Evaluation of the Water Finance Facility (WFF)

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Preface

The evaluation has benefited greatly from the help of the persons interviewed. Our thanks go out in particular to the employees of WFF and KPWF, who were not only willing to inform us extensively about the developments of the Water Finance Facility, but also introduced us to and made appointments with the main stakeholders in the Netherlands and in Kenya. We also like to thank all those who have made time to inform us about the financial and water sectors and give their views on the facility in the Netherlands and Kenya. We are furthermore grateful for the reference group's constructive feedback on the draft report.

Executive Summary

A. The Activity

The Water Finance Facility (WFF) was launched in 2017. It was an ambitious programme that introduced an innovative approach aimed at facilitating access by water companies to (local) capital markets in LDCs. It was a Dutch response to the recognition that the investments needed to *"Ensure availability and sustainable management of water and sanitation for all in 2030"*, as formulated by the UN as sustainable development goal 6 (SDG6), cannot be realized through public funds only. The lack of funds was considered co-responsible for the fact that this objective is far from being achieved, as is illustrated in the recent Sustainable Development Goals Report[1]. This report indicates that currently 2.2 billion people still lack access to safe water and that 3.4 billion people cannot yet use safe sanitation services. A World Bank study from 2016 estimates the required investment in the water sector to be US$114 billion per year to achieve universal service coverage[2], three times the actual annual global investments in the water services sector.
The Dutch Ministry of Foreign Affairs took the initiative for WFF and supported its start with a subsidy of €10 million. WFF's initial aim was to roll out National Water Finance Facilities (NWFFs) in five to eight developing countries in a period of 10 years. Each of the established NWFFs was projected to grow to a size of between €100-€250 million. For the final phase, it was expected that WFF would be expanded in terms of development capital to an amount of €55-€65 million and in terms of de-risking reserve capital to €100 million and to an aggregate business size of €1 billion.
The modus operandi is for each NWFF, the management of a pool from which loans are granted to water companies. The pool is filled by funds withdrawn from the (local) capital market, for example by issuing bonds such as in Kenya. The investors (in Kenya the local pension funds and insurance companies) were offered guarantees to stimulate their appetite for investing in the water sector. In addition, WFF provided technical assistance to the water companies to identify and formulate bankable projects and to improve their management. This assistance was also intended to prepare companies for a market-based approach to financing investments.
WFF developed a protocol for the selection of beneficiary countries. Kenya was the first country selected, while South Africa and Indonesia also emerged as candidates for the establishment of a local WFF. The Kenya Pooled Water Facility (KPWF) was initiated prior to the formal start of WFF and was treated as the pilot exercise. The choice for Kenya was based on an analysis of the capital market and the water sector in the country, but also on KPWF's early-stage funding by the Kenya Innovative Financing Facility for Water (KIFFWA) in cooperation with the Netherlands Water Partnership (NWP). The development of KPWF into a fully-fledged fund manager turned out to be quite complicated and required more effort, time and funds than was anticipated at the start. The preparation of the investment projects and the associated financing of a limited number of water companies took much more time than expected. The embedding of the approach promoted by KPWF also provoked many discussions and even misunderstandings among the relevant authorities. As a result, the issuance of the bonds was repeatedly postponed. A mid-term review recommended increasing the grant awarded and giving the materialization of the facility more time. The recommendations have been followed, but under the condition that the facility would be terminated if the issuance of bonds were not successful before the end of 2022. Simultaneously, the original ambitions were revised downwards, which implied that expansion to countries other than Kenya was postponed. Because the deadline of December 2022 set by DGIS for the issuance of bonds in Kenya was not met, DGIS decided to stop the subsidy, which ended the programme.

[1] *Times of Crisis, Times of Change, Science for accelerating transformations to sustainable development,* The Sustainable Development Goals Report 2023.
[2] Hutton, G. & Varughese, M. '*The costs of meeting the 2030 SDG Targets on drinking water, sanitation and hygiene*'. Water and Sanitation Program Technical Paper. World Bank, Washington, DC, 2016.

B. Evaluation

In line with the OECD DAC criteria, the evaluation assesses the relevance, coherence, effectiveness, efficiency, and sustainability of the Facility. In addition, it focuses on the following two questions:

- What were the reasons for the project not being successful?
- What lessons can be learnt from this project that can be used in other projects?

Relevance

General

- Improving the supply of water and sanitation services in terms of quantity and quality are high on the list of priorities in general and of the Government of Kenya.
- Foreign aid to Kenya has been declining since the country outgrew its status as a developing country. As a result, financial shortages in the water sector are increasing. Capital market financing in the manner of WFF offers an opportunity to reduce these deficits.
- An institution as WFF can indeed play a role as mediator between the public water companies and the private investors in bridging the shortfall in long-term financing in the water and sanitation sectors.
- WFF also focused on strengthening Water Service Providers (WSPs) and had in accordance with the terms of the sponsor set aside a substantial amount for this purpose. In Kenya, the need for this support is clearly demonstrated by the fact that of the approximately 100 WSPs, fewer than ten were eligible for a loan.

Content

- Long-term investment projects in Kenya are either financed by the government or by international donors. Both are unable to meet the financing needs of the WSPs. Hence the need for other sources of long-term credit.
- WFF/KPWF offers credit in domestic currency, which protects the borrower from currency risks. While the Kenyan Shillings depreciated against the US dollar with an average of around 3.4% p.a. between 2010 and 2022, its value fell sharply in 2023. From September 2022 to September 2023, the number of Shillings for a US Dollar increased from 120 to 148, i.e., a depreciation of more than 20%. Such a decrease in value has a dramatic effect on the level of interest payments on foreign loans and the repayments of the loans.
- With its appeal to the capital market, WFF offers domestic investors the opportunity to diversify their investment portfolios with the advantage of risk diversification and optimization of investment returns. The initiatives by the Kenya Pension Funds Investment Consortium (KEPFIC) focusing on investments in infrastructure are proof that there is indeed interest in such investments – although the share of these investments in the portfolios of pension funds is currently still limited.

Institutional

- The approach of organizing WFF/KPWF through a private company for which the government of Kenya would partially provide guarantee provoked resistance from various authorities with an appeal to local laws and regulations. It was felt that such a private-public cooperative approach made the Government of Kenya at least partly responsible for the functioning of a private company that might conflict with the adage of independence.
- The timing of the initiative in Kenya was not ideal, because the transition of ownership of the water companies to the local authorities (counties) was far from completed. The unfinished institutional changes of the borrowers hindered an adequate implementation of WFF's approach. This situation was further complicated by the lack of knowledge among regional policymakers

about the functioning of water companies and the opportunities that arose to use the companies for political purposes.
- The business plans of WFF and KPWF assumed that there would be substantial contributions from the international donor community., in the form of equity, grants or guarantees. In practice, most donors, although interested in the concept, showed a 'wait and see' attitude and have hardly made any contributions. As a result, KPWF was only able to offer loans at commercial rates that were not as attractive as the concessional loans usually offered by donors.

Coherence
- The initiative fitted well with the existing activities of the Dutch development policy agenda to support the water and sanitation sectors (WASH in terminology of the Ministry). These activities are very much in line with the UN's sustainable development objectives (SDG6).
- In Kenya, the initiative followed in the footsteps of what had already been initiated by the Kenya Innovative Finance Facility for Water (KIFFWA) and the Netherlands Water Partnership (NWP). Although WFF/KPWF at the strategic level fitted well into the Ministry's foreign aid agenda, it was reported that at the operational level the coherence between the various activities could be improved.
- Although KPWF fits perfectly with the ambitions of the Government of Kenya, her cooperation in the form of guarantees and cooperation agreements fell short of WFF/KPWF's wishes, especially after the installation of the newly elected government.
- The development partners in Kenya saw KPWF's approach as a welcome addition to their own activities. Yet, with a few exceptions, this sympathy did not translate into actual support and cooperation, mainly because they first wanted prove that this approach would be successful.

Effectiveness
- The concept was based on a worldwide rolling out of private companies that function as fund managers, but adapted to the local situation in terms of institutional embedding. This approach seemed less successful in Kenya. At the start of KPWF, a formal link was sought with the national government, which would take on part of the potential risks in exchange for a role in the company's steering committee. Although this was accepted at first, it later turned out that the government had no interest in such a role. Nevertheless, KPWF in tandem with the Netherlands Embassy persisted in seeking support in any form from the government. When that did not work (in time), the issuance of the bonds was at risk despite a positive attitude of the financial markets supervisor and eventually the project fell through.
- KPWF sought to commercialize the local capital market and to create an environment in which capital market financing of public infrastructure and in particular the water sector would be commonplace. In part, it has succeeded in doing so, considering the initiatives taken following KPWF's closure and the positive reception of the RebelGroup report on capital market financing.
- Before the formal start of KPWF, six water companies had been selected that were considered eligible for loans. However, it required quite a lot of efforts to define bankable projects for these companies. This required not only the technical and financial formulation of the projects, but also changes in the company's financial management and setting of the water tariffs. In the final phase of KPWF, four companies were eligible for loans.
- WFF's approach is that it attracts funding on the domestic capital market. In countries facing savings shortages, such as Kenya, this can have the unintended side effects of crowding out other demand on the capital market. This effect can occur through an increase in interest rates or more directly because investors exchange part of their portfolios for investments in, in this case, water bonds. This can lead to higher interest payments by the government or have a negative impact on private investment. Admittedly, this effect was negligible in Kenya as long as KPWF's demand was modest, but could become significant if KPWF were to become a success.

- The set-up of WFF as a self-sustaining organisation seemed promising, but unfortunately did not get any further than the prematurely stopped pilot in Kenya. With hindsight, it is unfortunate that an attempt was not also made in another country. It would have allowed comparison between different approaches and in different environments, and WFF's survival would not have depended on the success in just one country.
- Despite the premature cessation of the Facility, the following outputs and results have been achieved:
  - WFF was founded as a company with full staff and the operational tools to function as an initiator and supervisor of local WFFs. This also implies the development of protocols for expanding activities to several countries.
  - A fully equipped company (KPWF) with staff and office facilities been established in Kenya.
  - Six water companies have been supported in management and project definition and formulation.
  - Bankable projects have been prepared for four water companies in Kenya.
  - KPWF was instrumental in the promotion of a better understanding of capital market financing in Kenya. As a result, the acceptance of capital market financing has increased in several places where decision-making takes place in Kenya.
  - KPWF's initiatives created interest among local investors in investing in public infrastructure, albeit still limited. The idea of pooling funds through the issuance of (green) bonds is currently tried out by the Kenya Pension Funds Investment Consortium (KEPFIC) and the collaboration between the Eldoret Water and Sanitation Company and the Kenya Association of Stockbrokers and Investment Banks.
  - The mood regarding both capital market financing of water projects and the use of the model developed by WFF for this purpose has increased significantly in Kenya, also partly thanks to the study executed by RebelGroup International.
  - A general judgment on the improved status of water utilities is not possible here, although it can be stated that KPWF's support in the preparation of project financing in the selected companies has had a positive effect on their financial management and on the quality of the financial project proposals.
  - There is also an unintended result, namely that KPWF's activities contributed to the discussion about the setting of water tariffs, which should more systematically consider the main cost components of the water production, such as inflation, debt services, etc. Overall, this will positively impact the financial performance of the water sector.
- The main determinants for the (partial) results achieved are:
  - The financial support from respectively KIFFWA, DGIS and other donors (providing TA).
  - The commitment and activities of the staff of WFF and KPWF.
  - The support of the Netherlands Embassy, among others reflected in the support for the initiative to the start-up of KPWF's predecessor, and its efforts to reach an agreement with the Kenyan government.
- Unforeseen (external) developments which negatively affected the success of the initiative were:
  - Results of the elections, implying that the newly elected politicians reversed the supportive actions of the former government officials.
  - Corruption charges of core officials.
  - COVID-19, a result of which day-to-day contacts between KPWFF staff and government officials was not possible for a long time.

Efficiency

- The business plan as prepared for the grant application was an example of efficient use of resources. Over time WFF would be fully self-sufficient and the subsidy granted could be repaid. It predicts that the contribution of the programme would boost investment in the water sector, by leveraging the grant through the public bonds issuance to pool funds for lending to WSPs, resulting in millions of people gaining access to more adequate water and sanitation at low costs. Unfortunately, the expectations as reflected in the business plan did not come true. So, although the programme excelled in efficiency on paper, it turned out that actual efficiency was not possible in practice.

- The most important inputs consisted of expertise in the fields of management, financial services, project analysis and water management and water production. WFF and KPWF have indeed been able to mobilise the appropriate expertise available on the market. Even though KPWF's Nairobi office was fully staffed by Kenyan nationals, there were some doubts whether more use should have been made of local experts instead of regularly flying in experts from outside Kenya. It is claimed that similar expertise would have been available locally at a lower cost and that at the same time this would have contributed to a greater sense of ownership of KPWF and its activities. There is, however, no evidence that the deployment of local experts would have yielded the same quality at a lower cost.
- The Mid-Term Review suggested that more use should have been made of permanent staff rather than temporarily hired consultants. This, however, does not guarantee that staff costs would have been lower. It can even be argued that hiring experts on a temporary basis has led to the best quality expertise available.
- According to the subsidy agreement, €9 million of the awarded subsidy of €10 million is a so-called recoverable grant, which could flow back to the ministry if WFF were financially independent. In theory, a very efficient use of resources. However, the initially awarded subsidy of €6.5 million for the operational costs soon proved insufficient to start the company in Kenya. Under strict conditions, the subsidy was then going to be increased by €4.7 million. Nevertheless, the target of mobilising local funds for loans to water companies in Kenya was not achieved within the time limit set by the donor, let alone to roll it out to other countries.
- The subsidy from the Ministry of Foreign Affairs was awarded based on an ambitious plan. This plan proved too optimistic in many ways. The start-up subsidy was far too low to support the proposed plans.
- It was assumed that other donor organisations would step in during of the project, because they endorsed the approach. Although some donors showed a positive attitude at the start, an actual contribution from that side did not take place. As a result, financial shortages soon threatened to occur, also because the materialization of a pool managed by KPWF was increasingly delayed. The dependence on the subsidy from one source made the whole exercise vulnerable.
- WFF’s institutional organisation was complex with quite a lot of management layers. In Kenya, the construction of Special Purpose Vehicles (SPV) that would be administratively responsible for issuing bonds and providing loans was chosen, because the laws and regulations in Kenya did not allow a newly established Ltd company without a settled reputation to provide financial services. Yet, it was accompanied by additional costs.
- In the course of the project, it became increasingly clear that the structure of an independent private financial intermediary was a disadvantage. It required the complex organizational structure to meet the Kenyan legal requirements. A financial institution with equity capital, such as an investment bank, would not only have had a greater chance of success, but would also have been more in line with the original principles in which the Dutch Waterschapsbank served as an example. It was considered to join a local investment bank in Kenya, but it is said that this was not feasible because there was no suitable partner present.
- The approach of a start-up under the supervision of Cardano development BV and its department responsible for innovative financing activities (Frontier Finance Solutions BV) contributed to a relatively large overhead, partly due to the annual management fee of €200,000[3]. On the other hand, it should be noted that Cardano's incubator company has ample

[3] At a later stage of the project reduced to €100,000.

experience in launching new financial products on commercial terms and was therefore in principle well-equipped to launch WFF.

- Given the different perspectives of the partners, there were differences of opinion from time to time about the course to be taken, such as the roll-out of WFF to countries other than Kenya. These differences of opinion were always resolved in a friendly atmosphere.
- After a good reception of the initiative by the Kenyan government, which was clearly demonstrated by the participation of senior civil servants on the Steering Committee and not least by the commitment of a Kenyan Government contribution to KPWF's reserve fund, enthusiasm gradually waned. Local elections, the emerged corruption cases related to investments in the water sector, but also because doubts arose whether the government of Kenya was authorized to participate in the policy formulation of a private company can be mentioned as causes[4]. Furthermore, there was a different view between KPWF and government officials regarding the extent to which the Kenyan government could be held responsible for the loan commitments entered into by the WSPs. KPWF's view is that the national government is shielded from liabilities arising from the loans taken out by water companies. Up to today, some government officials are still not convinced that this is indeed the case. The result of these differences of opinion is that the Framework Arrangement and the Implementation Agreement between KPWF and the Government of Kenya, which were seen as essential by the Dutch partners, were not signed. A lot of time and energy was spent on establishing workable relationships with the government, but unfortunately to no avail.
- From its start, the planning of WFF's activities proved to be too optimistic, which meant that the most important milestone, namely the issuance of bonds in Kenya, had to be constantly postponed. The delays in Kenya meant that KPWF made a disproportionate use of funds available for the launch of WFF. In combination, the delays, and the related costs, led to the decision to wait for the results in Kenya before WFF could spread its activities to other countries. After topping-up of the budget in 2020, the condition was accepted that the issuing of bonds would take place in Kenya within a year. It was impossible to meet the deadline, which resulted in the decision of the Dutch Ministry of Foreign Affairs to end its contributions.

Sustainability

- The results of WFF are only reflected in the results of KPWF in Kenya. Despite the premature end of the project, there are several activities initiated and results achieved by KPWF that do persist. For example, in several places such as the civil service, the supervisory boards of the water companies and the participants in the capital market, there is more awareness that somehow the private sector must and can invest in the water sector, that generally is considered a risky venture. The positive reception of the RebelGroup report, which recommends a greater involvement of private capital providers in the water sector, is proof of this.
- The WSPs have benefited from the technical assistance that KPWF provided in the field of management and the identification and formulation of bankable projects, which they have since used in their negotiations with commercial banks. However, it is still too early to determine to what extent this has led to better functioning companies or to new financing opportunities for these projects.
- As noted above, funding of projects in the water sector is kept possible and welcomed by a few, creating an enabling environment for the WFF approach. Influential government officials show a growing positive attitude on this matter. Institutional capital providers are now more positive about investments in the sector than is shown from their previous investment portfolios. Initiatives by the association of pension funds show that their appetite to invest in physical

[4] The relationship between the Dutch government and a private company has also led to discussions in the Netherlands, namely on whether the ministry's involvement in (1) the establishment of WFF/KPWF and (2) participation in the steering committee was not contrary to the Comptabiliteitswet

infrastructure has increased, if there are sufficient guarantees for interest and repayment obligations.

- Given the consensus that exists regarding the need for capital market financing of public infrastructure and the fact that bankable projects prepared by KPWF are on the shelf, it would be desirable to support a local financial institution in adopting the WFF concept. Rebel's report makes suggestions about which institutions might be eligible for this.
- As noted above, KPWF's involvement has also ensured that the issue of the indexation of water tariffs has moved higher on the agenda and has become a more structured process.

C. General Conclusions

WFF's target countries share the situation of serious limitations in financing the needed investments in the water sector. They also share that the local capital market is in a process of maturation. Given this context, WFF is a relevant answer, also because it intends to lend to water companies in local currency, avoiding currency risks.

WFF functions as an intermediary between investor and borrower, which is indeed an innovation in the financing of public investments in developing countries. The organisation in the form of a private parent company (WFF BV) that maintains corporate relationships with private companies in the various countries (NWFFs) is not standard in the public domain and has advantages. These include the benefits of a business-like approach, which is also encouraged in the water companies through technical assistance provided during the preparation of bankable projects. Doing business with a private company is also considered an advantage, because investors often have more confidence in private partners than in what they consider to be a less reliable government. Although in principle an attractive approach, it should be warned for un unsustainable situation. It is namely likely that NWFFs might be loaded with a high debt in Euro to the parent company originated during their start-up phase. This can lead to repayment problems, especially if the start-up of the local company is going to take a long time, as in the case of KPWF.

During the project, it was decided to concentrate entirely on KPWF and to suspend activities in the other countries for the time being. KPWF's start went smoothly. The idea of capital market financing through the issuance of bonds was enthusiastically received by the Government of Kenya, and the Dutch Embassy in Nairobi encouraged the initiative. The business plan assumes that external support is necessary for the start-up of the company. And support was promised from various sides, but in practice, most donors showed a wait-and-see attitude and support was not forthcoming.

Optimism about sufficient support from politicians and civil servants led to an overestimation of the speed of implementation of the KPWF concept. However, KPWF got caught in the net of bureaucratic and political entanglements, which in our view had become an obstacle for its functioning. This was reinforced by the overly optimistic expectation regarding financial support from other donors. As a result, the bond issuance project suffered delays that were exacerbated by the COVID19 outbreak. In practice, this meant that an increasing share of the subsidy had to be used for the exercise in Kenya. Although the request for a budget increase was granted, expectations were again too high at the time of this budget expansion. In the end, DGIS decided to stop the subsidy.

WFF's lack of own capital limited its lending capacity and expansion to countries other than Kenya. It was entirely dependent on external grants to cover its operational expenditure and on third-party contributions to a guarantee fund. In the case of KPWF, the government of Kenya, which in practice showed a rather volatile behaviour, withdrew its previous commitment to a reserve fund during the process. These reserves were needed to provide investors with sufficient certainty and confidence in their investments.

The not-foreseen delays in Kenya prevented WFF's expansion of activities to other countries, including Indonesia and South Africa. This could have been avoided by a strict ceiling on expenditure per country, including Kenya. Because there was no limit to the budget that could be spent for one country, the entire budget (and we are talking about the non-earmarked part here) was spent on the operational costs of KPWF and WFF headquarters.

D. Lessons Learnt

Lesson 1: WFF/KPWF lacked sufficient resources to sustain the introduction of its innovative finance instrument. Speculating on third-party contributions is too uncertain. It is therefore advisable to start the introduction of such an instrument only if sufficient funds from several sponsors have been secured beforehand.

Lesson 2: An alternative to fund management is to cooperate with a reliable financial institution with sufficient equity and proven access to other financiers. The government as co-owner of such an institution would be an advantage, because it would imply the chance of mental and financial support from the local government.

Lesson 3: The facility was set up as a private company entirely in line with the philosophy that private investors should play a more important role in the financing of the water sector. Yet, KPWF was introduced as a government-to-government operation with support by the Government of Kenya in the form of a donation to the guarantee fund and a seat in the Steering Committee. This led to insurmountable problems when the Government was not able to keep her previous promises. The lesson is that a government must remain far from a private company's managerial decision board unless it operates as shareholder.
It would have been better if WFF's private character had been maintained to the end. This does not mean that good relations should not be built with local authorities, if only because the water companies are public institutions, but it should not mean that local authorities should also interfere in the business of the company.

Lesson 4: KPWF was focused on the bond market. It is advisable to use a broader spectrum for attracting funds. This also implies a greater reliance on other financiers for soft loans. It might also have been possible to raise funds on the international capital market while hedging exchange rate risks.

Lesson 5: If WFF or a similar facility is rolled out to countries in the future, these countries' political and institutional environment must be taken well into consideration.

Lesson 6: It is unrealistic that a multinational company (WFF) with several local branches (NWFFs) can be started with only €10 million to leverage up to a transaction volume of €1 billion. The assumptions about the contributions of other donors turned out to be not solid. More realistic assumptions would avoid many frustrations.

Lesson 7: It is also very optimistic to assume that the project could have reached its objective of a first issuance of bonds within two years. What transpired is that during the first two to three years, more attention should be given to the creation of a conducive institutional environment. An overly optimistic time schedule could be remedied by organising a mid-term review within the first two years.

Lesson 8: If an innovative financing facility were to be re-initiated, diversification across several countries would be desirable to avoid that the initiative depends on success in one country only, while it also offers the possibility to compare the approach as conducted in the different countries.

Lesson 9: The rate of the KPWF's loans consisted of the market interest plus a management fee. This went beyond what other financiers offer. Blending with soft funding is necessary in particular at the start of such initiatives to achieve acceptance of this new financing modality by the borrowers.

1. Introduction

1.1 Context

The UN formulated the Sustainable Development Goal 6 (SDG6) in 2015 as follows: *"Ensure availability and sustainable management of water and sanitation for all in 2030".* Despite this objective, about 25% of the world population did not have access to safe drinking water in 2020. And if progress continues at the current rate, this percentage will be only five percentage points lower in 2030. About 50% of the world population had no access to safely managed sanitation in 2020, which will decline to 32% in 2030 if current progress continues[5]. These figures are underlined by the recent Sustainable Development Goals Report[6], which indicates that currently 2.2 billion people still lack access to safe water and that 3.4 billion people cannot yet use safe sanitation services. Progress in access to both safe water and sanitation is therefore far too slow to reach the UN targets set for 2030.

In accordance with these intentions, the foreign aid policy of the Netherlands puts major emphasis on the role of sustainable access to drinking water and improved sanitation. This is clearly evidenced in various policy notes, such as "Water for Development"[7], "A World to Gain"[8] and in the Water, Sanitation and Hygiene (WASH) strategy[9]. At the same time, it is recognised that the investments needed to provide many, particularly poor, people with safe water and sanitation are sky-high and cannot be realized through public funds only. A World Bank study from 2016 estimates the required investment in the water sector to be US$114 billion per year to achieve universal service coverage[10], three times the actual annual global investments in the water services sector. [11] Long-term private financing is needed, preferably in local currency in order to be protected against foreign exchange risks[12]. Therefore, public agencies are looking for opportunities to partner with private investors to mobilize capital for funding investments in the sector[13]. In the 2022 policy note on the strategy for the aid and trade agenda of the Netherlands, the Dutch Ministry of Foreign Affairs underlines this need: '[to] achieve the SDG […] targets it is crucial to mobilize private financing'[14]. However, practice shows that the appetite of the private sector to invest in water and sanitation services is limited for several reasons. These are: (i) income from water and sanitation services is low and relies heavily on subsidies from local governments and on tariffs paid by consumers; (ii) investors' perception that the revenues are uncertain because of weak government finances in the target countries; (iii) tariffs that are not inflation-proof; and (iv) poorly-managed public utility companies that result in a substantial proportion of non-revenue water.

[5] https://ourworldindata.org and https://data.unicef.org.
[6] *Times of Crisis, Times of Change, Science for accelerating transformations to sustainable development,* The Sustainable Development Goals Report 2023.
[7] '*Water voor Ontwikkeling' ('Water for Development'),* letter of the Minister for International Trade and Development Cooperation to the Dutch Parliament, 9 January 2012.
[8] *'Wat de wereld verdient' ('A World to Gain')*, presented to the Dutch parliament by the Minister for International Trade and Development Cooperation, 5 April 2013.
[9] '*Wash Strategy*', Letter of the Minister for International Trade and Development Cooperation to the Dutch Parliament, The Hague, 19 January 2017.
[10] Hutton, G. & Varughese, M. '*The costs of meeting the 2030 SDG Targets on drinking water, sanitation and hygiene*'. Water and Sanitation Program Technical Paper. World Bank, Washington, DC, 2016.
[11] Ajami, N., Habicht, H., Fewell, B., Lattimer, T. & Ng, T. 2018, '*Water Finance: The Imperative for Water Security and Economic Growth'.* Stanford University. Available from: https://waterinthewest.stanford.edu/sites/default/files/Water_Finance_Water Security_Economic_Growth.pdf.
[12] Khemka, R., Lopez, P., and Jensen, O., '*Scaling up Finance for Water*'. World Bank, DC, 2023.
[13] See for example the 'Global Water Practice' at the World Bank: https://www.globalwaters.org.
[14] Netherlands Ministry of Foreign Affairs. '*Doen Waar Nederland Goed in is: Strategie Voor Buitenlandse Handel en Ontwikkelingssamenwerking*'. Beleidsnotitie 2022. Netherlands Ministry of Foreign Affairs, The Hague, page 12.

1.2 Objectives and theory of change

In her efforts to improve the water and sanitation services, the Dutch Government decided to support the set-up of the Water Finance Facility (WFF) as an innovative approach for domestic resource mobilization with a view to increase access to sustainable water finance. The cooperation agreement with the organizer of WFF puts it as follows: "The goal of the Water Finance Facility is to contribute to the ultimate aim of universal access to sustainable water, sanitation and hygiene services in 2030"[15]. The initial subsidy allocated to WFF, which amounted to EUR 10 million, was topped-up with another EUR 4.7 million in November 2020. WFF started on 1 January 2017. Although the facility was planned to continue up to 31 December 2022, it was decided in April 2021 to prematurely end the facility.

According to the Theory of Change (ToC, see Annex 3)[16], WFF was designed to be a revolving fund and its base capital was to be funded by donors to cover pre-break-even expenses as well as mobilization needs of the various NWFFs. Financial risk mitigation products would be available to attract local institutional investors. This was expected to result in a reflow of funds through dividend payments from NWFFs to the WFF. Furthermore, WFF was to be managed by a dedicated management team, supervised by a Supervisory Board, and overseen by a Governing Council comprising of donor members. Each country pooled fund was to have its own dedicated management staff and governance structure.

Activities that WFF was to deploy to set-up and operationalise NWFFs included:

- Attracting a pool of patient capital and TA funds provided by international financial institutions, based on which a first-loss guarantee was to be provided to attract local institutional investors and unlock domestic capital.
- Selecting countries for setting-up NWFFs, develop business plans and recruit appropriate managerial staff.
- Facilitate regulatory change, legal reform, and other key requirements in the local financial market infrastructure and water sector.
- Develop a pipeline of bankable water projects, and fulfil pro-poor, gender, and resilience/ adaptation requirements.

Indirectly, these activities were to result in the following intermediate outcomes:

- An enabling environment which would allow the set-up of country pooled funds.
- Local capital market investment appetite for water bonds.
- A pipeline of bankable projects that fulfil pro-poor, gender, and resilience / adaptation requirements.
- Water companies that have an appetite for loans.
- Bonds issued and loans provided for debt-financing to water companies.

With these intermediate outcomes, a number of higher order results (outcomes) were to be attained:

- Demonstration effect (a number of country pooled funds established).
- Additionality (in terms of improved access to water financing).
- Access to water sector finance is transformed from (mainly) ODA/grant funded to (also) capital market finance.

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[15] Cit. Cooperation Agreement related to the Water Finance Facility, Article 2 Objective(s) The Hague, July 13, 2017

[16] Updated Business Overview for the Water Finance Facility (WFF), Amsterdam, December 2017

1.3 Purpose, Methodology and Scope of the Evaluation

The methodology used in this evaluation is based on the Terms of Reference (ToR) for this study (see Annex 7). The evaluation is theory-based and departs from the (generic) Theory of Change of WFF as described above. According to the ToR, the evaluation will focus on finding answers to the following two questions:

- What were the reasons for the project not being successful?
- What lessons can be learnt from this project that can be used in other projects?

In addition to these two core questions, the evaluation will - in line with the OECD DAC criteria - assess the effectiveness, efficiency, relevance, coherence, and sustainability of the facility. Below we describe the methods used to address the evaluation questions listed in the ToR.

For **relevance**, the evaluation investigated the context of the project in terms of international and national policies, the institutional involvement of stakeholders, and – for KPWF – the evaluation paid attention to the local setting in which the intervention is to take place. Policy **coherence** was looked at from an internal (how did activities fit in with Dutch and Kenyan activities?) and an external perspective (how did other development partners interact with or reacted to WFF/KPWF?). To assess the **effectiveness** of the intervention, the evaluation focussed on the hypotheses underlying the Theory of Change of WFF and the Kenya Pooled Water Fund (KPWF), the only NWFF developed by WFF. In addition, we also paid attention to unintended effects. Finally, the evaluation looked at the **efficiency** (inputs used, organisational set-up, implementation arrangements and cooperation among partners) and the **sustainability** of the programme.

A lot of information was collected and studied. This included among others a review of the Appraisal Documents for the initial phase of the project and for the Top-Up Proposal, the annual reports and the Mid-Term review executed by Carnegie Consult[17], and a multitude of other policy and project documents[18]. The discussions with those directly or indirectly involved in the project in the Netherlands and Kenya were extremely helpful in gaining insight into the progress of the Facility, the activities conducted under the Facility and the background of the policy decisions made[19].

1.4 Organisation of the document

This document reports on the findings of the evaluation. The remainder of this report is organized as follows. Section 2 gives a brief overview of WFF and its history. Section 3 to 7 reports on the findings of the evaluation according to the OECD-DAC criteria. Section 8 provides explanations of why the Facility was not as successful as expected and the lessons learned from the exercise. The final section presents the main conclusions.

[17] *"Water Finance Facility, Mid-Term Review,"* Carnegie Consult, Maarssen, The Netherlands, 18 November 2019.
[18] See Annex 5 for a list of documents reviewed.
19 See Annex 4 for a list of people interviewed.

2. Development of WFF over time

2.1 Introduction

WFF was aimed at rolling out National Water Finance Facilities (NWFFs) in five to eight developing countries in 10 years[20]. KPWF, which was initiated prior to the formal start of WFF, became one of these NWFFs, and was considered a pilot exercise. The choice for Kenya was based on an analysis of the capital market and the water sector in Kenya[21], but also the result of the earlier initiatives by the Netherlands Embassy in Nairobi. These initiatives implied KPWF's early-stage funding by the Kenya Innovative Financing Facility for Water (KIFFWA)[22] in cooperation with the Netherlands Water Partnership (NWP)[23]. Since the scope of activities of WFF was much wider than that of KPWF, we have developed separate evaluation matrices for WFF as the main project and for KPWF as one of the subsidiaries[24].

The history of WFF can be described in the following five phases:

1. The preparation and approval of the facility;
2. The starting period of WFF, aimed at servicing six countries[25];
3. The focus on the Kenya Pooled Water Fund (KPWF);
4. The topping-up of the budget of the project; and
5. The end-of-project period.

This phasing is important to encompass the consequences for the Theory of Change (ToC) that resulted directly from the various ambitions and focus changes during the project life. Below, we provide a synopsis of each of the five phases indicated above.

2.2 Phase 1: The preparation and approval of the facility

In July 2015, the Netherlands minister Ploumen of Foreign Trade and Development Cooperation announced the start of the Dutch-funded Water Finance Facility at the Third Financing for Development Conference in Addis Ababa. WFF was expected to give an answer to the accepted view that finance is a major bottleneck for investments in the Water and Sanitation sector. In addition, it was "…… designed to contribute to climate adaptation and mitigation goals as well."[26] WFF's core concept included the creation of a pool of funds fed by private debt funding: "…typically through either a publicly listed bond, a private placement or another form of debt"[27]. The pooled funds should serve as a source for loans to water service providers (WSPs). The approach did not rule out blending with other financing instruments, such as guarantees or ODA grants. The concept was inspired by the Waterschapsbank[28] in the Netherlands and examples in the Nordic countries and some states in India (see Annex 1 for a brief description of WFF's preparatory study activities).

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[20] See *"Water Finance Facility; An innovative approach to increase access to sustainable water finance,"* Cardano Development, The Netherlands, December 2017.

[21] *'Domestic Resource Mobilisation and Innovative Financing, Water Financing Facility,'* Mission and Scan Kenya, Embassy of the Kingdom of the Netherlands, Final Draft 29th April 2015.

[22] https://kiffwa.com: Kenya Innovative Finance Facility for Water (KIFFWA) is a co-developers of water initiatives in Kenya. It provides early-stage capital, finance, and technical expertise to support the creation of viable water investment opportunities and attract (private) providers of finance.

[23] https://www.netherlandswaterpartnership.com/.

[24] See *Evaluation of the Water Finance Facility (WFF), Inception Report,"* Rotterdam, 7 June 2023.

[25] Some documents mention a number of six, other documents 8 or 10.

[26] Cit. '*Activity Appraisal Document ODA € 1,000,000 or more*', page. 3.

[27] cit. *"Updated Business Overview for the Water Finance Facility (WFF),"* pg. 9, Cardano Development, December 2017.

[28] https://www.nwbbank.com.

A subsidy of € 10 million was provided to Cardano Development with the commission to set up the Water Finance Facility (WFF). Part of the subsidy (€2.5 million) was to be used as cash reserves for the issue of bonds in Kenya managed by KPWF, while €1.0 million was to be used for technical assistance to the water companies in Kenya that had been selected for a loan from KPWF. The remaining €6.5 million was earmarked for the operational costs of WFF and KPWF[29]. Since it was a recoverable grant, the cooperation agreement between the Ministry and Cardano covered the option that in case of a cashflow back to Cardano, as projected in the business plan of WFF[30], this could be re-used for WFF, or returned to the Ministry, or provided to a third party[31].

2.3 Phase 2: The initial period of WFF, aimed at servicing six countries.

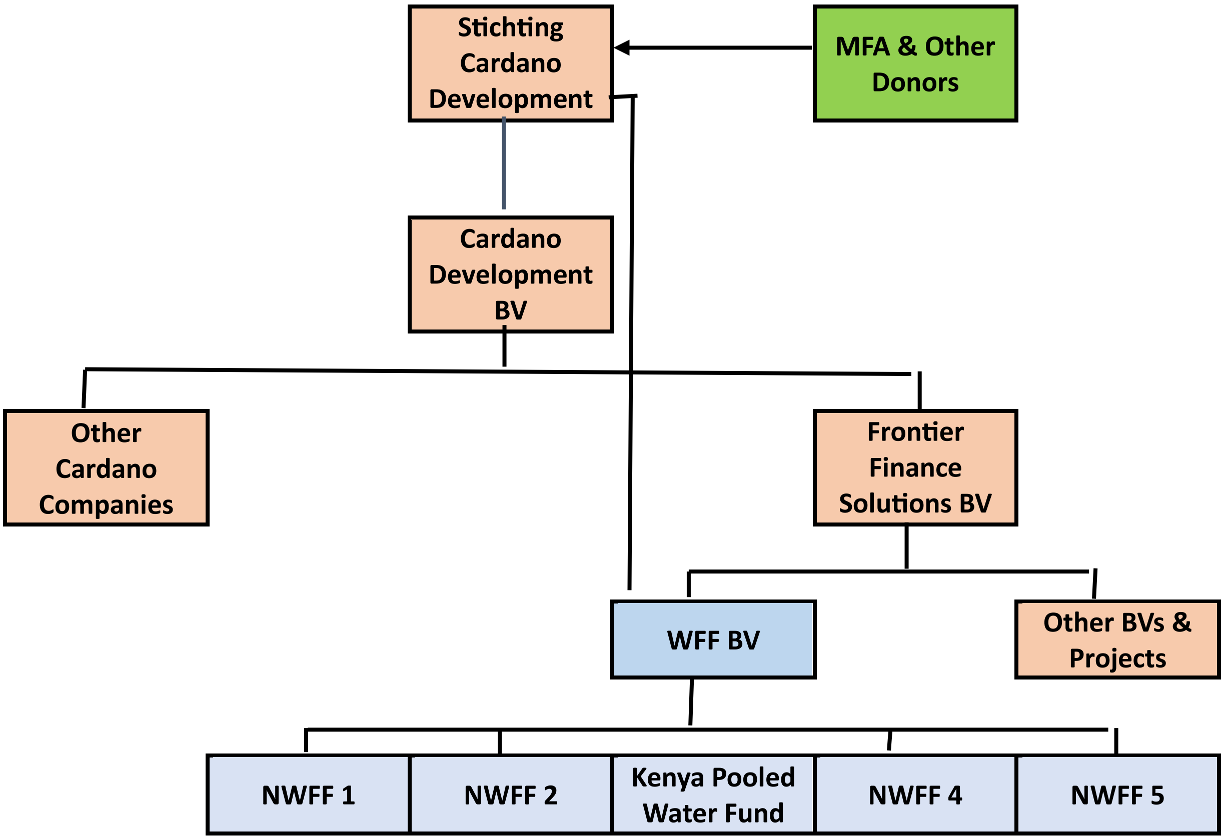
WFF's main purpose

In 2017, WFF's first year, a Theory of Chance (ToC) was formulated (see also Annex 3), which distinguishes a global WFF and national WFFs (NWFFs). The activities identified in the ToC include the management of a pool of capital, the selection of countries for setting-up of NWFFs, creating an enabling environment and mobilization of local capital by providing a brokering role for water companies.

The following six countries were mentioned as the first ones that qualified for the facility after a quick scan was made: Kenya, Rwanda, Senegal, Indonesia, Vietnam, and South Africa. The final selection would depend on an appraisal of the potential candidates. WFF was planned to create national water-financing facilities (NWFFs) in the target group of countries. These NWFFs were to be structured in such a way that they would become long-term, sustainable stand-alone non-bank financial institutions that finance sustainable projects in the water and sanitation sectors. WFF selects the target countries and facilitates the inception of the local financial institutions through providing expertise and management support to a local office and potential borrowers, identification and development of capital investment projects, placement of bonds, etc. During the start-up of WFF, it was structured as shown in Figure 1. The Ministry of Foreign Affairs of the Netherlands (MFA) is the main sponsor and Cardano establishes WFF BV, initially as one of its start-ups. In this setup, WFF BV functions as the parent company of the local NWFFs, of which KPWF is one.
An appraisal mission to Kenya had already taken place prior to the quick scan, which pointed at the country's rather weak institutional and legal framework and recommended a comprehensive analysis of 'the roles in ownership, responsibilities, and political aspects'[32]. Yet, KPWF was already initiated with support of the Netherlands Embassy in Kenya to the Kenya Innovative Financing Facility for Water (KIFFWA), in cooperation with the Netherlands Water Partnership (NWP).

[29] It is noteworthy that in the proposed text of the Framework Arrangement that would be concluded between the Governments of Kenya and the Netherlands, the entire €6.5 million is allocated to Kenya. *(Draft Framework Arrangement, art. 4.1, para 1)*
[30] See '*Updated Business Overview for the Water Finance Facility (WFF'),* Cardano Development, The Netherlands, December 2017.
[31] See "*Cooperation Agreement related to the Water Finance Facility,"* Article 8 Recoverable Grant, signed July 13, 2017.
[32] See '*Domestic Resource Mobilisation and Innovative Financing Water Financing Facility; Mission and Scan Kenya,'* section Main Findings, page 4, Embassy of the Kingdom of the Netherlands, Final Draft 29th April 2015.

Figure 1: Structure of the organisation at the start of the Facility (Development Phase 1)



With the help of WFF, each of the NWFFs, would create a pool through bond issuance or other ways to mobilize (preferably local) funds from which loans to local water companies would be provided[33]. The special set-up could differ from country to country depending on the local policies, rules and regulations. For Kenya, special purpose vehicles (SPVs) would be created for each bond issuance. These SPVs would be managed by a service company, which would also provide support to the water companies in the preparation of the proposals for financing. The management costs of WFF/Cardano Development were meant to be covered by a fee on the cost of the loans granted by the SPV.

Ambitions of WFF

The creation of the facility was expected to consist of three phases[34]:

- *Development phase 1*: A (global) WFF, and a (national) Kenya Pooled Water Fund (KPWF) would be established. Furthermore, WFF would develop and approve at least two additional country business plans. WFF planned to mobilize additional donor funds to an amount of €20 million.
- *Development phase 2*: two additional NWFFs were to be developed, plus the sourcing of €30 million of de-risking reserve capital.
- *Development phase 3:* WFF were to be expanded in terms of development capital to an amount of €55-€65 million and in terms of de-risking reserve capital to €100 million. The number of

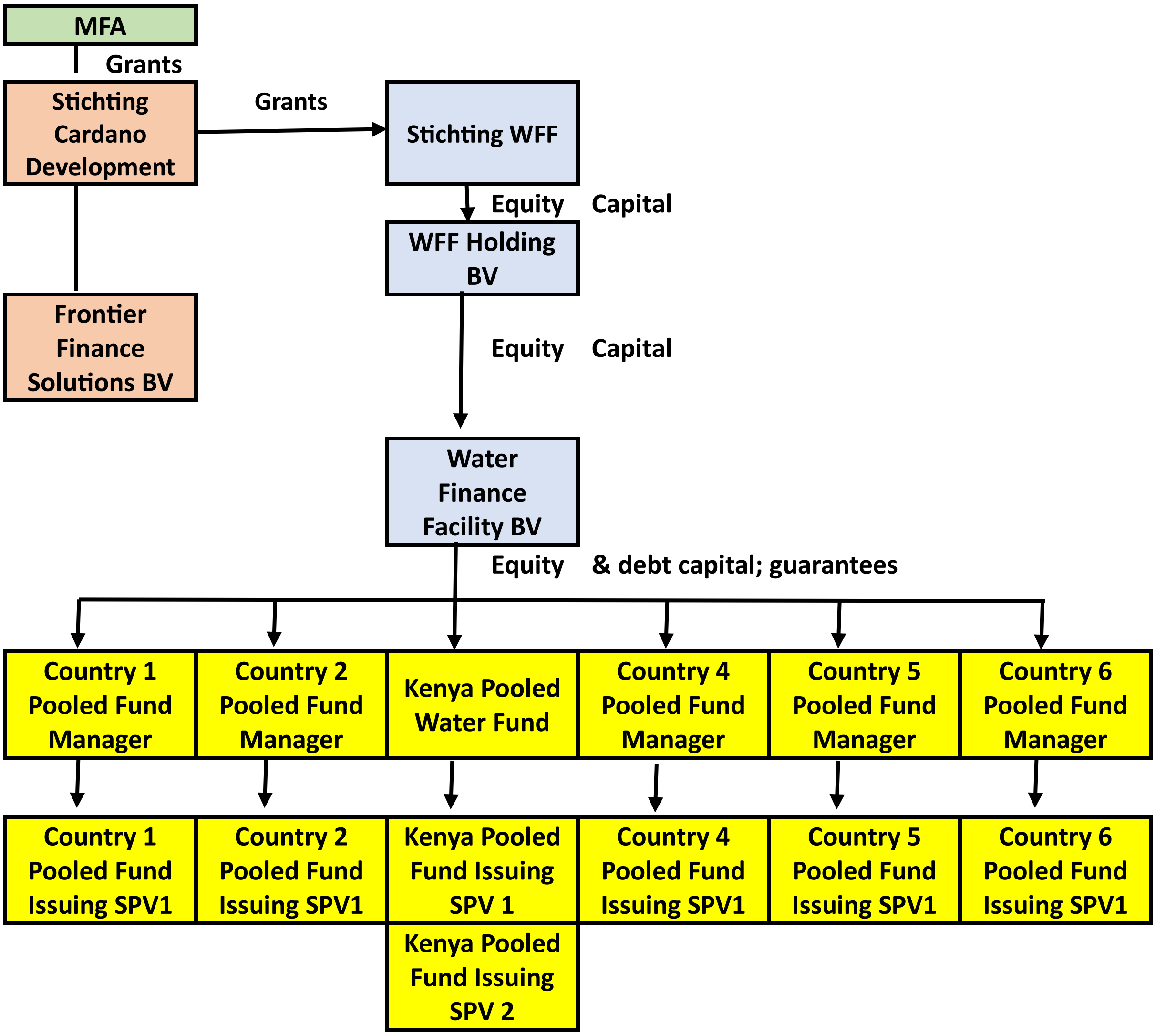
[33] It was not excluded that in the case of a large company which asks for a relatively large loan a special issuance of a bond will be done to cater for funds for a single company.

[34] *'Updated Business Overview for the Water Finance Facility (WFF')*,pg. 41-42*,* Cardano Development*,* The Netherlands, December 2017.

countries would be expanded with five countries, resulting in an aggregate business size of €1 billion.

The ultimate organisational structure to be reached during development phase 3 is given in Figure 2.

Figure 2: Structure of the organisation Final Phase (Development phase 3)



The ambition was that each of the established NWFFs in the respective countries would grow to a size of between €100 million and €250 million. At the same time, WFF would continue to establish new businesses in other countries. For success of Development phase 3, the business plan estimates that additional grants of about €35 million were required. The required total loss reserves was estimated at a total of €100 million.

2.4 Phase 3: The focus on establishing the Kenya Pooled Water Fund (KPWF)

Regarding the establishment of a NWFF in Kenya, WFF was able to partner with the already existing Kenya Innovative Financing Facility for Water (KIFFWA), which was supported by the Netherlands Water Partnership (NWP) and the Netherlands Embassy in Nairobi. This partnership aimed at establishing the Kenya Pooled Water Fund (KPWF). Prior to the formal start of WFF, KIFFWA (co-)financed the start of KPWF with an amount of EUR 1.2 million. WFF concurrently also started the selection of other countries, and it was expected that an additional 5 to 8 countries would be included during the project period. Against this background, scoping missions were undertaken to Indonesia and South Africa. However, for several reasons both countries were rejected as candidates for establishing a NWFF.

2.5 Phase 4: The topping-up of the budget of the project

The development of the Facility required more efforts and funding than was foreseen at its start. In particular, the development of KPWF turned out to be quite complicated and, as a result, the issuance of the bonds was repeatedly postponed. In reaction, a mid-term review was undertaken, which presented several recommendations to smoothen the implementation. Among these was a topping-up of the budget with 50%. This recommendation was followed up, but with the condition that the facility would be terminated if the issuance of bonds were not successful within a specified period (before the end of 2022).
With the topping-up of the budget, the scope of the project was changed. Awaiting the progress in Kenya, the search for other countries that could qualify for introduction of a local WFF was temporarily put on hold. Meanwhile, the activities in Kenya continued with the identification of, and support to Water Service Providers (WSPs) that would qualify for the loans offered. In the first round, six WSPs were supported with technical assistance for management improvement and the preparation of bankable projects. At the same time, KPWF was organised in such a way that it would become operational as soon as the WSPs were ready for acceptance of the loans. In this context, the issuance of bonds was prepared, which among others required approaching potential clients and cooperation and approval from the Capital Market Authority (CMA). At the same time, intensive efforts were made to sign a Framework Arrangement (FA) and an Implementation Agreement (IA) with the Government of Kenya. Unfortunately, the signing of them was repeatedly postponed. All these efforts did not lead to results before the deadline of December 2022, with the result that KPWF could not attract the necessary funds to finance the loans to the WSP's on time. The facility was stopped by the end of 2022, in line with the condition formulated in the approval of the topping-up of the budget.

2.6 Phase 5: The end-of-project period

The KPWF office was formally closed on 1 July 2023. The head office of WFF in Amsterdam was also closed. It was decided that Aqua for All[35], which is active in Kenya in the market of relatively small credits for WSPs, would be provided with the information about the water companies with which KPWF had established relationships and which it had supported with the preparation of bankable projects. Aqua for All is exploring the possibilities of taking over at least part of the support to these companies, which hitherto was outside the scope of Aqua for All's involvement in the Kenyan water sector, focussed on rural water provision. However, Aqua for All has decided to focus on other (smaller) projects with several WSPs. To assess whether capital market financing of water companies could be possible and under what conditions, at the same time, a study was commissioned to RebelGroup International[36] to explore the possibility of facilitating the issuance of bonds for the Water and Sanitation sector in Kenya. The study's main conclusion is that there is indeed scope for local capital market financing of the sector in Kenya, provided the institutional context and the finance instruments are structured in such a way that the sector is ready for commercial borrowing. Good management of the water companies in combination with a supportive legal environment and a system of guarantees could provide sufficient confidence for potential institutional investors.

[35] https://AquaforAll.org.
[36] '*Capital Market Financing for Water and Sanitation in Kenya,'* RebelGroup International, Nairobi, February 2023.

In summary, WFF's approach was to establish national water finance facilities in the target countries, to mobilize private domestic funding through issuing bonds in local currency for investments in the water sector. The proceeds were subsequently to be lent to credit-worthy water and sanitation companies for investment in water infrastructure projects. The pooling of the portfolio of projects was expected to lower the risks and be beneficial because of economies of scale. The facility was in principle open for blending instruments with a view to limit the risks and to lower the cost of borrowing. Unfortunately, the introduction of such an instrument proved to be more problematic than anticipated at the start of the facility.

3. Relevance

Context

Given the number of people who still lack access to adequate water and sanitation services in Kenya and other countries, there is no doubt about the need for major investments in this sector. There is also no doubt that this requires such large sums of money that they cannot be raised by the governments alone within a reasonable period. There is therefore a clear need for private participation in investments in the water sector. This reality clearly demonstrates the ex-ante relevance of an initiative such as WFF/KPWF. The programme's relevance is also validated by the needs assessments done by the World Bank and the UN agencies involved in the water and sanitation sectors[37]. Their analyses support the consensus that governments of several developing countries are unable to generate sufficient resources to finance the much-needed investments in this sector. The deficit can only be covered if private parties are willing to invest in these sectors. With the introduction of WFF, the Netherlands Minister of Foreign Trade and Development Cooperation defined the relevance of the initiative as the extent to which the mobilization of private funding for investments in water and sanitation would contribute to the achievement of SDG 6. As such it also fitted excellently in the focus of Dutch development cooperation regarding the water and sanitation sector.[38].

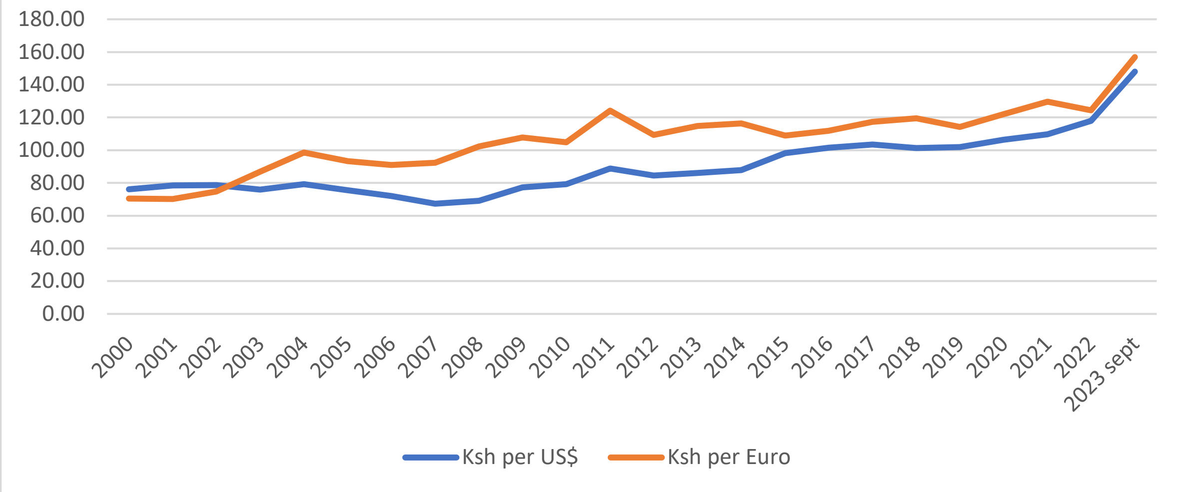
Content

WFF loans are denominated in domestic currency. Borrowing in domestic currency protects the borrower from currency risks. This is especially relevant for countries facing a continuous depreciation of their currencies. Over the period 2010-2022, the number of Kenyan Shillings in a US dollar increased from around 80 to 118, or an average depreciation of around 3.4% per annum (see Figure 3). During that period, the difference between domestic and foreign interest rates was larger than the average depreciation, making borrowing in foreign currencies tempting and attractive. However, exchange rates are difficult to predict. This is illustrated in 2023 when the value of the Shilling against the US Dollar and the Euro fell sharply. From September 2022 to September 2023, the number of Shillings for a US Dollar increased from 120 to 148 and for a Euro from 118 to 156, i.e., a depreciation of more than 20% and 30% respectively. Such a decrease in value has a dramatic effect on the level of interest payments on and the repayments of loans in foreign currencies, justifying WFF's principle of local currency borrowing.

[37] https://ourworldindata.org and https://data.unicef.org.

[38] See the references in the introduction of this document.

Figure 3: Offical Exchange Rate



Average annual percentage depreciation of the Kenian Shilling vis-à-vis the US$ and the Euro

	2000-‘10	2010-‘15	2015-‘20	2020-'23 sept
Ksh/US$	0.4	2.0	1.6	11.6
KSH/Euro	4.1	1.5	0.9	8.7

Source: Kenya National Bureau of Statistics and Eurostat

At the same time, Kenyan treasury bills have been issued with interest rates of 10% to 15%, making it difficult for the WSPs to attract funds from the local capital market as investors would expect at least 20%, given the greater (perceived) risks of investments in the water sector. The country selection criteria defined for WFF include, inter alia, the extent to which (private) capital would be available for investments in the sector. In Kenya, funding gaps are an important bottleneck for an adequate supply of safe water. These shortages have only grown, since the foreign aid inflows are decreasing because Kenya has outgrown the status of developing country. WFF is focused on attracting private funds in local currency mainly at the local capital market under the assumption that such funds are not only attractive for the borrowing WSPs, since they are protected against exchange rate losses, but also for domestic (institutional) investors, as they contribute to broadening of their investment opportunities.

For the source of funds, KPWF focused on the local institutional investors such as pension funds and insurance companies. Both types of investors are currently investing a significant part of their assets in government securities. This is clearly illustrated in Table 1 below showing the shares of the different components of their investment portfolio.

The study of the RebelGroup confirms that institutional investors are interested in diversifying their investment portfolio through investments in the water sector, provided that the risks of such investments are adequately covered[39]. The latest initiatives by the Kenya Pension Funds Investment Consortium (KEPFIC) in taking part in investments in local infrastructure prove that there is indeed interest in such investments among institutional investors, though they currently amounts to only to a very small share of their portfolio, and none of these investment proposals originated from the public sector [40]. In a parallel development, the Kenya Association of Stockbrokers and Investment Banks and the Eldoret Water and Sanitation Company signed a Memorandum of Understanding to

[39] Several parties interviewed in Kenya during this evaluation confirmed that the work of KPWF has positively contributed to the willingness of the Kenyan government to investigate the options of financing investments in the water sector using the local capital market.

[40] The interviewed KEPFIC representative mentioned a share of 0.35% in their portfolio.

explore and leverage various capital market-based funding opportunities[41]. The above suggests that in principle, the idea of private local currency financing of public services fitted well into the local situation of Kenya. The adopted approach of organizing this through a private enterprise for which the government of Kenya would partially guarantee provoked however resistance from various authorities with an appeal to local laws and regulations.

Table 1: Assets of the Pension Funds, 2018-2022

	2018	2019	2020	2021	2022	Average
Government Securities	39%	42%	45%	46%	46%	44%
Quoted Equities	17%	18%	16%	16%	14%	16%
Immovable Property	20%	18%	18%	16%	16%	18%
Guaranteed Funds	14%	16%	16%	17%	19%	16%
Listed Corporate Bonds	3%	1%	0%	0%	0%	1%
Fixed Deposits	3%	3%	3%	2%	3%	3%
Offshore	1%	0%	1%	1%	1%	1%
Cash	1%	1%	1%	1%	1%	1%
Unquoted Equities	0%	0%	0%	0%	0%	0%
Private Equity	0%	0%	0%	0%	0%	0%
Real Estate Investment Trusts (REITs)	0%	0%	0%	0%	0%	0%
Commercial paper, non-listed bonds by private companies	0%	0%	0%	0%	0%	0%
Other Assets	0%	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%

Source: Retirement Benefits Authority

Institutional

The set-up of WFF implied substantial involvement of all stakeholders, such as private parties (Cardano/KPWF) and the Dutch and Kenyan governments. This private/public cooperative approach was at the same time WFF's weakness because this made these governments and in particular the Government of Kenya at least partly responsible for the functioning of a private company, which might conflict with the adage of independence[42]. It also implied that WFF immediately ceased to exist when the Dutch government stopped its financial contributions.

The timing of the initiative in Kenya was not ideal, because the transition of ownership of the water companies to the local authorities (counties) was far from completed. Not only were (and are) there still many disputes about the assets and current liabilities of these companies, but the process of devolution also increased the potential of political interference in the management of WSPs, that until today are fully owned by the county governments. This has a negative impact on their creditworthiness, which is a key determinant for interest from the private investors. While the idea of private financing of the water sector is relevant given the lack of sufficient public funds, the chosen approach to cope with this problem in an environment where the results of recent institutional changes of the borrowers had not yet crystallized prevented its adequate implementation in Kenya.

The set-up of WFF as a self-sustaining organisation appeared to be promising, but unfortunately did not get any further than the prematurely-stopped pilot in Kenya[43]. With hindsight, it is unfortunate that an attempt was not also made in another country. It would have made it possible to compare

[41] Source: https://theexchange.africa/investing/kenyan-water-firms-to-tap-capital-markets, accessed on 5/10/2023

[42] The relationship between the Dutch government and a private company has also led to discussions in the Netherlands, namely on whether the ministry's involvement in (1) the establishment of WFF/KPWF and (2) participation in the steering committee was not contrary to the Comptabiliteitswet.

[43] It would moreover take exceptionally long until WFF's daughter companies would transfer sufficient amounts to the mother company to have the required funds for establishing NWFFs elsewhere.

the approaches and developments in the different countries. It would have prevented that WFF's survival depended on its success in only one country, i.e. Kenya, provided it was successful in other countries. South Africa and Indonesia were the most suitable candidates. South Africa was skipped for political reasons. The intended approach in Indonesia differed from that in Kenya, because the Indonesian WFF would be affiliated with Perseroan Terbatas Sarana Multi Infrastructur (PT SMI), an already existing organization active in the financing of public infrastructure. This organization would also have eased the access to funding from other sources, including from its own capital. In Kenya, KPWF faced the problem that it did not have access to (relatively cheap) donor funds that might have been used to lower the cost of the loans. Since KPWF lacked equity, it was fully dependent on donors who showed a wait-and-see attitude for softening arrangements of the loans.

4. Policy Coherence

Internal Coherence

WFF was consistent with the policy objectives of the Dutch development cooperation as expressed in the policy notes referred to above, illustrating WFF's policy coherence. The initiative fitted in well with the existing activities of the Dutch Ministry of Foreign Affairs to support the water and sanitation sectors (WASH in terminology of the Ministry). These activities are very much in line with the UN's objectives regarding water and sanitation. In Kenya, the initiative followed in the footsteps of what had already been initiated by the Kenya Innovative Finance Facility for Water (KIFFWA) and the Netherlands Water Partnership (NWP) in collaboration with the Dutch Embassy in Nairobi, which eventually resulted in KPWF.

Improving the supply of water and sanitation services in terms of quantity and quality are on the list of priorities of the Government of Kenya. A tool that can therefore be used to mobilise private funds is a welcome addition to its existing instruments. Although KPWF fits perfectly with the ambitions of the Government of Kenya, her cooperation in the form of guarantees and cooperation agreements fell short of the wishes of WFF/KPWF, especially after the installation of the newly elected government. Several reasons have been mentioned why the cooperation between WFF/KPWF and the government stalled, including misunderstanding on the part of government employees on KPWF's role and potential risks. Our assessment is that KPWF's institutional approach was not suitable for the local situation in Kenya. In that light, we agree with the conclusions expressed in RebelGroup's report, which indicates that, firstly, there should be a split between the technical assistance to the water companies in preparation for the credit applications on the one hand and the granting of the credits themselves on the other hand. The report rightly indicates that lending should be placed with a local banking institution with an important voice of the government. In short, therefore, an instrument that withdraws funds from the private sector for Kenya fits well with the intentions of the government, but the institutional embedding did not fit the local situation.

External Coherence

The development partners in Kenya were initially sympathetic to KPWF's approach and saw it as a welcome addition to their own activities in the water sector. Also because they realized that as a result of Kenya's change in development status, the flow of funds from donors decreased. Yet, with a few exceptions, there was a lack of actual support and cooperation. On the contrary, in a few cases they competed with KPWF by offering grants or loans at reduced rates to the WSPs that qualified for KPWF's support. Although these financing options were often denominated in foreign currency, they became attractive to the management of the water companies because they were offered at very low interest rates and flexible repayment obligations.

5. Effectiveness

Effectiveness regarding WFF can be assessed at two levels, namely at the level of WFF in terms of organization and WFF as accomplished in Kenya. We start the discussion regarding effectiveness with WFF/KPWF as organizations in an environment with strong government influences. In doing so, we make a distinction between the local capital market, the institutional environment, the water companies, and the end users. For what has been achieved in Kenya, we start with the Theory of Change as shown in Figure 4 below. We do this based on a number of hypotheses derived from the ToC. The chapter concludes with a brief assessment of possible unintended effects.

5.1 WFF/KPWF as organisation

WFF BV

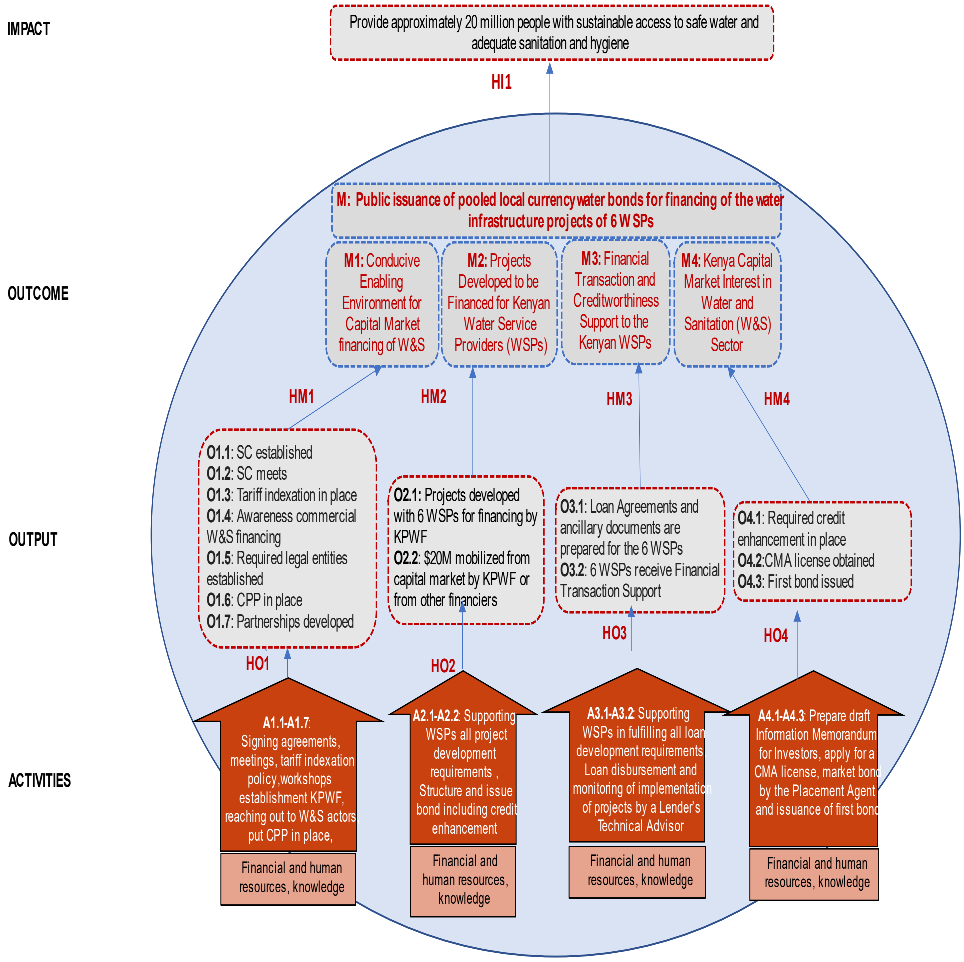
Cardano Development BV plays a leading role in the organisational set-up of NWFF's. As outlined above, at the outset WFF is treated as a start-up housed within a Cardano company created specifically for new initiatives. Given Cardano's previous successes with start-ups, this is a plausible approach. During the start-up phase, WFF BV functioned as a subsidiary of Frontier Finance Solutions (FFS), one of the subsidiaries of Cardano Development BV. The subsidy is 100% responsible for the financing of WFF BV. Cardano is legally the owner but has not made any financial contribution. The only commitment made was a contribution from GuarantCo (the so-called TAF facility). The business plan does consider contributions from other donors. The annual report 2017[44] mentions several donors, such as EIB/EC, KFW/BMZ (Germany), DFIS (UK) and DFAT (Australia). But the contributions have remained promises and never materialized. According to the business plan, WFF BV would eventually break away from FFS if it had outgrown its status as an incubator. This stage has never been reached.

KPWF

The launching of the national water finance facility in Kenya has been addressed energetically, also helped by the fact that a predecessor of KPWF had already been initiated as described in Chapter 3. The business plan developed by Cardano Development BV[45] presented the generic ToC of WFF, which incorporates a ToC of new national water finance facilities (NWFF's). The generic ToC was reproduced in the Monitoring, Evaluation and Learning Plan of November 2018[46] and in the Mid-Term Review WFF[47]. For KPWF we have re-arranged the ToC as is presented in Figure 4.
WFF's innovative approach implied the pooling of private capital market funds through issuance of publicly listed bonds, private placement, or another form of debt. In Kenya, which was considered a pilot country before WFF was rolled out to other countries, the focus was on the bond market and in particular the participation of institutional investors. The re-constructed Theory of Change (ToC) presented in Figure 4 outlines the logical chain of activities to outputs, outcomes, and impact. It shows that although the main outcome was the public issuance of pooled local currency water bonds for financing of the water infrastructure projects of WSPs, four intermediate outcomes are defined: (1) the creation of an enabling environment; (2) the identification, development and formulation of water infrastructure projects; (3) the realization of financial transactions and creditworthiness support to WSPs; and (4) the creation of interest among capital market participants to invest in the Kenyan water sector.

[44] Water Financial Facility, Annual Report 2017, pages 2 and 3.
[45] See *"Updated Business Overview for the Water Finance Facility (WFF),"* Annex 1, pg. 75-91, Cardano Development, December 2017.
[46] See *"Monitoring, Evaluation and Learning Plan,"* Cardano Development, 9 November 2018.
[47] *"Water Finance Facility; Mid-Term Review,"* Carnegie Consult, Maarssen, The Netherlands, 18 November 2019.

Figure 4: Theory of Change of KPWF



Source: Own elaboration based on Annex 1 of the document 'beslissing optopping',

It is clear that the issuing of bonds did not take place and that no loans were granted to the qualified water companies neither in Kenya nor in other countries. This means that the objective (or intended outcome) has not been achieved. But did KPWF contribute to achieving the intermediate outcomes, such as creating an environment that is better equipped and motivated to provide private loans to public institutions and to companies in the water and sanitation sector? And indeed, KPWF has been instrumental in the discussion on the use of private capital for public infrastructure investments. The commission by the Government of Kenya for a capital market study executed by RebelGroup can be considered a result of KPWF's presence and activities in Kenya. Another example of the interest of capital market actors in financing public investments are the current initiatives that show that they are more willing to lend to the water sector in any form. Unfortunately, KPWF did not get the opportunity to become an important player in the mobilisation of private capital itself.

The Ministry of Foreign Affairs earmarked a significant part of the subsidy (€1 million) to technical assistance to water companies in Kenya. And indeed, KPWF offered technical assistance to several WSPs and contributed as such to the formulation and preparation of bankable projects that could be eligible for external financing. It has also provided technical assistance to WSPs to make these companies creditworthy. In the end, the first batch of four companies were eligible for loans. WFF/KPWF has approached other institutions, including Aqua for All, to reward these proposals with a loan. However, Aqua for All found that the banks they were working with were not interested in these projects and after some time, the water companies had either found other sources of funding or their priorities had changed. At the time of drafting this report, no major progress had been made in taking over the financing of these projects. As a result, the proposals for bankable projects that were prepared by KPWF are currently on the shelf, waiting for realization.

Did the TA provided enhance the capacity of the WSPs they worked with? To a certain extent this question can be given an affirmative answer. KPWF engaged on a variety of issues with WSP management teams, their Boards, and politicians and civil servants in the local governments in the context of preparing the water companies for project financing. Although this has undoubtedly raised the awareness of these actors to the requirements of improving the financial management of the companies, the evaluation also found that the number of people within the water companies benefiting from this learning effect was small and would often be limited to the financial manager of the company. In addition, some of the managers interviewed during this evaluation would emphasise that they often would have the knowledge already embedded in their company except for some of the more specialised financial calculations and presentations. This is not surprising as KPWF would link up with the more creditworthy WSPs which had often already been benefiting from technical assistance from other developing partners.

Partly related to KPWF's initiatives, there exists more interest among local investors in investing in public infrastructure. The idea of pooling funds through the issuance of (green) bonds is currently tried out by the Kenya Pension Funds Investment Consortium (KEPFIC) and the collaboration between the Eldoret Water and Sanitation Company and the Kenya Association of Stockbrokers and Investment Banks as described under the heading of ex-ante relevance.
It is not entirely clear to what extent KPWF has served as a catalysator, but the workshops organised by KPWF that were aimed at raising interest among institutional investors have undoubtedly contributed to a more active attitude regarding investments in public infrastructure. Admittedly, this has not directly led to increased private financing of water companies, but it can become so if these companies succeed in optimizing their business operations and if there is more room to regularly adjust their tariffs to inflation.
At the initial stage, KPWF actively – and successfully – established relationships with government entities such as the Ministry of Water and the Treasury. A steering committee comprised of the CSs of the Ministries of National Treasury and of Water & Irrigation, the Chair of the Council of Governors and the Ambassador of the Netherlands held meetings at monthly intervals. However, as already noted by the MTR, after a year, the meetings became more irregular and eventually stopped altogether.
One of the more successful results of the project has been its work on tariff indexation, which at the time was a somewhat haphazard and oftentimes politically motivated process. Encouraged by the lobbying efforts of KPWF, WASREB developed an indexation formula for adjustment of water tariffs to be used by water service providers, which includes not only an operations and maintenance component, but also a component for asset debt service, for asset renewal and for investments (which includes a provision for inflation). However, as was explained before, devolution put the ownership of WSPs with county governments, which has since increased political interference of tariff setting at that level.

Optimism regarding support from politicians and civil servants led to an overestimation of the speed of implementation of the KPWF concept. This was reinforced by an overly optimistic expectation regarding financial support from other donors. As a result, the bond issuance project suffered delays that were exacerbated by the COVID19 outbreak. In practice, this meant that an increasing share of the subsidy had to be used for the exercise in Kenya. Although the request for a budget increase was granted, expectations were again too high at the time of this budget expansion.
The unforeseen delays in Kenya prevented WFF's expansion of activities to other countries, including Indonesia. This could have been avoided by a strict ceiling on expenditure per country, including

Kenya. Because there was no limit to the budget that could be spent for one country, the entire budget (and we are talking about the non-earmarked part here) was spent on the operational costs of KPWF and WFF headquarters.

5.2 Hypotheses following the Theory of Change

A. Local capital market

- *If WFF in general, and KPWF in particular, introduces private capital market financing of WSP projects and promotes private financing of the water sector in DAC countries, then it is an increasingly important instrument to close the gap between demand and supply of finance in the WASH sector.*

It is indeed generally accepted that the water sector is today insufficiently able to meet the demand for safe water for all, without financial support from the capital markets in the DAC countries. In principle, WFF in general and KPWF in particular could have played a key role in addressing this issue. If successful, it would undoubtedly have been followed by other financial institutions. In Kenya, initiatives have already been taken to actively involve the local capital market in the financing of public infrastructure. The activities of the Kenya Pension Funds Investment Consortium (KEPFIC) and the capital market study that was partly initiated in response to KPWF's failure proof that there are to a certain extent follow-up activities[48].

- *If a pool of funds fed through local currency bonds issued in the local capital market is created, then WFF in general, and KPWF in particular, promotes the functioning of the local capital market mechanisms.*

Issuance of bonds for a pool from which loans can be granted to WSPs could, in theory, improve the functioning of the capital market. However, it should be noted that the route via bonds is not necessarily the only route. However, it does not change the fact that neither WFF nor KPWF ever got that far. It should further be noted that additional demand for funds at the local capital market might crowd out other investments because of higher interest rates or the shift in investment portfolios of investors, but it is expected that the magnitude of such an effect would in any case be limited.

- *If launching of the WFF concept in the target countries and in Kenya is successful, then it serves as an example for other financial institutions in these countries.*

There is some evidence that even now after KPWF has not been successful, initiatives are being taken to develop similar activities, such as the activities mentioned above.

B. Institutional/legal environment in the target countries

- *If government institutions are involved and the legal conditions are enabling, then WFF in general, and KPWF in particular, can contribute to the support of local capital market financing of infrastructure investments.*

WFF and KPWF were private companies, albeit non-profit. This may have been a reason for the Government of Kenya's hesitation to provide guarantees or to play a role as member of the Steering Committee. Affiliation with a local financial institution with government involvement would have better satisfied the embedding of the activity in the financing of the water companies. This could be an existing institution or for example a public-private investment bank with joint control of the government and local banks, following the example of the Dutch Waterschapsbank.

[48] See the study executed by RebelGroup International.

- *<u>If</u> tariffs for water and sanitation services are set in such a way that WSPs can operate as financially sustainable companies, then WFF in general, and KPWF in particular can contribute to the support of local capital market financing of infrastructure investments.*

WFF/KPWF strived for healthy and commercial business operations and aimed to spread this philosophy to the companies to which it would provide loans. Indeed, the poor financial performance of the water companies was a bottleneck for large-scale lending and more commercial tariffs combined with a policy aimed at improving the payment discipline of their customers would facilitate their access to the capital market. Although KPWF has played a key role in bringing tariff setting to a regulatory process, the actual setting of water tariffs remains a very sensitive political issue that is mainly determined in the (local) political arena where the financial performance of the water companies often plays a less important role.

C. Supported WSPs

- *<u>If</u> WFF in general, and KPFW in particular, provides assistance to WSP project development and manages/monitors ESG standards, <u>then</u> a pipeline of W&S projects that meet ESG standards will be more likely.*

A significant part of the Ministry's grant to WFF was earmarked for the formulation of projects in Kenya and their preparation for funding. Indeed, these activities have led to a number of projects eligible for loans from the KPWF-managed pool. Because the issuance of bonds was not realized, these loans did not come about.
It should be noted that there may be a tying, namely advice on and involvement in project preparations and the associated loans, which may be contrary to competition rules. The report of the RebelGroup recommends that these activities be separated and transferred to different institutes.

- *<u>If</u> WFF in general, and KPFW in particular, facilitates loan agreements with guarantees and facilitates bond issuances, <u>then</u> it will be more likely that local currency water bonds are successfully issued, and loans are provided to WSPs.*

In order to give water companies the opportunity to get used to capital market financing would softening of the conditions of the loans to 'first movers' have increased their attractiveness. The loans would then have been able to compete with the ODA and subsidized financing offered by the development partners. Guarantees would also have increased the attractiveness of investments in bonds by the institutional investors. These would have removed doubts about the ability to meet the obligations linked to the loans by WSPs that are perceived as being not as solvable as they should be.

- *<u>If</u> there is a pipeline of W&S projects that meet ESG standards and KPFW issues bonds and provides loans to WSPs , <u>then</u> the W&S sector in Kenya will shift from (mainly) ODA- and subsidy-financing of infrastructure projects towards capital market financing– meeting the WFF/KPWF's goal for 2021 of a public offering of a local currency bond for the funding of the water infrastructure projects of 6 WSPs (see WFF Annual Plan 2021).*

If successful, KPWF's approach to commercial and market-based activities could have stimulated a more intensive involvement of local capital market actors in the financing of water infrastructure works.
Due to the premature end of KPWF's business, there was a risk that it would lead to a delay in encouraging local capital market engagement in loans to water utilities. However, thanks to the efforts of the KPWF office in Nairobi, the Dutch embassy at the spot and the capital study of RebelGroup International, the interest in the approach, admittedly organized in a different way, still exists.

➢ *If WFF in general and KPWF in particular provide assistance and loans to WSPs, then it is likely that WSPs become financially sustainable institutions implying easier and regular access to the domestic capital market.*

KPWF's management consultancies could indeed have led to an improvement in business performance of the supported WSPs. However, there are issues that could not be solved by advice or loans alone and that do stand in the way of good business operations. We refer to such issues as non-revenue water (NRW), water that is pumped and then lost or unaccounted for; the indexation of water tariffs and the unresolved problem of the uncertainties surrounding the assets and liabilities that have arisen after the transfer of ownership of water companies to the regional authorities.

D. Water and Sanitation consumers

➢ *If there is a pipeline of W&S projects that meet ESG standards and WFF in general and KPFW in particular issue bonds and provide loans to WSPs, then water infrastructure and as a result, water utilities will improve.*

The goal is indeed that the end-users benefit from the improvements that result from the investments in water infrastructure. Unfortunately, this has not been realised because of the delays in the issuance of the bonds and related loans and subsequently the premature termination of KPWF.

5.3 Unintended effects

In the context of the financing of projects in the water sector, clarity about the development of water tariffs is essential. KPWF's involvement in the formulation of bankable projects contributed to the more general discussion about the setting of water tariffs, which should more systematically consider the main cost components of the water production, such as inflation, debt services, etc. Overall, this will positively impact the financial performance of the water sector.

Declining aid from bilateral and multilateral donors is forcing local governments, including those responsible for water production and sanitation services, to look for other sources, especially private investors. WFF focuses on local lenders to prevent exchange rate losses[49]. This is not imaginary as evidenced by the decline in the value of the Kenyan Shilling over the past 10 years (see figure 3) and by the dramatic decline in 2023. Such depreciations have a major effect on the height of the debt service in local currency. To avoid this, WFF focused on borrowing in local currencies mainly in the local capital market. However, the additional demand on the local capital market can have a negative impact on the rest of the economy.
In many countries, national savings fall short to finance the necessary investments. Kenya is no exception. Its savings deficit is estimated at an annual average of slightly more than 5% of GDP during the 2015-2020 period[50]. In such circumstances, additional demand for funds in the local capital market, as in the case of the issuance of bonds to finance WSPs, may lead to crowding out of other investments. This phenomenon manifests itself in different ways. The increased demand for credit can lead to higher interest rates which could affect the real economy negatively. It can also literally occur if, as in the case of 'water bonds', the institutional investors exchange part of their existing and future investments for 'water bonds'. The reason for such a realignment is often risk spreading. In Kenya where the portfolios of institutional investors are heavily oriented on government paper this reshuffling of the portfolio might have an influence on the costs of borrowing by the government. In the case of the proposed volume of bonds to be issued by KPWF, which is relatively small compared to the total size of funds on the capital market, this effect will be limited from a macroeconomic point of view.

[49] The focus on local domestic investors is not strictly necessary. It is not impossible that foreign investors also subscribe to the bonds to be issued. They then run the losses or benefits from exchange rate changes.
[50] In developing countries, the savings deficits are a rational for foreign aid.

6. Efficiency of the programme

The programme as prepared for the grant application was a model of efficient use of resources. It painted a picture in which, over time, the programme would be fully self-sufficient and, where possible, the subsidy granted could be repaid. It predicted that the contribution of the programme would boost investment in the water sector, resulting in millions of people gaining access to more adequate water and sanitation. Unfortunately, this did not come true.
In part, this is because the programme was built on confidence in the contributions of donors other than the Netherlands. It assumes that, in addition to the start-up subsidy provided by the Ministry of Foreign Affairs of the Netherlands, it could count on large contributions from other development partners. These would be used not only to cover initial operational costs but also to provide guarantees and other instruments to mitigate the terms of the loans. Although the programme was viewed sympathetically by various donors and although in some cases more concrete commitments were made, support in its implementation was virtually lacking. As a result, the ambition had to be adjusted downwards, with the result that the focus was solely on a process in Kenya that failed after continuous delays in execution. So, although the programme excelled in efficiency on paper, it was not possible to put it in practice.

Inputs
By far the most important inputs consisted of expertise in the fields of management, financial services, project analysis and water management and water production. WFF and KPWF had indeed been able to mobilise the appropriate expertise available on the market. Even though KPWF's Nairobi office was fully staffed by Kenyan nationals, there were some doubts whether more use should have been made of local experts instead of regularly flying in experts from outside Kenya. It is claimed that similar expertise would have been available locally at a lower cost and that at the same time this would have contributed to a greater sense of ownership of, in this case, KPWF and its activities. There is not much evidence that the deployment of local experts would have yielded the same quality at a lower cost. It is true that almost the entire subsidy was spent on activities linked to KPWF. So, there is no indication that the activities of WFF/KPWF could have been conducted at a lower cost. Even the comment made in the Mid-Term Review that more use should have been made of permanent staff rather than temporarily hired consultants does not guarantee that staff costs would have been lower. It can even be argued that hiring experts on a temporary basis had led to the best quality expertise available.

Financials
Table 2 gives an overview of the flow of funds for the period 2016-2022. In addition to the start-up subsidy from DGIS, the loan from KIFFWA in 2016 is also included. Over the entire period, WFF BV provides services to KPWF[51]. at market rates. Furthermore, WFF BV provided loans that are used initially to set up the local office and to provide technical assistance to local water companies. Over the entire period, approximately 35% of the available funds were spent on this assistance. An interest rate of 0.5% per year was charged on the loans of both KIFFWA and WFF. According to the business plan, the liabilities associated with the loans would be met in the future from the management fees and interest margins charged to the water companies to which the loans were to be granted.
This elaboration of the financial relationships between WFF and KPWF was fully in line with the business approach on which the Facility was based. However, it reflected an extremely optimistic view of KPWF's future. Even if the project had not been stopped prematurely, it is doubtful that KPWF would ever have been able to meet its debt obligations to WFF and KIFFWA. Despite the

[51] KPWF is registered in the Chamber of Commerce under its original name: Water Infrastructure Fund Kenya Management Company Limited (WIFKMC)

relatively low interest rate, the debt would have to be serviced in Euros, which was going to confront KPWF, whose revenues would be in local currency, with currency risks, especially in case of continued depreciation of the Kenian Shilling pushing forward in time of repayments as a result of the slow resolution of the issuance of bonds and related loans to WSPs. In a way, KPWF was struggling with currency risks against which WFF aimed to protect the water companies through its operations in local currency. The loss could only partially have been compensated with reserves held in Euros.

Table 2 WFF Income and costs (€ x 1,000)

	KIFFWA	WFF						Total
	2016	2017	2018	2019	2020	2021	2022	
Revenues								
Subsidy DGIS		4,500	4,500					9,000
Other funds received - TAF (GuarantCo)			200					200
Total Subsidies DGIS + TAF	***0***	***4,500***	***4,700***	***0***	***0***	***0***	***0***	***9,200***
Loan from KIFFWA	1,200							1,200
Total Income WFF / KPWF	***1,200***	***4,500***	***4,700***	***0***	***0***	***0***	***0***	***10,400***
Total expenses WFF Amsterdam	***0***	***511***	***799***	***821***	***530***	***394***	***94***	***3,148***
- Staff costs		301	500	395	395	257	78	1,926
- Management fee FFS BV		117	200	200	100	100	0	717
- WFF costs other countries		0	29	121	0	0	0	150
- Other costs		93	69	106	35	37	16	356
Total Costs allocated to KPWF		1,561	498	309	198	116	117	2,798
Loan disbursements to KPWF	1,200	0	963	700	360	290	210	3,723
Total expenses WFF + KPWF	1,264	2,072	2,259	1,830	1,088	800	421	9,733
Total debt KPWF								
Total debt KPWF to KIFFWA	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Total debt KPWF to WFF		1,561	3,021	4,030	4,588	4,994	5,321	5,321
Total Debt, excl. Interest	1,200	2,761	4,221	5,230	5,788	6,194	6,521	6,521
Interest 0.5% p.a. (estimate)		6	14	21	26	29	31	127
Total Debt, incl. accrued interest	**1,200**	**2,767**	**4,235**	**5,251**	**5,814**	**6,223**	**6,552**	**6,648**

Source: Tables with WFF expenditures and annual accounts KPWF

WFF's approach was based on the philosophy that in the end it would be self-supporting. This would have implied an extremely efficient use of the subsidy granted by the Ministry of Foreign Affairs of the Netherlands. This would have been even more the case because €9 million of the awarded subsidy of €10 million was a so-called recoverable grant, which could flow back to the ministry if WFF were financially independent. In other words, in theory, it was a very efficient use of resources. The practice turned out to be much more disturbing. The initially awarded subsidy of €6.5 million for the operational costs soon proved insufficient to start the company in Kenya. This was due to the delays combined with the relatively high management costs. Under strict conditions the subsidy would then been increased by €4.7 million. It was impossible to achieve the target of mobilising local funds for loans to water companies in Kenya within the time limit set by the donor based on KPWF's estimation of additional time required, let alone to roll it out to other countries.

Efficiency of the institutional organisation

As shown in Figures 1 and 2 above, the WFF's institutional organisation was complex with quite a lot of management layers. In Kenya, it was decided that a Special Purpose Vehicles (SPV) would be administratively responsible for issuing bonds and the loans financed from the created pool to the WSPs. These SPVs would be managed by a fund manager (KPWF). This construction was chosen because the laws and regulations in Kenya did not allow a newly established company without a settled reputation to provide financial services. Yet, it was accompanied by additional costs.

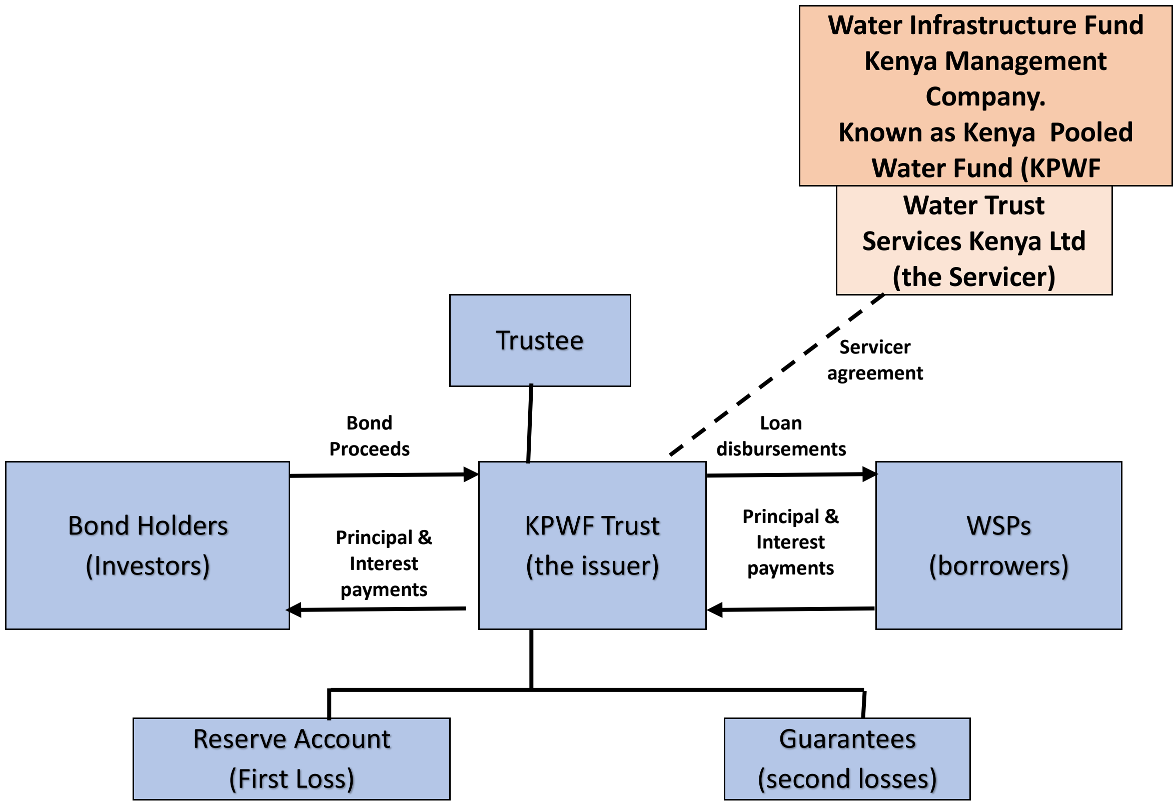
The approach of a start-up under the supervision of Cardano development BV and its department responsible for innovative financing activities (Frontier Finance Solutions BV) has contributed to a fairly high overhead, partly due to the management fee of €200,000 per annum[52]. It should be noted that although FFS was the owner of WFF BV, with a small exception, it did not contribute to co-financing the costs. On the other hand, it should be noted that Cardano's incubator company has ample experience in launching new financial products on commercial terms and was therefore in principle suitable to launch WFF. The business approach of the BVs is clear from the financial reports. WFF BV declared all costs incurred in the context of KPWF to KPWF at commercial rates. KPWF's expenses were covered by loans from WFF on which a modest interest was due. Overall, the costs were paid from the subsidy made available by the Ministry.

During the project, it became increasingly clear, especially in Kenya, that the structure of an independent private financial intermediary was a disadvantage. It required the rather complicated organizational structure in Kenya to meet local legal requirements (see Figure 5). A financial institution with equity capital, such as an investment bank, would not only have had a greater chance of success but would also have been more in line with the original principles in which the Nederlandse Waterschapsbank served as an example. Attempts had been made to join a local investment bank in Kenya, but it is said that this has not been successful because there was no suitable partner present.

Given the different perspectives of the partners from the Netherlands, there have obviously been differences of opinion from time to time about the course to be taken, such as the roll-out of WFF to countries other than Kenya. These differences of opinion were always resolved in a friendly atmosphere. The situation in Kenya was different. After an initial good reception of the initiative by the Kenyan government, which was clearly demonstrated by the participation of senior civil servants on the steering committee and not least by the commitment of a Kenyan contribution to KPWF's reserve fund, enthusiasm gradually waned. External circumstances, such as the elections in Kenya, but also doubts whether the government of Kenya was authorized to participate in the management of a private company can be mentioned. Furthermore, there was a different view between KPWF and government officials on the extent to which the Kenyan government could be held responsible for the loan commitments entered into by the WSPs. Supported by an investigation by a local legal firm, KPWF was of the opinion that failure for the WSPs to meet the interest and repayment obligations would not result in claims on the central government. Until today, some government officials are still not convinced that this is indeed the case. The result of these differences of opinion was that the framework arrangement and implementation agreement between KPWF and the Government of Kenya, which were seen as necessary by the Dutch and Kenyan partners, were not signed. A lot of time and energy was spent on establishing workable relationships with the government, but unfortunately to no avail.

[52] At a later stage of the project reduced to €100,000.

Figure 5 Organisation of KPWF Trust



Efficiency of the implementation

From its start, the planning of the WFF's activities proved to be too optimistic, which meant that the most important milestone, namely the issuance of bonds in Kenya, had to be constantly postponed. The reasons for this have been discussed at length elsewhere in this document. The delays in Kenya meant that KPWF made a disproportionate use of funds available for the launch of WFF. In combination, the delays, and the related costs, led to the decision to wait for the results in Kenya before WFF could spread its activities to other countries. In 2020, on the advice of the Mid-Term Review held in 2019, it was decided to top up the subsidy with an additional €4.7 million[53] [54]. The condition of the additional amount was that the issuing of bonds would take place in Kenya within a year. For several reasons it was impossible to meet the deadline set by the Ministry, which resulted in the decision of the Dutch Ministry of Foreign Affairs to end its contributions.

Cooperation among partners

In accordance with the organisational set-up of WFF with its local facilities, there was a hierarchical relationship between Cardano Development BV and WFF headquarters in Amsterdam on the one hand, and KPWF in Nairobi on the other. There is no evidence that these relationships created frictions. However, it has been indicated that the share of part-time consultants was relatively high compared to the permanent staff, which could be at the expense of sustainability[55]. Because WFF stopped prematurely, there is no evidence that this was indeed the case.

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[53] This amount was earmarked for the following outputs: (1) € 1.5 million. for a Debt Service reserve Account; (2) € 1.1 million. for operational costs and to further develop future projects for a subsequent bond issuance; and (3) € 2.1 million. for KPWF Services subsidiary to administer the loan obligations from 2022 until 2036.

[54] *Bemo voor optopping van EUR 4.7 miljoen en verlenging met 15 jaar*", Ministry of Foreign Affairs of the Netherlands, 21 August 2020.

[55] See the conclusions of the Mid-Term Review.

The organization was set up in such a way that the Dutch ambassador (or his/her substitute) in Kenya, together with a representative of the Government of Kenya, steered the functioning of KPWF. At the same time, there was similar supervision from the Ministry of Foreign Affairs over the formulation and implementation of WFF's policies. On several points, the Ministry's representative had an important influence on the route of the project. Examples are the refraining from further implementation of a local WFF in Indonesia and the decision to stop the project prematurely.
KPWF made extensive use of expertise made available by WFF BV. This expertise was not limited to supporting the local office but was intended to be used in the identification and formulation of bankable projects of the water companies. For this purpose, the subsidy explicitly included more than one million. The interviews with these companies show that they benefited from the support.

7. Sustainability

We define sustainability as the extent to which the benefits achieved by WFF are continued after donor funding has been withdrawn.

The results of WFF are reflected in the results of KPWF in Kenya because nothing has been achieved in other countries. In Kenya, too, most of the results that have been achieved have not been long-lived. Nevertheless, there are several elements initiated by KPWF that do persist. For example, in places such as the civil service, the supervisory boards of and the participants in the capital market, there has been a realization that somehow the private sector must and can invest in the water sector, that generally is considered a risky venture. The positive reception of the RebelGroup report, which recommends a greater involvement of private capital providers in the water sector, is proof of this.
The WSPs have benefited from the technical assistance that KPWF provided in the field of management and the identification and formulation of bankable projects. However, it is still too early to determine to what extent this has led to better functioning companies or to new financing opportunities for these projects.
As noted above, private capital market funding of projects in the water sector is kept possible and welcomed. Influential government officials show a growing positive attitude on this matter. Institutional capital providers are now more positive about investments in the sector than is shown from their previous investment portfolios. Initiatives by the association of pension funds show that their appetite to invest in physical infrastructure has increased, if there are sufficient guarantees for interest and repayment obligations.
The development partners profess that capital market financing of investments in the water sector is the future. Their spending pressure and national visibility are often an obstacle to fully supporting initiatives such as KPWF.
Given the consensus that exists regarding the need for capital market financing of public infrastructure and the fact that bankable projects prepared by KPWF are on the shelf, it would be desirable to support a local financial institution in adopting the WFF concept. The RebelGroup report makes suggestions about which institutions might be eligible for this.

8. Reasons why the facility ended prematurely.

The ToR asks for an explanation as to why WFF was stopped prematurely. We will discuss this question based on the following statements bearing in mind the previous findings regarding the DAC criteria:

1. The concept was not adequate;
2. The concept was not adequately elaborated;
3. The concept was not adequately executed;
4. External (unforeseen) circumstances hindered the development of KPWF too much;
5. It was decided too soon to stop the subsidy.

Ad 1 The concept was not adequate.
As demonstrated elsewhere, there is a consensus that capital market financing of public infrastructure and in this case of water utilities is a necessary complement to public funding. Only then will it be possible to achieve adequate water and sanitation in the countries that need it within the deadlines set by the UN. WFF is an answer. It is a facility aimed at mobilizing, pooling, and lending capital market funds in local currencies to creditworthy water companies. In Kenya, it was built on KPWF's already elaborated case. Thanks to the contributions of KIFFWA and NWP, KPWF's start went smoothly[56]. The idea of capital market financing through the issuance of bonds was enthusiastically received by the relevant parts of the Government of Kenya, and the Dutch Embassy in Nairobi encouraged the initiative wherever possible. The preparations were formulated in a business plan[57] in which not only the concept was further developed, but in which six water companies were already identified that were eligible for a first loan. The business plan assumed that external support would be necessary for the start-up period, but that this would gradually be phased out, after which KPWF would continue to exist as a private company on its own feet. Support was promised from various sides. USAID supported the initiative with technical assistance to water utilities to prepare the loans, the Development Credit Authority (DCA) pledged a partial credit guarantee facility. A set-up such as that of WFF can indeed play a role in the capital market financing of water projects, although the organisation in Kenya resulted in a lot of red tape. Affiliation with a local investment bank in which the government participated could have prevented this. However, according to the information we received, it was not possible to find a suitable partner.

Ad 2 The concept is not properly elaborated.
WFF was founded as a private company that could eventually operate independently, i.e., without government subsidies, as a holding company for several local water facilities. Although initially the Dutch government, in the person of the Minister of Foreign Trade and Development Cooperation, has an important say in the business of WFF BV by granting the start-up subsidy, it is not a shareholder. In the set-up, WFF BV plays the role of holding company that provides services to national WFFs, all of which eventually have an independent status. WFF BV is therefore not a player in the international or national capital markets itself. Only indirectly it plays a role as a holding company, with which it is shielded from the possible risks that the local WFFs run. The national organizations may vary in nature. No one size fits it all. Examples are, on the one hand, Kenya where KPWF is a private company, albeit not for profit, with different appendices to comply with local legal requirements, and on the other hand Indonesia where it was intended to join an already existing local financing institution.
KPWF is set up as a private fund manager. It selects water companies that are eligible for loans and, as provided for in WFF's set-up, it provides technical assistance to the water companies with a view to the preparation and formulation of bankable projects. It also provides services to an organisation

[56] It started as the "Water Infrastructure Fund Kenya Management Company Limited (WIFK)"
[57] Kenya Pooled Water Fund, Business Plan, November 2016.

(Trust and Special Purpose Vehicle, SPV), set up specifically for bond issuance and lending. The latter was necessary to comply with the legal requirements that apply in Kenya for the issuance of bonds. KPWF then put a lot of energy into involving all stakeholders in its activities. Initially, the government of Kenya was willing to (1) allocate money for a guarantee fund and (2) participate in the Steering Committee together with a member of the Dutch embassy. This involvement was to serve as an expression of reliability to the capital market. At the same time, however, an unclear and hybrid situation arose of a privately-owned entity but with involvement of public bodies. After a while, this proved unsustainable, and the government withdrew both as a provider for guarantees and as member of the Steering Committee. In a community where corruption is the order of the day, a hybrid construction of private mixed with public inputs is undesirable[58]. Even more so because this is a private company owned by a foreign holding company that is going to engage in loans to the (semi-) public sector of which it is not yet clear whether it will be awarded the loans by direct award. All this could have been avoided if a connection had been sought with a local financing institution, preferably a development bank in which the government has a majority stake. This conclusion is in line with the recommendation made in the RebelGroup report[59], which also indicates that joining what they call a parastatal would prevent many problems. As an example, the report mentions: the Industrial and Commercial Development Corporation (ICDO), or alternatively a new public-private company to be set up. If such an institute has the character of a bank with its own capital and with government guarantees and with a majority stake of the government (see, for example, the Waterschapsbank or FMO in the Netherlands), many problems that KPWF faced could have been avoided.

ad 3 The concept was not properly executed.
There is no doubt whatsoever about the expertise of KPWF's members of staff, who were recruited in Kenya, nor about the energy they put into making the project a success. KPWF's staff consisted of experienced people from Kenya who had broad experience and knowledge about the local capital market combined with access to an extensive relevant network in the country. The same can be concluded regarding the legal and financial experts who were hired to support the permanent staff. The staff of both KPWF and WFF were convinced that the proper implementation of the project required institutional formal relations with local politicians and senior officials. The representatives of the Dutch government supported this belief. On this basis, extensive attempts were made to establish these relationships. During the first years of KPWF's existence, this was successful. Later, those intensive ties were called into question, despite the many attempts of KPWF's staff to continue them. The same goes for WFF's staff. Nevertheless, the perception persisted that it was a foreign-driven exercise, undermining the sense of ownership. This was reinforced by the fact that experts from outside were flown in very regularly.

Ad 4 External (unforeseen) circumstances hindered the development of KPWF too much.
As indicated above, at some point in time it was decided to concentrate entirely on the creation of KPWF. Unfortunately, the initiative was confronted with several external developments that disrupted this build-up.
Not long after the start of KPWF, the main interlocutors in the government came under fire for corruption. After their resignation, KPWF had to start building new relationships within the relevant ministries again. The new ministers who took over after the elections in Kenya were less enthusiastic about the relationships and commitments previously entered, because of which they were effectively dissolved. This also concerned relations with senior officials. It is believed that the waning interest

[58] The relationship between the Dutch government and a private company has also led to discussions in the Netherlands, namely on whether the ministry's involvement in (1) the establishment of WFF/KPWF and (2) participation in the steering committee was not contrary to the Comptabiliteitswet.
[59] See *"Capital Market Finance Study for Water and Sanitation in Kenya, Analysis and Roadmap,"* page 60-61, RebelGroup, Nairobi, 3rd of February 2023.

was partly the result of KPWF's hybrid nature referred to above. In times when corruption was so much in the spotlight, that would certainly not be a recommendation for the officials involved.
One case, whose importance and impact has been underestimated at the outset, is the transfer of ownership of the WSPs from the national to the regional authorities. This gave regional politicians (governors) more influence over the ins and outs of the WSPs, which was not always to the benefit of their performance. They also had a strong vote in approving the loans that should have been brokered by KPWF. In this regard, it is also important to remember their influence in the setting of tariffs and thereby in determining the creditworthiness of the WSPs. In addition, the issue of legacy debt kept coming back, making lenders hesitant to enter this market.
At the start of KPWF, cooperation in any form from the international donor community was also called upon. Several donors expressed sympathy with the initiative and were willing to contribute in the form of technical assistance, guarantees, etc. Unfortunately, in retrospect, some of these commitments were not kept. In a few cases, donors competed with KPWF by offering cheap (foreign currency) loans that were seen as more attractive by the WSPs. These developments were not sufficiently recognised at the outset.
Finally, the COVID outbreak created difficulties, causing significant delays during the project period.

Ad 5 Too soon it was decided to stop the subsidy.
Already in the grant agreement between DGIS and Cardano, a significant part of the funds made available had been earmarked for KPWF in Kenya. This orientation towards Kenya was further reinforced by the decision halfway the project to focus entirely on Kenya and to consider the facility there as a pilot case. This meant that activities in other countries (Indonesia, South Africa) were stopped abruptly. Fearing the rapidly exhausting of the budget, this decision was understandable, but it prevented the possibility of comparing progress of initiatives between countries that differed widely in the design of the facility.
The rapid depletion of the budget and the not so good prospects of issuing bonds in the short term made DGIS decide to stop the subsidy. Subsequently, it was decided to stop with KPWF at all. It is interesting that WFF BV of which Cardano is the owner has not made any attempt to continue without the contributions of DGIS. It was also never discussed that WFF BV would continue with the development of NWFFs in other countries under the condition that the subsidy from DGIS would not be used for this purpose. After all, Indonesia offered good opportunities for a profitable adventure.
The Water Finance Facility as announced by Minister Ploumen in Addis Ababa was a global programme and therefore an ambitious project. This is also evident from the business plan for WFF. In retrospect, these ambitions could never have been achieved with a modest subsidy of initially Euro 10 million.

9. Some Concluding Remarks

9.1 Reasons for not achieving the envisioned goal of the project?

The subsidy from the Ministry of Foreign Affairs was awarded based on an ambitious plan. This plan proved too optimistic in many ways and the start-up subsidy was far too low to support the proposed plans. An important assumption was that other donor organisations would step in during the project, because they endorsed the approach. Despite their positive attitude at the start, an actual contribution from that side did not come to realisation. As a result, financial shortages soon threatened, also because the materialization of a fund managed by KPWF was increasingly delayed and because WFF BV could not fall back on equity. The dependence on the subsidy from one source made the whole exercise too vulnerable.

Already at the start of the facility there was € 3.5 million reserved for specific parts of KPWF: € 2.5 million for reserves and € 1.0 million for technical assistance to WSPs. This meant that for the set-up of WFF only €6.5 million was available assuming that Cardano, which would eventually become the owner of WFF BV, would not make a financial contribution. The delays faced by KPWF consumed a large amount of the remaining funds, which were therefore no longer available for expansion to other countries. Halfway the project period, it was therefore decided to stop a promising initiative in Indonesia. There was a shortage of funds, which was temporarily solved by an additional contribution from the Ministry, but under strict conditions that could not be met.

The concept was based on a worldwide rolling out of private companies that function as fund managers. This approach seemed less successful in Kenya than expected when setting up KPWF. At the start of KPWF, a formal link was sought with the national government, which would take on part of the potential risks in exchange for a role in the company's steering committee. Although this was accepted at first, it later turned out that the government had no interest in such a role. Nevertheless, KPWF persisted in seeking support in any form from the government. When that did not work (in time), the issuance of the bonds was at risk, despite a positive attitude of the financial markets supervisor and eventually the project fell through.

The implementation of the project in Kenya was increasingly frustrated by external factors, only part of which had been recognised as risks at the start of KPWF. These had to do with the existing laws and regulations that, according to the relevant ministries, prevented them from participating financially in the initiative. Furthermore, it turned out that the number of WSPs that could qualify for a loan from the pool in terms of sufficiently creditworthy and in terms of adequate management was significantly lower than had been foreseen at the start of KPWF. Not least, the unclear status of the WSPs' balance sheets after the transfer of ownership from the central government to the county government contributed to the lack of creditworthiness of the WSPs that would in principle be eligible for a loan. With the withdrawal of the reserves pledged by the Government of Kenya, the hesitation of the donor community to contribute to the guarantees demanded by the capital providers, and the lack of equity of KPWF, the issuance of bonds on the local capital market seemed like a dead end.

Further, the enthusiasm of the WSPs to participate decreased significantly when it became clear that the loans were expensive compared to what they were used to pay for the “soft” loans from bilateral and multilateral donor organisations, ignoring the risks of borrowing in foreign currency. KPWF has not been able to convince the WSPs that its bond-funded loans are a better fit for their long-term investments given their term in combination with the interest. Blending the pooled bond-funded loans with low-cost donor funds would have significantly reduced their costs, but unfortunately donors were unwilling to step in. The RebelGroup report advises in the early phases of capital market financing to blend the bond-funded loans with low-cost funds from donors. Finally, the Corona outbreak slowed things down considerably.

The lack of sufficient funds combined with the dismissive attitude of the Government of Kenya could have been avoided if WFF had joined a local financial institution, for example a local investment bank in which the government had an important share. It could have increased the involvement of the government and countered the accusation of distortion of competition. We have been informed that attempts were made to partner with such an institution, but that no institution present in Kenya was considered suitable. The proposal for Indonesia was based on affiliation with a local organisation. That could have become a counterexample to the way things were going in Kenya if it had not stopped prematurely.

The Theory of Change as shown in Figure 4 gives an overview of the (expected) outcomes. As described elsewhere in this document, only a limited part of the results has been achieved. The idea that private capital can play a significant role in the financing of public infrastructure in general and in the water sector in particular has been accepted by several actors in Kenya, which resulted in other initiatives. This has also been confirmed by the study conducted by RebelGroup. The fact that (water/green) bonds can be provided for this purpose has/will also been/be followed up, as demonstrated by the initiatives of the Kenya Pension Fund Investment Consortium (KEPFIC) and the collaboration between the Eldoret Water and Sanitation Company and the Kenya Association of Stockbrokers and Investment Banks. Regarding investments by the WSPs, the most important outcomes have not been realized. KPWF has made an important contribution to the formulation of bankable projects in an admittedly limited number of WSPs, and it has contributed to a more structural formulation of drinking water tariff setting. Unfortunately, it has not been possible to finance these projects with the help of the issuance of bonds (the third outcome). Although there exists interest in water/green bonds in the capital market and there is now an acceptance of the Government of Kenya for the need of this form of financing water infrastructures, for which KPWF can be seen as a major promotor has played, in practice KPWF has failed to convert this interest into actual bond purchases.

9.2 Final Assessment

The design of WFF/NWFF operating as an intermediary between investor and borrower is indeed a promising innovation in the financing of public investments in developing countries. This concerns not only the approach of pooling domestic currency loans to spread the risks, but also the way in which the funds are acquired. The organisation in the form of a private company that acts as the parent company that maintains corporate relationships with private companies in the various countries is not standard in the public domain. Such an approach has advantages, including the benefit of a business-like approach and the incentive for borrowing parties to also act commercially. Another advantage is that investors often have more confidence in doing business with private parties than with what they consider to be a less reliable government provided that sufficient guarantees exists. This argument was from time to time raised in the interviews. The intermediary role of WFF/KPWF means that investors do not have to do business directly with the water companies, which are not only seen as weak financially and in terms of management, but also as an extension of politics and therefore completely dependent on the often unpredictable bureaucratic and political decision-making. The intermediary makes these investors less vulnerable to such unpredictable behaviour. Although in principle an attractive approach, WFF/KPWF nevertheless got caught in the net of bureaucratic and political entanglements, which in our view has been a major reason for its failure.

10. Lessons Learnt

WFF (and its subsidiaries) was a fund manager with access to reserves made available by the government for unexpected calamities and to funds for start-up activities, but without own capital. The lack of own capital limited its borrowing capacity and expansion to countries other than Kenya. It was entirely dependent on external grants to cover its operational expenditure and on third-party contributions to a guarantee fund. It could not show investors that it was willing to take risks through equity participation. Furthermore, it was dependent on capital market participants for the financing of the loans, including institutional investors, which usually have a risk-averse profile. The lack of equity also required WFF to rely heavily on external parties for reserves. Among these the Government of Kenya, which in practice showed a fairly volatile behaviour. These reserves were needed to provide investors with sufficient certainty and confidence in their investments. Finally, for the blending of the loans, WFF depended on the willingness of donors who also took an unpredictable and/or wait-and-see attitude.

Lesson 1: The introduction of a private fund manager that acts as an intermediary between the investors and the borrowing water companies is a promising innovative approach to financing the water sector. It requires a clear structure and a staff with sufficient expertise and experience, and above all sufficient financial resources to cope with the difficulties encountered during the introduction of such an innovation. In the case of WFF/KPWF, there was a lack of resources to sustain it during a difficult start-up period. A new attempt to introduce such an innovative approach requires a much greater financial contribution from the outset than has been in this. Speculating on third-party contributions during the project is too uncertain. It is therefore advisable to start the introduction of such an instrument only if sufficient funds from several sponsors have been secured.

Lesson 2: An alternative to the concept of fund manager is to work with a reliable financial institution such as a local investment bank with sufficient equity and sufficient proven access to other financiers. The government as co-owner of such an institution would be an advantage because it means the chance of mental and financial support from the government. This approach would be more like the Waterschapsbank in the Netherlands than an institution such as KPWF that acts exclusively as a fund manager.

Lesson 3: The failure was largely due to the unclear institutional structure of the programme. On the one hand, the whole plan was aimed at a private company, entirely in line with the philosophy that the financing of the water sector would re-oriented from a public dominated source to private investors. On the other hand, WFF relied heavily on public sponsors and on interventions from the recipient government and donor. This was evident in Kenya, where government-to-government agreements were seen as essential but in which KPWF, as a private company, had to play a role in the conclusion of those agreements. Such a hybrid situation can only lead to misunderstandings and slow decision-making, as evidenced by Kenyan practice.
It would have been better if WFF's private character had been maintained to the end. This does not mean that good relations should not be built with local authorities, if only because the water companies are public institutions, but it should not mean that local authorities should also interfere in the business of the company.

Lesson 4: Although the business plans announced otherwise, KPWF was in Kenya focused on the bond market and hardly paid attention to other capital market instruments that might have been applied more easily. If a similar project is initiated in the future, it is advisable to use a broader spectrum for attracting funds than this strict focus on bonds. This also implies a greater reliance on other financiers for soft term loans. It might also have been possible to raise funds on the international capital market while hedging exchange rate risks.

Lesson 5: In the study of which countries would be eligible for an NWFF, Kenya did not come out on top. If WFF or a similar venture is rolled out to countries in the future, the choice of countries should not be determined by existing activities such as in Kenya where KIFFWA in cooperation with NWP had already started KPWF before the contracts related to WFF had been signed. In that case, the political and institutional environment in which the NWFF should operate should be looked at more critically.

Lesson 6: It is unrealistic to think that a multinational company with several local branches can be started with only € 10 million. or even € 14.7 million, to leverage up to €1 billion. These amounts are not sufficient to realize the business plans. The assumptions about the potential contributions of other donors turned out to be not solid. More realistic assumptions would have avoided many frustrations.

Lesson 7: It is also very optimistic that the project could have reached its objective of a first issuance of bonds within two years as stated in the original business plan. What transpired is that during the first two or three years, more attention should be given to the creation of a conducive institutional environment, before other activities are started. This overly optimistic time schedule could be remedied by organising a mid-term review within the first two years.

Lesson 8: The concentration on only one country as was the case after the decision to not expand to Indonesia and/or South Africa and Vietnam was risky because if Kenya did not succeed the whole initiative would fail, which in the end actually happened. If such innovative financing activities were to be re-initiated in the future, diversification across several countries would be desirable to avoid that the initiative depends on one country only, while it also offers the possibility to compare the approach as conducted in the different countries.

Lesson 9: The rate of the KPWF's loans consisted of the market interest plus a management fee. This went beyond what other financiers offer. Blending with soft funding is necessary to achieve acceptance of this new financing modality by the borrowers.

ANNEXES

ANNEX 1: Details of the preliminary stage
ANNEX 2: Evaluation Methodology
ANNEX 3: Original Theory of Change
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ANNEX 1: Details of the preliminary stage

WFF was meant to be a global programme acting in at least ten countries. In preparation of WFF, a quick scan was executed in 2015 for the following fourteen countries[60]:

1. Benin
2. Colombia
3. Ethiopia
4. Ghana
5. Indonesia
6. Kenya
7. Mozambique
8. Romania
9. Rwanda
10. South Africa
11. Tanzania
12. Uganda
13. Vietnam
14. Zambia

The quick scan was a desk study limited to urban water and based on information available on-line. The scan was focused on many criteria, but ranked the countries according to the following six, that were used as country selection criteria later in the project period as well:

1. Status of the country sovereign credit rating;
2. Existence of a domestic bond market (sovereign bonds, corporate bonds including pension funds and insurance companies);
3. Expressed need for water and sanitation investments (national targets, goals, disaggregated costs, forecasts);
4. Institutional and legal context (regulation, decentralization, ownership);
5. Performance of the service providers (credit rating, finances, benchmarking); and
6. Experience with domestic banks financing the water sector (sources of funds, loans to WASH).

The criteria were scored: green (OK); yellow (medium) and red (not OK). A country was not eligible for WFF if it scored red on at least one of the criteria. The scores are shown in Table 2-1.

Table 2.1: *Number of criteria scores by country resp. Green; Yellow and Red*

	Green	Yellow	Red
Benin		4	2
Colombia *)	6		
Ethiopia	2	2	2
Ghana	3	3	
Indonesia *)	4	2	
Kenya	4	2	
Mozambique	3	2	1
Romania **)	5	1	
Rwanda	2	3	
South Africa *)	5	1	
Tanzania	2	3	1
Uganda	3	3	
Vietnam	4	2	
Zambia	3	3	

*) no partner countries of the Directorate General for International Cooperation

**) It is not clear why Romania was part of the scan, since it is no DAC country

Colombia scored highest, followed by respectively South Africa, Indonesia, Vietnam, and Kenya. Although no weights were attached to the criteria, the role of the institutional/legal context was considered particularly important. Similarly, the performance of the water companies and the domestic financial institutions were essential elements. The latter was crucial because WFF is based on mobilizing funds in local currencies. Colombia, Ghana, Indonesia, Kenya, South Africa, and Vietnam score green on the bond market. But Indonesia, Kenya and Vietnam scored yellow on the institutional aspects, indicating that some improvements were still required on the institutional/legal framework.

[60] See *'Domestic Resource Mobilization and Innovative Financing. Quick scan 14 countries. Access to local finance for Water and Sanitation,'* July 2015.

ANNEX 2: Evaluation Methodology

This section describes the main purpose of the evaluation based on the Terms of Reference (ToR) and the evaluation approach and methodology. The latter includes, among others, a review of the Appraisal Documents for the initial phase of the project and for the Top-Up Proposal, the annual reports and the Mid-Term review executed by Carnegie Consultants, and other policy and project documents. It concludes with an inventory of the sources of information.

Purpose and Scope of the Evaluation

The aim of this evaluation is:

i. To assess effectiveness, efficiency, relevance, coherence, and sustainability of the project
ii. To determine why the project only partially met the objectives; and
iii. To determine what lessons can be learnt from this project that can be used in other projects with similar objectives.

According to the ToR, the evaluation will focus on finding answers to the following two questions:[61]

- What were the reasons for the project not being successful?
- What lessons can be learnt from this project that can be used in other projects?

In addition to these two core questions, the evaluation will - in line with the OECD DAC criteria - assess the effectiveness, efficiency, relevance, coherence, and sustainability of the facility. Below we describe the methods we will apply to address the evaluation questions listed in the ToR.

Approach and Methodology of the Evaluation

The evaluation is theory-based and departs from the (generic) Theory of Change (ToC) of WFF but realising that the ToC has been adapted during the project period. For the assessment of effectiveness, efficiency, and sustainability, it will review and where needed revise the ToC, that is, the results chain, narrative, and assumptions and risks.

Since in the case of the Kenya Pooled Water Fund (KPWF), the selected Water Service Providers (WSPs) in Kenya are the key intended beneficiaries of the intervention, the evaluation calls for a small N approach for evaluating **effectiveness**[62]. The theory-based Contribution Analysis (CA) developed by is selected as the most appropriate for the WFF evaluation[63]. CA involves the formulation of hypotheses about the links between activities and outputs and between outputs and outcome. Using various sources of information, the methodology aims to present credible evidence of contribution and of other factors' influence on various observed indicators and thus assesses whether the hypotheses can be accepted.

The analysis of effectiveness will give insight into the extent to which intended outputs and outcomes of WFF/KPWF have or have not been realised (or were likely to be realised). It is related to the **efficiency** analysis, which compares the financial resources used for WFF/KPFW with the results obtained. Efficiency analysis will give insight into the relationship between inputs and outputs (production efficiency) and, where possible, that between inputs and outcomes (cost-effectiveness). The efficiency analysis will thus adopt a value-for-money approach. It will pay attention to the cost of outsourcing the management of WFF to Cardano Development. Major sources of information for the

[61] See *'Terms of Reference evaluation Water Finance Facility,'* Erik Siepman, 20 January 2023.
[62] White, H., and Phillips, D. (2012). *'Addressing Attribution of Cause and Effect in Small N Impact Evaluations: Towards an Integrated Framework.'* International Initiative for Impact Evaluation (3ie).
[63] Mayne, J., 2001. *'Addressing attribution through contribution analysis: using performance measures sensibly.'* Canadian Journal of Programme Evaluation, 16:1-24; Mayne, J., 2012. Contribution analysis: Coming of age? Evaluation, 18(3):270-280.

analysis are WFF financial data, output and outcome indicators and results of interviews, as well as documentation on alternative facilities.

The assessment of **sustainability** is also related to the effectiveness analysis, as it assesses whether the results of the intervention are sustained or whether conditions for sustainability have been created. We will apply the checklist developed by RVO to look at various dimensions of sustainability.[64] Given the starting point of the evaluation that the objective of WFF was not met (see ToR, page 1), the assessment of sustainability will be predominantly in terms of (partial) results that have been achieved – 'successful aspects,' in the terminology of the ToR – and that may be useful for current and future activities in the W&S sector in Kenya (or more in general). The focus will be on financial and institutional sustainability, but, where possible, it will also look at environmental, technical, and social sustainability. Major sources of information for the analysis are WFF/KPFW documentation and interviews results.

The evaluation will assess **relevance** of WFF/KPFW. It will be analysed by means of a comparison of WFF's objective (or expected outcomes) with the objectives of the governments of Kenya and the Netherlands related to water and sanitation and innovative financing for water infrastructure projects, and with the financial needs of the Kenyan WSPs in the context of their role in providing the population access to water and sanitation services. The assessment will be made by means of a desk study of WFF/KPFW and policy documents and triangulation of the desk study results with those of interviews with key stakeholders. The assessment also involves examining whether the WFF/KPFW has indeed contributed to results that are in line with the needs of the Kenyan population and the priorities of the Government of Kenya and Dutch international cooperation with Kenya.

The assessment of ***coherence*** will be in terms of *internal* and *external* coherence. Internal coherence involves examining how WFF/KPWF fits with other interventions of the Netherlands and with Kenyan activities. External coherence concerns the comparison with instruments of other donors. The assessment will also be made by triangulating desk study and interview results.

The evaluation matrices presented in the Inception report Annexes 3 and 4 specify the criteria and the sources of information related to the research questions specified in the ToR for, respectively, WFF and the Kenyan facility (KPWF). The matrices also specify which indicators and sources of information we intend to use to address each of the evaluation questions and at which level of analysis we intend to conduct the analysis. However, the evaluation matrices are considered less suitable for questions and for the assessment of why the project was ended. Were the reasons for ending the project related to the design of the project (which is reflected in the ToC), or to changing expected or unexpected developments in the project environment? Through interviews with stakeholders and outsiders we will trace the main reasons for the failure.

The Results Chains of, respectively, WFF and KPWF were shown in Annexes 6 and 7 of the Inception report. They show the logical chain behind the Facility with relating the inputs and activities to the outputs, outcomes, and impact. As such, it is an addendum of the Theory of Change offering more details. Initially, KPWF was only one of the National Water Financing Facilities, but already in an early phase of WFF, Kenya was selected as a pilot country for assessing the concept of the facility. Later in the project, it was the only country where the Facility was rolled out, which is the reason that we treat Kenya separately. In this evaluation, the Theory of Change forms the basis for the following tentatively formulated hypotheses that are examined during the evaluation. The hypotheses are clustered according to the respective issues in the set-up of WFF.

[64] https://english.rvo.nl/sites/default/files/2017/07/FDOV-FIETS-checklist_0.pdf.

E. Local capital market

- If WFF in general, and KPWF in particular, introduces private capital market financing of WSP projects and promotes private financing of the water sector in DAC countries, then it is an increasingly important instrument to close the gap between demand and supply of finance in the WASH sector.
- If a pool of funds fed through local currency bonds issued in the local capital market is created, then WFF in general, and KPWF in particular, promotes the functioning of the local capital market mechanisms.
- If launching of the WFF concept in the target countries and in Kenya is successful, then it serves as an example for other financial institutions in these countries.

F. Institutional/legal environment in the target countries

- If government institutions involved and the legal conditions are enabling, then WFF in general, and KPWF in particular, can contribute to the support of local capital market financing of infrastructure investments.
- If tariffs for water and sanitation services are set in such a way that WSPs can operate as financially sustainable companies, then WFF in general, and KPWF in particular can contribute to the support of local capital market financing of infrastructure investments.

G. Supported WSPs

- If WFF in general, and KPFW in particular, provides assistance to WSP project development and manages/monitors ESG standards, then a pipeline of W&S projects that meet ESG standards will be more likely.
- If WFF in general, and KPFW in particular, facilitates loan agreements with guarantees and facilitates bond issuances, then it will be more likely that local currency water bonds are successfully issued, and loans are provided to WSPs.
- If there is a pipeline of W&S projects that meet ESG standards and KPFW issues bonds and provides loans to WSPs , then the W&S sector in Kenya will shift from (mainly) ODA- and subsidy-financing of infrastructure projects towards capital market financing– meeting the WFF/KPWF's goal for 2021 of a public offering of a local currency bond for the funding of the water infrastructure projects of 6 WSPs (see WFF Annual Plan 2021).
- If WFF in general and KPFW in particular provide assistance and loans to WSPs, then it is likely that WSPs become financially sustainable institutions implying easier and regular access to the domestic capital market.

H. Water and Sanitation consumers

- If there is a pipeline of W&S projects that meet ESG standards and WFF in general and KPFW in particular issue bonds and provide loans to WSPs, then water infrastructure and as a result, water utilities will improve.

Stakeholder mapping

Since investments funded through WFF have not materialized, the evaluation will be based on qualitative research implying study of documents and interviews with stakeholders, including potential candidates for projects.

As the start of the evaluation, a stakeholder mapping has been conducted, revealing the mix between 'directly involved stakeholders' and 'boundary stakeholders.' 'Boundary stakeholders' are those individuals and organisations that contribute to – or are part of the context of the intervention but are not directly responsible for the implementation of the interventions. This category of stakeholders includes other donor organisations, especially those that were interested in participating in the Facility. The directly involved stakeholders are:

- the persons active in the execution of WFF, such as staff of KPWF and Cardano Development; the experts who participated in the scoping missions to South Africa, Indonesia, and Kenya;
- Staff of the Netherlands Embassy in Nairobi, KIFFWA and of MFA/IGG;
- Civil servants of the various ministries of the Government of Kenya, such as the National Treasury and the Ministry of Water and Sanitation;
- Representatives of several agencies in the water sector, including the Water Services Providers Association, the Water Services Regulatory Board, the Water Resources Authority, and the Water Resources management Board; and
- Representatives of agencies active in the capital market, such as State Bond Banks, the National Social Security Fund, the Kenya Mortgage Refinance Company, and the Capital Market Authority.

For fieldwork outside Nairobi, an initial selection of counties and WSPs involved in the KPWF is drawn from the six counties listed in the Annual Progress Report 2020 (WFF, 2021) and counties included in the initial list from the memorandum 'Response to the WASH-FIN/USAID Assessment on KPWF' (KPWF, 30/3/2021), which were subsequently dropped. Also considering the coverage of the WSP (number of connections), this results in the following counties/WSPs: Kisumu and Embu (as also suggested in the ToR), and Nakuru representing *very large* utilities (> 35,000 connections), as well as Nyeri and Ruiri/Juja (10,000-35,000 connections).

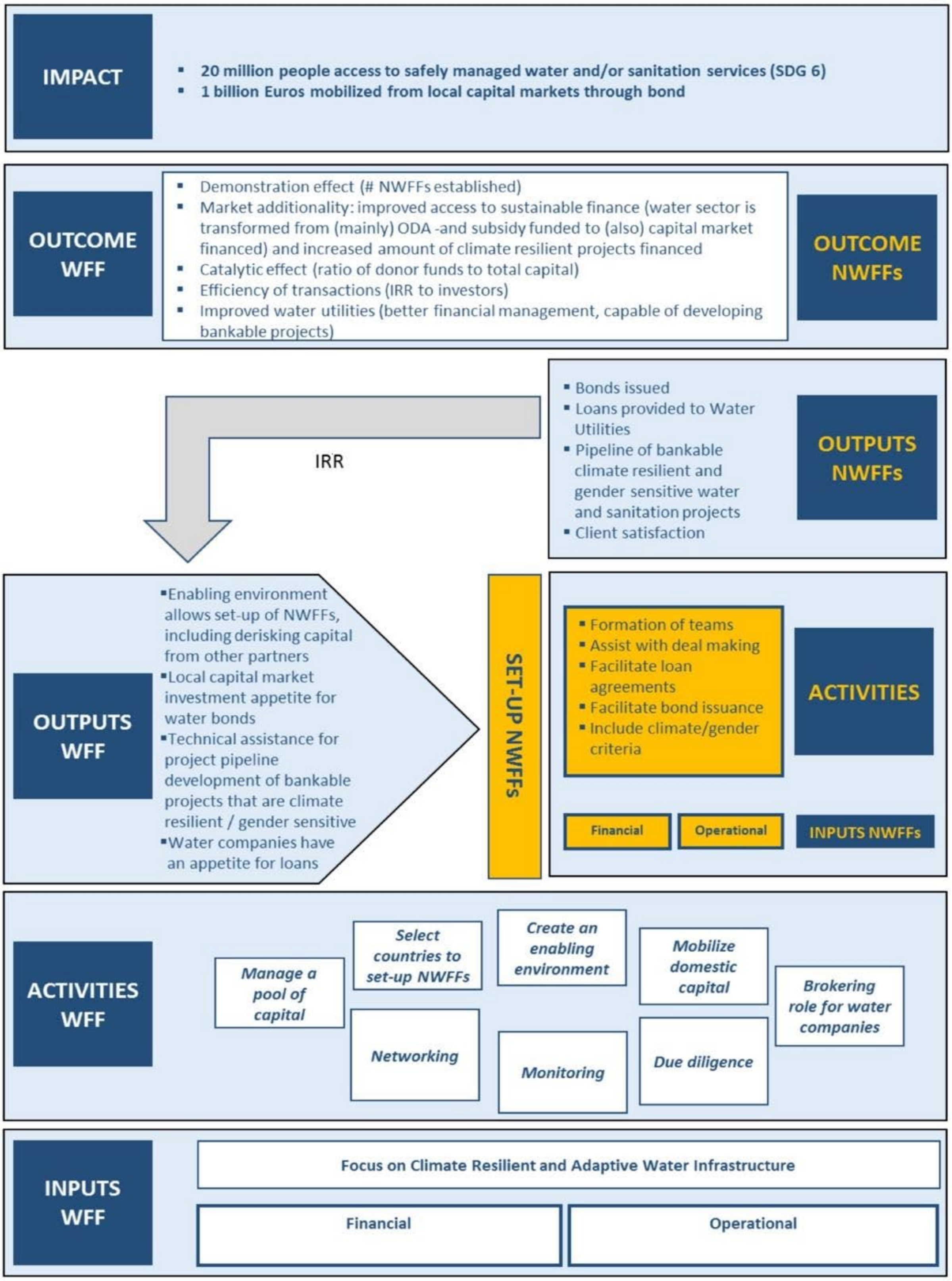
Independent information sources for validation and triangulation

Results will be validated and triangulated by using different information sources. Triangulation will be achieved by the interviews, review of project documents and documentation and inputs coming from different angles, such as staff of Cardano Development, of MFA/IGG, EKN Nairobi, bi- and multilateral partners, representatives of the Kenyan county and national governments, staff of the potential beneficiary WSPs, representatives from the financial sector, in particular from the institutional investors, etc.

The report on the mid-term review executed by Carnegie Consult includes an extensive list of persons and institutions contacted and interviewed. This list will be used as a starting point for our interviews. In consultation with staff of the EKN Nairobi and of MFA/IGG, it will be decided who will be approached for another interview to avoid interviewee fatigue.

Exploiting multiple information sources and combining different evaluation approaches allows for triangulation of findings and will increase both the internal and external validity of the results. Annexes 5 and 6 include of the most important information sources.

ANNEX 3: Original Theory of Change



ANNEX 4: Research questions from the Terms of Reference and Answers

There are five categories of questions to be answered in the evaluation: effectiveness, efficiency, relevance, coherence and sustainability.

1. Effectiveness - the extent to which WFF achieves its objectives

a. To what extent have the projected outcomes of the project been achieved?

Answer:

The generic WFF ToC mentions five outcomes: (1) Demonstration effects; (2) improved access to sustainable finance by water sector; (3) Catalytic effect; (4) Efficiency of transactions; and (5) improved water utilities.

- *Demonstration effect*: WFF succeeded in establishing KPWF with help of KIFFWA/NWP but this did not lead to the intended transactions. This means that the demonstration effect is limited, simply because, for various reasons, it was unable to issue bonds and the loans financed by them within the agreed time.
- *Improved access to sustainable finance:* Although KPWF has done a lot to promote its approach, at the time of this evaluation it has not yet led to substantial capital market financing of public infrastructure in general or of the water sector. As a result, KPWF has hardly contributed to a long-term solution to the shortage of financing resources for large projects in the water sector.
- *Catalytic effects:* Partly related to KPWF's initiatives, there is more interest among local investors in investing in public infrastructure albeit still limited. The idea of pooling funds through the issuance of (green) bonds is currently tried out by the Kenya Pension Funds Investment Consortium (KEPFIC) and the collaboration between the Eldoret Water and Sanitation Company and the Kenya Association of Stockbrokers and Investment Banks.
- *Efficiency of transactions;* Because no transactions have taken place, it is not possible to judge their efficiency. However, KPWF's support to potential borrowers had a positive impact on the quality of proposals of the projects eligible for financing.
- *Improved water utilities.* For the same reason, a general judgment is not possible here either. The impression is that KPWF's support in the preparation of project financing in the selected companies has had a positive effect on their financial management and on the quality of the financial project proposals.

b. What are the main determinants for the results achieved? Did any unintended results (positive and negative) occur, and how did they affect the different target groups and stakeholders?

Answer:

The main determinants for the results were:

- The financial support from respectively KIFFWA and DGIS and from other donors that provided TA, such as USAID.
- The commitment and activities of the staff of WFF and KPWF.
- The support of the Netherlands Embassy, among others reflected in the support for the initiative to the start-up of KPWF's predecessor, and its efforts to reach an agreement with the Kenyan government.
- Financial and other professional support from KIFFWA and NWP.

Unintended results:

- A positive result is the more structured discussion in Kenya about the setting of water tariffs, in particular that now more systematically the main cost components of the water production is taken into account, such as inflation, debt services, etc. Overall, this has had a positive impact on the financial performance of the water sector.

- It will also have a less favourable impact on the purchasing power of water consumers.

c. *Have lessons learned been gathered throughout the implementation period and have these lessons been taken into account adequately in the decision making while moving forward?*

Answer:
As a result of the initial experience, a number of changes have been introduced compared to the original project plan, such as:

- The deletion of the programme for Technical Assistance (TA) and Viability Gap Funding (VGF), which was included in the original plan. The experience in Kenya showed that KPWF should not mix its financing activities with other services. Other parties would better supply these.
- In the course of the project WFF increases its contribution to project development spending and starts a Project Development Revolving Fund.
- Contrary to previous assumptions regarding WFF's contribution to the first loss reserves, it has been increased in order to allow for rapid issuance of bonds.

d. *What are the reasons the project partners have not been able to achieve the envisioned goal of the project?*

Answer:
There is a list of reasons that the project partners were not able to achieve the envisaged goals. These can be divided into unforeseen developments and other aspects related to the project.
Unexpected developments:

- After the elections in Kenya, the project had to deal with other counterparts within the government, who were initially more hesitant to cooperate.
- A number of officials are accused of corruption, including direct counterparts of KPWF.
- The entire exercise was based on the assumption that donors other than the Netherlands would step in with additional financing or by softening the loans to the companies. This turned out not to be the case in practice. In a way, on the contrary, they continued to offer loans on very soft terms, making them a competitor rather than a supporter.
- COVID-19, as a result of which day-to-day contacts between PKWF staff and government officials was not possible for a long time.

Other aspects:

- In general, expectations regarding the implementation of the project were set far too high at its start. It is an illusion to think that a global activity can be set up with a start subsidy of only Euro 10 million. It soon became clear that this amount was not even enough to make KPWF a success.
- WFF’s lack of own capital limited its lending capacity and expansion to countries other than Kenya. It was entirely dependent on external grants to cover its operational expenditure and on third-party contributions to a guarantee fund.
- The not-foreseen delays in Kenya prevented WFF's expansion of activities to other countries, including Indonesia and South Africa. This could possibly have been avoided by a strict ceiling on expenditure per country, including Kenya. Because there was no limit to the budget that could be spent for one country, virtually the entire budget was spent on the operational costs related to KPWF.

e. *Have the project partners worked together in a way that was most beneficial to reach the project targets? The project partners are WFF, KPWF, Cardano Development, Nairobi Embassy and IGG.*

Answer:
There are no indications that the project partners did not get along well. In case of differences of opinion, these were resolved in a good atmosphere. Nevertheless, IGG's decision to focus entirely on Kenya and not expand to other countries was a bitter pill to swallow for WFF. In retrospect, it can be

concluded that it might have been better for the survival of WFF to be active in other countries as well.
The support of the Dutch embassy in Nairobi to make a success of KPWF was substantial. She was not only the initiator of KPWF in the preliminary phase, but also made great efforts to get support for the project from the Kenyan government.

f. What is the added value of the cooperation between the various partners in Kenya and the Netherlands?

Answer:
It is not clear whether the project has contributed to improving the cooperation between the partners in the Netherlands, if this did not already exist. RebelGroup International's study of the capital market in Kenya, which can be seen as an aftermath of KPWF, was jointly initiated between the Dutch Embassy and the Kenyan government, which shows that cooperation in this area is indeed continued in good harmony.

g. What were successful aspects of the project?

Answer:
Despite the premature cessation of the Facility, the following outputs have been achieved:

- WFF was founded as a company with a full staff and the operational tools to function as an initiator and supervisor of local WFFs. This also implies the development of protocols for expanding activities to several countries.
- A fully equipped company (KPWF) with staff and office facilities been established in Kenya;
- Six water companies have been supported in management and project definition and formulation;
- Bankable projects have been prepared for four water companies in Kenya;
- The acceptance of capital market financing has increased in a number of places where decision-making takes place in Kenya;
- The interest among Kenyan investors to invest in the water sector has increased;

The attitude regarding both capital market financing of water projects and the use of the model developed by WFF for this purpose has increased significantly in Kenya and awareness raising among donors of the importance of CMF, partly thanks to the study executed by RebelGroup International.

h. Would it have been possible to improve any aspects of the project?

Answer:
A more realistic picture of what can be achieved in an uncertain environment at the start of the project would have led to more realistic expectations. Speculating on third-party contributions is too uncertain. It is therefore advisable to start the introduction of such an instrument only if sufficient funds from several sponsors have been secured beforehand.

i. In 2017 and 2020 a risk analysis was done. Nevertheless, the project ended in 2021. What can we learn from this to improve risk assessments and decision-making for future projects?

Answer:
The risk assessments contained in the Bemo's are sometimes subjective, and not well supported by clear evidence. For example, the *contextual risk* assessment includes the following statement: "*Due to the innovative character of KPWF and the Presidents crackdown on corruption, high-level Kenyan Government officials are risk averse. This further delays (financial) commitments to KPWF initiative*". Various sources with which this evaluation has been in contact mentioned this as one of the most serious risks for the project and both KPWF staff, the Netherlands Embassy and other development partners in Kenya were aware of this risk for some years. However, in the Bemo, this risk was assessed as *medium*. Another risk worth mentioning is the one related to the COVID-19 pandemic.

Here again, the risk was put at *medium*, although staff of KPWF and the Embassy were aware that direct communication with decision makers in Government were key to the project's progress.
A new risk analysis was done only after three years. It seems that a project on innovative ways of financing W&S sector investments requires a more frequent update of the risk assessment.

j. What lessons can be learnt from this project that can be used in other projects with similar objectives?

Answer:
If an innovative financing facility were to be re-initiated, diversification across several countries would be desirable to avoid that the initiative depends on success in one country only, while it also offers the possibility to compare the approach as adopted in the different countries.
In addition, a more careful assessment of the local conditions and a more extensive political economy analysis of the water sector and its most influential players may be needed in order for a project to be successful. In the case of KPWF, too many issues were to be addressed at the same time, some of which were outside the control of KPWF. It is recommended to first do more on improving the enabling environment. Support from the World Bank would be helpful, to get actual commitment from other donors to contribute to a project on innovative financing.

2 Efficiency - the extent to which the financial and human resources (input) have been used economically to reach the project's outcomes

a. Have the appropriate inputs been deployed at the lowest possible cost?

Answer:
The most important inputs consisted of expertise in the fields of management, financial services, project analysis and water management and water production. WFF and KPWF have indeed been able to mobilise the appropriate expertise available on the market. Despite the fact that KPWF's Nairobi office was fully staffed by Kenyan nationals, there were some doubts whether more use should have been made of local experts instead of regularly flying in experts from outside Kenya. It is claimed that similar expertise would have been available locally at a lower cost and that at the same time this would have contributed to a greater sense of Kenyan ownership of KPWF and its activities. There is, however, no evidence that the deployment of local experts would have yielded the same quality at a lower cost.

b. Have activities been conducted in the most effective manner?

Answer:
To make WFF/KPWF a success, a large number of activities have been conducted. The staff of KPWF, supported by inputs from the WFF headquarters in Amsterdam and by hired local expertise, has done its utmost to gain a foothold by KPWF. To some extent, this has been achieved, with the result being the preparation of four projects for capital market financing. At the same time, a lot of time has been spent on developing good relationships with the relevant government bodies. Initially, this was successful, but at a later stage these relationships were difficult to establish, which ultimately contributed to the aforementioned delays.

c. How efficient was the decision-making structure in the project (on WFF and KPWF level)?

Answer:
WFF's institutional organisation was complex with a number of management layers. In Kenya, the construction of Special Purpose Vehicles (SPV) that would be administratively responsible for issuing bonds and providing loans was chosen, because the laws and regulations in Kenya did not allow a newly established Ltd company without a settled reputation to provide financial services. Yet, it was accompanied by additional costs.

The structure of an independent private financial intermediary required the rather complex organizational structure to meet the Kenyan legal requirements. A financial institution with an equity capital, such as an investment bank, would not only have had a greater chance of success but would also have been more in line with the original principles in which the Dutch Waterschapsbank served as an example. Attempts have been made to join a local investment bank in Kenya, but it is said that this has not been successful because there was no suitable partner present.

d. Have overhead costs been kept to a minimum?

Answer:

The approach of a start-up under the supervision of Cardano development BV and its department responsible for innovative financing activities (Frontier Finance Solutions BV) has contributed to a relatively large overhead, partly due to the annual management fee of €200,000 (in later years €100,000. On the other hand, it should be noted that Cardano's incubator company has ample experience in launching new financial products on commercial terms and is therefore in principle well-equipped to launch WFF.

Many services were hired on short-term contracts, which reduced permanent overheads. The size of the staff of the head office in Amsterdam was modest and therefore the operational costs were relatively low.

e. Have conflicts during implementation been prevented or solved?

Answer:

Given the different perspectives of the partners, there have been differences of opinion from time to time about the course to be taken, such as the roll-out of WFF to countries other than Kenya. These differences of opinion were always resolved in a friendly atmosphere.

f. Have outputs been achieved within the planned period and budget?

Answer:

WFF was founded as a company with a full staff and the operational tools to function as an initiator and supervisor of local WFFs. This also implies the development of protocols for expanding activities to several countries. The following outputs have been achieved:

- A fully equipped company (KPWF) with staff and office facilities been established in Kenya;
- Six companies have been supported in management and project definition and formulation;
- Bankable projects have been prepared for four water companies in Kenya;
- The acceptance of capital market financing has increased in a number of places where decision-making takes place in Kenya;
- The interest among Kenyan investors to invest in the water sector has increased;
- The mood regarding both capital market financing of water projects and the use of the model developed by WFF for this purpose has increased significantly in Kenya, partly thanks to the study executed by RebelGroup.

Unfortunately, the envisaged outcome (bonds issuance) has not been achieved within the timeframe agreed with the sponsor. Therefore the project was prematurely ended.

g. Have outcomes been achieved in an economic manner?

Answer:

Although the project has generated some outcomes, this has not led to the eventual issuance of bonds and the related loans. The continuous delays in this issuance and the deployment of resources to expedite it has contributed significantly to the high costs. We can therefore conclude that the funds have not been used in a cost effective manner.

3 Relevance - the extent to which WFF responds to the priorities and policies of beneficiaries and donors

a. To what extent does the ToC match Dutch policies and strategies?

Answer:

The ultimate goal of WFF/KPWF is to give more people access to safe water and sanitation. In accordance with these intention, the foreign aid policy of the Netherlands puts major emphasis on the role of sustainable access to drinking water and improved sanitation. This is clearly evidenced in various policy notes, such as “Water for Development”[65], “A World to Gain”[66] and in the Water, Sanitation and Hygiene (WASH) strategy[67]. At the same time, it is recognised that the investments needed to provide many, particularly poor, people with safe water and sanitation are sky-high and cannot be realized through public funds only. Long-term private financing is needed, preferably in local currency to be protected against foreign exchange risks.

b. To what extent is the intervention/result relevant for DGIS policy?

Answer:

In the 2022 policy note on the strategy for the aid and trade agenda of the Netherlands, the Dutch Ministry of Foreign Affairs underlines this need: ‘[to] achieve the SDG […] targets it is crucial to mobilize private financing’[68]. However, practice shows that the appetite of the private sector to invest in water and sanitation services is limited for several reasons. These are: (i) income from water and sanitation services is low and relies heavily on subsidies from local governments and on tariffs paid by consumers; (ii) investors’ perception that the revenues are uncertain because of weak government finances in the target countries; (iii) tariffs that are not inflation-proof; and (iv) poorly-managed public utility companies that result in a substantial proportion of non-revenue water.

c. To what extent were the intervention strategies relevant for the local (GoK, water and finance sector) context?

Answer:

Improving the supply of water and sanitation services in terms of quantity and quality are high on the list of priorities in general and of the Government of Kenya.

Foreign aid to Kenya has been declining since the country outgrew its status as a developing country. As a result, financial shortages in the water sector are increasing. Capital market financing in the manner of WFF offers an opportunity to reduce these deficits.

WFF can indeed play a role as mediator between the public water companies and the private investors in bridging the shortfall in long-term financing in the water and sanitation sectors.

WFF also focused on strengthening Water Service Providers (WSPs) and had in accordance with the terms of the sponsor set aside a substantial amount for this purpose. In Kenya, the need for this support is clearly demonstrated by the fact that of the approximately 100 WSPs, fewer than 10 were eligible for a loan.

d. To what extent did the project respond to the needs of the target population?

Answer:

The percentage of people using drinking water from an improved source that is accessible on premises, available when needed and free from faecal and priority chemical contamination was in

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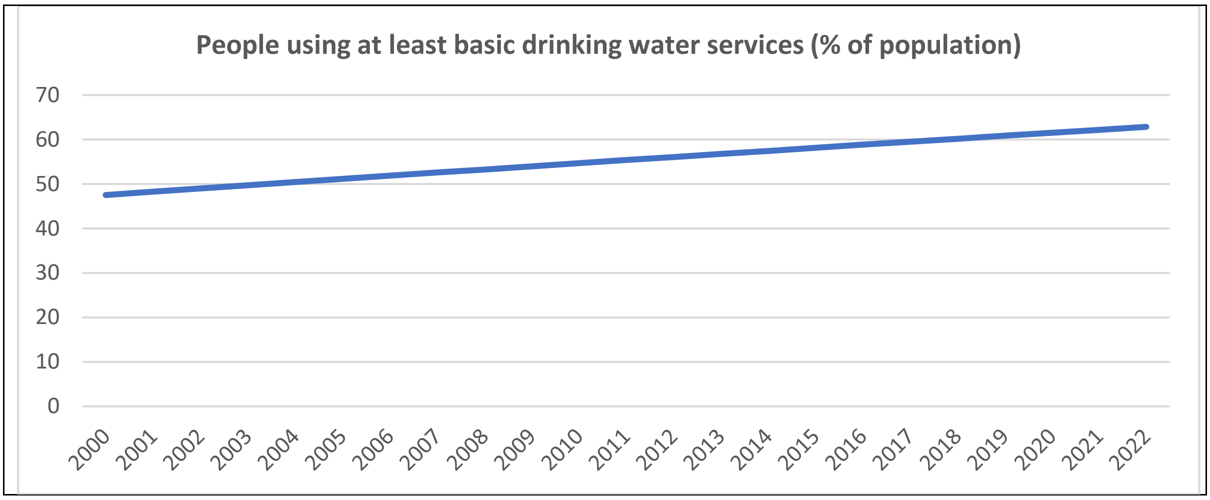
[65] ‘*Water voor Ontwikkeling’ (‘Water for Development’),* letter of the Minister for International Trade and Development Cooperation to the Dutch Parliament, 9 January 2012.

[66] *‘Wat de wereld verdient' (‘A World to Gain’)*, presented to the Dutch parliament by the Minister for International Trade and Development Cooperation, 5 April 2013.

[67] ‘*Wash Strategy*’, Letter of the Minister for International Trade and Development Cooperation to the Dutch Parliament, The Hague, 19 January 2017.

[68] Netherlands Ministry of Foreign Affairs. ‘*Doen Waar Nederland Goed in is: Strategie Voor Buitenlandse Handel en Ontwikkelingssamenwerking*’. Beleidsnotitie 2022. Netherlands Ministry of Foreign Affairs, The Hague, page 12.

2022 just over 60% illustrating that there is still a long way to go before everyone has access to such resources. These improved water sources include piped water, boreholes or tubewells, protected dug wells, protected springs, and packaged or delivered water. Supporting the strongest WSPs by means of CMF could free other resources for supporting weaker WSP in counties with larger needs.



e. Was the failure to obtain GoK approval of the Framework and Implementation Agreement a valid reason for IGG to decide to halt the project?

Answer:

The approach of organizing WFF/KPWF through a private company for which the government of Kenya would partially provide guarantee provoked resistance from various authorities with an appeal to local laws and regulations. It was felt that such a private-public cooperative approach made the Government of Kenya at least partly responsible for the functioning of a private company that might conflict with the adage of independence. Such resistance can indeed be a reason to terminate the project. In this case, however, it seems too early because attitudes towards these agreements and KPWF's approach changed recently, and eventually the authorities were willing to go along with them. Unfortunately, IGG had already decided to withdraw its contributions at that time.

f. Were there unexplored diplomatic or other avenues that could have resulted in the approval of the above agreements?

There is no indication that not every effort has been made to reach an agreement with the relevant authorities. It would have helped if other donors such as the World Bank or major bilateral donors had been more vocal in their support for the initiative.

g. Does the collapse of the project in Kenya mean that the concept of (pooled financing) capital market financing of infrastructure investment by water service providers as promoted by WFF is not valid elsewhere?

Discussions about the consequences of the use of the facility in combination with unexpected and rapidly changing circumstances (elections resulting in a different political constellation, COVID19, etc.) KPWF was confronted with in Kenya were largely responsible for the delays. That does not mean that the approach would not work in other countries. This does not alter the fact that the institutional and financial and economic environment must be critically assessed before starting in another country.

h. Why was WFF concept not tested in other countries such as Indonesia, South Africa or other countries?

WFF's design took into account the roll-out of the concept to several countries. Against this background, missions to Indonesia and South Africa were undertaken. These missions resulted in a positive assessment regarding the establishment of a local WFF. However, for various reasons, this has been postponed. South Africa did not seem acceptable as a country for a local WFF for political reasons, while Indonesia has been postponed because the exercise in Kenya was facing continuous delays. Based on this, at the insistence of IGG, it was decided to wait for the results in Kenya first.

i. How can the lessons learned from this project be applied in similar future projects? In terms of concept, country and otherwise.

Answer:
Concept: WFF's approach was indeed an innovation in the financing of public investments in developing countries. The organisation in the form of a private parent company (WFF BV) that maintains corporate relationships with private companies in the various countries (NWFFs) is not standard in the public domain and has advantages. These include the benefits of a business-like approach, which is also encouraged in the water companies through technical assistance provided during the preparation of bankable projects. Doing business with a private company is also considered an advantage because investors often have more confidence in private partners than in what they consider to be a less reliable government.
Country: If WFF or a similar facility is rolled out to countries in the future these countries' political and institutional environment must be given at least an equal weight as to the functioning of the local capital market.
Otherwise: A new attempt to introduce such an innovative approach requires a much greater financial contribution from the outset than has been in this case. WFF/KPWF lacked sufficient own resources to sustain the introduction of its innovative finance instrument. Speculating on third-party contributions is too uncertain. It is therefore advisable to start the introduction of such an instrument only if sufficient funds from several sponsors have been secured beforehand. It is also important to determine what would be a good moment to start a new attempt, as opinions on this vary.

j. Are there any improvements that can be made to the Theory of Change (ToC)?

Answer:
The generic ToC can be maintained, but there must be room to adapt the ToCs to the circumstances of the different countries in which WFF wants to operate. This was also the intention in the original project proposal. It is important to ensure consistency between the generic ToC and country-specific ToCs.

k. Is it necessary to adjust the assumptions underlying development policies regarding innovative financing?

There is no need to adjust the underlying general assumptions but that they be re-examined on a country-by-country basis. In doing so, it is important to consider whether the NWFF should operate as an independent private company or whether it should seek affiliation with a local financial institution. It is also important to define precisely the role of the government.

4 Coherence - the extent to which WFF aligns with relevant projects and policies

a. *How well did the interventions in the four activity areas of WFF align with Kenya's policies, stakeholders, practices and experiences?*

Answer:
A tool that can be used to mobilise private funds is a welcome addition to existing instruments. Although KPWF fits perfectly with the ambitions of the Government of Kenya, her cooperation in the form of guarantees and cooperation agreements fell short of the wishes of WFF/KPWF, especially after the installation of the newly elected government. In Kenya, the initiative followed in the footsteps of what had already been initiated by the Kenya Innovative Finance Facility for Water (KIFFWA) and the Netherlands Water Partnership (NWP). Although WFF/KPWF at the strategic level fitted well into the Ministry's foreign aid agenda in Kenya, it was reported that at the operational level the coherence between the various activities could be improved.

b. *Were the interventions coherent with other Dutch interventions and policies to improve sustainable water supply in developing countries?*

Answer:
The initiative fitted well with the existing activities of the Dutch development policy agenda to support the water and sanitation sectors. These activities are very much in line with the UN's sustainable development objectives (SDG6). However, there was not always sufficient coordination with other instruments of Dutch development cooperation with Kenya.

c. *Were the interventions coherent with other development partner programs?*

Answer:
The development partners were initially sympathetic to KPWF's approach and saw it as a welcome addition to their own activities in the water sector. Yet, with a few exceptions, there has been a lack of actual support and cooperation. On the contrary, in a few cases they competed with KPWF by offering grants or loans at greatly reduced rates to the WSPs that qualified for KPWF's support.

d. *Were the interventions coherent with other Dutch interventions and policies to improve the availability of financial resources for development cooperation?*

Answer:
WFF was consistent with the policy objectives of the Dutch development cooperation as expressed in her policy notes, illustrating WFF's policy coherence.

e. *Has duplication been avoided?*

Answer:
WFF/KPWF was an entirely new instrument aimed at mobilising financial resources for the major projects in the water sector. In doing so, it entered the territory of other bilateral and multilateral donors, but did so in a completely different way. So the approach was different and complemented the way other donors covered this area.

f. *Has the political economy of the water sector and its most influential players been taken well into account in decision-making?*

Answer:
The approach has underestimated the resistance of the authorities responsible for the budgetary, financial and water sectors when asked to become co-responsible for the success of the enterprise. This was all the more evident because of the recent corruption scandals in the country. There was also a difference of opinion with regard to the ultimate responsibility for the debts that would arise if the water companies borrowed on the capital market. Finally, there was the specific Kenyan problem

of the transfer of the water companies from the central to the local government. In relation to this latest development, there are still uncertainties regarding the assets and liabilities of companies. These cases have had a significant impact on the course of KPWF.

g. What contextual factors facilitated or hindered the project activities in Kenya? Such as the 2017 general election, cabinet reshuffles, Covid pandemic, the 2010 constitution, the 2016 Water Act, etc.

Answer:
All these contextual factors have prevented a stable and rapid set-up of the facility in Kenya. The above-mentioned aspects played an important role in this.

5 Sustainability - the extent to which the benefits achieved by WFF are continued after donor funding has been withdrawn

a. To what extent are the results sustainable? The main objective of the project was not achieved but is the work done in Kenya substantial and might it be useful later?

Answer:
In a way, WFF/KPWF was instrumental in the introduction of capital market financing of public sectors, in this case the water companies. This was the case not only in terms of the political environment but also in terms of investors' attitudes towards investments in the sector. It should be noted that the appetite to invest in water is highly dependent on the guarantees offered to the investors.

b. In the project several water utilities were analyzed and prepared to receive new investments. To what extent did WFF's interventions contribute to the sustainability of water utilities?

Answer:
KPWF has contributed in various ways to the financial sustainability of an admittedly limited number of water companies. Not only have the companies benefited from the support in the preparation of the financing of projects, but the approach has also introduced a more commercial attitude among management. However, the latter should not be exaggerated because the selection of firms eligible for loans was also based on the existing performance of these firms, which thus contrasted favourably with their peers.
In addition to the internal contributions, KPWF's involvement has also ensured that the issue of the indexation of water tariffs has moved higher on the agenda.

c. Do relevant stakeholders still identify themselves with WFF's objectives, activities and outputs?

Answer:
DGIS, in this case IGG, has withdrawn itself from the project because it was of the opinion that essential steps in implementation have taken too long. It is nevertheless still convinced that private investors should play an important role in the financing of water companies. This also applies to the Embassy of the Netherlands in Kenya. After initial hesitations, the Kenyan government is currently more interested in this method of financing, depending on the way in which it is organised. The main potential institutional investors in Kenya have reaffirmed their interest, as evidenced by the report by RebelGroup International.

d. What measures can be taken to ensure the financial and institutional continuity of WFF's interventions?

Answer:
In a sense, the moment the plug was pulled off the project everything was ready for the start of raising funds and taking out the loans with the companies that had the projects to be financed ready for them. An even more extensive road trip was needed to clarify the conditions under which

investors would get in. Ergo, in a sense, the foundation is ready for a continuation of the initiative. The report of RebelGroup International indicates how this could be done, also institutionally, namely by placing it with an existing financial institution or by means of the start of an institution in which the local government plays an important role as a shareholder. It is waiting for a partner (the Netherlands?) who is willing to step in.

ANNEX 5: Persons and institutions contacted

Name	Position / function	Organisation
Mr. Robert Bunyi	Former Managing Director	KPWF
Mr. Ng'ang'a Mbage	Former Project Manager	KPWF/YE
Mr. Duncan Onyango	Chair, Board of Directors	KIFFWA
Mr. Gerald Kimotho	Senior Manager – Corporate	CBA Capital
Karen Kandie	Director, Parastatal Reforms (Financial)	National Treasury
Timothy Odipo	Policy Analyst	National Treasury, Resource Mobilization Department
Ms. Rose MakKenzie	Water Sector Coordinator	The Netherlands Embassy, Nairobi
Ms. Viola Chelang'at Kilel	Research Assistant	The Netherlands Embassy, Nairobi
Winnie Ouko	Former Director	KPWF
Ms. Amanda Robertson	WASH Team Lead	USAID
Mr. John Gitau	Senior Programme Officer (Water & Environment)	JICA, Kenya Office
Dr. Julius K. Itunga	Acting Chief Executive Officer	WASREB
Mr. Robert Gakubia	Former Chief Executive Officer	WASREB
Mr. Kimanthi Kyengo	Director for Sanitation, Head of Donor Coordination	Ministry of Water, Sanitation, and Irrigation
Mr Antony Ambugo	Chief Executive Officer	WASPA
Mr. Dominick Revell de Waal	Senior Economist, Water and Sanitation Program	World Bank
Eng. Peter Kahuthu	Managing Director	Nyeri Water & Sanitation Company Ltd. (NYEWASCO)
Eng. James Njeru	Managing Director	Embu Water & Sanitation Company Ltd (EWASCO)
Eng. Joshua Oria	Head of Technical Services	Embu Water & Sanitation Company Ltd (EWASCO)
Mr. Simon M Mwangi	Managing Director	Ruiru – Juja Water & Sewerage Company Ltd (RUJWASCO)
Ms. Maryline Yanzar Agwa	County Executive Committee Members	County Gov't of Kisumu
Mr. Thomas Odongo	Managing Director	Kisumu Water & Sanitation Company Ltd (KIWASCO)
Mr. Isaac Makori	Financial Manager	Nakuru Water & Sanitation Company Ltd (NAWASCO)

Eng. Nahashon Wahome	Managing Director	Naivasha Water & Sanitation Company Ltd (NAIVAWASCO)
Mr. Chris Kandie	Director/Financial advisor	Signum Capital, Lion's Head Global Partners
Mr. Ngatia Kirungie	Chief Executive Officer	KEPFIC/Spearhead Africa
Mr. Eddy Njoroge	Former Board Chair	KPWF
Mr. Mohammed Nyaogo	Former Director	KPWF
Mr. Willis Ombai	Chief Executive Manager	Water Sector Trust Fund
Mr. Frans Makken	Former Ambassador to Kenya	Retired
Mr. Pim van der Male	First secretary, Food Security & Water	Netherlands Embassy, Nairobi
Ms. Josien Sluijs	Managing Director	Aqua for All
Mr. Jean-Pierre Sweerts	Former Chief Executive Officer	WFF
Ms. Amandeep Kang	Former Business Controller	WFF
Mr. Roy Torkelson	Structuring expert	Consultant for WFF
Mr. Maarten Blokland	Project development expert	Consultant for WFF
Mr. Dick van Ginhoven	Funding expert	Consultant for WFF
Mr. Hein Gietema	Funding expert	Consultant for WFF
Mr. Joris van Oppenraaij	Former operations and impact manager	WFF
Mr. Johan Kruger		WB / KIFFWA
Ms. Lena Berglöw Elm	Senior Advisor, Loans and Guarantees	SIDA
MS. Sheillah Karimi	Portfolio Coordinator Water and Sanitation (East Africa)	KfW
Ms. Catarina Fonseca	Head International and Innovation Programme	IRCWASH
Ms. Karin Roelofs	Former Head Water Team	Ministry of Foreign Affairs, DGIS, Department Inclusive Green Growth (Retired)
Mr. Rien Strootman	Senior policy advisor innovative finance for development	Netherlands Ministry of Foreign Affairs
Ms. Rachael Muchohi-Ngumbi	Portfolio manager	ICEA Lion
Mr. Joshua Kibet	WASH finance lead East Africa	Aqua for All

ANNEX 6: Documents consulted

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ANNEX 7: Terms of Reference evaluation Water Finance Facility (extract)

Erik Siepman, 20 January 2023

Aim and research questions

Aim of the study

The aim of the evaluation is (1) to assess effectiveness, efficiency, relevance, coherence and sustainability of the project; (2) to determine why the project only partially met the objectives; and (3) to determine what lessons can be learnt from this project that can be used in other projects with similar objectives.

End users are:

- The Inclusive Green Growth Department and the Directorate General for International Cooperation (DGIS) in the Ministry of Foreign Affairs;
- Partners and stakeholders in the Dutch and Kenyan and international water sector, especially those who work on innovative finance arrangements;
- Development partners, institutions, and research institutions in The Netherlands and abroad, like World Bank, SIDA, USAID, universities, etc.

Research questions

There are five categories of questions to be answered in the evaluation: effectiveness, efficiency, relevance, coherence, and sustainability.

1. Effectiveness - the extent to which WFF achieves its objectives

a. To what extent have the projected outcomes of the project been achieved?
b. What are the main determinants for the results achieved? Did any unintended results (positive and negative) occur, and how did they affect the different target groups and stakeholders?
c. Have lessons learned been gathered throughout the implementation period and have these lessons been taken into account adequately in the decision making while moving forward?
d. What are the reasons the project partners have not been able to achieve the envisioned goal of the project?
e. Have the project partners worked together in a way that was most beneficial to reach the project targets? The project partners are WFF, KPWF, Cardano Development, Nairobi Embassy and IGG.
f. What is the added value of the cooperation between the various partners in Kenya and the Netherlands?
g. What were successful aspects of the project?
h. Would it have been possible to improve any aspects of the project?
i. In 2017 and 2020 a risk analysis was done. Nevertheless, the project ended in 2021. What can we learn from this to improve risk assessments and decision-making for future projects?
j. What lessons can be learnt from this project that can be used in other projects with similar objectives?

2. Efficiency - the extent to which the financial and human resources (input) have been used economically to reach the project's outcomes

a. Have the appropriate inputs been deployed at the lowest possible cost?
b. Have activities been conducted in the most effective manner?

c. How efficient was the decision-making structure in the project (on WFF and KPWF level)?
d. Have overhead costs been kept to a minimum?
e. Have conflicts during implementation been prevented or solved?
f. Have outputs been achieved within the planned period and budget?
g. Have outcomes been achieved in an economic manner?

3. Relevance - the extent to which WFF responds to the priorities and policies of beneficiaries and donors

a. To what extent does the ToC match Dutch policies and strategies?
b. To what extent is the intervention/result relevant for DGIS policy?
c. To what extent were the intervention strategies relevant for the local (GoK, water and finance sector) context?
d. To what extent did the project respond to the needs of the target population?
e. Was the failure to obtain GoK approval of the Framework and Implementation Agreement a valid reason for IGG to decide to halt the project?
f. Were there unexplored diplomatic or other avenues that could have resulted in the approval of the above agreements?
g. Does the collapse of the project in Kenya mean that the concept of (pooled financing) capital market financing of infrastructure investment by water service providers as promoted by WFF is not valid elsewhere?
h. Why was WFF concept not tested in other countries such as Indonesia, South Africa or other countries?
i. How can the lessons learned from this project be applied in similar future projects? In terms of concept, country and otherwise.
j. Are there any improvements that can be made to the Theory of Change (ToC)?
k. Is it necessary to adjust the assumptions underlying development policies regarding innovative financing?

4. Coherence - the extent to which WFF aligns with relevant projects and policies

b. How well did the interventions in the four activity areas of WFF align with Kenya's policies, stakeholders, practices and experiences?
c. Were the interventions coherent with other Dutch interventions and policies to improve sustainable water supply in developing countries?
d. Were the interventions coherent with other development partner programs?
e. Were the interventions coherent with other Dutch interventions and policies to improve the availability of financial resources for development cooperation?
f. Has duplication been avoided?
g. Has the political economy of the water sector and its most influential players been taken well into account in decision-making?
h. What contextual factors facilitated or hindered the project activities in Kenya? Such as the 2017 general election, cabinet reshuffles, Covid pandemic, the 2010 constitution, the 2016 Water Act, etc.

5. Sustainability - the extent to which the benefits achieved by WFF are continued after donor funding has been withdrawn

a. To what extent are the results sustainable? The main objective of the project was not achieved but is the work done in Kenya substantial and might it be useful later?
b. In the project several water utilities were analyzed and prepared to receive new investments. To what extent did WFF's interventions contribute to the sustainability of water utilities?
c. Do relevant stakeholders still identify themselves with WFF's objectives, activities and outputs?
d. What measures can be taken to ensure the financial and institutional continuity of WFF's interventions?

Methodology

Triangulation must be applied to all research questions: data and information should be gathered from different sources and methodologies. The preferred methods are (this list is not exhaustive):

1. Deskstudy (policy DGIS, bemo, proposal, MTR, project plans etc)
2. Key informant interviews, both in The Netherlands and in Kenya
3. Benchmark comparisons with similar projects in water sector and financial market development in low income countries.

Products

From the evaluators, the following products are requested:

1. The evaluators start by making a detailed work plan (inception report), which is to be discussed with and approved by the reference group.
2. Draft conclusions and recommendations to be discussed in a meeting between the evaluation team and representatives from DGIS.
3. A final report that includes comments from DGIS and the reference group.

The final report must contain at least the following chapters: (1) Research questions and background; (2) Methodology; (3) Findings & analysis; (4) Conclusions and recommendations and (5) Executive summary. Furthermore as an annex the following items can be included: this ToR for the evaluation, list of documents consulted, list of interviewees, list of participants of workshops or other events arranged by the evaluator.

The conclusions should be presented per research question: thus (1) Effectiveness; (2) Efficiency; (3) Relevance (ToC; Policy); (4) Coherence and (5) Sustainability.

The report should describe the measurement of changes in the effect variables in comparison to the situation at the start; attribution of the observed changes to the intervention; assessment of changes observed and attributed to the intervention in terms of the objectives.

Finally, it must be clearly argued how conclusions are reached: on the basis of which data (triangulation) and on the basis of which reasoning. The recommendations must follow logically from the conclusions and be clear and realistic.

ANNEX 8: Water Finance Facility ’s Management Response

Ministerie van Buitenlandse Zaken
Attn. Mr. Erik Siepman
Rijnstraat 8
2515 XP, Den Haag

Date: December 7th, 2023
Re: The Water Finance Facility's Management Response to the End of Term Evaluation Report

Dear Mr. Siepman,

We are happy to provide you with the Water Finance Facility's (WFF) Management Response to the WFF evaluation report, dated 1 December 2023, prepared by Erasmus University Rotterdam. In this letter we reflect on the evaluation report and provide some future perspectives.

WFF's reflection on the evaluation report

In general, we agree with the conclusions and lessons learned presented in the evaluation report. We appreciated the opportunity to provide feedback about those parts of the draft report (submitted on 27 October 2023) where we felt that it needed correction or nuance and we appreciated the receipt of the evaluator's reaction to that feedback on 7 November 2023. At that time we were not able to provide feedback to Annex 4 of the evaluation report, 'Research questions from the Terms of Reference and Answers', because that Annex was not included in the draft version.

More importantly we would like to highlight a selection of conclusions and lessons learned from the WFF implementation period and this evaluation, because we consider those to be most relevant for learning and improving future programs. For a more elaborate analysis about the lessons learned about the Kenya Pooled Water Fund (KPWF), we refer to the WFF's contribution to the book 'Financing Investment in Water Security' published by the OECD and Elsevier.

The importance of an own balance sheet - Despite DGIS's and WFF's intensive capital raising efforts, no other development partners were prepared to join DGIS in funding WFF. Therefor, it was impossible for KPWF to incorporate a blended financing program with the capital market loans for the Kenyan Water Service Providers (WSPs). Also, this hampered WFF to scale up to countries other than Kenya. For future endeavors, it is recommended that one needs to mobilize additional low cost capital for water to secure an 'own balance sheet' to address this challenge.

The need for local political support - Although the enabling environment for capital market financing of Kenyan WSPs was and is conducive from a regulatory and legal perspective, it became clear that strong political support from local champions who truly understand and welcome the concept is still needed to get the first deal done. KPWF started off very well in this respect, but got stuck due to replacement of those champions, most notably the Cabinet Secretary of Finance and the Principal Secretary at the State Department for Water, Sanitation and Irrigation.

Make use of WFF's achievements - Although WFF has not been successful in closing a bond transaction in Kenya, the following non-exhaustive list of achievements are worth mentioning also in light of future activities by all stakeholders involved:

- As a result of the collaboration between KPWF, the Dutch Embassy in Nairobi and the Government of Kenya, it has become much more likely that the Kenyan water and sanitation sector will access capital market financing in the near future. This is demonstrated by the following achievements: (i) Kenya's regulatory entity, the Capital Markets Authority, supported the issuance of the water bonds in the Kenyan capital market; (ii) institutional investors showed appetite to invest in well-structured water bonds; (iii) Kenya's Attorney General approved the required agreements at the national level, iv) the Water Services Regulatory Board introduced inflation indexing of water tariffs in support of commercial finance. Furthermore, in the

Business Daily Africa of July 5th, 2023, it is mentioned that the Kenyan Government has renewed its intention to implement capital market financing of WSPs.

- The WSPs in the KPWF's pipeline have benefited from the project and the loan development support provided by KPWF. This was demonstrated by the following achievements: (i) bankable projects were developed and designed and, (ii) loan term sheets for the WSPs to finance those projects were finalized.
- In furtherance of the above, Stichting Aqua for All has stepped in and been able to unlock commercial bank financing for some of the WSPs from the KPWF pipeline by providing loan guarantees to those banks.
- Our missions to Indonesia contributed to an increased interest in capital market financing of water and sanitation companies by the local development finance institution, PT SMI. In fact, one of WFF's team members is currently assisting PT SMI to explore mechanisms in the field of capital market financing for Indonesian water utilities.

WFF's recommendations in relation to existing opportunities

We also want to highlight two water financing initiatives for which the WFF lessons are relevant and in which Cardano Development (CD) is either directly or indirectly involved:

Kenyan WSPs' private placement –CD is currently setting up the Dhamana Guarantee Company, a credit guarantee provider in Kenya, which is in its final phases of raising capital and is currently building a pipeline of deals to guarantee, including two potential private placements loans to WSPs that were in KPWF's pipeline. Dhamana is expected to close at circa $25-30'm of initial core capital investment early 2024, with material capital contributions committed by the UK government, the African Development Bank, and crucially the County Pension Fund in Kenya. CD and Dhamana are currently in contact with the Netherlands Embassy in Kenya with a view to anchoring synergies between KPWF's lessons learned and Dhamana's upcoming activities, which potentially may include water-finance-specific technical assistance (TA).

The Urban Water Catalyst Initiative (UWCI) – This initiative is co-funded by DGIS and aims to support urban utilities to become creditworthy and subsequently to provide loans to those utilities or guarantees to third party financiers. CD recently met with the UWCI team to share lessons learned from WFF and other CD initiatives. Measures to address some of the challenges WFF faced are included in UWCI's approach and at CD we would very much like to be further involved in UWCI in the future.

Lastly, we would like to conclude this letter with expressing our sincere gratitude and appreciation to the Ministry of Foreign Affairs of the Netherlands for entrusting us with the responsibility to implement WFF. The support from IGG and from the Netherlands Embassy in Nairobi was unwavering. Additionally, we recognize the unwavering support from various Government of Kenya officials in the National Treasury, the Attorney General's Office, the Ministry of Water, Council of Governors, the Water Sector Trust Fund, and the Water Sector Regulatory Board who collectively worked tirelessly alongside us towards realizing the vision of issuing Kenya's inaugural water bond. We also acknowledge the support of USAID and SIDA for their support of the KPWF initiative.

At CD we remain available to further discuss the lessons learned by WFF and we look forward to more collaboration with DGIS/IGG in the future to jointly pursue mobilization of private finance at scale, which is a sine qua non for achieving SDG6.

Sincerely yours,

Jean-Pierre Sweerts
Managing Director WFF

Eddy Njoroge
Chair KPWF

Joost Zuidberg
CEO of CD