



# Process Guidance Document for Preparing Water Security and Climate Resilience Investment Projects

## Turning Project Ideas into Bankable Concept Notes

The Water, Climate and Development Programme (WACDEP), an African Ministers' Council on Water programme implemented by the Global Water Partnership and partners, aims to integrate water security and climate resilience in development processes. When WACDEP was conceived, a critical element of the programme was the support to national and regional institutions in investment planning and project preparation. The project preparation and financing work was based on understating the constraints, better defining the projects and reviewing different financing options in order to help countries and regions leverage funding from water financing and adaptation funds. This component sought to strengthen project preparation and help countries and regions prioritise interventions that would enhance water security and climate resilience.

With support from the Infrastructure Consortium for Africa (ICA), five regional and eight national institutions in Africa were supported in the development of concept notes. This Process Guidance Document presents a process flow that is built from best practices and success stories from the case studies.

While each country and region, and for that matter, each project within the country and region, will have a specific set of characteristics and project preparation needs, the following steps, outlined in Figure 1, present an ideal process flow with which to engage countries and regions in project preparation and financing.

Figure 1: Ideal Process Flow



## TASK 1. INVESTMENT CLIMATE ANALYSIS

Projects are not conceived in a vacuum. Understanding the environment in which they emerge, develop and are executed is critical to their success. Before project planners embark on developing a project concept, we suggest beginning the project development process by drafting an investment climate analysis report. By beginning the process with this exercise, project development teams are afforded insight into a context-specific, holistic understanding of project preparation and financing. This study allows project development teams to identify gaps in project preparation and financing in the country or region, to have a sound understanding of the enabling environment and institutional players, to recognise the influential players in the donor community working on water security and climate resilient projects, as well as the smaller, lesser known players, and to begin to generate ideas on the types projects that can be financed.

In this analysis, project development teams examine the why and what question. For example, why is it difficult to access finance? What are the types of issues around concept note writing? What are the issues with identifying partner institutions? Are there collaboration issues? Why are some projects more successful in accessing project funding than others

Project development teams may begin their exploration with a desk-based study, comprised of a

literature review of documents and reports provided by key stakeholders from the field. From there, project development teams, dependent on funding, may conduct interviews and site visits with questions concentrated on the following topics: (1) funding sources and projects already working in the country/region, (2) funding and financing mechanisms available to the country/region, (3) bottlenecks and constraints to project preparation and financing, and (4) opportunities and recommendations for moving forward. In working through these desk-top reviews and interviews, project development teams should investigate questions around gender equality and empowerment for each of these questions. Unpacking this status quo, as well as the corresponding safeguards in place, will help the project development team in understanding the associated bottlenecks with gender and social equity.

Final analysis in this report may be grouped into bottlenecks and constraints, as well as funding and financing mechanism in each step of the project cycle (early stage, mid-stage and late stage).

### OUTPUT

**Investment Climate Analysis Report identifying constraints and gaps in project preparation and financing**

## TASK 2. INSTITUTIONAL CAPACITY DEVELOPMENT

Once project development teams have undertaken an analysis of the investment climate in which they are working, as well as the bottlenecks and constraints they may face in their project development process, capacity development on project preparation and financing will be carried out.

In this context, goals of the capacity development are to:

1. Provide a framework for project preparation and financing;
2. Develop a practical understanding of the process of project preparation and its nuances based on context and intervention type;
3. Provide an overview of financing types, structuring and implications for water secure and climate resilient projects; and
4. Define the external support needed by the institutions in project preparation.

The objective of the project preparation process is to demonstrate the organisation and process required to prepare water security and climate resilience projects for financing at a regional or national scale. The ICA Project Preparation Cycle, as depicted in Figure 2, for developing bankable projects consists of six processes, including:

- Assessing if an enabling environment exists;
- Project definition;
- Project feasibility;
- Project structuring;
- Marketing; and
- Transacting.

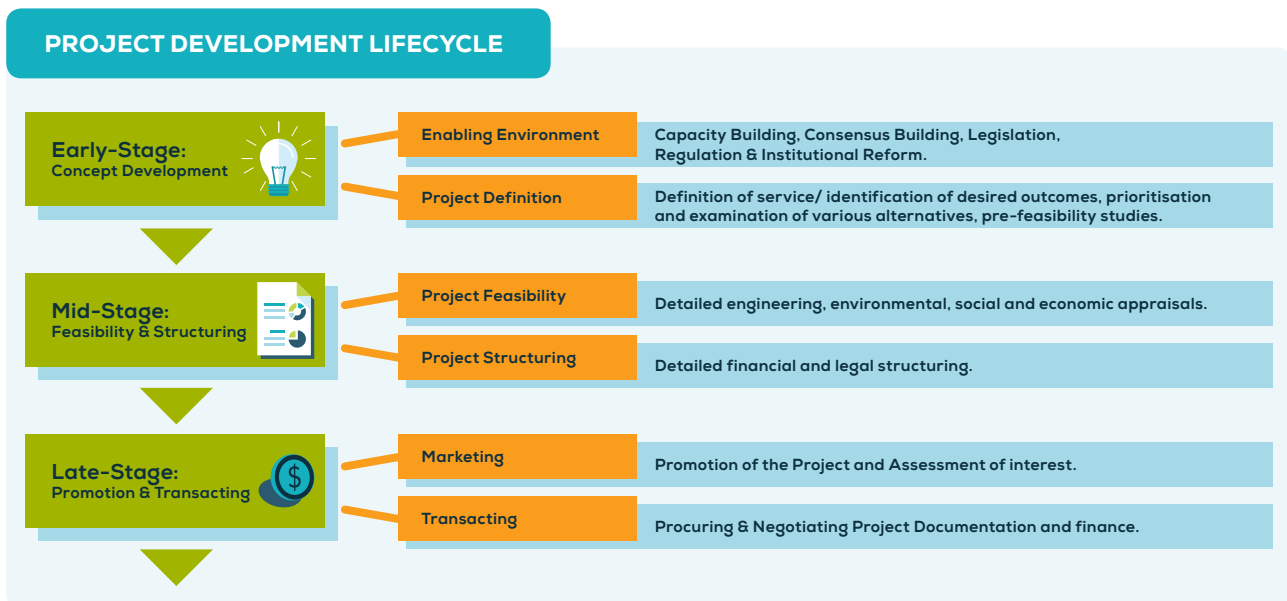
Capacity development can focus on unpacking the project preparation cycle by clearly outlining the associated activities and outputs, as well as placing project preparation and financing into the broader on-going developmental context. The emerging project types for each country and region can also be discussed, as well as constraints to project preparation investigated during the investment climate analysis.

Capacity development trainings should help project development teams begin to understand how to identify projects. As an example, the project screening tool (Figure 3) used in the WACDEP project preparation process helps take project development teams through a step-by-step selection process to ensure that the future project will target enhanced water security and climate resilient interventions.

### OUTPUT

**Institutional capacity development training for project development teams on project preparation and financing**

Figure 2: Project Development Lifecycle



## TASK 3. SCREENING AND DEFINING PROJECTS FOR WATER SECURITY AND CLIMATE RESILIENCE

The identification of a project should ideally come after completion of a sound Investment Climate Analysis and project development teams and national experts have received training in how to respond to the identified gaps. Identifying the project can be done in two steps: the first step will be a screening process based on a set criteria; and the second step will be to define the project identified.

Project development teams will work to identify a project from national/regional sector plans and strategies, available investment plans and programmes and other supporting documentation that may include project lists. Through consultations involving a wide range of stakeholders, national and regional experts should explore lists of identified projects utilising the screening tool, as shown in Figure 3, to help come to agreement on a priority project to pursue. These projects can be presented in national and regional consultations and, eventually, a single project should be identified. The project idea will need to be validated by relevant national and/or regional stakeholders and ensure that there is a willing team of Project Champions within the government to accompany the project through its development.

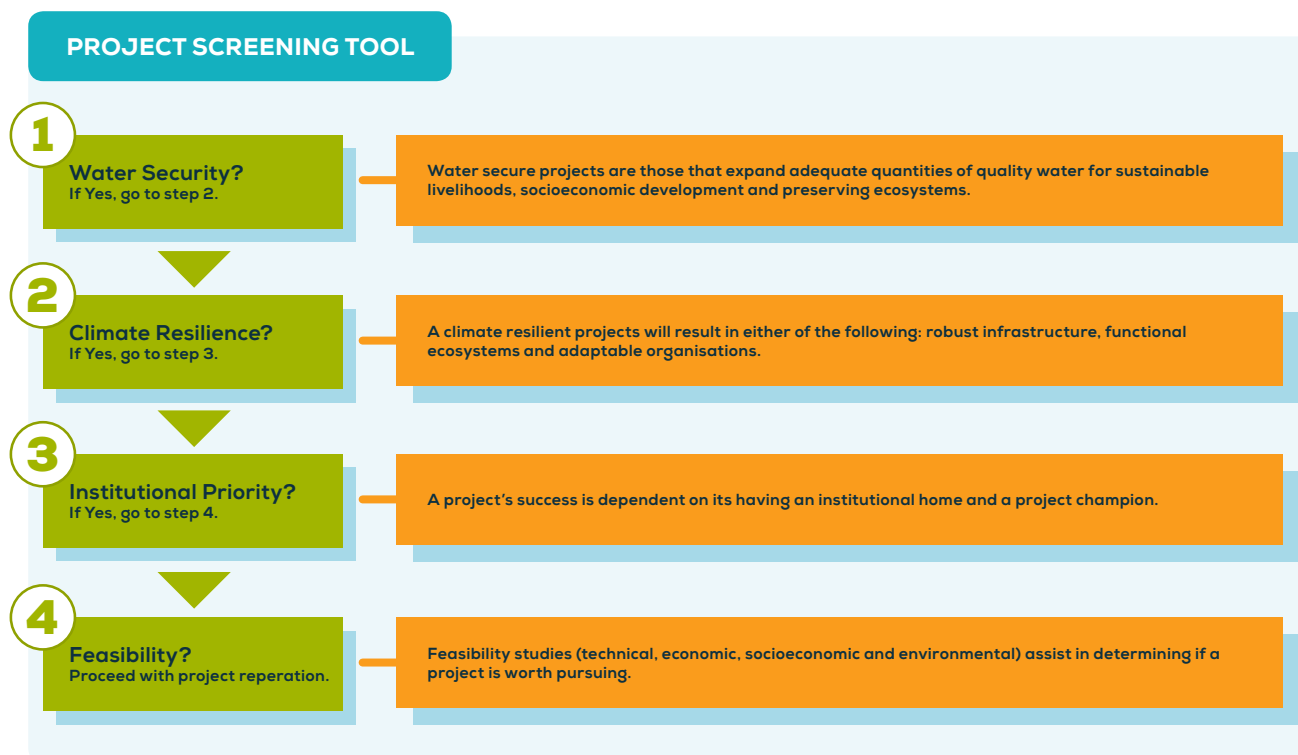
### MULTI-SECTOR PROJECT DEFINITION

This is a critical step, especially for water projects that appeal to several line ministries and whose outputs often fall in overlapping policy objectives. Project definition will entail agreeing on the objectives of the project; this will be done through a multi-stakeholder consultation processes. The involvement of women and youth as not only project beneficiaries, but also project planners and stakeholders is vital. The involvement of social development experts is important in order to ensure that social equity, vulnerability and inclusiveness issues are well integrated into the concept development. Environmental practitioners should also be involved in these early consultations in order to ensure that projects take into consideration and promote ecosystem integrity.

#### OUTPUTS

1. **Prioritised projects with objectives set through multi-sector consultations;**
2. **Project to pursue in Concept Note development**

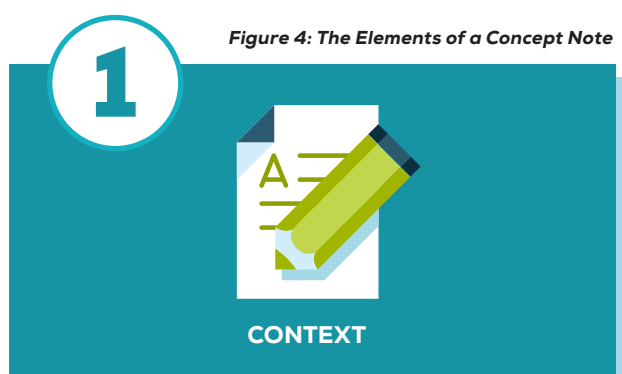
Figure 3: Screening Tool targeting projects enhancing water security and climate resilience



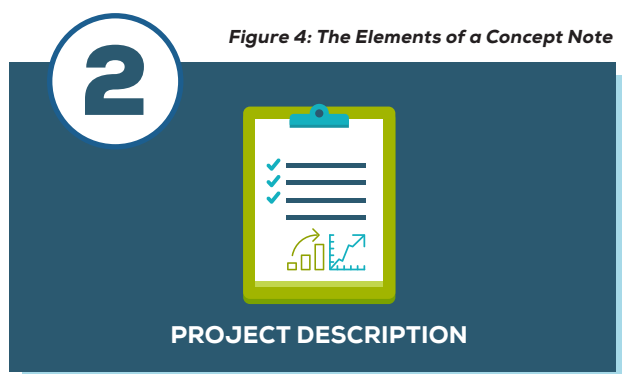
## TASK 4. DRAFT CONCEPT NOTE DEVELOPMENT

Following the identification, selection and definition of the project goals and objectives, the project development team can begin to prepare the Concept Note. Water projects have many interests and externalities, therefore, it is critical to ensure broad stakeholder concerns are incorporated and there is a clear understanding of roles.

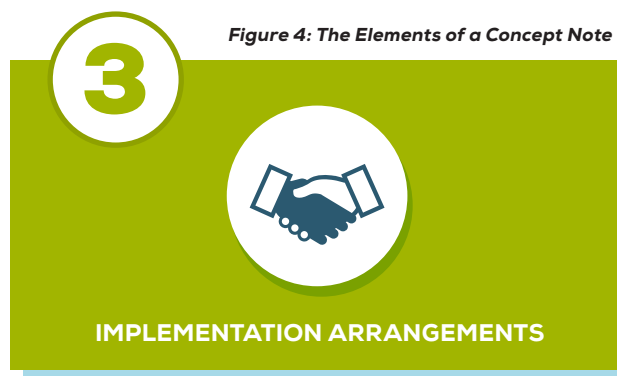
Concept Notes can mean different things for different organisations, but, typically, as shown in Figure 4, they will have a number of key elements. These may include:



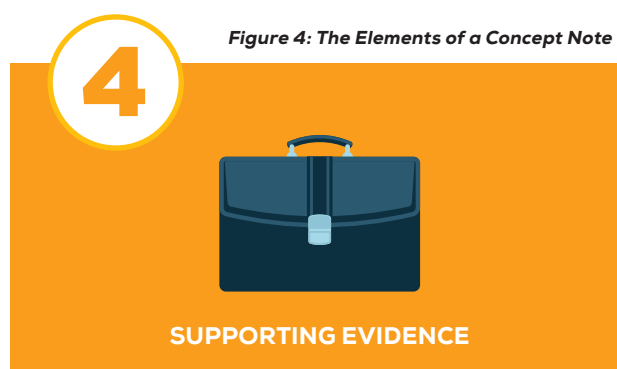
This component describes the strategic framework and rationale for the project. It may examine geographic and sector issues, existing development environment and goals, motivations, higher-level objectives, and problem definition, amongst others.



This component based on the defined goals and objectives, outlines and characterises the project in question, including proposed financial structures and modalities. It will examine, at an early stage, project-specific objectives, high-level strategy, technical requirements and components, activities, financials, projected outcomes and sustainability, and risks, amongst others. It is important at an early stage to articulate the merits and impact of a project, both socio-economic and environmental. Social equity considerations, taking into cognisance gender concerns and vulnerable groups, should be considered in defining the objectives and impact of the intervention.



This component begins to establish how a project will be implemented. It will consider the stakeholders and role-players involved, institutional and organisational arrangements, legal and regulatory requirements, needed capacity, funding strategy, timelines, and monitoring structures, amongst others. It is critical to identify and attract a project promoter who can also, for example, borrow or receive financing for implementation and operation.



This component is an annex of sort, providing additional and more detailed information to support the assertions and projections made in the previous sections. Various pre-feasibility studies may be included here, looking at policy, geographic, technical, economic, financial, social, and environmental aspects of the project.

Ultimately, the Concept Note must begin to establish the perceived impact, viability and sustainability of a project, potential sources of funding and financing for detailed preparation, as well as for longer-term implementation and operation. In doing so, the Concept Note may begin to **identify funding opportunities**, as well as provide early project structuring analysis.

### OUTPUT

Draft Concept Note

## TASK 5. FINANCING REVIEW

Once there is a concept note that indicates what the project is, what the implementing arrangements may be, what stage of project cycle the project falls in, as well as the potential financial amount, the project development team may undertake a project-specific finance review. When there is more information available on the project, the team may undertake a more rigorous review of potential funding sources for both the feasibility and project transaction stage of the, as well as the implementation stage of the project. This process involves matching the technical and commercial details of the project with the financial requirements of funding sources at national, regional, continental and global scales.

Figure 5 demonstrates an example finance review, undertaken from previous iterations of this process.

Figure 5, entailing the financing review process, is an in-depth analysis of both project preparation finance facilities and project financing sources that could be suitable for the selected project. Options are rated on 'likely suitable,' 'possible hurdles/constraints,' and 'unlikely' so that recipients are able to assess a funding source's appropriateness.

Each funding source details:

- Applicable sectors (i.e. management of natural resources, climate resilience, green economic growth, etc.);
- The type of finance offer (i.e. in-kind, grant, loan, etc.);
- How much the funding source can provide, using both a lower and upper bracket;
- The beneficiary type (i.e. public, PPP or private);
- What type of funding it is (cross-border or sub-national); and
- At what project stage is the funding suitable (enabling, definition, feasibility, structuring, marketing or transacting).

Project development teams will need to **adjust the Concept Note** based on the facility that they have chosen. This is an iterative process and may result in several versions of project structuring analysis and concept notes to ensure that the project adheres to the selected fund's requirements.

### OUTPUTS

1. Financing review,
2. Revised Draft Concept note matched with funding eligibility depending on stage for project preparation

Figure 5: Financing Review

Project outcomes include:

- 1) Increased agricultural production - Incremental annual crop production on a cultivated land area of 2,000ha
- 2) Increased employment - farm employment for about 30,000 beneficiaries, including women
- 3) Development of water management systems and services for large number of water users, particularly farmers
- 4) Improved resilience of communities in the 3 districts to water stress and floods, leading to improved agricultural productivity, food security, and household livelihoods
- 5) Improved livestock production, covering approximately 20,000 head of cattle, sheep and goats, improving farmer livelihoods and food security
- 6) Restoration of wildlife and forest reserves within the 3 selected areas

**Project Characteristics:**

	Hard Adaptation			Soft Adaptation			Nature			Type			Current Project Stage			
	Built Infrastructure	Green Infrastructure	Institutional Intervention	Public	PPP	Private	Cross-Border	National	Sub-National	Enabling	Definition	Feasibility	Structuring	Marketing	Transacting	
	Yes	Yes	Minor	Yes	No	No	No	No	Yes	Yes	Yes	No	No	No	No	

**Notes:**  
 Indicative project cost is US\$30 million  
 Project will be unlikely to generate revenue internally. Harvested water could potentially be sold to surrounding communities, but given the developmental objectives of the project, this is unlikely, and any revenue generated would anyway be negligible due to inability to pay market-related rates. This rules out many potential commercial funding mechanisms and sources  
 Project has significant climate adaptation elements, opening access to agricultural improvement and food security funding

**PROJECT PREPARATION FINANCING - POSSIBLE SOURCES**

"Banking"	Name	Ghana?	Applicable Sectors	Type	Financing			Beneficiaries			Type				
					Capacity	Lower Bracket	Upper Bracket	Public	PPP	Private	Cross-Border	National	Sub-National		
●	Local Government/Agency funding	Yes		In-kind, grant?	?										
●	Private Infrastructure Development Group (PIDG) Technical Assistance Fund	Yes	Basic drinking water supply, River development, WIP policy, WIP protection, WIP education	Grant, loan	US\$7 million	US\$20,000	US\$1 million	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
●	Public-Private Infrastructure Advisory Facility (PIAF)	Yes	Basic drinking water supply, River development, WIP education	Grant	US\$47 million	US\$25,000	US\$500,000	Yes	No	No	Yes	Yes	Yes	Yes	Yes
●	AfD DBSA Project Preparation and Feasibility Study Fund	Yes	Water supply and sanitation (large systems)	?	US\$2.7 million	US\$500,000	US\$500,000	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
●	African Water Facility (African Development Bank)	Yes	Basic drinking water supply, River development, WIP policy, WIP protection, WIP education	Grant	US\$66 million	US\$66,000	US\$6.6 million	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
●	NIPAD Infrastructure Project Preparation Facility	Yes	Basic drinking water supply, River development, WIP policy, WIP protection, WIP education	Grant	US\$14.7 million	US\$20,000	US\$10 million	No	Yes	International institutions	Yes	No	No	No	No
●	EU-Africa Infrastructure Trust Fund	Yes	Basic drinking water supply, River development, WIP policy, WIP protection, WIP education	Grant	US\$97 million	US\$190,000	US\$40.5 million	Yes	Yes	Yes	Yes	Yes (with regional impact)	Yes (SE4AF envelope)	Yes	Yes
●	Global Partnership on Output-Based Aid	Yes	Basic drinking water supply, River development, WIP policy, WIP protection, WIP education	Grant	US\$155.2 million	US\$25,000	US\$500,000	Yes	No	Yes	No	Yes	Yes	Yes	Yes
●	Infrastructure Development Collaboration Partnership Fund (Africa - PIAC-IFC)	Yes	Basic drinking water supply, River development	Grant	US\$24 million	US\$1 million	US\$1 million	Yes	?	No	Yes	Yes	Yes	No	No
●	Africa Climate Change Fund (African Development Bank)	Yes	Climate change, climate resilience, climate finance readiness, capacity building, low carbon agri development	Grant	US\$6.5 million	US\$250,000	?	Yes	?	NGOs and research org	Yes	Yes	Yes	Yes	Yes
●	Adaptation Fund Project Formulation Grant	Yes	Climate change adaptation, climate resilience	Grant	?	?	?	Yes	?	Govt, cooperation agencies	Yes	Yes	Yes	No	No
●	Nordic Development Fund	Yes	Climate change adaptation - infrastructure, natural resources, capacity building	Grant (co-finance)	?	EUR2 million	EUR5 million	Yes	?	?	?	Yes	Yes	Yes	Yes
●	Global Environment Facility GEF Project Preparation Grant	Yes	Climate change resilience, food security, sustainable water management, biodiversity conservation	Grant	?	?	?	Yes	?	?	?	Yes	Yes	?	?
●	THE FORWARD DEVELOPMENT BANK German Federal Ministry for Economic Cooperation and Development (GIZ) European External Action Service (EEAS) - Commission DG	Yes	Agri & food security, water supply and sanitation, biodiversity, climate, environment and sustainability	Grants, concessional loans, project finance, equity	?	?	?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

## TASK 6. TAKING THE PROJECT FORWARD

The final step of the project is to market the project concept to the appropriate project preparation facilities or, if the project is in its late stages, to a funding facility that will fund the full implementation of the project.

### OUTPUT

Final Concept Note

## CONCLUSION

Ultimately, these project steps are a guideline to developing a concept note as part of project preparation and financing. Each project and country context will come with its own set of challenges and opportunities. Identifying those challenges and opportunities early on in the project process can help ensure that projects are well developed and have the ultimate chance at success. Using the project

preparation cycle, project development teams can ensure that all the pieces are put together. This process draws on a sound understanding of the bottlenecks in project preparation and financing, building on core capacity development in project preparation, mounting to a solid project idea, and then taking that project idea to a full blown concept note with identified funding sources.



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This Policy Brief is a product of the lessons learned and experiences from the Water, Climate and Development Programme (WACDEP) an African Ministers' Council on Water (AMCOW) programme implemented by the Global Water Partnership (GWP) and partners. The Infrastructure Consortium for Africa (ICA) provided technical support, through Pegasys Capital, for the implementation of the WACDEP component on Project Preparation and Financing and this forms the basis of this Brief. Opinions expressed in this publication do not imply endorsement by AMCOW, GWP and ICA.

**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.

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