



Stakeholders' meeting: Financing options for payment for environmental services in Sasumua

*World Agroforestry Centre (ICRAF) Headquarters, Nairobi - Kenya
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Introduction

Following on a previous stakeholders' dialogue held in July 2013, PRESA convened a follow-up meeting to address the hurdles in taking forward piloting of a rewards-based approach to water resources management in Sasumua watershed. The aim of the meeting was to share the business case with stakeholders' and exchange views on other potential options for financing PES in Sasumua.

Research findings by PRESA show that soil erosion from land use changes in Sasumua watershed has led to sedimentation in Sasumua reservoir, causing NCWSC to incur high costs in water purification. A business case developed for NCWSC showcases the profitability of PES in Sasumua. Using a profitability model, the NPV of payment for grass strips and terraces was estimated at \$122,924 over a 20 year period. This shows that appropriate landuse interventions such as grass strips and terraces within the watershed, can reduce the flow of sediments, thereby improving the quality of water flowing into Sasumua reservoir. Additionally, cost-benefit analyses demonstrate a rewards-based scheme would be cheaper and more sustainable than the current situation in Sasumua.

The model used data from previous studies on: Willingness to pay by water consumers in Nairobi, willingness to accept payments by land owners in the catchment, sediment treatment costs, hydrological data of the catchment (rainfall, soil erodibility and runoff data) and the costs of establishing and maintaining terraces and grass strips in upland areas. It also used the calibrated estimates of: Adoption potential of terraces and grass strips in the uplands, revenue saved from reduced need for filter backwashing and potential reduction of flooding risk and improvement of goodwill of downstream communities.

Progress by PRESA (ICRAF) reported by John K. Mwangi

- a) The previous meeting had sought to:
 - Explore alternative approaches to achieving sustainable financing of PES in Sasumua
 - Show case the business case model to NCSWC management
 - Establish a link for collaboration and information sharing with KENGEN
- b) Organise a high level government forum on PES spear headed by KAPSLM

c) Updates on what had been achieved:

- Planned breakfast meeting did not take place
- Strong linkages with KENGEN are yet to be established
- PRESA is yet to secure an appointment with NCWSC to present the business case

However, PRESA shared the business case with Livelihood fund, who are interested in funding PES in Sasumua in form of a soft loan. The Livelihood fund was developed by DANON to support land management initiatives. They are interested in partnering with an organization to pre-finance PES on condition that; if successful the loan will be paid back at a low interest. And, if unsuccessful the Livelihood Fund is willing to bear the risk. Financing of PES in Sasumua can be done in two approaches:

1. Through a direct beneficiary (commodification) such as NCSWC; This approach is beneficial since it is profitable, can enhance branding, CSR etc
2. A co-investment approach through an existing fund such as WSTF, Nature conservancy or in a new combined fund to be established by the stakeholders where different organizations can contribute to the fund.

Payment to farmers would be disbursed to upland communities on a conditional basis through organized groups such as the WRUA.

Discussions

Financing of PES in Sasumua

- Anticipated concerns such as how the PES funds are to be accessed, credibility of the values obtained from the model since they combine biophysical and economic values that would require someone who understands both were raised. The model and calculations used to obtain the values can be shared with stakeholders to evaluate in detail. The model design was based on 6000 households with an estimated land ownership of 2.5 acres per house hold. It took into consideration the entire area under cultivation.
- Although it was noted that repayment details can be negotiated, questions were raised regarding the interest rates of the loan, the repayment period and the amount of money to be paid back. These would be clarified by the Livelihood Fund.
- Stakeholders were keen to know if Livelihood fund would consider funding PES in other catchments. Sasumua watershed has enough background for investment but there is potential for up scaling in other catchments if it is found to be beneficial and sustainable.
- Clarifications would be required if Livelihood Fund is to consider a business plan approach such as micro finance approach e.g. farmers life?

Options to NCSWC

Currently NCSWC acknowledges that PES would be a good idea for Sasumua as well as create better relations with farmers in the watershed areas with the company. Suggestions were made for PRESA to write a paper with technical persons of the company that can be presented to its board members. The most suitable approach suggested was to present the business case to the technical director who will in turn present it to top management of NCSWC.

Updates on policy and legal reforms: state of the various draft policies and bills

- There is a new national forest management and conservation bill that allows for the provision of setting up institutions for PES.
- Policy bill contributions– to create opportunities for other funds not only the water sector fund. *Who do we track for the changes?* Deposit a memorandum from this meeting or individual stakeholders for specific issues—a champion can be an NGO to the parliamentary committee on environment. Currently the draft bill is the property of parliament.
- It was also noted that with policy revisions NCSWC will now be owned by Nairobi County government- so some re-organization will be required

Channels of disbursement

- Although there are no setup mechanisms for the implementation stage –partners such as Farmers Life have data on conditional payments since they have been working with communities on the ground; TNC sub contracts NGOs on the ground, and WRMA can be an option of disbursement of funds through WRUAs.

Water fund - is a legal entity, financed by joint action from downstream beneficiaries, corporates etc. It is based on proof of concept and return on investments. Funds can be categorized as: an endowment fund - generates interest on investments or as a revolving fund - role of research, proof of concept, monitoring. Contribution to the fund is voluntary and the institutional setup consists of public, private sector and community organizations. The Livelihood Fund offers an opportunity that is potentially acceptable to Nature Conservancy. The Nature Conservancy would be interested to discuss at a later stage how to reward farmers- proof of concept to value chains.

Way forward

1. NCSWC to invite PRESA to present the business case to Technical Director
2. Potential financing can be approached in a broad range of ways through:
 - o Direct engagement with Nature conservancy – Contact: Fred Kihara
 - o NCSWC although it may take some time
 - o A public sector fund; Due to government institutional reforms the water, environment and forestry sectors are merged in one sector – thus issues can be tackled easily. The mention of PES in the new National forest management and conservation allows for the provision of setting up institutions for PES. There opportunities for influencing the exploration of providing incentives to conservation by supplementing ongoing voluntary efforts.
 - o Microfinance such as Farmers life – Contact Obadiah Ngigi
3. Seek information on whether Livelihood fund can explore ways test this not only in Sasumua
4. There are ongoing discussions between World Bank and KAPSLM to set aside a fund to pilot in Sasumua for demonstration purposes. This will anticipated to feed into legislation. A feasibility study has been done for update purposes.

Conclusion

Coming from the above discussions, the key message is that, Livelihood fund is willing to pre-finance a PES scheme in Sasumua and several financing channels exist, either as commodification or co-investment. Linkages can be facilitated with interested parties such as; Nature Conservancy or Farmers Life. The business case presented to stakeholders can be shared it and if an opportunity arises PRESA would like to present it to NCSWC. Contributions are encouraged to the ongoing Water bill revision before 2nd reading in parliament; that may push forward the agenda to support the revision of the water services trust fund to become water sector trust fund which will open it up for more conservation aspects.

Annexes

A. The agenda of the meeting:

1. Public sector strategies:
 - a. Catching up on policy and legal reforms: state of the various draft policies and bills
 - b. KAPSLM's plans for Sasumua
2. Private sector strategies:
 - a. Presentation of Business case for PES in Sasumua to stakeholders.
 - b. Potential financing options: NWSC; Micro finance approach; Nature Conservancy driven Upper Tana water fund, Livelihood fund
3. Way forward: Open discussion and actions for achieving sustainable financing.

B. List of participants

NO	Names	Organization	Location	Email
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