



# Water Security and Climate Resilient Development

## Overcoming Bottlenecks in Project Preparation

Africa's infrastructure deficit is considerable. In a water resources context alone, it was projected at the turn of the decade that Africa would need US\$50 billion per annum up to 2040 if it is to bridge this deficit, and meet its long term needs. This need is predominantly driven by rising water-food-energy demands, underpinned by population and economic growth. Exacerbating this need is the impact of climate change, and the requirement for African countries and communities to become more resilient in the face of increasingly extreme and frequent weather events.

Public funds, supported by traditional development finance, are no longer sufficient to develop the necessary scale of infrastructure, in the required time period, to meet demand. However, there is rising interest from a broad variety of sources in financing (at least part of) these needs. In particular, the private sector and private capital are playing a growing role in enabling developmental projects in Africa through various mechanisms, including public-private partnerships. These are increasingly becoming key tools in allowing policy makers to drive the development of public infrastructure, and deliver public services, beyond that which limited government resources and capacity would allow in isolation.

With this in mind, the most significant bottleneck currently facing African infrastructure development is the "bankability" gap – the lack of suitably characterised and appropriately packaged projects identified as viable through a clear and structured preparation process. Whilst opportunities abound, translation into workable transactions is lagging. Without bankable projects, external funders and financiers are simply unable, or unwilling, to invest in projects critical to the continent's development.

This bankability gap is a critical hurdle that needs to be quickly addressed if Africa's growth is not to stall.



## PIVOTAL ROLE OF PROJECT PREPARATION IN DELIVERING ACTION

A project's lifecycle consists of three, closely linked components – preparation, implementation, and operation. The implementation and operation steps are typically clear in definition, but the preparation process is often less understood by project proponents. This component is comprised of several stages that seek to identify, define, and characterise the viability of a particular project, before it proceeds to implementation. It begins with early-stage concept development, followed by feasibility studies and structuring, and concludes with promotion and sourcing of appropriate funding for implementation (for the full project cycle, please consult Figure 1).

A thorough preparation process creates a viable and bankable project, increases its attractiveness to funders and financiers, minimises risk, expedites development, and sets a venture up for long-term impact and success. It is a crucial step to overcoming the bankability gap hindering the development of resilient water infrastructure, and promotion of water-energy-food security, on the African continent.

There is increasing awareness on the importance of preparation, and a growing number of initiatives, and project preparation facilities are attempting to expand and expedite critical project development through better conceptualisation, planning,

structuring, and promotion. However, the project preparation process, and the ultimate goal of sourcing appropriate and sufficient financing for projects that build water security and contribute to climate resilience, still faces many bottlenecks and constraints in an African context.

**Figure 1: Breakdown of the Project Preparation Process**



## 1. EARLY-STAGE: CONCEPT DEVELOPMENT

The early stage of the project preparation process is concentrated on concept development, consisting of two phases.

The **enabling environment** phase encompasses tasks and activities that:

- Identify legal, regulatory, institutional and project impediments;
- Mitigate through additive and/or corrective reform capacity and consensus building; and
- Allocate responsibilities for the project.

During the **project definition** phase, tasks and activities include:

- Screening, identifying and initialising the project through service definition and identification of desired outcomes;
- Sector analyses;
- Prioritisation and comparison of alternatives;
- Pre-feasibility studies; and
- Development of concept notes.

### REGULATORY AND INSTITUTIONAL ENVIRONMENT

Weak integration of adaptation activities in national sector strategies

Conflicting mandates and overlapping or fragmented responsibilities amongst multiple entities

Highly centralised administrations impeding planning at sub-national levels

Political instability, or lack of acknowledgement of political instability as a major risk factor

Policies and mindsets fixated on government as the major proponent and financier of water and climate resilient projects

Unclear land tenure arrangements, and procedures for acquisition and compensation

### IMPLEMENTING AGENCY

Insufficiently resourced, and frequent changes (or lack thereof) in, implementing agency and other critical role-player personnel

Lack of long-term vision in project concept development, with available capacity and funds directed at short-term issues and stopgap solutions

Weak technical capacity to identify and design appropriate projects, including critical early engagements with financiers

Lack of mandate for regional planning or oversight organisations, with much of the "power" still existing at a national level

### INFORMATION AND DEFINITION

Insufficient data availability, fragmented data, poor data capture and storage, and difficulties in sharing or communicating data

Weak or neglected analysis of important risk factors during pre-feasibility, and therefore not carried into project feasibility and structuring

Commitment to unrealistic time frames, most often underestimated

Lack of consideration of previous projects, including incorporation of important lessons learnt, or the impact of delays on new initiatives

Community fatigue and apathy generated by previous failures results in lack of buy-in by beneficiaries, or reluctance to engage by proponents

### FUNDING CONCEPTUALISATION

Insufficient funding available for early-stage project preparation, or inability to access such funding (including through inability to co-finance)

Limited private sector participation, and lack of effort to engage private sector at the conceptualisation stage, restricts access to capital later

## POLICY RECOMMENDATIONS

- Include climate resilience and water security narratives in regional and national policy frameworks and planning strategies
- Shift in policy and mind-set towards government as a champion for water projects, but not the only role player/financier
- Support institutional restructuring, which sees clear responsibility allocations and lines of communication/engagement
- Promote a more thorough concept development process, and commitment of additional resources to project concept development, capacity training programmes, etc.
- Improve and support capacity building in regional organisations
- Develop framework and programs, and allocate capacity, towards centralised information capture
- Commit additional funding towards concept development
- Engage early with appropriate private sector entities and harness their input to improve project concept



## 2. MID-STAGE: FEASIBILITY AND STRUCTURING

The mid-stage of the project preparation process, consisting of the feasibility and structuring phases, is concentrated on the development of a full project business plan and a bankable proposal.

The **feasibility** phase encompasses tasks and activities that include detailed commercial, financial, legal, engineering, environmental, and socio-economic appraisals that fully validate and develop the concept.

During the **structuring** phase, tasks and activities include developing detailed business, institutional, financial, risk, and legal structures that contribute to the complete business and financial models.

### FEASIBILITY AND DUE DILIGENCE

Outdated, inconsistent, or inappropriate feasibility studies distort outcomes, cause delays, impact bankability, and can cause financiers to be overly cautious

Lack of technical and logistical capacity within implementing agencies to structure, conduct, oversee, and assess suitability of feasibility studies

Inefficient procurement processes and protracted disbursement of funds generate delays in preparation (and overall project roll-out)

Due diligence on preparation consultants/service providers is insufficient or even non-existent, with transparency and corruption issues arising

### DESIGN AND STRUCTURING

Multiple interested project financiers constrain project design and stall progress due to variance in interests and objectives

Multinational projects face challenges in design due to variations in jurisdiction and local conditions, requiring structural flexibility

Poor sensitisation of local communities to the concepts and benefits of the project, leading to misunderstandings, distrust, and possible security risks

Non-consideration of necessary auxiliary infrastructure, or lack of communication or agreement on responsible entity (eg. national vs local)

### POLICY RECOMMENDATIONS

- Drive strong leadership in place to ensure clear objectives in design and forward progress
- Establish additional capacity within the relevant institutions with the purpose of overseeing mid-stage project prep, namely:
  - Procurement and disbursement of funds
  - Project feasibility and due diligence, ensuring relevance, suitability and quality
- Expand engagement with impacted communities and beneficiaries and seek buy-in early
- Understand the need for robustness in project structuring to cover variations in jurisdiction



### 3. LATE-STAGE: PROMOTION AND FINANCING

The late stage of the project preparation process is concentrated on sourcing and securing sufficient financing to fully implement and sustain the project through operations.

The **marketing** phase encompasses tasks and activities that:

- Promote the project through various information memoranda, road shows and investor conferences; and
- Assesses investors' and financiers' level of interest.

During the **transacting** phase, tasks and activities include:

- Procuring and negotiating project financing; and
- Preparing and completing all necessary documentation related to the close of the financing transactions and related agreements, moving through to implementation.

#### PROMOTION AND CAPITAL RAISING

Rigid and out-of-date structures see a lack of funding or financing for projects promoted by non-governmental entities, resulting in good projects falling away

Insufficient knowledge or understanding of the project design and structures by team leaders, negatively impacting on sourcing of finance and implementation

Inconsistencies in what potential financiers are seeking, and the understanding of such by project proponents and implementing agencies

#### FINANCIAL CLOSURE

Choosing the lowest financial offer with little consideration for quality or capacity, discouraging value-add and jeopardising sustainability

Weak understanding of the transacting and procurement process, leading to delays and possible irreversible errors

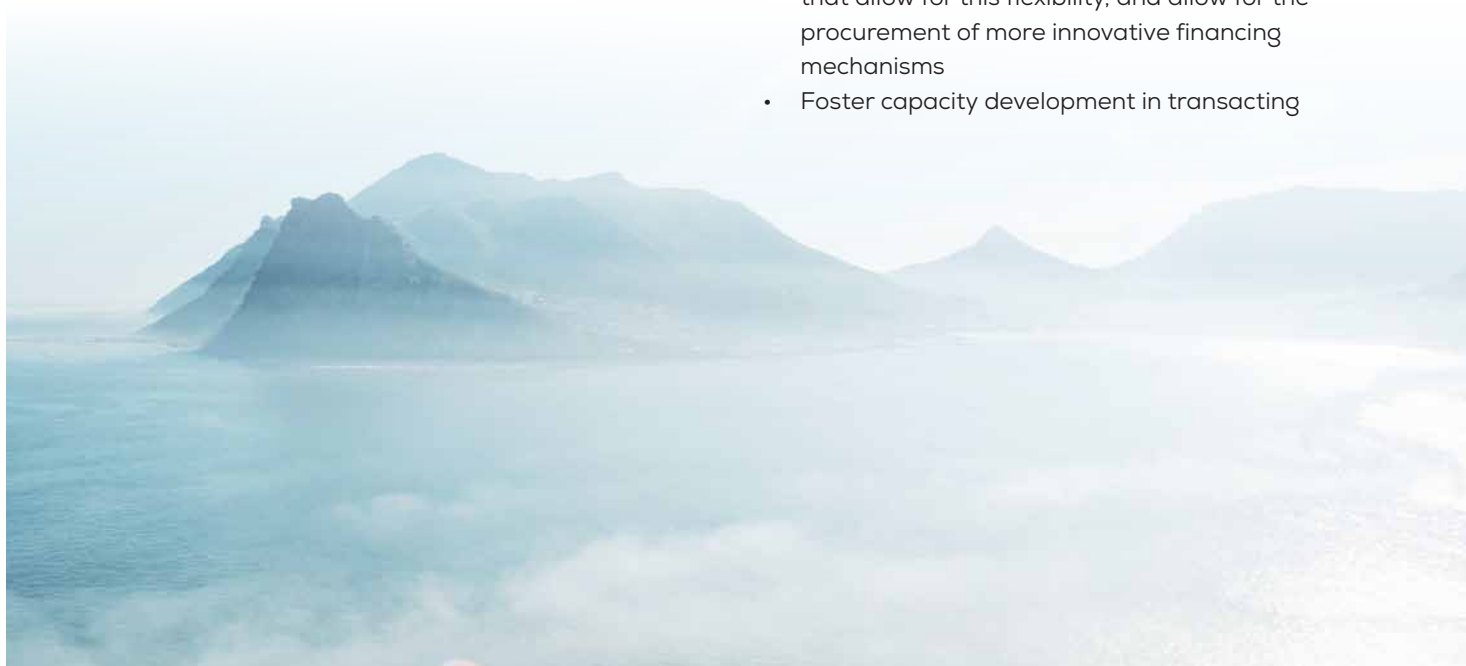
Long delays in transacting, often caused by insufficient or incomplete preparation components, generate additional costs and investor frustration

Scheduling and financial period mismatches between the implementing agency, financiers, and other role-players delay close and implementation

Translation of agreements into ineffective, or difficult to manage, monitoring and evaluation frameworks and indicators

#### POLICY RECOMMENDATIONS

- Allow for flexibility in policy and regulatory environment to promote and encourage projects promoted by NGOs, including within private sector by developing:
  - Frameworks to ensure consistency in objectives between government and NGOs
  - Frameworks to allow for funding and financing to flow to NGO projects
- Ensure the team engaging with financiers and investors is close to the project understands the intricacies, and can understand what investors are potentially looking for
- Promote the choosing of the right financial partner(s), not just the lowest-cost one by establishing:
  - Financial and procurement regulations that allow for this flexibility, and allow for the procurement of more innovative financing mechanisms
- Foster capacity development in transacting



## OVERALL POLICY RECOMMENDATIONS FOR OVERCOMING HINDRANCES TO PREPARATION

Project preparation plays a vital role in developing bankable projects and ultimately raising finance for implementation and operation. It is therefore critically important that decision makers and policymakers foster interventions to facilitate a more effective preparation process. In light of the constraints and bottlenecks discussed above, the following high-level recommendations have been developed:

- **Develop or refine the policy environment to create room for water and climate resilient projects.** Regional and national policy frameworks that include climate resilience and water security narratives demonstrate to financiers the priority given to projects of this nature. Frameworks should provide guidance to the project preparation process, and include a robust climate finance architecture.
- **Coordinate climate change policy on a national and regional level.** It is critical to synchronise governance structures responsible for cross-sectoral coordination with regard to institutions working on climate change, preparation of climate strategies, information, and dissemination.
- **Develop or refine the policy environment to facilitate and promote private sector participation.** Better enabling public-private partnerships, and private sector-led initiatives, will open up accessibility to broader capital markets and mobilise additional private finance into the water security and climate change sectors, including in the preparation stages.
- **Explore and implement additional capacity building programs for implementing personnel.** A lack of capacity (and resources) is a common thread through many of the constraints to effective project preparation. A fast-changing financial climate requires new and innovative skills and expertise, whilst regional initiatives provide opportunities for multinational capacitation.
- **Establish a framework to provide public funding support to project preparation, and in particular in the early stage.** Proper project conceptualisation is often neglected due to a lack of funding, but it lays the foundation for a successful and sustainable project.
- **Encourage, and make allowances for, the role of “project champions.”** These are preselected and empowered individuals who serve as leading advocates for the project, ensuring its priority and demonstrating commitment to external parties from the beginning. Project champions can continually promote issues of national interest, such as water-energy-food security, and climate resilience.
- **Cultivate a better understanding of the financing environment, and engage early with potential investors and financiers.** Knowledge of mandates, tendencies, and financing trends allow governments and implementing agencies to be agile and proactive in developing and promoting projects with a greater chance of success. Scoping missions are a perfect opportunity for all potential stakeholders to work together in preparing viable project proposals.
- **Consolidate and leverage relationships with potential funders and financiers.** In particular, look to form strong partnerships with sources that provide project preparation financial and technical support. With appropriate structures, multiple streams of funding could be merged into a single fund, allowing for greater project development scale and efficiencies.
- **Investigate and target climate-specific funds and champions.** In 2014 governments, business and the private sector financially committed to help address climate change to the tune of more than USD\$200 billion. Commitments coming out of the Paris COP21 summit in December 2015 have seen even further emphasis on the importance of climate change adaptation and mitigation, with much of the focus targeted at least-developed countries.



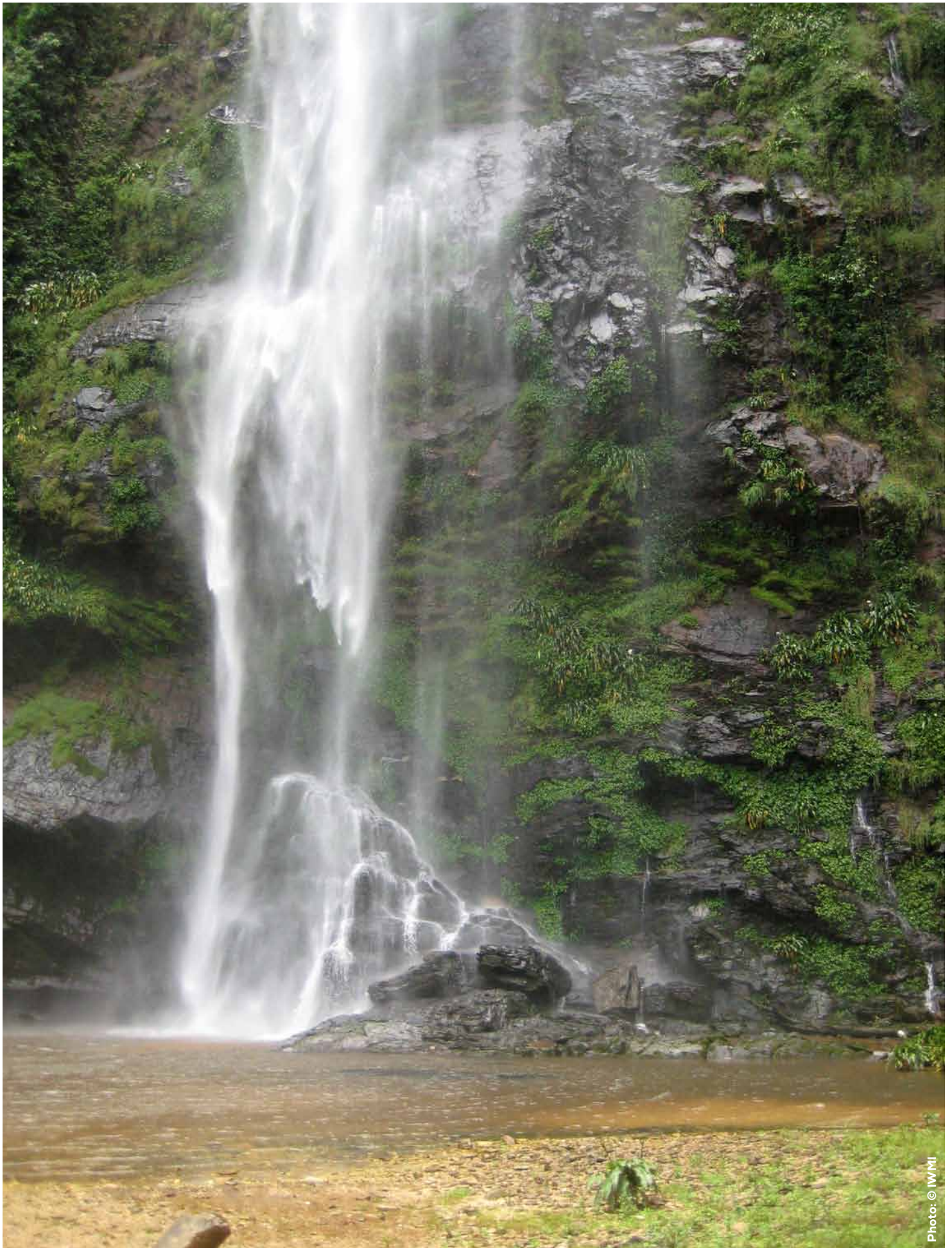


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#### About the Infrastructure Consortium for Africa (ICA)

The Infrastructure Consortium for Africa (ICA) is a tripartite relationship between bilateral donors, multilateral agencies and African Institutions. Its Secretariat is hosted by the African Development Bank (AfDB) in Abidjan, Cote d'Ivoire, financed by voluntary contributions from the ICA members and staffed by a combination of permanent staff from the AfDB and experts on secondment from ICA member countries. The vision of ICA is that all Africans have access to sustainable and reliable infrastructure services. Its mission is to strive to increase finance for sustainable infrastructure development in Africa, to help improve the lives and economic well-being of Africa's people. Overall, the ICA encourages, supports and promotes increased investments in infrastructure in Africa, from both the public and private sectors. It works to facilitate infrastructure development in the water, transport, energy and Information & Communications Technology (ICT) sectors, through both regional programmes and country-specific initiatives. Not a funding agency, the ICA is a platform that works to catalyse a step-change in the financing of infrastructure projects and programmes across the continent. The ICA also works to overcome technical and political challenges to building more infrastructure, and it helps to improve understanding of Africa's infrastructure development needs through the provision of better information.

#### About the Global Water Partnership

The Global Water Partnership (GWP) vision is for a water secure world. Our mission is to advance governance and management of water resources for sustainable and equitable development. GWP is an international network that was created in 1996 to foster the application of integrated water resources management: the coordinated development and management of water, land, and related resources in order to maximise economic and social welfare without compromising the sustainability of ecosystems and the environment. The Network is open to all organisations which recognise the principles of integrated water resources management endorsed by the Network. It includes states, government institutions (national, regional, and local), intergovernmental organisations, international and national non-governmental organisations, academic and research institutions, private sector companies, and service providers in the public sector. The Network has 13 Regional Water Partnerships, 84 Country Water Partnerships, and 3,000 Partners located in 172 countries.