Water Security and Climate Resilient Development

Investing in Early-Stage Conceptualisation as a Vital Step in Ensuring Long-Term Success

Africa's infrastructure deficit is considerable. At the turn of the decade, it was projected that Africa would need US$50 billion per annum up to 2040 if it is to bridge this water resources deficit, and meet its long term needs.[1] This need is largely driven by rising water-food-energy demands, underpinned by population and economic growth. Additionally, substantial investment is required to enhance water security on the continent in the face of climate change, including in softer interventions such as information systems, institutions and their corresponding governance arrangements, and natural infrastructure. Yet, in 2014, it was estimated that only US$9.7 billion was committed to water infrastructure development on the continent[2], a far cry from the required annual amount.

The need for increased and expedited sustainable water infrastructure development in Africa is clear. This has led, in the last 10 years, to the formation of numerous entities and mechanisms with the purpose of coordinating this action, such as the African Water Facility (AWF), Infrastructure Consortium for Africa (ICA), the Programme for Infrastructure Development in Africa (PIDA) and the European Union – Africa Infrastructure Trust Fund (EU-AITF). Many of these seek to facilitate regional and national projects that will optimise impact through scale and best management of resources.

1. PIDA. (2014). Africa Transboundary Water Resources Outlook 2014.
2. ICA. (2014). Infrastructure Financing Trends in Africa.

THE BANKABILITY GAP

The funding requirements for Africa's infrastructure needs are considerable. Public funds, supported by traditional development finance, are no longer sufficient to facilitate the necessary scale of infrastructure, in the required time period, to meet demand for water services and adapt to the effects of climate change and variability.

However, there is rising interest from multiple sources in financing (at least part of) these needs. An increasing global awareness of the need for "responsible" investment and investment in resilience, coupled with depressed financial returns in traditional markets have made a rapidly growing Africa attractive.

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. Through leveraging their own resources, governments can attract investment and finance to unlock and facilitate the implementation of large projects with significant socio-economic benefits.

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 tangible 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 addressed to ensure Africa's continued growth.

INVESTING IN PROJECT PREPARATION

The ICA's project development process can be broken down into a six-phase cycle, grouped into three main components. It is important to note that the first five phases, up to and including transactions, constitute the project preparation process:

- Early stage preparation, which encompasses the enabling environment and project definition;
- Mid-stage preparation, which encompasses project feasibility and project structuring; and
- Late stage preparation/implementation, which encompasses transactions support.

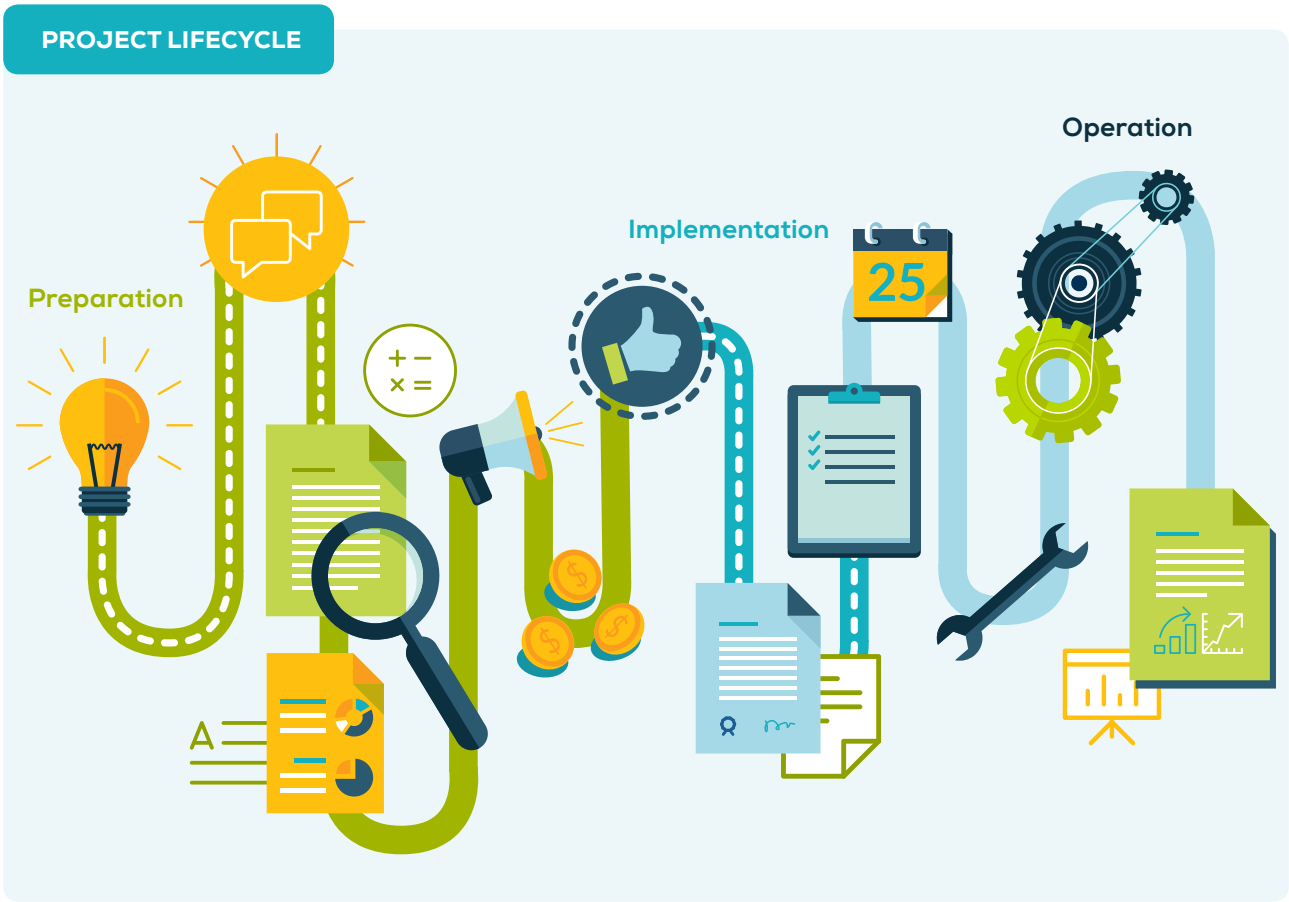
The final project phase is post-implementation support, which requires regular monitoring of outputs and outcomes, impact evaluation and often renegotiation/refinancing.[3]

While the ICA cycle targets preparation, we can also group tasks around the project development cycle into three components – preparation, implementation, and operation, as shown in Figure 1.

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. As per the ICA's project cycle, it begins with early-stage concept development, followed by feasibility studies and structuring, and concludes with promotion and the sourcing of appropriate funding for implementation.

Traditionally, policy makers and supporting entities in Africa have focused their efforts on the implementation and operation phases of their developmental initiatives. This is understandable – the former typically involves the deployment of large sums of capital into substantial infrastructure for the benefit of generations to come, whilst the latter must ensure ongoing provision of important services to the underserved over many years.

Figure 1: Understanding the project development cycle around preparation, implementation and operation.



3. For more information, please see the ICA's 2014 Concept Paper on Effective Project Preparation for Africa's Infrastructure Development.

By contrast, project preparation is often viewed as a procedural "box-ticking" step, and relegated to secondary importance. This is exacerbated and reinforced by a historical lack of funding for more comprehensive conceptualisation and preparation processes. As a result, many promising and much-needed interventions fail to get off the ground in a sustainable manner, or fail later in their lifecycle for reasons that could have been identified or mitigated with more thorough planning, which in turn has made investors more cautious. Moreover, many African water project ideas already sit in national and regional plans and strategies, yet few resources exist to transform these concept ideas from priority projects in list from to actual projects. This cycle has contributed to the bankability gap that now stymies efforts to unlock additional capital into African projects.

There is, however, increasing awareness of this issue, and a growing number of initiatives, and project preparation facilities and funds, are attempting to expand and expedite critical project development through better conceptualisation and preparation. The onus also lies on project proponents and policy makers to pledge additional resources, establish the capacity, and implement a more comprehensive preparation process, to effectively tap into these facilities. The recently developed Green Climate Fund, for example, places a strong emphasis on concept development in their application process, demonstrating growing trends to allocate resources to this phase. Thorough preparation 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.

CONCEPT DEVELOPMENT – LAYING THE GROUNDWORK

Concept Development is the early preparation stage concerned with the initial conceptualisation of a project. As shown in Figure 2, the early preparation stage considers two main elements, under which sit a number of activities:

Figure 2: Concept development falls under the early preparation stage

1. ENABLING ENVIRONMENT

Identifying legal, regulatory, institutional, and other possible project impediments, refinement through additive and/or corrective reform, capacity and consensus building, and allocation of responsibilities.

2. DEFINITION

Screening, identifying, and initialising the project through service definition/identification of desired outcomes, sector analyses, prioritisation and comparison of alternatives, and pre-feasibility studies.

The outcomes of these activities form the basis for the project Concept Note, a summary of the proposed project providing a description and outlining the objectives of the project.

Development of a well-defined Concept Note inherently aids the project proponents in consolidating an early description of, and providing initial structure to, a project. It also plays an important role as an instrument in the process of gaining the necessary support from stakeholders and role-players, including political buy-in and partnership across multiple jurisdictions for regional projects. African water projects, many of which are regional, involve many interests and externalities – it is critical to ensure, at the early conceptual stage, that these interests are suitably accounted for through broad stakeholder consultation, and all roles clarified. It also assists in starting to communicate the potential impact of the project to beneficiaries and the economy.

A Concept Note also begins to highlight and explore important potential social and environmental impacts, such as gender equality, empowerment, and climate change resilience. It also explores potential safeguards that can be applied or considered also highlighting any gaps in responding. These characteristics have to be balanced with technical and financial viability. An early risk analysis overview is also considered already putting a process of planning to mitigate these into place.

Finally, the Concept Note's strength is also in its financial review and structuring. It is imperative that a project begin giving consideration, at inception, to how it will be financed through its life cycle. In concisely articulating the merits of the proposed project, it allows project proponents to begin engaging with sources for both later-stage preparation (including detailed feasibility studies, project structuring and planning, promotion, and transacting to financial close) and implementation finance, and funders and financiers to make an initial assessment of the project's virtues before the need for a full proposal. By identifying and conceptually matching a project with appropriate potential sources of funding and financing through the lifecycle, the project can tailor its design to best suit the characteristics and requirements of investors. Without starting this iterative process at an early stage, viability will be affected.

This engagement has a critical influence on the overall characteristics of the project. The success of any project is highly dependent not just on the quantum, but on the appropriateness and effectiveness of the financing, and financing structures, supporting it. Conceptualising how project implementation and ongoing operations may be funded will impact on what form the project should take, as designed under the project preparation phase. The ideal technical form may be different from the ideal commercial form, and therefore it is essential to understand what funding is available, and what funders and financiers are looking for in terms of returns (financial and non-financial).

An effective and well-structured project concept development process will increase the attractiveness of a project to potential funders and financiers throughout its lifecycle, even at an early stage of development. Such a process lays the foundations for long-term project viability and risk mitigation, and consequently speaks directly to the bankability of a project.

PROJECT CONCEPT NOTE COMPILATION AND KEY FOCUS AREAS

There is no fixed recipe for a Concept Note structure. Keeping in mind that the Concept Note is the first step towards ensuring a project is bankable, and sourcing funding and financing (both for detailed project preparation, as well as implementation and operation), it is therefore logical to assume notes to be tailored for specific audiences. Indeed, certain entities even expect Concept Notes to adhere to their own templates.

However, all Concept Notes typically consist of four broad information components, as shown in Figure 3, which will form the basis of any tailored document required. They are as follows:

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

This component defines 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. Where relevant, it is also important to identify a strong project promoter who has the ability to borrow or receive financing for implementation and operation.

This component is an annex of sorts, 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, to potential sources of funding and financing for detailed preparation, as well as for longer-term implementation and operation.

In compiling the Concept Note, there are a number of critical considerations that will further influence the efficacy of the note:

KNOW THE AUDIENCE

"Bankability" is a wide-ranging term which can broadly be described at the point at which financiers or investors are willing to lend to, or invest in, a project. To reach this point, financiers must have sufficient confidence in the feasibility, viability, and readiness of the venture, to commit funding. This applies to both preparation and implementation. However, financiers have varied mandates and differing risk appetites – this is particularly true in the developmental space, which may consist of donors, concessional lenders, and market-linked commercial investors, often coming together in blended instruments or facilitating different phases of a project. Hence, there is no single point at which a project could specifically be deemed universally bankable. Understanding what a particular audience is looking for, and tailoring the Concept Note narrative to suit, is critical.

CONCEPTUALISE WITHIN EXISTING DEVELOPMENT PLANS, STRATEGIES, AND FRAMEWORKS

Wherever possible, project identification and conceptualisation should be aligned with, if not already incorporated into, regional or national development plans, investment strategies and frameworks, climate change policies, and similar documents. This demonstrates to potential funder and financiers a level of regional or national support for a project, structured coordination of identification and development, and elimination of redundancy. This, in turn, reduces perceived risk, increases likely impact, and boosts confidence in the endeavour through a demonstration of political will and ownership.

UNDERSTAND THE REGULATORY AND INSTITUTIONAL ENABLING ENVIRONMENT

The Concept Note should exhibit a clear and thorough understanding of the project's optimal enabling environment in terms of regulatory and institutional setup. Projects cannot be conceived in a vacuum with little consideration of these factors - investors and financiers will look for acknowledgement of wider regulatory and institutional hurdles, and evidence of reform initiatives. The broader political and economic setting will also influence project viability. Potential project risks should be accounted for through specific compensatory measures. Issues of water governance, stakeholder participation and accountability in the sector should also be highlighted appropriately.

HIGHLIGHT CAPACITY AND MANDATE

Although a fundamental requirement, capacity and appropriate mandate is often assumed as a "given." Concept Notes should clearly confirm the mandate, volition, and ability of the project proponent, or implementing agency, to drive and receive funding for a project. In addition, the technical capacity of the necessary government officials to support project development should be described – this is particular important at an early project stage, before any institutional and organisation reforms can be enacted. Such capacity includes availability to devote the necessary time and resources to the project during preparation. Projects need champions from initiation.

ACCENTUATE GEOGRAPHIC AND SECTORIAL REACH

Developmental funders and financiers typically seek projects with expansive developmental impact at a regional or national level. Where relevant, Concept Notes should stress regional or national impact so as to appeal to these sources, even if the physical intervention is based sub-nationally. In addition, projects should emphasise not just their immediate and explicit sectorial impact, but also secondary or spin-off benefits across the water-food-energy spectrum, so as to broaden impact and appeal to as wide a range of financiers as possible. More importantly financiers are considering social equity and environmental impacts derived from the project and these should be articulated from the conceptualisation stage.

PROACTIVELY STRUCTURE AROUND CLIMATE RESILIENCE AND SOCIAL EQUITY

Funding and financing targeted at climate change resilient development, in both the adaptation and mitigation areas, is growing rapidly and focusing increasingly on the underserved African continent. Outcomes from sessions such as the 2015 United Nations Climate Change Conference (COP 21) in Paris have further reinforced this traction. There is also rising awareness of the need for, and promotion of, social equity, such as gender equality and empowerment in development. A Concept Note should emphasise the proactively incorporated climate resilient and social equity elements of the project to appeal to funding and support targeting such initiatives.

DEMONSTRATE LOCAL SUPPORT

Concept Notes should explicitly qualify and quantify any "local" support pledged to the project. Even limited financial or technical support from local or national governments demonstrates will and commitment to the project in question. This can build the confidence of external funders and financiers in a project, and make it more attractive for financing.

> "By failing to prepare, you are preparing to fail."
>
> Benjamin Franklin

BROADEN FINANCIAL APPEAL AND EMPHASISE FINANCIAL SUSTAINABILITY

Typically, the Concept Note's immediate objective is to source funding for detailed project preparation. High-risk funds aimed at preparation look to enable projects with significant developmental impact, and seek to leverage additional financing and investment at a later stage for implementation and operation. To achieve this goal, a project must be well-placed to attract that financing and investment, which is not only a function of how well conceived a project is, but also the breadth and depth of the capital pool it can market to. Therefore, the Concept Note should already begin to consider potential project funding modalities, with potentially innovative models and mechanisms that broaden appeal. This includes the investigation of options for private sector participation that may contribute to long-term financial sustainability.

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KEY MESSAGES

- Africa is experiencing a considerable water infrastructure deficit, compounded by an urgent need for development to enhance water security and resilience against the effects of climate change.

- Governance plays a vital role in driving the implementation and operation phase. While many projects are successful during the conception and early implementation phases, they fail during operational phases, in part, due to poorly conceived governance mechanism and corresponding tools to support implementation. Often these projects are short sighted in taking into account the proper maintenance provisions, both at institutional and budgetary level. Participatory and inclusive approaches, led by project champions, during early stages of the project cycle can help overcome these hurdles.

- The biggest constraint to sourcing funding and financing for water infrastructure projects, including softer interventions, is a bankability gap – the lack of projects characterised as viable through a comprehensive project preparation process.

- The development of a Concept Note is a fundamental step towards establishing the viability and bankability of a project. It plays a crucial role in raising funding for detailed feasibility studies and planning, and begins facilitating early engagement with prospective financiers and investors for sustainable implementation and operation. Concept Incubators[4] could be a solution to developing institutional capacity in Africa, aimed at improving the conceptualisation of ideas towards developing investment projects.

- Policy makers and planners must commit the necessary resources, both funding and capacity, to ensure a thorough early-stage concept development process, including development of an effective Concept Note. Requirements for preparation are small compared to that for implementation and operation (often less than 5% of total capital costs for water infrastructure projects and up to 10% for traditional infrastructure projects), and the costs of Concept Note preparation a minor proportion of that.

The resource cost of producing the Concept Note is only a part of the commitment required from policy makers and planners. Proponents must move away from seeing conceptualisation as procedural step, to one which underpins the long-term sustainability of a project. The Key Focus Areas highlighted in this brief begin to provide guidance towards compilation of more effect Concept Notes.

Photo: © IWMI

4. Concept Incubators can be initiatives aimed at supporting institutions and project proponents to move ideas from strategies and plans into concept notes that can be furthered funded towards bankability. These incubators have the potential to acknowledge the critical role that concept development plays in enabling the success of a project. They have the ability to play a proactive, rather than passive, role in incubating water security projects and coordinating pools of financing for future project development.

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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.

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