

Guideline on **BUSINESS PLANNING** **2019**



Guideline on Business Planning 2019



FOREWORD

The Water Services Regulatory Board (WASREB) is the body mandated under the Water Act 2016 to provide regulatory oversight in the water and sanitation sector in Kenya. As part of this mandate and in view of the evolving sector, it is imperative that Water Services Providers (WSPs) adopt sound commercial approaches in provision of Water and Sanitation services as well as long term planning. This places business planning as regulatory requirement for compliance as well as a tool for planning among others for the WSPs.

Cognizant of the essential central role of the business planning in provision of Water and sanitation Services, WASREB, with the support of USAID's Water, Sanitation & Hygiene Finance (WASH-FIN) Program, set out to review and update business planning guidelines which had been published in 2007 but had low adoption by the WSPs.

The guideline has been updated with the objective of supporting (WSPs) to develop business plans that lead to sustainable investment and financing to ensure effective and efficient water services and the progressive realization of the right to water. The document will guide the WSPs' management teams to identify priorities from their strategic plans, and to formulate these priorities into comprehensive and attractive business plans.

The guideline is intended to be a useful tool for management and for stakeholders to monitor and review the company's plans and commercial models, identify market, operational, and financing opportunities and gaps, and evaluate progress and results against objectives. Finally, it is hoped that in adopting this guideline, progressive WSP's leaders shall develop internal processes, systems, and incentives to continue to revise their business plans on a yearly basis.

Each section of the guideline includes a description of the content that should be considered in developing a business plan, and some examples to provoke WSP leaders' thoughts. The examples should be adapted and replaced with the respective company's information. The values quoted in the document are illustrative and should not be taken as representative figures for the sector.

While a WSP may work on the different sections of the report in any order, it is recommended that the 'Executive Summary' section be written last and encompass a summary of the key sections of the plan.

The guideline applies a standard, consistent and logical structure and it should be noted that the content will be unique to every Water Services Provider depending on the operating environment.

WASREB greatly appreciates the invaluable support and inputs from USAID's WASH-FIN program in delivering this essential tool to the Kenya water sector. In addition, USAID's WASH-FIN's strategic and timely intervention to engrain sustainable and creditworthy business models, increased public funding, and expanded market finance for infrastructure investment through technical assistance and capacity building to WSPs and other WASH sector stakeholders provides a much-needed platform to increase the water and sanitation coverage in the country.

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GUIDELINE ON BUSINESS PLANNING

INTRODUCTION

The Constitution of Kenya (COK) 2010 created two levels of government; the national government and 47 County Governments. As per the fourth schedule on distribution of functions, the national government was assigned ownership, use and regulation of water resources, consumer protection and national public works. The County Governments were assigned water services provision and sanitation, catchment management and county public works.

The Water Act 2016 reoriented the Water Sector to the Constitution of Kenya 2010 (CoK 2010) to include the new institutional structure of County Governments, strengthened regulation at national level and at the same time transferred several executive functions to the County Governments.

Legal Obligations of County Governments

Clause 77 of the Water Act 2016 allows a County Government to establish Water Service Providers (WSPs) while complying with standards of commercial viability set out by the Water Services Regulatory Board (WASREB). Clause 91 gives WSPs the responsibility of efficient and economic provision of water and sanitation services so as to fulfil the Right to Water.

Specifically, the Water Act 2016 is primarily intended to align the water sector to the devolved structure of governance described in the Constitution of Kenya 2010. In line with Article 185 of COK 2010, the Water Act gives the County Governments the mandate for water and sanitation services provision and that of the development of County Water Works.

In this context County Governments are obliged to review the efficiency and commercial viability of their existing licensed water utilities which previously operated as agents of Water Services Boards (WSBs) through a Service Provision Agreement (SPA). One of the key measures at the disposal of County Governments and specifically for the urban WSPs is to enforce the use of basic commercially oriented management instruments such as business and investment plans in order to improve their commercial viability to enable them deliver services efficiently and effectively to their customers.

Legal Obligations of the Regulator

Under the Water Act 2016, Clause 72 the Water Services Regulatory Board (WASREB) has been mandated to set rules and enforce standards that guide the sector toward ensuring that consumers are protected and have access to efficient, adequate, affordable and sustainable water and sanitation services. WASREB sets the required standards in water and sanitation services and licenses water utilities which fulfill the requirements. WASREB additionally monitors and reports to the public on the performance of the licensed water utilities.

Financing and Asset Development as Biggest Challenge in Sector Development

The increasing demand for Water and Sanitation Services (WSS), driven by increasing population, urbanisation and the related changes in land use and climate change are not only putting a strain on water availability, but also require huge capital expenditure and wise investment of scarce public resources. The National Water Master Plan 2030 projects an investment need of about Ksh 2 trillion (USD 20 Billion) to achieve the goal of universal access. Out of that requirement, indications are that

investments of about Ksh 1.6 Trillion (USD 16 Billion) needs to be mobilized using alternative financing models because the traditional public sector (Government and Development Partners) does not have the capacity to provide all the required resources. These alternative models will require leveraging of public resources to mobilize private resources over a timeframe that matches the useful life of the assets financed.

There is therefore a need to have a comprehensive sector investment plan backed by adequate and predictable financing in order to achieve the progressive realisation of the right to water and sanitation. Business plans and investment plans are critical tools to achieve this goal and are required documentation to accompany license applications and tariff adjustment proposals forwarded by WSPs to WASREB. The business and investment plans are therefore not only crucial for planning for the WSP, but also needed for the cross-sector assessment carried out by WASREB. Business plans also serve as standard instruments to communicate with external stakeholders and operational partners such as the Development Partners, local financial institutions (commercial banks and the Kenya Pooled Water Fund (KPWF), and private partners (local community and civil society).

Objectives of the Guideline

The key objective of this guideline is to oblige and support all WSPs to fulfil their obligations to establish and regularly update business and investment plans and to set minimum requirements for such undertakings in the water sector. Once established, WSPs can use these plans to, among others, assess company goals, investment planning, access financing, arrange strategic alliances, etc. In addition, WSP business plans will be used by WASREB for the different regulatory instruments such as tariff adjustment negotiations and verification of activities the WSPs will have to carry out to achieve the sector benchmarks.

Objectives of Business Planning

Business planning is recognized as an essential tool for management and planning in both private and public companies. It gives an overview of the actual situation of the company and its strength and weaknesses. It encourages the company to specify objectives and define strategies and actions to achieve them. Management is guided in its decisions by the logical framework of the business plan. This helps management to focus on efficiency gains and monitor performance development.

The main objectives of WSP business planning can be summarized as follows:

- **Situational analysis:** A business plan provides a comprehensive overview of an organization's mission, objectives, strategies and programs for a given period and enables a review of how these are linked to sector policies. It provides an opportunity for critical assessment of the organization and commits the employees to a programmatic way forward.
- **Regulatory compliance:** The Regulatory Board relies on business plans to approve the direction of the WSPs and monitor their performance. Tariff adjustment proposals are based on objectives and targets set out in the business plan.
- **Communication tool:** Organizations can communicate their objectives, planned activities and ideas to its stakeholders through the business plan
- **Management tool:** A business plan is an operational tool that enables WSP management to undertake its business effectively and efficiently. A comprehensive business plan reflects a realistic view of market and operational expectations, the short to medium term objectives of

an organization, and the resources utilized to achieve those objectives with a consideration of the risks involved.

- **Tool to access financing:** A business plan is a standard tool that facilitates a quicker evaluation of an organization’s business model¹ and growth strategy by sources of funding and finance (commercial sources require a business plan). In most instances, additional elements will be required such as technical details included in detailed designs and project Bill of Quantities (BoQs), to inform decisions on funding or financing.
- **Monitoring and evaluation tool:** A WSP may use its annual business plans as a working tool to monitor its performance against targets over time. The minimum service levels and sector benchmarks established by WASREB shall be reflected in the business plan.

Strategic Plan vs Business Plan: Timeframe and Approach

Unlike strategic plans, which cover 5-year growth plans, business plans should cover the company’s strategy over a period of a minimum one year, and maximum of 3 years, and must be updated annually. Business plans feed off strategic plans, outlining how the company intends to make progress towards achieving the goals in the strategic plan. Plans for the year as well as progress made in the previous year must reflect environmental factors that may have impacted on the business.

The table below outlines some of the differences between a Strategic Plan and a Business Plan.

<p>❖ Strategic Plan</p> <ul style="list-style-type: none"> ▪ Overall plan, sets strategic objectives on a long-term horizon (3-5 years) ▪ For internal use mainly but could be shared with external parties. ▪ Gives the future direction of the organization to key stakeholders ▪ Forms the basis for more detailed plans, including business plans, marketing strategies, funding strategies etc. 	<p>❖ Business Plan</p> <ul style="list-style-type: none"> ▪ Gives more details on the market, business model, operation and any proposed projects/developments on a short-term horizon (i.e., 1 year). ▪ For external use, likely to be shared with sources of finance, partners, and the community. ▪ Gives more details about the organization’s: management, financial position, financial forecast and investment plans, operations, marketing, human resource strategy, IT, competition etc.
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Contents of a Business Plan

The following guidelines describe the minimum content requirements of a WSP business plan. It is not restrictive. Throughout the business plan, it is also important to note that efficiency improvement indicators and pro-poor strategies should be sufficiently reflected. All plans and strategies should also be closely aligned with (the most recent) County Integrated Development Plans (CIDP), any more localized city or other master plans, national strategies such as Vision 2030, the Kenya National Water Master Plan², and, climate change standards as per the CIDP or National-level policies. If appropriate

¹ A business model is a company's plan for how it will generate revenues and make a profit. It explains what products or services the business plans to produce, and market, and how it plans to do so, including what expenses it will incur.

² Available in the WASREB website on the following link: <https://wasreb.go.ke/national-water-master-plan-2030/>

due to timing or need, the lead organization involved in the development of these strategies and plans should be consulted to support the business planning process.

At a minimum, the WSP business plan must include these eight key sections, discussed in more detail in subsequent sections:

- Executive Summary
- Company Overview
- Market Landscape
- Strategic Plan
- Proposed project (s) Plan for Investment
- Organization Assessment (including risks)
- Financial Summary
- Monitoring and Evaluation

I EXECUTIVE SUMMARY

This section synthesizes the entire business plan, briefly summarizing all sections with a focus on the company's key objectives, strategy and action plan. It also highlights key risks that the company will face in the implementation of its plans and states mitigation strategies to manage such risk. Ideally, the Executive Summary section will be drafted such that it can stand on its own as a document, with additional details from the full business plan available as reference if needed.

NOTE: As this section provides a summary of the whole document, it should be drafted last. Ideally, the Executive Summary should be a minimum of 1 page, and a maximum of 2 pages.

2 COMPANY OVERVIEW

2.1 Company Profile

This section gives a general description of the business, in particular:

- Mission, vision and core values of the business
- Overview of the service area covered
- Important agreements, including the license issued by WASREB , and other partnerships such as with Development Partners

Box 1: Sample company profile

Vision

The vision statement is futuristic and should identify what the company seeks to accomplish or achieve; it should be brief. [Delete the description and input the company's vision]

Mission

A mission is a brief explanation of the organization's existence it describes the purpose and overall intention. The missions statement supports the vision and serves to communicate purpose and direction to employees, customers, vendors and other stakeholders. [Delete the description and input the company's mission]

Core values

Core values are the fundamental principles that guide the company's operations and its employees conduct. [Delete the description and input the company's core values]

Business overview

Company X based in X [location] was incorporated in [2009]. It is mandated to provide water and sanitation services to the areas of A, B and C through a licensing agreement by WASREB and is wholly owned by X County Government. Currently, the company provides water and sanitation services to... [Give a brief description of the services offered and the market in which the company operates in].

2.2 Core Business / Mandate

Core business is the set of activities that are central to the existence of the organization, such as:

- **Value proposition:** refers to the issues faced by customers which the company is solving through its operations

- **Products and services:** services offered to customers e.g., water and sanitation and value of these services to customers
- **Customer base:** number of customers who have benefited from these services in the past year
- **In-house capabilities:** skills and competencies within the organization to provide these services e.g., technical team with X number of water engineers, strong finance team with relevant qualifications, independent internal audit team, robust procurement procedures and systems, strong customer care systems, automated billings systems and GIS systems, etc.

Box 2: Sample Core Business description

Give a detailed description of the service area or the area in which the company operates and why the services are needed e.g., X% of households in the region do not have access to clean water and sanitation services. Explain whether the company provides water, sanitation services or both. For water supply services, explain whether it is through a centralized system like piped networks or decentralized like water kiosks, or some combination. In the case of sanitation, explain toilet penetration and level of open defecation if relevant, and if treatment is offsite through sewerage treatment plants (STP), fecal sludge treatment plants (FSTPs) and the customer coverage of the same and any services the WSP provides to collect or transport sludge, or onsite like in the case of septic tanks.

The company could also be involved in infrastructure and construction management, sales of water and sanitation services or products, or they could be a contracted water and sanitation operator in the city or county.

2.3 Legal structure and ownership

This section gives information on the ownership structure and governance of the organization. This helps third parties (customers, creditors, financial institutions, other external parties etc.) know whom they are dealing with from a contractual point of view, and what laws, rules, and management authorizations govern the company.

Box 3: Sample legal structure and ownership

Company X was incorporated as a private company in its Articles of Associations as provided for in the Company Act. In accordance with provisions of the *Water Act...*, Company X was licensed by the regulator to provide water and sanitation services to areas A, B and C. Company X operations are *monitored under the Service Provision Agreement with the county* [This needs to be confirmed]

The articles of association give Company X powers to borrow and provide debentures as security. The company is limited by shares and the articles of association allow the *directors to borrow up to two times the issued and paid-up capital and reserves of the company.*

Board of Directors

This section should include profiles of directors and describe their role and responsibilities, qualifications and professional background.

Box 4: Sample Board of Directors

Board of Directors and their functions

Company X's Board comprises *five directors* as shown in the table below. The Board is composed of two *executive directors* from the company and *three non-executive directors*, [insert correct composition of the board].

Board members are elected [describe how] and are in place for a period of X years [and maximum terms they can serve if stipulated].

Table: Company X's Board of Directors

	Role on the board
Board member 1 [Name]	Chairman
Board member 2 [Name]	Vice Chairman
Board member 3 [Name]	Additional roles added here

[Describe the main functions of the board]

The main functions of the Board include:

1. Establishing short and long-term strategic goals for the company and plans to achieve those goals
2. Reviewing and approving annual budgets
3. Setting and periodically reviewing key performance indicators and management performance
4. Ensuring that the Company has adequate systems of internal controls
5. Ensuring that the Company has adequate risk management plans to ensure business continuity

If relevant, describe any Board sub-committees and their members and main functions.

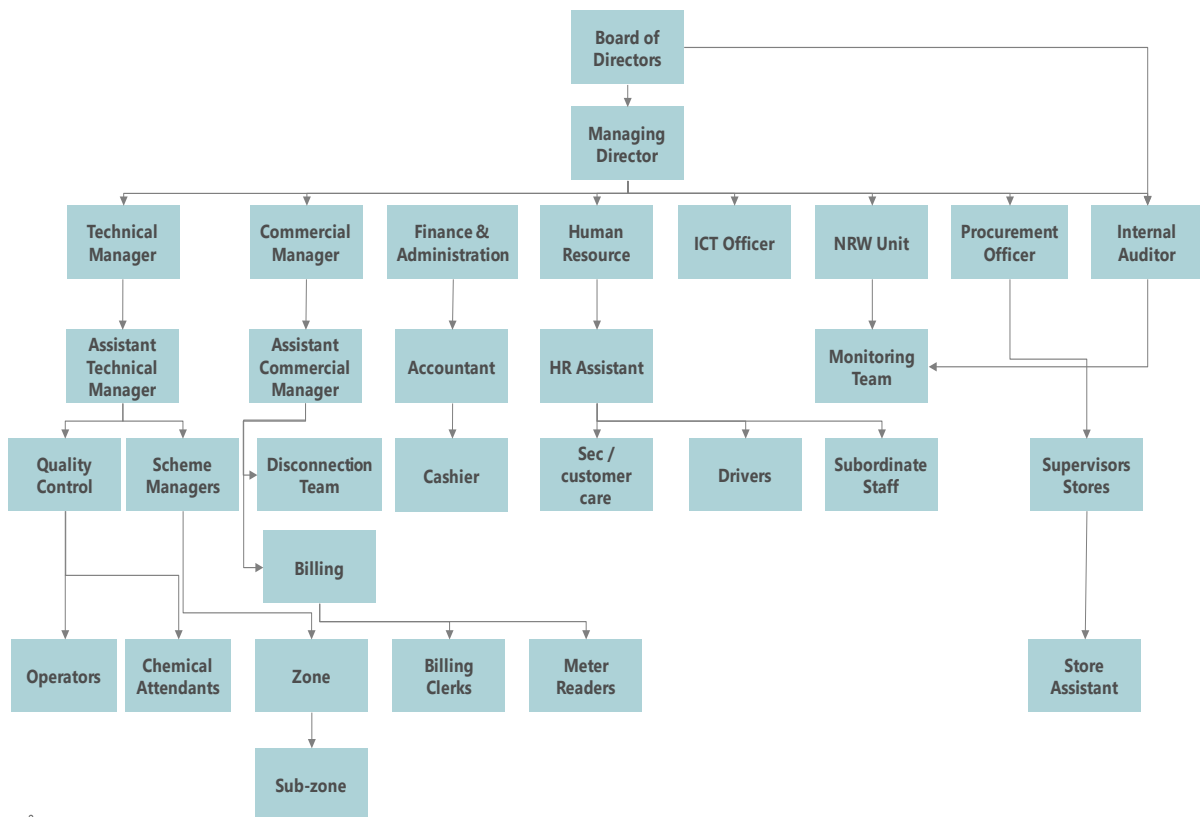
As part of the section, supporting documents such as the Board Charter, Code of Conduct, Performance Evaluation of the entity could be attached as an Appendix when the company is sharing the business plan externally.

This section could also include other stakeholders that are part of the legal structure or ownership the organization wishes to mention, beyond the aforementioned. Please note that if the stakeholders are not part of the legal structure and ownership, they should be mentioned in the appropriate section or new title.

2.4 Organizational Structure

The success or failure of any business will largely depend on the how the management team is organized and the support of the Board of Directors. Stakeholders will rely on this section to understand the structure as it relates to the current operation and the plans and strategies in the business and investment plan. This section shall include an organizational chart that clearly shows the breakdown of staffing across different departments and the reporting lines within the company as well as total headcount (see Figure 1). The accompanying narrative should describe the organization and include a detailed description of each division or department and its function and a comparison to the relevant sector benchmarks given by WASREB.

Company X has a total of 100 full time staff and 20 part time staff. The employees are organized by function as described in the figure below.



2.5 Management Team




The quality and relevance of management is critical to developing and implementing a business plan. This section should include profiles of the management team, highlighting their qualifications and professional background, and role and responsibilities in daily operations and in developing and implementing the business plan. Any team members that have been hired over the past year or since the previous business plan should be noted.

Box 5: Sample company management team

Company's management team

Company X has a highly experienced management team that combines skillset across the different areas of Company X's operations as illustrated in the table below. [Add commentary on the company's management]

Example of a table: Company X's management team's roles and experiences

	Role at Company	Experience
[Insert photo] 	[Name] Managing Director	<ul style="list-style-type: none">• Insert experience here
	[Name] Technical Manager	<ul style="list-style-type: none">• Insert experience here
	[Name] Finance Manager	<ul style="list-style-type: none">• Insert experience here

2.6 Summary of Achievements

Here, the organization should give an overview of achievements made over the past year, measured against the last business plan and its long-term strategic plans. This includes but is not limited to:

- Progress updates on projects that are under implementation
- Increase in customer base
- Funding secured to implement projects
- Improvements and trends in internal efficiencies
- Improvements and trends in overall performance as captured by WASREB Annual Impact Reports

The company should ensure the achievements stated are described appropriately to ensure the reader is able to understand (e.g., Box 6).

Box 6: Sample summary of key achievements

Installation of new infrastructure [describe infrastructure] has increased water service capacity from X cubic meters in 2017 to Y cubic meters in 2018. The installation was completed through funding from [insert sources] and is expected to cover X amount of the consumers water demand.

Collection efficiency has increased by X% in the past year through enforcement of strict policies, including [provide details of policies]. [Further summarize how the policies have been enforced and expected outcome.]

The company has completed repayment of a loan amounting to KES X, that was used to implement [provide details of project]

Of special note are achievements made regarding water quality, Non-Revenue Water (NRW), customer service and service to low-income areas.

- **Improvement of water quality:** a crucial step towards improving water quality is the establishment of an annual water testing program and the publication of results. In this section, the organization should describe activities undertaken to improve water quality in the previous year and the cost of such activities. Results from the previous year should be included here.
- **Non-Revenue water:** the WSP should describe its current levels of NRW, the causes of these levels (both physical and commercial) and the efforts / activities undertaken to reduce NRW to the acceptable rate as stipulated by WASREB. Further, if there are challenges experienced in reducing the NRW, the WSP should describe how they will overcome them
- **Improvement of customer service:** in this section the organization should outline activities undertaken to improve customer service in the previous year. WSPs should refer to the Minimum Service Level requirements issued by WASREB, which provides a minimum benchmark to be achieved.
- **Improvement of services to low-income areas:** the company shall indicate activities undertaken in the previous year to improve and extend services to low-income and underserved areas, e.g., through new connections, water kiosks etc. Thereby, the providers and the WSPs shall refer to the service area as agreed with WASREB. The WSP can decide to source services out to third parties but must recognize that it will in such cases remain entirely responsible for the service provision to WASREB. The WSP is responsible for and must have capacity to resolve complaints by customers served through the third parties.

2.7 Non-core Business Activities

The focus of the business plan is to address the main core business of an organization, which is in the case of WSP, water supply and sanitation service provision. But water companies may be involved in other business e.g., bottled water, or briquette making.

The business plan shall outline other business activities it is engaged in, giving reasons why the organization has undertaken these activities with details of expected benefits, any risks, etc. To make this clear, the following will also have to be documented:

- Strict separation from the core business in all areas of business management
- Separate accounts and accounting
- Benefits to the core business – water supply and sanitation service provision.

3 MARKET LANDSCAPE

3.1 Overview

This section should include a more detailed description of the service area, outlining the services Company X provides in the area, the total population served and key market segments across residential and institutional. It should also include a map showing the service area of the company.

The description should answer questions like: How big is the customer base and what is the composition? Is the company able to provide the services to their whole jurisdiction? What is the willingness and ability of customers in the jurisdiction to pay for services? How are low-income residents subsidized? What is the alternative for water and sanitation for the unserved areas? Is there a plan to target new areas?

Furthermore, a narrative on the following key areas should be included:

- Market trends including socio economic and demographic characteristics of the service area and key trends (e.g., how the market has been changing over time including population changes, consumer changes)
- Proportion of institutional to individual consumers
- Presence of a single major consumer or class of consumers
- Residents per household and income levels of households and where applicable the presence of LIAs

If relevant, this section should also describe the competitive landscape or substitutes as, for example, in the case of seasonal variations where rainwater is used and sales decline, but reservoirs fill up and support sales in dry season. This should answer questions like: Who are the current and potential future customers of Company X and what are their characteristics? What is the size of the market? Is there any seasonality to any key business lines? What other companies are competitors to company X? How will Company X position itself?

Box 7: Sample overview of market landscape

Company X's area of coverage is 300km^2 with approximately 450,000 people. Currently, the company has 10,000 active water connections to households and institutions which translates to coverage of 65%. Their customers include *households, water kiosks, institutions (schools and hospitals), markets, and coffee factories.*

In terms of water provision, the region is categorized into areas that are well served (i.e., are served continuously), areas that are underserved, areas that are not served and areas that are served by community projects. As the system is gravity-fed, the customers living closer to the treatment plants across the various schemes, about 40% of total customer base, are supplied with water continuously. Residents living further from the treatment plants, comprising approximately 45% of Company X's customer base, are under-served and experience water rationing. Areas with no water supply account for 7% of the customer base, with the remaining 8% being served by community water projects. Residents who do not have access to continuous supply have to source water from rivers, boreholes, and wells.

3.2 PEST Analysis

The Business environment analysis investigates **Political, Economic, Social and Technological** (PEST) factors and how each of these impacts the performance of the organization. The organization shall outline in its business plan the impact of these PEST factors as well as strategies that will be adopted to ensure that the organizational objectives will still be achieved.

Business Environment

In addition to the PEST Analysis, the company should provide an overview of relevant developments within the sector including links to:

- Overall government policies governing the sector
- Water sector policies and national water service strategy
- Other developments in the local market and business environment that affect WSPs

3.3 Market Need

This section includes a description of the problem in the service area or the market gap that the company is addressing or seeking to address.

Box 8: Sample of market gap being addressed

Company X is making efforts to improve access to water and sanitation in the service area with inadequate access to water and sanitation services to curb challenges that residents face and make contributions towards Sustainable Development Goals target of full access to water and sanitation for all.

Some of the challenges the residents face includes lost time spent fetching water from boreholes and rivers, which could have been spent engaging in other potentially revenue generating activities. Women are disproportionately affected by this as they are often given the responsibility of collecting water. In some instances, there is an increased level of truancy when children are tasked with fetching water. In addition, households that need to spend a lot of time and effort fetching water typically maintain lower levels of hygiene. Untreated water sourced from these alternative sources is sometimes consumed as it is, which increases instances of spreading of waterborne diseases.

3.4 Addressing the Market Gap

This section includes a description of how Company X responds to the market need and improves water and sanitation access through its operation. For every market need the company has described above, this section should describe a corresponding solution / strategy to address the need. Potential solutions that can be described include: increasing water and sewer connections through last mile extension projects to address lack of access, addressing NRW to ensure available water utilized, increasing treatment capacity to produce more water, etc.

4 STRATEGIC PLAN

This section will mainly draw and highlight specific aspects from the WSP's Strategic Plan. Strategic planning is a systematic attempt to look ahead, to set specific objectives and describe how to achieve them. Strategic planning involves:

- Reviewing the current situation
- Looking ahead and setting goals, objectives, targets
- Developing action plans and policies for achieving the desired objectives
- Defining indicators and measures of success to monitor progress over time

The annual strategic planning process answers questions such as: Where are we in relationship to the 5-year strategic plan? Where do we want to be at the end of 5 years (or the business plan cycle)? How does the business plan contribute to achieving the strategic plan? What indicators will be used to monitor progress?

By outlining key highlights of the annual strategy in the business plan as it relates to the strategic plan, both management and the Board of Directors can monitor company performance.

4.1 Company Objectives

This section indicates the progress of how and when to achieve the Minimum Service Levels as detailed in the company's license. Objectives and strategies shall contain a clear statement on how to improve water and sanitation services within the service area. The company shall indicate measurable objectives and outline strategies to ensure they are achieved. These annual objectives should be geared towards achieving longer term goals that are outlined in the 5-year strategic plan. Objectives could include the following:

- Technical indicators
 - Increasing water coverage within the area of jurisdiction by X%
 - Adding X number of new water connections
 - Increasing pro-poor coverage by X number of connections
 - Reduction of Non-Revenue Water (NRW) to X%
 - Adding X number of sewerage connections
 - Reducing untreated affluent discharges by X%
 - Increasing on-site sanitation
 - Increasing metered connections and efficiency
- Internal operations
 - Improving billings and collection by X%
 - Cutting down on internal costs by X%

4.2 Action Plans and Indicators

The organization is expected translate the objectives for the business plan period outlined above, into annual activities and work programs, with corresponding action plans or tasks, and indicators. This section will outline:

- Annual activity schedule of major tasks to be undertaken to achieve the annual objectives outlined earlier. This should be broken down into milestones and include clear timelines for each activity as well as assigning an owner responsible for achieving the task. Below is a simple planning template that can be used to track progress of action plans or tasks
- Performance indicators to measure completion of these activities throughout the year taking into account the milestones and timelines described above, as well as assess if the company has met its objective for the task

4.3 Key Improvement Areas

The following four areas are a priority for the water sector in Kenya and are reported on annually by WSPs in the WASREB Annual Impact Reports. The business plan should outline how each is to be improved according to the reports.

Improvements of water quality

Here, the company should outline the activities to be undertaken to improve water quality in the period for which the business plan will cover as well as the estimated cost. Key performance indicators should also be included to monitor progress.

Improvements of customer service

In this section the organization should outline activities to be undertaken to improve customer service along with key performance indicators. WSPs should refer to the Minimum Service Level issued by the WASREB, which provides a minimum benchmark to be achieved.

Improvements of services to low-income areas

The company should indicate planned activities to improve and extend services to low-income and underserved areas, e.g., through increased connections, prepaid meters, water kiosks, either directly or through third party providers. Terms of any partnerships should be described, along with the responsibilities and key performance expectations of third parties.

Improvement of internal efficiency

Activities to improve internal billing and collection efficiency during the year should be included here, along with performance indicators to monitor progress. Other key performance areas that can be noted included water and sewerage coverage, O&M cost coverage, staff productivity against benchmark, revenue collection efficiency, and metering ratio. These are defined in detail in the WASREB Annual Impact Reports.³

Please note that if the company has documented the Minimum Service Levels, this document should be included as an attachment when sharing the business plan with external parties.

³ As of drafting of these guidelines, the most recent Annual Impact report was Issue No. 10 (published in 2018) for financial years 2015/16 and 2016/17

5 PROJECT (S) FOR INVESTMENT

This section describes projects for investment to fulfil the objectives set for the duration of this business plan. It also includes an explanation of how funds are to be mobilized and used to implement the plans and achieve the objectives outlined in other sections. WASREB uses benchmarking and comparison of investments across WSPs to ensure they are moving toward the most cost-effective solutions and ensuring value for investment.

The following key elements should be reflected in this section:

- How the WSP's projects for investment fit into the County Integrated Development Plan
- How investments will improve performance such as a metering program to reduce NRW for instance
- How the investments integrate asset renewal and/or replacements to ensure the viability of the existing infrastructure and the maintenance of the service level
- How the WSPs address the issue of most cost-effective solution in their investment planning
- How the WSP intends to invest its resources to meet the growing demand in the service area by extending infrastructure and improving the existing infrastructure

5.1 Type of Investments [Proposed Project for Investment]

This section should properly describe the investment or project, how it addresses the market need, the objectives it relates to, and how the WSP intends to implement it.

Many existing water supply and sanitation facilities are seriously inadequate and dilapidated and therefore need immediate attention both in brownfield rehabilitation (including extensions to underserved settlements of the urban poor) and new greenfield investments (major works). Other investments that can yield quicker payback efficiencies that can improve cash flows for future larger investments should also be noted. Generally, distribution and collections efficiency must be improved prior to investment in major works or those assets will have a weak cash flow base from which to operate. Demand management also obliges the WSPs to plan for an extension of supply facilities only if the water losses are reduced to an acceptable level at the same time.

Potential investments that can be described in this section include:

- Efficiencies gained through reduction of NRW to improve utilization of existing assets or energy usage, or automating systems such as the improved billing and collection systems, SMART mobile reading.
- Increasing coverage in underserved areas that can improve utilization of existing assets. These investments must inherently include close analysis of willingness and ability to pay and include subsidy schemes when appropriate, and sources of funds for these schemes.
- Increase sanitation coverage in unserved areas, for instance, by increasing last mile connections, developing waste treatment plants, etc.
- Beyond utilization of existing assets, WSPs are also encouraged to assess alternative sources of energy (e.g., renewable energy) to reduce O&M costs
- Standby equipment to maintain operations in case of emergencies like the breakdown of major equipment such as pumps.
- Investment in human resources, inventory, software, equipment, tools, or overhead needs such as office buildings, vehicles, etc.

- Rehabilitation work to safeguard the supply level to customers. It shall include limited extension of low-cost technology such as water kiosks to improve rapidly the situation of the underserved until an extended network with household connections can be financed
- Major works are the part of medium and long-term investment planning. An investment plan shows how objectives, strategies, costs and revenue have been considered and why the proposed investment is worth being undertaken. Major works also include replacement of large assets such as treatment plants or trunk lines

Further guidance on the minimum requirements for investment planning for the above examples are described in the Annex below and should be included in this section as relevant to the proposed project for investment.

5.2 Sources and Uses of Funding

According to government regulations (Government Financial Regulations and Procedures) each WSP is required to indicate the total capital expenditure planned during the budget period in the context of the County Integrated Development Plan (CIDP).

In the event that the WSP has multiple projects they need investment in, the investment budget must be broken down by project and source of funding or finance for all investment projects. Projects also need to be ranked and linked to / with one or more targets in the Strategic Plan. The WSP needs to also demonstrate adequate justification for undertaking the project based on forecasts on revenues, investments or expenditure, performance levels and coverage, or on purely socio-economic impact or cost-benefit analysis as per the financial forecasts. The expectation is that the WSP will present the detailed projections in the financial summary section below, and for this section, only show key financial information as it relates to the project for investment including but not limited to (e.g., in table format):

- Total amount required
- Sources of funding
 - Funds from Government of Kenya
 - Funds from County Government
 - Funds from donors / development partners
 - Finance from financial institutions, etc.
 - Internally generated funds
 - Community funding, e.g., through MoUs
- Use of funds
- Benefits of project and prioritization

5.3 Sustainability of Investments / Infrastructure

Investment plans must document that the investment does not generate operational and maintenance costs which cannot be covered with revenues. This would compromise the sustainability of the new investment and the services to the consumers, create a dependency on external sources for financing which is contrary to the sector policy of increasing self-financing of service provision or force the consumers to support unacceptable tariff levels.

In this section, state how the investment will be sustained for the life of any assets or what value is generated from the investment.

6 ORGANIZATION ASSESSMENT

6.1 SWOT Analysis

SWOT analysis describes the current state of the organization. This will be described through an outline of the organization's current **Strengths, Weaknesses, Opportunities, and Threats**

STRENGTHS

- Well maintained infrastructure, with minimal breakdown
- Strong technical team ensures technical systems are efficient

WEAKNESSES

- Low billing due to internal inefficiencies
- Policies on fee collection are not well enforced

OPPORTUNITIES

- Good credit can allow the company to seek commercial financing for new projects
- Tariff can be increased to increase margins

THREATS

- High NRW due to pipe leaks and theft of water
- Current water and sewerage systems may not support increasing population; expansion of piping is necessary

6.2 Risks and Mitigations

This section outlines the identified risks and potential mitigations strategies to deal with the risks, if and when they arise.

Climate Variability and Change

The climate is changing across Kenya and all businesses are at risk of climate variability. Water and sanitation service provider operations are especially vulnerable, and the direct and indirect risks associated with climate change are likely to impact financial viability, longevity of assets, and therefore investment plans.

Understanding and planning for mitigation of climate risks reduces service delivery interruptions from floods and droughts and improves resilience in terms of disaster recovery. Adaptation options that are effectively integrated into operating plans reduces variability of cashflows, strengthens creditworthiness, extends asset life, and opens opportunities to attract additional finance. Water and sanitation service provider business plans should include management thinking related to 1) risks brought on by climate variability and change; 2) potential impacts on operations and infrastructure; and 3) identify actions to improve water security and safeguard assets. Considerations include⁴:

- **Climate-induced disruptions to sustainable delivery** – results of screening and analysis of potential risks from climate change e.g., precipitation (seasonality and intensity), increased mean temperature, droughts, sea level rise (SLR) and storm surge, high wind and resulting

⁴ Further discussion of climate change vulnerability assessments for WSPs, climate-resilient business plans, and emergency response plans are available in the USAID *Toolkit for Climate-Resilient Water Utility Operations* at <https://www.climatelinks.org/resources/toolkit-climate-resilient-water-utility-operations>

impacts on quality (siltation, dissolved oxygen and nutrients, etc.), soil erosion, and others climate-induced results.

- **Disaster risk reduction** – emergency response actions/plans to avoid or minimize impacts on operations and water delivery during disasters and recover from hazards.
- **Climate change adaptation** – priorities for investments or actions that improve resilience of operations and assets and are to be incorporated into operations.

Other Risks to Operations

Below, we have outlined some of the risks (not exhaustive) that could affect WSP operations which should be detailed as relevant for the WSP. For each risk identified, potential mitigation strategies should also be noted.

- New or changed legislation invalidating the assumptions upon which the plan is based;
- Failure to obtain appropriate approvals required, e.g., licensing, consents from relevant bodies such as National Environmental Management Authority
- Inability to acquire increased tariffs from regulator
- Inadequate water levels during the dry season
- Illegal connections on new infrastructure
- Unaligned stakeholder expectations

In addition to the above, the WSP may choose to append a customer satisfaction survey to show the consumer's perception about the organization, and a risk management framework.

7 FINANCIAL SUMMARY

Financial sustainability is required for the survival of any organization. Efficient and effective allocation and management of resources helps move a business toward the successful execution of its strategies and reach its goals. The business plan shall include a full analysis of the financial situation and how optimized resources and capabilities lead to superior performance.

In this section, provide historical and proforma financial statements in concert with the investment plan outlined in section 5. The proforma financials shall be developed after the organization has analyzed the market and set clear objectives to be able to allocate the resources efficiently.

7.1 Financial Statements

The following are the critical financial statements to include in the Business Plan:

Historical Financial Data

The organization shall include its audited **income statement; balance sheet; and cash flow statement** for at least the past **two** years of operations. Additionally, it should include a short analysis of the financial ratios and trend analysis for all historical financial statements.

Forecasted Financial Data:

This shall include the **proforma income statement; balance sheet; capital expenditure budget; and cash flow statement**. These projections should match the funding requests made earlier in the “Projects for Investment” section. Any assumptions made in the projections should also be explained in this section.

The example summaries below show projections for a period of 5 years, but a WSP should show projections for the relevant period of time the investment requires.

e.g.,

Revenue assumptions:

- 1,000 additional water connections each year, supported by Project X, described in section 3
- Reduction in NRW by 2% each year, supported by Project Y, described in section 3

Expenditure Assumptions:

- Hiring of X ground staff for every 1000 new connections
- Any cost reduction assumptions

The section should also include a cost benefit analysis of the proposed project.

Profit and loss statement

Profit and loss statement	Year 1	Year 2	Year 3	Year 4	Year 5
Revenues					
Water	1,034,319	1,091,300	1,140,209	1,192,410	1,248,151
Sanitation	1,067,478	1,107,876	1,239,133	1,272,540	1,408,263
Total annual revenues	2,101,797	2,199,176	2,379,342	2,464,951	2,656,414
<i>Revenue growth</i>		5%	8%	4%	8%
Gross profit & margin					
Total gross profit	827,846	883,160	1,018,717	1,057,007	1,198,267
<i>Gross margin</i>	39%	40%	43%	43%	45%
Net profit & margin					
NET PROFIT	114,170	69,590	134,634	193,464	289,366
<i>Net margin</i>	5%	3%	6%	8%	11%

Balance sheet

Balance sheet	Year 1	Year 2	Year 3	Year 4	Year 5
Assets					
Total current assets	547,429	332,902	588,329	1,010,393	1,364,418
Total non-current assets	939,310	1,127,238	912,000	590,810	435,536
Total assets	1,486,739	1,460,140	1,500,329	1,601,203	1,799,954
Liabilities & equity					
Total current liabilities	872,569	901,381	931,935	964,345	998,730
Total non-current liabilities	500,000	375,000	250,000	125,000	-
Total equity	114,170	183,759	318,394	511,858	801,223
Total liabilities & equity	1,486,739	1,460,140	1,500,329	1,601,203	1,799,954

Cash flow statement

Cash flow statement	Year 1	Year 2	Year 3	Year 4	Year 5
Cash flows from operations, investing & financing					
Cash flows from operations	225,829	400,103	467,800	536,143	600,980
Cash flows from investing	(980,000)	(536,500)	(175,000)	(30,000)	(215,000)
Cash flows from financing	500,000	(125,000)	(125,000)	(125,000)	(125,000)
Net change in cash	(254,171)	(261,397)	167,800	381,143	260,980
Opening cash balance	(200,000)	(454,171)	(715,568)	(547,768)	(166,625)
Closing cash balance	(454,171)	(715,568)	(547,768)	(166,625)	94,355

8 MONITORING AND EVALUATION

This section will include a description of how management will monitor the achievements of the strategic objectives and the indicators. The indicators set out in this plan should provide a basis to measure the progress and the impact the company expects to have in its operations. It should also match the action plan and indicators as described in Section 4.

Box 9: Sample monitoring and evaluation

Set out the targets for each of the indicators described in Section 4 on Strategic Plan. Make sure you also set out the values for what should be attained at the end of each year or half year for each of the indicators, and how that information / data will be collected, so that the progress can be tracked over time. This will enable the Board to hold the management responsible and for changes to be made to the strategic plan where needed.

This annex to the business planning guidelines described above provides further information on minimum requirements for investment planning that should be included as necessary in the business plan.

Minimum requirements for investment planning

The below refers to minimum requirements for investment planning:

- **Analysis of existing installations:** describe the condition of the existing assets (derived from the asset inventory) including water production, transmission/distribution, sewer system and general investments such as billing systems, metering, etc. (type of source, seasonal reliability, length and size of pipes, pumping equipment, treatment and reservoirs, bask metering, stand posts/kiosk, house hold connections)
- **Supply and sales forecasts:** analysis of past trends and present situation and a compilation of data concerning service coverage per service area, number of customers per tariff category and person served per connection, estimate of the daily consumption per type of customer, population growth. Thereafter forecast of increase in service coverage, measures for demand management / loss reduction (metering program etc.) and measures for increasing water production
- **Investment options:** present alternatives e.g., extensions through kiosk systems versus new transmission lines and household connections or reduction of NRW instead of enlargement of treatment facilities as a first step of rapid measures to increase coverage and supply in case of limited funds
- **Planned investments:** separate each individual water supply and sewer system and the different type of investment (replacement, new extensions, major work, general investments, additional measures such as training of personnel, additional employment, new software, etc.)
- **Benefits of investments:** describe the rationale behind the investment e.g., cost reduction by X%, increase in coverage by X%, X number of additional service hours, etc.
- **Funding requirement:** outline the cost of each planned investment and separately, each of the alternative solutions. Rank each investment according to priority and indicate the method of calculation (e.g., unit price per quantity – KSH per km pipe). A breakdown of cost according is required such as foreign exchange/KSH, engineering and physical costs, disbursement over time, base year of prices, inflation rates, additional cost for operation and maintenance
 - Amount of funding required to sustain the operations without additional investments
 - Funding requirements based on projects to be implemented during the year
 - Explain how these funds will be utilized
 - Specify if the funds are for recurrent (operating) or capital (investment) expenditure
- **Proof of feasibility:** submit feasibility reports, outlining the methods used e.g., such as most cost-effective solution, benefit/cost analysis, internal rate of return assessment or long-run marginal cost calculation
- **Licenses and permits:** WRA, NEMA, KFS etc.
- **Sustainability analysis:** demonstrate that investments are sustainable by documenting accumulation of customer revenue or reliable other cash flows to recover investment costs. This will include the necessary replacement costs

- **Financing options:** outline potential sources of financing such as commercial credits, funds from development partners, etc.

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