



Guidelines for Strengthening River Basin Organisations **FUNDING AND FINANCING**



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I.	Background	01
II.	Guiding principles	02
III.	Method and conceptual framework	03
IV.	Process and procedures (guidelines)	04
V.	Implementation	08
VI.	Benchmarking	09
VII.	References	10

The establishment of Shared Watercourse Institutions (SWI), or River Basin Organisations (RBOs), was jointly agreed and enabled through the 2000 SADC Protocol on Shared Watercourses. RBOs can be established as River Basin Commissions, joint Water Commissions or Water Authorities, as may be determined by the respective parties (see SADC Guideline on RBO Establishment and Development). Their main role is to:

- Facilitate coordinated, judicious and sustainable utilisation of shared watercourses;
- Act as advisory bodies and joint programme implementation agencies on behalf of Member States;
- Develop joint strategic action plans and projects for implementation along shared watercourses; and
- Offer platform for discussions, information sharing and conflict prevention at river basin level.

While the Protocol does not provide mechanisms to ensure the funding of such initiatives, the SADC Regional Water Policy assists the Member States with several recommendations for the financing of water resources development and management (textbox 1).

The purpose of this guideline is to establish a set of procedures that can assist River Basin Organisations (RBOs) becoming financially sustainable. The guideline was designed to help practitioners assimilate, evaluate, and implement the ever increasing amount of evidence on best practices. It is not intended to be exhaustive or prescriptive. The guideline was rather developed in the perspective of providing well balanced information on strategic options and procedures available to RBOs for strengthening their human and institutional capacities.

Textbox 1: SADC Regional Water Policy

- **Financial Sustainability.**

- Member States shall ensure adequate financial resources for national as well as regional projects on water resources development and management.
- For water resources development and management at national and regional level to be financially sustainable, Member States as well as SWCIs shall strive to recover all costs for managing the resources while taking into consideration the special requirements of the poor and the vulnerable in society.

- **Cost Reduction.**

- Member States shall institute planning and operational systems to facilitate cost reduction in the management of water resources.

- **Public-Private-Civil Partnerships**

- The SADC Secretariat, SWCIs and Member States should actively develop partnerships with communities, civil society organisations and non-governmental organisations to support the development and management of water resources in the region.
- Partnerships between SWCIs or governments and private sector should be considered where these could contribute to efficient management of resources, the delivery of services and lead to higher inflow of investment capital to the sector.
- Partnerships between SADC Water Sector, SWCIs, Member States and external development agencies shall be maintained and strengthened.



As a rule of thumb, RBOs should not rely on one single source of funding to avoid dependency. Rather RBOs should adopt a sustainable funding portfolio and explore funding opportunities across a spectrum of

income streams. In the process of ensuring sustainable funding RBO should account for a number of guiding principles. The most prominent are presented below.

Diversity	A mixture of income sources is used to avoid relying on any one of them.
Suitability	The right income stream is used to drive development at the right time.
Transparency	A climate of trust and confidence is created through the proper disclosure of public records.
Sufficiency	Incomes and expenditures are balanced.
Equity	A fair distribution of costs and benefits is pursued between all stakeholders.

Textbox 2: Principles of Integrated Water Resources Management (IWRM)

- Fresh water is a finite and vulnerable resource, essential to sustain life, development and the environment.
- Water development and management should be based on a participatory approach, involving users, planners and policy-makers at all levels.
- Women play a central part in the provision, management and safeguarding of water.
- Water has an economic value in all its competing uses and should be recognized as an economic good.



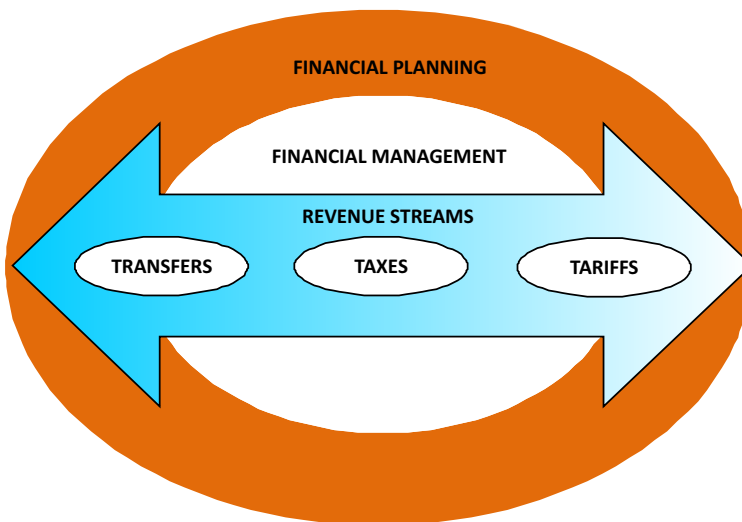
At present, most RBOs do not have secure and reliable funding, and most depend on donor funding. This situation is unsustainable and undesirable. RBOs should then adopt a more holistic approach to funding, first by diversifying their funding sources, but also by implementing more effective financial planning and management systems (figure1).

Income diversification is about making use of all funding opportunities available across the income spectrum, starting with transfers, taxes and tariffs. Financial planning provides the means for tapping on additional sources of funding by fostering agreements on investments targets and setting plans to

achieve them. Financial management promotes more efficient use of existing resources and enhances the RBOs' ability to attract funding.

These guidelines are drawn from the general literature review, in-depth analysis of six case studies from Africa (Okavango, Orange, Senegal), Asia (Mekong) as well as Europe (Rhine and Danube) and responses to a questionnaire that was circulated among RBOs and International Cooperating Partners (ICPs) in SADC. These have led to lessons learned and benchmarks, which have been incorporated.

Figure 1: Holistic funding system for RBOs



As presented in figure 1, RBOs aspiring to adopt sustainable funding practices should consider undertaking interventions in at least three strategic areas: *i*) financial planning, *ii*) revenue streams and *iii*) financial

management. For each of these strategic areas several interventions and methods are available, suitable instruments are presented in the following tables.

1. FINANCIAL PLANNING

Sustainable funding requires systematic planning and preparation together with an understanding of what funding opportunities are available and how these funds can be tapped into.

Possible interventions	Considerations and/or methods available						
1.1 Establish the RBO mission and objectives	Ensure that the RBO functions are adapted to the stakeholders needs.						
1.2 Identify financial requirements	<p>Estimate costs based on the resources required for the RBO to perform its functions. Costs vary depending on the RBO organisational structure (i.e. River Basin Commission, Joint Water Commission and Water Authority) and development stage (i.e. initiation, development, management).</p> <p>Categories of expenditures include:</p> <table border="0"> <tr> <td><u>Recurrent costs</u></td> <td><u>Capital costs</u></td> </tr> <tr> <td>• Salaries and wages</td> <td>• Building and vehicles</td> </tr> <tr> <td>• Rent or lease</td> <td>• Research & development</td> </tr> </table>	<u>Recurrent costs</u>	<u>Capital costs</u>	• Salaries and wages	• Building and vehicles	• Rent or lease	• Research & development
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1.3 Explore funding opportunities	Explore options on the basis of their practicality, taking into account the RBO goals and capacities. Consider using tools such as risk and SWOT (Strengths, Weakness, Opportunities and Threats) analysis.						
1.4 Develop a funding strategy	Based on a review of past and future trends, set a strategy that adequately balances spending levels and funding sources, in light of the basin's circumstances and options.						

Example 1: Financial strategy of the Okavango River Basin Commission (OKACOM)

OKACOM intends over time to increase Member States' contributions in order to reduce its reliance on donor funding. By 2018 Watercourse States are expected to increase their financial contributions to approximately US\$400.000 (assuming equal payments from each state). These contributions should be sufficient to cover the expected annual operational expenditures of US\$1.2 million.

2. REVENUE STREAMS

RBOs should explore and exploit a full range of funding and financing options to develop a sustainable funding mix.

Funding options	Considerations and/or methods available	Applicability		
		RBC ¹	JWC ²	JWA ³
2.1 Grants (transfers)	<p>Obtained through government to government agreements. The funds must be used to meet specific objectives. Can be linked to technical assistance. May have significant transaction costs (i.e. donor procedures and requirements).</p> <p>Example: As part of its support to the Orange-Senqu River Commission (ORASECOM) the German Technical Cooperation (GTZ) granted € 2.7 million to ORASECOM for the development an Integrated Water Resources Management plan.</p>	X	X	X
2.2 Loans (transfers)	<p>Distinguish soft loans from commercial loans. The former are provided on favourable terms (e.g. below-market rate of interests, grace period and little collateral required). The latter are available from private banks, but only for financing operations that can generate resources and hence guaranty repayment.</p> <p>Example: Loan capital was the main source of funding for the construction of the Maguga dam (Swaziland), whereas all loans were raised by the Komati Basin Water Authority (KOBWA) with guarantee from the Governments of South Africa and Swaziland.</p>			X
2.3 Funds (transfers)	<p>Distinguish basket funds from revolving funds. The former refer to the joint funding by a number of donors of a set of activities through a common account. The latter are established for a certain purpose with the stipulation that repayments to the fund may be used anew for the same purpose.</p> <p>Example: In 2003 the Nile Basin Initiative (NBI) established the Nile Basin trust fund as a mechanism to harmonize donor support in the basin. Out of the USD \$130 million granted so far by donors to support NBI, the majority has been administered through the fund. The fund his administered by the World Bank on behalf of all donors contributing to the fund.</p>	X	X	X
2.4 Member States contributions (taxes)	<p>Distinguish financial contributions (e.g. membership charges, taxes) from in-kind contributions (e.g. seconded staff, office space, administrative support).</p> <p>Example: Since 2007 the four Member States of the Orange-Senqu River Commission (ORASECOM) pay annually ZAR 500.000 to cover the operational costs of the secretariat.</p>	X	X	X

2. REVENUE STREAMS (continued)



Funding options	Considerations and/or methods available	Applicability		
		RBC ¹	JWC ²	JWA ³
2.5 Levies and charges (tariffs)	<p>Consider levying user and/or polluter charges. Provides incentives for more efficient use of water, but can be complicated to administer. Should be established through transparent processes and with appropriate measures to avoid negative social or environmental impacts.</p> <p>Example: The French basin agencies levy charges for pollutant discharges to surface water. The revenues made from these charges are used to support the achievement of environmental objectives. The basin agencies are expected to collect over € 8 billion through these charges over the period 2007-2012. (French basin agencies only manage national water resources).</p>			X
2.6 Payments for Services (tariffs)	<p>Earn funds by providing services such as electricity, water or consultancy services (e.g. monitoring and data provision).</p> <p>Example: The Zambezi River Basin Authority (ZRA) charges the water that it delivers to two electricity companies in Zambia and Zimbabwe.</p>	X	X	X
2.7 Public-Private-Partnerships (tariffs)	<p>Develop new forms of cooperation to channel participation from the private sector.</p> <p>Example: The Danube Box, an educational tool providing teachers with a wide range of information on the Danube, is the outcome of the Green Danube Partnership between Coca Cola and the International Commission for the Protection of Danube River (ICPDR).</p>	X	X	X

References: 1. River Basin Commission (RBC); 2. Joint Water Commission (JWC) and 3. Joint Water Authority (JWA). Refer to SADC Guideline on RBO Establishment and Development.



3. FINANCIAL MANAGEMENT

Financial management is about ensuring that funds are available when needed and that they are obtained and used in the most efficient and effective way to the benefit of an organisation:

Possible interventions	Considerations and/or methods available
3.1 Establish a financial management and governance system	Determine the tasks and procedures by which the RBO monetary transactions are processed and their financial records are created.
	 TIP: Ensure the alignment of financial procedures with rules and regulations applied in each watercourse state.
3.2 Prepare an annual budget	Quantify all planned revenues, expenses, assets, liabilities and cash-flows.
3.3 Set-up an accounting system	Record, classify, analyse, summarise, interpret and present financial data on the RBO activities.
3.4 Implement control procedures	Compare actual results against planned budget.
	 TIP: Investigate variances in order to determine their causes and to decide on the actions needed to rectify the situation.
3.5 Adopt financial reporting mechanisms	<p>Produce an annual report to portray a true and fair view of the RBO financial performance.</p> <p>The annual report serves several functions: management, decision-making and communication.</p>

Example 2: Financial rules of the International Commission for the Protection of the Danube River (ICPDR)

The ICPDR has an executive secretary who prepares the annual draft budget and has responsibility for managing income and expenditures, sound accounting, and drafting the yearly statement of accounts, which has to be approved by member countries. The draft statement of account comprises a list of the contributions paid by the contracting parties and balanced income and expenditure statements. Expenditures may not exceed the income total. Individual expenditure line items can exceed their line budget up to 20 percent, but the overall budget must be balanced.

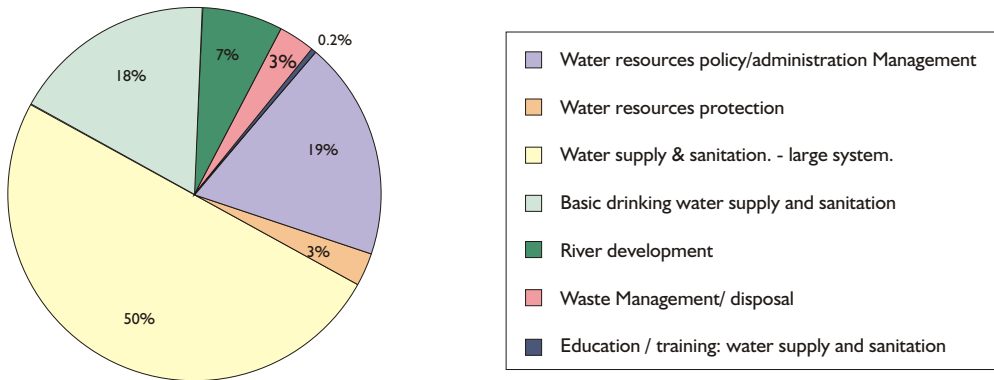
The ICPDR has a reserve fund of 10 percent of the overall budget at the beginning of the year, and this fund, comprising budget surpluses from previous years, allows the Commission some financial flexibility. The overall budget is presented by the executive secretary each year to Member States for their approval.

These guidelines are based on emerging experiences and best practices from existing RBOs in Southern Africa and other parts of the world. The guidelines should not be used as a cookbook or blueprint. Rather RBOs need to elaborate and apply these guidelines to their own situations. What is relevant for one RBO may be less or not relevant for another. RBOs need to develop an evolutionary and adaptive approach towards implementing

these guidelines. RBOs must develop and adapt these guidelines to suit their situation. During this process, they need to regularly review the guidelines and where relevant modify them to better suit their conditions and changes therein. Adaptations also need to be made if useful lessons emerge from other RBOs in SADC or other parts of the worlds (figure 2).

Figure 2: Breakdown of official development assistance for water by project type

Period 1990 - 2004





Funding is crucial to sustain the existence and functions of River Basin Organisations and RBOs should hence monitor and evaluate regularly their financial performances to assess their progresses. To do so, RBOs must develop a set of indicators to measure their performances against their own goals and objectives. Such indicators could include the following:

- **Sufficient funding:** Funding is adequate to address at least priority issues;
- **Self-funding:** Funds collected from water users (tariffs) and watercourse states (taxes) cover operational costs;
- **Donor coordination:** Coordination between donor organizations exists to ensure that programs and projects are linked and address common goals;
- **Financial efficiency:** Mobilisation of funding is high in comparison to functional costs;
- **Reporting investments:** There are explicit procedures ensuring the transparent reporting of investments in basin management programmes.

The Monitoring and Evaluation (M&E) results for these indicators need to be considered annually by the secretariat and Member States, and where necessary corrective interventions need to be made to meet the stated targets.

The SADC secretariat needs to contribute towards monitoring and evaluation of RBOs performance by means of comparison. It is important that RBO funding experiences are properly kept and analysed by SADC water Division and that the findings are shared with RBOs in Southern Africa. In this way, newly established RBOs can learn from the experience of more developed RBOs.

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