

SDC Water Team Days 2010

28th/29th June 2010, SDC Head Office, Bern Ausserholligen, Switzerland

MINUTES

1) Introduction

Since 2004, an extra day for SDC's Water Team is organized late June at the fringe of the series of annual AGUASAN workshops. During the SDC Water Team Day (WTD), typically SDC field and head office staff, as well as closely related partners, having participated in the AGUASAN workshop and others, exchange openly on current issues, existing initiatives and ongoing activities at global, regional and national level in the sector and contribute to further coherence, efficiency and synergies in the sector actions of the agency.

In 2009 the WTD also integrated people not present in Switzerland at this occasion through a videoconference and constituted the launching event for SDC's RésEAU (network of sector practitioners). This year, the event, attended by 24 participants (see Annex 1) was extended to last 1½ days and aimed primarily at strengthening the RésEAU and its practice.

2) Topics and methodology

The main topics of the WTDs 2010 and the methodology applied were as follows:

- a) Presenting (input) and discussing the draft **New Strategy of the Global Programme Water Initiatives** and its implication for the RésEAU members
- b) Mutual information and exchange in free format on “**What's new**” in the represented regions, countries, programs/projects and institutions
- c) Introducing (input) and debating the issue of “**Cost recovery and amortisation in Rural Water Supply Systems - How to properly manage amortisation funds?**”
- d) Providing information about the **Water Initiative's Strategic Networks** and discussing the implications and possibilities for collaboration/synergies for the RésEAU members
- e) Establishing jointly the **Workplan 2010/11 of the RésEAU**
- f) Providing enough time and an informal space for **strengthening each one's own professional network.**

The detailed agenda of the event is provided in Annex 2.

3) New Strategy of the Global Programme Water Initiatives (WI)

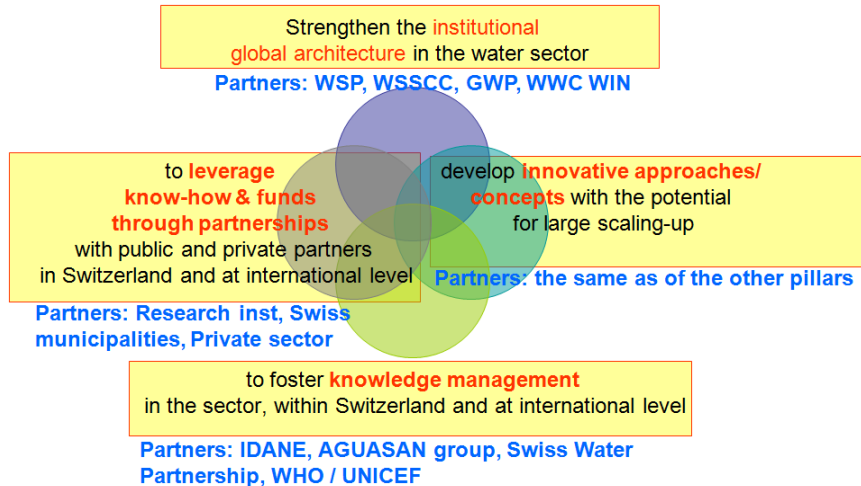
See annex 3 for the presentation of François Münger

SDC tackles the water challenges concurrently within the Regional Cooperation, the Cooperation with Eastern Europe, the Humanitarian Aid and the Global Cooperation (Water Initiatives - WI). For the latter, a new strategy has been drafted in line with SDC's Water 2010 Principles and Guidelines and based on the **vision of a world with an equitable water management, avoiding a global water crisis in the 21st century.**

The WI intends to exert influence at global level for an equitable water management (incl. transboundary issues), focusing on water availability and sustainable use for life and development in rural areas as well as to position SDC and Switzerland in the forefront of the nations and/or international actors influent in the water domain. The **objectives** defined in the strategy are to:

- ❖ Influence worldwide efficient and equitable water management focusing on water availability, for sustainable and safe use in rural areas and protecting the environmental services
- ❖ Contribute to ensure in rural area a sustainable access to water integrating household (drinking) water and water for family agriculture as well as to sanitation, and hygiene

The scheme below summarizes the strategy and the partnerships of WI over the period 2010-2013:



Later this year a consultation round on the strategy will be held, before the finalized version has to be presented to the direction of SDC on September 1st, 2010.

Discussion points:

- The draft strategy contains already clearly defined outputs/outcomes, but will have to include targeted financial resources yet
- The ownership of the strategy and the implications for the other operational units have yet to be described clearly
- The strategy avoids giving too much attention to climate change and will not address the issue from the mitigation side. Climate change is not seen as the main problem in the sector (it's definitely an additional challenge), but the equitable distribution of the same amount of water among an increasing number of users with increased consumptions
- Solid waste management is and will remain unaddressed by WI in order to remain focused on core competencies
- Several partners mentioned (such as WSP and WSSCC/WASH) are not only targeted in SDC's global institutional architecture strengthening, but also in knowledge management at country / regional level
- The issue of natural ecosystems / environmental services as well as the link to migration have yet to be discussed and further elaborated

4) "What's new" in my region, country, program/project, institution

Central America: (www.cooperacion-suiza.admin.ch/amicacentral)

- Water portfolio consists of 3 Aguasan programs (Honduras, Nicaragua, El Salvador) and a regional program
- Donor coordination (e.g. SDC/WB Nicaragua), improvement of sector planning (weak in the region in the overall) and strengthening of sector regulation (work with regulator in Honduras) are strongly supported
- Recent achievements in the implementation model are that disaster risk reduction is mainstreamed and that water quality aspects / costing issues are prominently addressed. A conceptual challenge is the present mix of new and existing systems

- M&E system at programme level has been put in place and the respective baseline established. Implementation of the M&E system is however a big challenge
- End of phase report Aguasan Honduras is available. A mid-term review 2010 of Aguasan Nicaragua is planned and designed as learning exercise in which RésEAU members will be involved (peer assistance)
- Story and lessons learned in the process of reconciliation of the Nicaragua database on coverage and the JMP statistics will be presented at the Stockholm Water Week '10
- Region has no additional implementation capacity in the current set-up – a cooperation model with new partners and outsourcing implementation (“regisseur”) would be needed
- Integrating water for people and water for food / provision of multiple use water services beyond the project remains a challenge (see also www.musgroup.net)

Peru: (www.cooperacion-suiza.admin.ch/peru)

- Rural water supply and sanitation project will be phased-out in 2011 and capitalisation of experiences over the past 15 years is ongoing. The exit strategy is large scaling-up by:
 - Transferring the approach to the government at national/regional/local levels
 - Advocating among donors (Spain, IADB, etc.) to invest in the approach
 - Supporting the coordination of rural water supply and sanitation platforms
 - Triggering horizontal exchanges with neighbouring countries.
- Sanitation marketing / markets have been promoted prominently and the achievements will be assessed documented in the next 2 months (mainly also focussing on the differences of the approaches for urban and rural settings)
- Switzerland will continue being present in the sector through large seco projects in the field of PPPs and solid waste management. Further Thomas Walder has taken up his role as regional thematic coordinator and is about to launch new initiatives. Through him the global cooperation supports the regional cooperation in knowledge dissemination / transfer, in implementing the exit strategy and in “after-exit” soft support

SuizAgua Colombia: (www.suizaguacolombia.net)

- The project is based on a PPP between several Swiss enterprises present in Colombia (Clariant, Holcim, Nestlé and Syngenta) and SDC. The aim of the project is to assess and reduce the water footprint of these enterprises through concrete actions/measures. SDC works in the water footprint field together with the backstopper Quantis
- Some of the SuizAgua companies (and other CH companies) are also active in Peru and therefore a transfer of the initiative and exploring synergies are envisaged
- SDC staff should be aware of the water footprint concept: see www.waterfootprint.org, http://assets.wwf.ch/downloads/wwf_wf_schweiz_04mrz2010_internet.pdf (2.9MB) and upcoming exchanges within the RésEAU

Mozambique: (www.swiss-cooperation.admin.ch/mozambique)

- SDC is active since 1979 in the rural water supply and sanitation sector. Today its involvement deploys at:
 - Micro level – through PROGOAS (Helvetas) regarding good governance issues and service delivery models as well as through the Wateraid contract regarding decentralisation and appropriate technology aspects. Productive use of water at household level is included in SDC’s approach / model
 - Meso level – through vocational training initiatives
 - Macro level – through policy dialogue and strategy development at national level as well as through lobbying for a national sector programme
- An internal review of the sector involvement is scheduled for October 2010 where RésEAU members from Latin America are expected to partake
- New in the country is the upcoming National Program for Water and Sanitation (starting in 2 months) co-financed by SDC, UNICEF, DGIS, etc. and constituting the beginning of a SWAp. Budget support contributes still little to the water sector (<2.5%)

Songwe (Tanzania/Malawi): (www.cosude.ch/en/Home/News/media/F/ProjectSongeRiver.pdf)

- SDC is supporting the implementation of the Songwe River Transboundary Catchment Management Project, a project of the World Wide Fund for Nature (WWF). The project is located in the territory of the Songwe River basin split between Tanzania and Malawi.
- Some lessons learned of the project are as follows:
 - Creation of transboundary management bodies is crucial and decentralisation is a driver for transboundary water management
 - Transboundary management across national borders is going very well In the Songwe basin, whilst trans-district issues have largely been neglected
 - Upstream-downstream concept is very much perceived and understood in the field, but not at legal / institutional level

Moldova: (www.apasan.md)

- The goal of ApaSan (Swiss Water & Sanitation Project – former SDC WatSan Program) is to increase the capacity of the local governments in selected rural districts to ensure decentralized WES services delivery and management with the participation and support of civil society organizations and support service providers. The project, financed by SDC/ADA, demonstrates good practices of local good governance using decentralized WES services (water supply, Ecosan toilets, constructed wetlands) as entry point.
- Phase I of ApaSan is being implemented by Skat over the period Dec. 2008 – Apr. 2011. The year 2010 will see an internal review (self-evaluation) in August and an external review (evaluation) in October. Both processes will contribute to the definition of phase II of the project. Important features of the project are currently:
 - Creation of an umbrella organisation of the different water consumers associations managing the rehabilitated / newly built water supply systems
 - Policy dialogue, mainly through SDC's leading position in the sector collaboration council, to influence the current and outdated norms and standards in the sector
 - Collaboration with national NGOs on an Ecosan toolkit and research work on the re-use of urine/faeces (incl. perception study with farmers)
 - Piloting of constructed wetland sites. The constructed wetlands technology has the potential to become a SDC (CH) product when being linked with the developments being made in Latin America and the Balkans.

Central Asia: (<http://www.swiss-cooperation.admin.ch/centralasia>)

- Through the Swiss Cooperation Offices in Kyrgyzstan, Tajikistan and Uzbekistan, Switzerland implements projects which aim to achieve a sustainable change in the region. In the water sector the involvement spreads over:
 - Rural WES (SDC):
 - Scaling-up of rural WS&S services delivery model in Taj./Uzb. implemented by ISW since 2004 in Andijan/Ferghana regions. An important aspect is hygiene education having resulted in a manual for educational and health sector staff
 - Support to Tajik network (TajWES) for knowledge exchange and policy dialogue
 - Taj. WS&S Project implemented since 2009 by Oxfam GB in Khatlon oblast
 - Local Development Muminabad Project in Taj. implemented since 2000 by Caritas CH supporting transparent citizen oriented development planning (incl. water & sanitation) in the District. The project is about to be closed down.
 - Urban WES (SECO): e.g. Khujand WS Tajikistan and Nukus Sewerage / Bukhara and Samarqand WSS in Uzbekistan providing best practice for the region whilst showing the difficulty of government involvement in the processes
 - Irrigation: Integrated Water Resource Management (IWRM) Project in the Ferghana Valley shared between Tajikistan, Kyrgyzstan and Uzbekistan. A successful external review of the project has been conducted in April 2010
- Opportunities are the potential for scaling-up RWSS in Uzbekistan (SDC as lead donor) and the work on conflict mitigation among the three countries in the Ferghana Valley.

5) “Cost recovery and amortisation in Rural Water Supply Systems”

See annex 4 for the presentation of Roger Schmid/Gerald Eder

The topic was brought to the RésEAU by Olivier Magnin (SDC Water Resources Management Advisor Central Asia) and affirmed by SDC Mozambique as being highly relevant for a boarder discussion. The issue was described for the Uzbek context as follows:

“Since its beginnings, the SDC/ISW rural water supply project has completed 14 water supply systems and will soon reach 20. The size of the villages varies between 1’200 and 6’000 inhabitants. The amortization of the whole system has been included in the water tariff of all villages; the lifetime of a system is defined as 20 years. The cumulative savings for the future replacement of the systems are growing. Taking an average investment of 200’000 USD and a lifetime of 20 years, a cumulated amortization of 100’000 USD after 10 year for 1 village results. Without a real financial management, the risk of losing money (depreciation of the local currency) is quite high. One could also think about putting the savings of the villages in common; one entity would manage all the funds. In this scenario and for 20 villages, the financial management entity would deal with 2 million USD after 10 years! In such political environment this could create another risk: the use of these resources for other purpose! Whatever the solution, one should also consider the legal aspect of it”.

The input provided summarized the starting point through the following **problem statement**:

- Accumulated savings (must) reach significant amounts over time
- Financial management expertise cannot be expected on the community level
- Weak legal status of user communities and unclear rules for utilities which “make profit”
- Growing savings can raise the will to reduce tariffs and/or undermine willingness to pay
- High risk of losing “money” (e.g. misuse, currency devaluation)

The presentation then addressed the following **key questions** more in-depth:

- **How much money is needed/should be accumulated?** The needed maximum accumulation depends on the maximum single investments to be expected and the proportion that needs to be financed by equity - both factors being controllable. To reduce the need of accumulating funds, it is possible to reduce the maximum investments to be made and to replace equity by loan capital.
- **How should these funds be managed, and by whom?** Suitable (re)financing arrangements need political will and an appropriate framework, which includes specialized institutions offering the services at affordable conditions, appropriate regulations and controls, customers that have a suitable legal status, utilities being allowed/supported to accumulate funds and appropriate loan schemes.
- **Are there alternatives to accumulating money?**

Within the community / utility level:	At the national level:
<ul style="list-style-type: none"> • Invest in increasing the customer and revenue base (network extensions, improved system reliability and service levels) in order to create a strong economic basis • Prepare strategic investment plans and optimise preventive maintenance to avoid investment peaks • Use complementary loan financing for major future amortisation investments • Build capacities for these tasks at community and scheme operator level 	<ul style="list-style-type: none"> • Make accumulated funds available for WES investments in other villages/towns, e.g. by creating a revolving fund. In return the villages themselves have access to funding at favourable conditions when needed • Develop appropriate loan financing instruments (e.g. dedicated infrastructure funds or long-term credits by development banks) • Strengthen regulation and auditing systems to ensure proper financial management and minimise fiduciary risks

Examples:

- [South Western Umbrella of Water & Sanitation \(SWUWS, Uganda\)](#)
- Uganda Water and Sanitation Facilitative Development Fund
- Water Supply and Sanitation Development Fund Rwanda
- [ASUFOR model in Senegal](#)

See also [“Price of water – SDC working paper on water costs, tariffs and subsidies”](#)

6) Water Initiative's Strategic Networks

WSP: (www.wsp.org)

The Water and Sanitation Program (WSP) is a multi-donor partnership administered by the World Bank (WB) to support poor people in obtaining affordable, safe and sustainable access to WES services. WSP works directly with client governments at the local and national level in 25 countries through regional offices in Africa, East and South Asia, Latin America and the Caribbean and in Washington. The WSP is well positioned at the interface between the influences of bilateral agencies, the WB and the countries' interests. Being part of the WB, WSP influences the Bank's W&S policies and operations (e.g. DRA, hand washing initiative), whilst having enough independence to act as a "honest broker" able to facilitate the coordination of the actors and to enhance collaboration and advocacy in the sector.

SDC is one of the seven main founders of WSP, contributing currently with approx. 9% to the total budget requirements of the programme. As a key supporter over many years, SDC has a special role in the coordination of WSP activities and is closely consulted on the specifics of activities on global, regional and national levels. SDC is part of the WSP Council (steering body, made up of donor representatives, the regulator of Mozambique, an Indian NGO, a public utility of the Philippines) and of some regional/national Advisory Councils. Elements of the board meetings are regularly shared by WI and regional SDC staff will be invited to join future meetings. More specifically, SDC supports WSP:

- At **global level** to create a sectoral platform of global learning, advocacy and south-south fertilization, combined with the generation of knowledge, models and tools to be used by decision makers from governments, external support and development partner agencies (sustainable scaling-up of WSS in rural areas and small towns, strengthened institutional and policy linkages for WSS services provision by local governments and WSS services in relation to the core of the MDGs - poverty, health, gender parity).
- In the **African Region** contributing to:
 - Regional core funding aiming at supporting the in-country and regional thematic work in about 25 projects each year.
 - Country/regional hub support to Mozambique (improving strategic planning, financing and implementation, generating lessons learned, leading sector debate).
 - Country support to Tanzania (sector coordination and monitoring of W&S MDG roadmap, development of sustainable approaches to RWS and urban sanitation).
 - Support to the Rural Water Supply Network (RWSN), the global knowledge network for sound practices in rural water supply
 - Country support to Niger (sectoral coordination and monitoring at the provincial / national levels, development of a sustainable financing system for the sector)

In addition, WSP receives financing from SDC operation unit of Bangladesh (country activities) from SDC LA division (regional activities, Central America activities, country activities in Peru) as well as from SDC South Asia Division (country activities in Pakistan).

WIN: (www.waterintegritynetwork.net)

The Water Integrity Network (WIN), formed in 2006, aims to fight corruption in the water sector. It stimulates anti-corruption activities in the water sector locally, nationally and globally. It promotes solutions-oriented action and coalition-building between civil society, the private and public sectors, media and governments. The Network's specific objectives are to:

- Promote increased awareness and understanding of corruption issues related to water;
- Improve the information and knowledge base and disseminate effective anti-corruption methodologies and best practices relevant for organisations working with water;
- Support practical actions to fight corruption in water;
- Develop monitoring mechanisms relating to corruption in water;
- Support capacity development of governments, civil society, private sector, etc. to undertake and coordinate activities, advocate and work together against corruption in water.

WIN welcomes organisations and individuals that view anti-corruption measures as central to equitable and sustainable development, economic efficiency and social equity – up to now it counts 1'266 members from 108 countries. SDC was asked by the UN, the private sector and bilateral donors to join WIN, due to its renommé and political influence in the sector. The expected benefits for SDC are:

- a) At the global level, to be part of an leverage movement against corruption in the sector
- b) At the country level, to benefit from country-scans, training and tools to prevent, discover and reduce corruption and to be part of country coalitions

SDC's contribution represents ~10% of WIN's actual annual budget of 1 mln Euros for the global advocacy work. SDC is part of the donor representative cluster within the steering committee of WIN.

GWP: (www.gwpforum.org)

The Global Water Partnership's (GWP) vision is for a water secure world. Its mission is to support the sustainable development and management of water resources at all levels. GWP was founded in 1996 by the WB, UNDP and SIDA to foster integrated water resource management (IWRM). The network is open to all organisations involved in water resources management: developed and developing country government institutions, agencies of the United Nations, bi- and multi-lateral development banks, professional associations, research institutions, non-governmental organisations, and the private sector. It is supported financially by Canada, Denmark, the European Commission, Finland, France, Germany, the Netherlands, Norway, Sweden, Spain, Switzerland, the United Kingdom and the United States.

GWP's comparative advantage lies in its extensive networks that have been established at global, regional and country level. In some cases GWP water partnerships have been established at basin level within countries. The added value of GWP lies in its multi-stakeholder approach and the establishment of the water partnerships that facilitate stakeholder participation, especially during consultation processes and for building collective ownership of processes. The participation of SDC to the financial partners group as well as the donors' representation to GWP steering committee provides ample opportunity for SDC to engage with GWP and contribute to steering its programme. Prior to engagement of external reviewers it is also normal practice of the Partnership to seek comments from the Steering Committee, in which donors are represented.

WSSCC: (www.wsscc.org)

The Water Supply and Sanitation Collaborative Council (WSSCC) is a global multi-stakeholder partnership organisation that works to improve the lives of poor people. WSSCC enhances collaboration among sector agencies and professionals around WASH and contributes to the broader goals of poverty eradication, health and environmental improvement, gender equality and long-term social and economic development. WSSCC's network of National WASH Coalitions and individual members gives it the legitimacy and flexibility to work effectively at the community level. Through Networking & Knowledge Management, Advocacy & Communications and the Global Sanitation Fund, WSSCC is at the forefront of knowledge, debate and influence on WASH for all.

SDC is one among several WSSCC donors, contributing currently with about 8% to the Council's total budget requirement. SDC has been elected by the other financing bodies as one of the three representatives of the financing agencies in the WSSCC Steering Committee. SDC has been instrumental in setting up the WSSCC about twenty years ago and has still an important voice and weight in the Steering Committee and hence in the development and performance of the WSSCC. In return SDC takes advantage of the Council in its fieldwork. Various SDC partners, projects and structures put in place by SDC in the water sector take largely advantage of WSSCC interventions.

7) Work plan 2010/11 of the RésEAU






- ❑ Contribute to the portfolio definition and credit proposal developments regarding the additional funds for water (0.5% message) (upon demand by WI)
- ❑ Participate in the consultation round regarding the new strategy of the Global Programme Water Initiatives (to be launched by WI in August)
- ❑ Continue thematic exchange on:
 - “Large scaling-up” through dgroups based on the findings of the AGUASAN Workshop 2010 (to be launched by RésEAU focal point)
 - “Amortization funds” to establish state of the art
 - Costs of different types of pumps (water supply, micro-irrigation)
- ❑ Contribute to the project factsheets, member profiles and key documents shared on the RésEAU shareweb (upon demand by the RésEAU focal point)
- ❑ Foster exchange between “neighbouring” SDC thematic networks (coordinated by RésEAU focal point)
- ❑ Engage RésEAU members in the project reviews foreseen in Mozambique and Latin America
- ❑ All members acquire knowledge about the Water Footprint Concept, supported by knowledge exchange within RésEAU
- ❑ Participate in the Water Team Days 2011 towards end of June 2011 (concept and date to be defined by RésEAU focal point)

8) Key messages from the WTDs

- The expected additional financial resources 2011/12 for the sector are a great opportunity although the tight planning and implementation schedule. Water is high on the governmental agenda (all additional money will go to climate change and water only). There will be a trade off between delivering outputs and harmonisation when spending the money.
- Water is high on SDC’s agenda – although the future thematic profile of the agency (future message 2013-2016) will be even more concentrated, water as such has never been questioned.
- Also in the future, SDC should not only co-finance programs / institutions, but contribute with know-how and field experience. SDC’s contribution should also become more visible.
- Due to the REO of SDC, the networks get a high importance, as there are no thematic divisions as such anymore (apart from global themes).

St. Gallen, 27.07.10/Skat-RSC

ANNEX 1: Participants

Picture	Name	Function	Institution	Contacts / Info
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ANNEX 2: Agenda**Monday, June 28th**

CH-time	Item	Resource	Observations
09.00 – 09.30	Arrival, welcome coffee/tea, croissants	A. Steiner	
09.30 – 10.00	Agenda, logistics, mutual presentations	ZT	
10.00 – 11.00	New Water Strategy of the Global Programme Water Initiatives Early information, implications for RésEAU members	MRF	Input followed by discussion
11.00 – 12.15	What's new in my country, my region, my institution? Mutual information.	All	Short inputs (5') followed by questions
12.15 – 13.30	Lunch at SDC's restaurant	A. Steiner	All are invited
13.30 – 14.30	Information about Strategic Networks of WIs, implications and possibilities for collaboration for RésEAU-members	WIs-team	Information, identify collaborations
14.30 – 15.00	Introduction into the main WTD-theme: M&O and Amortization Funds of water (and sanitation?) systems: how much, how and who to manage, what does it cover etc? Launching of the debate	Skat	Setting the scene, Non-SDC examples
15.00 – 15.15	Pause		
15.15 - 16.15	M&O and Amortization Funds (see above) <ul style="list-style-type: none"> • Problems encountered • Solutions found • Examples 	ZT, Skat, concerned countries	Structured discussion
16.15 – 16.30	Conclusions	ZT	
16.30 – 19.30	Free or Visit with WIs-team members some beautiful and interesting sites in/around Berne	All	tbd ad-hoc
19.30 – 21.00	Dinner	A. Steiner	Invitation RésEAU

Tuesday, June 29th

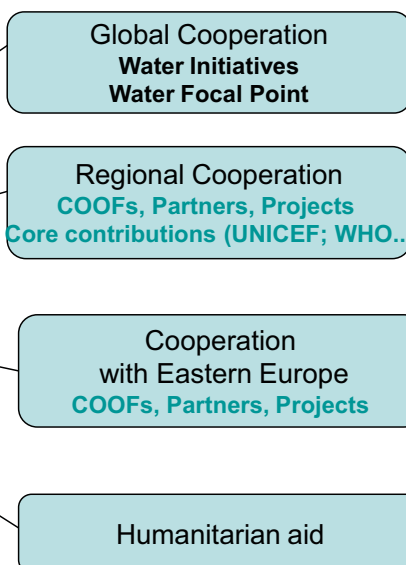
09.00 – 09.15	Opening	ZT	
09.15 – 10.45	What's new (continued)	All	More News or deepening of themes
10.45 – 11.00	Coffee, tea, croissants	A. Steiner	
11.00 – 12.15	RésEAU's work plan 2010/2011 Planning for additional funding (0.5%) Other priorities, meetings, exchanges, etc.	All	Information and contributions
12.15 – 12.30	Closure	Ruth Huber	
12.30 – 13.30	Sandwich lunch		



Annexe 3:

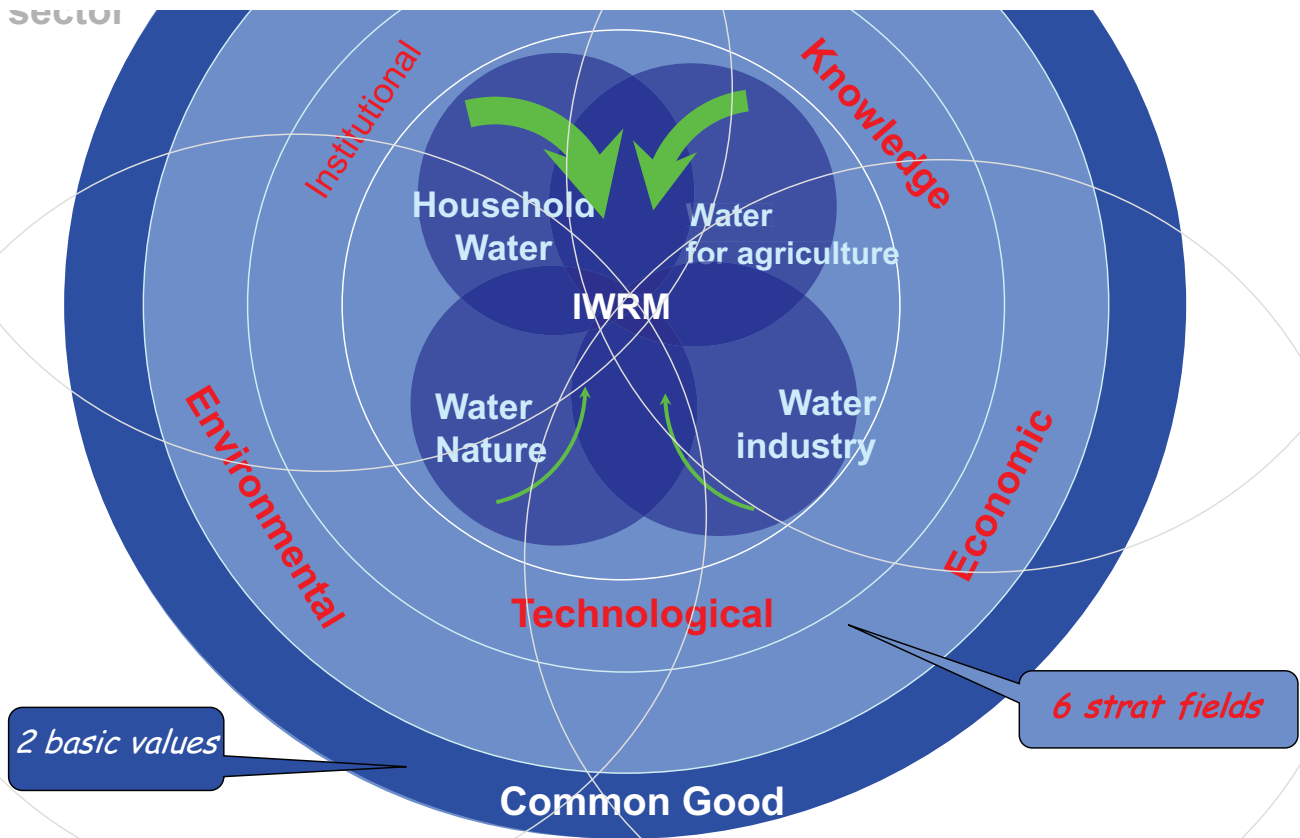
**Water InitiativeS
+ H₂O
Strategy**

**SDC addresses this challenge
in most of its organizational units**



WiS strategy within SDCs Water 2015 Principles and Guideline,

sector

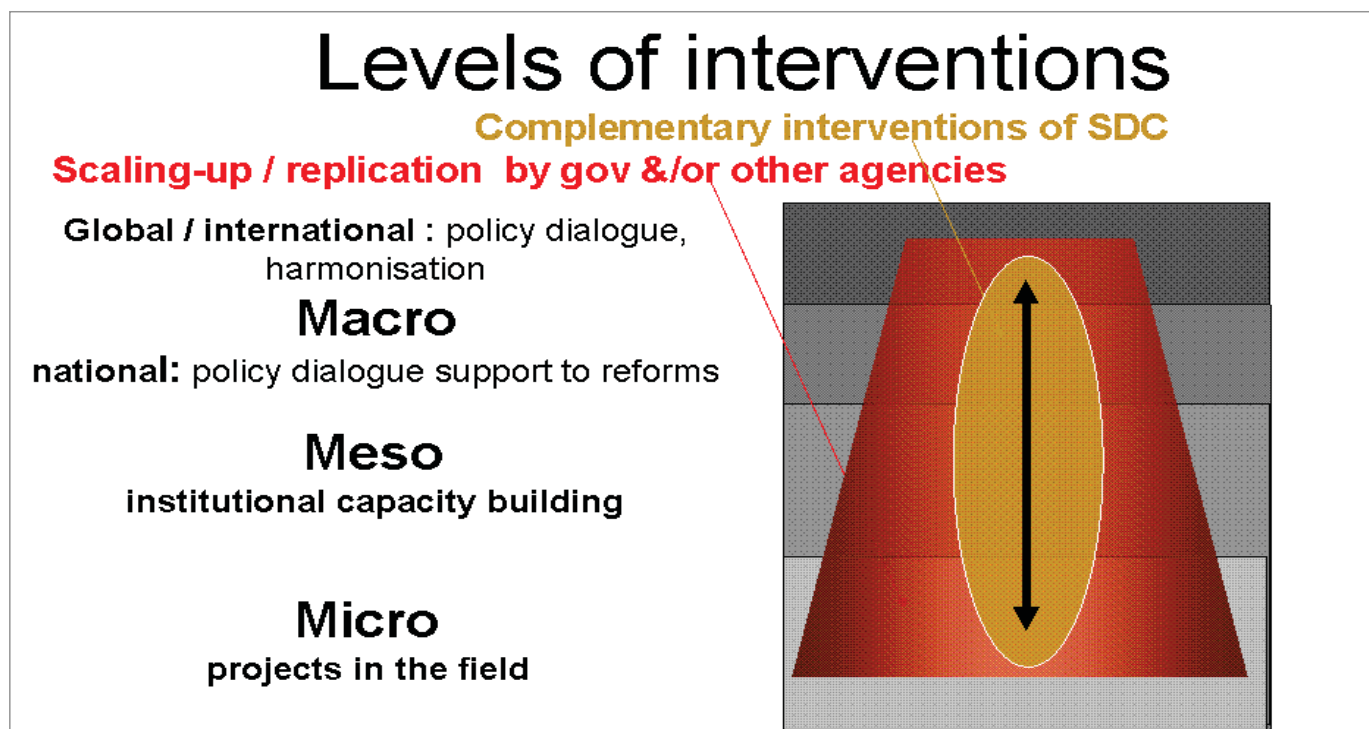


WiS strategy within SDCs Water 2015 Principles and Guideline,



Our Blue diamond

A SDC strategy with:
Four interdependent levels of intervention
for scaling-up & global influence



WiS vision

A world with an equitable water management,
avoiding a global water crisis in the 21st

WiS Mission

To influence at global level for an equitable **water management**, including transboundary problematic, focusing on **water availability and sustainable use for life and development in rural areas.**

and

To position SDC and Switzerland in the forefront of the nations and/or international actors influential in the water domain

WiS Objectives

To influence worldwide **efficient and equitable water management** focusing on water availability, for sustainable and safe use in rural areas and protecting the environmental services

To contribute to ensure in rural area a sustainable access to water **integrating household (drinking) water and water for family agriculture as well as *to sanitation, and hygiene***

WiS strategy

Strengthen the **institutional global architecture** in the water sector
Partners: WSP, WSSCC, GWP, WWC WIN

to **leverage know-how & funds through partnerships** with public and private partners in Switzerland and at international level
Partners: Research inst, Swiss Municip, Private sector

develop **innovative approaches/ concepts** with the potential for large scaling-up
Partners: ~~the same that of the 3 other pillars~~

to foster **knowledge management** in the sector, within Switzerland and at international level
Partners: IDANE, agusan group, Swiss Water Partnership, WHO & UNICEF

Relations/synergies with the GC three other global programs (to be developed)

Climat
Changes

Strengthen the **institutional global architecture** in the water sector

to **leverage know-how & funds through partnerships** with public and private partners in Switzerland and at international level

to foster **knowledge management** in the sector, within Switzerland and at international level

Food
Security

Migration ??

Example of outputs



Water Security in the Middle East



" 21st Century will be **blue** and **solidary** or will not be"



Thank you

Cost Recovery and Amortisation in Rural Water Supply Systems

How to properly manage amortisation funds?

An introduction to launch the debate

Gerald Eder (hydrophil)

Roger Schmid (Skat)

Setting the scene – the Uzbek case

- ➊ Rural setting, villages between 1,200 and 6,000 inhabitants
- ➋ Soon 20 rural water supply systems operational
- ➌ Grant financed
- ➍ Amortisation of the whole system over the calculated lifetime (20 years) is included in water tariff
- ➎ Systems managed at the community level
- ➏ Accumulation of considerable amortisation funds (cash flow surplus exceeding the O&M costs) expected

Problem statement (applicable beyond the Uzbek case)

... in particular with relevance in developing and transition countries:

- Accumulated savings (must) reach significant amounts over time (true for every water supply and wastewater system)
- Financial management expertise cannot be expected on the community level
- Weak legal status of user communities
- Unclear rules for utilities which “make profit” (legal situation)
- Growing savings (i.e. accumulated cash flow surplus) can raise the political or public will to reduce tariffs and/or undermine willingness to pay
- High risk of losing “money” (e.g. misuse, currency devaluation)

Questions arising

- ① Is this a common problem?
- ① How much money is needed / should be accumulated?
- ① How should these funds be managed, and by whom?
- ① Are there alternatives to accumulating money locally?

Is this a common problem?

Yes!

- ① Adequate revenue collection through tariffs is a must for sustainable water & sanitation utilities
- ① Even simple systems need funds exceeding regular (e.g. monthly) O&M costs – e.g. pump repair after 5 years
- ① Community based organisation, with a lack of (financial) management expertise and often without a strong institutional and legal status, is common for rural areas

But ...

Is this a common problem? (contd.)

Typically ...

- ① Attaining sufficient revenues for cost recovery is a problem in rural areas and is often not achieved immediately
- ① Existing systems have to cope with delapidated infrastructure awaiting repair or replacement
- ① In regions where full cost recovery is realistic, new infrastructure has been financed (partly) through loans which need to be paid back

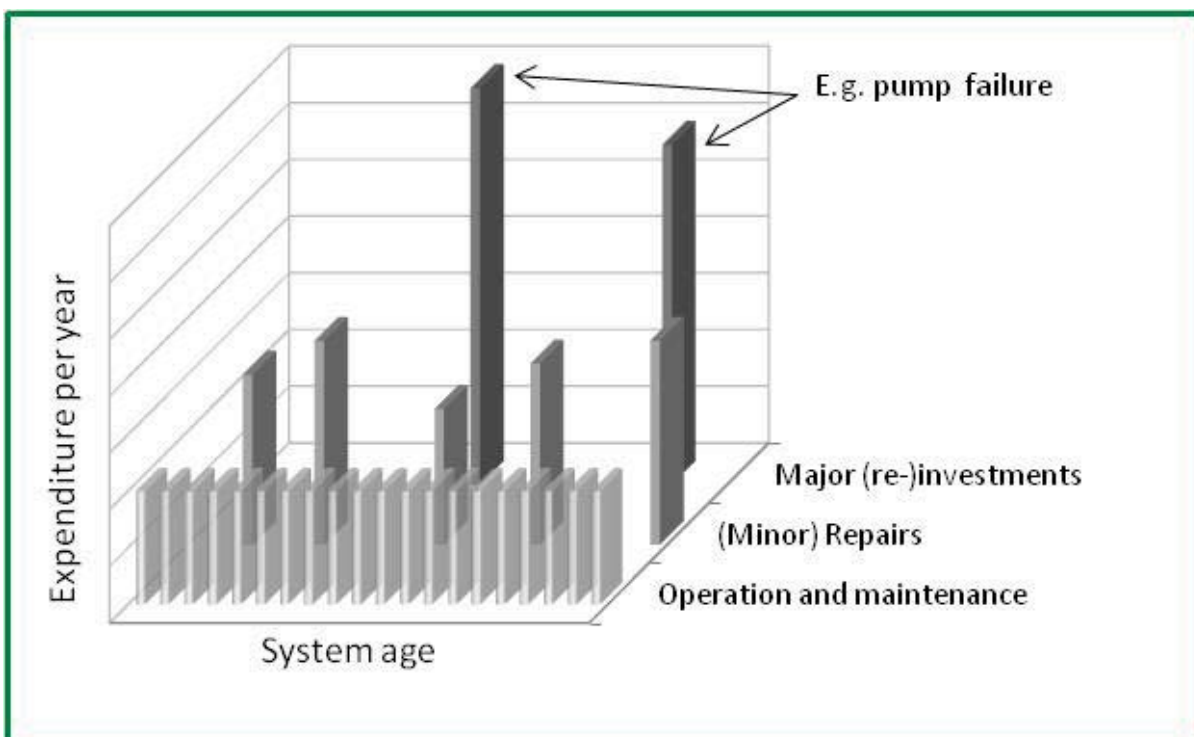
In all these cases the problem of cash accumulation is less of an issue.

Different types & frequencies of cash requirements

Type of costs	Specific examples
Regular Operation & Maintenance	Day-to-day running of the scheme: Salaries, energy, chemicals, maintenance spare parts, etc.
Periodic major repairs	Reinvestments needed to sustain the service level: Replacement of electro-mechanical equipment, refurbishment of wells and storage tanks, etc.
Service level upgrades	Investments to increase the customer base and improve service levels: Network extensions, improvement of system reliability or water quality, etc.
(Re)investment	Creation or replacement of long-term assets (Not easy to separate from major repairs!)

Different types & frequencies of cash requirements (cont.)

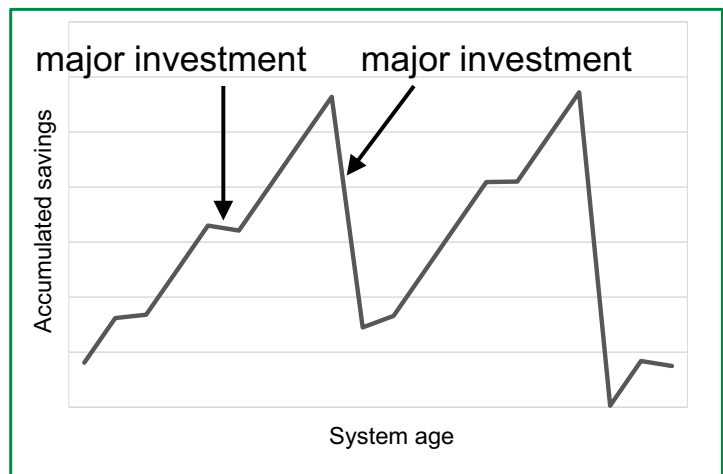
Characteristics of different costs items: frequency vs. volume



How much money is needed?

The needed maximum accumulation depends on:

- ① The maximum single investments to be expected;
- ① The proportion that needs to be financed by equity.



Both factors can be controlled!

How much money is needed?

To reduce the need of accumulating funds, it is possible

- ① to reduce the maximum investments to be made:
 - Pro-active maintenance & timely repairs instead of re-investment;
 - Strategic financial planning and splitting investments into affordable pieces.
- ① to replace equity by loan capital:
 - Identify suitable sources;
 - Secure eligibility.

How should accumulated funds be managed?

No matter how well strategic financial management might be developed, some funds will have to be accumulated.

The way they are kept should...

- ① guarantee that capital cannot be lost;
- ① prevent unintended use;
- ① secure that funds are available when needed;
- ① prevent devaluation
- ① realise some interest (while minimising risks).

In addition, it would be nice to have **access to loans** when needed.

But who can provide this?

How should accumulated funds be managed?

Institutions ready to provide the needed services in general are:

- ① Banks specialized in community / public / development financing;
- ① Dedicated facilities and funds.

Common aspects for both types:

- ① ready to work with customers who are not familiar with “business”;
- ① political backing to safeguard deposits;
- ① low-risk loan and investment policies.

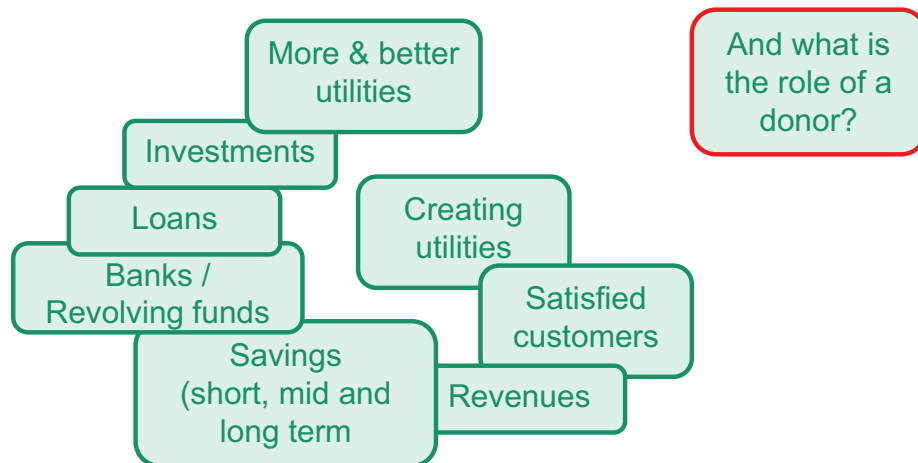
While banks are usually not specialized on a sector, dedicated funds are familiar with the specific sector characteristics.

An appropriate framework is key

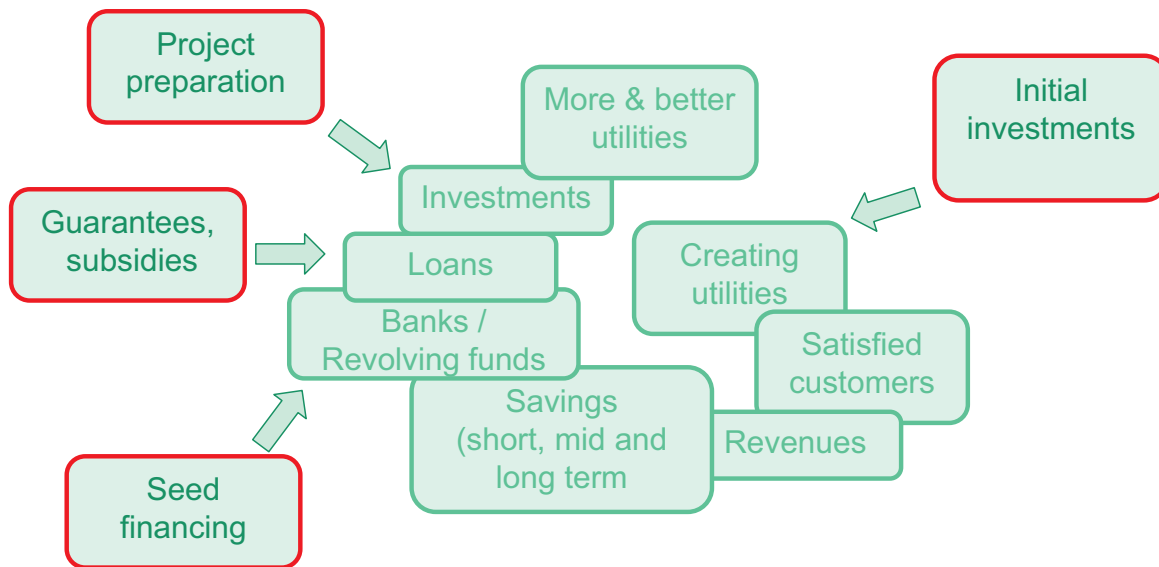
The development of suitable (re)financing arrangements needs political will and an appropriate framework, which includes the following elements:

- ① Specialized institutions (banks, facilities) offering the needed services at affordable conditions;
- ① Appropriate regulations and controls;
- ① Potential customers must have a suitable legal status, or their existing legal status must be accepted;
- ① Utilities (public) must be allowed/supported to accumulate funds;
- ① The development of appropriate loan schemes (long term, low interest) depends on public support (securities, subsidies etc.).

Starting an upward spiral



The catalytic role of grant money



A view to Africa - The cases of Uganda & Rwanda

Cost Recovery and Amortisation
in Rural Water Supply Systems
How to properly manage amortisation funds?

A view to Africa (the cases of Uganda & Rwanda)

1. Point water sources (e.g. boreholes or wells equipped with hand pumps) and older piped water systems:

- ① Community based management system
- ① At least O&M costs in theory to be covered by user fees
- ① In reality regular fee collection is often not enforced, willingness to pay is limited, accumulation of funds is rare (and problematic)
- ① Communities address district authorities as soon as major problems / repairs occur

Consequences:

- ① High percentage of non-functional water sources
- ① Use of parts of the district development funds to repair existing water sources

A view to Africa (the cases of Uganda & Rwanda – cont.)

2. Piped water / small towns (new systems)

- ① Official policies in both countries **discourage community based management** due to the experiences described above
- ① **Private Sector Participation:** New schemes operated by private operators based on a delegated management contract between the District or Town Council / Board and the private operator (who may be a company or an individual, depending on the size of the scheme)
- ① **Revenue** (tariff system, water meters) is shared between the operator and the District / Town Council / Board, normally based on agreed percentages of the revenue; private operator pays regular O&M costs - any cash flow surplus is profit / remuneration
- ① **Districts / Town Councils** keep a ringfenced bank account for major repairs, but clear definition of 'major repairs' and O&M obligations is missing (critical

A view to Africa (the cases of Uganda & Rwanda - piped water)

2. Piped water / small towns (cont.) - management of funds

- ① **Cost recovery:** Tariffs are calculated to cover O&M costs and repairs of electro-mechanical equipment (such as pumps, leaking tanks etc.); in the medium term full cost recovery (including reinvestment / depreciation) is targeted in large towns only (albeit not yet achieved)
- ① **Central government subsidises** O&M in small towns (although officially these grants should mainly be used for extensions, not for O&M costs)
- ① **Tariff levels** are a big issue, small schemes with high O&M costs (e.g. due to diesel pumping) are hardly financially viable
- ① **Regulation** of private sector participation arrangements to be enhanced in both countries, delegated management model contracts are being improved

A view to Africa (the cases of Uganda & Rwanda - piped water - cont.)

Need for support at both levels – utility/community & national:

- ① **Utility level:**
Management / operational capacities need to be established at the utility level; long-term service improvements sustained with continues rise of tariff base coupled with appropriate modernization of system → supported by Umbrella organization
- ① **National level:**
 - **Financial management** capacities to be developed at national level (for new investments and subsidizing operational sustainability of scheme)
→ Water Supply & Sanitation Development Facility (Ug.) / Fund (Rw.)
 - **Regulation:** regulatory system to be built up (private sector participation)

Conclusions

How to properly manage amortisation funds?

Cost Recovery and Amortisation in Rural Water Supply Systems

Inconveniences of long-term bank savings

- Risk of currency devaluation, financial crisis etc.
- Low interest rate vs. high investment risk
- Lack of financial management experience / capacity at community level
- Legal issues (depending on the legal situation in each country and on the status of the water supply operator): Is accumulation of funds allowed for public utilities?
- Political issue: Acceptability of 'unproductive' accumulation of funds while there are urgent investment needs in other villages/towns and other sectors

Alternatives to accumulating funds

1. Within the community / utility level:

- ① Invest in increasing the customer and revenue base (network extensions, improved system reliability and service levels) in order to create a strong economic basis
- ① Prepare strategic investment plans and optimise preventive maintenance to avoid investment peaks
- ① Use complementary loan financing for major future amortisation investments
- ① Build capacities for these tasks at community and scheme operator level

Alternatives to accumulating large funds

2. At the national level:

- ① Make accumulated funds available for water and sanitation investments in other villages/towns, e.g. by creating a revolving fund managed by a competent institution (e.g. autonomous fund, existing development bank)
- ① In return the villages will themselves have access to funding at favourable conditions when needed
- ① Develop appropriate loan financing instruments, such as dedicated infrastructure funds or long-term credits by development banks
- ① Strengthen regulation and auditing systems to ensure proper financial management and minimise fiduciary risks

Résumé of related key issues

- ① Clear legal status of water utilities / communities needed, with sufficient autonomy and capacities for planning / management;
- ① Any arrangement must clearly define responsibilities for different types of costs and address the difficult distinction and links between maintenance, repair and reinvestment (ownership of assets!);
- ① Capacity building needed for strategic investment planning and preventive maintenance
- ① Sustainable water & sanitation services should essentially be financed through the “3Ts” (tariffs, taxes, transfers), grants should be used in a catalytic manner
- ① An appropriate regulatory framework is needed both for water management (including asset management) and financial services

Related aspects

Cost Recovery and Amortisation in Rural Water Supply Systems

How to properly manage amortisation funds?