanitation sector is the attainment of access to clean and safe water and sanitation for all by 2030. At the end of 2018, service coverage for water and sanitation services were estimated at 86.4 percent and 63.3 percent respectively. Despite significant funding from development partners, the WASH sector in Zambia still faces a significant financing gap. It is estimated that Zambia requires an average of USD 204 million and USD 190 million per year for water and sanitation respectively between 2018 and 2030. The budget provision is however only approximately USD 50 million, or 25 percent of the annual requirement for water supply. To bridge this financing gap, it is critical for the sector to leverage private financing for large-scale and long-term capital investments.

The goal of WASH-FIN Zambia's 24-month activity is to provide strategic, targeted support to key public WASH actors, primarily Commercial Utilities (CUs), to enable the Zambian WASH sector to optimize the potential contributions of non-traditional finance to provide improved services to populations in urban and peri-urban areas and small towns. During the year under review, WASH-FIN established and built working relationships with the four CUs to be supported by WASH-FIN along with the Ministry of Water Development, Sanitation, and Environmental Protection (MWDSEP). Using the creditworthiness assessment conducted by OCA, WASH-FIN, working in conjunction with the four partner CUs, developed CU specific workplans detailing priority areas for support to each CU.

With support from OCA, WASH-FIN undertook efficiency improvement activities for Nkana Water (Revenue Improvement activity) and Eastern Water (Operating Cost Control Activity). These activities will be finalized in Q1 FY21 with capacity building activities targeting select CU staff. WASH-FIN also initiated an NRW improvement activity aimed at providing support to the MWDSEP, Nkana, Mulonga and Eastern Water and Sanitation Companies. As at end of Q4, WASH-FIN was in the process of finalizing the procurement of a subcontractor to undertake this activity.

During the year under review, WASH-FIN also provided project preparatory support to Lusaka Water for the Lusaka West Water Supply Project (LWWSP). This support included preparation of a preliminary project brief outlining options for the PPP model for the LWWSP. A detailed review of the Zambia PPP Legal and Regulatory framework was also undertaken as part of this support. Support was also provided to Lusaka WSC in the preparation of a business case, which includes an assessment of potential financing options, for the acquisition and installation of new meters.

WASH-FIN continued to engage with the MWDSEP as part of its effort towards supporting the development of a WASH sector financing framework. WASH-FIN, with support from OCA, undertook a Financial Landscape Study aimed at obtaining a clear understanding on how the WASH sector can be more effectively financed with a focus on opportunities to increase funding and finance from external parties. Findings of the Financial Landscape Study will be useful input for consideration as the MWDSEP looks at available options for financing the WASH-sector.

## **I.8.2 PROJECT IMPLEMENTATION UPDATE**

### **CATEGORY I: TECHNICAL ASSISTANCE TO TARGET COMMERCIAL UTILITIES IN INTERNAL EFFICIENCY IMPROVEMENTS AND TRANSACTION SUPPORT**

Category I activities were identified through essentially a two-step process that first involved determining which of the 11 CUs in Zambia would potentially participate in the WASH-FIN program and then pinpointing their potential needs. The initial selection process was centered around the two specific objectives for the Zambia program: (i) transaction support to CUs; and (ii) supporting the establishment of a water sector financing mechanism. Based on these objectives, CU selection criteria considered creditworthiness, size of coverage area, potential ability to access private capital in the near-term, and general interest in participating with WASH-FIN. Institutional risk, existing capacity, and general availability to water resources were also considered.

From this selection process, four CUs—Lusaka Water Service Company (WSC), Nkana WSC, Eastern WSC, and Mulonga WSC were selected to participate in the program during 2019. The next step was to assess the level of creditworthiness for the four CUs, identify the priority areas of support tailored to address the specific needs of each CU, and then to implement these activities during the remainder of the WASH-FIN program. To this end, the technical assistance activities in Category I were intended to either improve the cost structure through the implementation of efficiency improvements and/or the revenue position of the CU, which in turn improve financial performance and improve each CU's respective ability to obtain financing in the future. Although the COVID-19 negatively impacted the financial landscape, Category I activities took on greater importance given the various pressures impacting the WASH sector in Zambia.

#### **Activity I.1: Implement Priority Efficiency Improvements**

##### *1.1.1: Assessment of Creditworthiness*

The creditworthiness assessments were completed in November 2019, with the support of OCA, for the four CUs supported by WASH-FIN—Lusaka, Nkana, Eastern, and Mulonga WSCs. The findings of these assessments were disseminated and discussed with the CUs, which created a basis for discussion for potential support to each WSC. CU specific activity plans were drawn taking into account findings from the creditworthiness assessments as well as detailed discussions with the CUs.

As a follow-up activity, in FY21, WASH-FIN will administer financial stress test analyses to evaluate the impact of the COVID-19 pandemic on the financial performance of Lusaka, Nkana, Eastern, and Mulonga WSCs. The stress tests will be conducted using a financial assessment tool modified by WASH-FIN from a World Bank model that examines the impact on revenue collection and operational costs since the start of the pandemic.

##### *1.1.2: Identification of Priority Areas of Support*

Identification and prioritization of support areas for the CUs was completed in March 2020, after which WASH-FIN Zambia focused on implementing the identified priority activities for the CUs. These are outlined below for each CU:

## **Nkana Water (NWSC)**

- *Revenue Collection:* The revenue collection improvement activity kicked off in May 2020 and a detailed Revenue Improvement Plan has been drawn up and will be finalized in Q1FY21 followed by capacity building activities for select CU staff. It is envisaged that Nkana WSC will begin the implementation of identified actions within Q1FY21. Despite a relatively high metering rate of 85 percent, Nkana WSC continues to record a high non-revenue water rate of about 46 percent (2018 and 2019). It is envisaged that this activity will be used to inform the NRW study for the three CUs, identify gaps in Nkana WSC's billing and collection activities, and highlight the importance of customer outreach in improving bill payment.
- *Customer and Stakeholder Management:* The objective of this assignment is to undertake a needs assessment for community awareness and identify potential gaps, to examine the primary concerns of customers and community representatives within Nkana WSC's service area, and to design a customer sensitization program to address these concerns. USAID approval to engage a WASH Customer Sensitization Specialist was received in late June, following submittal in late April, and the activity kicked off in August 2020.

## **Mulonga Water (MWSC)**

- None of the identified support activities for Mulonga WSC were initiated due to failure of the CU to provide required data and information despite several follow-ups from WASH-FIN. WASH-FIN will continue to follow-up with MWSC in FY21.

## **Eastern Water (EWSC)**

- *Operating Cost Control:* The activity kicked off in May 2020 and is aimed at Supporting Eastern WSC to sustainably reduce its operating costs. A report with preliminary findings from the data collection activities with Eastern WSC was delivered to WASH-FIN by a short-term technical consultant for review and finalization. Capacity building activities for select CU staff will be undertaken within Q1FY21 after which WASH-FIN expects that EWSC will commence implementation of the identified cost reduction activities.

## **Lusaka Water (LWSC)**

- *Meter Financing:* The SOW for a Meter Finance Advisor to assist LWSC was developed and it was determined that the International Water Finance Advisor already engaged in supporting LWSC on the development of the Lusaka West Water Supply Project was best suited to the delivery of these services as well. A request to increase the International Finance Advisor's scope was approved and the Advisor has been supporting LWSC with the preparation of a metering PPP project business case. The Metering PPP project is aimed at fast tracking the implementation of LWSC's metering strategy developed in March 2020. This assignment has commenced with an initial draft business case prepared in August 2020.

## **NRW Reduction (Mulonga, Nkana and Eastern Water)**

- The objective of this task is to assist three Zambian CUs, namely Nkana, Eastern, and Mulonga Water and Sanitation Companies develop NRW policies and strategies aimed at reducing NRW from their current levels to acceptable levels—25 percent for each CU by the year 2035. By reducing NRW, this activity is also expected to increase revenue collection and strengthen the overall financial strength of the CUs. WASH-FIN finalized procurement of a subcontractor and submitted to USAID for approval in FY20. Kick-off is anticipated during Q1FY21 once USAID approval is granted

## **Activity 1.2: Project Preparation Support for CUs**

### *1.2.1: Identification of Project Preparation Opportunities*

WASH-FIN is working with Nkana, Mulonga, Eastern, and Lusaka WSCs to identify opportunities that may require project preparation support. CUs were requested to provide WASH-FIN with a prioritized list of potential projects supported by project concept notes. A preliminary list of potential projects for each CU was generated based on utility creditworthiness, project viability, and implementation capacity.

### *1.2.2: Project Preparation Support*

#### **Lusaka West Water Supply Project (LWWSP)**

During the year, WASH-FIN engaged an International Water Finance Advisor to evaluate the efforts undertaken to date to develop the LWWSP as a potential PPP, provide an expert opinion on its potential financial and technical feasibility, and propose next steps for WASH-FIN's engagement on this opportunity. The Advisor continued to provide project preparation support to LWSC on the LWWSP and participated in several planning and coordination meetings with partners supporting the LWWSP including the Department for International Development–UK, GIZ, Cities and Infrastructure for Growth-Zambia (CIG-Zambia), and *Bundesanstalt für Geowissenschaften und Rohstoffe* (BGR).

In April 2020, the group of partners assigned roles for the LWWSP regarding the coordination of project workstreams. CIG-Zambia and BGR agreed to undertake the project preparation studies while WASH-FIN agreed to review Zambia's PPP Legal and Institutional Framework, regarding the feasibility of developing this project under the existing framework. WASH-FIN also agreed to prepare a business case incorporating a financial model of the proposed PPP model for the LWWSP. The PPP legal and institutional framework review was completed by WASH-FIN's International Water Finance Advisor in June and has been shared with the partners. Work on the business case by the Advisor will review and integrate the output from the feasibility studies prepared by CIG and BGR.

## **Activity 1.3: Transaction Facilitation for CUs**

WASH-FIN will provide transaction facilitation support to CUs for viable project opportunities to enable the CUs to pursue financing for actionable investment opportunities. Support in this regard will include the development of financing models, a business case, and draft procurement documents.

### *1.3.1: Meter Finance Proposal for LWSC:*

LWSC requested WASH-FIN Zambia's support in the preparation of a metering PPP aimed at fast tracking implementation of its metering strategy developed in March 2020. LWSC has over 110,000 registered connections and only 71,500 connections are metered, representing a metering ratio of 65 percent. This is considerably below the National Water Supply and Sanitation Councils benchmark for metering ratio of 100 percent. The company also faces a problem of high NRW, currently at 48 percent, compared to a desired benchmark of 25 percent. A major contributor to the high non-revenue water level is the unmetered connections. WASH-FIN engaged its existing International Finance Advisor to provide support to LWSC.

## **CATEGORY 2: FACILITATE DEVELOPMENT OF WATER SECTOR FINANCING FRAMEWORK**

WASH-FIN seeks to support the Government of the Republic of Zambia to advance the development of a comprehensive financing framework for the water and sanitation sector, building upon previous sector efforts summarized in the 'Final Water Sector Sustainable Financing Mechanism' report delivered in 2017. During Q3, WASH-FIN continued to engage the MWDSEP to determine its needs for support at the national level.

### **Activity 2.1: Undertake a Financial Landscape Study**

WASH-FIN completed a draft Financial Landscape Study in Q4FY20. Based on the feedback received, the initial draft included a broader assessment of the potential supply of capital for the WASH sector, including the potential role of non-banking sector entities, such as pension funds and micro-finance institutions. The financial landscape study is expected to be finalized in October 2020. Findings from the Financial Landscape Study will form useful inputs in the continued development of the water sector financing framework and mechanism.

### **Activity 2.2: Facilitate Policy Dialogue and Stakeholder Consultation**

WASH-FIN held consultations with the MWDSEP during the year around potential policy activities within the sector. However, this activity could not progress due to the COVID situation and the need for internal discussions with MWDSEP. Pending internal consultations within the MWDSEP, WASH-FIN stakeholder consultations are expected to recommence during Q1FY21.

### **Activity 2.3: Support the Development of a Comprehensive Sector Financing Framework**

WASH-FIN proposes to undertake a study seeking to advance the development of a comprehensive financing framework as detailed under activity 2.1, which is also intended to provide a road map for implementation. A consultant is to be procured to undertake this study, requiring the development of a Scope of Work based on the outputs generated from Activities 2.1 and 2.2. The potential extent of the development of this financing framework will need to be further evaluated to determine sector interest, WASH-FIN's ability to encourage and chart tangible progress and competing demands on its time and resources.

### **Activity 2.4: Validate Financing Framework**

WASH-FIN proposes to host a validation workshop allowing for the vetting of the financing framework or components thereof developed, to demonstrate its potential applicability, and for the incorporation of comments drawn from stakeholders. This process entails gathering stakeholders that participated in the initial activities to discuss the way forward for local ownership and sustainability of the framework. WASH-FIN will be careful to structure this workshop as a forum for dialogue and will avoid creating the perception that this occasion is designed to result in major decision-making.

## **I.8.3 REFLECTIONS ON IMPLEMENTATION**

After a lockdown that lasted approximately 2 months which included the closure of schools and international borders, the Government of Zambia has gradually re-opened economic and educational activities in the country. Despite its difficult fiscal and debt position, part of the support to Zambia's economy included an 8 billion kwacha (USD 439 million) stimulus package through the issuance of a bond. However, the Government's financial position remains extremely precarious due to concerns relating to the potential default of its outstanding international loans and the suspension of payments on debt service for a period of six months. As a result, Fitch downgraded Zambia's credit rating from CC to C on September 24, 2020. This challenging situation greatly reduces the government's fiscal space and potential support to the WASH sector.

Initial discussions and information collected from the WASH-FIN partner CUs is that the COVID-19 pandemic has significantly impacted the financial performance of water and sanitation service providers in Zambia. The Government of Zambia's mandate to suspend the disconnection of customer accounts in arrears along with decreased economic activity has impacted revenue collection. For example, Nkana WSC reported that collection efficiency dropped below 50 percent, due in part to the closure of Copperbelt University. Although the CUs were largely unable to benefit from the economic stimulus package due to high levels of existing debt, the Government was able to broker an agreement with the



Zambia Electricity Supply Corporation (ZESCO) to delay or restructure liabilities owned by CUs. CUs have also been working with financing institutions to extend debt repayment. To better assess the financial impact of COVID-19, WASH-FIN is supporting the preparation of financial stress tests which commenced in September 2020. Data has been collected for two of four CUs and initial results are expected in late October or early November 2020.

#### 1.8.4 DELIVERY PROGRESS SUMMARY

Table 1.23 below summarizes Zambia activities, their expected timelines and results, and an update on their completion during Year 4.

**TABLE 1.23: ZAMBIA DELIVERY PROGRESS SUMMARY**

Zambia Activities	Expected Results	Year 4 Status Update
Activity 1.1.1: Assessment of Creditworthiness	<ul style="list-style-type: none"> <li>Creditworthiness assessments for targeted CUs completed (pending receipt of audited financials).</li> </ul>	<ul style="list-style-type: none"> <li>This activity was concluded in Q1FY20.</li> </ul>
1.1.2: Identification of Priority Areas of Support	<ul style="list-style-type: none"> <li>Priority areas of engagement identified</li> <li>Activities commenced to address priority initiatives for internal efficiency gains with at least three CUs.</li> </ul>	<ul style="list-style-type: none"> <li>This activity was concluded in Q2FY20.</li> </ul>
Activity 1.2.1: Identification of Project Preparation Opportunities	<ul style="list-style-type: none"> <li>Opportunities for potential transaction support identified with at least two CUs</li> <li>Project preparation support scope of work developed for one to two opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>List of potential projects obtained from the CUs.</li> </ul>
Activity 1.2.2: Project Preparation Support	<ul style="list-style-type: none"> <li>Business Case for LWWSP prepared.</li> </ul>	<ul style="list-style-type: none"> <li>A project brief was prepared and shared with partners.</li> <li>A detail analysis of the Zambia PPP Legislation and Regulation was undertaken, and a report shared with the Lusaka WSC and other relevant stakeholders.</li> <li>A complete business case for the project will be prepared once output from feasibility studies being conducted by partners is available to WASH-FIN.</li> </ul>
Activity 1.3: Transaction Facilitation for CUs	<ul style="list-style-type: none"> <li>Business Case for Metering Finance PPP prepared.</li> <li>Draft Procurement Plan and Documents prepared.</li> </ul>	<ul style="list-style-type: none"> <li>This activity is ongoing. So far, an analysis of financing options was undertaken, and a potential model option identified.</li> </ul>
Activity 2.1: Undertake a financial landscape study	<ul style="list-style-type: none"> <li>Financial landscape report delivered</li> </ul>	<ul style="list-style-type: none"> <li>This activity is ongoing and will be finalized in Q1FY21. A presentation to be scheduled to discuss findings with stakeholders.</li> </ul>
Activity 2.2: Facilitate Policy Dialogue and Stakeholder Consultation	<ul style="list-style-type: none"> <li>Scope of works developed for consultancy services to undertake a study to develop WASH sector financing framework.</li> </ul>	<ul style="list-style-type: none"> <li>Activity planned for Q1FY21.</li> </ul>
Activity 2.3: Support the Development of a Comprehensive Financing Framework	<ul style="list-style-type: none"> <li>WASH sector financing framework, or components thereof, developed.</li> </ul>	<ul style="list-style-type: none"> <li>Activity planned for FY21.</li> </ul>

Zambia Activities	Expected Results	Year 4 Status Update
Activity 2.4: Validate Financing Framework	<ul style="list-style-type: none"> <li>Validation of proposed framework and establishment of next steps for subsequent ownership.</li> </ul>	<ul style="list-style-type: none"> <li>Activity Planned for FY21.</li> </ul>

### I.8.5 PERFORMANCE INDICATOR TARGETS AND RESULTS

Table I.24 below reports on WASH-FIN Zambia's Year 4 and cumulative results against targets established in WASH-FIN's Year 4 M&E Plan for four project indicators.

**TABLE I.24: ZAMBIA YR 4 PERFORMANCE INDICATOR TARGETS AND RESULTS**

WASH-FIN Indicators	LOP Targets (YR 4 MEP)	Previous Years Achievements	Year 4 Achievements	Cumulative Achievement to Date
HL.8.4-1 Value of new funding mobilized to the water and sanitation sectors as a result of USG assistance	\$5,000,000	0	0	0
HL.8.3-3 Number of water and sanitation sector institutions strengthened to manage water resources or improve water supply and sanitation services as a result of USG assistance (Indicator Definition Customized)	3 Nkana WSS company; Eastern WSS company; Nkana, Mulonga and Eastern WSS companies	0	0	0
EG.11-4 Amount of investment mobilized (in US\$) for climate change adaptation as supported by USG assistance	\$2,000,000	0	0	0
HL.8.1-3 Number of people receiving improved service quality from an existing basic or safely managed drinking water service as a result of USG assistance	10,000	0	0	0

*HL.8.3-3:* Nkana Water and Sewerage Company, Eastern Water and Sewerage Company, Mulonga Water and Sewerage Company, are targeted for WASH-FIN Zambia technical assistance.

*HL.8.4-1:* During the year under review, WASH-FIN made progress towards mobilization of funds. Efforts were mainly targeted and assisting LWSC with project preparation for the Lusaka West Water Supply Project (LWWSP) and transaction advisory services for Meter Financing. A project brief for the LWWSP and a detail analysis of the Zambia PPP Legislation and Regulation were prepared as part of WASH-FIN's efforts towards project preparation support. A complete business case for the project to be used for solicitation of potential developers will be prepared once output from feasibility studies being conducted by partners is available to WASH-FIN. WASH-FIN also undertook an analysis of financing options and identified a potential model to be used for the meter financing project. It is envisaged that during Y5, WASH-FIN will assist LWSC to solicit for potential financiers and provide transaction facilitation support to LWSC.

*HL.8.3-3:* Lusaka Water and Sanitation Company, Mulonga Water and Sewerage Company, Nkana Water and Sewerage Company, and Eastern Water and Sewerage Company are targeted for WASH-FIN Zambia technical assistance. During the Year under review, WASH-FIN undertook specific activities targeted at assisting 2 partner CUs address some identified operational weaknesses. These activities

include the Revenue Collection Improvement Activity (NWSC), Customer Sensitization Activity (NWSC), and an Operating Cost Control Activity for EWSC.

*EG.11-4:* During the year under review, WASH-FIN identified NRW reduction as being key to CU sustainability and enhancement of climate change resilience. WASH-FIN plans to support Mulonga, Nkana and Eastern Water Supply and Sanitation Companies with a NRW reduction activity. The NRW activity is aimed at supporting the three CUs with development of NRW Policies and Strategies that are aimed at reducing NRW from their current levels to acceptable levels of 25 percent for each CU by the year 2035 thereby increasing internal revenues and consequently strengthening the CU's financial position. Subcontractor procurement was concluded during the year and is pending approval by USAID.

*HL.8.1-3:* No progress was recorded towards attainment of this indicator during the year. It is however, envisaged that activities earmarked for implementation in the Y5 workplan will lead to attainment of the set target.

## 2.0 KNOWLEDGE MANAGEMENT

WASH-FIN has made strides in the development and dissemination of practical applications and lessons learned in Year 4, particularly in support of COVID-19 pandemic research and response efforts. In its fourth year, WASH-FIN continued to foster the replication of best practices at the country and global level on subjects including creditworthiness assessments, the promotion of business planning, and reforms to improve customer service and increase revenue for utilities. COVID-19 related knowledge management efforts, as they were outside of the scope of Year 4 Work Plans, were agreed upon with USAID and remained responsive to the needs of local Missions and partners. During Year 4, WASH-FIN knowledge management activities can be grouped under the following categories: (1) development of knowledge products; (2) support for USAID strategies; and (3) provision of thought leadership at WASH events.

### 2.1 DEVELOP SUITE OF KNOWLEDGE PRODUCTS

In Year 4, WASH-FIN has focused on capturing lessons learned at the global level as well as from country programs. As part of this, WASH-FIN agreed with its Contracting Officer's Representative (COR) to develop a suite of case studies for each of the country programs (one per country) as well as a series of technical briefs (topics are identified in consultation with WASH-FIN technical backstops and Country Team Leaders), all of which shall be produced and submitted to USAID on an ongoing basis, as part of the final knowledge management deliverables. WASH-FIN knowledge products include case studies (including country case studies), technical briefs, policy briefs, technical reports, blogs, and factsheets. Knowledge Management products developed this year are detailed below.

#### 2.1.1 Case Studies

**Draft case studies for Kenya, Senegal, and Southern Africa:** WASH-FIN's country case studies provide summary information on the country activity with a focus on the lessons learned through the activity and their applicability across the country, USAID, and the global water and sanitation sector. During Q4FY20, WASH-FIN submitted draft case studies for Kenya, Senegal, and Southern Africa to USAID for feedback. The final revised case studies are expected to be completed and posted on the GlobalWaters.org microsite by early November.

**Cape Town Case Study on customer service reform:** In March 2020, WASH-FIN finalized a Case Study on customer service reform for water and sanitation service providers which was published on the GlobalWaters.org microsite<sup>22</sup>. This case study illustrates the lessons learned from the City of Cape Town's post water-crisis reform experiences. Further details are included in the Success Story appendix.

#### 2.1.2 Factsheets

##### *Mozambique COVID-19 Factsheet*

WASH-FIN Mozambique produced a factsheet for AURA for distribution to public and private water supply services providers (FPAs). The factsheet includes guidelines on safe operations and services continuity under COVID-19 pandemic conditions.

##### *Country and Global Factsheets*

WASH-FIN developed two-page country activity profiles to provide concise summaries of country-level priority areas to in-country sector stakeholders and development partners to encourage partnership

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<sup>22</sup> <https://www.globalwaters.org/resources/assets/wash-fin/customer-service-reform-water-and-sanitation-service-providers-cape-town>

and coordination. Six country factsheets were published on GlobalWaters.org in Year 3 and the remaining two (Zambia and Mozambique) await USAID approval and publication<sup>23</sup>. Going into Year 5, as Case Studies are published they will become the premier document of reference for WASH-FIN's country activities.

### **2.1.3 Technical Briefs**

WASH-FIN's technical briefs offer a concise overview of specific WASH finance technical issues. In Year 4, WASH-FIN prepared an initial draft for a technical brief on emerging sanitation market technologies in Senegal and Kenya. The technical brief is expected to be revised and submitted to USAID for review in Q1FY21.

**COVID-19 Technical Briefs:** WASH-FIN focused the majority of its efforts however related to technical briefs on COVID-19 related content. In Kenya, in partnership with WASREB, WASH-FIN produced four technical briefs on the following topics related to the effect of the COVID-19 pandemic on water service providers (WSPs).

#### ***Water Treatment Chemicals Supply Chain in Kenya***

The prevention and containment of COVID-19 requires provision of adequate water supplies to enable hygienic practices, including hand washing. Consequently, the Kenyan government has declared water supply a public health necessity and directed public WSPs to ensure uninterrupted supply to all consumers. During the government directed lockdown, availability of water treatment chemicals could become a challenge if the supply chain is not kept running. To assess how this is progressing, WASH-FIN undertook a rapid assessment of suppliers and WSPs to get a sense of the status of the water treatment chemicals supply chain in the country.

#### ***Rethinking the Role of Water Services Providers in Informal Settlements***

This brief shares the experience of Kenyan WSPs in providing water services to informal settlements following the government's directive to WSPs to ensure continuous and accessible supply of water and hygiene services. The update is based on an assessment of five WSPs conducted in May 2020. The assessment shows the critical roles being played by the WSPs and proposes possible actions to ensure continued supply during the pandemic. It also focuses on identifying more long-term solutions that can better position the WSPs and the country to move away from protracted emergency response mode towards more sustainable outcomes.

#### ***Electricity Costs for Water Service Provider***

Due to the COVID-19 pandemic, revenue collection by WSPs dropped by 50 percent or more of pre-pandemic levels, limiting WSPs' ability to pay for key inputs such as electricity. Raw water requires treatment and eventually conveyance before being delivered to users. In this energy-intensive process, electricity is needed to operate pumps and other water treatment equipment. Electricity

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<sup>23</sup> Published on GlobalWaters.org at [https://www.globalwaters.org/WASH-FIN/water-sanitation-and-hygiene-finance-wash-fin-resources?percent5B0percent5D=resource\\_type\\_collections\\_percent3A1301](https://www.globalwaters.org/WASH-FIN/water-sanitation-and-hygiene-finance-wash-fin-resources?percent5B0percent5D=resource_type_collections_percent3A1301)

accounts for 30-45 percent of the total operational cost for all WSPs in Kenya. This brief assesses how WSPs are managing their electricity bills in the face of declining revenue and how this is impacting their operational efficiencies. The brief explores if there are ways in which the electricity bills can be better managed at present and in the future.

#### *COVID-19 Financial Stress Testing for Water Service Providers*

WASH-FIN Kenya also produced a technical brief on Water Service Provider COVID-19 Financial Stress Testing and Mitigation<sup>24</sup>. During the COVID-19 pandemic, the National Emergency Response Committee in Kenya directed WSPs to ensure that all Kenyans had access to water and handwashing facilities. Key in this directive was the requirement that water should be provided for free in informal settlements and public places, disconnected customers would be reconnected, and no disconnections for non-payment of bills would be carried out during the pandemic. This technical brief discusses how the directive has amplified the financial effects of the pandemic on WSPs. Based on consultations with three WSPs, WASH-FIN found that COVID-19 has increased financial stress mainly due to undertaking new tasks they were not performing prior to the pandemic, while also facing a sharp decline in revenue collection.

#### **2.1.4 Blogs**

##### **The Role of Business Plans in Accessing Finance:**

WASH-FIN's blog entitled *How Business Plans Can Help Water Utilities Reach Universal WASH Access* was published on the Global Waters microsite in August 2020<sup>25</sup>. This blog expanded on the Nepal Surkhet Valley Water Supply Users' Organization (SVWSUO) experience to include a discussion of the Kenya activity's development of business planning guidelines with the regulator WASREB and also made the connection to the importance of business planning to boost capital grant eligibility in the Philippines.



#### **2.1.5 Medium Story**

**COVID-19 and the Looming Financial Crisis for Water Utilities:** In response to discussions with USAID in Year 4, WASH-FIN has diversified its web content offerings to include feature stories for the Global Waters Medium platform in efforts to reach a wider audience and garner more exposure and dissemination for its web content. WASH-FIN published a feature story on Medium in July 2020 on COVID-19 and the Looming Financial Crisis for Water Utilities.<sup>26</sup> The piece was developed in collaboration with WASH-FIN's COR as well as the USAID Kenya, Philippines, and Indonesia Missions. The story was very well received for its timely topic and its efforts to showcase USAID leadership and initiative in helping national governments and the WASH sector withstand the COVID-19 pandemic. See Box 4 below for further details.

<sup>24</sup> Brief found at [https://www.globalwaters.org/sites/default/files/wash-fin\\_wsp\\_covid-19\\_stress\\_testing\\_report\\_final\\_7-7-20.pdf](https://www.globalwaters.org/sites/default/files/wash-fin_wsp_covid-19_stress_testing_report_final_7-7-20.pdf)

<sup>25</sup> <https://www.globalwaters.org/resources/blogs/how-business-plans-can-help-water-utilities-reach-universal-water-sanitation-and>

<sup>26</sup> <https://medium.com/usaid-global-waters/covid-19-and-the-looming-financial-crisis-for-water-utilities-fl7584e2ac6a>



#### Box 4: Medium Story: COVID-19 and the Looming Financial Crisis for Water Utilities



Water, sanitation, and hygiene (WASH) is the first line of defense against the spread of COVID-19. Safe WASH practices can help stop human-to-human transfer of the virus at the household- and community-level. Recognizing the crucial role of WASH services during a pandemic, national and county governments, especially in low- and middle-income countries, have deemed WASH as essential services and have directed water utilities to ensure uninterrupted supply to all consumers, regardless of their ability to pay.

While important for public health, this directive can compromise the financial health of utilities over the long-term. As a result of the COVID-19 pandemic, water utilities are caught in a perfect storm of declining revenue coupled with rising costs.

For example, in Kenya, the government's directive to water service providers (WSPs) includes the following requirements: water should be provided for free in informal settlements and public places, disconnected customers should be reconnected, and no disconnections for nonpayment of bills should be carried out during the pandemic. In addition, WSPs also have to comply with social distancing guidelines and use personal protective equipment and other infection control measures. While these directives serve important public health needs, they also amplify the economic effects of the COVID-19 pandemic on water utilities. WSPs, which rely on fees from customer tariffs, new connections, and reconnections to cover their operations and maintenance costs, stand to incur huge losses in revenue from these directives. This sharp decline in revenue collection, combined with the cost of COVID-19-related compliance, increases the financial stress on utilities. Based on Kenyan Water Services Regulatory Board projections of the primary financial impact of COVID-19 on two large WSPs, USAID estimates that collection efficiency will fall to 50 percent in a best-case scenario. The worst-case projection sees this number falling to 20 percent. When expenditure changes are required to meet the directive of providing free water, the worst-case scenario predicts a two-fold increase compared to pre-COVID-19 monthly expenditures.

This feature story highlights the importance of providing support to WSPs to ensure continuity of services, which enable communities to maintain access to WASH in the midst of the COVID-19 pandemic. This is a crucial pillar of USAID's response to COVID-19 and a part of the Agency's larger framework of short- and long-term recovery and resilience. The story highlights examples of USAID and its partner initiatives—ranging from financial stress testing of WSPs in Kenya (USAID's WASH-FIN Project) and financial stress testing of WSPs in Indonesia (USAID's IUWASH PLUS Project) using the World Bank's COVID-19 Financial Impact Assessment Tool for Water and Sanitation Providers; conducting rapid assessment of the impacts of COVID-19 on WSPs and business continuity planning in the Philippines (USAID's SURGE Project); and offering short-term operating cost subsidies to private water providers in Mozambique.

View full story in [USAID Global Waters on Medium](#).

*A water service provider marketer gets customer feedback from a residential caretaker. Photo credit: Rose Odengo, WASH-FIN*

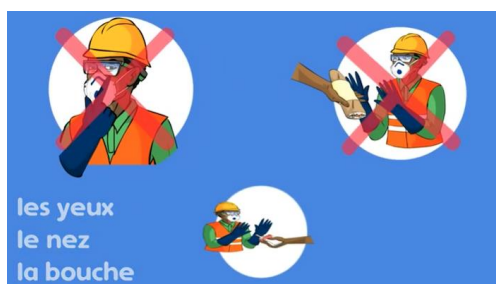


### 2.1.6 E-Newsletter

In July 2020, WASH-FIN Senegal launched its first e-newsletter. “Xibaar” (which means news in Wolof, the Senegal national dialect) is a quarterly newsletter aimed at highlighting major activities, successes and events of the WASH-FIN Senegal country activity.<sup>27</sup> The newsletter is designed to enable WASH-FIN to regularly communicate with partners about achievements in Senegal and maintain strong stakeholder relationships. The first issue of the newsletter has received a very positive reception from the USAID Senegal Mission and local WASH-FIN Senegal stakeholders and partners. Production of the second issue of the newsletter has commenced and it is expected to be published in October.



### 2.1.7 COVID-19 Videos in Senegal



As part of efforts to raise awareness about COVID-19 safety and mitigation amongst Sanitation Service Providers (SSPs), WASH-FIN Senegal produced two animated videos on safe sanitation practices and encouraging the use of mobile money<sup>28</sup>. The videos were disseminated through USAID Senegal’s YouTube Channel as well as their Facebook page.

## 2.2 SUPPORT USAID STRATEGIES AND INITIATIVES

### 2.2.1 Webinar: Financial Impact Assessment of COVID-19 on Water Service Providers

**Financial Assessment Tool Presented to 50 Stakeholders:** WASH-FIN hosted a webinar for partner service providers on the technical aspects involved in conducting a financial stress test for water utilities. The webinar, held on August 12, 2020, hosted over 50 participants including from other USAID-funded projects and Missions. WASH-FIN discussed the objectives, inputs, key assumptions and the outputs generated from its financial assessment tool, (adapted from a model originally developed by the World Bank), to evaluate the financial impacts of COVID-19 in the WASH sector. The webinar covered the following topics: challenges of WSPs and the importance of stress tests for evaluating the financial impact of COVID-19; main functions, inputs and outputs of the financial assessment tool; and lessons from WASH-FIN’s experience conducting stress tests for a limited number of WSPs in Kenya as well as ongoing efforts.

### 2.2.2 USAID Global Water and Development Report

WASH-FIN’s efforts in the Philippines were highlighted in the USAID Global Water and Development Report for FY 2018–2019, published on October 8, 2020<sup>29</sup>.

<sup>27</sup> Newsletter may be found at [https://drive.google.com/file/d/1tjX5judvP5VUB0bPV\\_3qperHk09OOiQr/view](https://drive.google.com/file/d/1tjX5judvP5VUB0bPV_3qperHk09OOiQr/view)

<sup>28</sup> [https://www.youtube.com/watch?v=gBR6QyBs38Q&feature=emb\\_logo](https://www.youtube.com/watch?v=gBR6QyBs38Q&feature=emb_logo) and [https://www.youtube.com/watch?v=c-t-L5ltRjE&feature=emb\\_title](https://www.youtube.com/watch?v=c-t-L5ltRjE&feature=emb_title)

<sup>29</sup> [https://www.globalwaters.org/resources/assets/usaids-global-water-and-development-report-fy-2018-2019?utm\\_source=Global+Waters%2C+Water+Currents%2C+%26+Events&utm\\_campaign=480d36f024-annual\\_report\\_fy201819&utm\\_medium=email&utm\\_term=0\\_fae9f9ae2b-480d36f024-82065951](https://www.globalwaters.org/resources/assets/usaids-global-water-and-development-report-fy-2018-2019?utm_source=Global+Waters%2C+Water+Currents%2C+%26+Events&utm_campaign=480d36f024-annual_report_fy201819&utm_medium=email&utm_term=0_fae9f9ae2b-480d36f024-82065951)

## 2.3 PROVIDE THOUGHT LEADERSHIP AT LEARNING EVENTS

### 2.3.1 Water Research Commission Webinar

**COVID-19 and Unequal Access to Water and Sanitation in South Africa:** WASH-FIN's Senior WASH Governance Advisor participated in a webinar entitled *Water and Sanitation: Learning and Looking Beyond the COVID-19 Crisis* organized by the Water Research Commission. The webinar, held May 22, 2020, explored the relationship between the COVID-19 pandemic and unequal access to water and sanitation in South Africa. The pandemic underscores the need to transition to more sustainable WASH solutions and services, and the need for urgent action. Lack of access and/or unequal access to water and sanitation services prevent households and communities from undertaking strict hygiene measures to avoid infection and the spread of the disease. As South Africa responds to COVID-19 and aims to stimulate the economy post-lockdown, an opportunity also exists to address WASH challenges in the country in a more sustainable manner.

The webinar discussed the need to be forward looking and outline the key water and sanitation-related initiatives that are critical to supporting South Africa's socio-economic recovery. In her presentation, WASH-FIN's Senior Governance Adviser noted that the sector suffers from a large investment gap and inadequate WASH systems. Drawing on WASH-FIN experience in its eight countries of operation, her presentation discussed options for utility reform in terms of progress towards cost coverage and potential for private and blended financing. The presentation outlined the added stress on the WASH sector from the COVID-19 pandemic in the form of financial fragility, disrupted supply chains, and institutional shortcomings.

### 2.3.2 Africa Water Association 2020 International Congress

WASH-FIN's Chief of Party (COP), the Senior WASH Governance Advisor (Sr. WGA), and Country Team Leaders for Kenya, Mozambique and Zambia participated in the Africa Water Association (AfWA) 2020 International Congress held February 22-28, in Kampala, Uganda. The COP and Sr. WGA participated as panelists on different sessions, including on WASH governance hosted by USAID's E-WASH (Nigeria) Project; enhancing finance for SDG 6 hosted by African Development Bank; and a session on the role of finance in enhancing onsite sanitation services hosted by the Pan African Sanitation Actors.

### 2.3.3 OECD Roundtable on Blended Finance

WASH-FIN participated in the OECD/African Development Bank Roundtable on Blended Finance held from November 26-27, 2019 in the Asian Development Bank Headquarters in Manila, Philippines. WASH-FIN's Deputy Chief of Party attended as well as staff from Nepal, Cambodia and the Philippines. In addition, WASH-FIN shared lessons learned from private water operators through the participation of a senior technical advisor from the Cambodian Water Association. USAID (WASH-FIN's COR) and EPA (Environmental Protection Agency) representatives also participated in the forum.

### 2.3.4 Water Resilient Cities: Water as an Enabler for Economic Development in Cities

WASH-FIN's Country Team Leaders for Southern Africa and the Philippines attended the Water Resilient Cities learning event "Water as a Strategic Enabler for Economic Development in Cities" held November 4-5, 2019, in Port Elizabeth, South Africa. The learning event is the third of the series sponsored by the South African Local Government Association, South African Cities Network, GIZ's Nature Resources Stewardship Program, WASH-FIN and Water Resources Group 2030. WASH-FIN included presentations on the Philippines' experience on economic regulatory reform and the development of a comprehensive financing policy, the UFF, for WSS services.

### 2.3.5 Kigali Global Gender Summit

WASH-FIN's Senior Governance Advisor spoke at the Global Gender Summit, held November 25-27, 2019 in Kigali, Rwanda, on the link between new sanitation technologies, climate financing, and women's empowerment. Box 5 has more details on the technical discussions held around these issues.

#### **Box 5: Catalyzing the nexus between gender, energy and water: Starting the conversation at the Kigali Global Gender Summit**

Over the past decade, several innovative technologies to reuse fecal waste in more climate friendly ways have been developed and are being tested across the globe. In Africa, there are at least 5 different technologies being tested focused on converting waste into either organic fertilizer, energy (pellets and electricity), water or stock-feed (see for instance Omniprocessor in Senegal, Sanivation and Sanergy in Kenya, and Black Soldier Fly project in South Africa). These technologies could potentially empower women as workers and entrepreneurs, thereby adding to the number of women employed in the water and sanitation sector, presently estimated by the World Bank (2019) as making up only 18 percent of the total workforce in water utilities.

To achieve this, it is necessary to define policies and deliberate measures to ensure that women can benefit from and more importantly play a role in the development of these technologies and thereby contribute to creation of climate friendly and resilient cities. This topic formed part of the discussion at the Global Gender Summit held November 25-27, 2019, in Kigali, Rwanda. A session entitled *Catalyzing the Nexus between Gender, Energy and Water*, co-convened by the African Development Bank, USAID (WASH-FIN and Power Africa), Hivo and Energia, focused on examining how to engender/deepen women's participation in energy and WASH. Using examples from work being undertaken by Sanivation and Sanergy in Kenya, WASH-FIN addressed the link between new sanitation technologies, climate change and women's empowerment. Key conclusions from this discussion were that these technologies can contribute significantly to providing privacy, security and economic empowerment for women. However, it is necessary to focus on and budget for behavior and attitudinal changes in order to promote reuse of fecal matter which is largely seen as taboo. Furthermore, there is need to build a strong social and business case to attract both public and private financing to scale up and move these technologies beyond pilot programs.

Finally, it is also important to think strategically on how to bring together gender and climate financing. On this last point, it is encouraging to note that the African Development Bank launched the *Affirmative Finance Action for Women in Africa - AFAWA* - a pan-African initiative to bridge the \$42 billion financing gap facing women in Africa. Such initiatives provide an opportunity to unite climate, gender, and financing as they can empower women to start or strengthen sanitation and water businesses. Programs like AFAWA can reinforce efforts from projects like WASH-FIN, which also work towards leveraging sustainable local financing.

## 3.0 ON-DEMAND ACTIVITIES

WASH-FIN created the on-demand category of activities in Year 2 in response to requests for support from USAID Washington and global Missions to relevant WASH finance activities in countries where WASH-FIN does not have a physical presence.

### **Blended Revolving Fund – Dominican Republic**

This on-demand activity started in the form of a proposal received from sub-contractor SEGURA Consulting related to a potential activity to support the Dominican Republic in establishing a Blended Revolving Fund for rural water supply. Following discussions with the USAID COR and the local Mission, a draft activity outline and budget were presented and a Request for Approval (RFA) was submitted to undertake a scoping mission. Due to administrative delays in receiving an approval, the scoping mission had yet to be approved by the time the COVID-19 pandemic was declared and the scoping mission was postponed. The RFA was approved at the end of Q3FY20, after which WASH-FIN conducted virtual meetings with stakeholders. Initial calls were held with the US International Development Finance Corporation, but following recent elections in the DR, it was necessary to hold off on consultations with the government until US Government officials conducted their outreach to the new administration which is expected to conclude in Q1FY21. Scoping proceeded with non-government stakeholders and reviews of related reports received from USAID/DR and development partners.

### **World Bank – COVID-19 Financial Assessment Tool**

In Q3FY20, WASH-FIN began discussions with the World Bank regarding the Bank's COVID-19 Financial Assessment Tool. WASH-FIN was already beginning to work with the tool to “Stress Test” WSPs in Kenya and considering it for other countries. WASH-FIN was requested to undertake a formal review of the Tool and provide feedback to the World Bank as part of the peer review process. WASH-FIN feedback was well received, and in Q4FY20 WASH-FIN organized a webinar on using the World Bank Financial Assessment Tool with water service providers. The nearly 50 participants included USAID Missions, USAID projects, and implementing partners from approximately half a dozen countries. The Tool has been adapted for use by WASH-FIN for service providers in Mozambique and Zambia, and was used less formally as a reference in Cambodia and Nepal. In the case of these additional countries, WASH-FIN will strive to ensure that the results of these analyses can be fed into national-level dialogues about relief and to similarly advocate that water and sanitation obtain an appropriate share of funding.

### **Bond Issuance – National Water and Sewerage Corporation Uganda**

In Year 4, WASH-FIN also followed up on the potential bond issuance of the NWSC of Uganda. Despite the COVID-19 pandemic, NWSC has indicated a willingness to pursue the bond issuance, partly as a way of bridging an expected shortfall in financial support from the government whose focus presently is fighting COVID-19. WASH-FIN continued to engage with the World Bank's Public-Private Infrastructure Advisory Facility team in Nairobi and by the end of Year 4, the World Bank was preparing to support a review of the financial performance of NWSC to assess its readiness for a bond issuance, in view of COVID-19. WASH-FIN will continue to engage with the World Bank and once the financial review is completed, determine potential areas for support and collaboration.

### **Exploring a Franchised Service Delivery Model**

WASH-FIN has been engaged in informal discussions with NPWSP.org, a nonprofit organized to support Sustainable Development Goal 6 achievement by assisting utilities on efficiency improvements and access to capital by providing them with ideas, information, systems, tools, techniques, and volunteer support. In one discussion, NPWSP.org informed of a compelling concept it was developing to deliver improved

water supply services through a franchise model. The concept builds on performance-based contract approaches but adds in the benefits of a franchise in terms of efficiencies and economies of scale and scope, as well as network benefits related to sharing technical and operational capabilities and quality. The WASH-FIN core team reviewed the concept and shared with the USAID COR who agreed the concept merits further consideration and support and it was included in the Year 5 work plan.

## 4.0 RESOURCE MOBILIZATION

WASH-FIN has continued to make progress on the top-level indicator of funding mobilized to the water and sanitation sectors. In FY20, WASH-FIN mobilized USD 9,727,913, resulting in a cumulative total amount of USD 21,415,618 mobilized across all WASH-FIN countries.

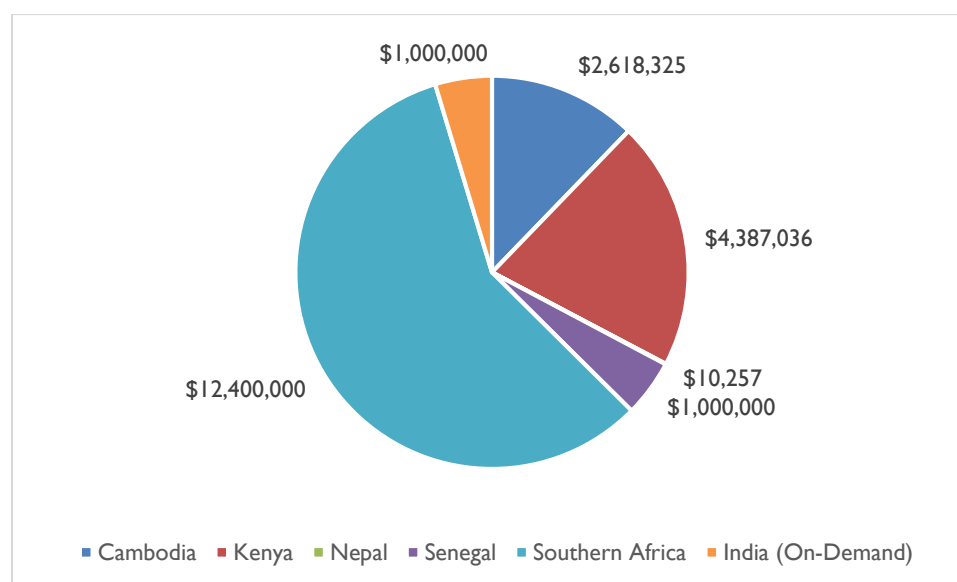
The following section summarizes resource mobilization results to date:

- Cambodia:** Since the beginning of the Cambodia Activity, six private water operators have received loans and three have made additional “own equity” contributions to their water projects as a result of WASH-FIN financial analyses and technical assistance. A total of 5 financial institutions (3 local banks and 2 microfinance institutions/consortiums) were involved in these transactions, demonstrating an increasing breadth of interest in WASH sector investments. The loans were used to increase piped connections, build water storage tanks, increase energy efficiency, and rehabilitate equipment. In total, the Cambodia program has mobilized USD 2,618,325, including USD 2,368,325 mobilized during Year 4.
- Kenya:** The Kenya program has helped mobilize financing for two water service providers (Nyeri and Mathira), sanitation social enterprise Sanivation, and helped service providers in 13 counties to procure much-needed chemicals during the COVID-19 crisis. The service providers both received loans from local banks and Sanivation received financing (convertible debt) from a wide range of impact investors and foundations. The loans to the service providers are being used to increase connections, and the loans to Sanivation are being used to help expand services of this unique waste-to-energy company. The Kenya program has mobilized a total of USD 4,387,036, including USD 749,331 during Year 4. Among the resources mobilized were USD 99,331 in liquidity support that WASH-FIN helped negotiate with UNICEF for WSPs to cover chemicals costs during the COVID-19 pandemic.
- Nepal:** WASH-FIN Nepal supported SVWSUO to enhance operational efficiencies through a series of activities including identification of zero consumption meter readings, account receivable management, and the streamlining of management information systems. Based on documentation related to these efficiency gains, the municipality has realized a modest USD 10,257 in increased revenue in Year 4.
- Senegal:** As reported previously, the SSP VICAS received the equivalent of ██████████ in financing from Banque de Dakar to purchase machinery and support day-to-day operations. The arrangement included a combination of a credit line and two guarantees that will enable VICAS to conduct ongoing operations under ONAS, the Senegalese national sanitation agency.
- Southern Africa:** As reported previously, consultant Paul Bender completed a SOW for the City of Cape Town, involving supporting the city water department’s CS-TAP. This work contributed to a substantial city investment which resulted in customer service and operational efficiency improvements (i.e., billing, collections, metering, etc.). In addition, WASH-FIN supported planning related to a temporary water reuse plant in Cape Town, which mobilized USD 3.2 million. These projects are expected to improve the quality of water services for millions of people in Cape Town. In total, South Africa has mobilized USD 12,400,000.
- India:** WASH-FIN helped sanitation company Biomass Controls mobilize ██████████ in loans for equipment and manufacturing.

## Breakdown of Resources Mobilized

WASH-FIN has cumulatively mobilized USD 21,415,618 to date against a target of USD 103 million for the life of the project. Approximately 58 percent of the amount mobilized is from public internal efficiency gains or increased municipal revenue, and 39 percent is related to concessional, international, and domestic debt. The remainder stems from internal equity and private grants. In order to better describe the progress to date, the following figure and table shows resources mobilized disaggregated by country and by instrument.

**FIGURE 4.1 TOTAL RESOURCES MOBILIZED BY COUNTRY (USD)**



**TABLE 4.1: TOTAL RESOURCES MOBILIZED (USD) BY INSTRUMENT**

Financing Instrument	Mobilized in Year 4	Cumulative
<b>Debt</b>		
Concessional, International	N/A	\$740,000
Domestic	\$1,400,000	\$4,512,705
International	\$1,290,100	\$3,225,000
<b>Equity</b>		
Own Equity Contributions from Private Sector Utilities	\$328,325	\$328,325
<b>Grants</b>		
Private/Foundations	\$99,331	\$199,331
Public/Municipal	\$3,200,000	\$3,200,000
<b>Other</b>		
Efficiency Gain/Own-Source	\$3,410,257	\$9,210,257
<b>TOTAL</b>	<b>\$9,727,913</b>	<b>\$21,415,618</b>

The own-source revenue generated in South Africa makes up the largest category and includes revenue gains that were realized as a result of WASH-FIN's work on city-wide systems (e.g., City of Cape Town), with the next largest category, domestic debt, comprised of loans in Kenya, Cambodia and Senegal.



## Transaction Closures vs. Offers of Financing

The resources list in Appendix B includes several items considered to be at the “term sheet stage.” In those cases, a potential borrower has received a financing offer but either decided not to pursue it or was unable to do so for a variety of reasons. Nevertheless, these items are included in the list below to highlight that an offer of financing was received. As these transactions have not been brought to full completion, they are omitted from WASH-FIN’s overall reported amount of resources mobilized on top-line indicator HL.8.4-1 *Value of new funding mobilized to the water and sanitation sectors as a result of USG assistance*).

### Climate Change Indicator EG.11-4

In Q2FY20 WASH-FIN began reporting progress toward its climate change indicator EG.11-4: *Amount of investment mobilized (in US\$) for climate change adaptation as supported by USG assistance*. All results reported under climate change adaptation are a subset of overall funding mobilized in the WASH sector and are therefore not new additional funds mobilized through WASH-FIN technical assistance.

Table 4.2 below explains WASH-FIN’s rationale for establishing its methodology for estimating the portion of resources mobilized towards its top-line indicator HL.8.4-1 that can be attributed towards climate change adaptation<sup>30</sup>.

**TABLE 4.2: CLIMATE CHANGE MOBILIZATION ATTRIBUTION RATIONALE**

Criteria for resources mobilized to be included under indicator EG.11-4	percent of resources mobilized under indicator HL.8.4-1	Rationale for counting toward climate change
Climate Finance (e.g., Green Climate Fund funding)	100 percent	Resources mobilized directly support projects related to climate change adaptation.
Physical Non-Revenue Water Project or Water Loss Efficiency <sup>31</sup>	50 percent	Climate change exacerbates water scarcity. Investments in reducing physical NRW or water losses saves water and energy. As this attribution to climate change adaptation is indirect, WASH-FIN will count 50 percent of the resources mobilized toward the climate change indicator.
Funding or financing agreement in which WASH engineering design considers climate change, resilience or water security/availability	100 percent	Resources mobilized directly support projects related to climate change adaptation.
Energy efficiency/renewable energy improvements or sanitation waste-to-energy technology	50 percent	In many USAID priority countries, electrical grids are unable to meet demand and reliability requirements. Climate and water constraints further threaten electric infrastructure. Energy efficiency improvements and technology that converts waste to energy help to alleviate resource constraints and may replace other forms of dirty energy, and reduce water used in energy production. Use of renewable energy also reduces greenhouse gas emissions and helps avoid investing in stranded energy-assets. As this attribution to climate change adaptation is indirect, WASH-FIN will count 50 percent of the resources mobilized in this area toward the climate change indicator.

<sup>30</sup> Indicator HL.8.4-1: *Value of new funding mobilized to the water and sanitation sectors as a result of USG assistance*

<sup>31</sup> Billing collections efficiency is not sufficient criteria for inclusion under the climate change indicator.

## 5.0 MONITORING AND EVALUATION

Global programs such as WASH-FIN, with simultaneous implementation in multiple countries, require a streamlined and rigorous M&E system that not only counts the output level results, but also reflects the outcome level results achieved across the focus countries. These outcomes include expanding WASH financing and service provider revenues based on public funding, as well as accessing new sources of commercial capital. Secondary results beyond sector financing are equally important to measure. Thus, WASH-FIN works with implementing partners (IPs) to measure improved services and increased access to WASH services resulting from expanded financing.

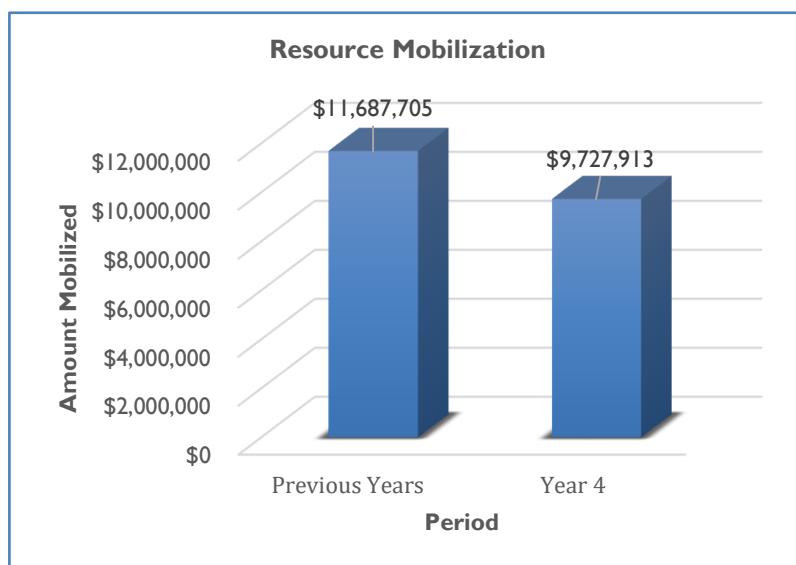
WASH-FIN's reporting of results in its Year 4 Annual Report is in accordance with project indicator targets established in its Year 4 Monitoring and Evaluation Plan (MEP). The MEP provides the overall framework for program monitoring, reporting, evaluation, and learning and details WASH-FIN's approach to performance data collection, management, and analysis. This Year 4 Annual Report details project impacts achieved during the reporting period in each country activity section (planned activities, timing, expected results, and progress).

### 5.1 GLOBAL PERFORMANCE RESULTS

WASH-FIN continues working in collaboration with national governments, development partners, commercial banks, private finance institutions, and WSPs to close financing gaps and improve governance structures that enable targeted countries to achieve targets on access to water and sanitation services as defined by host governments. In Year 4, despite the slowdown caused by the COVID-19 pandemic, WASH-FIN made good progress in achieving defined targets, as discussed below.

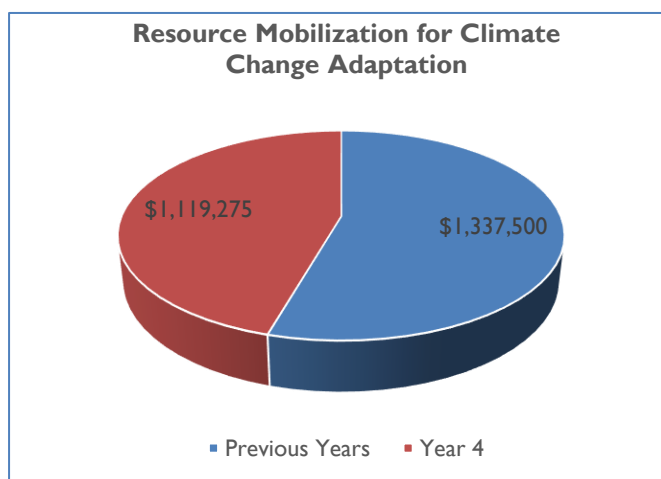
#### Mobilizing Funds to the Water and Sanitation Sectors (Indicator HL.8.4-1)

WASH-FIN's topline indicator, *HL.8.4-1: Value of new funding mobilized to the water and sanitation sectors as a result of USG assistance*, measures the project's mobilization of financial resources in the WASH sector. In Year 4, WASH-FIN mobilized USD 9,727,913, compared to USD 11,687,705 for the previous years combined. This past year, South Africa mobilized USD 6,600,000, Cambodia USD 2,368,325, Kenya, USD 749,331 and Nepal USD 10,257. The majority of the transactions started closing in Year 4 hence the huge improvement. For the case of South Africa and Cambodia, a large portion of the funds mobilized were from own equity contributions that Water Service Providers were able to achieve as a result of WASH-FIN's assistance.



### Mobilizing Investment for Climate Change Adaptation (Indicator EG.11-4)

In Year 4, WASH-FIN started reporting progress toward its climate change indicator, *EG.11-4: Amount of investment mobilized (in USD) for climate change adaptation as supported by USG assistance*. During the reporting period, WASH-FIN has mobilized USD 1,119,275 for the climate change adaptation indicator compared to the USD 1,337,500 achieved in the previous years. This was a remarkable achievement given that Year 4 activities were adversely affected by the COVID-19 pandemic. There is potential for better results for the indicator in the coming year given that several WASH-FIN countries have planned projects that are likely to lead to resource mobilization for climate change adaptation. As noted in the Resource Mobilization section of this report, all results reported under climate change adaptation are a subset of overall funding mobilized in the WASH sector and are therefore not new additional funds mobilized through WASH-FIN technical assistance.

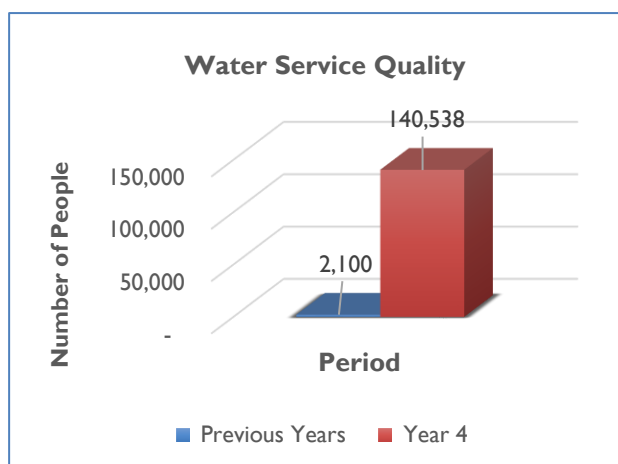


### Strengthening Institutions to Improve Water Supply and Sanitation Services (Indicator HL.8.3-3)

In Year 4, the slowdown resulting from the COVID-19 pandemic adversely affected WASH-FIN's progress towards strengthening institutions to improve WSS services, in fulfillment of targets for indicator *HL.8.3-3 3 Number of water and sanitation sector institutions strengthened to manage water resources or improve WSS services as a result of USG assistance*. The slowdown can be attributed to lockdowns in many countries that affected scheduled capacity building/ technical training activities aimed at strengthening WASH institutions. Despite the slowdown, support to a few new institutions was logged during the year including ONAS in Senegal and SVWSUO in Nepal. ONAS was supported to improve its accounting system while SVWSUO was provided support for governance and business plan implementation for water supply.

### Improved Water Service Quality (Indicator HL.8.1-3)

In Year 4, a total of 140,538 people received improved service quality from improved basic/safely managed drinking water services; a tremendous increase compared to 2,100 for the previous years. Of the 140,538, Nepal posted 84,893 people, Cambodia, 50,845 and Kenya, 4,800. There was a sharp increase in population impacted numbers in the reporting period as majority of WASH-FIN transactions started to close in Year 4. In Nepal, the support WASH-FIN provided to SWVSUO resulted in improved customer outreach and tariff review, together with cost recovery measures and opening up additional capacity for repayable finance. In Cambodia, WASH-FIN supported PWOs to access repayable finance which enabled them to make more customer connections and improve their operational efficiencies.



## Improved Sanitation Service Quality (Indicator HL.8.2-7)

In Year 4, WASH-FIN made tremendous achievements under the sanitation indicator, *HL.8.2-7 Number of people receiving improved sanitation service quality from an existing “limited” or “basic” service as a result of USG assistance*. A total of 91,834 people received improved sanitation services. Of these, Nepal posted the highest number (76,644). The high achievement is attributed to operationalization of the FSTP at Gulariya Municipality, which has provided desludging services to several households, especially those in low-income neighborhoods.

Table 5.1 below presents WASH-FIN’s performance indicator targets for the life of the project. Monetary amounts are represented in USD.

**TABLE 5.1: GLOBAL PERFORMANCE INDICATOR TARGETS AND RESULTS**

WASH-FIN Indicators	LOP Targets (YR 4 MEP)	Previous Years Achievements	Year 4 Achievement	Cumulative Achievement to date
HL.8.4-1 Value of new funding mobilized to the water and sanitation sectors as a result of USG assistance	\$103M	\$11,687,705	\$9,727,913	\$21,415,618 <sup>32</sup>
HL.8.3-3 Number of water and sanitation sector institutions strengthened to manage water resources or improve water supply and sanitation services as a result of USG assistance (Indicator Definition Customized)	14	5	2	7
EG.11-4 Amount of investment mobilized (in US\$) for climate change adaptation as supported by USG assistance	\$44M	\$1,337,500 <sup>33</sup>	\$1,119,275	\$2,456,775
HL.8.1-3 Number of people receiving improved service quality from an existing basic or safely managed drinking water service as a result of USG assistance	140K	2,100	140,538	142,638
HL.8.2-7 Number of people receiving improved sanitation service quality from an existing “limited” or “basic” service as a result of USG assistance	70K	353,635	91,834	445,469

<sup>32</sup> Inclusive of ██████████ from Biomass (On-demand assistance)

<sup>33</sup> As noted above, this includes funds mobilized by Biomass.

## 5.2 DATA QUALITY ASSESSMENT

The quality of reported data is dependent on the underlying data management and reporting systems; stronger systems produce better quality data. Therefore, as part of effective data measuring and reporting, WASH-FIN program places high emphasis on good data management practices. This is in line with the provisions of WASH-FIN's MEP and USAID requirements for data quality. In Year 4, WASH-FIN made efforts to diligently track its performance against its portfolio-wide indicators and meet contractual reporting requirements. It's MEL Specialist conducted two internal DQAs on all contractual indicators while USAID Senegal conducted an external DQA on indicators as agreed upon with the USAID Mission. These DQAs resulted in the development and dissemination of data tracking sheets now used by all country teams. Below are the key findings and recommendations from the three Data Quality Assessments.

### **WASH-FIN Internal Data Quality Assessment on Indicator #1: HL.8.4-1 Value of new funding mobilized to the water and sanitation sectors as a result of USG assistance**

The Data Quality Assessment (DQA) was conducted on WASH-FIN's top-level indicator (*HL.8.4-1 Value of new funding mobilized to the water and sanitation sectors as a result of USG assistance*) in October 2019. The objective of the DQA was to understand the strengths and weakness, and the extent to which data from this program top-level indicator can be trusted for decision-making. Further, the DQA was conducted as part of the internal data quality assessment efforts that are geared towards improving program data capture, reporting and documentation. The key finding was that data generated on the indicator is reliable and can be trusted for decision-making. In addition, the data can be attributed to WASH-FIN intervention. However, to further strengthen the data collected, the DQA recommended that WASH-FIN Country Teams ensure that all data reported to USAID have supporting documents. This recommendation has since been implemented as reflected in the Remote Internal Data Quality Assessment (RDQA) conducted in Q3FY20.

### **WASH-FIN Remote Internal Data Quality Assessment**

The RDQA was conducted in June 2020 on all program indicators. Initially, the internal DQA was scheduled for April 2020 with planned visits to project sites to physically inspect and verify the records maintained by water and sanitation service providers, but due to COVID-19 travel restrictions and entry bans in many countries, the assignment was postponed to June 2020. The DQA was consequently conducted remotely. The objective of the RDQA was to understand the strengths and weakness, and the extent to which data from WASH-FIN indicators can influence decision-making. The RDQA findings indicated that the life of project (LOP) targets are well defined and the results framework adequately reflects the links between the outputs (Sub-Intermediate Results) and outcomes (Intermediate Results). Further, WASH-FIN adequately collects and files supporting documents for data reported to USAID, both in soft and hard copies. The RDQA recommended that existing data collection forms/tools and guidelines be updated for all WASH-FIN indicators.

### **USAID Senegal External Data Quality Assessment**

In November 2019, USAID Senegal conducted a DQA on WASH-FIN Senegal standard indicators. The DQA findings indicated that the quality of data collected and reported by WASH-FIN Senegal is good and can be attributed to the WASH-FIN intervention. In addition, the data collection system is strong. The DQA recommended that WASH-FIN Senegal Performance Indicator Reference Sheets be updated to indicate the data collection methods and tools. The WASH-FIN Senegal Activity MEL Plan (AMELP) was revised to capture this recommendation.

### **5.3 YEAR 5 MONITORING AND EVALUATION PLAN (MEP)**

On September 30, 2020 WASH-FIN submitted its Year 5 MEP to USAID. Adjustments were made to the MEP in response to changes in context and program interventions and approaches. The key revision in the Year 5 MEP was the revision of the Data Management Plan to include the Development Data Library (DDL) sub-section. The DDL sub-section was added to comply with the new USAID Open Data Policy. The revised DMP includes details on how relevant datasets generated by WASH-FIN would be submitted to the DDL as requested, and details data storage protocols for its internal filing system of personally identifiable information to maintain security and individuals' privacy.

## 6.0 MANAGEMENT

WASH-FIN's management approach was designed to ensure coordinated activity implementation and that adequate levels of technical and operational support are provided to Country Team Leaders (CTLs) working in eight countries with active project activities. The project is supported by home office staff, technical and operational teams, as well as country-level teams composed of staff and short-term consultants.

### 6.1 ORGANIZATION AND STAFFING

WASH-FIN further refined its supervisory structure in Year 4 to ensure the necessary formal support and oversight of individual team members' activities was in place. WASH-FIN on-boarded a Senior Infrastructure Finance Advisor during this year to oversee technical project delivery, provide technical backstopping to country activities, and supervise the Infrastructure Finance Advisor and Technical Advisor, (who is contracted from SEGURA and works on a full-time basis on the WASH-FIN project).

The Chief of Party (COP) oversees all aspects of implementation, while the Deputy Chief of Party assists the COP to coordinate and manage the portfolio of country activities developed under the project. With the hire of the Senior Infrastructure Finance Advisor the Deputy Chief of Party has handed over his Nepal technical backstopping role to the Technical Advisor and will work more supporting CTLs as well as on-demand and knowledge management efforts. This will be an asset as Country Activities draft Final Reports and Country Case Studies in Year 5 in addition to finalizing several technical briefs.

The Project Management Team (PMT) includes a Project Manager, the Deputy Project Manager, and an Assistant Project Manager who was on-boarded in Year 4. Project Management Team executes a variety of functions for the efficient implementation of the project including the finalization of contractual deliverables and ensuring that project implementation is in line with the terms of Tetra Tech's contract. The PMT engages in a variety of financial monitoring and reporting activities to ensure that USAID funds are utilized according to approved country and core budgets. A financial summary for Year 4 is included in Appendix C.

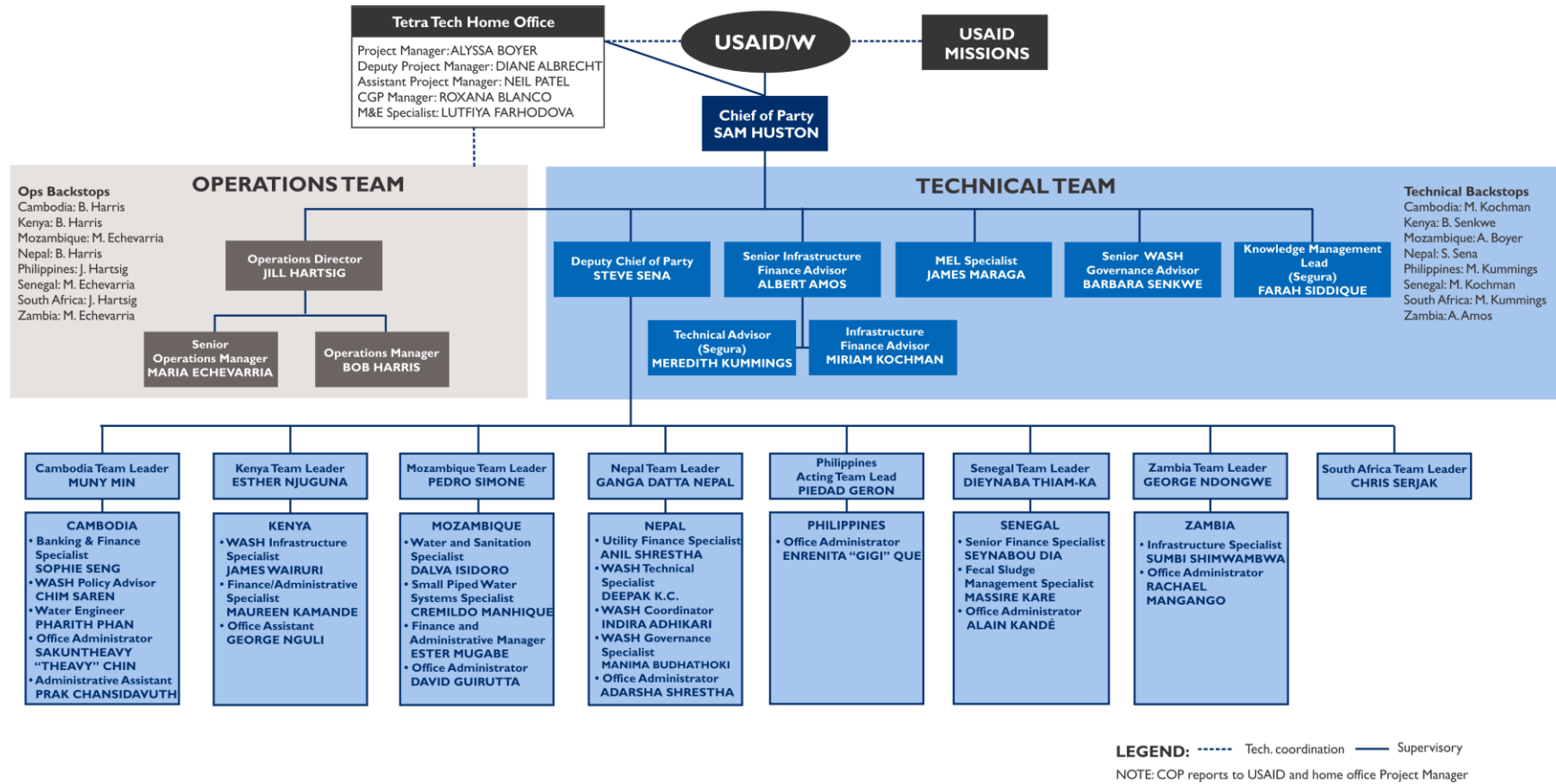
WASH-FIN's Director of Operations reports to the COP and leads the Operations Team, which is comprised of a Senior Operations Manager and an Operations Manager. Operational backstops from the core team provide support to their counterparts in country by helping to ensure familiarity with USAID rules and regulations and WASH-FIN procedures and by providing technical and surge support when needed. The Director of Operations consults frequently with Tetra Tech's Contracts, Grants, and Procurement (CGP) Manager for contractual and compliance related issues.

WASH-FIN's Knowledge Management Lead, also contracted full-time from SEGURA, provides global KM support and coordinates the work of country activity-level knowledge management and communications staff and activities. The Senior WASH Governance Advisor is based in the Nairobi, Kenya office and advises on governance-related workstreams and knowledge management efforts globally. The Monitoring, Evaluation and Learning Specialist is also based in Nairobi and works closely with all Country Team Leaders on monitoring and evaluation efforts to track project results. He is assisted in the production of contractual deliverables by Tetra Tech's M&E Specialist.

An updated Organizational Chart detailing division of responsibilities and line of direct reporting is included as Figure 6.1



**FIGURE 6.1: ORGANIZATIONAL CHART**



## 6.2 COMMUNICATION AND REPORTING

Internally within the WASH-FIN team, the core team holds internal weekly administrative check-in meetings, bi-weekly calls with Country Team Leaders, and a weekly Knowledge Management meeting to ensure that activities are proceeding as scheduled and that they enjoy the necessary amount of support.

WASH-FIN's regular communications with USAID include the following:

**Weekly Emails:** WASH-FIN provides updates to its broader USAID client via our distribution of weekly updates, which provide details on activities accomplished each week in each country in our portfolio as well as knowledge management and monitoring and evaluation updates.

**Regular Meetings with USAID Washington:** Since the onset of the COVID-19 pandemic, WASH-FIN has held weekly meetings with its COR and other interested USAID staff to update on progress, discuss any challenges which may arise, and to seek client feedback. These meetings are attended by the COP, DCOP and other key staff as necessary, as well as by Tetra Tech's Home Office Project Manager. Additionally, WASH-FIN continued participation in the quarterly central mechanism coordination meeting organized by USAID for global/regional WASH projects. These meetings have been held remotely since COVID-19 related work from home orders started in March 2020.

**Country-Level Communications:** Communication efforts with local Missions are regular, with country-level activities conducted weekly or bi-weekly. WASH-FIN's COR is copied on all email correspondence with Missions, and meeting minutes are kept on file. After COVID-19 reached global pandemic status in March 2020, WASH-FIN maintained close communications with Missions, responding to requests for information and attending COVID-19-related remote briefings hosted by USAID/Washington, local Missions, and IPs.

**COVID-19 related Communications with Staff and Partners:** WASH-FIN updated its employee field office manuals, including its sick leave policy, and created a remote working and local travel policy for all field office project staff. Towards the end of the year, WASH-FIN's Cambodia office reopened, and field office staff commenced local travel as project activities necessitated. A sustained downward trend in new COVID-19 infections must be maintained before WASH-FIN will re-open other offices, and the situation in Cambodia is being closely monitored. The Project Management Team receives guidance from Tetra Tech to ensure best practices are followed and the project remains compliant with USAID regulations.

WASH-FIN sent written guidance to subcontractors and short-term consultants that they should follow all guidance provided by national governments regarding curfew, travel restrictions, and limits to in-person meetings.

## 6.3 PROJECT MANAGEMENT RESPONSE TO COVID-19

In response to the COVID-19 pandemic, WASH-FIN is committed to adjusting how the project is implemented without sacrificing achievement of objectives and results, nor the safety of staff, partners, and beneficiaries. WASH-FIN has worked with USAID to ensure that the project remains responsive to high priority COVID-related requests and activities. Due to the nature of the COVID-19 pandemic and the critical importance of water and sanitation services for responding to this public health crisis and the associated economic shocks, many COVID-related activities fall clearly within the original WASH-FIN project design and general areas of focus.

WASH-FIN worked to formalize USAID's authorization for redirection of funds for COVID-related activities during FY20. Some of these redirection discussions are ongoing at USAID Mission level, however, generally consensus has largely been reached on prioritizing selected COVID-related activities,

as WASH-FIN pushes forward with implementation across its multi-country portfolio. Moving forwards, formalization of WASH-FIN COVID-related activities are expected to be agreed to with USAID via the Year 5 Work Planning process<sup>34</sup>. WASH-FIN additionally worked on the preparation of a Year 6 extension proposal that would enable four country activities (Zambia, Mozambique, Senegal, and Kenya) to continue providing much needed COVID-19 related financial analysis and programming.

## 6.4 ENVIRONMENTAL COMPLIANCE

WASH-FIN monitors all activities to ensure compliance with USAID’s Regulation 216, particularly those in Component 2 that fall under the category of a Negative Determination with Conditions. Mitigation measures for relevant activities will be put in place as needed and WASH-FIN staff will coordinate closely with USAID Environmental Officers (in coordination with the COR) as appropriate. For Component 2 activities that proceed to the “transaction” phase for financing, WASH-FIN has already ensured that an EMMP is completed by WASH-FIN that details a process in which the borrowing entity meets both host country environmental regulations and USAID’s Regulation 216 environmental requirements.

WASH-FIN has completed and submitted Environmental Mitigation and Monitoring Plan (EMMPs) for activities in each of its eight countries. EMMPs include information on country-specific environmental, legal, and institutional regulatory frameworks as well as USAID’s Environmental Policy and Procedures. WASH-FIN recommended categorical exclusion and negative determination from environmental mitigation review due to the technical assistance nature of its program in its EMMP submission. WASH-FIN operates under an approved Initial Environmental Examination (IEE). As stated in the task order, the IEE includes a Categorical Exclusion for program activities “involving technical assistance and training, analyses, studies, academic workshops, and meetings intended to develop the capability of countries to engage in development planning that does not entail laboratory work, field studies, or involve actions that directly affect the natural or physical environment.” Most WASH-FIN activities fall under this category. The IEE includes a Negative Determination with Conditions for WASH-FIN Component 2 activities, expected to be focused on financial transactions that result in infrastructure construction. As detailed in the IEE, this means that the “activity will not have a significant impact on the environment if specified mitigation actions are taken and actively monitored.”

WASH-FIN will monitor all activities to ensure compliance with USAID’s Regulation 216, particularly those in Component 2 that fall under the category of a Negative Determination with Conditions. Mitigation measures for relevant activities will be put in place and WASH-FIN staff will coordinate closely with USAID Environmental Officers (in coordination with the COR) as appropriate. For Component 2 activities that proceed to the “transaction” phase for financing, WASH-FIN will ensure that an EMMP is completed by WASH-FIN that details a process in which the borrowing entity meets both host country environmental regulations and USAID’s Regulation 216 environmental requirements. For further details on environmental reporting please reference country specific EMMPs for WASH-FIN activities.

## 6.5 CLIMATE RISK MANAGEMENT

WASH-FIN has internalized USAID guidance on CRM, including *Climate Risk Management for USAID Projects and Activities: Mandatory Reference for ADS 201* and the *USAID Climate-Resilient Development Framework*. CRM is the process of assessing, addressing, and adaptively managing climate risks. In addition to identifying potential climate risks, corresponding CRM measures will help WASH borrowers

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<sup>34</sup> Due to COVID-19, WASH-FIN canceled its in-person Year 5 work planning team meeting, which had been planned to be hosted in Cambodia. WASH-FIN has commenced its Year 5 work planning process with its local country teams remotely.

to (1) anticipate, prepare for, and adapt to changing climate conditions; (2) withstand, respond to, and recover rapidly from climate impacts; and (3) avoid activities that inadvertently increase climate risks.

While WASH-FIN no longer has a part-time Climate Change Adaptation (CCA) Advisor to support continued integration of CRM within WASH-FIN activities. Previously, the CCA Advisor supported work on integration of climate change risk management within water and sanitation utility business planning activities in Nepal and Kenya and preparation of communications materials. More broadly, the CCA advisor prepared a project brief on Business Planning Guidance for Water and Sanitation Utilities—Managing for Climate Risk to help WASH-FIN Country Teams fully integrate CRM within activities. The CCA Advisor also supported identification of global and country-level climate finance resources for possible blending into WASH-FIN supported transactions. Since the departure of the CCA Advisor, the WASH-FIN Core Team has taken over responsibility for integration of CRM approaches into ongoing WASH-FIN technical assistance efforts.

# APPENDIX A: SUCCESS STORIES

## **NEPAL: BUSINESS PLANNING: A MODEL FOR COST RECOVERY, EFFICIENCY, & PROFESSIONAL MANAGEMENT**

The Surkhet Valley Water Supply Users' Organization (SVWSUO) faces many of the same challenges other utilities are facing in Nepal and globally - a rapidly growing population, aging infrastructure, and increasing water scarcity. From 2018 to early 2020, WASH-FIN supported SVWSUO in developing and implementing its five-year business plan to address these challenges.

The SVWSUO business planning process included a study of SVWSUO's tariff structure coupled with a customer outreach survey which uncovered inefficiencies that were quickly addressed and contributed to improved cost recovery and creditworthiness. SVWSUO also adjusted its tariff structure based on this analysis. An analysis of the possible threats from climate change was included in WASH-FIN's operational review, noting water source depletion and infrastructure damage from floods that could result in service interruption and revenue loss.

The business planning process identified six priority capital investment projects and mapped out a plan to implement them. The capital investment plan leveraged revenue from efficiency improvements and growing demand SVWSUO's growing revenue (credited to tariff adjustments and expanded piped networks to meet demand) with and blended finance solutions consisting of loans from the Government of Nepal's Town Development Fund, capital grants, and equity. WASH-FIN additionally provided members of SVWSUO's board and management team initial capacity building training in corporate governance and asset management to SVWSUO's board and management team as a part of the business plan development process.

The final business plan details an improved model of water service provision that is oriented toward cost recovery, efficiency, professional management, good governance, and sustainability. SVWSUO's business plan also includes climate risk mitigation investment plans to reduce non-revenue water as well as continued staff training to bolster institutional strengthening efforts.

WASH-FIN held a workshop to disseminate the business plan and discuss lessons learned from the process of its creation in Kathmandu in January 2020. At the event, held in partnership with the Ministry of Water Supply/Department of Water Supply and Sewerage Management (DWSSM), Kulmani Devkota, Chairperson of SVWSUO, spoke of his appreciation of the support received from WASH-FIN and emphasized that both the business planning process and the final business plan itself have been vital tools for SVWSUO to enable the utility to develop clear goals to increase its efficiency. Mr. Devkota also emphasized the value of the technical and capacity building assistance built into the business planning process.



Following this workshop, WASH-FIN experienced demand for support that builds on this successful intervention undertaken in Surkhet Valley. Nepalgunj sub-metropolitan city, which lies 60 miles south of Surkhet Valley, formally approached WASH-FIN for support in similar planning for city-wide water supply coverage. In December 2019 a letter of engagement was executed for WASH-FIN to assess the current service provision by Nepal Water Supply and Sewerage Corporation and options for

city-wide coverage. WASH-FIN Nepal also supported the DWSSM in its effort to prepare a national directive for all water utilities on business plan development. WASH-FIN experts provided technical feedback on the directive based on the Surkhet experience as well as similar USAID support in the Philippines and Kenya and international best practice. DWSSM plans to institutionalize business plans among the more than 42,000 water supply schemes located in 753 municipalities in Nepal. WASH-FIN wrote a blog post that expanded on the Nepal SVWSUO experience to include a discussion of the Kenya and Philippines activities. The blog may be accessed on WASH-FIN's microsite, [globalwaters.org/WASH-FIN](http://globalwaters.org/WASH-FIN)

*Photo: Participants at the SVWSUO Business Plan Dissemination Workshop in Kathmandu. Credit: Hari Neupane for WASH-FIN*

### **CAMBODIA: BUILDING RELATIONSHIPS BETWEEN PWOs AND LOCAL GOVERNMENT**

WASH-FIN works with the Cambodia Water Association (CWA) to facilitate meetings between PWOs and sub-national administration officials aimed at identifying solutions to local issues such as polluted water sources, shortages of water during the dry season, conflicts when laying pipes in the ground in front of people's houses, pipe network damage due to local road development, and debt and late payment by water customers. These meetings were often timed to coincide with



WASH-FIN-led “water tours” aiming to raise awareness about the water supply business and to demonstrate the water treatment process and water quality testing. WASH-FIN Engineers lead the tours, attended by local leaders as well as other interested community members, accommodating up to forty participants each. They have been extremely popular and are instrumental in helping community members learn about water challenges, and solutions, first-hand.

*Photo: Svay Romeit Water Supply treatment facility. Credit: Chim Saren, WASH Policy Advocate*



## PHILIPPINES: TRAINING STAKEHOLDERS ON THE UFF APPRAISAL MODEL

In the Philippines the Unified Financing Framework (UFF) for Water Supply and Sanitation (WSS) is a new financing policy initiative aimed at increasing investment in utilities to reach the country's target of universal coverage for water supply and sanitation services by 2030. The UFF takes a holistic approach to addressing gaps in service coverage through the allocation of public grants and subsidies for underserved areas and the provision of technical assistance to improve utilities' technical and business operations.



To help the Government of the Philippines (GoP) operationalize the nascent UFF, WASH-FIN developed a tailored excel-based model to enable stakeholders to perform appraisals of WSS projects. This model will serve as the principle project appraisal tool used by a range of stakeholders to conduct WSS project assessments prior to issuance of any UFF funding. To build the capacity of technical staff at key implementing agencies on the use and application of the project appraisal tool, WASH-FIN provided virtual training and mentoring sessions for the UFF focal teams of the National Economic and Development Authority (NEDA) and the Local Water Utilities Administration (LWUA).

These trainings, held remotely due to the COVID-19 pandemic, were conducted over the course of two weeks in July and August 2020 and accommodated eight participants. LWUA and NEDA nominated participants most likely to work on the appraisal and evaluation of projects submitted under the UFF. As one of the UFF implementing agencies, LWUA is responsible for evaluating and recommending funding for water supply providers' (WSPs) water supply, sanitation, and efficiency improvement projects. For NEDA, as the Lead Secretariat agency to the UFF, the training sessions enhanced their staffs' capacity to review applications for funding submitted by LWUA.

The twelve, two-hour-long sessions were hands on, allowing participants to use the UFF Model to appraise two actual septage management project proposals from different water districts. As the participants navigated the UFF Model, they were guided through the processes of data banking: reviewing and inputting initial feasibility study data as well as historical performance data. The online sessions additionally provided WASH-FIN the opportunity to cement best practices on the use of the model as well as glean information on how to make the model more user friendly, which were incorporated into further revisions to the model. Participants committed to mentoring additional staff within their agencies on the tool, utilizing the comprehensive user manual developed by WASH-FIN that includes detailed technical instructions on the use of the tool in addition to rubrics to guide users to select the appropriate UFF funding model to apply to various WSP applications.

WASH-FIN's trainings were timed so as to strengthen the buy-in of key UFF implementing agencies in order to maintaining momentum for the adoption of the UFF. Stakeholder support and direct engagement is critical for moving the UFF forward, as its official approval is advancing with adoption of a Board Resolution by NEDA.

*Photo: WASH-FIN's Philippines activity works to help the country achieve their water and sanitation target of universal coverage by 2040. Credit: Eric Merced*

## **SOUTHERN AFRICA: CUSTOMER SERVICE REFORM – THE CAPE TOWN EXPERIENCE**

Over the past two years, WASH-FIN’s Southern Africa activity contributed to the City of Cape Town’s post-drought crisis recovery by supporting their efforts to reform their Water and Sanitation Department customer service system, which improved public trust in the Department and resulted in a dramatic increase in revenue collection rates. The additional revenue will help fund implementation of the City’s planned \$385 million “New Water” supply program—an ambitious plan to increase Cape Town’s water supply by nearly 30 percent over the next ten years.

Cape Town’s Water and Sanitation Department is one of the largest water providers in the country, serving four million people across 1,000 square miles. In the last decade, the City of Cape Town faced an unprecedented drought, culminating in 2018, when reservoirs fell to threateningly low levels that sparked predictions of “Day Zero”—the day when Cape Town would have to begin rationing water.



In response to customer problems and loss of revenue that emerged during the drought, the department requested WASH-FIN assistance in leading its Customer Service Turnaround Project (CS-TAP) that sought to improve its customer relationship management (CRM) systems and operations including metering, billing, collections, debt management, and customer care. The improvements in these four business areas are expected to increase revenue collection from 85 to 95 percent of billings, which will generate an additional \$25 million per annum in revenue for the City. By resolving many of the issues that frustrated its customers, the Department will also benefit from substantially improved public trust.

The Customer Service Turnaround Project demonstrated that a well-resourced and integrated approach to customer service reform can reap multiple benefits for water and sanitation service providers, including increased revenues and improved customer trust. The reform process highlighted here is applicable to other water and sanitation service providers. WASH-FIN wrote a Case Study highlighting its Cape Town experience, which may be accessed on the Global Waters microsite, [globalwaters.org/WASH-FIN](http://globalwaters.org/WASH-FIN).

*Photo: In the City of Cape Town, increased revenues from CRM reform will be invested in augmenting and diversifying Cape Town’s water supplies to reduce the impact of future droughts. Credit: City of Cape Town*

## APPENDIX B: SUMMARY OF RESOURCES MOBILIZED

#	Country	Borrower	Borrowing Need	Transaction Size (\$) HL.8.4-1	Approximate Date of Transactions, Funding Commitments or Term Sheets Received	Resources Mobilized for Climate Change EG.11-4	WASH-FIN Role
1	Cambodia	Ham Ngoun	Construction of new water treatment plant, new clean water storage construction, and pipe purchase	████████	Oct. 31, 2018	See below	TA support on business plan development (market, technical/ engineering, and financial analysis) and small role in transaction agreement
2	Cambodia	Ham Ngoun 2	Same project as above	████████	Oct. 31, 2019	████████ across all Ham Ngoun loans (all same business plan)	TA support on business plan development (market, technical/ engineering, and financial analysis) and small role in transaction agreement
3	Cambodia	Ham Ngoun 3 (Own Equity Contribution)	Same project as above – increased/improved water treatment within same licensing area	████████	Letter signed in Dec. 2019	See above	TA support on business plan development, examination of investment needs and strategy
4	Cambodia	Ham Ngoun/ Kampong Cham	Construction of a water treatment plant with an output of 400m <sup>3</sup> of water per hour, construction of a water storage tank with capacity of 4000m <sup>3</sup> , expansion of piped networks, and refinance of \$500K in prior loans	████████	April 20, 2020 May 22, 2020	See above	TA support on business plan development (market, technical/ engineering, and financial analysis) and small role in transaction agreement
5	Cambodia	Khor Bunheat	(1) Renovation work to improve existing water treatment plant performance and capacity; (2) Additional main HDPE pipe installation; and	████████	March 31, 2020 April 15, 2020	████████ across all Khor Bunheat loans (same business plan)	TA support on business plan development (market, technical/ engineering, and financial analysis) and small role in transaction agreement

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6	Cambodia	Khor Bunheat I (Own Equity Contribution)	Same project as above Investment for solar panel energy-saving project	██████	Letter signed in Jun. 2020	See above	TA support on business plan development, examination of investment needs and strategy
7	Cambodia	Leng Kheav	Renovation of water treatment plant, installation of pipe distribution network for 10km (main=160mm and distribution 110mm)	██████	Jan 1, 2019	██████ Leng Khav loans (same business plan)	TA support on business plan development (market, technical/ engineering, and financial analysis) and small role in transaction agreement
8	Cambodia	Leng Kheav (Own Equity Contribution)	Same project as above	██████	Letter signed in Dec. 2019	See above	TA support on business plan development, examination of investment needs and strategy
9	Cambodia	Bovel	(1) Renovation work to improve existing water treatment plant performance and capacity; (2) Additional main HDPE pipe installation and expansion	██████	Dec. 31, 2019	██████ across all Bovel loans (same business plan)	TA support on business plan development (market, technical/ engineering, and financial analysis) and small role in transaction agreement
10	Cambodia	Chi Kreng	Renovation of a water treatment plant and installation of piped network	██████	Feb. 18, 2020	██████ across all Chi Kreng loans	TA support on business plan development (market, technical/ engineering, and financial analysis) and small role in transaction agreement
11	Cambodia	Chi Kreng (Own Equity Contribution)	Same project as above	██████	Letter signed in Jun. 2020	See above	TA support on business plan development, examination of investment needs and strategy
12	Cambodia	Mao Hong in Bovel District	Piped network extension	██████	July 20, 2020	See Bovel loan above; same business plan	TA support on business plan development, examination of investment needs and strategy

#	Country	Borrower	Borrowing Need	Transaction Size (\$) HL.8.4-1	Approximate Date of Transactions, Funding Commitments or Term Sheets Received	Resources Mobilized for Climate Change EG.II-4	WASH-FIN Role
13	India (On-Demand/ Toilet Board Coalition)	Biomass Controls	Support for manufacturing of waste-to-energy technology expansion in India	████████	Aug. 2019	████████	TA support on financial model, corporate and product briefs, and introductions to investors
14	Kenya	Nyeri (Nyeri Water and Sanitation Company)	Customer sewer extension projects in four lots	████████	May 20, 2019	████████	Creditworthiness review, debt capacity analysis, review of technical proposals
15	Kenya	Mathira (MAWASCO)	Rehabilitation work of treatment plant, distribution mains and water tanks	████████	Aug. 22, 2018	████████ (Total for all Mathira loans)	Creditworthiness review, technical support, financial modeling, transaction advisory
16	Kenya	Mathira (MAWASCO)	Customer sewer extension related to World Bank OBA subsidy	████████	Feb. 20, 2020	See above	Creditworthiness review, technical support, financial modeling
17	Kenya	Sanivation	Growth and expansion of factories (converting fecal sludge into by-products)	████████	Apr. 15, 2019	████████	TA support on financial modeling, documentation, pitching to investors
18	Kenya	Sanivation	Growth and expansion of factories (converting fecal sludge into by-products)	████████	Apr. 15, 2019	████████	TA support on financial modeling, documentation, pitching to investors
19	Kenya	Sanivation	Growth and expansion of factories (converting fecal sludge into by-products)	████████	Apr. 15, 2019	████████	TA support on financial modeling, documentation, pitching to investors
20	Kenya	Sanivation	Growth and expansion of factories (converting fecal sludge into by-products)	████████	Apr. 15, 2019	████████	TA support on financial modeling, documentation, pitching to investors

#	Country	Borrower	Borrowing Need	Transaction Size (\$) HL.8.4-1	Approximate Date of Transactions, Funding Commitments or Term Sheets Received	Resources Mobilized for Climate Change EG.11-4	WASH-FIN Role
21	Kenya	Sanivation	Growth and expansion of factories (converting fecal sludge into by-products)	██████	Apr. 15, 2019	██████	TA support on financial modeling, documentation, pitching to investors
22	Kenya	Sanivation	Growth and expansion of factories (converting fecal sludge into by-products)	██████	Apr. 15, 2019	██████	TA support on financial modeling, documentation, pitching to investors
23	Kenya	Sanivation	Growth and expansion of factories (converting fecal sludge into by-products)	██████	Aug. 14, 2019	██████	TA support on financial modeling, documentation, pitching to investors
24	Kenya	Sanivation	Growth and expansion of factories (converting fecal sludge into by-products)	██████	Aug. 14, 2019	██████	TA support on financial modeling, documentation, pitching to investors
25	Kenya	Sanivation	Growth and expansion of factories (converting fecal sludge into by-products)	██████	June 2020	██████	TA support on financial modeling, documentation, pitching to investors
26	Kenya	Sanivation	Growth and expansion of factories (converting fecal sludge into by-products)	██████	June 2020	██████	TA support on financial modeling, documentation, pitching to investors
27	Kenya	Sanivation	Growth and expansion of factories (converting fecal sludge into by-products)	██████	June 2020	██████	TA support on financial modeling, documentation, pitching to investors
28	Kenya	Sanivation	Growth and expansion of factories (converting fecal sludge into by-products)	██████	June 2020	██████	TA support on financial modeling, documentation, pitching to investors

#	Country	Borrower	Borrowing Need	Transaction Size (\$) HL.8.4-1	Approximate Date of Transactions, Funding Commitments or Term Sheets Received	Resources Mobilized for Climate Change EG.11-4	WASH-FIN Role
29	Kenya	Sanivation	Growth and expansion of factories (converting fecal sludge into by-products)	████████	June 2020	████████	TA support on financial modeling, documentation, pitching to investors
30	Nepal	Surkhet Valley Water Supply Users Organization	Collections efficiency improvement	████████	Dec. 1, 2019	N/A	Analysis of billing and collections that identified arrears in payments
31	Senegal	Delgas	<i>Purchase equipment and machinery; fund day-to-day operations</i>	████████	<i>Term sheet received Sept. 2018 but process on hold</i>	N/A	<i>Financial modeling, transaction advisory</i>
32	Senegal	VICAS	Other technology (truck acquisition, activities extension, and working capital financing)	████████	May 2019	N/A	Financial modeling, transaction advisory
33	South Africa	City of Cape Town	Support to the city water department's CS-TAP	████████	2019 Q3	N/A	STTA with City of Cape Town focused on improving management systems
34	South Africa	City of Cape Town	Temporary water reuse plant	████████	2019 Q3	N/A	STTA with City of Cape Town to assist with water reuse planning
35	South Africa	<i>INCA, on behalf of various municipalities nationwide</i>	<i>Pooled fund</i>	████████ <sup>36</sup>	<i>Commitments, but fund is pending</i>	N/A	<i>TA support on discussions and negotiations</i>

<sup>35</sup> Excluded from WASH-FIN's resources mobilized total – transaction not yet closed.

<sup>36</sup> Excluded from WASH-FIN's resources mobilized total – transaction not yet closed.



## **APPENDIX C: ANNUAL FINANCIAL SUMMARY**

**TABLE B.1: WASH-FIN FY2020 ANNUAL EXPENSES  
REDACTED**

**TABLE B.2: WASH-FIN 4TH QUARTER FY2020 EXPENSES  
REDACTED**

# APPENDIX D: WASH-FIN DESCRIPTION

## OBJECTIVES AND COMPONENTS

The United States Agency for International Development's (USAID) Water, Sanitation, and Hygiene Financing (WASH-FIN) Program is a five-year task order under the Making Cities Work Indefinite Delivery Indefinite Quantity contract that began in October 2016. Tetra Tech leads WASH-FIN implementation with support from its original subcontractor partners Open Capital Advisors (OCA) and SEGURA Consulting across its portfolio. The USAID Center for Water Security, Sanitation and Hygiene manages the project, with support from the Global Climate Change Office. With the current reorganization of USAID, the Water Office has been moved under the Resilience and Food Security Bureau.

WASH-FIN seeks to close financing gaps to achieve universal access to water and sanitation services through sustainable and creditworthy business models, increased public funding, and expanded market finance for infrastructure investment. WASH-FIN works in collaboration with national governments, development partners, financial institutions, service providers, and local stakeholders in eight countries to close financing gaps and improve governance structures. In doing so, WASH-FIN supports self-reliance in targeted countries by accessing reliable sources of capital for sustainable, climate-resilient water and sanitation infrastructure. To move the sector toward this end, WASH-FIN activities focus on the following strategic lines of action.

## TRACKING AND ADVOCATING FOR INCREASED PUBLIC INVESTMENT INTO THE SECTOR BY NATIONAL AND LOCAL GOVERNMENTS

Public resources available to achieve the ambitious universal WASH targets are limited. Governments must lead in water, sanitation, and hygiene (WASH) investments to ensure local ownership of WASH sector performance. Activities focus on tracking public expenditures using the TrackFin tool to advocate for more public investment. WASH-FIN works in collaboration with host governments, development partners, and civil society to foster a culture of transparency and accountability, while building local capacity and advancing consensus for increased public investment.

## MOBILIZING PRIVATE CAPITAL AND MARKET FINANCE THROUGH PARTNERSHIPS AND TECHNICAL ASSISTANCE IN SUPPORT OF PROVEN METHODS AND INNOVATIVE MODELS

To close financing gaps, mobilization of private finance must be increased. Diverse mechanisms, including commercial debt, blended finance structures, public-private partnerships (PPPs), and other viable models that can be replicated and scaled are required. Activities include developing pipelines of investment-ready WASH projects through robust engagement with local government, civil society, and other sector stakeholders—including customers. In addition, public funds, foundation grants, and development partner investments must be leveraged with private local sources of finance to deepen local financial systems, investment expertise, and access to market capital.

## REPLICATING SUCCESS THROUGH KNOWLEDGE SHARING AND DOCUMENTATION OF LESSONS

To ensure the sustainability of WASH financing initiatives developed in WASH-FIN's eight country activities, WASH-FIN has established sharing of knowledge, successes and lessons with USAID, partners, and relevant stakeholders as a core component of its project delivery.

## **PROMOTING SUSTAINABLE BUSINESS MODELS FOR SERVICE PROVISION**

WASH-FIN works to ensure reliable, climate-resilient water and sanitation services by developing the commercial viability of service providers and establishing a solid financial foundation for increased public investment and access to private sector financing from local banks, capital markets, or blended mechanisms. Activities include active stakeholder engagement, targeted technical assistance, focused capacity building using participatory and peer-learning approaches for uptake, and replication of commercially viable business models and financing approaches based on creditworthiness.

## **PROMOTING CLIMATE-SMART AND RESILIENT WASH INFRASTRUCTURE INVESTMENT**

WASH service providers have limited financial resources to prepare for climate change or inadequate technical capacity to conduct quantitative analyses of how temperature, precipitation, and other climate considerations will impact their operations and long-term financial performance. WASH-FIN addresses this concern through climate risk management (CRM) integration within WASH-FIN activities, particularly within water and sanitation utility business planning activities.

## **APPROACH**

WASH-FIN's approach to closing financing gaps is based on the premise that all citizens should be treated as valued customers and adequately served by WASH service providers. The following strategic lines of action encompass this approach to move the sector toward the goal of closing the financing gaps to reach universal access:

**Promoting sustainable business models:** WASH-FIN supports reliable and resilient WASH services through promotion of commercially viable, sustainable business models critical for increased public and private investment.

**Mobilizing private capital and market finance:** WASH-FIN supports domestic resource mobilization by helping service providers leverage own source and other domestic resources and building local capacity to track investment.

**Accessing repayable finance:** WASH-FIN's range of services and tools help reduce risk and build creditworthiness for access to private and other finance in support of self-reliance, accountability, and transparency.

**Replicating success through knowledge sharing:** WASH-FIN ensures that knowledge and learning efforts are fully integrated into project activities and broadly disseminated to strengthen the capacity of WASH authorities, service providers, and local financial institutions through collaboration, education, and adaptation processes for knowledge capture, dissemination and uptake.

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