MOUNT KENYA EWASO WATER PARTNERSHIP

FINANCIAL SUSTAINABILITY PLAN

2018 - 2022

Vision

Water security for all within the Upper Ewaso Ng'iro North Catchment Area.

Mission

To provide an effective platform for coordinated stakeholder engagement to address water resources management challenges within Upper Ewaso Ng'iro North Catchment Area.

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The Mount Kenya Ewaso Water Partnership is hosted by the Laikipia Wildlife Forum. The Partnership is an LWF member, is represented on the LWF Board, and is one of several associations in the greater Laikipia landscape supported by the LWF secretariat.

Preface

The Mount Kenya Ewaso Water Partnership (MKEWP) is a consortium of public, private and civil society organisations committed to the socially acceptable, economically favourable, and environmentally sustainable management of water resources in the Ewaso Ng'iro North Catchment (Upper Catchment) area of Kenya. Spearheaded by the County Governments of Laikipia, Meru and Nyeri, 29 WRUAs, and the Mount Kenya Growers Group; and supported by the Kenya 2030 Water Resources Group, the partnership provides a mechanism by which water access, use, management and conservation can be addressed in approximately 15,000 square kilometres of the Upper Catchment area. The effort is focused on collective actions that equitably balance the social, economic and environmental demands made on water.

The Partnership focuses on three challenges:

- Water allocation and use management
- Water resource infrastructure development
- Institutional capacity in the catchment area

The Partnership was constituted in October 2016, and the organisation now consists of 100 partners. These include rural Water Resource Users Associations (WRUAs), the regional Water Resources Authority (formerly WRMA), Community Forest Associations (CFAs), Laikipia, Meru and Nyeri county governments, civil society, private sector (commercial growers), parastatals, research institutions, conservancies, and water service providers from the area.

The Laikipia Wildlife Forum (LWF) has been appointed as the Secretariat to the MKEWP for a period of three years. The Forum and Partnership are based in Nanyuki, Kenya.

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Executive Summary

The purpose of the Financial Sustainability Plan (FSP) is to provide Mt. Kenya-Ewaso Water Partnership (MKEWP) and its membership with specific and realistic options on how it may be able to raise sufficient financial resources to place it on a pathway to financial sustainability over the next 10 years. Financial sustainability for MKEWP is defined here as the ability to sustain sufficient cash flow to maintain a core operational capacity, implement strategic plans in a reasonably timely manner, and invest sufficiently in opening up new revenue streams to be resilient to the loss of one or several revenue streams.

The core operational budget (expenses) for the period 2018-2022 ranges between just over US$220,000 to just under $300,000, whilst the projected income from primary sources is projected to increase from US$37,000 in 2018 to just under US$150,000 from 2021 onwards. The MKEWP core operations budget is dominated by overheads (83%), which are comprised of personnel (53%), administration or office-related costs (16%) and logistics (15%). Whilst the personnel budget makes up just over half of the annual cost the staff for the MKEWP Secretariat is quite lean with a relatively horizontal structure that would find itself under strain should there be a prolonged absence or sudden departure of a key employee.

MKEWP has managed to secure funding from 4 donors for 2018, with the expectation of an .annual renewal for one to three years. Three additional financing sources have been identified. These could be mobilised fairly quickly with limited expenses. . These are 1) membership fees, 2) water consumption levies on commercial farms and water service providers and 3) fundraising events (such as an annual event). The projected income for 2018 is approximately US$84,000,. This is comprised of US$37,000 from membership fees and the water use levy, and US$47,000 from donor grants. The maximum core cost coverage during the period 2018-2022 through existing donors and these additional sources is 62%, leaving a funding gap of between around US$100,000 and US$140,000. The annual fundraising event is a risky undertaking and should only be if corporate sponsorship can be secured in advance to cover most or all of the cost.

MKEWP's Strategic Plan (SP) introduces 5 strategic objectives that aim to strengthen the partnership and prove the MKEWP's value as a multi-stakeholder platform via its impact on water resource challenges in the catchment area. The investment budget required to implement these objectives is much larger than the core operations budget and involves a rapid and substantial growth of the total budget from US$356,757 in 2018 and US$1.37 million in 2019.

The short term financial viability of MKEWP is dependent on its ability to secure and maintain financial support for the core operational costs, and extending the cover to 2 years principally by building up reserves of unrestricted funding. The main unrestricted funding sources: membership fees, water use levies and fundraising events, are likely to be highly correlated; in particular they would all be badly affected by a drop in support from commercial farmers..

Restricted funding, notably from bilateral or multilateral donors or foundations, will be required to provide the large injections of funds required to implement the Strategic Plan, and reduce the risk of depending on highly correlated and unrestricted revenue sources, which will be insufficient on their own to cover the core operational budget. The ideal scenario for 2018 would be to secure high value funding from a single source – an 'anchor' donor – which would mean less grant management overhead than managing funds from several major donors. This would afford MKEWP some breathing room to work on a more diverse donor base for longer term financial sustainability. Achieving an anchor donor could be challenging since MKEWP is a relatively new organisation and is untested when it comes to achieving the kind of high impact project results that are the focus of large donors. As far as possible, MKEWP will need to use the reputation of LWF in the early years, until it has some measurable results of its own.

Some donors,, are likely to require proof of concept for the approach and activities of MKEWP as set out in the SP, before they are willing to invest.

For longer-term financial sustainability, MKEWP should aim to build up a portfolio of proven concepts. Smaller donors, and foundations in particular, are likely to be more amenable to funding pilot projects, particularly for concepts they believe are potential game-changers that can attract larger funding from more conventional and risk-averse donors. In the absence of a high-value anchor donor , a wider net would need to be cast in order to increase the profile of the project and begin piloting concepts that can be put forward for larger scale future funding. Any grant , however, would need to cover at least 20% of the annual core operational costs, and ideally much more.

Other potential sources of finance include:

- Corporate sponsorship, which could include in-kind support in place of or in addition to existing financial support.
- Income from fees for services, for example business support to WRUAs: these are likely to be small contributions but they would help fill the gap in income and could help weaker WRUAs access and utilise WSTF finance.
- Large INGOs with large water, livelihood or environmental conservation programs in Kenya. This could be a way to access donor funds without having to submit to their demanding proposal process.

Once short-term financial sustainability is assured (1-2 years coverage of core operational costs), MKEWP can invest in innovation around financing mechanisms for catchment improvement and water resource conservation within UENNCA. Potential innovations can be identified and projects can be designed in consultation with the organisation's wide array of members, and tested using the more willing and capable members. In addition a special fund could be set up to invest in pilot financing mechanisms, and corporate support from CSR initiatives. This could be a more promising source of finance for these initiatives.

There are four recommended indicators for financial sustainability:

1. Core operations coverage: Number of months of core operations budget covered by sum of unrestricted reserves and allocated restricted funds
2. Diversity of funding sources: Number of current different individual donor sources covering at least 20% of core operations costs for 12 months or more
3. Longevity of donors: Number of different individual donor sources providing at least $100k/year and covering at least 20% of core operations costs that have renewed funding at the end of a grant in the last 24 months
4. Ability to bring in new donors: Number of new donors of over $50k unrestricted and/or $200k total funding in last 2 years

Abbreviations

BWRC	Basin Water Resources Committee
CFA	Community Forest Association
CIAT	Centro Internacional de Agricultura Tropical (International Centre for Tropical Agriculture
COK	Constitution of Kenya, 2010
CSP	County Sector Plan
CSR	Corporate Social Responsibility
CWP	Community Water Project
FFI	Flora and Fauna International
IFC	International Finance Corporation
IWRM	Integrated Water Resources Management
LWF	Laikipia Wildlife Forum
M&E	Monitoring and Evaluation
MKEWP	Mount Kenya Ewaso Water Partnership
NCWSC	Nairobi City Water and Sewerage Company
Nawasco	Nakuru Water and Sewerage Company
NGO	Non-Governmental Organisation
Nyawasco	Nyahururu Water and Sewerage Company
OBA	Output-Based Aid
PES	Payment for Ecosystem Services
PPP	Public Private Partnership
SCMP	Sub-Catchment Management Plan
SNV	Netherland Development Organisation
SO	Strategic Objective
TARDA	Tana and Athi Rivers Development Authority
UENNCA	Upper Ewaso Ng'iro North Catchment Area
US$ (or $)	United States Dollar (US$1 = Kenya Shillings 100 for this report)
WI	Wetlands International
WRA	Water Resources Authority
WRI	Water Resources Investment
WRUA	Water Resources User Association
WSP	Water Service Provider
WSTF	Water Sector Trust Fund
2030WRG	2030 Water Resources Group

1. PURPOSE AND SCOPE

The purpose of the Financial Sustainability Plan (FSP) is to provide MKEWP and its membership with specific and realistic options on how it may be able to raise sufficient financial resources to place it on a pathway to financial sustainability over the next 10 years. The Financial Sustainability Plan is linked to MKEWP's Strategic Plan 2018-22, which provides a statement of purpose, a set of strategic priorities, and an implementation plan and budget that will enhance its ability to bring about the change required for the proper management of UENNCA and its water resources.

Financial sustainability for MKEWP is defined here as the ability to sustain sufficient cash flow to maintain a core operational capacity, implement strategic plans in a reasonably timely manner and invest sufficiently in opening up new revenue streams and to be resilient to the loss of one or several revenue streams (in particular charitable donations not connected to the flow of benefits from the project).

In addition to ensuring the continuity of the organisation, achieving financial sustainability, as defined above, is essential to ensuring the organisation maintains its independence and autonomy. Autonomy and adequate resources will create conditions that will mobilise a capable and motivated workforce. This will enable the organisation to . maintain focus and operational agility in order to best serve the interests of the members in a balanced and equitable manner.

The Strategic Plan identifies the activities in which it should invest during the next 5 years, as well as the core operational capacity required to deliver on its charter. The Financial Sustainability Plan will look at how the Strategic Plan can realistically be financed and how the Strategic Plan and financing mechanisms will support the financial sustainability of MKEWP. The Strategic Plan and Financial Sustainability Plan were written with reference to one another and should therefore be mutually supporting.

2. BACKGROUND

Mt. Kenya-Ewaso Water Partnership (MKEWP) was established as a public-private consortium in December 2015 by a group of water actors within the Upper Ewaso Ng'iro North Catchment Area (UENNCA) to engage constructively in water resource use, conservation and management. MKEWP was launched in October 2016.

MKEWP brings together water actors to solve water problems shared by its citizens. Flower farmers, horticultural growers, WRUAs, County governments, National government agencies, researchers, civil society groups and other water actors will collectively identify, discuss and take action on common water problems in this area.

The Partnership is governed through a Council that is comprised of representatives elected from different membership categories. To ensure smooth operation of MKEWP, the Council appointed the Laikipia Wildlife Forum (LWF) to serve as a Secretariat, as well as an information clearing house, assisting the membership with access to information and resources that help inform members of the goals and purpose of the Partnership. The Secretariat also provides MKEWP with networking services, convenes Partnership meetings, supports the Partnership with fundraising, handles donor relations, and undertakes monitoring, auditing and evaluation, as required.

2.1. MKEWP Charter

MKEWP is guided by a Charter and Terms of Reference document. This foundational document contains the goals, objectives and purpose of the partnership, as well as principles and key points of process and order.

The **goal** of MKEWP is to ensure that water resources are managed for sustainable, equitable, social and economic development in harmony with natural water systems and environmental cycles in a critical, water scarce, central Kenyan landscape.

The **purpose** of the Partnership is to provide a mechanism by which water access, use, management and conservation can be addressed in the Upper Ewaso Ng'iro North Catchment area (approximately 15,000 sq.km) through collective actions that balance the social, economic and environmental demands on water resources equitably.

The Charter describes **three thematic areas**: 1) water allocation and use management, 2) water resource infrastructure development, and 3) institutional strengthening. Each area has its own set of goals and objectives. . These strategic objectives are captured below and they are updated and superseded by the strategic objectives in thStrategic Plan.

2.2. Strategic Plan 2018 – 2022

The Strategic Plan develops the strategic objectives of MKEWP and provides a roadmap for the first 5 years of operations. The Strategic Plan focuses on building stakeholder participation and coordination during the first 5 years and providing a foundation for sustainable investments in water resources and conservation beyond this period.

The Strategic Plan presents the MKEWP **Vision:** "MKEWP envisions a "Water Security for All" in the basin", and the **Mission:** "MKEWP exists to facilitate, promote, and provide a coordinated approach to

water governance and assistance to members and stakeholders in adopting best practices in the effective implementation of an Integrated Water Resources Management Framework in the Upper Ewaso Ng'iro North Water Basin."

The mission statement in the Strategic Plan describes an organisation whose primary function is that of coordination. MKEWP could also potentially take on a financing function (fundraising for water resources management in UENNCA and/or for its members), or a capacity building/technical support function for the membership. MKEWP will need to take on these two roles as secondary functions in order to implement the Strategic Plan and to pursue a course to financial sustainability.

The 5-year period 2018-2022 will involve investments in strengthening the capacity of MKEWP and its members, as well as significant investments in water resource studies, technology, assets and systems. The latter investments will contribute to solving catchment problems and improving the productivity and financial status of the various MKEWP members and stakeholders. This, in turn, will enhance the capacity of the MKEWP membership individually and as a collective. This will build cohesion and commitment and thereby help lay the foundations for the long-term sustainability of MKEWP over the course of the next ten years and beyond..

Moreover, the Strategic Plan will involve activities to transform WRUAs into commercially-oriented organisations. WRUAs will then be on the path towards financial sustainability, and able to bring in their own funds;for example from the Water Resources Investment (WRI) of the Water Sector Trust Fund (WSTF). As WRUA performance improves, their respective sub-catchments and water resources should also improve. This will underpin the willingness of MKEWP members to contribute membership fees and other local landscape financing mechanisms, such as voluntary water use charges and or levies, as discussed in more detail later in this document. Hence capacity building and technical support activities during the 5-year period 2018-2022 will support a dispersion of the financing function, as it is gradually transferred from MKEWP to the member organisations.

2.3. Policy Environment

Integrated water resource management (IWRM) and the related Dublin principles are well captured in Kenyan legislation and policies. Indeed helping bring these policies into practice is at the heart of the MKEWP's charter. Significant gaps exist, however, in the capacity of sector stakeholders to deliver on the IWRM principles embedded in the policy framework. The state's ability to monitor river flows and abstractions and prevent illegal abstraction is constrained by insufficient infrastructure and a lack of institutional capacity.

This presents an opportunity for MKEWP to demonstrate the value if its activities that contribute to an increased monitoring and enforcement capacity,and the effective upstream-downstream dialogue, as well as other outcomes that support more rational water use. An inadequate legal and regulatory framework for payment for ecosystem services (PES) makes it more difficult to promote good catchment stewardship amongst upstream water users through payments from downstream users.

The 2016 Water Act provides for the Basin Water Resources Committees (BWRCs), which advise the WRA and relevant county governments with regards to the management of the catchment for which they are responsible. In essence BWRCs aim to bridge the capacity gaps and support areas of overlapping/joint responsibilities. In 2018, BWRCs are new or yet to be formed, and will take several years to fully take on board and bring into operation their water resources management responsibilities. MKEWP therefore has an opportunity to support these institutions' planning and budgeting processes., This will include the development of the Basin Area Water Resources Management Strategy, thereby demonstrating its value, and at the same time building linkages and supporting the budgeting process to lobby for adequate

budgets for water resources management. BWRCs may contract WRUAs on a fee for service basis to support their activities, which MKEWP will also be working closely to support.

The Constitution of Kenya 2010 (COK) gives the county governments responsibility for ensuring and coordinating the participation of communities in governance at the local level and assisting communities to develop the administrative capacity for the effective exercise of the functions, powers and participation in governance at the local level. In particular MKEWP will be facilitating this through the development of WRUA governance and administrative capacity This affords MKEWP a legitimate claim on funds from the county government budget, including, but not limited to, the proposed $500 annual membership fee for the 3 member county governments.

Additionally, the 3 county governments in MKEWP (Laikipia, Nyeri, Meru) will provide MKEWP support with various policy and planning gaps identified in the MKEWP Strategic Plan. This will include initiating cross-county coordination mechanisms; integrating WRUAs into county structures or procedures, and harmonising sub-catchment management plans (SCMPs) with the County Integrated Development Plans (CIDPS).

County governments are developing 5-year CIDPs and 10-year County Sector Plans (CSPs) in 2018. It is anticipated that donors will increasingly want projects and programs to be integrated within the county governments' strategies and development plans.

The policy framework in Kenya supports public private partnerships (PPPs), as well as the contracting of services to the private sector, including water resources management related activities. The National Water Resources Management Strategy (2012-2017) has as an objective the creation of mechanisms to provide sector financing so as to improve opportunities for sustainable financing in water resources sub-sector. In practice, however, public private arrangements for water resources management are limited to date, making the MKEWP a notable and rare example.

3. BUDGETS

3.1. Current Financing

MKEWP has already managed to secure funding from 4 donors for 2017, with the expectation of annual renewal for one to three years. The 4 donors are the 2030 Water Resources Group (2030WRG, housed within the World Bank), Wetlands International (WI), Netherlands Development Organisation (SNV) and Fauna and Flora International (FFI). The grants from these donors have a ceiling of 30% for overheads, with the exception of the 2030WRG grant that allows staff costs to be covered from the main budget. The current donor-source finance projects are shown in Table 1. If the full 2030WRG budget was used for overheads of MKEWP in 2018, then the budget for this would almost double to just under US$ 90,000.

Table 1 – 2017 funding and projected funding for 2017-2020

	2017	2018	2019	2020
TOTAL BUDGET (US$)				
2030WRG[1]	155,000	60,000		
WI[2]	47,000	50,000	60,000	70,000
SNV[2]	19,000	18,000	18,000	
FFI[3]		15,000	15,000	15,000
Total	**221,000**	**143,000**	**93,000**	**85,000**
OVERHEAD ONLY (US$)				
2030WRG	44,500	18,000		
WI	71,000	15,000	18,000	21,000
SNV	0	5,400	5,400	
FFI		5,674	5,785	5,774
Total	**115,500**	**44,074**	**29,185**	**26,774**

[1] Proposal submitted for 2018, response awaited at time of writing
[2] WI and SNV have indicated an intention to increase support going forward from 2018
[3] Contract signed for 2017-2021; budget is confirmed, but in GBP: assumed GBP/US$ exchange rate is 1.35

3.2. Core Operational Budget

As mentioned above, the core operational budget funds the essential activities of the MKEWP. The core costs largely comprise personnel, administrative and logistical costs as well as the cost of core MKEWP activities, which comprise the following:

1. MKEWP Council meetings & representation;
2. MKEWP Secretariat operations:
   - Membership outreach and support services,
   - Communications/Publicity,
   - Information Clearing House (stakeholder information, thematic meetings, and database operations and management),
   - Project design, development and monitoring and evaluation,
   - Crisis response.
3. Meetings of committees and task forces

The basic inputs for these processes form the core operational budget, presented for the base year, 2018, in Table 2. Table 2 excludes capex, as this varies significantly from year to year. Personnel constitutes just over 50% of the core operational budget, as would be expected for an organisation whose primary function is a coordination one.

Table 2 – Detailed core operations budget for MKEWP for 2018

Item	Unit	Qty	Rate	Cost (US$)	Multiplier	Cost (US$)/Yr
Personnel						
Director	Month	25%	5,000	1,250	12	15,000
Accountant	Month	50%	1,500	750	12	9,000
MKEWP Coordinator	Month	100%	2,000	2,000	12	24,000
Water Resource Specialist	Month	100%	1,250	1,250	12	15,000
Information & Communications Officer	Month	100%	1,250	1,250	12	15,000
Finance & Business Specialist	Month	100%	1,750	1,750	12	21,000
M&E Officer	Month	50%	1,000	500	12	6,000
Sub-total				**8,750**	12	**105,000**
Administration						
Rent, Utilities, Insurance	Month	100%	800	800	12	9,600
Office, furniture & equipment maintenance	Month	100%	800	800	12	9,600
Communications & stationery	Month	100%	1,000	1,000	12	12,000
Sub-total				**2,600**	12	**31,200**

Item	Unit	Qty	Rate	Cost (US$)	Multiplier	Cost (US$)/Yr
Logistics						
4WD (x2) Fuel, insurance, repairs	Km	3,000	0.80	2,400	12	28,800
M/bike	Km	1,000	0.15	150	12	1,800
Sub-total				**2,550**	12	**30,600**
Total Overheads				**13,900**	**12**	**166,800**
MKEWP Activities						
Council Meetings	No.	3	700	2,100	1	2,100
Committee meetings	No.	8	500	4,000	1	4,000
Communication materials	LS	1	5,000	5,000	1	5,000
AGM	LS	1	1,500	1,500	1	1,500
Representation (DSA, transport)	LS	4	1,000	4,000	1	4,000
Council budget	LS	1	5,000	5,000	1	5,000
Staff training	LS	1	5,000	5,000	1	5,000
Auditor	LS	1	1,500	1,500	1	1,500
Emergency fund	LS	1	5,000	5,000	1	5,000
Total Activities				**33,100**	**1**	**33,100**
GRAND TOTAL/YR						**199,900**

The core operations budget for MKEWP corresponds to the minimum inputs and activities required to keep MKEWP operational and fulfilling its basic mandate. The budget is dominated by overheads (83%), which comprise personnel (53%), administration or office-related costs (16%) and logistics (15%).

Whilst the personnel budget makes up just over half of the annual costs, the staff for MKEWP is quite lean considering the functions they will need to perform. The coordinator, water resource specialist and business and finance specialist will take the lead for the governance, technology and business/financing aspects of the MKEWPs activities, respectively. The business and finance specialist will take responsibility for developing financing sources that have a corporate or entrepreneurial angle, including fundraising events, corporate sponsorship and entrepreneurship/innovation-oriented foundations. Grants from bilateral or multilateral donors will be the responsibility of the coordinator, with the monitoring and evaluation (M&E) officer providing strong support given the extensive M&E and reporting requirements for such grants.
The information and communications officer will be largely focused on information products for core MKEWP activities and activities from SO4 of the Strategic Plan, but will play a supporting role to the business and financial specialists outreach to potential corporate sponsors.

These responsibilities will provide a relatively heavy workload and additional project-based staff are likely to be required for larger grant-funded projects. The structure is horizontal and does not provide depth in case of the departure or temporary leave of key personnel at critical times; there are no junior officers that can play an acting role for them. The housing of MKEWP within LWF provides a limited opportunity for extra capacity in emergencies.

Like the personnel budget, the core operations budget is lean and options for cuts are limited should revenue fall short. The only feasible cuts would be to economise on travel and curtail certain activities like the emergency fund, staff training and council budget (a 'slush fund'). This would only save several tens of thousands of dollars and would impact motivation and results.

To preserve autonomy and independence, the sources of finance that are the most reliable, i.e. that are relatively easy to guarantee and are under the most control of the actions of the MKEWP Council and Secretariat, should be ideally sufficient to cover core operations costs. Three sources have been identified that meet these criteria: membership fees, water consumption levies on commercial farms and an annual event.

Table 3 shows the core operational budget for the 5-year period from 2018, including capex, which will be incurred on an infrequent basis for vehicle and equipment purchase and office expansion. The core operational budget (expenses) for the period 2018-2022 ranges between just over US$220,000 and just under $300,000, whilst the projected income from primary sources is projected to increase from US$37,000 in 2018 to just under US$190,000 from 2021 onwards. The maximum core cost coverage through priority unrestricted finance sources detailed in section 4.2 (membership fees, water use levies and fundraising events) is 80%, leaving a funding gap of between US$50,000 and US$140,000 per year to be covered from other sources. This is illustrated in Figure 1, which shows the core and investment budgets for the period 2018-2022, as well as the projected revenue from existing grants and primary revenue sources.

Within the primary finance sources, large variations might be expected. It is quite possible that, with time and experience, MKEWP is able to bring in significantly more than $50,000 through an annual event, although conversely, it might not achieve US$50,000 in the foreseeable future. With respect to water use charges/levies for commercial farms and water service providers, consultations with commercial farmers indicate a willingness to pay, whereas obtaining payments from water service providers is expected to require more negotiation and relies on the good will and approval of the boards of the WSPs and their respective County Governments.

Table 3 – Core operations budget for first 5 years, US$

ITEM	Y1 2018	Y2 2019	Y3 2020	Y4 2021	Y5 2022	Total
Office Running Costs						
Personnel	105,000	115,500	127,050	139,755	153,731	**641,036**
Administration	31,200	34,320	37,752	41,527	45,680	**190,479**
Transport	30,600	33,660	37,026	40,729	44,801	**186,816**
MKEWP Activities						
Council, Committee & AGM	7,600	8,360	9,196	10,116	11,127	**46,399**
Communication materials	5,000	5,500	6,050	6,655	7,321	**30,526**
Representation	4,000	4,400	4,840	5,324	5,856	**24,420**
Council discretionary budget	5,000	5,500	6,050	6,655	7,321	**30,526**
Staff & Council Training	5,000	5,500	6,050	6,655	7,321	**30,526**
Auditor	1,500	1,650	1,815	1,997	2,196	**9,158**
Emergency Fund	5,000	5,500	6,050	6,655	7,321	**30,526**
Cap-Ex						
ICT equipment - Computers, printers, LCD	6,000	500	550	7,986	666	**15,702**
4WD Vehicle	15,000*					**15,000**
M/bike				2,500		**2,500**
Office furniture	1,500					**1,500**
Office expansion			20,000			**20,000**
Total	**222,400**	**220,390**	**262,429**	**276,553**	**293,339**	**1,275,111**

*4WD transport to be partially funded through the sale of an old vehicle

3.3. Investment Budget

3.3.1. Purpose

The Strategic Plan gives 2 primary purposes for the strategic priorities and their related activities:

1. To strengthen the partnership
2. To prove the MKEWP's value as a multi-stakeholder platform via its impact on water resource challenges in the catchment

Strategic objectives (SOs) 1 and 5 are focused on strengthening MKEWP, with SO5 more focused on the council and Secretariat. SOs 2 and 3 are more focused on dealing with water resource challenges, but will strengthen the Partnership as a secondary benefit. SO4 straddles the two, strengthening the Partnership through branding and communication, whilst providing information to support equitable and efficient use of water resources.

The implementation of the strategic objectives as per the work plan provided in the Strategic Plan ensures a balance of partnership strengthening and impact activities. As MKEWP embarks on implementing the plan and encounters inevitable constraints, the balance should be maintained, in order to ensure a strong external justification for the MKEWP. Similarly, a good balance between strengthening of the Council and Secretariat versus strengthening of the membership as a whole will ensure that the benefits are shared.

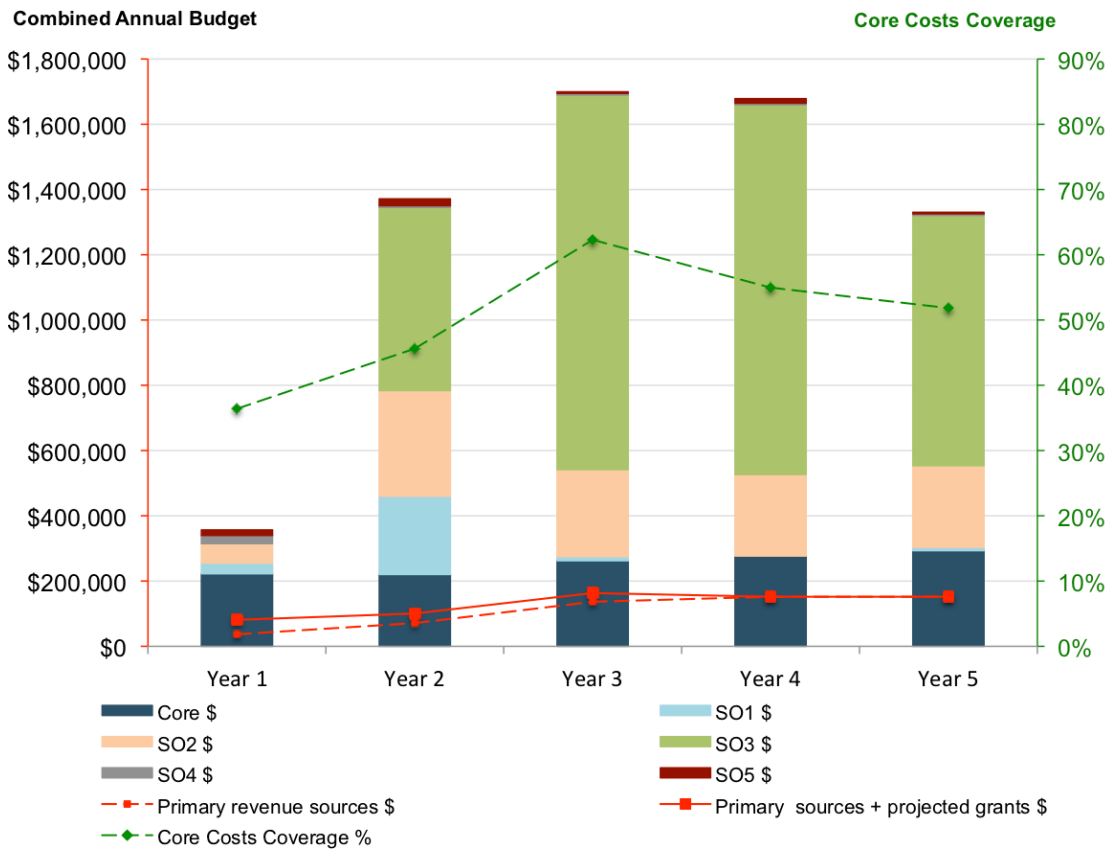
3.3.2. Combined operational and investment budget

The investment budget is much larger than the core operations budget and involves a rapid and substantial growth of the total budget in 2018 and 2019 to US$356,757 and US$1.37 million, respectively (see Table 4). The combined projected funds from current donors and primary revenue sources (membership fees, water use levies and a fundraising event/s) will cover less than 40% of the core operational costs alone in 2018, rising to 64% in year 2. For the combined core operational and investment budgets, the coverage from said project funds will be 23% in 2018, dropping to a paltry 7% in 2019 and hovering around 10% thereafter. The obvious conclusion is that at least one high value revenue source will be required very soon, and if not found, the Strategic Plan implementation will be delayed and the funding of core operations will come under strain. On the other hand, hiring of the business and finance specialist and information and communications officer, as well capital investments, will likely be delayed until adequate financing is available. Figure 1 illustrates the annual budget requirements versus existing revenue projections.

Table 4 – Combined operations and investment budget 2018-2022, US$

	Year 1	Year 2	Year 3	Year 4	Year 5
Core Ops	222,400	220,390	262,429	276,553	293,339
SO1	32,500	240,000	12,500	0	10,000
SO2	60,000	323,332	266,666	250,000	250,000
SO3	0	561,538	1,148,077	1,133,077	767,308
SO4	25,000	5,000	5,000	5,000	5,000
SO5	16,857	21,143	4,000	14,000	4,000
Total	**356,757**	**1,371,403**	**1,698,672**	**1,678,630**	**1,329,647**

Figure 1 – Combined budget and core operational budget coverage by year



4. FINANCIAL SUSTAINABILITY STRATEGY

4.1. Defining Financial Sustainability

Financial sustainability for MKEWP is defined here as the ability to sustain sufficient cash flow to maintain a core operational capacity, implement strategic plans in a reasonably timely manner and invest sufficiently in opening up new revenue streams to be resilient to the loss of one or several revenue streams.

Maintaining core operations – the essential activities of the council and Secretariat, and member participation – is clearly non-negotiable and a continual, immediate need. Implementing the Strategic Plan must deliver tangible and visible results , which are required to maintain interest in MKEWP from members and financiers. Therefore tangible results are essential to the medium and long-term financial sustainability of the organisation . Slippage is acceptable, and may be unavoidable, but will drag down the financing and financial position of the partnership if it continues

Generally speaking, MKEWP's level of financial suatainability depends largely on its access to unrestricted funding.. Unrestricted funding furthers independence and flexibility and can be used for any legitimate business purpose.It can therefore cover core operational costs that lack the immediate visible impact that some financiers require. This allows reserves to be put aside to cover essential activities should restricted funding be pulled, delayed, or redirected unilaterally by the donor, leaving financing gaps for critical operations. A description of the major potential sources of unrestricted funding is given in section 4.2.

Additionally, dependence on sources of finance that are highly correlated constitutes a risk. These are sources that might rise and fall in a similar, or correlated, manner over time because they are influenced by the same factors. The key unrestricted funding sources, membership fees, water use charges and fundraising events are likely to be strongly correlated and they depend on the confidence of key members, particularly the commercial farms, in MKEWP. Indeed, corporate sponsorship, the other main option for unrestricted funding, might also end up relying or focusing on commercial farms.

Restricted funding, whereby funds are allocated to specific budget lines with limited flexibility, will be required to provide large funding injections for costly items in the Strategic Plan/investment budget and reduce the risk of dependency on highly correlated unrestricted funding. The impact on financial sustainability of restricted funding will depend on whether and how well it covers core operational costs, how long it runs for and the range and importance (in terms of expected impact) of the particular activities that are covered. A description of the major potential sources of unrestricted funding is given in section 4.3.

4.2. Unrestricted Finance Sources

Unrestricted funds can be used for funding the overheads, that is, the core operational budget, of the organisation. They can also be held in reserve or carried over from one year to the next if other funds are available to cover overheads. Conversely, financing from some external sources, notably bilateral or multilateral donors, often comes with requirements for co-funding from the recipient organisation or coalition, where in the form of internally generated unrestricted funds or funds from other donors. These primary revenues sources are therefore also a means to unlock donor grant financing, typically 5 times the value of the co-funding (i.e. 20% co-funding requirement).

4.2.1. Membership structure and fees

MKEWP members will be required or requested to pay an annual fee to generate a recurrent income. This recognises the benefits that members will get from membership in terms of improvements to the catchment and water resources, and more directly through an influence on decisions and activities of the organisation. The proposed membership fees are based on the financial means and relative potential benefit from MKEWP objectives and activities of the various member types. There are 4 tiers of fees, with most members being in the second or top tier, as shown in Table 5.

Table 5 – Members and Proposed Membership Fee

Tier	Fee, US$	Member groups
1	30	Community Water Projects (CWPs, 158)
2	50	Water Resources User Associations (WRUAs, 29), Community Forest Associations (CFAs, 5), Parastatals (3),
3	250	Conservancies (10)
4	500	County Governments (3), Water Resources Authority (WRA), Water Service Providers (WSPs, 2), Commercial Growers (50), Water Services Trust Fund (WSTF), Research Organisations (2), Non-Governmental Organisations (NGOs, 6)

Membership fees are estimated to be capable of bringing in around US$40,000 per year. Whilst this is a low sum compared to the potential income from other sources, it should be relatively straightforward to raise – essentially through meetings and follow up communications - with the envisaged Secretariat capacity and affordable fee structure. Where possible, organisations should be required to start payments in 2018. Some members might face administrative obstacles to payment, lacking budget lines for 2018 from which the fee can be paid, but the Secretariat and Council should apply pressure for special provisions to be made to enable payments to start from 2018.

4.2.2. Water use charge/levy

Water use charges set and collected by WRA are believed to be below the value that high water consumption commercial enterprises would place on it. An additional consumption based charge to fund catchment conservation is considered a feasible option for commercial growers and urban WSPs. For the former, charges would be based on the area under cropping (US$50/hectare), whilst for the latter, charges would be on a volumetric basis (US$0.01/m^3). In the future (i.e. beyond the 5-year period of the Strategic Plan), the option of a levy on smaller commercial water users, including community water projects could be studied. Payments, would, however, be in addition to those going to the relevant individual WRUAs to fund their activities, and therefore willingness to pay might be a low for smaller community water projects.

The anticipated revenue from water use levies, based on payments by 2 WSPs (Nawasco and Nyawasco) and for 1,129 hectares under irrigation is just over US$55,000. As the payments are essentially voluntary, it is expected to take four years to reach the target compliance level, with lower levels of payment in earlier years. Nevertheless by 2019, income from water levies is expected to exceed that from membership fees, and by 2021 it could be covering around one third of the core operational expenses.

Whilst persuading commercial farmers and the 2 WSPs to commence and maintain the water use payments, the cost of financing for this option should be relatively low and would mostly come in the form of Secretariat time. This financing mechanism would present a powerful demonstration of

commitment amongst stakeholders in UENNCA that could be leveraged in overtures to other potential financiers. Corporate sponsors and the retailers of commercial farmers' produce could build positive messages around partnership with UENNCA-based farmers to conserve the catchment and protect vital water sources. This will help build their brands in an age when corporate social responsibility is being seen as increasingly important.

4.2.3. Fundraising event

Annual fundraising events are a popular fundraising method in Kenya and can bring in significant finance if the concept and organisation are strong enough to attract sufficient wealthy attendees and sponsors. The event should clearly be linked to the UENNCA and bring together upstream and downstream water users, but avoid close similarity with fundraising events of MKEWP members or other prominent events in the UENNCA landscape. The market for events is quite crowded, and the risk of losses is significant. To avoid losses corporate sponsorship should be sought to cover the cost of putting on the event.

The event must be coherent (the event, target participants and sponsors should be well matched) and clear value must be created for any corporate sponsors. Each sponsor could typically be expected to contribute between around US$3,000 and US$10,000, possibly more for a large and enthusiastic sponsor with whom good relations have been developed. It should also be scalable, meaning, for example, that there should be no high cost items (expensive equipment or celebrities etc) that could push the event into making a loss. The event should be organised by a committee, led by the Secretariat, but with strong participation from suitably experienced or connected people from the membership. In particular, corporate social responsibility (CSR) personnel from commercial farms should be drafted in to assist with the event, including opening their contact books to bring in speakers, sponsors and attendees. Commercial farms should also be considered as potential sponsors for events.

It is projected and desired that an income stream of around US$50,000 will be achieved from a fundraising event from 2020 onwards. This allows for two years to run the event without making a net profit or loss. The first event could be run in 2018, but a clear benchmark should be set for what must be achieved, and by when, in order for the event to be confirmed, announced and publicised.

4.2.4. Corporate sponsorship

Corporate sponsorship refers to funds from private companies in return for the use of MKEWP and its activities to increase visibility and positive perception around each company's brand. To be worthwhile, the minimum envelope for a corporate sponsorship should be around $5,000. Annual income from corporate sponsors is difficult to predict and will depend upon the quality of MKEWP's engagement with the corporate world, as well as the state of the Kenyan economy. US$100,000 per year from 2020 is an ambitious but achievable target, but in time more could be achieved if investment is made in strong analysis of the CSR and branding strategies of – and good networking with – shortlisted corporate actors.

The vast majority of sizeable corporate entities within the UENNCA landscape are the commercial farms that are already being targeted for membership fees and water use levies and the tourism related enterprises. Looking to these companies for corporate sponsorship risks fatiguing their capacity and willingness to support MKEWP as well as exacerbating the heavy reliance on this source and the risks associated with correlation of unrestricted funding sources, as mentioned above. Corporate sponsorship will therefore need to look to sources outside of the UENNCA landscape, but should still focus on links with the landscape, such as markets, financiers, suppliers and exporters linked to UENNCA companies and their products and services.

Any restrictions applied to the use of funds from corporate sponsorship would depend upon the outcome of negotiations with the sponsor. Funds raised through sponsorship of an event, as discussed above, could

be unrestricted. Another corporate sponsorship strategy would involve financing of activities in the investment budget – i.e. the finance required for implementation of the strategic objectives in the Strategic Plan.

Corporate sponsorship could include in-kind support in place of or in addition to financial support. A number of strategic objectives involve activities that companies could potentially execute or support through their in-house teams. The favoured model should be financial support with advice or mentoring from specific, relevant in-house teams so that MKEWP retains control of the process, outputs and timelines. Examples of outcomes from the Strategic Plan that would be suitable for this form of support include:

SO1.5 – Advice on sustainable financing models from their business specialists

SO2.1 – Advice on public and school-oriented education campaign on water efficient technologies from marketing specialists

SOs 2.2 & 2.4 – Capacity development advice and material support (e.g. free products or product discounts) for the sustainable management of community water projects focused on efficient and economic service delivery; this might, for example, take the form of training on equipment by corporate technical sales staff (with an allowed bias on their own equipment).

SO4.1 – Funding andor technical assistance for the development of an information portal.

SOs 4.2 & 4.3 – Assistance from corporate marketing and communication staff with the development of a communication strategy, and corporate identify and brand strategy.

SO4 – Funding of SO4 in addition to the above 2 items.

Primary candidates for corporate support might be management consultants for SO1, water supply equipment manufacturers or retailers for SO2 and marketing and or branding companies for SO4. The support from such sources would be unlikely to have a large value and hence, whilst such support could fill specific gaps, its primary impact would likely be to bring in key expertise and skilled input at low risk.

Efforts to recruit their support will require a full time Finance and Business Specialist position in the Secretariat dedicated to researching the corporate sphere to identify key candidates, networking to solicit support and building long-term relationships with corporate sponsors. This will ensure that a strong value proposition is maintained for them as their businesses, priorities and resource allocation evolve over time. Many of the key outcomes for SO4 are scheduled for 2018 and hence recruitment for a Finance and Business Specialist positions would need to take place at the start of 2018.

4.2.5. Fees for services

The primary function of MKEWP is that of coordination, with the Secretariat being the body responsible for ensuring the day-to-day fulfilment of this function. MKEWP members will likely require technical, logistical and administrative support from time to time that the Secretariat may be well placed to provide. The recipient should cover the cost of any such support, as stated in the Strategic Plan. Income from fees for services would likely be minor but will contribute to gap filling.

One example of where such fees might be applicable and relevant to MKEWP's core mission would be where WRUAs or CFAs, that are members, obtain funding from WSTF's Water Resources Investment (WRI). These funds are provided for the development and implementation of Sub-Catchment Management Plans (SCMPs) and Participatory Forest Management Plans (PFMPs), respectively. Weaker WRUAs and CFAs might require assistance with the management of the funds, or other aspects of the implementation, which could be provided for a fee, which must be provided for in the budget of the WSTF

grant. Support to WRUAs and or CFAs for WSTF/WRI funding applications would also help strengthen these organisations, increasing their ability to contribute to MKEWP financing, activities and impact.

4.2.6. Payment for Ecosystem Services

This potential funding mechanism has been piloted in the area around Lake Naivasha in Nakuru County. Under this system, upstream farmers commit via contracts between their WRUAs and downstream WRUAs to enact measures to implement catchment protection and water use efficiency measures in return for payments. The payments are made by 'service buyers': hoteliers, flower companies, ranches and conservancies subject to on-farm verification and hydrological monitoring by upstream WRUAs. European supermarkets are also supporting catchment protection measure around Lake Naivasha, including through fair trade premiums on the price of flowers. The falling level in Lake Naivasha and the threat this places on local towns, flower farms, geothermal energy production, local fisherman and so on, has provided a highly visible impetus for action.

The Upper Tana-Nairobi Water Fund is a public-private partnership that finances catchment conservation activities based on a business plan that quantifies the economic benefits to major catchment users. It is constituted as a charitable trust and operates a hybrid financing model involving an endowment and a revolving fund. The steering committee comprises TNC, Nairobi City Water and Sewerage Company (NCWSC), Kenya Electricity Generating Company (KenGen), International Centre for Tropical Agriculture (CIAT), Tana and Athi Rivers Development Authority (TARDA), WRA as well East Africa Breweries, Coca-Cola, Frigoken Horticulture, and the water technology company Pentair. NCWSC is expected to benefit from savings of around US$250,000 per year from avoided filtration, lowered energy consumption, reduced sludge disposal costs and fewer shutdown days, and has a budget line for approximately US$500,000 in its 2014/15 – 2018/19 strategic plan to support UTNWF. The Coca Cola Africa Foundation is providing finance of US$1.6 million. Overall, a US$10 million investment in Water Fund interventions is expected to return US$21.5 million in economic benefits over the 30-year timeframe.

These mechanisms are complex to set up, and have been achieved through the involvement of a web of national government, donor, and research organisations as well as local and foreign companies. Estimating the value of the ecosystem services requires costly and time-consuming studies and neither of the mechanisms mentioned above involve a strong, direct coupling between the conservation actions and ecosystem services (benefits). Whilst these mechanisms could work for UENNCA, the complexity makes it advisable to leave this concept aside, unless and until MKEWP and its members have the time, resources, relationships and opportunity to make a go of it.

4.3. Restricted Funding Sources

Unrestricted funding will almost certainly be insufficient on its own to cover the core operational budget, leaving a gap to be filled by additional sources. The financing of the investment budget will require over US$5 million. Restricted sources will be required to raise this amount. The potential restricted funding sources are described below. They vary in the potential amounts they might yield, both between and within source types. In addition, each source will be more oriented towards some strategic objectives from the Strategic Plan over others.

4.3.1. Bilateral/multilateral government donors

Bilateral (or multilateral) governmental donors would likely yield the largest individual injections of finance, and could range from the mid to high tens of thousands of dollars to several million. The components of SO3 (costly technical studies and demonstration projects/programs) as well as SO2.2 (water conservation hardware) would require funding from such donors due to the nature of the

investments and the large amounts involved. It is therefore unlikely that the Strategic Plan can be implemented without significant finance from governmental donors.

Governmental donor funds will be crucial for SO3, whose activities are scheduled to commence in July 2019, making this the latest time for acquiring such funds to keep the implementation of the Strategic Plan on track. SOs 1 and 2 also require significant funding streams that would be difficult to fund without governmental donor funding.. Given several factors, donor funding should be sought from the start of 2018. Firstly, such funding is generally available through responses to calls for proposals, which are released infrequently. Secondly, success is far from guaranteed, and thirdly, the period between a successful application and the award of funding might be many months. Funding would ideally be multi-year, in which case the first one or two quarters might be focused on preparatory activities.

Governmental donor funds would be restricted, but would likely allow for contribution to the core operational costs of MKEWP and the capacity building activities of SOs 1 and 5. Conversely, co-funding requirements might mean that investments by MKEWP from other sources (most probably in core operations and/or capacity building for MKEWP and partners) may be needed in order to secure the donor funds. Donor funds would incur a moderate cost of finance in terms of support with proposal writing – most likely from consultants, which is currently not held in house and would not warrant a full time position.

4.3.2. International NGOs

Large INGOs with large water, livelihood or environmental conservation programs in Kenya are an alternative source of finance. Much of their funding might ultimately be sourced from bilateral or multilateral donors, and the transaction cost and funding envelope is likely to be significantly smaller than for funds from direct donors.. As INGOS will need to fund their own overheads, there might be limitations on what they are willing and able to finance in terms of MKEWP overheads.

4.3.3. Private foundations

Private foundations, whether set up with corporate or family funds, differ from bilateral donors in a number of ways. Whereas some seek only a social impact, others are looking for a combined social and financial return on their investment (and hence would not fund MKEWP). They often take a more business-oriented approach to their recipient selection and support, investing in private companies, requiring long-term business plans, linking funding tranches to the achievement of clear benchmarks and or investing in organisations or individuals (usually entrepreneurs) as much as or more than projects themselves. Some offer mentoring support which is usually business and finance-related.

Foundations generally provide smaller funding envelopes than governmental donors, typically tens of thousands of dollars initially, possibly followed later by hundreds of thousands for more promising recipients. They aim to leverage this funding by investing in proof of concepts, bringing proven concepts to market or otherwise scaling them up and or investing in business models that will ultimately be self-sustaining and able to expand through internal investment.

Funding proposals for Foundations are generally shorter and simpler than those for governmental donors and could be produced in-house or with limited external support in many cases. The flip side is that larger levels of funding would normally only be achieved one or more years into a funding relationship with the foundation.

MKEWP could focus on identifying the more innovative aspects of its business model and packaging these into proposals for foundations. Emphasising aspects and activities that would deliver long-term sustainability (financial sustainability of MKEWP and continued economic benefits to the sector) should

increase the chances for success, as could continual reflection and innovation. The benefits of MKEWP-led activities should be quantified in monetary terms as much as possible by identifying the transactions between stakeholders and estimating the value of services (including ecosystem services) delivered.

4.3.4. Water Sector Trust Fund (WSTF)

Through WSTF's Water Resources Investment (WRI) program, WRUA can access funds via the WRUA Development Cycle (WDC). Under this program, a WRUA can obtain funding at 4 consecutive levels with progressively larger financial ceilings. Level 1 funds the development of SCMPs, whilst levels 2 to 4 fund the implementation of activities from the SCMP. MKEWP has informally raised the question with WSTF as to whether MKEWP could source funds for multiple WRUAs from WSTF, but so far has not received an answer; WSTF appears hesitant towards this proposal. Whatever the answer in the short-term, this could remain a possibility in the long-term as MKEWP establishes itself and the water resource management sector and governmental institutions perhaps begin to seek alternative mechanisms for implementation.

4.3.5. Local and National Government Branches

County governments are unlikely to provide funding for MKEWP core operations, but might be willing to provide co-funding for donor projects that involve the construction of visible and high priority infrastructure, such as water storage infrastructure.

Laikipia County NDMA has expressed a willingness to offer funding to undertake specific projects, particularly related to drought mitigation and management. Previously, the Laikipia County NDMA Office supported the WRA-Sub-region Office to engage in abstraction enforcement measures during the drought, although they were disappointed with the results. It is unlikely, however, that NDMA would countenance covering significant core operational costs, unless there was a strong convergence of interest with MKEWP on a specific project and therefore this would be a minor prospect for MKEWP funding.

4.3.6. Commercial Financing

Commercial loans are an option for financing activities from the investment plan that would directly result in an improved bottom line (i.e. increased revenue or reduced costs) for the recipient's income statement. Examples of appropriate activities would largely fall under SOs 2 and 3 and might include water storage or delivery assets for domestic water service providers or irrigated farming enterprises, the installation of flow monitoring equipment/systems, investment in leakage reduction i, or monitoring and billing systems.

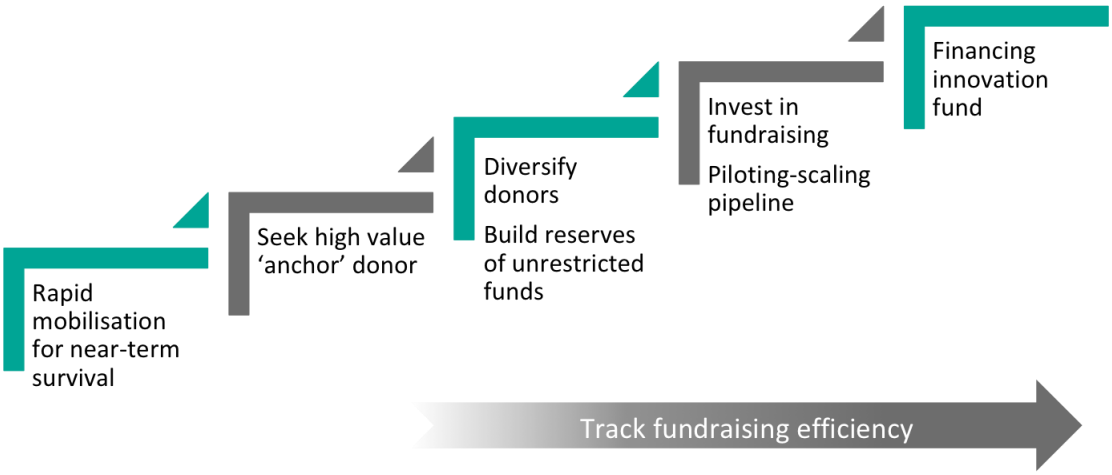
It is envisaged that MKEWP members rather than MKEWP itself would be recipients of the loans, but MKEWP could provide support with loan applications, as required, and could also explore a role in the monitoring impact, especially if the loans were linked with output-based aid (OBA). OBA is used to leverage loans in K-Rep Bank's *Maji ni Maisha* (Water is Life) program; the OBA subsidies reduce the loan sizes and make debt servicing more affordable for the small WSPs targeted by the program.

MKEWPs core activities and strategic plan will tackle some of the constraints of commercial investment, such as regulatory weaknesses, low awareness of commercial models, low management capacity and unsustainable low tariffs. Strengthening the financial status of members would make them better able to contribute to MKEWP finances, particularly with respect to WSPs to whom MKEWP is looking to collect water use levies. Successful projects could also be used to help demonstrate the value and impact of MKEWP.

4.4. Plan and Strategies for Financial Sustainability

The financial sustainability strategy is comprised of a number of components that should ideally be implemented in the sequence given in Figure 3 below. As shown in Figure 3, some steps involve two components being implemented more or less simultaneously. In the event that MKEWP is unable to implement a step, it is possible to jump to the next step, but this will increase the difficulty of achieving financial sustainability (as defined by the indicators in section 4.5) and therefore entail significant risk.

Figure 3 – Summary of Financial Sustainability Plan



4.4.1. Near-term financial survival

The first step towards financial sustainability is to ensure that short term financial survival is assured through sufficient cover for core operations, as the Secretariat is brought up to the capacity defined in the Strategic Plan. During the first half of 2018, as the Strategic Plan and Financial Sustainability Plan are put into operation, MKEWP will need to have sufficient funding for critical operational costs until the end of the calendar year – which is also the Kenyan financial year and grant cycle period of the 4 existing donors. This means that expansion of the Secretariat, investments in new vehicles, equipment and furniture and non-essential items such as the emergency fund will have to be delayed until additional income arrives. The current bare bones budget[1] is around US$100,000 per year, of which around half is salaries and half is other overheads (office, administration, and logistics).

Two unrestricted funding sources, membership fees and water use levies, could be tapped relatively quickly and are focused on members of MKEWP who are already sensitised to the function and importance of MKEWP. A third source, fundraising events (e.g. and annual fundraiser) could be developed in the first few years, but would entail some risk and would be highly unpredictable in terms of the potential revenue. The projected receipts from these sources are presented in Table 6 and Figure 2. The ultimate recurring annual revenues are shown in the left hand side of the table, whilst the right hand side shows projected revenues for 2018-2022, based on assumptions regarding the percentage achievement of contributions from each source. Note that water use levies from WSPs are only projected to reach 50% by 2022.

[1] Bare bones budget refers to the core budget for 2018 with capex, council, staff training, emergency fund and personnel not yet hired removed.

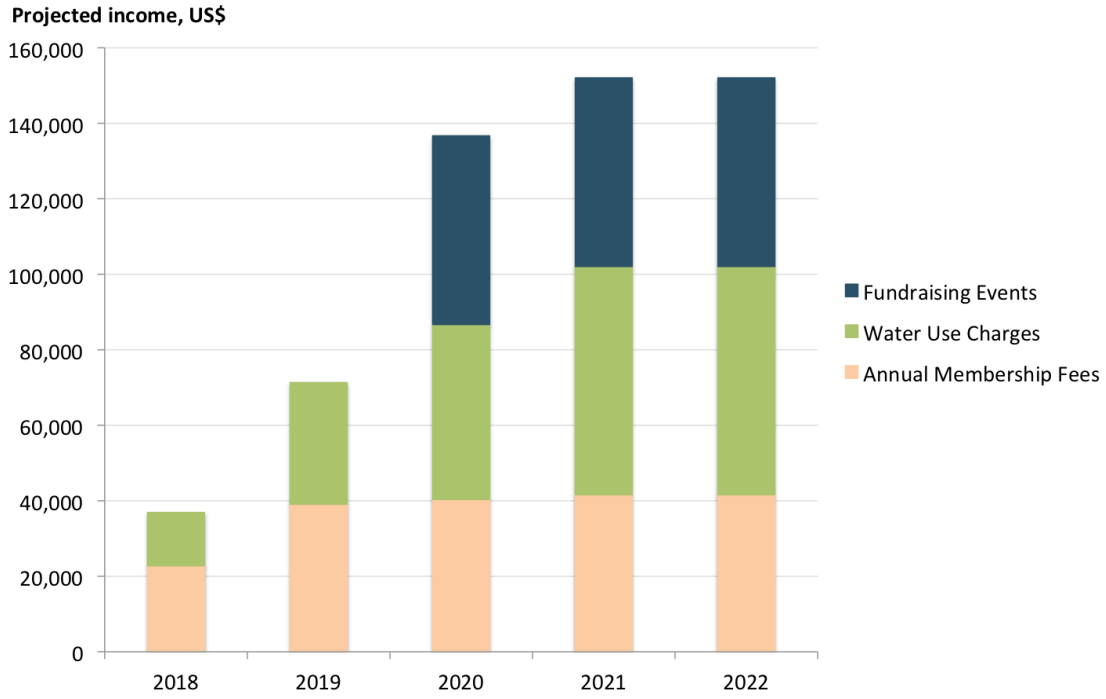
The projected income for 2018, based on projected receipts from current donors, membership fees and water use levies (from commercial farmers only) is approximately US$81,000, comprising US$37,000 from membership fees and the water use levy, and US$44,000 from donor grants. This is based on 30% of each donor grant being used for salaries and other overheads. Assuming that 100% of the IFC grant is used for salaries and overheads, as is technically allowed, the total income available increases to US$125,000, which is sufficient to sustain the current level of capacity and activities but not to fully operationalise and resource the Secretariat. Additional funding will therefore be needed in 2018 simply to support the full core operations budget. An additional significant l injection of funds will be required to realise the full core and investment operations for 2018: around US$ 230,000 – 275,000 to achieve the full US$357,000 required as per the Strategic Plan.

Table 6 – Projected unrestricted funding from 3 key sources

	Long-term annual revenue, US$				Revenue projections 2018-2022, US$				
Detail	**Unit**	**Qty**	**Rate**	**Sum**	**2018**	**2019**	**2020**	**2021**	**2022**
Annual Membership Fees									
County Government	PC	3	500	1,500	0	1,500	1,500	1,500	1,500
WRA	PC	1	500	500	500	500	500	500	500
WRUAs	PC	29	50	1,450	1,450	1,450	1,450	1,450	1,450
Commercial Farms	PC	50	500	25,000	12,500	25,000	25,000	25,000	25,000
Conservancies	PC	10	250	2,500	2,500	2,500	2,500	2,500	2,500
WSPs	PC	2	500	1,000	0	1,000	1,000	1,000	1,000
Community Water Projects	PC	158	30	4,740	1,185	2,370	3,555	4,740	4,740
Community Forest Associations	PC	5	50	250		125	188	250	250
Parastatals	PC	3	50	150	150	150	150	150	150
Research Institutions	PC	2	500	1,000	1,000	1,000	1,000	1,000	1,000
WSTF	PC	1	500	500	500	500	500	500	500
NGOs	PC	6	500	3,000	3,000	3,000	3,000	3,000	3,000
Sub-Total				**41,590**	**22,785**	**39,095**	**40,343**	**41,590**	**41,590**
Water Use Levies									
Commercial Farms	Ha	1129	50	56,450	14,113	28,225	42,338	56,450	56,450
WSPs & CWPs**	m^3	8,015,000 *	0.01	80,150	0	40,075	40,075	40,075	40,075
Sub-Total				**136,600**	**14,113**	**68,300**	**82,413**	**96,525**	**96,525**
Fundraising Events	PC	1	50,000	**50,000**	**0**	**0**	**50,000**	**50,000**	**50,000**
TOTAL				**228,190**	**36,898**	**107,395**	**172,755**	**188,115**	**188,115**

*Volume is an estimation with a wide margin of error, as accurate figures were only available for 1 WSP
**Water use levies for CWPs would require further investigation – currently only the CWPs of 1 WRUA have meters and pay a volumetric water use charge to the WRUA; other CWPs pay WRUAs based on the size of their pipe network.

Figure 2 – Projected funding from 3 key sources



4.4.2. Seek a high-value 'anchor' donor immediately

The most realistic option for achieving an injection of the magnitude required would be a grant from another bilateral or multilateral donor in response to a formal or informal invitation from MKEWP to submit a proposal, or an open call for a proposal. This would involve an investment in proposal writing, which would more than likely need support from a consultant.. The chances of success would have to be carefully evaluated against the cost of putting the application together before making the go/no-go decision for the proposal. An open call would be a risky proposition for a small, new and non-conventional organisation and therefore MKEWP will need to identify an opportunity by continuing its discussions with potential donors, and expanding them to new donors.

For the early years, a solid 'anchor' donor, providing multi-year funding and covering a good portion of the core operations and investment budgets would be preferable to multiple small donors. Whilst diversity of donors is advisable in the long term, for reduced vulnerability to changes in donor plans and priorities, as well as for preserving autonomy and independence, a single large donor avoids the complexity of managing multiple donors and reporting requirements and allows breathing space to put into action financial sustainability plans.

Large funding envelopes sometimes come with requirements for co-funding, typically 20% of the total project cost, by the recipient with its own internal revenue sources or other donor funds. Ideally, any anchor donor covers a good proportion of the core operational costs so that unrestricted income can be used to invest in fundraising activities to support medium term financial sustainability. MKEWP's red line should be that the core operations budget is covered by the combined donor budget and currently

secured unrestricted funds. One means of reducing the burden of co-funding requirements on unrestricted funding would be to try to secure co-funding from a second source, which could be another bilateral/multilateral donor (where this is allowed). County governments could be expected to contribute funding for projects which involve major infrastructure investments.

4.4.3. Diversify donors for survival or long-term financial sustainability

Whilst a high-value anchor donor is the ideal, MKEWP should cast a wide net when seeking donor funding, as any donor grant is a potential door to larger funding envelopes in the future, raises the profile of the organisation and supports networking. Decisions on whether to pursue funding requests should have a strong basis in the cost and benefit of each potential donor with respect to financial sustainability, which can be assessed by answering the following questions:

- What will be the cost of pursuing a funding request?
- What is the current level of resources for fundraising?
- What core operational costs are likely to be supported by the donor?
- How heavy is the monitoring and reporting load for this donor and how does this compare to the donor's willingness to support core operational costs and additional M&E capacity?
- Would these funds encourage funding from other donors and, if so, what impact could this have on the organisation's financial position? For example, could these funds offset co-funding requirements for another funding source?
- What are the long-term plans of this donor in the sector and what are the long-term prospects for funding from this donor (is there a good possibility of more and larger funds in the future)?

If high value funding sources cannot be secured then bilateral donors would be the preferred source of smaller funds. Bilateral donors should include high impact activities that will provide MKEWP with tangible results upon which to convince donors and other sector stakeholders of its value. Foundations might also be an option, but the sums awarded, especially in the early years, tend to be fairly low, usually US$50,000 or less. Corporate sponsorship would likely be lower still and would require the cultivation of a relationship by the business and finance specialist, who would not yet be on board. That said, if attempts to secure donor grants fail, these would be alternatives that could finance some core costs and low-cost activities, with the acceptance that the implementation of the Strategic Plan will fall behind.

4.4.4. Build up a reserve of unrestricted funds

Once funding has been secured for immediate needs – covering core operational costs for a year going forward, MKEWP needs to build up insurance mechanisms to ensure coverage of the core operational budget is not ruptured by negative events, i.e. changes in the ability or willingness to continue funding on the part of one or more financiers. The immediate priority would be to build up a buffer or reserve of unrestricted funds.

The term 'unrestricted' is used here to mean not only that funds can be used for any MKEWP business purpose but also that they can be spent at any time in the future. Membership fees, water use levies, fundraising events, and corporate sponsorship, would be expected to be unrestricted. Restricted sources are used to cover the core operations costs as far as possible. Therefore, multiple restricted sources that exclude core operational costs, or require co-funding that cannot be covered by other restricted sources, should be avoided.

4.4.5. Invest in fundraising

If reserves of unrestricted funds are sufficient to cover the current financial year plus one more year, building up the reserves further would be unwarranted and potentially counterproductive. Rather,

excess unrestricted funds should be used for business investment. The first priority should be investment in activities that will enhance fundraising efforts or capacity, such as:

- Development of fundraising materials (professional powerpoint decks, brochures, short videos, or possibly academic papers etc) or improving on those developed previously with core operational funds
- Structured/planned networking with potential donors and/or corporate sponsors
- Development of new fundraising concepts/approaches
- Investment in increased fundraising capacity, including possible new staff positions (in which case the unrestricted buffer period will have to be recalculated)

4.4.6. Establish and sustain an piloting-scaling up pipeline

Higher value donors are generally focused on impact and coverage and therefore prefer to fund proven concepts that have already been successfully piloted. This is especially true for MKEWP as multi-stakeholder platforms with MKEWP's level of ambition – as represented by the Strategic Plan – are uncommon. Investing in proof of concept for new or experimental approaches (i.e. pilot projects) is therefore important for opening up larger and longer-term funding envelopes later on. Pilots often rely on donors with an interest in innovation, which are typically smaller donors. Private foundations are notable for their willingness and interest to invest in innovation. MKEWP should therefore assess smaller potential donors for their willingness to fund experimentation.

The concept of piloting with more flexible funding and then scaling up or mainstreaming proven approaches with more impact and coverage-focused funding/donors can be a route to building up MKEWP's reputation as an exciting and reliable implementing partner for donors. An organisation that has a pipeline of innovations at different stages is well placed to demonstrate not only results today, but also to have the potential to generate additional results in the future, as new concepts are developed or established ones are scaled up. Success with early innovations (and, as importantly, a demonstrated ability to identify and drop or change poor-performing approaches) will establish a good reputation. The pipeline of new concepts and success with mainstreaming proven concepts, will sustain the organisation's reputation, and instill a culture of innovation and learning that will keep the organisation sharp and attract the right calibre of employees. The Strategic Plan contains various concepts that should be piloted then scaled up, and could be implemented at different scales according to the preference of the potential financier. These include:

- The WRUA agency model: WRUAs providing paid services in order to achieve financial sustainability
- A WRUA model for arid and semi-arid lands (ASAL) areas
- Financial and technical support to smallholders and CWPs for water conservation hardware
- Water accountability systems (source to water point) to drive down water losses
- Introduction of a volumetric tariff
- Sustainable financing models for water conservation and use
- Blending of commercial financing into catchment conservation and infrastructure asset investment
- Livelihoods actions linked to natural resource management

4.4.7. Develop financing innovation fund

Ultimately and ideally, although probably beyond the 10-year focus of this FSP, sustainability of water resource management actions in UENNCA should be built as much as possible on financial transfers from catchment beneficiaries (e.g. downstream water users) to upstream catchment stewards. As mentioned in section 2.3, however, Kenyan regulation does not provide an enabling environment for payments for ecosystem services, which anyway is a difficult concept to operationalise. MKEWP would be well placed, however, to invest in innovation around financing mechanisms for catchment improvement and water

resource conservation within UENNCA. Potential innovations can be identified and designed in consultation with its wide array of members, and tested via the more willing and capable members. The finance and business specialist would need to lead this process. A special fund could be set up to invest in pilot financing mechanisms, and support from CSR initiatives could be a promising potential source of finance for this.

4.4.8. Track and enhance fundraising efficiency

An important area for focus when it comes to business processes and efficiency is the 'cost of financing' or 'transaction cost'. This is the cost incurred or amount invested to develop or win new income streams. It will vary by the revenue source type and to a lesser degree between individuals of the same type: donor funds will be fairly costly due to the need to write a proposal that might not get funded, and some donor opportunities will be more costly that others due to a more complex proposal and/or lower chance of success. This also has to be balanced against the potential funding envelope. The finance and business specialist should be responsible for tracking the cost of financing, creating appropriate metrics and using the information to feed into decisions in order to prioritise potential sources of finance.

As approaches to catchment problems are validated via pilot projects, a knowledge base of results including written, photographic and video material, etc, should be developed and carefully catalogued. This can provide a source of ready-made material for publicity and proposal-writing that can reduce the cost of fundraising, especially in the scenario where MKEWP is reliant on a larger number of lower-value sources of finance.

4.5. Indicators of Financial Sustainability

Indicators of financial sustainability should provide a simple and easy to interpret measure of the organisation's ability to continue financing core operations. It should also provide an indication of its ability to continue investing in strategic activities and to 're'-invest in fundraising. The key influencers of financial sustainability for MKEWP will be the size, flexibility and diversity of existing finance (money in the bank and secure financial commitments).

The minimum financial sustainability period is determined by the coverage of core operational costs with secured restricted funds and unrestricted funds in the bank. Beyond this period, the diversity donors and likelihood of renewal of their financing will affect the ability of the organisation to continue to raise funds for the core operational budget. The long-term sustainability will depend upon the results, reputation and relationships of the organisation, which can be roughly assessed as follows:

- Results: the impact achieved, which will feed into the ability of the organisation to obtain funding, particularly from restricted sources (donors)
- Relationships: Are there new donor relationships in the pipeline?
- Reputation: are financiers providing repeat funding, i.e. renewal of annual commitments of initiation of new donor projects?

Based on the above, 4 key financial sustainability indicators are proposed, as presented in Table 7. The definitions of the levels of achievement in the third column should be reviewed annually, based on reflections of the MKEWPs experience.

Table 7 – Key performance indicators on financial sustainability

Theme	Indicator	Levels	Action
Core operations coverage	Number of months of core operations budget covered by sum of unrestricted reserves and allocated restricted funds	<6 months	Aggressive pursuit of potential rapid funding leads
		6-12 months	Check diversity of funding sources
		12-24 months	None
		>24 months	Consider investment in fundraising
Diversity of funding sources	Number of current different individual donor sources covering at least 20% of core operations costs for 12 months or more	0-1	Aggressive pursuit of potential rapid funding leads
		2-3	Pursue more, focus on donors with larger envelopes
		>3	Pursue donors with larger envelopes
		2-3, including at least 2 >$300k/year total	Comfortable; focus on long-term fundraising capacity
		>3 @ >300k/year	Comfortable; possibly room for consolidation
Longevity of donors	Number of different individual donor sources providing at least $100k/year and covering at least 20% of core operations costs that have renewed funding at the end of a grant in the last 24 months	0	Review cause, develop corrective strategy
		1-2	Determine if review and action required
		>2	Comfortable, no action required
Ability to bring in new donors	Number of new donors of over $50k unrestricted and/or $200k total funding in last 2 years	0	Review cause, develop corrective strategy
		1-2	Actively network to identify new potential donors
		>3	Focus on cultivating renewal of funds from new donors

4.6. Risks and Mitigation

The financial sustainability strategy described above aims to gradually develop the funding base of MKEWP and improve its resilience to negative financial events. Most of the risks to financial sustainability can therefore be mitigated by careful implementation of the above strategy, but are presented in Table 8 for emphasis and by way of a reminder. The other principle risk is that of financial mismanagement. Whilst common to all organisations that involve financial transactions, financial mismanagement would present a major threat to MKEWP's financial sustainability as the organisation would struggle to implement corrective measures and any financial reserves would be drawn down swiftly should members and external financiers pull or freeze their funding. Moreover, external donors would be less likely to have faith in the ability of a small, local organisation to implement timely corrective measures and might readily switch their funding to organisations with a higher management capacity and/or a more mainstream mandate.

The most effective way to discourage financial mismanagement is to have a policy of prevention and detection and to ensure high staff awareness of said policy. The risk is generally when staff motivation and loyalty is low (for example, during a reduction in activities and budget) and when senior management are overstretched and are seen to be less able to monitor financial activity. At these times, staff should be reminded of the organisation's policies around financial discipline. When preparing proposals for high budget projects, MKEWP must ensure that sufficient project-specific human resources are included in the plan and budget so that MKEWP senior management does not get distracted with trouble-shooting or excessive administrative responsibilities and can therefore maintain a supervisory overview of the financial management. Given that the financial management capacity of the senior management (i.e. core Secretariat members) is lean, a strong auditor is important. Additionally, the MKEWP Council must provide oversight on financial management and ensure robust systems are in place through the appropriate council committee.

Table 8 – Key risks and mitigation measures

Risk	Likelihood	Impact	Mitigation
Financial impropriety within MKEWP	Medium	Very High	Remind staff of importance of fiscal discipline at time of key events such as new project initiative and increases or reductions in staffing levels. Secretariat (Director, Coordinator and Accountant) maintains strong oversight of large projects with separate finance and administration personnel. Engage an auditor with good capacity relative to the size and complexity of MKEWP at any particular time. Allocate responsibility to a suitably experienced board member to put in place measures of fiscal discipline
Sudden loss of large proportion of funding for core operations	Medium	High	Maintain a balance of funds from external sources (e.g. donors) and in-landscape sources.
High cost of administration of large projects (grant-funded) draws down on financial reserves	Medium	Medium	Ensure that proposals for high value and complex projects include funding for sufficient personnel to handle the entire project administration requirement.
Requirement for co-funding limits draws on unrestricted funding, preventing build up of reserves	Low	Medium/ Low	Where matching funds are required, seek to use other restricted sources of funding rather than using unrestricted funds for this purpose

MOUNT KENYA EWASO WATER PARTNERSHIP

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