



Netherlands Enterprise Agency

# *Sustainable Water Fund*

Commissioned by the ministry of Foreign Affairs

*>> Sustainable. Agricultural. Innovative.  
International.*

# **Sustainable Water Fund**

**Fonds Duurzaam Water = FDW**

## **SUMMARY MID TERM REVIEW**

### **Mid Term Review**

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Dear reader,

It is our pleasure to present to you the report of the Mid Term Review of the Sustainable Water Fund (FDW). This independent review is commissioned by the Dutch Ministry of Foreign Affairs with the aim to provide insight in the current portfolio and its potential contribution to sustainable, inclusive economic growth by improving water security and water safety in developing countries through public-private partnerships (PPPs).

For this, an independent evaluation team consisting of Bert van Woersem, Ken Caplan and Jetze Heun assessed available documentation and visited some of the implemented FDW projects, with an emphasis on projects started in 2013 (first call). The findings and recommendations of this review are laid down in the enclosed report summary.

Another objective of the Mid Term Review is to provide direction and input for the further development of the FDW programme. At the moment the outcome of the Mid Term Review is being incorporated in the preparation of the third FDW call. Some of the adjustments will, for instance be a stronger focus on getting a better balance in contribution to the different FDW themes, creating more local ownership by strengthening the involvement of local public partners and the aspects of sustainability, pro-poor and gender strategies.

We would like to thank all partners that received the evaluation team and contributed to this review. For further information on the third call FDW, please contact [fdw@rvo.nl](mailto:fdw@rvo.nl).

Yours sincerely,

Inclusive Green Growth Department – Ministry of Foreign Affairs

## SUMMARY

The Sustainable Water Fund provides new opportunities for the water sector, leads to often interesting partnerships, and produced a number of valid PPP projects. However, involving the private sector and related revenue based models within the partnerships is challenging. The current role of the private sector is overestimated, partly because of the broad, less realistic definition for “private”. Also FDW strict subsidy regulations do not always stimulate more risk-taking PPPs. The fact that the FDW is above all a fund operating in the realm of development cooperation cannot always easily be traced back in the reality of the project objectives and results.

Moving beyond the processes and procedures, a major policy question for DGIS is: How does the Ministry want to orient the funds available for call 3 and beyond; 1) maintain the current approach of a broad-based development fund with a high mix of partners in PPPs in which (semi-)public funds play an important role or 2) consider structural adjustments to the fund with more focus on increased revenue based services, commercial = private sector and on “game changers” in the water sector.

The latest water-specific policy document is entitled *Water for Development* (Ministry of Foreign Affairs, submitted to parliament on 9 January 2012). The document precedes the “A world to gain”, but embraces the same concepts and approaches on partnerships and new funding mechanisms for the sector. It distinguishes three focal themes: (1) access to drinking water and sanitation (CDW), (2) efficient water use, especially in agriculture (EWU) and (3) River basin management and safe deltas (WRM). The policy note announces the establishment of a PPP Facility for € 150M over a period of 5 years.

### Summary main targets FDW projects:

According to FDW project documents, the total budget is approximately euro 140 million with a grant component of Euro 75 million. This grant reaches 23 projects with a total of 144 partners of which 63 partners are Dutch. The average number of partners per project is 6,3 with an average project time span of 4,7 years.

The total number of people reached in the sub-sector with improved access to drinking water and sanitation is 750,000 people with new house connections and access to improved drinking water of which explicitly 67,000 are poor people. Improved treatment facilities benefit 117,000 people and reduce costs through the use of less energy and chemicals. In 8 projects the efficient operation of water utilities is addressed, especially through demonstrating the reduction of Non-Revenue Water in pilot areas and upscaling this in the water utility.

Improved infrastructure amongst the 23 projects mainly refer to treatment plants and pipes in water utilities, and pumps for irrigation purposes. Approximately 30,000 people benefit from the agricultural projects (increased water use efficiency and market access) on 17,500 hectares.

In most projects training is being provided and numbers are often mentioned. Training is rather technical and does only indirectly addresses the broader institutional context (which people are trained, for what purpose, how will this contribute to institutional sustainability).

In 14 projects the drafting of a broad array of new (innovative) plans for climate change adaptation, pro-poor benchmarking, water safety, catchment protection, coastal protection, river basin development plans and sustainable operation and maintenance are targeted.

Source: RVO database

### 1. **Added Value – New opportunities:**

Whilst some activities are tried and tested, the FDW subsidy mechanism has provided new development opportunities in the water sector with special reference to: 1) drawing in new actors; 2) creating strategic and potentially sustainable partnerships, and 3) its catalyzing role through piloting and innovation of potentially sustainable models for revenue-based development and service delivery enhancements through capital and other investments. Some examples include: (1) utility benchmarking that leads to commercial lending, (2) coastal protection through payment for

environmental services, (3) safeguarding of productive water resources, (4) commercial waste water treatment for reuse, and (5) joint ventures in water for agricultural development.

## **2. Objectives:**

As part of the PPP Facility, the Sustainable Water Fund (“Fonds Duurzaam Water, FDW”) was formally announced in the Staatscourant on 28 March 2012 and on 5 March 2014 for the 1st and 2nd call of proposals respectively. The main objective formulated in both calls was essentially the same: Contribute to sustainable inclusive economic growth by improving water security and water safety in developing countries through public private partnerships. FDW encourages innovation and allows for flexibility, but positions itself there where “proven” pilot projects require support before being able to reach a more sustainable “market-based” delivery of services and products.

Useful dual objectives: The FDW seeks to foster the use of PPPs, combining public and private sector contributions, to: 1) solve constraints and grasp opportunities through multi-stakeholder approaches to achieve development goals, and 2) engage the private sector through support in developing revenue models and to leveraging additional private investment in the sector. FDW is a useful instrument aimed at resolving critical local water issues. However, there is a certain unbalance between the 2 categories as from the 23 FDW projects funded under the FDW approximately 80% fits into the 1st category, while only 20% fit into the 2nd category.

Insufficiently prioritizing development goals: With a tension between these two objectives, the emphasis on often unclear business cases and business models tends to dominate discussions and monitoring protocols in the FDW/RVO approach. Key issues like poverty alleviation, inclusiveness and sustainability have generally not been sufficiently translated in operational terms with special reference to institutional sustainability issues. The fact that FDW is above all a fund operating in the realm of development cooperation cannot always easily be traced in the reality of the fund activities.

## **3. Partnerships**

Inflation of partnership definition: The PPP concepts are “inflated” with a very broad definition of public-private-civil society partnerships whereby virtually any configuration of the three types of partner is acceptable.

The definition of ‘private’ is very broad. This is probably inherent to the water sector in general where often the service to be provided is seen as a public service under the responsibility of the government. This applies as well to drinking water and sanitation, as well as to irrigation services and water resource management. Organisations delivering the water related products and services are often (semi-)public and sometimes financially autonomous. The FDW specifically states that the (semi-public) Dutch water utilities and regional water authorities are private parties for the FDW

Because of this complicated mix of private and public elements, the notions of financial sustainability and business case are not easily agreed upon and understood. Financial sustainability may still depend much on continued public funding, which is subject to all kind of uncertainties. The business case, often referred to as a revenue/earning model, may be different for each of the partners in the PPP.

With regard to the complexity of water problems, partners are recognising that they need other actors to help resolve issues and / or reach scale. However, the strategic and joined up contribution of partners is not always properly incorporated. In several cases, partners focus on their core area with little programmatic interface and joint problem solving with other partners. There appears to be an inbuilt bias towards quantity of partners rather than an emphasis on how the more immediate partners work together.

Engaging the Private Sector – Attracting risk taking private capital: The focus on business cases and business models, as noted above, is generally artificial. In fact, the FDW has been modest in

attracting risk-taking private capital into the sector: most of the matching funds (51%) are “public” in character (government, donor, foundation funding and from beneficiaries). Many of the private partner contributions are aimed at market positioning (with an eventual core business aim) or as technical assistance<sup>1</sup> rather than for direct revenue earning from products and services.

#### 4. Distribution of projects

The theme *Improved access to drinking water and sanitation* has attracted the majority of the projects (16 of 23), followed by *Efficient and sustainable water use, particularly in agriculture* (5), while the theme *Safe deltas and improved basin management* counts only 2 projects. Within the first theme, the sub-themes sanitation, sewerage and solid waste are weakly represented.

Drinking water sub-sector: The drinking water sub-sector often has a relatively standard package of utility reform initially aimed at addressing Non-Revenue Water with the aim to improve efficiency of the utility operations. The comparative advantage of these proposals is that they can match DGIS funding through the 1% arrangements in the Dutch drinking water sector, and that there often existing types of projects and partnerships. The view, generally accepted, is that increased utility efficiencies would lead to greater financial viability, which may then allow for other forms of finance (commercial lending) to be used. This is a long term process. Thus, those utility programs that incorporate commercial banks are less conventional and more in line with the initial FDW objectives.

Sanitation sub-sector: FDW activities in the sewerage and sanitation sub-sectors remain limited. For the sanitation sector, this is somewhat surprising as numerous entrepreneur projects have emerged in recent years across the sanitation service chain (from toilet construction to waste reuse). It is likely that the rules around the return for private commercial investment are a significant barrier. Moreover, the financial sustainability and risk taking conditions and criteria for FDW grants favour less complex or more focused projects, like those for the drinking water sub-sector.

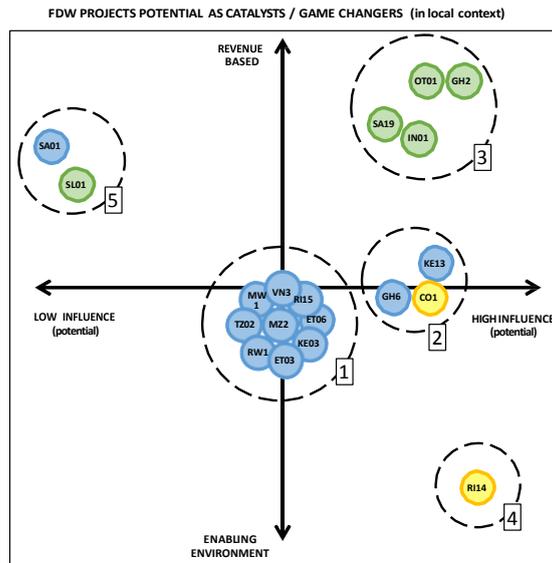
Efficient water use: The sub-sector efficient water use in agriculture in fact only represents 5 projects. The projects visited in Ghana and South Africa both have a clear business cases and models, strong partnerships including strong public as well as private partners, while the Dutch contribution in these partnerships is less crucial and can easily be replaced by local partners. This sub-sector is promising with real business based models and probably is closely related to the FDOV fund.

Safe deltas and improved basin management sub-sector: For water management, reasons could include that: (1) the sub-sector is often considered a public domain and unfamiliar to PPP approaches; (2) the level of funding required is high and time-span too long, both beyond the scope of FDW; (3) interventions and development trajectories are complex and difficult to develop and as such of less interest to the private sector, while risks are comparatively high; (4) the 30% own contribution is considered too high for uncertain gain; and (5) the financial sustainability and risk taking conditions and criteria for FDW grants favour less complex or more focused projects, like those for the drinking water sub-sector.

**Type of projects:** The FDW projects potential as catalyst and game changer shows five cluster of projects with the water utility projects in which reduction of NRW is a central theme and in which approaches are well known in the middle of the both axis and the projects representing the private sector mainly in agriculture at the top right of the schedule meaning that these projects have a high potential influence and are revenue based.

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<sup>1</sup> With the exception of Aquanet, Dutch Water Boards and water utilities do not take investment risks beyond the 1% fund that they are allowed to contribute to development projects through Water Operator Partnerships that are in essence a Corporate Social Responsibility program. Such contributions cannot be considered as commercial investment that ultimately seeks a return. This is not to deny the significant value of these contributions and these programs but rather to couch them more clearly against purely private drivers.



These projects mainly with clear private sector involvement or leadership are the only ones in which a more immediate case for self-sustaining continuation of activities is likely (without subsidy/grant funding).

## 5. Dutch expertise

Approximately 40% of the partners are Dutch. The Dutch expertise in the FDW is present in all projects, especially through NGOs, knowledge institutes and internationally operating consultants. In general, the expertise is valued and considered innovative in the local context. Nevertheless, in a number of projects is interchangeable. The role of the Dutch commercial private sector is limited to a smaller number of projects, although major efforts have been made to attract Dutch private partners by organizations like NWP and RVO.

## 6. Organisation and management

The RVO application and assessment process is good. There is no unbalance of assessment between sub-sectors and type of applicants. The preparation process with its concept and formulation phase improved from call 1 to call 2. However, this process remains complicated and time consuming, while a real inception phase focused on contents (instead of just on meeting conditions) is not a part and parcel of the RVO process.

The monitoring process is very comprehensive with roles for all parties. However, the division of each project in too many (sub) result areas risks to lead to “ticking the boxes” instead of a monitoring system based upon contents. RVO monitoring is mainly meant for RVOs own control processes and mechanisms. Insight into the state of affairs of the Fund is lacking. Consolidated reports regarding state of affairs, progress made, main challenges, actions to be taken and lessons learned have not been produced. Consequently, all parties lack insight into the state of affairs of the fund.

RVO does not provide and analyse aggregated data based upon the individual project results on a regular basis to properly assess the progress made and challenges ahead in the FDW portfolio. This does not enable DGIS to learn lessons at policy level.

## 7. Recommendations

**Overarching objectives:** Moving beyond the processes and procedures, a major policy question for DGIS is: How does the Ministry want to orient the funds available for call 3 and beyond? In this respect the ministry has to answer the following critical questions with regard to future options:

1. **More of the same, but better:** Projects do not sufficiently address development goals, while FDW is primarily and essentially a development cooperation fund. Just improve upon (same) existing programme mix, but with more attention to DGIS key values and implementation.
2. **Structural adjustments:** more focus on non-drinking water sub-sectors, private sector, revenue based models and game changers.

To stimulate the discussion the (sub-) options as formulated above have been elaborated in schedule 8.1. with special reference to 1) what to do regarding FDW formulation and 2) what to do regarding FDW management as well as in appendix 10 the Design Logic.

### Summary Future Options

	Subject	What to do; FDW formulation
<i>Future options</i>	<b>1. More of the same, but better:</b> Projects do not sufficiently address development goals, while FDW is primarily and essentially a development cooperation fund. Just improve upon (same) existing programme mix but with more attention to DGIS key values and implementation with the following three sub-groups:	
1.1.	<ul style="list-style-type: none"> <li>• Projects have potential, but potential not sufficiently pursued.</li> </ul>	<ul style="list-style-type: none"> <li>• Emphasize on <b>quality</b> of change logic, relevance results and operational plan</li> </ul>
1.2.	<ul style="list-style-type: none"> <li>• Projects have little potential (fundamentally or small impact on solving underlying problems)</li> </ul>	<ul style="list-style-type: none"> <li>• Higher weight to development goal criteria, make criteria conditional, link criteria to other initiatives</li> </ul>
1.3.	<ul style="list-style-type: none"> <li>• Select type of projects which have by definition higher potential for achieving development goals linked to inclusive economic development</li> </ul>	<ul style="list-style-type: none"> <li>• Favor projects with private sector involved in productive activities or public sector in socio-economic development.</li> </ul>
<i>Future options</i>	<b>2. Structural adjustments:</b> more focus on non-drinking water sub-sectors, private sector, revenue based models and game changers	
2.1.	<ul style="list-style-type: none"> <li>• More focus on sanitation, waste water treatment, solid waste management</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce high business risk under FDW (difficult for SMEs)</li> <li>• Allowing more diverse and innovative private finance as own/private contribution; Trace target group (not in NWP and DGIS/FDW picture)</li> <li>• Improve competitiveness (reduce advantages drinking water utilities)</li> </ul>
2.2.	<ul style="list-style-type: none"> <li>• More focus on coastal development and WRM</li> </ul>	<ul style="list-style-type: none"> <li>• Increase level of funding, extend timespan, allow revenue based models based on socio-economic benefits, private sector to consist of risk taking investment funds rather than commercial companies.</li> </ul>
2.3..	<ul style="list-style-type: none"> <li>• Private sector to be increased</li> </ul>	<ul style="list-style-type: none"> <li>• Identification and inception phase to be financed</li> <li>• Identify private sector in local context</li> </ul>
2.4.	<ul style="list-style-type: none"> <li>• Revenue based water sector products/services to be increased</li> </ul>	<ul style="list-style-type: none"> <li>• Increase private sector involvement (see above)</li> <li>• Focus on system change within water utilities</li> <li>• Better target the theme of solid waste management</li> </ul>
2.5..	<ul style="list-style-type: none"> <li>• PPP focused on strong role public sector together with private partner</li> </ul>	<ul style="list-style-type: none"> <li>• Only key players; game changers; public partners influence on improving enabling environment</li> <li>• Water sector needs strong role public player</li> </ul>

RVO should provide and analyse aggregated data based upon the individual project results on a regular basis to properly assess the progress made and challenges ahead in the FDW portfolio. This will enable DGIS to learn lessons at policy level.

To access private sector participation, the recruitment of proposals should more attention to country-based advertising and brokering of partnerships.

An inception phase focused on contents (instead of just on meeting conditions) should be included in the RVO application and assessment process. RVO should more clearly and explicitly incorporate the issues like poverty alleviation, pro-poorness and sustainability structurally in FDW from the problem analysis through the whole framework and monitoring process. In this context RVO should insist on clearly elaborated criteria for assessing sustainability/resilience in the inception phase and insist on a clearly defined pathway towards sustainability including milestones to be achieved. This will provide a clear insight into the road towards sustainability for all partners involved.

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