Policy Plan

Stichting Urban Water Catalyst Initiative (UWCI) Turnaround Facility

2024 – 2025

1. Objective and Strategy of the Foundation

1.1 Objective of the Foundation

The objective of the foundation is to improve the financial sustainability, operational performance and inclusivity of public water and sanitation utilities in developing countries[1] and their access to financing for investments in climate-resilient and socially inclusive drinking water and sanitation service provision for the respective urban population.

1.2 Theory of Change

The basic theory of change is to work with willing and committed leadership at a utility level to turn around the performance of the utility. Working with the utility leadership, the Stichting will help the utility to create the necessary conditions for success, provide just-in-time and flexible technical assistance to support sustainable utility performance improvement, and provide operational finance and the ability to access infrastructure loan finance. The goal of a utility turnaround is to create a well-performing and financially sustainable utility that is on the cusp of becoming creditworthy and to accessing a substantial part of its financing from the capital market.

The term utility turnaround refers to a process through which the operational and financial performance of the utility is substantively improved over a defined time period. The term implies a departure from the status quo, that is, a turnaround is almost certain to require a change in the organizational culture of an organization. This is based on the understanding that it is not possible to achieve different outcomes without changing the way things are done.

The overall objective of quality, reliable and resilient services to customers depends on both the technical and commercial operations of a utility. These in turn are a function of organizational set-up and strategy, and the management of people and finances. The quality of management is dependent, in turn, on governance. All of this takes place within the regulatory framework that sets out the mandate of the utility and regulates key processes such as board appointments and the setting of tariffs. With this is mind, the Urban Water Catalyst Initiative explicitly embraces an "whole-of-utility" approach. The focus of the support is on utility management, but the Initiative will also attend to utility governance for participating utilities as a necessary condition for success.

A utility that is starved of resources cannot meet its service objectives. These utilities are typically almost entirely dependent on grants for investment in infrastructure. A key objective of the Stichting is to support utilities on a journey of financial transformation with the ultimate goal of being able to sustainably access a significant share of their investment needs from the capital market. Such a journey will require substantial improvements in technical, operational and financial efficiencies, as well as effective management supported by sound governance. This journey will, in turn, result is sustainable improvements in outcomes in terms of access, service quality and resilience.

The Stichting defines the following first-order conditions for success in this journey:

1. Leadership: The utility has a CEO and management team that want to succeed. The CEO is capable and committed, with a positive attitude.

[1] Developing countries hereby refer to countries mentioned in the Development Assistance Committee (DAC) List of Official Development Assistance (ODA) Recipients of the Organisation for Economic Cooperation and Development (OECD).

2. Political support: The utility CEO has political backing, the owner-representative (political principal) wants the management team to succeed, and the leadership is stable.
3. Managerial autonomy with accountability for performance: The management team is supported and protected through "good enough governance" mechanisms that already exist or have a high likelihood of being created, and that will allow the management team to succeed.
4. Increasing financial capacity and autonomy: There is a realistic pathway for the utility to achieve revenue sufficiency and substantive financial autonomy. This means that the utility must be able to practically achieve an increasing and substantially positive operating cost coverage ratio, with user charges and tariffs covering an appropriate and growing share of the full costs.

These conditions do not have to be perfect but must be "good enough" to enable and support the performance improvements sought. A key to success for the UWCI will be identifying these minimum conditions in each specific country and utility context as it is unlikely that a 'one size fits all' approach will work. This will require the application of suitable skills and experience.

1.3 Utility Support Strategy

The Stichting will contribute to the achievement its objective by supporting selected reform-minded water and/or wastewater utilities over a time horizon of around five years, with the time required in each specific case depending on maturity and performance of the utility. It is foreseen to provide the support in four consecutive stages:

1) Selection Phase: Utilities fulfilling a set of minimum criteria may apply for support of the Stichting. Entry into the programme is competitive. Applications will be assessed on structural parameters (e.g. cost coverage, service area), track record and reform-mindedness of the utility management, political support for reforms and the regulatory and political environment in the country/region. The best applicants will be invited to join the programme.

2) Early Engagement Phase: The purpose of this phase is for the partners to get to know each other, develop a tailormade support programme for the following phases and prepare the institutional conditions for a successful turnaround: confirm managerial commitment and political support, develop a fitting business strategy and achieve quick wins.

3) Technical Assistance Phase: The utility will receive a tailormade package of Technical and strategic support by experienced experts in those sectors that most benefit the achievement of the objective and that are most relevant in the utilities' individual context. Wherever possible, expertise from other successful water operators shall be leveraged for this. At the same time, an investment plan for operational finance will be developed.

4) Operational Finance Phase: To accompany and build on the improvements in operations and governance induced in the Technical Assistance Phase, utilities will receive (matching) grants that may be used to finance small to medium sized investments that improve the utilities' cashflow ("operational finance").

5) Follow-Up Investment Opportunities: Towards the end of the programme, a financing plan for loan-based follow-up investments will be jointly developed and the utility will be supported in getting the required credit rating (or comparable) for its specific outlook. The Stichting will support the utility in applying for appropriate sources of funding. In this context, it is foreseen to establish a dedicated "loan window" of the Urban Water Catalyst Initiative that is most likely organisationally separate from the Stichting but connected through joint governance mechanisms.

Graduation of partner utilities from one phase to the next is based on satisfactory performance and will be reviewed by competent bodies for each case. This ensures an effective and efficient use of funds.

2. Activities and Projects in 2024/25

The foundation has been incorporated on 20.02.2025 and will focus in the first weeks of its existence on the buildup of the necessary organisational and personnel capacities as well as procurement of services and conclusion of agreements required for an efficient and effective implementation of its services.

As soon as possible and feasible, the Stichting will approve the selection of the first set of up to seven partner utilities and provide support for them according to the strategy laid out in Section 1.2 of this Policy Plan. Once the utility selection is confirmed by the competent bodies of the Stichting, the Policy Plan shall be updated to provide the according information.

The Stichting will also actively try to raise additional funds to the initial funding envelope (see Section 4) to ensure the long-term viability of the programme and enlarge the scope of its support.

Depending on the progress with the first set of utility partners and the development of fundraising, a second call for applications among eligible utilities may be launched towards the end of 2025.

3. Organisation and structure

The Stichting is represented and managed by the Management Board (the "Board"). Initially, the Board will consist of one sole Director. The Stichting will employ qualified personnel that will implement its day-to-day operations under the direction of the Management Board. The remuneration of the Management Board will be publicly disclosed after each financial year.

The Management Board reports to a Supervisory Council, that will initially consist of three qualified members. The Supervisory Council appoints, advises and supervises the policies of the Management Board, approves Management Board decisions of strategic importance and guides the long-term development of the Stichting. Members of the Supervisory Council are not remunerated.

There is also Advisory Committee with initially ten members coming from various civil society and stakeholder organisations. Its function is to provide insights regarding the view of these organisations on the activities and strategy of the Stichting and to provide advice to the Management Board and Supervisory Council on the activities, strategy and organisation of the Stichting. Members of the Advisory Committee are not remunerated.

As a so-called "orphan structure", the Stichting has no members or shareholders. The Management Board and the Supervisory Council act only in the interest of the Foundation. The Stichting will apply for the status as a public benefit institution ("ANBI") as soon as possible after its incorporation.

It is further foreseen to enter into agreements with qualified organisations that will provide advisory services to the partner utilities on the behalf of the Stichting.

4. Source, management, and Use of Funds

4.1 Sources of Funds

The Stichting raises and distributes funds in the form of grants. In principle, many types of funders are welcome, but it is expected that most of its funding will come from organisations in the space of international development, particularly from public institutions. The initial funding for the Stichting comprises EUR 30 million provided by German Financial Cooperation (KfW) on behalf of the German Federal Government.

The Stichting is committed to raise additional funds in the medium term to ensure the long-term viability of the programme and support more utilities.

4.2 Use of Funds

The Stichting aims to spend all of the funds it has received for the achievement of its objective. It is therefore expected that the initial envelope of funding will be spent over a time horizon of ca. seven years.

The Stichting will either use its funds for the direct benefit of supporting the partner utilities ("project expenses") or use them to build up and maintain its own required capacities to raise, manage, distribute, implement and verify the use of its own funds and to fulfil the necessary regulatory and requirements and ensure the due quality of project implementation ("administrative expenses"). The Stichting will aim to keep such administrative cost as low as possible while using as many of the funds received for the direct benefit of the utilities in the most efficient way.

The funds allocated to project expenses may either be directly disbursed to utilities for their own further use or paid to eligible third parties so that theses may in turn provide services or goods to the utilities.

4.3 Management of Funds

Funds received that will not be spent in the ongoing financial year shall be temporarily invested in low-risk financial instruments instruments with adequate returnswhile minimising default and ensuring liquidity for the Stichting and respecting the criteria of the Investment Policy Statement. The Stichting will adopt an Investment Policy as soon as possible, describing the overarching parameters for such investments, including criteria for environmentally and socially responsible investments.

The Management Board will ultimately be in charge of making investment and disbursement decisions. It will be supported therein by a qualified Investment Advisor.

5. Contact & registration details

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Legal form: Stichting (Dutch Foundation / Charity)

ANBI status Registration: Pending

CoC number (KvK): 96498374

Tax number (RSIN): 8676.37.456

Management Board: Adriaan Mels (Chair)

Supervisory Council: dr Jörg Dux (Chair), Mr. Dieter Rothenberger (Vice-Chair), Mr. Toine Ramaker (Secretary)