Consultancy on the
DESIGN OF CDF AND CREDIT PRODUCTS

1st Draft Report

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EXECUTIVE SUMMARY

The Community Development Fund (CDF) has been a successful approach in support of community initiated, implemented and managed water supply and sanitation activities. The CDF approach has been created by and successfully implemented by the Rural Water Supply and Environment Programme (RWSEP) since 1995 funded by Ministry of Foreign Affaires of Finland (MFA). RWSEP is phasing out by 2010, and one of the concerns is about institutionalizing the CDF approach, enabling the successful approach to be replicated by other donors and for other community based initiatives. Another concern is to secure the functionality of the constructed approximately 6,600 water points by providing feasible credit to the communities for corrective maintenance and rehabilitation.

This report presents the background and context of the CDF approach, and the objectives of two proposed products namely the CDF Product and the Credit Product. It de scribes the target groups and the types of various development activities for both products, and presents a rough financial projection for both products and a consolidation of both elements. It also makes a proposal for an outline of the credit product, to be discussed and fine-tuned together with ACSI.

Further the report presents the present stakeholders and the new roles of them under the situation after phase out of RWSEP. Particular attention has been paid to Amhara Credit and Savings Institution (ACSI) and the present legal framework for the micro finance industry, as ACSI is the only MFI with necessary resources and office network for channeling down funds for continued CDF implementation, and also for extending credit for maintenance and rehabilitation of existing water points.

The report also assesses the feasibility of the Credit product and the risks affecting successful continued implementation of both products. The main concerns are the prevailing poverty and the high inflation.

Finally the report outlines an action plan and presents few recommendations for consideration. Most important of them is the necessity of conserving the experience and knowledge of the present human resources. Allowing them to disappear to their respective Bureaus will weaken the continued operations. Instead, it is recommended that a Technical Office (TO) should be established, with permanent address and paid fulltime local staff, funded by donors. Terms of Reference for the office and job descriptions for the staff should be prepared. The office could become the duty station of foreign advisers of controllers, if a donor so desires.

Regarding the Credit Product, RWSEP should together with ACSI finalize the description of the Credit Product and its technical details. Still, alternative solutions, such as a Guarantee Fund should be further explored, and complementing features to stimulate communities to increase their contribution should be added.

Finally, as the proverb goes, “The proof of the pudding is in the eating”. In the case of DCF Products, it is no use in putting up a system, if it cannot be operated due to lack of financial resources. It is therefore recommended that the present donor (MFA) should contribute with funding for continued CDF implementation on two separate lines. First, it should provide sufficient funding to test the independent CDF Product implementation within present program Woredas, as described in Stage 1 below. Secondly, it should provide funding for the Credit Product, in order to maintain functionality of the water points funded through the earlier RWSEP/CDF implementation. Only when the results of these continued interventions are positive, it can be expected that other donors are encouraged to contribute to Stage 2 and other replications.

1. BACKGROUND AND CONTEXT

1.1. Amhara National Regional State (ANRS) is one of the nine autonomous Regions and two town administrations of the Federal Democratic Republic of Ethiopia (FDRE). It has a land area of about 160,000 km2 and a population of about 20 million and a population density of about 125 persons per square kilometer. Agriculture stood for 57% of the Gross Domestic Product (GDP) in 2005/2006. Main part of other economic activities such as industry, trade, transportation and services are closely linked and both depending and supporting agriculture. The forecast for 12 coming years indicate an average growth rate of 3.5% for the agricultural sector, while industry and service sectors are estimated to grow with 6.2% and 10% respectively. The GDP is growing with a pace of about 4.5% (between 3.56% in 2002 and 5.25% in 2000). The per capita GDP is growing slower, at the pace of less than 2% with the actual figure of 1.61% for 2004.

Amhara Region is divided into ten administrative Zones and one special Zone. Furthermore, Zones are divided into Woredas, 140 in total in the Region. Of this, RWSEP IV covers 4 Zones and 14 Woredas. The administration at the Regional level between sectors has been organized in the same way as at the federal level; the Regional counterparts of central ministries are called Bureaux. The sectoral departments in the Zones provide technical support to Woredas without assuming administrative powers. The sectoral functions at the Woreda level are undertaken by various Offices. Regional Administration is the main policy and decision-making body.

1.2 The Rural Water Supply and Environmental Programme (RWSEP) in Amhara Region, has during its Third Phase (2003-07) introduced and made functional a model for implementation of rural water supply facilities through the Community large scale only by the RWSEP and only for facilitating development of community initiated and owned water points, mostly hand dug wells with a hand pump. This situation still continues at the beginning of the Fourth Phase that at the same time is the withdrawal phase of the Programme.

1.3 Community Development Fund (CDF) is a grant-based arrangement, where the stakeholders, namely the users, the Regional administration, the private sector and the external financier assume clearly defined financing, implementing, management and reporting responsibilities. The grant can be provided only once for the same user group; organised as a Water Users Association (WUA) and its management board the Water and Sanitation Committee (WATSANCO). The CDF approach establishes the user group ownership to the water point from the beginning, including the management of the construction process and the responsibility for the operation, management and maintenance of the completed water point's

Core issues in CDF implementation are:

1) Implementation is initiated and will fully depend on community's own initiative;
2) Communities will receive training, technical and material support from the Woreda authorities before, during and after the construction of water points;
3) Communities will be fully responsible for the funds allocated to them during the construction phase;
4) Communities have to demonstrate their willingness and capacity to finance the future operation and maintenance activities by depositing an initial up-front fee into a savings account before the application is submitted to the responsible body in the Woreda CDF Board;
5) Communities have to commit themselves to take responsibility of managing and financing the operation and maintenance, both preventive and corrective, of the water points in the future, and are entitled to receive technical support from the Woreda water Office.

The CDF approach has been recognized for its overall efficiency. More water points has been constructed in comparison with other methods, the constructions appear to be of better quality, and due to the stronger sense of ownership they are better maintained by the users.

2. OBJECTIVES OF THE PRODUCTS

The overall purpose of Phase IV of RWSEP is to reach institutionalized capacity at all levels to implement and maintain sustainable community managed water supply facilities with CDF funding. This is achieved when communities are able to prepare participatory, gender and poverty sensitive water supply CDF project proposals and to implement and manage water and sanitation facilities and assume responsibility for future rehabilitation. This includes further that Woredas are able to support communities in this, and Regional bureaus are able to coordinate their support to Woredas. Finally that purpose has been achieved when donors and NGOs are able to implement the CDF approach in their own programs.

These achievements are expressed in various verifiable results, of which implementation of sustainable community water supply facilities continues with CDF approach in 14 program Woredas as an institutionalized package; that the capacity at Woreda, zonal and Regional levels to sustain water supply facilities, including rehabilitation has been institutionalized; that CDF has been developed as a replicable and easily adoptable product; and that an appropriate credit product is available from ACSI for rehabilitation in water supply facilities.

2.1 The CDF Product

In order to develop CDF into a sustained arrangement, easily adoptable and accessible for the use by various interested donors, NGOs and the government itself, as well as to broaden its original focus from water supply, the work plan of RWSEP Phase IV includes the task of developing a CDF Product. The basic intention is to create a replicable service product for a financial institution, such as ACSI in Amhara Region. Later on, it would allow a wide coverage of suitable community-based development initiatives and could be implemented also in other Regions of Ethiopia.

Originally the objective of developing the CDF approach was to strengthen the initiative and real ownership of the communities in rural water supply implementation. The purpose of the CDF approach was to create an alternative funding mechanism separate from the conventional governmental funding mechanisms. No major changes in the objective have taken place during the implementation period. The objectives have been achieved beyond expectations and there is no need to change or refine the overall objective when developing the CDF towards a CDF Product.

The present objective is to develop the CDF approach to a product, CDF Product. A 'Product' has usually a well known and identifiable brand name, which already is a fact regarding CDF, due to its long and successful history. A service product needs to have an administrative structure with a clear hierarchy and clearly defined roles, authorizations and responsibilities. It should also have an efficient mechanism for channeling funds to the ultimate beneficiaries is necessary, based on a well-defined accounting and reporting system. It should be subject to continuous monitoring and evaluation and to annual audit by an acknowledged auditor. The CDF Product further needs an operative manual, and an effective system for knowledge transfer from present experienced operators for various replications should be prepared. These concerns should be addressed well in time before phase-out of RWSEP allowing an uninterrupted continuation of operations.

So far, the CDF has been operated purely based on grants from the Finnish Ministry of Foreign Affaires of Finland (MFA). A main concern of CDF so far has been how to sustain the continuation of constructing water points and sanitation facilities if and when the initial donor pulls out. The objective of developing the CDF Product is to make the CDF mechanism available for other donors.

In the Terms of Reference (ToR) of the consultancy the objective is expressed as to "define the CDF Product for financing a broad-based sphere of community initiated development initiatives".

2.2. The Credit product

The characteristics of the CDF implementation calls for the development of a parallel arrangement for ensuring the functionality of the water supply in the long run. It is considered important that the current users will have access to credit for funding of major repairs or rehabilitation of the structures and equipment originally provided for through the CDF approach. Necessary future re-investments in new water points may also be required for keeping the achieved development operational. Therefore, the feasibility of a credit facility, the Credit Product, shall be studied by the RWSEP.

As said above, the CDF has so far been operated purely based on grants from the Finnish Ministry of Foreign Affaires of Finland (MFA). The objective of developing the Credit Product is to make the mechanism available for other donors. Only then it is possible to maintain the investments through the CDF Product in working conditions and to prolong its expected life time.

Another, equally important feature of the development of the CDF concept is to expand it towards a self-sufficient private activity. In its purest form it could be a credit facility provided by commercial banks or micro finance institutions from their own funds or with earmarked funding from, say, a socially oriented international funding institution. While the regulatory framework does not yet support direct borrowing from overseas sources, and domestic funds are scarce, the objective is that a credit product has to be developed as a complementary feature by the CDF initiators and funded by grants through the government. Actually, a credit facility was considered already in the very first preparatory descriptions of the operational modality of what later become the present CDF.

A great concern has always been how to secure that the already completed constructions' are properly maintained, so as to prolong the usable lifespan of the initial investment. The Credit Product will address that concern.

In the ToR, the objective of the consultancy is expressed as to "outline the Credit Product for sustaining the benefits of the development achieved in the communities". In both cases (the cases of CDF product and Credit product) the ToR makes particular reference to water supply alone, even if RWSEP activity and the CDF approach has covered also other areas, such as support of investments in community sanitation.

An important observation should be made from the very beginning regarding the names of the products. In the following presentation CDF, CDF Grant of CDF Grant Fund will be used to describe the continuous implementation of the present CDF activities under the common name of CDF Product.

The Credit Product on the other hand refers to the CDF related credit facility, and Credit facility, Credit Fund, Credit fund account may be internally used to describe the Credit product. Even if credit is an integrated part of the CDF approach, the credit should not be promoted as a "CDF Credit". It is of outmost importance to keep apart the two elements of credit and grant, actually understood as charity. Mixing these two would create problems for the participating financial institution (PFI), not only regarding collection of repayments of loans from the Credit fund, but it would in worst cases also ruin the repayment moral in general. Therefore, in the following presentation, the credit is simply called Credit, or Credit Product, without any reference to the CDF approach. That is also how it should be promoted among the users. In any external promotional material, no reference to the CDF Product should appear, and the facility should be known as Credit Product or Rehabilitation fund or under similar neutral names only.

3. IDENTIFICATION AND DEFINITION OF THE TARGET GROUPS

3.1 The CDF Product.

Regarding the CDF Product the target groups remain unchanged and present criteria will prevail. The targeted groups are the communities and especially water users organizing themselves as an association, a WUA. However, only one water point can be funded for each WUA from CDF funds.

By definition the WUA is an association, categorized as a non-profit entity. While the agreed water fees collected may result in a surplus and could be considered ‘profit’ of the WUA, it is however never the intention to generate profit for the purpose of distribution to members as returns or dividends. On the contrary, the surplus is accumulated only for the purpose of covering ongoing preventive maintenance expenses and future corrective repair costs. And any surplus will be generated only from the fees collected from members, not from added value earned from outsiders.

The cooperatives, on the other hand, are defined as profit makers, for the purpose of distributing part or all of the profit as a return or dividend to the members, as a reward for their risk sharing. The business idea may be to offer products or services to individuals or groups outside the cooperatives’ own members. As the intention of CDF Product is clearly not to support private initiatives or commercial undertakings, cooperatives should by default be excluded, regardless if a cooperative is just another legal form of how a community can organize itself.

Other borrowers than WUA’s, such as individuals cannot be included. Expansion to other groups would not be compatibility with targets of the present donor (of RWSEP), the Government of Finland (GOF) and other potential donors attracted by the CDF Product, at least not in the first place.

One of the key elements of the success of CDF so far is the wide range of stakeholders. The engagement of Bureau of Women’s Affaires (BWA) should be strengthened. Even more important target group not to forget is the actors on sanitation, hygiene and health sectors. Target groups within those sectors are the school and health committees. These committees may desire to make use of the CDF assistance for building separate latrines for boys, girls and teachers or patients and staff. They may also want to improve their access to water, not only for drinking purposes but also for hygienic reasons such as facilities for hand washing.

Part of defining target groups is to determine how CDF can be rolled out to other than presently covered geographical area. Several options appear, but it might be wise to recognize some distinct limitations, particularly regarding the first stages after phasing out of RWSEP. The present human resources and government capacity is quite thin and should not be stretched too much.

As a first step (Stage 1), most appropriate approach would be to use the existing experienced human resources to finalize the RWSEP activities within present coverage area, i.e. to roll out the activity to cover present (RWSEP) program Woredas with the ambition of reaching the UAP targets. Existing experienced advisers and other staff could uninterrupted continue to perform the job they have been doing for years.

As a second step (Stage 2), the CDF Product could be replicated to cover all Woredas in present program Zones. Existing experienced advisers and other staff could then be expected to pass over and exchange knowledge and experiences with people in their neighboring geographical area.

The same applies in general for the third step, i.e. in case expansion is planned for in new Zones. That stage has not been covered here.

All three steps, even the first one, are possible only if appropriate donor funds are available for CDF to continue its successful activities, by replicating the product. A rough projection of possible need of funding for the first two steps will be presented below.

3.2. The Credit Product.

To start with, some general observations can be made. The main purpose of the Credit is to facilitate funding for corrective repairs or rehabilitation of the constructions funded by the CDF Product. That will effectively limit the eligibility to those who have been awarded grant funding for a water supply or sanitation facilities in the first place. A users group outside this limitation may approach the PFI directly, and funding for any additional investment for an otherwise eligible applicant should of course be available from the Credit Product.

It appears quite natural that a users group with a malfunctioning water point starts by approaching the office assisting them in facilitating the water point from the start - the Woreda Water Resources Development Office (WRDO). It may appear equally natural that the WRDO will advise the applicant to approach the PFI, in this case ACSI (Amhara Credit and Savings Institution). Basic criteria for eligibility could therefore be that the water point has to fulfill the technical quality criteria as established by CDF. However, in communication with the clients it should be made absolutely clear that ACSI operates own funds, not a grant fund and that it makes its own credit decisions independently. No formal endorsement should be handed out by the WRDO, and references should be made to any connection with CDF.

Since ACSI do not have a readily applicable product, a new product needs to be designed by ACSI in consultation between ACSI and CDF (RWSEP). It is therefore too early to describe the detailed and final features of the new product. A broad outline of the product is presented later.

4. STAKEHOLDERS

The following presentation of recognized stakeholders and the division of roles and responsibilities of different stakeholders will describe the present CDF approach and will later be referred to in the section outlining the CDF Product and the Credit Product.

4.1 Present CDF Stakeholders

a) Community and Woreda level

Kebele Administration (Peasant Association) is the lowest Government administrative unit, and covers on average 5,000 people (1000 households). The Kebele is coordinating development activities and may have their own priorities, which they promote among the villages and upwards to the Woreda level. The Kebele Development Committee (KDC) will continue to play important roles also in assisting the CDF Product promotion. Presently, the Kebele administrations role in CDF context is to issue a certification to verify that the Water Users Association (WUA) indeed exists, and verifies the true existence of the WUA members, their bylaws and democratically elected WATSANCO, even if the WUA is not an established legal entity, only an interest group. This certificate has no legal implication as such but serves as the formal verification of facts in absence of an official registration office, and is sufficient for CDF staff and Board to allow the initiative of a Water Users Association (WUA) to be accepted for action at Woreda level.

Water Users Association (WUA) is used as the established name for the water users in a village. Presently, the associations exist eve if they are not legally registered entities. During the previous few years some clarification has been achieved regarding the legal status of the associations. Earlier the responsibility of registering was unclear but now the Cooperative Promotion Bureau (CPB) has made a distinction: profit-making associations are cooperatives, to be registered by the CPB, while non-profit associations remain associations, and registering associations is not the responsibility of CPB

Instead, associations should be registered with the Bureau of Justice (BoJ). Formal requirements includes that the WUA should have Bylaws, designed on the basis of the Civil Code of Ethiopia, proclamation No. 165 of 1960. The Bylaws shall include the name and objectives of the association; the location of its head; the date of its establishment; its organs of management i.e. the WATSANCO; its meeting procedures; activities to be performed; resources of funding; a ist of at least five members of the associates and signature of the founding members.

However, regarding water users the Federal Government has issued a Draft Proclamation vesting the powers and functions of registering WUAs to another Regulatory Body, in this case the Regional Water Resources Development Bureau (WRDB). The WRDB may delegate the powers to Woreda Water Resource Development Offices (WRDO). This Proclamation has not yet been passed by the Regional government of Amhara National Regional State (ANRS).

It is unclear if any WUAs have actually been officially registered. In any case, the WUA is a quite clearly defined group with verification of core facts by the Kebele administration. The verification covers the meeting minutes of an initial general assembly approving establishment of the WUA, approving its bylaws and democratically elected management board called Water and Sanitation Committee (WATSANCO). Within the CDF structure even an unregistered WUA is legally recognized, provided abovementioned documentation can be provided.

The communities (i.e. WUA's through the WATSANCOS) will be fully responsible for the overall implementation of the water point construction. They will be responsible for contracting the artisans and procuring the materials, and for organising the local labour supply. Alternatively, CDF guidelines allow that communities can subcontract artisans to do the procurement on their behalf, even if it has not become a common practice. To manage this community undertaking, the WUA will organize itself by appointing a WATSANCO.

WATSANCO's have been established to represent the water users in rural communities who are the actual beneficiaries of the CDF activities. WATSANCO's role is to implement water and sanitation projects. It is responsible for sustained management of water points, including collection of water fees, regular preventive maintenance and corrective repairs and future rehabilitation. WATSANCOS are responsible for keeping daily records of material used; labor inputs; artisan's inputs; achieved results; problems encountered and proposed solutions. They have to register all cash and account transactions related to use of the grant fund and also register the daily community labor and materials contribution.

WATSANCOS have at least 5 members, elected by a general assembly to carry out the day-to-day operation. It consists of a chairperson, a secretary, an accountant, a treasurer, a storekeeper and a controller. Some times the same person functions as both secretary and accountant.

The new Proclamation will regulate registrations of new WUA's but will also serve as guidance for existing WUAs, regardless if registered or not.

Next above the Kebele in the governmental administrative structure level is the **Woreda** which is equal to a district. It covers about 100,000 people. The Woreda is the most important level of government's administrative structure. The Woreda Administrator ensures, among others, that development programs are properly implemented by the various sectoral offices and seen as part of the government regular duties. All the regional government bureaus, such as the Water Resources Development Bureau (WRDB), the Bureau of Health (BoH), the Women's Affairs Bureau (WAB), the Environmental Protection Land Administration and Use Authority (EPLAUA), the Bureau of Agriculture and Rural Development (BoARD) and the Bureau of Education (BoE) are represented in the Woredas by own offices.

In the case of CDF, most important of these offices is the Water Resources Development Office (WRDO). It is responsible for the development of water supply and thereby in charge of all activities of CDF on the Woreda level. Woredas have become the key implementation units in collaboration with communities. An increasingly solid basis for strong roles of Woreda and community has been created in the course of CDF implementation. Woredas are more or less capable to manage the Programme independently. Yet, communities are not in a position to implement activities without support from the Woreda level.

During Phase IV, the decentralization of the Programme activities to the Woreda level will continue. However, the staff of Woredas often lacks proper qualifications. Due to the ongoing Business Process re-engineering there is a high turnover of staff, and a continuous capacity building need to be developed.

The **CDF Board** consists of representatives of the abovementioned offices, namely Woreda Administrator or his/her representative (Chair person), Office of Agriculture and Rural Development Main Office, Woreda Water Resource Development Office, Finance and Plan Office, two Representative of Civil Society, Woreda Women's Affairs Office and CDF Supervisor who will act as Secretary of the meetings

The CDF Board meets every second week for approval of applications in accordance with agreed principles. It also discusses and decides on other important issues concerning the CDF. The CDF Board also ensures that each application is timely appraised and it follows up the support activities that are necessary for sustainable results.

Among these activities are
i) Technical assistance in site selection, surveying and supervision of water point construction, including issuance of the completion certificates
ii) Procurement, storage and transport of non-local materials,
iii) Borrowing of molds and special tools to communities,
iv) Training in contracting and procurement of local services, materials and supplies,
v) Training in monitoring of works progress,
vi) Training in O&M, hygiene education and gender sensitization,
vii) Assistance and training in the financial management of the CDF contribution

The Woreda CDF Board has to submit monthly or quarterly reports covering a summary of Funding Agreements, expense report summarizing costs verified by each WATSANCO with attached receipts. It has to prepare a summary and statistics on CDF progress, i.e. number of Funding Agreements, total amounts, amounts justified and Woreda staff inputs, main achievements, etc. Further, a summary of WATSANCO accounts expenditure, with statement of each account annexed and finally a **r**eport summarizing the transfers between ACSI HO and sub-branch offices and related commissions. The reporting should also contain progress reports of the Institutional development aspects and any problems encountered during the reporting period.

b) The Regional level and the Programme
The Programme Document (PD) for RWSEP Phase IV, stipulates that the Programme is ruled and managed by two principal management bodies, the Board and the Steering Committee (SC) which are tasked with the responsibility of overseeing and implementing the Programme.

The **Board** is the highest decision making body of the Programme with the authority to make alterations regarding the Programme as per the intergovernmental agreement on the cooperation regarding RWSEP. The duties of the Board are defined in the PD and related intergovernmental agreements. The members of the Board are the Head of BoFED (co-chair); representative of Embassy of Finland (co-chair); Head of WRDB; Head of BoH; Head of WAB; representative of Ministry for Foreign Affairs of Finland; Program Director (WRDB, as a non-voting member); and Team Leader (as a non-voting member).

The Board meets twice a year for approval of the annual work plans and budgets, approval of the annual reports, monitoring and supervision of the progress and performance, as well as deciding on the strategic outlines and operating principles and finally for approval of changes in project scope and objectives and changes in the Project Document

The **Regional WASH Steering Committee (**RWSC) has been established as the Steering Committee of RWSEP in Phase IV. Its overall responsibility is to ensure coherence and co-ordination between WASH stakeholders and to monitor the progress of the Regional WASH, including the RWSEP IV. Consequently, the RWSC is responsible for the overall management of the program at the Regional level, as well as for the coordination of RWSEP activities among the various Bureaus. As such, the RWSC has to provide support to the project implementation, as guided by the Programme Document and the decisions of the Board. RWSC practice decision-making power within the framework of the annual work plans and budgets that are approved by the Board. The duties of the SC are defined in the PD and related inter-governmental agreements and in signed WASH MOU.

Specific duties in relation to RWSEP IV is to monitor the implementation of RWSEP and the PMC on the basis of quarterly reports and approve these reports and to carry out other tasks delegated by the RWSEP Board.

The RWSC is quite a large committee with 28 members representing a number of Bureaus as well as other WASH operators, such as NGOs, associations, media and individual persons. According to its ToR it is supposed to meet twice a year; even if it actually meets more frequent. It may however prove to be difficult to ensure a sufficiently conducive working environment for the Programme if the full composition RWSC would remain the only organ for supervising the day-to day operations of the Programme. To address this, a specific Sub-Committee has been established for facilitating the day-to-day Programme management, i.e. the RWSEP Programme Management Committee (PMC).

In order to further streamline the operations, and to complete the decision making structure of the Programme, an additional decision making body has been established. This body, the **Programme Management Committee (PMC)**, is authorized to take decisions regarding the implementation in between the full RWSC meetings. The members are the Deputy Head of WRDB, chair, Deputy Head of BoFED, Deputy Head of BoH, Deputy Head of WAB, RWSEP Programme Director (PD) at WRDB (secretary) and RWSEP Management Adviser/Team Leader. Within the framework of the approved quarterly work plans and budgets the PMC has to decide on necessary alterations proposed by the nominated Coordinators of the Bureaux (BC) and the Management Adviser/Team Leader of RWSEP. It approves the ToR's and approve local short-term assignments, resolve differences that may arise among RWSEP partners, review and comment material to be submitted for RWSC and keep RWSC informed by reporting on decisions taken

The PMC meets quarterly in coordination with the RWSC meetings, and additionally by justified request of the PD and/or Management Adviser/Team Leader (MA/TL). The decisions are taken at consensus principle. Decisions taken between the PMC meetings would be at the nominated coordinators of the Bureaus regarding the Programme operations and the MA/TL regarding the Technical Assistance related activities. It is important that this decision-making is exercised in close cooperation and under mutual understanding.

The PMC responsibilities related to CDF implementation at Regional level include:

i) Selection of Woredas to be included in the CDF. The selection will be made based on Woreda Administration written consent to provide the necessary technical support to the communities involved in CDF activities and authorising BoFED to represent the Woreda Administration in signing the agreement with BoFED.
ii) Approval of the composition of the CDF Board in the Programme pertinent Woredas
iii) CDF allocation to be made available for each Woreda
iv) Critical maximum value of the applicable CDF contribution per water point
v) Minimum acceptable value of the up-front cash deposit

The Project Facilitation Office (PFO) has, directly related to CDF, to prepare a reconciliation of total transfers to CDF account in the HO of ACSI, transfers from CDF account to Woredas and expenditure based on original vouchers received from CDF supervisor.

c) Donors and the national counterparts
Several different funding mechanisms are used in channeling donor funds to the federal or regional governments. In case of RWSEP phase IV, the funds flow from MFA to a specific account within the Treasury at BOFED as per agreement between MFA and BOFED. BOFED is then responsible for the channeling of funds to the Woreda CDF Board bank accounts at the Amhara Credit and Saving Institution (ACSI). BOFED acts on behalf of CDF Woreda Boards upon their written consent and enters into an Agreement with the Financial Institution i.e. ACSI.

The financial responsibility goes hand in hand with possession of funds at each moment. The flow of funds is described in the following diagram.

The entire operation is subject to external audit. The auditor should verify that financial reports of the Participating Financial Institution (PFI) i.e. ACSI tally with financial reports CDF

Boards. The auditor should verify the original receipts maintained at Woredas and it should conduct an operative audit of fund practices at various levels.

4.2 ACSI and the legal MFI–Framework

ACSI is the leading MFI in Amhara region, with physical presence in all Woredas of the region. There are also few other MFIs, including branches of PEACE MFI, Wisdom MFI and Meket Micro Finance Institution Share Company. These three are operating in few Woredas only and none of them has earlier been considered to have the necessary coverage to support the CDF.

ACSI' role has been vital in the ongoing CDF implementation, and that role will continue as long as the CDF is implemented on new grants from donors. However, that role has been only to act as a conduit for transferring funds from donor to recipient, and related reporting back to donors. With introduction of a credit facility the role will be more in line with a banks core tasks, credit and savings mobilization, its necessary to provide a more thorough presentation of micro finance in Ethiopia in general. The following has been extracted from a very informative publication "Regulating Microfinance in Ethiopia: Making it more Effective" by Getaneh Gobezie, (ACSI), April 2005

ACSI aims to fill the gap of formal institutions by meeting the needs of small-scale borrowers in income generation schemes. It was initiated by, the Organization for the Rehabilitation and Development in Amhara (ORDA), an indigenous NGO engaged in development activities in the Amhara Region. In an initiative to develop the more usual direct provision of relief, ORDA created an activity to supply small credit to rural people on a pilot basis. That activity eventually grew into a separate institution, and ACSI was licensed as a microfinance share company in April 1997, with the primary mission of improving the economic situation of low income, productive poor people in the Amhara Region through increased access to lending and saving services. ORDA is still the biggest individual shareholder with 35%.

The legal framework includes Proclamations and Directives issued by the National Bank of Ethiopia (NBE). For licensing MFIs it issued a Proclamation in 1996, titled "A proclamation to provide for the licensing and supervision of the business of microfinance institution", (No. 40/1996). Additional 17 NBE-directives constitute the major legal and regulatory framework, which is used to regulate and supervise the microfinance industry. In the proclamation, microfinance business is defined as "an activity of extending credit, in cash or in kind, to peasant farmers or urban small entrepreneurs." The NBE is empowered to license, supervise and regulate the delivery of financial services to the rural and urban poor through microfinance institutions.

The present legal framework pertaining to MFIs requires that the entity applying for a MFI license is a share holding company with a minimum capital of 200,000 ETB (less than 17,000 EUR). The applicant must have a Memorandum and Articles of Association, acceptable to NBE, an organizational chart, an office (owned or rented) and a permanent address. It must have a work plan for first 12 months and present CV's for officers and directors. Regarding operational requirements the most important is the Capital Adequacy Ratio (CAR), which must be n o less than CAR 12%. In case of ACSI, it is presently 23.8%

The required minimum share capital of 200,000 ETB should actually be encouraging initiatives to create new MFI's. Though the number of credit clients is more than 1,000,000 so far, there are only 23 MFIs licensed under the NBE. The average MFI serves approximately 40,000 clients, with a handful of large MFIs contributing the highest client share, ACSI being one of them with some 575,000 clients (November 2007). Moreover, since most of the MFIs operate in urban and semi-urban areas, competition for clients in rural areas remains very weak, and the rural poor still have very few choices for financial service providers. Therefore, the clients are dependent on these few MFIs for financial services, whatever their quality and flexibility. In fact, if donors invest substantial sums in only one MFI, and that gets into troubles for whatever reason, many rural households would be at risk if the MFI eventually failed.

The ownership and thereby the control of Ethiopian MFIs is in local hands, so also ACSI's. Proclamation No. 84/1994 precludes a foreign national from undertaking banking business in

Ethiopia, and no person is permitted to own more than 20% of a banking company's shares. Whereas foreign ownership of MFIs is officially restricted, lack of transparency in capital ownership poses a real threat to the health of the industry. It is clear that in some MFIs the equity structures have been sponsored by foreign donors contributing to the initial capital required for registration. Such shareholders do not have a real stake in the organization and would be unlikely to lend it support at a time of financial crisis. This may be true also to other NGO-owners, such as the majority owners of ACSI.

The main shareholders of ACSI are the Regional government (25%), ORDA (35%), Amhara Development Association (ADA) (20%), Amhara Women's Association (AWA) (10%) and Endeavour (10%). Of these, Endeavour is a private enterprise and may be the only one having a clear commercial interest. It's the smallest shareholder and presently not much is known about its financial resources. ADA and ORDA are Regional NGO's and AWA is an association, all with limited financial resources in case of emergency. Also the genuine ownership involvement and professional capacity may be weak. The government may see its involvement as politically motivated. It may also use its influence over the other shareholders. This has been observed also by international rating agencies, pointing out that forced participation in loss-making initiatives, given the strong influence of the Government, is one of ACSI's weaknesses. The Government is believed to be behind keeping interest rates very low and has forced ACSI to participate in extending loans like food security loans and condominium loans, where the portfolio quality is poor.

Interest rate ceilings on loans charged by MFIs were lifted by Directive No. MFI/11/98, which reads, "the interest rate to be charged on loans and advances extended by a micro-financing institution shall be determined by the Board of Directors of each micro-financing institution." This has helped MFIs to set a lending interest rate high enough to cover their operating costs.

On the other hand, a minimum is set for the interest that can be paid to depositors. The relevant directive in this regard (Directive No. MFI/13/2002) reads: "The minimum interest rate that shall be paid per annum by microfinance institutions on saving and time deposits shall be 3%". Presently, ACSI pays 5% on compulsory and voluntary savings, while fixed term depositions are made more attractive by offering 5.25% to 6.25% interest pa.

The administrative cost associated with mobilizing small deposits in remote poor areas is high because of the high ratio of transactions to deposited amount; and small savings are indeed no less expensive than bank loans. On the other hand, there is enough evidence that, as in the case of credit, the poor are more interested in "access" to safe saving services rather than the income from it.

The regulatory framework has been quite relaxed on the maximum loan size that MFIs can lend to an individual borrower, with a view to accommodate clients who can manage a loan size beyond the ceiling of Birr 5,000 (roughly 420 EUR). Specifically, the latest regulation states that MFIs can lend to an individual borrower a loan size equal to 0.5% of their capital. Having a few thousand clients already helps MFIs to accommodate the demands of successful clients who need higher loan sizes. Also, in case a MFI can obtain a line of concessional credit or any assistance from foreign sources for the purpose of on-lending or capitalization (Proclamation No. 40/1996, Art. 11) and if a substantial portion of the MFI capital is obtained from such sources, some MFIs may find themselves in a position to be able to lend at very large loan sizes to qualified clients. International donors should be careful in setting up correct conditions on its so-called assistance. It is believed that ACSI is not exposed to such risks. The absence of a well functioning and efficient legal system to enforce contracts and denying the foreclosure law to MFIs affects the implementation of prudential regulation and the MFIs' ability to utilize collateral effectively, especially for larger loan sizes.

Challenges for WUA's to access credit from financial institution are many. Until very recently, in rural areas people live on public land to which they do not have legal tenure. Only recently certificates of land ownership are being issued to the farmers. This however, does not apply to the commonly owned land. Under the circumstance, the water users cannot offer collateral in form of fixed asset if they want to access credit especially for infrastructure projects like drinking water.

Furthermore, since most of the water points do not enable the communities to generate income, one of the basic issues that are raised by the financial institution (ACSI) is the source of money for loan repayment.

Another limitation is that MFIs have not developed appropriate loan products for infrastructure projects like water points. The existing credit delivery modality is mainly group based and collateral is peer pressure or group guarantee that make the borrowers jointly and severally liable for the repayment of the loan their group accessed. This approach works only for income-generating activities operated individually. Most of the water points are, however, utilized for household consumption. Unless there is serious mechanism in place to collect regular fees on monthly basis, it makes the potential source of funds for loan repayment very uncertain in the face of the lending institutions. Earlier discussions and the conducted survey however, reveal that there is willingness and ability to repay loans through mobilization of funds through various means, including saving from water fees, until the loan is repaid.

Also ACSI believes the water users have a capacity to pay water fees enabling a WUA to repay its loans. The main problem, however, is the willingness to pay. Access to water is a human right, has always been available for free from rivers and springs; and is some times described as a gift from God. The natural question arising is then why should one pay for it? Another contributing factor is the ongoing construction of donor-funded water points. In such a context re-investments in new water points or an expensive rehabilitation on borrowed funds becomes especially difficult.

The willingness to pay for the water may increase with the awareness of the value of safe water. The promotion work by health and sanitation workers and CDF coordinators will contribute to this. Even better if a distinction could be made between on one hand the availability of free waters from rivers and springs and, on the other hand, with expenses and community efforts involved in providing the service of making safe water available.

ACSI serves its clients with five different basic products. It extends credit for groups and individuals, it requires compulsory savings but offers also voluntary savings products, it is engaged in fund administration, such as CDF and other funds, it offers money transfer services and micro insurance services.

For credit ACSI uses two standardized methodologies, group lending and individual lending. The group lending mechanism is intended for 5-7 members. Two separate screenings will be conducted, one by a screening committee, including representatives from the Kebele administration and ACSI, and he second by the group members themselves. It will eventually result in a group, which ACI finally screens according to its own criteria for eligible group members and eventually approves. Each group has a chairperson. 5-7 groups form a center or a village bank, which has is own chairperson. After a thorough training and approval of a loan application, ACSI signs an individual loan agreement with each group member, and each group member underwrites (guarantees) the other group members' loans. The maximum loan size for an individual group member is 5,000 ETB, interest rate is 18% on declining balance and the loan term is maximum two years.

By end of FY 2007 ACSI had a staff of 2,363 and had almost 600,000 borrowers and more than 300,000 depositors. About 50 % of the clients are females. The financial performance is quite strong. Its return on assets has been increasing over the ten latest years from a negative ratio to 7.91% by end of 2007. During the last two years the return on equity has increased from 25,5% to 28,9% with a top performance of 29.7% achieved in 2002. ACSI is funding its operations to 53% from deposits, 30% from its own equity, 14% from commercial borrowing and 3% subsidized liabilities. By end of 2007 it had an outstanding gross portfolio of about 103 Million USD.

For CDF purposes ACSI is ideal. The experience from previous years cooperation is good and it has an office network covering every Woreda in the Region. No commercial banks or other MFIs have as good coverage, leaving very few alternatives for the CDF funds to be channeled down to the Woredas.

The present Agreement between BOFED and ACSI will expire end June 2011. As part of sustaining the engagement of ACSI, that agreement needs to be amended or completely renewed, to reflect the actual situation.

5. TYPES OF DEVELOPMENT TO BE FINANCED AND TARGET GROUPS

5.1 The CDF Product

The Community Development Fund was originally established for financing water supply and sanitation facilities. The main product has been hand dug wells or spring protection and latrine slabs. The CDF funds are mainly used for the procurement of materials and skilled labor, namely trained artisans. Due to cheap material and labor costs for latrine slabs, the funds has been overwhelmingly used for hand dug wells with a hand pump.

The CDF Product will continue to focus on new constructions of hand-dug wells and protection of natural springs. This activity is however limited to new constructions benefiting new user groups. A Water Users Association (WUA) already having one water point funded from CDF is not eligible for more funding from the same source. Further, the WUAs are already collecting a water fee in order to pay for preventive maintenance and a modest salary to the guard. None of these expenses are eligible for funding from the CDF Product.

With the considerable success of CDF in mind, an immediate question arises whether the new CDF Product could be used for other kind of development, for example activities directly connected with the new constructed water point. If so, such activities have to support the water point it self, or be clearly connected to it or to the accessibility. Any non-commercial community action, such as building a small simple bridge over a gorge, ravine, river or swamp providing feasible access to a large portion of the users could in rare specific cases be considered.

Any commercial, cash income generating activities surrounding the water point such as vegetable growing, laundry, grass or other animal fodder production, on the other hand, should not be eligible for funding from the CDF. Such undertakings could be funded from the Credit Product instead, provided they meet the necessary criteria.

Another question arising is whether the new CDF Product could be used for other kind of community based water related development initiatives, introducing other technologies such as shallow wells (boreholes), motorized pumps and small piping schemes, dewatering pumps to ease hand digging, small scale irrigation schemes, erosion prevention, etc. However, it is quite clear that the earlier experiences support the idea of limiting the activities to hand dug wells and spring protection technologies only.

Regarding sanitation, i.e. construction of latrines, the material costs are quite low and the construction itself is a quite simple slab, easy to produce by households without substantial assistance from CDF. Therefore, and following the ToR for this consultation, it may not be feasible to include household sanitation to the development supported by CDF. However, it’s important not to neglect institutional sanitation (sanitation facilities for schools and health posts and health stations). Such activities require larger investments and should be included under the CDF Product. This kind of projects will be initiated and implemented by school committees representing teachers and parents. Health center, health post, or hospitals have their own health committees able to initiate and manage their sanitation plans.

It has also been questioned how the successful CDF approach could be implemented on other, not water supply related community based initiative, be it transportation, cattle breeding, trade etc. While it is clear that the approach itself is usable for a variety of purposes, CDF is so far strongly linked to its initial purpose alone – a clearly defined water supply development undertaking, being connected to the Ministry of Water Resource Development (MWRD) and the Woreda Water offices and facilitation of construction of community water points. Other community based initiatives may not necessary be covered by this administrative structure, and the essence and focus of Community Development as a process may be lost.

The fact is, that developing CDF into a Product is only in an inception period. It is therefore recommended not to extend the CDF approach outside the scope of work of BWRD at this stage. When it has shown its sustainability without support from a project (presently the RWSEP) next steps may be considered.

5.2 The Credit product

The main purpose of the Credit is to facilitate funding for corrective repairs (see below p. 6.2.3). That will effectively limit the eligibility to those who have been awarded grant funding for a water supply or sanitation facilities in the first place. A users group outside this limitation may approach the CDF implementers and ACSI directly, and funding for any additional investment for an otherwise eligible applicant should of course be available from the Credit product.

Several types of needs for credit funding can be identified. Catering for these needs by continuous donor-funding over the expected lifespan of an existing construction cannot be feasible. Therefore, alternative measures are necessary, and that's the reason for developing a credit product. At least following categories can be identified:

(a) Preventive maintenance

The lifetime of a hand dug well with a hand pump or a protected spring can be extended by preventive maintenance. Preventive maintenance can be described as a systematic and periodic maintenance procedure applied on the components of, in this case, a water supply system, in order to minimize occurrence of breakdowns, ensure efficient working of the construction or machinery and to prolong the life span of the original investment. The manufacturer will most likely recommend certain regular preventive maintenance activities on their hand pumps.

As part of the arrangement for CDF providing funding for a community water point, the users must commit themselves to maintain the construction from the moment they start making use of it. As a precondition for an application to be accepted for consideration, the users need to organize themselves to a Water Users Association (WUA) and elect a committee, the WATSACO, to represent them. Further, the WATSANCO has to collect a water fee to form an up-front contribution to assert the CDF that they are capable of covering the future maintenance expenses. The present acceptable level for the up-front contribution is 530 ETB and has to be deposited on the WATSANCO's savings account in ACSI. Divided by some 50 future water users, each household needs to contribute 10 ETB. This contribution equals to the expenses of paying for the guard and for preventive maintenance in accordance to instructions from the suppliers regarding fast wearing parts of the hand pump. Without exception, the WATSANCOs can fund the preventive maintenance from the collected and deposited water fees, and there is no need for a Credit product for this purpose.

(b) Corrective maintenance

Thanks to efficient preventive maintenance, it is reported that only some 10 % of all RWSEP or CDF constructed water points are in need of some kind of corrective maintenance annually. It is worth mentioning that some 95 % of all constructions, of which the oldest are well beyond 10 years old, are still in working condition.

However, preventive maintenance will fail sooner or later and corrective maintenance becomes necessary more or less by default. In such case the expenses will most likely be beyond the immediate capacity of the WUA.

Corrective maintenance is a corrective action taken to repair or replace system components after a break down has occurred. It may include replacement of slow wearing parts or replacement of an entire hand pump, or it may include structural repairs on cracks or other damage on the concrete construction.

Expenses involved in case corrective maintenance is necessary may differ from 1,000 to 10,000 ETB or more. While WATSANCOS usually collect 500 to 1,000 ETB for preventive maintenance and to pay the salary of a guard, water fees will not normally accumulate, and funds for corrective repair will not be available, and external funds are necessary. Since CDF Product does not cover such expenses, the Credit Product is created precisely for the purpose of providing loans for corrective maintenance.

(c) Rehabilitation

In case of ultimate failure of irreparable malfunction of a water point it may be necessary to be replaced. A hand dug well may be wrongly situated and may suddenly dry up completely. The construction may have some weaknesses and the construction may collapse. Usually the material used for the original construction cannot be re-used, and relocation of a water point involves expenses similar o the initial investment, apart from the fact that it may be possible to use the hand pump again. CDF Product cannot be used to assist a WUA for a second time, and external funding, such as the Credit Product will again be needed.

(d) Extension

Extension can be considered if the WUA decides to dig another well to meet growing demand among the members, or when a WUA wants to expand its services to an increasing number of members. As mentioned above, only one water point construction can be funded from CDF funds. If a WUA wants to construct an additional one, it cannot be funded from CDF anymore. Instead, it is eligible for funding from the Credit Product. As already said, CDF Product cannot be used to assist a WUA for a second time, and external funding is again needed.

(e) Other water related and non-water related community initiatives

Other technologies, such as shallow wells and small scale piping systems, small irrigation schemes, erosion prevention schemes, improved access i.e. gangways, small bridges for pedestrians over gorges or swamps can be considered. However, such project has to be within limits of the maximum loan size, and special attention must be paid in assessing the financial feasibility. The cash flow generated by the project itself must be sufficient to cater for payment of interest and full repayment of the loan. This kind of undertakings are not necessary the highest priority of the Credit Product, and will not be included in the attempt to quantify the size of the fund.

At this stage of Credit Product development, only above-mentioned water related initiatives will be considered. If implementation of the Credit Product as described here will be successful, replications may be tested on other initiatives as well. It is also expected that different donors may have specific programs outside the scope of this presentation, and if they desire to replicate the methodology, such initiative should not be restricted.

It is quite difficult to quantify the real expenses of corrective maintenance, rehabilitation and extensions or other water related initiatives. An attempt to present a rough financial projection will follow below in p. 6.2.5 Market and volume for credit.

5.3 Outline of the Credit Product

a) Present Credit Products available

For time being, no credit products are available for the above-described target group, or for any purposes described above. The existing legal framework for licensed banks or microfinance operators does not limit the banks or micro credit institutions to develop such service products. A new product needs to be designed by ACSI in consultation between ACSI and CDF (RWSEP). Following terms and conditions are proposed to be the starting point for discussions with ACSI.

b) Proposed outline of the Credit facility

Eligible borrower

Water users associations, with Bylaws and a duly elected executive committee (the WATSANCO) are entitled to apply and draw down a loan from the Credit fund. A certificate issued by the authorized registration office (most likely the BOWRD or delegated to WRDO according to a draft Proclamation) or the Kebele administration has to be attached to the application.

Loan amount
The minimum loan amount is suggested to be 1,000 ETB for short term loans. An upper limit should be high enough to allow funding for construction of a new water points (re-investments, expansions). The upper limit could be set at the prevailing construction price, equaling to the price from time to time approved for funding from the CDF Fund. No more than 80% of the project can be funded from the Credit fund, and the community contribution of 20% should be in form of cash, deposited on the account with ACSI.

Collateral
The present legal framework does not encourage MFIs to secure their loans with real estate or chattel mortgage (mortgage in movable equipment). Even if that would be possible, the law enforcement on such matters is weak and secondary market thin, if foreclosed property has to be liquidated. Therefore, the only available form of collateral it's the group guarantee by all members of the WUA. It is suggested that the WATSANCO is the borrower, and the loan is secured by an individual, limited guarantee commitment.

Loan term
The loan term should be longer for larger loans, and should reflect the repayment capacity of the borrower. Loans for rehabilitation or expansion should be as long as five years, while smaller loans could be on shorter terms. A mechanism should be developed which would reward borrowers with larger own contributions by extended loan terms.

The loan installments should be on monthly basis, starting with a grace period of two months from the moment the repair or rehabilitation has been finalized and water supply up and running.

Interest rates
Interest rates payable by borrowers should be based on market rates. Subsidies would only distort the market, and lower rates may be tempt borrowers to tap Credit fund for cheaper money. The interest should be payable on monthly basis and should be computed on declining balance. Present penalty rates mat be applied on defaulting borrowers.

Credit risk, possible credit losses
The Credit fund is a sole responsibility of ACSI. Nobody can instruct or force ACSI to accept a credit application. ACSI has to make independent decisions on its sole discretion. Only then it can be expected to make the right decisions, and any failure is ACSI's owns sole responsibility.

Eventual inevitable credit losses have to be covered by ACSI, and a provision for sufficient loan loss reserves has to be included in the interest rates applied.

Other conditions
Loans drawn down have to be transferred to the borrowing WATSANCO's savings account. Cash should be released from accounts on request by the borrowing WATSANCO. Water fees have to be collected on monthly basis, deposited on WATSANCO's savings account, for easy interest payment and loan installment on monthly basis.

c) Synchronization with the CDF product
A common and generally accepted principle applicable on the international MFI field is not to mix credit with charity. Based on this understanding, ACSI is reluctant to accept the close relationship between the planned credit facility and the already well-known CDF methodology. It is therefore proposed to keep the credit facility clearly separate from the CDF Product.

d) The Credit Fund
The Credit Product shall be a revolving fund, maintained and managed by ACSI, based on a loan agreement/MoU with BOFED.

Funds to the Credit Product Fund at ACSI shall be released from donor funds with BOFED according to procedures in the agreement. The agreement should include specifications on criteria set by the donor regarding eligible groups and projects. ACSI receives applications from WATSANCOs, and if the applicant and its project meet both donor criteria and ACSI criteria, the application will be approved. Funds shall be released on the applicant savings account with ACSI. The applicant is entitled to withdraw funds from its account in order to meet its obligations, i.e. to pay for material procured and for work performed, as applicable.

WATSANCOs have to collect monthly water fees, to safeguard availability of funds for payments of interest and installments on the loan.

Repayments shall go back to the revolving fund, for releases to finance new projects. Adding grant funds from donors through BOFED can increase the size of the Credit fund.

If the credit fund is based on a loan from BOFED to ACSI, interest free, subsidized or on commercial terms but on a given loan term, it will result in a situation where ACSI will eventually cease to disburse loans, and concentrate on collecting outstanding dues only. That would give a negative signal to the borrowers, making them reluctant to repay their loans. In order to avoid such a situation the loan should be a perpetual subordinated loan, even if ultimately repayable.

Interest payments shall be transferred to an account separate from the revolving fund account. After covering financial costs (interest charged by BOFED, if applicable), 50% (or as agreed) of the balance has to be allocated to finance training and capacity building BOFED and WRDO, and the available surplus shall cover ACSI's operational costs, including loan loss provisions.

If the ultimate arrangement between the donor, BOFED and ACSI includes an interest payable by ACSI to BOFED, the interest income should be utilized to cover expenses for organizational support and capacity building within BOFED and implementing bureaus

The Credit Fund should be based on grants from donors to BOFED. It is then for BOFED and ACSI to agree on terms and conditions for the funds to be transferred further to the revolving fund. Funds can be transferred to ACSI either as a grant or as a subsidized/subordinated loan or as a commercial loan. The softer the loan (grant) the more conditions a donor can impose. A less subsidized loan with heavy obligations may not be as attractive for ACSI, and direct borrowing from commercial sources may become the preferred choice.

It may not be possible for a donor (a foreign government development agency) to grant public funds as a grant to a private entity. Therefore, it's possible that the grant funds should be transferred to ACSI as an interest-bearing sub-ordinated loan. As a loan the funds are ultimately repayable, which would satisfy the donor.

In case of greater demand than initially expected, ACSI shall address BOFED with a request for additional funds. BOFED may then make use of existing funds or request for additional grants from international donors for funds to be added to the Credit fund.

Generally, the present CDF product has been considered a success. The approach is more efficient than projects financed by ordinary government channels. The procurement is much faster in the CDF method with less bureaucracy and it is done by WATSANCOs at their own locality. This improves the communities' capacity to implement their projects and it also improves the supply of materials and equipment by the private sector. In CDF projects, the simplified procurement system is in place as a result of training and continuous supervision. Due to CDF, the efficiency of the Woreda Water Resource Development Teams has increased. This is clearly indicated by the increased number of water points constructed in one budget year. Since the introduction of CDF in two Woredas in 1996 (ETC), the average implementation of water points per Woreda has increased from 25 per year to 55 water points in EFY 1999 in 10 Woredas. This is also translated into the ability to serve 215,000 new users every year, exceeding the population growth

Also the projects have been completed in a shorter period of time usually in less than two months time per project. Further, the sustainability is higher with 95% of units in working condition after 13 years, while only 85% of units produced through other methods are working,

These should be arguments interesting enough for other donors – WB, DFID and other public funding agencies, but also private donors such as Bill and Melinda Gates Foundation – to consider the CDF method as a more efficient and more sustainable channel fort heir donations.

RWSEP may, while phasing out, reach its targets as described in various documents and presented in an extracted form above in section 3 Objectives of the products. The real result, however, will be achieved only if the modality of the institutionalized CDF and Credit products are implemented in practice. Funding is needed for both products; otherwise there is no reason to maintain functionality of the institutionalized CDF.

e) The Credit as a Product

Applicable information about the above outlined features has to be made available for interested parties. Promotional material, including an introduction, procedures, operational guidelines, presentation of fund flows, terms and conditions (loan term, interest rates, collateral requirements); contact info for those interested; etc, should be prepared separately for different stakeholders such as communities and donors, and internal operational guidelines should be prepared by and for ACSI's internal use.

6. ROLES, RESPONSIBILITIES AND CONDITIONS OF VARIOUS PARTIES AND STAKEHOLDERS, AFTER PHASE-OUT OF RWSEP

6.1 Stakeholders of CDF Product, without support from RWSEP

The Conditions for various parties and stakeholders of the CDF Product will remain more or less unchanged. Donors are expected to support the CDF Product and its necessary operational and organizational structure and capacity building with grant funds, as before.

a) **The Technical Office.** The CDF Product will be operative only after phase out of RWSEP. In absence of RWSEP or another program facilitator as a support organization for the CDF Product, some functions have to be replaced by other arrangements. A supporting organizational frame work has to be created to replace RWSEP. As a minimum, a Technical Office (TO) with paid full time staff is necessary. The TO should have a separate office, which can also be the duty station of a donor-paid Adviser or Controller. Apart from a technically capable Head, it should have capacity to provide necessary training, operational support and capacity building to new Woredas interested in CDF replication. It should have communication and reporting capacity to provide promotional support to Woreda CDF implementers. It should coordinate the work of the regional advisers in their respective bureaus and ACSI. It should also have financial controller/audit capacity and act as secretariat of the CDF Management Committee (CMC) in preparing the reconciliation of total transfers to CDF account in the HO of ACSI, transfers from CDF account to Woredas and expenditure based on original vouchers received from CDF supervisors in the WRDOs. The TO would also host the sectoral advisers, from the beginning at least the WRDB and ACSI advisers. Finally, it should be able to prepare reports and promotional material in support of the regional government and donors for fundraising purposes. Terms of References for the TO and job descriptions for the staff should be further developed.

The TO should be donor funded as a part of a larger funding commitment covering for example Stage 1 or 2 below. The activities of this TO should be directed and supervised by a board or a supervising committee. A grant agreement between a donor and the GOE has to include provisions for sufficient contribution in support of operational and organizational support and capacity building for the functions within various bureaus, in order to maintain the multi-sector approach

It is expected that with the development of CDF Products as a package, donors and NGOs can replenish its funds and use this approach to increase water supply and sanitation coverage within ANRS. Each donor may define their own preferences and design their own conditions for the grant. Those conditions should then be included in the agreement between donor and BOFED.

b) The TO should be supervised by a higher level committee. Most appropriate solution would be to leave the above-described **Regional WASH Steering Committee (RWSC)** in place with slightly amended responsibilities. It would be responsible for the overall management of continued CDF activities at the Regional level and for the coordination of CDF activities among the various Bureaus. As such, the RWSC would provide support to the continued CDF implementation, and would practice decision-making power within the framework as outlined in the agreements between donors and the government.

c) As mentioned above, to address the day-to-day operations of CDF, the Sub-Committee of RWSC, i.e the Program Management Committee (PMC) already exists. It should be continuing in its role, with a slightly amended role. For sake of clarity and to distinguish it from other committees, it should be renamed **CDF Management Committee (CMC).** It should be authorized to take decisions regarding the implementation in between the full RWSC meetings. The members would be the Deputy Heads of WRDB, BoFED, BoH, WAB and a representative of ACSI. The head of the proposed Technical Office (TO) should have a non-voting seat in the PMC. In addition, representatives of donors to CDF should be allocated seats in this body with full voting rights.

The responsibilities of the CMC should be further developed but should include at least the following responsibilities related to CDF implementation at Regional level:
- Approve quarterly work plans and budgets of the TO
- Decide on necessary alterations proposed by the TO.
- Approve the ToR’s and approve local short-term assignments,
- Review and comment material to be submitted for RWSC and keep RWSC informed by reporting on decisions taken
- Select Woredas to be covered by the CDF operations.
- Approval of the composition of the CDF Board in the Programme pertinent Woreda.
- Approval of the CDF allocation to be made available for each Woreda
- Critical maximum value of the applicable CDF contribution per water point
- Minimum acceptable value of the up-front cash deposit

d) ACSI will continue its operations as before in close cooperation with the above-mentioned stakeholders.

6.2 The Credit Product

The Credit product will be independent from the above described administrative structure of the CDF product. It will be implemented by ACSI, without formal connection to the CDF. Funds are transferred from BOFED to ACSI, and ACSI will operate the Revolving Credit Fund independently, and report back to BOFED about the operations.

a) No new stakeholders are introduced through the Credit Product. The roles of WUAs and WATSANCOs on the **community level** remain unchanged from the administrative point of view. An important change, however, is the new liability of user groups to pay interest and repay the loan to ACSI.

In case of corrective maintenance becomes necessary, the WATSANCO should cover the costs of repair either from its own resources or from funds borrowed from ACSI. It is allowed to seek technical advise from the Woreda WRDO if necessary.

On **Woreda level** some changes has to be introduced compared with the present operations. Referring to the principle of not mixing credit and charity, WRDO should not actively promote the credit facility, particularly not in connection with CDF (grant) Product and using the confusing name of “CDF” Credit.

In case a WATSANCO approaches the WRDO or CDF Coordinator with a request for funds for rehabilitation, the answers should be a very neutral advice to collect own funds for the purpose; or, advising the WATSANCO to approach ACSI, without a slightest hint of ACSI having been granted funds for the purpose.

Otherwise the WRDO is expected to extend assistance in all technical issues, in support of a successful rehabilitation of the water point. No formal endorsement from the WRDO is required for an applicant to approach ACSI with a credit application.

The role of the government, represented by **BOFED**, will basically not change. For the Credit fund BOFED needs to sign another agreement with ACSI, stipulating terms and conditions of the funds to be transferred to the Credit Fund account.

BOFED It will continue channeling donor funds to ACSI, to the CDF Product implementation as before but now also now to the Credit fund account. BOFED will continue receiving reports from ACSI as before for the CDF Product. In addition, it will receive reports also on credit activities, such as disbursements from the revolving fund and repayments from clients (WUAs) to the same, including interest payments. BOFD has further to approve ACSI's utilization of the interest income generated.

b) **ACSI** will operate the credit fund based on the agreement with BOFED, guided buy specific conditions stipulated by the donor. Otherwise ACSI will operate on its own terms and conditions and on commercial principles as applicable. ACSI has to be allowed to make individual credit decisions without interference from third parties, i.e. donors, government or CDF implementers. ACSI will apply its own criteria and approve (or reject) applications from communities. In a positive case ACSI Branch or Sub-branch will draw down the requested amount from a central credit fund-account and deposit it on the applicant's savings account, for further withdrawals by the WATSANCO for covering expenses of the rehabilitation action.

Based on an agreement between BOFED and ACSI, a revolving Credit fund-account will be established centrally at ACSI Head Office. The account will be available to Branch level to draw down funds for approved loans, to be transferred to the WATSANCO's savings account. Repayments of principal will be channeled back to the Credit fund account in order to maintain full control of transactions and the fund balance. Another account will be established in the Head Office for interest income generated from the Credit fund.

Apart from reporting continuous disbursements from the CDF Product, a new reporting obligation is added to ACSIs responsibilities for the Credit. It has to provide a quarterly consolidated report including all transactions pertaining to the Credit Fund, including draw downs as credit to WUA's, repayments of scheduled repayments, and the actual balance. In addition, the report should include a report on the interest income account.

The agreement/MoU between ACSI and BOFED should stipulate the conditions for the grant or credit arrangement. Depending on the conditions, ACSI has to transfer the agreed interest to BOFED or otherwise support the operative responsibilities and capacity building of BOFED regarding particularly the financial management of CDF Product and Credit Product. The operative and organizational support and capacity building may also be extended to WRDOs, so as to support their full cooperation in the process. Further, depending on the detailed agreement ACSI may, on approval of BOFED, withdraw part of the interest income generated from operating the Credit Fund to its own capacity building efforts. The remaining net income can, on approval of BOFED be transferred to ACSI's financial income account, from which eventual credit losses can be covered.

The group forming methodology presently implemented by ACSI effectively excludes the inactive and physically or mentally sick members of the community and also those with unacceptable behavior, i.e. those with limited repayment capacity. ACSI's groups do not include all the community members, which contradict the general understanding that everybody in a community has the right to safe water.

c) Concerns

To include the WUA's as eligible for credit through ACSI requires revision of its credit policies. To start with, the legal status of a WUA as a potential eligible borrower need to be determined. This will most likely require a public registration procedure with a public record office for issuance of a certificate of incorporation. That certificate should verify that the WUA has approved Articles of Association and verifying the legality of the elected and authorized WATSANCO and its officers to represent the users group and sign agreements in its name. In the CDF context this might however become a problem. The procedure of formation of a WUA differs from the procedure applied by ACSI in forming its traditional savings and credit groups. A WUA formed by a community for water supply improvement purposes will cover all villagers having a basic right to access safe water. The WUA is usually prepared to deal with members with less capacity to pay the required fees. No one of the users of water points granted by the CDF should be considered too poor and therefore excluded from using the water provided.

In comparison, ACSI has a different approach. As part of its own risk mitigating policies ACSI's group formation procedure effectively excludes those individuals posing an identified credit risk. Thereby, the ACSI policies may today exclude groups with unwanted members, and may ultimately make a WUA non-eligible for credit from ACSI.

To mitigate this discrepancy, donors must insist on provisions for this in its negotiations with ACSI about the technical details of the Credit Product. It should be in the present donors highest interest to safeguard that no water point funded through the CDF mechanism should be abandoned because there is no money or credit facility to cover the necessary reparation. It should be avoided to allow ACSI to refuse an application because it considers the WUA or its individual members as too poor or otherwise not eligible for a loan in accordance with other ACSI policy guidelines.

In the eventual agreement of funding for the credit facility, provisions must be included allowing a donor to include its specific requirements or conditionality. For example, the Government of Finland (GOF) has defined its general priorities in its various policy resolutions. It is committed to the values and goals of the United Nations (UN) Millennium Declaration; the principle of sustainable development; respect of the integrity and responsibility for the developing countries and their people, as well as transparency and other long-term commitments.

Finland is, among others, committed to eradication of poverty, respect for human rights and protection of the vulnerable. The crosscutting themes in the implementation of the Finnish development policy are promotion of the rights and the status of women and girls, promotion of gender and social equality, promotion of the rights of groups that are easily marginalized, particularly those of children, the disabled, indigenous peoples and ethnic minorities, and promotion of equal participation opportunities for them and consideration of environmental issues.

Some of these goals may be in conflict with ACSI's commercial interests. Still, a common solution should be found to cover all donor-specific aspects, without jeopardizing ACSI's own priorities.

ACSI's individual loan products are targeted to better-off clients, and have different conditions for small-scale enterprise loans, asset loans and condominium loans, covering at least 30% of the required capital. The loans are collateralized with assets or by two guarantors. Loan size can be up to 500,000 ETB and term can be as long as five years. The Sub-branch Managers are presently following the approved internal credit manual, which makes no reference to loans to WUAs. If ACSI is used as conduit for the CDF related credit, an additional credit product needs to be developed.

7. A ROUGH FINANCIAL PROJECTION OF THE TWO PRODUCTS

7.1 The CDF Product

The magnitude of funds required for the CDF is of course depending on how ambitious plans the government has and what can be funded by donor funding. As a realistic first step, the proposal is to continue where RWSEP phases out, i.e. to continue construction of water points in RWSEP program Woredas. The below financial projections illustrates the need of funding if two different geographical target areas are to be covered. One geographic area covers the 14 present RWSEP/CDF Woredas where the coverage so far is somewhere between 40 and 45% only, and another 55-60% are still without access. They are proposed to be covered under Stage 1. The second one (Stage 2.) is the 19 Woredas not yet covered within the present RWSEP Programme Zones.

a) An important notification is that no operations will be successful in absence of the support from RWSEP. The support provided from the Technical Assistance (TA) and related issues (TAR) cannot be successful without support for operational and organizational support and support for capacity building. Therefore the below investment budget has been increased with 10% to cover expenses for some of the functions of RWSEP.

Stage 1. **Program Woredas**: In order to meet the UAP goals by 2015 in these Woredas, the total number of water points to be constructed is 2,826. It is assumed that the present price is 30,000 ETB per water point. With an assumed 10% inflation the price will be 41,800 ETB when RWSEP has phased out and CDF Product continues to be implemented independently in 2011. It is further assumed that the annual inflation will be 10%. The unit price at end of the planning period (2015) will be 61,200 ETB.

Stage 1.	Additional number of Water points constructed annually (proposal)					Total for Stage 1.
	2011	2012	2013	2014	2015	
Total/year	523	590	593	571	549	2,826
Cumulative	523	1,113	1,706	2,277	2,826	2,826
Unit price, 1,000 ETB	41.80	45.98	50.58	55.63	61.20	
Total/year ETB Million	21.86	27.13	29.99	31.76	33.60	144.35
Max. 80% to be funded, METB	17.49	21.70	24.00	25.41	26.88	115.48
Total/year, EUR Million	1.46	1.81	2.00	2.12	2.24	9.62
Operational and Organizational support, Capacity build., 10%	0.15	0.18	0.20	0.21	0.22	0.96
Total budget in EUR Million	**1.60**	**1.99**	**2.20**	**2.33**	**2.46**	**10.59**

Table 1: Rough projection of CDF Product fund needs in program Woredas (Stage 1.)

As can be seen from above table (Table 1) the rough estimation is that about 10.60 MEUR would be needed if the UAP targets will be reached in present RWSEP Woredas by 2015.

Step 2. **Non-Program Woredas** in RWSEP Program Zones: In order to meet the UAP goals by 2015, the total number of water points to be constructed is 4,942. Same assumption applies as above regarding the present price and estimated 10% inflation the price will be 41,800 ETB when RWSEP has phased out and CDF Product is introduced to the new geographical area in 2011. The same provision of 10% for operational and organizational support and capacity building is included.

Stage 2	Additional number of Water points constructed annually (proposal)					Total for Stage 2
	2011	2012	2013	2014	2015	
Total/year	1,000	1,049	1,093	890	910	4,942
Cumulative	1,000	2,049	3,142	4,032	4,942	4,942
Unit price, 1,000 ETB	41.80	45.98	50.58	55.63	61.20	
Total/year, METB	41.80	48.23	55.28	49.51	55.69	250.52
Max. 80% to be funded, METB	33.44	38.59	44.23	39.61	44.55	200.42
Total/year, MEUR	2.79	3.22	3.69	3.30	3.71	16.70
Operational and Organizational support, Capacity building, 10%	0.28	0.32	0.37	0.33	0.37	1.67
Total budget in EUR Million	**3.07**	**3.54**	**4.05**	**3.63**	**4.08**	**18.37**

Table 2: Rough projection of CDF Product fund needs in program Zones (Stage 2.)

As can be seen from above table (Table 2) the rough estimation is that about 18.40 MEUR would be needed if the UAP targets will be reached in all Woredas of present RWSEP Zons by 2015.

Consolidation of the above figures show that bringing up the present program Woredas and additional Woredas in present program Zones to UAP targets (7,769 new water points) will require funds in the tune of 315 Million ETB or some 29 Million EURO.

Detailed spreadsheets are attached as Annex xx

Funding need for sanitation has not been included in above projections. The number of sanitation units is smaller, covering only schools and health stations, and the construction costs are also lower. The investment costs will most likely be within the margins of above estimations.

b) The Fund Flow has been described in Figure 1 below:

QuickTime™ and a
TIFF (LZW) decompressor
are needed to see this picture.

FIGURE 1. Fund flow for grant funds for the CDF Product

7.2 Credit product

Rough projections of credit need for eligible development projects will follow the structure presented earlier. Preventive maintenance will not be considered, as it should be covered from the water fees collected. Other water related and non-water related initiatives cannot be assessed at this stage and have been excluded from the projections.

a) Corrective maintenance
Facts and assumptions regarding water points produced so far, and water points to be constructed under present already funded activities are as follows:

1) The existing water points and water points to be constructed from existing funding includes
- RWSEP, Phase I and II produced 1,434 water points between 1995-2002
- RWSEP III/CDF produced 2,559 water points from 2003 to 2008
- RWSEP IV/CDF will produce 2,578 water points from 2008 to 2010
- Other projects with secured funding will produce 457 additional water points from 2008 to 2010
- A total of 6,571 water points will be constructed before end of 2010, of which estimated 10% or 657 would need corrective repair annually.
- By end of 2010 the inflation-adjusted cost is estimated as 10,900 ETB.

The total amount needed to secure proper funding for corrective repairs of the existing 6,751 water points is therefore about 7.4 Million ETB. As 20% is expected to be the up-front contribution of the applicant WUA, a maximum of 80% or 5.9 Million ETB (about 490,000 EUR) by end of 2010 is needed to establish the Credit Fund.

2) Further, if the CDF Product is allowed to continue its operations and additional funding is secured, as described above under p. 6.1 and if the implementation is successful, not by the ambitious 2012 but most likely in correspondence with the Millenium Development Goal (MDG) by 2015, following numbers of water points and monetary values emerge:
- **CDF Product Stage 1** (UAP targets reached in present Woredas) estimated to produce 2,826 water points from 2010 to 2015
- **CDF Product Stage 2** (UAP targets reached in all Woredas of present RWSEP Zones) is estimated to produce 4,942 water points from 2010 to 2015
- In total, 7,768 water points needs to be constructed if UAP targets will be reached by 2015. Of that, an estimated 10% or some 780 water points needs corrective repair on annual basis
- It's assumed that the cost for corrective maintenance/repair still the 10,900 ETB per unit.
- The total costs of corrective maintenance of the 780 new water points, at 17,500 ETB each is about 8,5 Million ETB in total.

The total number of water points as estimated above (existing by 2010 and additional according to Step 1 and Step 2) is about 14,340. Of that an estimated proportion of 10% or 1,434 water points are estimated to need annual corrective repairs. Computed as 10,900 ETB each is about 15.6 Million ETB. Of that, a maximum of 80% or about 12.5 Million ETB is supposed to be covered from the DCF Credit Fund.

To estimate a more exact size of the Credit Fund, following factors should be considered. The above-estimated 10,900 ETB should be inflation-adjusted annually with a inflation coefficient of, say 10%. The corrective maintenance costs of would then increase annually and would be some 17,500 ETB by end of 2015. Another adjustment to be included in the computation is the actual number of water points from above mentioned 6,751 by end of year 2010 to 14,434 by end of 2015. This could be easily extracted from above available numbers. Before arriving at some more exact amounts in ETB, the loan term, i.e. the revolving ratio, including a possible grace period, should be known and included in the computation. More exact computations need to be done before determining the actual size of the Credit Fund.

b**) Rehabilitation and extension**. The intention with the CDF Product is to provide funding for the basic water supply service by constructing one water point per a users group of about 50 households. Projections of credit need for rehabilitation is difficult to estimate, but for calculation purposes, let us assume 5% of the total number needs rehabilitation in a new hand dug well. 5% emanates from the present number of malfunctioning or abandoned water points which re communities can not fund from CDF any more. The material (mainly stones) may be reused, while cylinders cast in concrete have been installed in a permanent way, including sealing, may be impossible to use again. Labor costs are the same as earlier. As the hand pump will most likely be re-installed on top of the new construction, it is assumed that the investment cost for a replacement well may be extracted as some 75% of the 30,000

ETB for Step 1 and 36.300 for Step 2, as presented in chapter 6.1.10 above, or 22,500 ETB and 27,000 ETB respectively.

The estimated 5% of the total of 6,751 water points (p. 1 above, existing WP's) or some 330 water points to be constructed for the estimated cost of 22,500 ETB each, gives a total estimation of 7.39 Million ETB. While only 80% can be funded from the Credit Product, the amount is only 5.91 Million ETB or some 492,000 EUR.

The estimated 5% of the total of 7,768 water points (p. 2, Steps 1 and Step 2) is some 380 water points to be constructed for the estimated cost of 27,000 ETB each gives a total estimation of 10.48 Million ETB. As only 80% can be funded from the Credit fund, the amount is only 8.4 Million ETB or some 700,000 EUR

Even more difficult to estimate is the possible funding need for extending the services. In any case and for time being, the need may be only a fraction of the numbers above. Assuming it is initially, say, 1 % of the total number of 14,519, which gives 145 water points. With an estimated cost of 36,000 ETB each the total cost is 5.2 Million ETB. While 20% is required from the community credit need is some 4.16 Million or some 350,000 EUR,

A rough financial projection of the Credit demand, with main focus on water supply is presented below.

Table 3: Rough projection of demand for Credit Product

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are needed to see this picture.

The computation assumes that the price per corrective maintenance action is 10,99 ETB in 2010, based on present (2008) price adjusted with a 10% inflation rate per annum. It is assumed that 10% of the annually constructed water points are in need of funding for corrective maintenance.

Further, it is assumed that costs for rehabilitation is 22,500 ETB, considering that the hand-pump and, if possible, some construction material can be re-used. It's assumed that 5% of new constructions will be rehabilitated. Regarding extension, it is assumed that the construction price is 30,000 ETB, and that a number of extension projects initiated is 1% of the total number constructed annually. In both cases, the unit price will be adjusted annually by 10% to reflect the inflation.

As can be seen from the above table, an estimated 41 Million ETB or about 3.40 Million EUR is needed for the credit fund. The purpose of the credit fund is to cover 80% of costs of corrective repairs, rehabilitation and extension for already existing, already planned and funded water points by end of 2010, and the 7,768 water points expected to be constructed from the proposed CDF product, as described earlier.

The above calculation does not consider the fact that the credit fund is actually a revolving fund. Depending of the rotation speed, same fund can be used for repeated projects and the actual size of the fund will be smaller. At this point of time it is not possible to estimate how the retention ratio will affect the portfolio size.

c) Financial flow of the Credit Product

The Credit product will be separated from the CDF structure. There will be no technical relation between the WATSANCO and the WRDO in the Woreda. The WRDO and CDF Board will continue promoting the CDF approach as such but may only advice the applicant to approach ACSI for credit, but no endorsement by the WRDO will be required for loan approval or fund release by ACSI.

QuickTime™ and a
TIFF (LZW) decompressor
are needed to see this picture.

Figure 2. Credit product Fund flow

Part of the funds should be allocated for administration, organizational support and capacity building for BOFED- and WRDO staff directly engaged in implementation of the Credit Product.

d) Possible alternatives

The most capital intensive of the above projects to be funded from the credit product [p. (c) Rehabilitation and especially p. (d) Extension] should be further developed in order to be more attractive for the WUA's. Presently, the high capital need combined with the very short repayment term is clearly a limiting factor. Would the repayment term be 10 years, more WUAs would be attracted of the possibility to extend services by constructing water points based on credit funding. Since extending the loan term seem to be impossible for ACSI to accept, other possibilities need to be explored. It would be a remarkable achievement if a feasible and attractive financing system could be developed so as to stimulate water service initiative to be realized increasingly on credit funding, with decreasing portion of grant support.

One model has been quite successfully implemented in Kenya, and could be worth exploring also in Ethiopia. Since some basic structures are already in place through the CDF Product mechanism, and a credit mechanism is actually under preparation, all elements for a replication of that model are in place.

This funding model consists of three elements namely community contribution, credit and support in form of grant. Based on an initiative by a WUA, the necessary cash contribution of 20% of the total costs would be collected over a period of time and deposited on a savings account. The construction project would then be prepared according to CDF-standards and basically implemented according to present procedures. Instead of the 80% grant funding, ACSI would extend 80 % as an initial credit from the credit fund to facilitate procurement of material and labor and finalization of the project. When the water point is ready and verified to meet the technical standards, up and running, a grant from the CDF Product would be transferred to the WUA account, for immediate repayment of part of the loan.

Adjusting the portion of grant could be used to stimulate WUAs to increase their own cash contribution. Higher contribution would lead to higher grant and consequently, to a smaller loan. Over the period of time, when the financial capacity is increasing, the grant portion could be gradually lowered against the expectation that the applicant WUAs will have higher capacity to collect a higher up-front contribution and better capacity to serve the loan. Options arising from this model should be carefully studied further.

The concept of credit guarantee system has not been developed among the MFIs and also not among the local government units. A comprehensive study should be done in order to assess the feasibility of such an arrangement as an alternative to the proposed credit fund.

e) Consolidation

The three tables above have illustrated the immediate need of funding necessary to carry on the ongoing operations within present RWSEP Program Woredas. They also represent a rough projection of funding needs for an expansion phase to new Woredas in the present program Zones. The investment costs are very roughly outlined, and the error margins are quite large. Since the costs for investments in sanitation installations are quite marginal they can, at this point of time, be included within the error margins, and are therefore not considered as separate items in the projections.

In order to safeguard the continued operational and organizational support and capacity building within BOFED and implementing bureaus, particularly the WRDB and related WRD Offices, a rough estimation for operational and organizational support and capacity building has been added. In absence of a support program such as RWSEP, expenses (assumed as 10% of investments) for said functions have been added to the projection presented below.

Table 4: Consolidated rough estimation

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are needed to see this picture.

As per above, simply safeguarding functionality of earlier investments in 6,571 water points, a Credit Product fund of a size of about 16.5 Million ETB (about 1.4 Million EUR) has to be established.

To safeguard continuation of the of ongoing CDF implementation in the present (RWSEP) program Woredas, and retaining its present human resources (Stage 1), a decision of a grant of about 115 Million ETB (about 10.6 Million EUR) should immediately be taken so as to secure necessary funding from 2010 onwards, when RWSEP is phasing out,

To expand operations to new geographical areas beyond present program Woredas, i.e. to Woredas within present program Zones (Stage 2), making use of present organization and human resources, an additional grant funding of about 200 Million ETB (about 18.4 Million EUR) is needed.

Finally, for the purpose of maintaining the water points to be funded through Stage 1 and Stage 2 in working condition, an additional grant of some 35 Million ETB (about 2.9 Million EUR) is needed to replenish the Credit Fund. This additional funding could take place in staggered installments, following the numbers of water points constructed during Stages 1 and 2.

As can be seen, less than 15% (4.3 Million EUR) Million EUR) is needed to safeguard the functionality of investments (on credit) of some 29 Million EUR for water points constructed by RWSEP and CDF and the water points to be constructed under a roll-out plan of an independent CDF Product. Considering that the 29 Million EUR is only 80% of the total investments, the 4.3 Million EUR for securing the functionality is only 12.3% of the total investments of about 35 Million EUR.

8. FEASIBILITY AND ASSESSMENT OF THE RISKS OF THE PRODUCTS

8.1 Feasibility

Considering the prevalent poverty and the limited volume/availability of cash in the rural areas, the question of the size of water fees will immediately surface. If the water fee is supposed to cover the expense of a loan, then what could the affordable loan size be? For what purpose should credit be available and what should the loan size be to make the difference? Is an affordable loan size big enough and relevant for any intended purpose? What would the expenses for a loan be when converted to water fees? How much are the water fees today, what should they be? Will the financial capacity of communities and ACSI loan conditions meet? These are all very relevant questions when discussing the feasibility of the above described Credit Product.

To answer just a few of the above questions, a simple questionnaire was sent out via the Zonal Advisers who collected some information from the Woredas. The results are not always comparable, and no exact figures could be extracted. A very general observation is that present water fees range in one of the Zones between 0.75 ETB and 1.65 ETB per month, corresponding with 9.00 to about 20 ETB per year. In two other Zones the fees were expressed as annual fees, ranging between 3.00 and 12.00 ETB per year in one of the Zones and 3.00 to 20.00 ETB in the other. None of the Zonal adviser reported that the present fees would be too high. They were either OK or could be higher, upper limit reaching as high as 36 or even 60 ETB per annum.

A very good point was made in one of the answers: It is not a question of money but level of awareness of the benefits of safe water, and thereby understanding and acceptance that clean water is not free but will costs money.

Let us take a practical example of a fictive loan of, say 10,000 ETB, which may represent the price of a major corrective maintenance undertaking, i.e. replacement of the pump and some related expenses, inflation considered. The loan is assumed to be on three years term, and the interest is 18% pa. The cost for an annuity loan (equal monthly installments) would be some 360 ETB per month. Divided by 50 households it is 7 ETB per household per month. On an annual basis it would mean 84 ETB per household per year, clearly above the earlier mentioned absolute maximum of 60 ETB, not to mention the more realistic 36 ETB.

Adjusting the term from 3 years to 5 years (presently not appreciated by ACSI) the monthly rate would decrease to about 250 ETB/month, i.e. 5 ETB per household per month or 60 ETB per year.

This may be possible for at least some WUAs, but most likely not affordable for most of them. However, if a number of households have been accustomed to having fresh and safe drinking water available, and then the pump is suddenly broken, and they are either without water, or have to go back to the old unprotected spring, it’s easier to argue for the repair costs, because the awareness of the value and corresponding fees is already there.

Another issue is “the alternative costs” for incapacity to work or costs for medicines to treat water born diseases. As a result of the present low level of supply of safe water, many people suffer from water born diseases. The Water User Group (WUA) visited by the team stated a practical example:

> Earlier every villager scooped their household water from an unprotected spring with their individual buckets or cans; not always so clean, especially on the outside. The same spring was also visited by cows, donkeys, dogs and other unwanted visitors. As a result, more or less every family in the village suffered a case of water born disease with a frequency of two times a month. Admitting that water born diseases cannot be completely

avoided, they estimated that after they started to use the new water point, this kind of problems affected less than 10 families out of 54, and the frequency was reduced to few times per year.

By word of mouth between villagers, passing above described experiences and by coordinated promotion work the awareness of the connection between sanitation and water quality will increase and that will drive demand for safe drinking water even higher.

In his Advocacy Strategy, Mr. Muluneh Genetu puts some monetary values in a fictive case, where a family of five experiences water born disease three times a year. Excluding transport, one person spends in average 30 ETB for each treatment. Assuming that two of the family goes for medication three times a year, the family spends 2x3x30 ETB or 180 ETB per year on medication. Assuming that two of the tree cases could be avoided by using safe water, the family would spend only 2x1x30 ETB or 60 ETB, the saved medication expenses would be 120 ETB per year. Further, the time saving aspect has also to be added to the computation. Assuming that the three family members out of five are below 15 of age and thereby under the ‘productive’ age and only the parents are included in the computation. During an illness a person can be bedridden for a week, of which 5 days are considered working days, at 10 Birr each. Assuming both parents are incapacitated two times a year, i.e. 10 days each or 20 days per year, the loss of income is 200 ETB per year. If two of the cases per year could be avoided by using safe water, the family would earn 100 ETB more per year. The medical costs saved and loss of income opportunity due to sickness would add up as 220 ETB per year.

In comparison, a water fee of 60 ETB or even 84 ETB per appears as reasonable, and it is obvious that the question is about awareness, not the money as such. A conclusion could be that a credit product may after all be feasible, and will become increasingly so, following the increased awareness.

8.2. Risks

A conclusion, based on earlier experience, is that implementation of CDF as such has not been under threat or has not experienced any serious risks. However, several factors can be assumed as risks affecting the expected success of the planned intervention. Poverty, inflation, natural calamities, dependence of one PFI alone; availability of contribution by regional government; ownership and commitment of stakeholders and currency risk are just a few risks worth mentioning.

a) Poverty

As mentioned earlier, poverty is still a severe problem. According to the Project Design Report for the Community–based Integrated Natural Resources Management Project (CBINReMP) dated 1 August 2008, Amhara Region has a population estimated at 20 million, and the projection of population in Amhara Region for 2001 (ETC) by Population Department of BOFD dated June 2008, estimates the present population as 20.65 Million. Some 18 million (89%) of the population live in rural areas. About 43% of the rural population or some 7.7 million lives below the absolute poverty line. About 3 million people (some 17%) are chronically food insecure, and 27% or 4.9 million of the rural population accounts for youth and 47 % of them (some 2.3 million) are landless and unemployed.

Considering the growth rate of 2.73% p.a the portion of youth will grow. With a landholding of less than 1.2 ha per household in average, and without alternative employment opportunities, under-employment and un-employment will continue to grow even faster. In fact, of the age group of 0-19 years in Amhara, 54.55 % is rural and 51.81% is urban. Of the productive age group of 20-64, only 41.9% is rural and 44,84% is urban. The conclusion must be that the group of population under 19 is growing faster than the group of 20-64 in rural areas. This will result in further increase of rural unemployment.

The Ethiopia Interim Poverty Reduction Strategy Paper (November 2000) refers to the latest household income, consumption and expenditure survey conducted 1995/1996 (ETC). The survey found that the per capita income was 159 USD in rural areas. Significant variations had been noted among different regions of the country. RWSEP’s own survey from 1995

(ETC) in Amhara reports that the average household income was between 1.200 and 2.100 Birr (about 130-230 USD) per annum.

This RWSEP survey is surprisingly well in line with the figures reported in the Poverty Profile of Ethiopia by Welfare Monitoring Unit of Ministry of Finance and Economic Development (MOFED). The per capita consumption expenditure of Ethiopia for the year 1999/00 was estimated at 1057 Birr in constant prices of 1995/96 (ETC). The real per capita consumption expenditure of rural people was 995 Birr and that of urban people 1453 Birr. These levels of real per capita consumption expenditure are equivalent to 131 USD at rural levels in 1999/00. Already these figures appear to be quite discouraging for bigger investments funded through commercial loans.

The reality may be even more discouraging. For example, the CBINReMP targets subsistence farmers or fishery folk with a per capita income of less than 80 USD per annum. That may be the actual and most realistic figure describing the level of income on which an average WUA member-household has to survive.

The Bureau of Rural Development conducted in April 2003 a useful survey called "Rural Households Socio-Economic Baseline Survey of 56 Woredas in the Amhara Region". One of the many interesting findings were that the main reasons contributing to low tradition of saving in financial institutions are due to low level of income, which was stated by about 96 percent of the households.

All this together is not the most encouraging financial situation if we try to assess the users individual or collective ability to take credit, manage the funds properly and to collect water fees enabling a timely and problem-free repayment.

b) Inflation

The inflation in Ethiopia is extremely high. The annual moving average inflation for all items increased from 12.3% by December 2006 to 17.2% by December 2007. In July 2008 the year-to-year average (all items) inflation was 18.3%, in August it was 19.4% and in September already 20.3%. Quoting from the Central Statistical Agency of Ethiopia website (www.csa.gov.et/CPI_docs/CPT_October _2008.pdf),

> "… the country level overall inflation rate (annual change based on 12 months Moving Average) stood at 40.3 percent in October 2008. This rate is 23.4 percentage points higher than the corresponding annual average rate of 16.9 percent at October 2007. Similarly, the country level food inflation rate stood at 55.7 percent and the country level Non-food inflation rate stood at 18.8 percent in October 2008. The 55.7 percent Country level food inflation rate in October 2008 is 35.1 percentage points higher than that of 20.6 percent inflation rate at October 2007."

This high inflation rate brings in many severe implications. Firstly, the food prices will increase and will leave less money for other purposes for poor households. This will directly affect the ability to collect the initial required 530 ETB. Secondly, it will affect the households capacity to pay increased water fees, for repayment of loans in case corrective maintenance becomes necessary. Thirdly, the construction material costs will increase and will seriously affect the total construction costs of a water point. All these factors may hamper the continued success of any planned CDF implementation. However, the increase in prices for material can be compensated by new and higher grants for the Credit Product, as required from time to time.

But, there is a more serious issue connected to the high inflation – it will be increasingly difficult for WUA's to collect water fees or other contributions so as to meet the required 20% of community contribution for a project where the costs are increasing due to hefty inflation. Another problem is that funds deposited on a savings account will be credited only with 5% pa in interest. Any money deposited on a savings account will significantly lose purchasing power for material and spare parts where prices are increasing due to the severe inflation.

How justified and morally acceptable can it be to expect, or actually to require the poor clients to deposit their precious funds on a savings account giving 5% pa in interest, while depositors are actually losing money as the inflation is running at 40%.

Requiring savings in advance as a condition for credit in the future is not feasible, and this problem has to be discussed and solved before the Credit Product will have a slightest possibility for a successful take-off.

c) Financial institutions

There is only one financial institution, namely the Amhara Credit and Savings Institution (ACSI), which has a Branch office (BO) or Sub-branch Office (SBO) network covering all RWSEP–Woredas. Implementation of CDF will be severely hampered if ACSI withdraws from the cooperation for any reason, internal or external. No other MFI has a similar 100% complete coverage, and replacing ACSI may be impossible.

Further, the banking industry as a whole is quite young. Many legal and practical aspects are limiting the banks from rational business-oriented operations. Hard collateral (mortgage) is not practically available, secondary market for foreclosed property is quite thin, no information exchange agency exists, lack of external funding sources, and only short-term funding available even for infrastructure investments are just a few of the limiting factors. For example, long-term loans are practically non-existing, and ACSI is not interested in extending loans on longer duration than 3 years.

A water supply investment is made basically on an ‘eternal’ term, i.e. that the life span of the structure of a hand dug well itself may be up to 20 years, almost equal with the human ‘generation’, and life span for the hand pump is beyond 10 years. In comparison, it’s unrealistic to expect that the repayment period for credit for a water point should be only 3 years. The short repayment period means in practical terms that monthly expenses for WUAs to repay the loans become too high, and virtually impossible for an average rural household to cover.

Only solution is to reduce the loan amount. That will effectively eliminate the prospects of getting new constructions funded with credit, and Credit Product will to be limited to maintenance and repair only.

Lack of commercial incentives for ACSI, in combination with risks brought along by a new product to a new group of clients, and social outreach expectations by donors may also be a risk factor. The relevancy of this aspect can be assessed only during and after discussions with ACSI about detailed features of the new Credit product.

Finally there is a risk that water users, spoilt with grant funding of their water supply systems, continue thinking that any assistance provided by ACSI, such as a loan, is just another form of grant and repayment is not necessary. A generally accepted principle of a successful MF intervention is to make a clear distinction between credit and charity. Credit is credit and charity is charity and they should not be mixed. For the Credit product this means that too close and immediate connection with the CDF product will create problems for ACSI. That attitude will ultimately result in severe problems for ACSI, in worst cases eventually affecting also other loans. Regardless, a credit facility can, and should be created in order to sustain the functionality of the existing water points.

d) Natural calamities

Most likely risk and most difficult to mitigate are the risks caused by natural calamities. A severe drought may dry up the water points, and lack of water discourages users to pay water fees making preventive maintenance impossible. Floods, soil erosion and pests may destroy crops and incapacitate the users to pay the fees. The possible influence on climate patterns by the global warming may cause more frequent disturbances and more extreme weather phenomenon, which are all impossible to mitigate.

Global effects affecting local inflation and interest rates can also not be neglected. Another external risk is peace and stability in the Region. One can only look around, and disturbing observations can be found in all directions. In the north there are still open issues with Eritrea; in the east the situation in Somalia – a failed state - is quite alarming. The situation in Darfur makes the situation in entire Sudan quite unclear and as a result of the resent elections and the power-sharing deal in Kenya has changed the political stability also there.

e) Availability of contribution by the Regional government
A risk that could seriously affect the implementation of the both Products includes availability of government contribution to the planned activities. Because RWSEP will be fully institutionalized and ultimately entirely withdrawn, the continuation will be highly dependent on the Regional and Woreda budgets and availability of adequate, capable and motivated staff. The Regional government tries to mitigate the general lack of human resources through the ongoing Business Process Re-engineering. While the end result may actually provide the expected results, the risk is that a fast revolving staff cannot catch up with the CDF specific knowledge and experience. This will affect the overall outcome of the implementation. The assumptions include commitment from the Regional government and lower level government units to provide adequate resources to cover salaries, per diem, running costs of vehicles, etc. How this will be practically implemented will be critical.

Post-RWSEP administration/management will be another challenge. Absence of support by a separate CDF related program will definitely be a risk factor.

f) Currency risk
The GOF budget is determined in euro (EUR) whereas all expenses will be in Ethiopian birr (ETB), which mainly follows the rate of USD. Possible devaluation of EUR against USD and, consequently, against ETB constitutes a currency risk that could reduce (or increase) the outputs achievable through the CDF approach.

g) Ownership and commitment of stakeholders
The CDF approach emphasizes the role of the communities, including upfront saving prior to the implementation of water points. The willingness of the communities to adopt this approach and contribute substantially – sometimes up to 50% of the total cost of the water point – has been impressive. There is a risk, however, that this willingness (or ability) may not continue if there is a serious economic recession (e.g., resulting from natural calamities) or if other donors, especially NGOs at the community level tend to give away facilities free of charge and without mechanisms to ensure sustainability. While the natural conditions are beyond control, the risk of uncoordinated support to communities has been extensively addressed in the preparation of Phase IV (see especially Sub-result 2.5 in Section 2.3).

9. OUTLINE FOR AN ACTION PLAN

When outlining an action plan for implementation of the two Products, the most essential thing is not to loose present momentum. Phase out of RWSEP without continuous funding of the CDF Product will for sure cause a complete collapse of the successful CDF concept. It is only a question of how long it will take before it is an irreparable fact. In case there is no funding available to keep the CDF Product floating, the Credit Product will never have a chance to get started.

In order to avoid the above described scenario, following staggered action plan can be envisaged:

By end of June 2009
- Short term consulting inputs completed, recommendations and proposed strategies approved by RWSEP, MFA and BOFED and relevant policy decisions has been taken
- Development on Credit Product completed with ACSI, product features approved, manuals prepared, training programs prepared
- Promotion of the Products with potential donors started
- ToR for the TO and job descriptions of the staff prepared

By December 2009
- Amendments to RWSEP plans approved and implementation starts, i.e. skeleton organization in place
- Indication by MFA of an allocation of part of a block grant to be disbursed in 2010 for the purpose of

* Replenishing CDF fund with grants of some 10 Million EUR, in order to continue implementation of Step 1 (finalizing UAP goals in present program Woredas) for 2010/11 to 2014/15

* Allocating funding to the tune of 1 Million EUR for operational and organizational support and capacity building of BOFED and relevant sector bureaus for the same period

* Allocation of sufficient funds for piloting the Credit Product, securing funds for repairs and rehabilitation of the already constructed water points

-Establishment of a new Technical Office (TO), staffed by a national Director, an administrator, an accountant, and supporting staff.

By June 2010

- From beginning of January, the new TO will take over implementation of CDF tasks, with assistance of the still present Team Leader/Management Adviser,
- Funds available for uninterrupted continuation of CDF operations, i.e. start up of implementation of Stage 1
- Funds available for launch of the Credit Product
- Indications from a donor or a pool of donors of funding part of or whole plan for Step 2 with pledging funds for 18.4 Million EUR in favor of the CDF Product for the years 2010/11 to 2014/15
- Indications from a donor or a pool of donors of funding part of or whole of some 3 Million EUR to Credit Product for securing funds for repairs and rehabilitation of the 7,768 new water points water points constructed under Stage 1 and Stage 2

10. RECOMMENDATIONS

The continuation of CDF as an alternative and successful mechanism - initiating and implementing water supply projects by communities and user groups themselves - will be challenged by phasing out of RWSEP IV. Several observations have cropped up during the consultation and many issues need to be considered. Some of them have resulted in recommendations, presented below.

- As a result of phasing out of RWSEP a new situation emerges. The Program Document presents a staggered withdrawal and gradual institutionalization of RWSEP activities. The understanding of the consultation missions is, that a substantial human resource capacity, experience and knowledge base have been amassed over the CDF implementation period on all levels, both on Regional, Zonal and Woreda levels. This is the most precious resource the successful continuation of CDF can rely on.
- As part of that institutionalization, four Regional level advisers have already been transferred to their respective Bureaus and to ACSI by the end of June 2009. However, to safeguard a successful transition, the timing of phase out of Regional advisers should be reconsidered. The presence of these key resource persons should be extended until the new TO is in place and fully operative.
- The greatest risk is in the transfer of key staff and related knowledge base from the program to the sector bureaus. Since the success or failure of the CDF activity is strongly connected in the minds and attitudes of the experienced core staff, they should be retrieved as a group, available for any future CDF replication project. They should not be allowed to disappear to other organizations or positions.
- The support from the advisers is also essential when the Credit Product is introduced. It cannot be successfully introduced if the essential human resources are allowed to disappear too early from the implementing agencies, particularly the WRDB and ACSI.
- To coordinate the tasks of the regional advisers and ongoing operations, a Technical Office (TO) should be established. The office should be staffed with a Head, Administrator and an Controller/Auditor, and additional support staff. The TO should be the focal point for all future operations and should be the duty station of the sectoral experts, of which the WRDB and ACSI advisors should be engaged from the very beginning. Detailed Job Descriptions should be prepared and core functions defined to safeguard the successful transfer the knowledge to the respective bureaus. Only then the support can be provided further to Zonal- and Woreda levels for the implementation of CDF projects during the last year, provided that the CDF fund in ACSI will be replenished. The TO should also become the duty station of an adviser appointed by a donor, if the presence of such an advisor would be a condition for a grant.

- A natural linkage between communities and Woredas exist, but it could be stronger. This could be mitigated by more efficient promotion work. The Woreda level is quite strong and committed, and decentralization of the CDF activities to the Woreda level has to continue. However, the staff of Woredas and below often lacks proper qualifications and rotation is quite fast. Therefore, proper capacity building work among the personnel needs to be put in place.
- Of particular interest is the fact that the Agreement between BOFED and ACSI will expire end June 2011. As part of sustaining the engagement of ACSI, that agreement needs to be amended or completely renewed.
- Another agreement should be drafted and signed to regulate the Credit product.
- The most capital intensive of the above projects to be funded from the CDF Credit [p. (c) Rehabilitation and especially p. (d) Extension] could be further developed in order to be more attractive for the WUA's. Presently, the high capital need combined with the very short repayment term is clearly a limiting factor. Alternative solutions, such as the above-mentioned Kenyan "20% community contribution plus 80% credit less 40% grant" should be explored. Successful replication of this approach would certainly stimulate own expansion plans of communities. RWSEP should explore this as a complimentary solution to the proposed credit product.
- Another alternative solution worth exploring by RWSEP is the Guarantee Scheme, where ACSI would be encouraged to use its own funding sources, while loan losses would be covered from a Guarantee Fund.
- Withdrawal of the long term Team Leader and three zonal level advisers should be completed in harmony with establishment of the TO, and get operations started up in presence of the Team leader.
- Replenishment of CDF funds from donors to ACSI to be indicated as early as possible, and actual transfer should take place before the end of June 2010.
- Engaging new donors in support of the CDF should start as soon as possible after approval of operational modality of the two Products.
- For this purpose RWSEP should prepare promotional material in order to attract new donors to support the two Products, and to facilitate easy replication of them
- Despite clear bias of this report in favor of water supply also health and sanitation projects should be encouraged and gender issues should be recognized as an important factor contributing to the overall success.
- Hand over and clearance in case of persons moving out from WRDO to new positions should not only cover materials and equipment. Also balances and reports of open WATSANCO accounts should be included in the procedure.
- A pledge from a donor (MFA) should be secured for funding of construction of the 2800 water points in present (RWSEP) program Woredas (Stage 1) for about 10.6 Million EUR. This continuation would test the post-RWSEP functionality of the CDF approach. It would not only facilitate reaching the UAP targets in the present RWSEP Woredas, but also safeguard the continued engagement of the human resources and maintained knowledge base.
- Equally important would be a pledge of 1.4 Million EUR for establishment of the Credit Fund.
- RWSEP should, together with ACSI, draft a detailed description of the Credit product, and assist ACSI in preparing manuals and training material for ACSI's internal use
- RWSEP should draft Terms of Reference for the Technical Office to be established, and should prepare Job descriptions for the core staff to be recruited.
- RWSEP should draft guidelines and update manuals and training materials for the purpose of facilitating replication of the successful CDF approach.
- Donors should assure that ACSI's credit policies guided by commercial interest and risk eliminating criteria, especially related to the group formation procedures, do not exclude WUAs with socially oriented group formation principles as eligible borrowers.

ABBREVIATIONS

ACSI	Amhara Credit and Savings Institution
ADA	Amhara Development Association
ADB	African Development Bank
ANRS	Amhara National Regional State
BC	Bureau Coordinators
BO	Branch office
BOFED	Regional Bureau of Finance and Economic Development
BOWRD	Regional Bureau of Water resource Development
BWA	Bureau of Women's Affaires
CBC	CDF Bureau Coordinator
CBINReMP	Community–based Integrated Natural Resources Management Project
CDF	Community Development Fund
CPB	Cooperative Promotion Bureau
ETC	Ethiopian Calendar
EFY	Ethiopian Financial year
ETB	Ethiopian Birr
EUR	Euro
FDRE	Federal Democratic Republic of Ethiopia
GDP	Gross Domestic Production
GOE	Government of Federal Democratic Republic of Ethiopia
GOF	Government of Republic of Finland
KDC	Kebele Development Committee
Kebele	The lowest Government administrative unit
MA	Management Adviser
M & E	Monitoring and Evaluation
MFA	Ministry for Foreign Affairs of Finland
MOFED	Federal Ministry of Finance and Economic Development
MOWR	Federal Ministry of Water resources
NBE	The National Bank of Ethiopia
NGO	Non-governmental organization
ORDA	Organization for the Rehabilitation and Development in Amhara
PD	Programme Director
PFI	Participating Financial Institution
PFO	Program Facilitation Office
Programme	Rural Water Supply and Environment Programme
RWSEP	Rural Water Supply and Environment Programme
SBO	Sub-branch office
TL	Team Leader
USD	United States Dollar
WASH	Water, Sanitation and Hygiene
WATSANCO	Water and Sanitation Committee
Woreda	The district level of Government administrative structure
WUA	Water Users Association
Zone	The zonal level of Government administrative structure

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ANNEXES

ANNEX 1. TOR for the Consultancy on the DESIGN OF CDF AND CREDIT PRODUCTS
ANNEX 2. Work plan
ANNEX 3. Water points to be constructed in Programme Woredas and Zones
ANNEX 4. Map of Programme Woredas and Zones