



Task 7: Final findings and recommendations report

Report for:
The Nature Conservancy
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Introduction

The Latin American Water Fund Partnership has technically and financially supported the Water Fund creation and operation since 2011. The LAWFP has developed a standardized project cycle for design, creation, and strengthening of the Water Funds, called the Desired State (DS) that showcase a series of maturity elements based on their development phase.

The phases of the Water Fund's Desired State are outlined below. Each phase has a predefined set of deliverables and transition requirements or outcomes.

1. **FEASIBILITY** – To test eligibility by quickly and efficiently determining if there are water security challenges and a potential for a Water Fund to help. If so, then assessing the feasibility (by more deeply understanding the situation) and generally determining how a Water Fund could positively contribute to water security within a defined area, region, and/or watershed.
2. **DESIGN** – To design a Water Fund which serves as a watershed collective action platform where stakeholders from all sectors convene, coordinate, and collaborate to help improve water security through science-based systemic change. The two main objectives of this stage are: a. To have a compelling, actionable Strategic Plan that articulates how the Fund will contribute to improved water security in a watershed. b. To have leadership (WF Director, Board, and advisors) committed to the Fund's strategy and plans with sufficient support from critical/priority stakeholders, donors/investors along with resources and/or commitments to move the Fund into the Creation and Operation Phases.
3. **CREATION** – In this phase the Water Fund is prepared for operation and officially launched.
4. **OPERATION** – An operational Water Fund looks for stability in this phase by developing/implementing a comprehensive work plan that guides the systematic execution of activities, measurement, evaluation and progress communication (towards previously defined objectives for the Water Fund), and continuous improvement through corrective actions, refinements, and innovation.
5. **CONSOLIDATION/MATURITY** – This fifth phase is a continuation of the previous one, with a focus on ensuring viability on the long term of the Water Fund, to create a durable and significant impact that contributes positively to water security.

As mentioned, each phase of the desired state provides a set of outputs and transition requirements to ensure the financial viability of each next step. However, these focus on the completion and finalization of the next immediate phase and need a more complete process to ensure continuous communication with the LAWFP for reporting, monitoring and building of a financially sustainable strategy.

The general objectives of the consultancy are to develop a tool to:

1. Align reporting procedures and data gathering for financial control of the LAWFP and Water Funds.
2. Evaluate the financial sustainability of Water Funds in operation and consolidations and based on the results of the financial evaluation, generate a set of recommendations to strengthen financial position of funds.

These tools and analysis will provide the LAWFP with a view of the main opportunities and risks, together with a series of recommendations that could be incorporated into the DS process. Additionally, the visibility of the financial performance and monitoring of indicators provides the LAWFP with the right instruments to have a more strategic support to the operating Water Funds and align to their Theory of Change to create impact at scale.

The complete consultancy was developed in seven tasks -including this final report- allowing the process to build the recommendations based on the current situation and creating the tools to evaluate the sustainability over time.

- TASK 1: Assessment of current procedures for data flow with the Water Funds and the LAWFP.
- TASK 2: Definition and agreement of indicators and reporting templates to gather the needed information and make a homogeneous analysis across the portfolio.
- TASK 3: Data compilation and populated databases with information from Water Fund annual reports and LAWFP investments.
- TASK 4: Financial sustainability analysis and indicators calculation.
- TASK 5: Development of reporting dashboards in PowerBI with key financial indicators.
- TASK 6: Financial reporting procedures proposal for ongoing analysis and support.
- TASK 7: Final findings and recommendations report.

1.0 Executive Summary

The complete project for Financial Sustainability was developed in seven phases with a specific task each. The different tasks were designed to allow ALO Advisors to build up from the findings and create adequate tools according to the state of the financial management for the portfolio. The whole project depended on the data availability in both levels, LAWFP's and Water Fund's. The lack of sufficient data for the portfolio and the Partnership significantly limited the deepness of the analysis and therefore, the conclusions and recommendations. Nevertheless, some significant findings and recommendations were made.

At the LAWFP Partnership, the financial analysis conducted revealed discrepancies between the different reports adding up to US 680,000 considering a group of only 3 of the reported Water Funds, indicating a need for a more robust reporting process and detailed analysis with complete information. The results highlighted the importance of an accurate financial reporting for effective decision making on the needs of the Water Funds and opportunities for greater impact.

Information from the LAWFP investments was limited and it was not possible to conduct a full verification of the data reported versus all Water Funds and procurement plans. Furthermore, the available information presented a significant three-month delay with the data collection process resulting in the inability of the team to draw specific conclusions about the portfolio performance.

At the Water Fund level, we asked all the water funds for their financial information for the 2017 – 2021 period. Only six funds (FAMM, Cauce Bajio, Agua Capital, Agua Tica, Yaque del Norte and FONAG) shared their financial information. A first lesson learned is the water fund's unwillingness to share financial information with the LAWFP. While this process should be formalized between the Partnership and the water funds, clearly it hasn't been, and an explicit effort is needed to establish it.

From the six funds that shared their financial information, only two sent it practically complete (FAMM and FONAG); and the information of Agua Tica wasn't based on financial statements but on a register of input and output, and therefore, its information should be considered with reservation.

On the other hand, ALO developed a set of 13 financial indicators which were reviewed and approved by TNC. Based on the data collected, for every water fund considered in the analysis we estimated the financial indicators for each year. Based on the information *per se*, and on those indicators, we were able to make the following conclusions.

FAMM (Monterrey's Water Fund) and FONAG (Quito's Water Fund) have a solid financial situation. FAMM doesn't rely financially on the LAWFP nor the public sector; its operation reserve is 1.5 years; has enough resources to meet its short-term obligations; with an endowment by 2021 of almost \$3 million USD; but in 2020 and 2021 its cashflow was negative. On the other hand, FONAG have a more robust financial situation with an operation reserve of 8 years; an endowment of \$24.6 million USD which through its investment generated in average 69% of FONAG's total income. The only matter of concern is the negative cashflow for the whole period.

Additionally, Agua Capital (Mexico City's Water Fund) has a vulnerable financial situation, with an average of annual total income of \$485 thousand USD; an endowment of almost \$725 thousand USD by 2021, an operation reserve of 1.3 years, and a negative cashflow of -\$500 thousand USD for the same year.

Yaque del Norte and Cauce Bajio (Guanajuato's Water Fund) both have a fragile financial situation due to their relatively small endowments and cashflows. Yaque del Norte's average annual total income for the 2017 – 2020 period was \$207 thousand USD; for the whole period had positive but small cashflows (almost \$49 thousand USD); and in 2020 had an operating reserve 2.6 years. Cauce Bajio started their financial operations in December 2020. For the 13-months period, it had a positive cash flow of \$62 thousand USD and an endowment of \$136 thousand USD, and an operation reserve of 0.9 years.

On the other hand, at a LAWFP level, ALO recommend implementing a more standardized and streamlined reporting process that incorporates a regular reconciliation of financial data and ensures consistency across all reports. In addition to implementing a more robust reporting process is recommended to conduct a more in-depth analysis to identify the root cause of the discrepancies and the opportunities around it. Doing so will enhance transparency, accuracy, and accountability, ultimately leading to better financial management and organizational success.

Moreover, it is important that the LAWFP formalize the relationship with the WFs, establishing the commitment to share financial information in a periodic manner, and at the same time to establish incentives for the Water Funds to share financial information. The LAWFP should also encourage a set of financial best practices, especially auditing their financial statements by third parties. Finally, ALO recommends the LAWFP to clarify the criteria used to allocate resources among the Water Funds. The LAWFP could prioritize allocating resources to Water Funds that fulfill the enabling conditions specified at the maturity model and still are struggling financially.

Disclaimer

This product is being developed under the Latin American WF's Partnership, a joint initiative of TNC, FEMSA Foundation, Inter-American Development Bank (IDB), the Global Environment Facility, and the International Climate Initiative (IKI). The opinions expressed in this product are those of the authors and do not necessarily reflect the views of the GEF, IKI, or IDB, their Board of Directors, or the countries they represent.

1.0 Approach and methodology

The execution of the deliverables in this assessment were linked to the available information both from the Water Funds and The Nature Conservancy in representation of the LAWFP.

Based on the established workplan, and terms of reference all necessary documents and information to complete the analysis were agreed to be delivered in a timely manner, in a period no longer than a month after the start of the project. Despite the efforts from ALO Advisors to gather all information and establish communication with the Water Funds, the necessary data and details needed to evaluate the project's scope were not all available. As a result, the project suffered a delay in the deliverables of task 3 through task 7 and required an additional time in the construction of databases and data gathering.

ALO Advisors received accounting reports and information from 6 out of the 22 (27%) Water Funds and all of those have been included in the analysis and conclusions. Nonetheless, some of the information did not include a complete set of data for the timeframe and variables defined in the project scope. Other group of 8 Water Funds did not respond to the information requests and the remaining Water Funds provided three main responses to the data request:

- The information was requested close to the end of the year (November) and made it difficult to the Water Funds to comply with internal processes and reporting and doing an additional data sharing. Based on this first response, it was agreed to extend the period of data gathering until mid-January to give the opportunity for more Directors to share the information. Even with the change in deadline, we received no new information from the Water Funds, even the 4 (18%) Water Funds that responded they needed additional time.
- The information was not available due to a lack of accounting in the time frame requested or because of the management systems in place. For example, Bogota and Mendoza had just started to record accounting and opened a bank account in 2022 and Brazil Water Funds do not have a centralized bank account and administration expenses detail.
- To share information, Agua Capital Water Fund requested a signed NDA to ensure the privacy and safety of the information. ALO Advisors agreed to sign the NDA, but the Water Fund did not respond causing a further delay. The information was later shared through TNC, with whom they had an NDA, but the information was incomplete.

In table 1 below, we present the detail on the Water Funds included in the project, the data received and the detail of the communication.

Table 1. Water Funds included in the project

Country	Water Fund	Included in Project	Information Received	Detail of communication
Argentina	Mendoza	No	No	Water Fund no considered in the analysis. Discarded because the Water Fund do not have any accounting during the defined period and was legally created in 2022.
Brazil¹	Curitiba	Yes	No	No response from the Water Fund to any communication.
Brazil¹	Belo Horizonte	No	No	Water Fund not included in analysis per TNC decision. Mail by Alynne Velazquez 22/Dec/2022
Brazil¹	Brasilia	Yes	No	No response from the Water Fund to any communication.
Brazil¹	Rio de Janeiro	Yes	No	No response from the Water Fund to any communication.
Brazil¹	Espirito Santo	No	No	Water Fund not included in analysis per TNC decision. Mail by Alynne Velazquez 22/Dec/2022
Brazil¹	Sao Paolo	Yes	No	No response from the Water Fund to any communication.

Country	Water Fund	Included in Project	Information Received	Detail of communication
Brazil¹	Camboriu	Yes	No	No response from the Water Fund to any communication.
Colombia	Cucuta/ Bucaramanga	Yes	No	No response from the Water Fund to any communication.
Colombia	Manizales	Yes	No	Water Fund expressed their interest in participating but needed additional time, after the new deadline on January 15 th no response from the Water Fund was received.
Colombia	Bogotá	No	No	Water Fund no considered in the analysis. Discarded because the Water Fund do not have any accounting during the defined period of time and was legally created in 2022.
Colombia	Medellín	Yes	No	Water Fund expressed their interest in participating but needed additional time, after the new deadline on January 15 th no response from the Water Fund was received.
Colombia	Valle de Cauca	Yes	No	First point of contact was not updated. The Director David Loaiza participated in a call with the Water Funds in Colombia where we explained the indicators and data bases, but they did not submit the corresponding information.
Costa Rica	San José	Yes	Yes	Agua Tica shared partial information since it doesn't have an accounting system, and everything is executed through another NGO (FUNDECOR).
Chile	Santiago-Maipo	Yes	Incomplete	The only information available was the budget execution of Q1 2021 with financial detail. No annual financial statements of the Water Fund operation for the analysis. The Water Fund did not respond to the communication.
Dominican Republic	Santo Domingo	Yes	No	No response from the Water Fund to any communication.
Dominican Republic	Yaque del Norte	Yes	Yes	Financial audited reports were obtained from their website and translated into the corresponding data bases.
Guatemala	Guatemala	Yes	No	Water Fund expressed their interest in participating but needed additional time, after the new deadline on January 15 th no response from the Water Fund was received.
Ecuador	Paute	Yes	No	Water Fund expressed their interest in participating but needed additional time, after the new deadline on January 15 th no response from the Water Fund was received.
Ecuador	Guayaquil	Yes	No	No annual financial statements of the Water Fund operation. Some information could be retrieved from the product <i>Análisis de la sostenibilidad financiera para el Fondo de Agua de Guayaquil para la conservación de la Cuenca del río Daule (FONDAGUA)</i> . However, the document did not have enough data to complete the analysis.
Ecuador	Tungurahua	Yes	No	No response from the Water Fund to any communication.
Ecuador	Quito	Yes	Yes	Water Fund Director shared all data in corresponding templates and presented evidence of the reports.
Mexico	Monterrey	Yes	Yes	Audited Financial Statements received and considered in the analysis.
Mexico	Ciudad de Mexico	Yes	Yes	TNC shared partial financial statements. The information available in those financial statements was extracted and used to populate the input spreadsheet for the analysis.
Mexico	Guanajuato	Yes	Yes	Audited Financial Statements received and considered in the analysis for applicable timeline (2020-2021)

¹ For All Water Funds in Brazil an additional communication was held with TNC Brazil (Marilia Borgo and Andre Targa). It was defined that they did not have the information to complete the data bases and clearly identify the investment per variable.

Country	Water Fund	Included in Project	Information Received	Detail of communication
Peru	Lima	Yes	Incomplete	Water Fund send some of the information, however, the document did not have enough data to complete the analysis.

Just three days ahead of the final date of the consultancy, on February 22 of 2023, The Nature Conservancy submitted the final version of the necessary information for the LAWFP assessment – a three-month delay against the agreed upon time schedule. The first version of the report was delivered ten days before on February 10 of 2023, but considering the significant differences of the first version, ALO Advisors took the decision of using only the latest version. The underlying analysis was made with the available information. The recommendations include a description of a more in-depth assessment needed to determine the financial sustainability of the LAWFP participation.

In table 2 is the detail of the agreed and presented in the deliverable of Task 2, the indicators used for the financial analysis and included in the reporting dashboard for all Water Funds

Table 2. Financial Sustainability Indicators

#	Indicator	
1	Financial reliance on the LAWFP	$\frac{\text{Total income}}{\text{LAWFP related income}}$
2	Financial reliance on the LAWFP	$\frac{\text{Total income}}{(\text{LAWFP related income} + \text{LAWFP inkind contributions})}$
3	Reliance on public funding	$\frac{\text{Private contribution}}{\text{Government grants and transfers}}$
4	Income efficacy	$\frac{\text{Total income}}{\text{Targeted income}}$
5	Operating to Administrative Expense Ratio	$\frac{\text{Operating expense}}{\text{Administrative expense}}$
6	Personnel Expense Ratio	$\frac{\text{Total income}}{(\text{Total Salaries} + \text{Wages} + \text{Benefits})}$
7	Nature Based spending ratio	$\frac{\text{Nature Based Solution expenditure}}{\text{Total project expenditure}}$
8	Operating reserve	$\frac{\text{Endowment size}}{\text{Total expenditure}}$
9	Cashflow	$\text{Total income} - \text{total expenses}$
10	Reliance on replenishment projects	$\frac{\text{Total cashflow}}{\text{Cashflow from balancing or replenishment projects}}$

11	Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$
12	Percentage of income generated by financial returns	$\frac{\text{Financial returns}}{\text{Total income}} * 100$
13	Percentage of contribution generated by in-kind contributions	$\frac{\text{In kind contributions}}{\text{Total contributions}} * 100$

The most insightful indicators in this analysis to determine the financial sustainability of the Water Funds were “financial reliance on the LAWFP”, “Reliance on public funding”, “operating reserve”, and “cash flows”. Some like “income efficiency” could not be estimated for the Water Funds due to the lack of sufficient information.

1.1 Scope of work

The complete consultancy was executed based on the available information shared by the Water Funds and LAWFP and with the income-expenses and investments by both the Water Funds and the LAWFP from 2021 to 2022.

For the Water Funds analysis, the financials correspond to the years 2017 - 2021 based in the annual reporting periods and the dates of this consultancy, the year 2022 was not included. All information received by the Water Funds was validated with the financial reports evidence provided and it focused on the income and executed expenses. The analysis did not include any additional cross-check with the budgets or strategic planning per Water Fund. It is recommended that in the future, all financial results are reviewed against the annual planning of the Water Fund to identify shortfalls and opportunities in the implementation.

The information corresponding to the LAWFP reports provided in the excel templates could not be cross-checked against any additional evidence or purchased orders.

2.0 Main Findings

2.1 Latin American Water Fund Partnership Level

For the LAWFP Level analysis, information from 2017-2022 from TNC was considered in three levels of detail according to the data provided:

1. Total investments from LAWFP with detail of implementation per outcome
2. Direct donations to the Water Funds as donations.
3. Investment during the creation of the Water Funds, including in-kind support and direct donations.

Based on the complete assessment of available information we have identified the main challenges in current procedures for reporting and in the financial sustainability of the cooperation for the current procedures, the data collection and the financial analysis

2.1.1 Current procedures

For this process, the baseline assessment provides insight into the partnership reporting processes, strengths, and weaknesses. The assessment allowed us to identify gaps in reporting procedures and highlighted some areas for improvement, that ultimately could support the LAWFP achieve their objectives.

The main findings of the assessment provide a baseline assessment of the reporting procedures, highlight the strengths and areas of improvement in the partnership's reporting processes.

- Currently, the LAWFP has two main reporting procedures that allow the planning and monitoring of the investments. IDB During the implementation of the projects with IDB, GEF, and IKI, TNC manages has the responsibility of project management and review budget and results based in acquisition plans.
- The LAWFP partners have a very complex set of conditions and procedures to report, established in the operation's manuals with the partner donors. However, the manuals are not widely available for other partners to understand the processes and the ultimate results of the reports.
- The budget planned in both the detailed budget and procurement plan does not have a clear procedure for changes in allocation when a product is changed or the support for one Water Fund is decided to be directed towards a different effort.
- The reports lack a descriptions and nomenclature section. The use of color coding and output names is not explicitly explained in the reports making the review and analysis of this reports not possible.
- The LAWFP don't have a platform and a standard procedure to record historic reports and therefore is not possible to track any changes and performance in the years.
- The reports are not available for the rest of the LAWFP partners, each partner/donor establishes their own templates and requirements for the reports. The need to generate different reports, with a not homogeneous level of details opens the possibility for discrepancies and a lack of visibility of the performance of the program beyond the performance of one source of investment.

The current procedures in place allow for a data reporting and sharing but do not ensure the accurate financial processes which could lead to:

- Lack of accountability from the implementation unit making it difficult for stakeholders to assess the partnership's financial and operational performance. The lack of transparency can lead to a loss in trust and confidence among donors and the Water Funds which can ultimately affect the LAWFP and the Water Fund's ability to secure funding and support.
- Inaccurate financial statements: The lack in consistency in the reports and the information provided may result in a misrepresentation of the LAWFP's financial performance.
- Inability to measure impact: Proper reporting procedures are essential for measuring the impact of the LAWFP's projects and support to the Water Funds.
- Missed opportunities for improvement: Without a proper reporting procedure, the LAWFP may miss opportunities to identify areas of improvement in its operations, financial management, and program activities. This could lead to lack of efficiency and effectiveness in achieving its objectives.

2.1.2 Financial Analysis

The financial analysis performed had the objective of evaluating the organization's financial health, identify areas of improvements, and ensuring accountability and transparency. However, the drawing of definite conclusions was not possible due to the amount of information available. The analysis allowed us to identify a series of opportunities and risks in the numbers based on the reports and the information provided by the Water Funds.

According to the information presented and the levels of detail, the accountability of LAWFP-sponsored time or *in-kind* support and the cash donations are not clearly differentiated. At first, creating a double counting of the information with the *Direct investment* and *Water Fund Creation* being presented separate. After analysis and review with TNC it was identified that *Direct investment* is included in *Water Fund Creation*, and it was accounted separately. This method of reporting can lead to a misrepresentation of investment creating discrepancies and mislead claims in final investment numbers.

According to the conversations and accounting principles, the Water Funds are bound to report all donations in their accounting reports. The lack of information limited the cross-check of the reported investments by TNC, and the investment reported by the individual Water Funds. Nonetheless we were able to match the numbers of both *Direct Investment* and *Water Fund Creation* for the total of 5 Water Funds.

The discrepancies between the TNC reporting and the Water Funds for *Direct Investment* added up to more than USD 180,000 and up to USD 500,000 for *Water Fund Creation*. Both numbers are an important discrepancy especially considering they only represent 10% of the total beneficiaries of TNC reports. The discrepancies warrant further investigation to identify the reason of the Water Funds not recognizing the investments and the way the investments were executed.

The discrepancies identified can lead to an inaccurate representation of the support the LAWFP provides to the Water Fund and negatively impacts the ability of the partnership to measure their impact in Water Security and in the straightening of the Water Funds.

Furthermore, these differences in the reports may indicate a lack of robust financial management and reporting procedures. The insufficient transparency and accountability can affect the ability to attract new partners and funding to continue working towards water security.

2.2 Water Fund Level

As detailed in *Task 1. Diagnostics on current procedures and data flow*, TNC shared a group of financial information from some Water Funds to include in the analyses. However, the information was deemed not useful after the development of templates and indicators due to a lack of historical records for the last 5 years and incomplete information presented. Based on this premise, ALO Advisors made the direct communication with all Water Fund directors to collect the needed information.

For the LAWFP Level analysis, table 3 shows a summary of the financial situation of each Water Fund we analyzed, considering the available data.

Table 3. Conclusions regarding the financial situation of the analyzed Water Funds

Water Fund		Financial situation
1	FAMM – Monterrey	FAMM shows a strong financial position. It does not depend on the LAWFP at all, nor in the public sector. Its operating reserve shows that FAMM can operate at the same expenditure level for 18 months without income. Nevertheless, higher financial income generated through a larger endowment would give FAMM a more robust position by being less sensitive to third party donations.
2	FONAG – Quito	FONAG has a solid and robust financial situation based on the size of its endowment and the secure annual revenue generated through its financial investments. However, during the five-year period, it shows a constantly negative cashflow. A matter of concern regarding the information is the inconsistency shown through negative cashflows and growing endowment.
3	Agua Capital – Mexico City	Agua Capital seems to be in a vulnerable financial situation. Its endowment still isn't too big (almost \$725,000 USD) and its cashflow isn't too strong.

		Nevertheless, Agua Capital has no dependency in the LAWFP nor in the public sector, and his operation reserve by 2021 was of 1.30.
4	Yaque del Norte	The Water Fund is in a vulnerable position due to its relatively small endowment size. However, it shows positive and constantly growing cashflows, a non-dependency on either the LAWFP or the public sector, and its operating reserve is of 2.6 years.
5	Cauce Bajío - Guanajuato	The Water Fund is in a fragile position due to its relatively small endowment size (\$136,487.27 USD) and cashflow (almost \$70,000 USD). Its operation reserve is just below 1 year (0.96).

3.0 Recommendations

3.1 Latin American Water Fund Partnership Level

The recommendations provide a foundation for the development of a robust reporting procedures that could ensure transparency, accountability and sustainability.

In order to address the discrepancies in the financial analysis results, is recommended to conduct a thorough forensic assessment to identify the root cause of the discrepancies and the management of investments. Is recommended that the assessment if performed by an external auditor and complement it with the establishment of more robust reporting procedures.

We recommend that the LAWFP defines a process for all partners to account for all technical assistance and LAWFP-sponsored time (i.e., participation in advisory boards meetings, support for grants applications, subject matter expertise support for project implementation) and that the support is clearly reported to the Water Funds.

Creating a unified and professionalized reporting procedure that satisfies all partners with different needs can be a challenging task. However, it can also be highly beneficial to improve transparency, accountability, and collaboration, ultimately supporting the partnership's objectives. To establish a unified reporting procedure is important to first identify the different reporting needs of each partner to develop the reporting procedure that meets all needs while also providing a comprehensive picture of the partnerships financial and operational activities.

Additionally, to improve transparency and accountability, this unified reporting procedure can reduce discrepancies and misunderstandings. This can help build trust and confidence among partners and stakeholders. Furthermore, this can improve efficiency by reducing duplication of effort and ensuring all partners are aligned in the objectives and the performance results.

Considering the main purpose of the assessment performed is to identify areas of opportunity improve the execution of the support, the unified reporting procedures will facilitate the sharing of best practices and lessons learned along the implementation and will allow the implementation of corrective action in a timely manner. Is recommended that all these processes and definition of accounting practices are integrated into the Desired State.

3.2 Water Fund Level

3.2.1 The financial data collecting process.

- Formalize the relationship with the WFs, establishing the commitment to share financial information in a periodic manner. This can be done through a memorandum of understanding in which both parties commit to certain duties, among which sharing the financial information is clearly stated.
- Transparency of the use to which the information will be put and guarantee its confidentiality. It is critical to avoid any uncertainty about the use that will be made of the information; thus, the LAWFP needs to clearly explain the Water Fund directors the purpose of collecting the information and guarantee that the information will be kept confidential, any publication of the information is going to be presented in an aggregated form.
- Facilitate the flow of information through a consistent and organized process. The request for information should be scheduled year after year, respecting the dates on which the information collection process unfolds, and the information requested should be practically the same every year.
- Create added value for the Water Funds with the shared information. ALO recommend the LAWFP to establish incentives for the Water Funds for sharing information and, at the end of the collecting information process, the Water Fund directors and their boards should receive information so that the performance of their own fund can be mapped relative to the rest of the Water Funds.
- Recognize Water Funds that share information with the LAWFP. ALO recommends highlighting Water Funds that share financial information each year developing and deploying a communication strategy.

3.2.2 LAWFP financial allocation within the Water Funds Portfolio.

- Clarify the criteria used by the LAWFP to allocate resources among the Water Funds. If the criteria haven't been clearly established, updated, and applied, a postmortem analysis is suggested in order to understand why this happened.
- When the LAWFP allocates in-kind resources, we recommend make it transparent the case with the Water Funds and ask them to formally recognize the LAWFP's contribution. By doing so, the Water Funds will learn more about how the LAWFP is working and investing in them, and the contribution will be formalized by being included in their financial statements.
- In future investments the LAWFP could allocate resources to Water Funds that fulfill the enabling conditions specified at the maturity model and best practices, and still are struggling financially.

3.2.3 Additional recommendations

- Promote a set of financial best practices (e.g., financial statements audited by third parties) among the Water Funds.
- In the case of FONAG, review the financial statements regarding cashflows and endowment.