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# **TRAINERS' MANUAL**

**STRENGTHENING FINANCIAL MANAGEMENT  
CAPACITY OF LOCAL LEVEL ACTORS IN THE  
WATER SUPPLY AND SANITATION SECTOR**

**March 2007**

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## **1 Introduction**

This Trainers' Manual was developed as part of the OECD project "Strengthening Financial Management Capacity of Local Level Actors in the Water Supply and Sanitation Sector." It is a companion to training workshops for water utilities and municipalities from the CIS-7.

## **2 Purpose and structure**

The purpose of the Trainers' Manual is to guide the trainers in conducting workshops under the project "Strengthening Financial Management Capacity of Local Level Actors in the Water Supply and Sanitation Sector." These workshops should be for water utilities and municipalities in the CIS-7.

This manual comprises the following sections:

- Overview of the training;
- Sections for the four thematic blocks of the training.

Attachments to this manual include the presentations to be used by trainers at the workshops. These presentations are based on revisions to the materials presented at the Train-the-Trainers workshop held in Kiev at the end of 2007.

The section "Overview of the training" presents information on the objectives of the training, the participants and the program. Each section presenting instruction notes for the trainers is structured in the same way presenting the objective and expected result of the training on the specific thematic block, the overview of the specific thematic block program and basic instructions for each session of the thematic block. In many cases, the basic instructions are contained in the specific slides for each presentation.

## **3 Overview of the training**

### **3.1 Objectives of training**

The main objective of the training is to present the four project tools to participants from interested water companies and municipalities.

The specific objectives are to:

- present the concepts of financial planning, investment planning, benchmarking, and performance contracting to workshop attendees;
- inspire workshop attendees to apply some or all of the tools in their practice;

- recruit volunteers from among the workshop attendees to prepare "homework" for the second regional workshop to present initial results and to work further with two tools - FPTWU and MIP.

### 3.2 Participants of training

Participants will be drawn from water companies and municipalities from the following countries (so-called CIS-7):

- Armenia;
- Azerbaijan;
- Georgia;
- Kyrgyz Republic;
- Moldova;
- Tajikistan; and
- Uzbekistan.

### 3.3 Venue

The workshops will be organized into two regions. Each region will have two regional workshops.

**Region 1** workshops will be held in Georgia and the region includes the following countries:

- Armenia;
- Azerbaijan;
- Georgia; and
- Moldova,

The target dates for the workshops are 26-28 March 2008 and 23-24 April 2008. If any parties from the above countries fail to attend the first workshop or if in insufficient numbers, they may be invited to the first workshop in Region 2 and then to the second workshop in Region 1.

**Region 2** workshops will be held in the Kyrgyz Republic (Bishkek) or Tajikistan (Dushanbe) and the region includes the following countries:

- Kyrgyz Republic;
- Tajikistan; and
- Uzbekistan.

The target dates for the workshops are 14-16 April 2008 and 12-13 May 2008.

### 3.4 Program of training

This section refers to the first workshop in each region. A separate general guideline will be prepared for the second workshop in each region.

The training program is designed for three days and comprises four thematic blocks. The first day of training refers to Block I - the Financial Planning Tool for Water Utilities (FPTWU). The second day refers to Block II – Multiyear Investment Planning (MIP). The third day refers to Block III – Benchmarking and Block IV - Performance Based Contracts. Each of the trainings sessions is described in the next chapters of the manual providing general instruction notes for trainers on the session objectives, the training methods and techniques. It is very important for achieving the goal of the training to keep the time discipline and follow the program.

The following table contains the program of the first workshop in each region.

### **Day 1: Block I - Financial Planning Tool for Water Utilities (FPTWU)**

- 10:00-10:30 Registration of participants
- 10:30-11:00 Training opening and introductory presentation
- 11:00-12:00 Towards financial suitability of water utility: key concepts.  
(*Presentation*).
- What does financial sustainability of water utility mean and why it is so important?
  - Full cost recovery tariffs;
  - Tariffs' functions and tariffs structures;
  - Advantages of water services metering.
- 12:00-12:15 Coffee break
- 12:15-13:00 Towards financial suitability of water utility: key concepts - continued.  
(*Presentation*)
- Affordability of tariffs;
  - Price elasticity of water demand;
  - Role of medium to long-term financial planning in achieving financial sustainability of water utilities.
- 13:00-14:00 Lunch
- 14:00-15:00 What is the Financial Planning Tool for Water Utilities: its structure and functionalities  
(*Presentation*)
- What is the purpose of FPTWU and what benefits the tool provides?
  - Installation, rules of work and main futures of the tool;
  - Structure of the tool and its modules;
  - Results of work with the tool;
- 15:00-15:15 Coffee break
- 15:15-16:45 Working with the Financial Planning Tool for Water Utilities: from data entering to financial planning.  
(*Practical exercises in using the tool*)
- Input data entering;
  - Work with the taxation module;
  - Work with the CIP module;
  - Work with the financing sources module;
  - Work with the tariff module.
  - Review of financial planning: tables, indicators, and graphs.
- 16:45-17:00 Summary and conclusions
- 19:00 Reception at Hotel

## Day 2: Block II – Multiyear Investment Planning (MIP)

- 9:30-9:45 Review of Block I and discussing the next steps
- 9:45-11:00 Overview of Block II – multiyear investment planning
- Introduction to multiyear investment planning
  - MIP process step-by-step
  - Role of procedures in the MIP process.
  - What information about investments should be collected (example of forms to be used to collect information);
  - Debt financing: loan repayment schedule, debt limits, debt service ratios;
  - Citizen participation in the process;
  - Advantages of MIP implementation
  - Discussion about the legal background and/or limitations of MIP implementation in EECCA countries
  - *Supporting documents: presentation*
- 11:00-11:15 Coffee break
- 11:15-12:30 Investment projects appraisal, ranking and selection  
*Supporting documents: presentation, DGC software*
- 12:30-13:30 Lunch
- 13:30-14:15 Case studies– CEE country case; Case study - Lutsk  
*Supporting documents: presentation, case report from Poland; case report from Lutsk*
- 14:15-16:45 Presentation of the software
- Description of the tool
  - Installation and working with the tool
  - Financial analysis module
  - Completion of forms and their meaning
  - Setting criteria and their weights
  - Loans
  - Working with scenarios
  - Presentation of the results – decision support process
- Supporting documents: instruction to the software; sample data*
- 16:45-17:00 Summary

### **Day 3: Blocks III and IV Benchmarking and Performance-based Contracts**

- 9:00-10:30 Introduction to Benchmarking
- Definitions and Purpose
  - Types
  - Calculations
  - Case study – Austria
- 10:30-11:30 Review of IBNET - structure and contents of the website  
Facilitated discussion on benchmarking in CIS-7; availability of data
- 11:30-11:45 Coffee break
- 11:45-13:00 Introduction to performance-based contracting
- Defining principles
  - Reasons for performance-based contracts
  - Elements of performance-based contract
  - Processes and procedures in developing performance-based contract
- 13:00-14:00 Lunch
- 14:00-14:45 Case study on performance-based contracting
- 14:45-15:15 Business Game on performance-based contract
- 15:30-15:45 Discussion of Next Steps and Assignments
- 15:45-16:00 Evaluation
- 16:00 Closing

#### **4 Instruction Note: Training preparation**

Before starting the training, it is important to ensure that all preparatory work has been done. The following is a checklist for this purpose. Please read the list carefully prior to the training to double-check that everything is ready.

- Participants have confirmed their participation.
- The training room is arranged and ready for the training.
- Transportation to and from the training venue has been arranged for all participants
- The screen, projector and laptop are installed in the training room are working properly.
- The Financial Planning Tool for Water Utilities (FPTWU) is installed on the laptop and is working properly.
- The Multi-year Investment Plan (MIP) tool is installed on the laptop and is working properly.
- The training materials for participants have been printed and copied in the proper amounts.
- Participant badges/nametags have been prepared.

- The opening reception is prepared.

## **5 Instruction Note: General instructions**

The following is a list of general rules for trainers. This is a guide and not a full and complete list. Please read the rules carefully while preparing for the training and please apply the rules in conducting the training.

- Remember that the participants are practitioners and experts in their professions and the training is not to teach them but to help them in using the presented new tools.
- Create a good atmosphere and engage participants to express their opinions and *facilitate* discussion rather than *manage* it.
- Trainers should not shout over participants' voices or interrupt participants. Kindly and effectively bring discussions to a close when the time is expired for discussion.
- Trainers will demonstrate readiness to enter into discussion and provide additional information (orally or make reference to a written source) if it is necessary for continuation of an effective discussion.

## **6 Instruction Note: Registration of participants**

Participants coming to the training are welcomed and registered by the trainers. The trainers should welcome every participant and ask him or her to sign the list of participants.

## **7 Instruction Note: Training opening and introductory presentation**

*The objective of the session* is to open the training. The trainer will introduce the project and its sponsor, the team of trainers, as well as the participants in general. The trainer will present the objective and program of the training at the same time explain the logical links among the tools to be presented in the course of the training.

*The expected result* of the opening session is the creation of a positive atmosphere and the participants are informed about the project and the agenda of training will be ready to actively participate in the training.

*The scenario of the session.* The moderator of the session starts with a brief welcome of participants thanking them for coming to the training. After welcoming the participants, the title of the project and its sponsor is presented. Next is an introduction of the team of trainers

presenting their names and general professional experience. Next, the moderator asks the participants to introduce themselves briefly presenting their names, the name of municipality or water utility they represent and, their position at work and their expectations from the training.<sup>1</sup> One of the trainers should make notes on the expectations for later evaluation how the training meets the initial expectations. After the introduction the moderator should present briefly the program of the training. Next the moderator presents the Introductory Presentation. The presentation is attached to this manual. In making the presentation, the moderator should stress the links between all four tools to be presented at the training, especially the importance of the Financial Planning Tool for Water Utilities. In addition, stress should be placed on the advantages and expected results from the implementation of the tools.

## **8 Instruction Note: Block I – Financial Planning Tool for Water Utilities**

The Block I of the training refers to the Financial Planning Tool for Water Utilities (FPTWU) and this is the subject of the first day of training. Block I completes at the beginning of the second day of training after the short session *Review of Block I and discussing next steps*.

### **8.1 Objective and expected results**

*The overall objective* of Block I – Financial Planning Tool for Water Utilities (FPTWU) is to familiarize participants with the FPTWU as a strategic planning tool that can help water utilities in achieving their medium to long-term financial sustainability. *The expected result* of Block I is that the participants will be familiar with the tool and will express their interest in the implementation of the FPTWU at their water utilities. The practical result will be the long list of water utilities that are interested in implementing the tool. But please note that only some of them may be selected to participate in the follow up implementation phase.

To achieve this objective, it is important clearly to explain the goal and the functions of the tool. The main message that has to be conveyed to the participants is that the FPTWU is a strategic planning tool that assists in elaborating a medium to long-term financial plan for the water utility. The tool helps to integrate in a comprehensive financial plan the operational and maintenance policy, capital investment program, and tariff policy. Integrating the policies, the water utility managers have to make several decisions integrating and adjusting the policies. At every stage of the decision-making process, the tool presents the financial and performance

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<sup>1</sup> Note: if the number of participants is high, for example over 15, this should be skipped. Alternatively, one representative can introduce both the municipality and the water company from the municipality.

indicators of water utilities informing on the impact of the changes on the financial sustainability of the water utility. Presenting the tool it is important to stress that the tool is not simply an accounting software or simply a software to prepare the financial statements of water utilities. It is a management and planning tool and therefore it is designed for planning specialists helping managers in establishing medium to long-term financial plans.

## 8.2 Overview of the Block

The first day of training is fully devoted to the Block I – Financial Planning Tool for Water Utilities and comprises the session on *Towards financial sustainability of water utility: key concepts* and the two sessions on the Financial Planning Tool for Water Utilities: *What is the Financial Planning Tool for Water Utilities: its structure and functionalities*, *Working with the Financial Planning Tool for Water Utilities: from data entering to financial planning*. The first session introduces to participants the key concepts regarding the financial sustainability of water utilities, including the concept of financial sustainability, full cost recovery tariffs, tariffs functions and tariffs structures, affordability of tariffs, and price elasticity of water demand. Next, the FPTWU is introduced presenting the information on its goal and objectives, structure, functionalities and finally on the benefits from implementation of the tool. After the introduction of the FPTWU, the next session is the practical presentation on the work with the tool. In the course of the session, the step by step process of work with the tool - from entering the input data to analyzing the financial and performance indicators - is to be presented. Depending on the number of available computers, the practical presentation may be done only by the moderator presenting the rules of work with the tool or it may be done in the form of exercises for participants working with the tool using provided computers.

The first day of training closes with the summary and comments session. Block I as a whole closes with the session of Block I review and discussing the next steps at the beginning of the second day of training.

## 8.3 Towards financial sustainability of water utility: key concepts

*The objective of the session* on Key concepts regarding the financial sustainability of a water utility is to present the information what the key concepts are and how they impact the financial sustainability of water utilities. *The expected result* of the session is that the

participants understand the presented concepts and their interrelations and are better prepared to work with the FPTWU.

Carrying out the session the moderator uses the presentation on *Towards financial sustainability of water utility: key concepts* that is presented in the annex. Below are instructions regarding the presentation and its subjects.

*What does the financial sustainability of a water utility mean and why it is so important?* Presenting slide No 3, the moderator should stress the importance of financially sustainable water utilities in achieving the MDG (Millennium Development Goals) regarding water and sanitation services. Later, presenting slide No 4 on the overall definition of sustainability, it is recommended that the moderator ask the participants about their opinion on when a water utility may be financially sustainable. The question should be explained by the following question on what conditions must be in place so that a water utility could be financially sustainable. The moderator should make notes on the answers and make short comments stressing the most important aspects of financial sustainability, such as full cost recovery tariffs and affordability. The comments should make the link with the concepts to be presented later in the presentation.

*Key concept: full cost recovery tariffs and tariffs structures.* Presenting slide No 8 *Full cost recovery tariffs*, the moderator should stress that financial sustainability cannot be achieved without the full cost recovery tariffs. Presenting the slides on the functions of tariffs, the moderator should highlight the issue that some of the functions may be in contradiction to each other. Because of this, a good tariff is a tariff that strikes a balance between the contradicted functions and fits the best specific conditions of the water utility. Regardless of the contradictions, however, the most important is the application of full cost recovery and affordability principles. While presenting the tariffs structures, it is important to inform that most of the structures require metering systems.

Next, slide No 23 contains a case study on metering. Presenting the case the moderator will have the chance to discuss the advantages and disadvantages of the metering systems. It is important to stress that regardless of the advantages, failure to use care in the implementation of metering system may lead to decreased revenues of water utilities. Because of this, the metering system must be carefully designed and implemented to achieve its benefits for

clients as well as for water utilities. Ending the subject of tariffs, the moderator presents the *Exercise on calculation of two component tariffs* explaining the assumptions and calculations.

*Key concept: affordability of tariffs.* Introducing the principle of affordability, the moderator stresses that full cost recovery tariffs have to be at the same time affordable for consumers. In other words the tariffs have to be set in a line of principle that they cannot prevent consumers from obtaining water of sufficient quantity and quality meeting their fundamental domestic needs. Next, the moderator presents the slides with the definition of tariffs affordability and slides informing about how to measure the affordability and what the criteria are. At the end, the moderator presents the *Exercise on tariffs affordability calculation* and explains the assumptions and the calculation.

It is recommended to ask a question after presenting the exercise as to how the participants could comment on the calculated affordability indicators. Commenting the results, the moderator should stress the fact that the so-called social tariffs (that are an obstacle to full cost recovery tariffs) in fact benefit the rich rather than the poor and targeted social assistance to the poor would cost less and help the poor in obtaining services.

*Key concept: price elasticity of water and sanitation services demand.* In similar manner as in the case of the affordability principle, the moderator presents the concept of price elasticity. After presenting the concept of price elasticity, the moderator presents the *Example of price elasticity calculation* explaining the assumptions and the calculation. After explaining the exercise, the moderator should check the perception of participants on the price elasticity concept asking checking questions (for example: what is the opinion of participants on applying the price elasticity concept in calculating tariffs).

*Role of medium to long-term financial planning in achieving the financial sustainability.* This subject is very important from the perspective of linking the concept of financial sustainability with the FPTWU. The main message that has to be presented here is the information that the medium to long-term financial planning is a foundation for achieving financial sustainability. As the financial sustainability is rather a strategic goal than a short-term task, it requires longer perspective of planning and implementing. Further, the medium term to long-term financial planning benefits not only a water utility itself but also builds trust in the water utility from the side of owners, international financial institutions, and investors.

Ending the whole presentation, the moderator should make a comment that the Financial Planning Tool for Water Utilities is a tool for helping water utilities in the region in elaborating the medium to long-term financial plans.

#### 8.4 What is the Financial Planning Tool for Water Utilities: its structure and functionalities

*The objective of the session* on the FPTWU is to familiarize participants with the tool, providing them with information on its objectives, structure and functionalities, and what is the most important on the benefits from implementation of the tool. *The expected result of the session* is that the participants know the overall structure and functionalities of the tool and they recognize the value of the tool as the strategic financial planning tool.

Carrying out the session, the moderator uses the presentation on *What is the Financial Planning Tool for Water Utilities: its structure and functionalities* that is presented in the annex. Below are instructions for the moderator for the presentation.

Presenting slide 2 *Why FPTWU?*, the moderator once again explains the main purpose of the FPTWU, presenting the link between the problem of unsustainable water utilities and the lack of medium to long-term financial planning practice with the tool as the solution. Next, presenting slides 3 and 4, the moderator must stress that the tool is a strategic planning tool designated for the planning specialists instead of accountants dealing with daily accounting procedures. The issue is very important for understanding what the tool is for and avoiding the wrong impression that the tool is software designed *only* to provide financial and accounting reports. The moderator should pay special attention while presenting slide 7 *Structure of the FPTWU Tool*. Presenting the structure the moderator should explain all the logical relations between the tool's modules. Finishing the presentation of this slide, the moderator once again should explain that the tool helps in projecting and modelling the different aspects of water utilities operations to balance the operation & maintenance and investments programs with the tariffs and financing policies.

Next the moderator presents information on the modules of the tool every time showing the role of specific module in the whole tool. The moderator ends the presentation with the slide No 22 *Benefits of FTPWU implementation*. This is very important moment for encouraging the participants to use the tool. Depending on the specific situation it could be useful to ask

participants about their initial opinions on such a tool for medium to long-term financial planning asking for example whether the participants worked with such tools and what their opinions are.

## 8.5 Working with the Financial Planning Tool for Water Utilities: from data entering to financial planning

*The objective of the session on Working with the Financial Planning Tool for Water Utilities: from data entering to financial planning is to provide the participants with practical information on how to work with the tool. The expected result of the session is that the participants know the logic sequence of work with the tool and are able to work with the main modules of the tool.*

In this session, the moderator uses the FPTWU with the demo data and explains how to work with the tool presenting the step by step sequence of work starting from the input data entering and working with the main modules of the tool to the analysis of financial statements, financial and performance indicators and graphs. Presenting the modules and the rules of work with them, the moderator uses the multimedia projector presenting the modules on the screen. Alternative option for the session is to provide the participants with the demo data and facilitate their work with the tool on the computers provided for them. If this option is used, the moderator should pay attention to providing clear step-by-step instructions on how to work with the tool. Below are instructions for every module to be presented by the moderator.

*Input data modules.* The input data modules are the modules where almost all necessary data is entered. Because of this the moderator should clearly explain the tables used by the modules and the data that is required to be put into the modules. The presentation is finished when all required data is entered into the input data modules.

*CIP module.* At the beginning, the moderator should inform that the objective of the CIP module is to form the investment program of water utility by choosing already determined investment projects or by designing own investment projects. Presenting the CIP module, the moderator should first present the place of the module in the whole tool and its interrelations with other modules. It is important to inform that the CIP module is linked with the model of fixed assets, the water and wastewater balance module, and the financing sources module.

After that, the moderator presents the structure of tables included in the module and then information on how to work with the model. It is recommended that in presenting the module, the moderator presents practically how to work with the module entering required data and making required elections.

*Financing sources module.* After presenting the CIP module, the moderator presents the financing sources module, informing that the objective of the module is to determine the sources of financing the investments. The moderator should briefly describe all potential sources of financing including own sources, grants, and loans. Next, the moderator presents the structure of the table used by the module and using the demo data, presents how to work with the module.

*Taxation module.* The moderator starts with presenting the objective of the module, informing that the module allows the determination of the specific taxes to be paid by the water utility. Presenting the structure of tables used by the module, the moderator practically presents how to work with the model.

*Tariff module.* The tariff module is a very important module of the tool, as the tariff plays a critical role in achieving the financial sustainability of water utilities. The objective of the tariff module is to design the tariff. Before presenting the module, the moderator should explain the place and role of the model in the whole tool and its relations with the other modules. Next, the moderator presents the structure of the tariff module and the tables incorporated into the module and using relevant data practically present how to work with the model. Finally, the moderator presents how the tariff is calculated and when it is used by the tool.

Ending the presentation of the modules the moderator should stress that this is the first phase of financial planning. The second phase is the modelling that is the analysis of the preliminary results of initial financial decisions and making adjustments in order to archive the required level of financial sustainability and the positive cash flow. The moderator presents the tables: *Summary*, *Performance Indicators* and *Financial Gap* explaining how to analyse the data calculated in the tables. Presenting the table *Financial Gap* the moderator explains that the final financial plan should present the positive cash flow. If the table shows negative cash flow there is a need to make changes in the previous assumptions reviewing the modules of

tariffs and CIP. Using the demo data, the moderator should present an example of such changes leading to the positive cash flow. Wrapping up the presentation of modules and the summary tables the moderator should once again briefly present the overall logic of the tool and its final result the financial plan of water utility.

## 8.6 Summary and conclusions

*The objective of the session* is to get feedback from the participants on the first day of the training, paying special attention to the issue of the applicability of the Financial Planning Tool for Water Utilities in the case of the participants' water utilities. *The expected result of the session* is that the participants will express their interest in using the tool in their practice.

At the beginning of the session, the moderator should thank the participants for their active work during the first day of training and encourage them to present their feedback on the training and especially on the tool and its applicability in the water utilities in the region. All the comments from the participants should be written down and presented in the report from the training. The moderator should not make any critic comments but thank the participants for their opinions. At the end the moderator should provide very brief information on the overall follow up program and the possibility of having a technical assistance from the trainers in implementing the tool in the specific water utilities. This will be a subject of short discussion at the beginning of the second day of training.

## 8.7 Follow up and the next steps

*The objective of this short session* starting the second day of training and closing the Block I the Financial Planning Tool for Water Utilities is to identify the potential interested water utilities for the follow up program of assistance in the implementation of the Financial Planning Tool for Water Utilities. *The expected result of the session* is a list of water utilities expressing their interest in the follow up program.

At the session, the moderator presents the information on the follow up program and informing that limited number of water utilities may receive the assistance. Then the moderator presents the overall timetable for the follow up program stressing that to achieve the established goals the selected water utilities have to commit themselves to the work on the implementation as it is a precondition for the successful implementation of the tool. Presenting the information, the moderator should ask for any questions from participants. If

some representatives of water utilities express their interest, the moderator should make a note on this. If not, the moderator ends the session asking the participants to express their interest in further cooperation.

## **9 Instruction Note: Block 2 – Multiyear Investment Planning**

It is important to note that this Block has been significantly reduced in time compared to the Train-the-Trainers event. This is because the time has been reduced from nearly two days to nearly one complete day. Therefore, the presentations have been modified to cover the main aspects of the purpose of multi-year investment planning. It is also important to note that the MIP software has also been changed. It is now Windows-based instead of based on Internet Explorer. The basic modules, mechanics, and flow of the software, however, have not been changed. It is important that the trainer review the tool to understand how it works.

### **9.1 Objective and expected results**

*The overall objective* of the session Block II – Multi- year Investment Planning (MIP) Tool - is to familiarize participants with the concepts of multi-year investment planning.

Specific objectives include:

- demonstrating to participants that MIP is valid approach to investment planning and that it is worth it for municipalities to consider it
- showing the benefits of MIP to municipalities
- encouraging representatives of up to 5 municipalities to express interest in learning more about MIP and to applying it in their own municipalities
- presenting successful case studies from other countries.

In order to achieve these objectives, it important to explain the concepts of multi-year investment planning, the advantages of applying this process, and how to use the MIP tool.

The main message to convey to participants is that the Multi-Year Investment Planning Tool, together with the procedures used in implementing, is a tool that can help local governments increase their reliability as partners for international financing institutions (IFIs) and other external financing entities. In presenting the MIP procedure and tool, however, it is important not to suggest that they will solve all of the problems of local governments. Still, they can help improve how the local government operates.

*The expected result* of Block II is that the participants will be familiar with the tool and they will express their interest in implementing Multi-year Investment Planning using the MIP tool in their municipalities. The practical result will be the list of municipalities interested in implementing the process and using the tool.

## 9.2 Overview of the Block

The second day of the training is almost fully devoted to Block II – Multi-year Investment Planning and comprises the following sessions:

- Introduction and Overview to MIP
- Investment evaluation techniques
- Case studies on MIP
- MIP software
- Summary and conclusions

The first session introduces to the participants the key concepts in Multi-year Investment Planning (MIP), including the purpose, definition, steps in implementation, and advantages of MIP. The second session includes more detail on investment evaluation techniques. The third session presents concrete case studies. The final session presents the Multi-year Investment Planning (MIP) software tool. The final session is intended to help the trainer summarize the information presented and to determine which municipalities will cooperate for the next workshop.

## 9.3 Overview of Multi-year Investment Planning

*The objective of this session* entitled "Overview of Multi-year Investment Planning" is to present:

- definition of the MIP
- time horizon of the MIP
- step-by-step process in implementing MIP

You will need to cover the following topics:

- budget revenues and current expenditure forecasts
- definition of operating surplus
- investment ranking and selection
- loans and debt servicing

- presentation of cash flow and decision-making process
- role of procedures in Multi-year Investment Planning.
- advantages of MIP implementation
- discussion about legal background in the countries of representatives that are attending the workshop

Each slide contains brief speaker's notes explaining the concepts

The relevant presentation for this session is entitled "*...Presentation 1\_en/ru*"

You should present these concepts in about 1 hour; including discussion, the session should last about 1 hour and 15 minutes.

The result of this session should be that participants have an understanding of the main steps in implementing a Multi-year Investment Plan and have a basic interest in seeing how it can be implemented.

#### 9.4 Investment Evaluation Techniques

*The objective of this session* is for participants to understand the basic techniques in evaluating investments. *The expected result of the session* is that the participants know basic techniques and which one is the best for multi-year investment planning (this is the multi-criteria evaluation).

You will need to cover the following topics:

- review of project evaluation methods - including financial and economic analysis (NPV and IRR); cost benefit analysis, cost effectiveness analysis, multi-criteria analysis
- conclusion that multi-criteria analysis is the best suited to MIP
- show DGC software. This will help illustrate the purpose of DGC. To help make the training go more quickly, you should already have entered the sample data

Each slide contains brief speaker's notes explaining the concepts. The relevant presentation for this session is entitled "*... Presentation 2\_en/ru*"

The result of this session should be that participants have an understanding of the main techniques in investment evaluation - in particular multi-criteria analysis. The session should take no more than one hour.

NOTE: This presentation is much shorter and simplified than the one presented at the Train-the-Trainers event. The basic message is that multi-criteria analysis is the best method to use with MIP. This is because it is the simplest and least costly to use.

## 9.5 Case studies in MIP

*The objective of this session* is for participants to view examples of actual cases of MIP implementation. *The expected result of the session* is that the participants will understand that MIP can and is actually implemented.

You will need to cover the following topics:<sup>2</sup>

- case study from Poland (Chrzanow) - this is contained in a separate presentation ("... Presentation 3\_en/ru")
- case study from Ukraine (Lutsk) - this is contained in a separate presentation ("... Presentation 4\_ru")

Each slide contains brief speaker's notes explaining the concepts. The relevant presentations for this session are entitled "... Presentation 3\_en/ru" and "... Presentation 4\_ru"

The result of this session should be that participants have an understanding that MIP is actually implemented - and not only in Poland and Ukraine. The session should take no more than one hour.

## 9.6 Multi-year Investment Planning Tool

*The objective of the session* is to present the MIP tool. *The expected result* is that the participants will be familiar with the tool and will be interested in implementing the tool in their municipalities under assistance of the trainers.

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<sup>2</sup> In addition, some examples from Poland (Lezajsk) are contained in the general presentation on MIP (an earlier presentation).

Each slide contains brief speaker's notes explaining the concepts. The relevant presentations for this session are entitled "...Presentation 5\_en". The trainer will also demonstrate how to enter data using the sample data set. Alternatively, the trainer may not present "...Presentation 5" but instead simply take the participants step-by-step through the MIP tool. This is the recommended approach since it will save time.

The result of this session should be that participants have an understanding that the MIP tool is useful in aiding in the implementation of the Multi-year Investment Plan. The session should take no more than two hours.

## 9.7 Summary and conclusions

*The objective of the session* is to get feedback from the participants on the second day of the workshop paying special attention to the issue of applicability of the Multi-year Investment Plan (MIP) tool in the case of the participants' municipalities. *The expected result of the session* is that the participants will express interest in using the tool in practice.

At the beginning of the session the moderator should thank the participants for their active work during the second day of training and encourage them to present their feedback on the training and especially on the tool and its applicability for them. All comments from the participants should be written down and presented in the report from the training. The moderator should not make any critical comments but thank the participants for their opinions. At the end the moderator should provide very brief information on the overall follow up program and the possibility of having a technical assistance from the trainers in implementing the tool in specific municipalities.

## 10 Instruction Note: Block 3 – Performance Benchmarking

### 10.1 Objective and expected results

*The overall objective* of Block III – Performance Benchmarking using the IBNET Toolkit - is to familiarize participants with the concepts of benchmarking and how it can be used to help introduce reform on the water and wastewater sector level, but also to make strategic changes within individual water companies.

Specific objectives include:

- demonstrating to participants that benchmarking is valid tool to introducing change and that it is worth it for water companies to consider it
- demonstrating to participants that benchmarking is valid tool to introducing change throughout the water and wastewater sector and it is worth creating an umbrella organisation to implement it. This can be an existing organisation (for example, association of water companies or a ministry) or an organisation specially created for this purpose
- demonstrating the procedure in benchmarking
- explaining the difference between *performance* benchmarking and *process* benchmarking.

In order to achieve these objectives, it important to explain the concepts of benchmarking, the advantages of applying this process, and how to use the IBNET Toolkit.

The main message to convey to participants is that the IBNET Toolkit, together with the procedures used in implementing benchmarking, is a tool that can help water sectors and individual companies within them map and manage strategic change. In presenting the benchmarking procedure and tool, however, it is important not to suggest that they will solve all of the problems of water companies. Still, they can help improve how the water company or even the water sector operates.

*The expected result* of Block III is that the participants will be familiar with the benchmarking and they will express their interest in implementing it in their water companies.

## 10.2 Overview of the Block

Half of the third and final day of the training is devoted to Block III – Performance Benchmarking using the IBNET Toolkit and benchmarking techniques. This block basically comprises the following sessions:

- Introduction to Benchmarking - including definitions and purpose, types of benchmarking, as well as data and calculations
- Case study on benchmarking
- IBNET Toolkit - structure and uses
- Facilitated discussion on uses of benchmarking

The first session introduces to the participants the key concepts in benchmarking, including the purpose, definition, steps in implementation, and advantages. Also in this session, case studies from various countries are introduced. It is important to note that all of these case studies represent a sector-wide effort diagnose problems in the sector and to formulate strategies for improvement. The second session includes a brief presentation of the IBNET Toolkit and a discussion of its uses.

### 10.3 Overview of Benchmarking

*The objective of this session is to present:*

- definition of benchmarking
- uses of benchmarking
- steps in benchmarking
- how benchmarking fits into the overall strategic picture of a water company
- difference between performance benchmarking and process benchmarking

Each slide contains brief speaker's notes explaining the concepts

The relevant presentation for this session is entitled *Block III Benchmarking 1\_en/ru*

You should present these concepts in about 1 hour. Including discussion, about 1 hour and 30 minutes, including discussion.

The result of this session should be that participants have an understanding of the main concepts of benchmarking and have a basic interest in seeing how it can be implemented.

### 10.4 IBNET Toolkit

*The objective of this session is for participants to understand the contents and structure of the IBNET Toolkit and how it can be used. The expected result of the session is that the participants know basic techniques of using the Toolkit and can make searches using the database.*

The main idea here is that the speaker should review the IBNET website thoroughly and be able to show the participants how to use it. The speaker should move rather quickly to showing how to search the database. An interesting discussion will arise. If participants do not point this out, have a discussion on the role of reliability checks in benchmarking. Interestingly, when benchmarking is done for a sector, a lot of money is devoted to reliability checks of data. This issue was discussed in the previous session.

The result of this session should be that participants have an understanding of the main uses of the IBNET Toolkit and will know how to use it on their own. The session should take no more than one hour.

## **11 Instruction Note: Block 4 – Performance-based Contracts**

This block should last a total of about 2.5 hours.

### 11.1 Objective and expected results

*The overall objective* of Block IV – Performance-based Contracts - is to familiarize participants with the concepts of performance-based contracts, as set out in the OECD document: "Guidelines on Performance-based Contracts between Municipalities and Water Utilities in Eastern Europe, Caucasus and Central Asia (EECCA)" (OECD *Guidelines*).

Specific objectives include:

- demonstrating to participants that performance-based contracts can be a useful tool, not only for PSP (private sector participation), but also to introduce a contractual relationship (PSA - Public Service Agreement) between a *municipality* on the one side as owner, supervision, and institution that is required by law to provide water, sewer, and wastewater treatment services to citizens and a *water company* on the other side to which the municipality has entrusted delivery of this service to citizens.
- demonstrating that performance-based contracts work best when there is a water company in the municipality that has some degree of independence from the municipality as owner. Municipal departments that provide water and sewer services are not the intended users of performance-based contracts
- presenting a case study from Armenia

- conducting a business game on negotiating a performance-based contract.

In order to achieve these objectives, it is important to explain the concepts of performance-based contracts, the advantages of applying this process, and how to use such a contract.

The main message to convey to participants is that Performance-based Contracts can be a useful tool to help municipalities and water companies increase the effectiveness of the water company by introducing a contractual relationship between the two parties.

*The expected result* of Block IV is that the participants will be familiar with Performance-based Contracts and understand how they work and how they can benefit the municipality/owner, water company, and customers receiving water, sewer, and wastewater treatment services. Participants will also understand the basic concepts and contents of the OECD *Guidelines* as a tool to understanding implementation of Performance-based Contracts.

## 11.2 Overview of the Block

Block IV takes up the second half of the third (and last) day of the workshop and comprises the following sessions:

- Introduction to performance-based contracts, including defining principles, reasons for implementing, elements in such a contract, and processes and procedures in developing such contracts
- Case study from Armenia on performance-based contracts
- Business game on performance-based contracts.

The first session introduces to the participants the key concepts in performance-based contracts, including definitions, purpose, steps in implementation, and advantages. The second session covers a case study from Armenia. The third session is a business game on negotiating key concepts in a performance-based contract.

## 11.3 Introduction to Performance-based Contracts

*The objective of this session* is to present:

- definition and uses of the PBC
- contents of PBC

- steps in developing PBC

Each slide contains brief speaker's notes explaining the concepts

The relevant presentation for this session is entitled *Block IV Performance Based Contracts I\_en/ru*

You should present these concepts in about 1 hour. Including discussion, about 1 hour and 15 minutes.

The result of this session should be that participants have an understanding of the main steps in implementing a Performance-based Contract, what is contained in such a contract, and what are the benefits of implementation.

#### 11.4 Case Study

*The objective of this session* is for participants to understand the basic issues in the creation and management of a Performance-based Contract based on a case study from Armenia. *The expected result of the session* is that the participants know basic issues of which to be aware in developing a Performance-based Contract. This should include the procedure in developing a performance-based contract, the typical main bottlenecks in this development, and a discussion about the proper number of indicators.

The relevant presentation for this session is entitled *Block IV Performance Based Contract - Case Study\_en/ru* The session should take no more than 45 minutes including discussion and questions. Alternatively, the previous session can be shortened and this session lengthened depending on the interests of participants.

#### 11.5 Business game

*The objective of this session* is for participants to play a game involving the negotiating of a key aspect of Performance-based Contract - the allocation of risk. *The expected result of the session* is that the participants will understand the importance of allocating risk among parties to the Performance-based Contract.

This takes the form of handouts - two, single page handouts each containing different roles in the negotiations. Divide participants into groups and make pairs of groups. Distribute handouts (roles) to group pairs. Invite them to read roles and discuss negotiation strategy within group. Next, the pairs will negotiate. At the end of the session, the results are discussed.

The result of this session should be that participants have an understanding of the important aspects that should be covered in a Performance-based Contract - in particular the division of responsibilities and the sharing of risk. The session should take no more than 45 minutes.

## **12 Instruction Note: Summary and Next Steps**

In this session (which will be facilitated by KPC and SST-Consult), the trainer should help identify up to 5 municipalities and up to 5 water companies to which to assign "homework." This will involve preparing datasets to be presented at the next workshop session. Also, the trainer will also announce the second workshop - including the time and place.

## **13 Attachments**

- 13.1 Participants invitation form
- 13.2 Training evaluation form
- 13.3 Introductory presentation
- 13.4 Revised presentations
- 13.5 Handouts for business game
- 13.6 case study for PBC: Armenia