

AFRICAN MINISTERS COUNCIL ON WATER

African Water Facility

Establishment and Implementation Plan

OCTOBER 2003

PREFACE

Since the Second World Water Forum in The Hague in 2000, there have been significant developments in the global water sector. At the African level, a number of African regional organizations met in Abidjan in September 2001, under the auspices of the Bank/Netherlands Fund. This meeting led to the formation of an African Water Task Force to lead a process of putting together common African positions on water and sustainable development as a means of accelerating the pace of investment and development in the water sector. This was the first time a dedicated African Water Facility was suggested.

Subsequently, at a number of meetings and initiatives (viz: the Stakeholders Conference on Water and Sustainable Development in Accra in April 2002, a Consultative meeting on the Facility in Johannesburg in June 2002, both organized by the African Water Task Force, the 2002 WSSD in Johannesburg, the Panel on Financing Water Infrastructure, the 3rd World Water Forum in Kyoto,) there was support for an African Water Facility and a general idea of how it should be organized and operated discussed.

At the same time, the momentum that had been building up to improve the state of development in Africa, through the development of the African Water Vision, the establishment of the New Partnership for Africa's Development (NEPAD) and the formation of the African Ministers Council on Water (AMCOW), was a positive opportunity for the development of such a Facility.

In all these developments, the Bank has been a significant player, not only in providing funds from the Bank/Netherlands Fund, but also playing a role in coordinating the process. The Bank has agreed in principle to special hosting arrangements to the fund, and AMCOW has since given political support and taken ownership of the process, to ensure its full establishment.

AMCOW wishes to express its greatest appreciation to the African Water Task Force, and the African Development Bank Group with support from the Netherlands Government for this very laudable initiative.

AMCOW Chairman

Table of Content

ACRONYMS	I
SUMMARY	III
1 BACKGROUND	1
1.1 INTRODUCTION	1
1.2 RATIONALE	2
1.3 CONTEXT AND FRAMEWORK.....	2
2 THE NEED FOR AN AFRICAN WATER FACILITY	6
2.1 KEY ISSUES AND CHALLENGES	6
2.2 MEETING THE CHALLENGES	12
2.3 CURRENT FINANCING INITIATIVES	12
3 OPERATIONAL PLAN AND DESIGN	16
3.1 GOALS, OBJECTIVES AND SCOPE OF ACTIVITIES	16
3.2 GOALS OF THE WATER FACILITY	16
3.3 PROGRAMME OBJECTIVES	17
3.4 SCOPE OF ACTIVITIES	17
3.5 IMPLEMENTATION PLAN	19
3.6 ASSOCIATED RISKS	22
3.7 FUNDING PROPOSALS	25
4 MODALITIES FOR HOSTING THE AWF IN THE BANK	27
4.1 HOSTING ARRANGEMENTS.....	27
4.2 GOVERNANCE	29
5 IMPLEMENTATION FOLLOW-UP	33
5.1 RECRUITING AN EXECUTIVE DIRECTOR	33
5.2 MOBILISATION OF FUNDS.....	33
5.3 IMPLEMENTATION AND EVALUATION	33
5.4 OPERATIONAL ISSUES	34

Acronyms

ADB	African Development Bank
ADF	African Development Fund
AMCOW	African Ministerial Council on Water
AWF	African Water Facility
AWTF	African Water Facility Trust Fund
AWTF	African Water Task Force
CGIAR	Consultative Group for International Research for Agriculture
CIDA	Canadian International Development Agency
DBSA	Development Bank of South Africa
DEG	German DFI
DFI	Development Financing Institutions
DFID	Department For International Development
EAIF	Emerging Africa Infrastructure Fund
EU	European Union
FMO	Dutch DFI
GNI	Gross National Income
GWh	Gigawat hour
GWP	Global Water Partnership
IGAD	Inter Governmental Authority on Development
IWRM	Integrated Water Resources Management
MDGs	Millennium Development Goals
NEPAD	New Partnership for Africa Development
ODA	Overseas Development Aid
PRSP	Poverty Reduction Strategy paper
RMCs	Regional Member Countries of the African Development Bank Group
UNECA	United Nations Economic Commission for Africa
UNICEF	United Nations Children's Fund
WHO	World Health Organization
WSS	Water Supply And Sanitation
WSSD	World Summit on Sustainable Development
WWF	World Water Forum

Summary

I. Introduction

At the turn of the century, increased attention was paid to the growing gap between global funding to the water sector and the Millennium Development Goals. In Africa, specifically, some of the many challenges facing the water sector were noted as lack of coordination amongst donors; inadequate investment; and lack of absorptive capacity at the national, regional, and municipal levels. Additionally, there were calls for greater attention towards Integrated Water Resources Management, in addition to water supply and sanitation.

In 2000, at the Second World Water Forum in The Hague, African ministers and stakeholders endorsed a Vision for Africa and a Framework for Action to implement it. Since then, a series of high level meetings has marked progress towards the development of a unified approach by Africans for Africa, to improve levels of governance and capacity for investment not only for the water sector, but for Africa as a whole. For the African water sector, the progress towards the creation of an African Water Facility marks a significant milestone in this process.

The African Water Facility (AWF) was conceived at a series of meetings and dialogues that have taken place over the last few years as a stepping-stone to meet the targets and goals for the water sector that were established by the African Water Vision and the Millennium Development Goals (MDGs)¹ as shown in Box 1. The Facility will be grant-based and aims at accelerating investments and targeting aid flows to the water sector in Africa. Due to its emergence as an initiative incepted by Africans for Africa and the widespread political support it has generated, the Water Facility is truly an exciting outcome of several years' efforts. The AWF also aims to take advantage of the momentum that has been building, through the establishment of the New Partnership for Africa's Development (NEPAD), the African Ministers Council on Water (AMCOW), and the African Water Task Force (AWTF).

II. Goals and Objectives

The primary goal of the AWF is to help reduce poverty and promote development in Africa by improving access to water supply and sanitation within the context of the Africa Water Vision and based on the principles of Integrated Water Resources Management (IWRM). The Facility has been developed as a concrete contribution to the achievement of the MDGs and targets and, in particular, ***‘to reduce by one half, by the year 2015, the proportion of people who do not have access to safe drinking water and basic***

¹ References to the MDGs in this document recognize the subsequent modifications, at the 2003 World Summit on Sustainable Development (WSSD) in Johannesburg, to include Sanitation and Integrated Water Resources Management (IWRM) targets.

sanitation". A schematic presentation of the purposes, activities and expected outcomes of the Facility are provided in Table S1 in the summary and as Table 3.1 in the main document. Judging from the volume of financial resources required to meet the MDGs by 2015, it is obvious that the AWF should focus on strategic programmes with the potential to catalyze additional investments, so as to generate an upward momentum in the required areas.

Box 1: The 2015 Millennium Development Goals and WSSD targets most relevant to water

Goal 1: Eradicate extreme poverty and hunger

1. Reduce by half the proportion of people living on less than a dollar a day
2. Reduce by half the proportion of people who suffer from hunger

Goal 2: Achieve universal primary education

3. Ensure that all boys and girls complete a full course of primary schooling

Goal 3: Promote gender equality and empower women

Goal 4: Reduce child mortality

4. Reduce by two thirds the mortality rate among children under five

Goal 5: Improve maternal health

5. Reduce by three quarters the maternal mortality ratio

Goal 6: Combat HIV/AIDS, malaria and other diseases

6. Halt and begin to reverse the spread of HIV/AIDS, malaria and other major diseases

Goal 7: Ensure environmental sustainability

7. Integrate the principles of sustainable development into country policies and programmes; reverse loss of environmental resources
8. Reduce by half the proportion of people without sustainable access to safe drinking water. By 2025 ensure that all people have access to safe drinking water.
9. Achieve significant improvement in lives of at least 100 million slum dwellers, by 2020

Goal 8: Develop a global partnership for development

Added in 2002 at the WSSD in Johannesburg:

10. Reduce by half by 2015 the proportion of people without sanitation

Other WSSD Implementation plan target:

11. "Prepare national IWRM and water efficiency plans by 2005" .

III. Rationale for the Water Facility

There has been an extensive review of water resources priorities, which have been articulated and quantified in the African Water Vision for 2025, the NEPAD program and the report of the 2002 Accra Conference on Water and Sustainable Development.

Priorities have been established and agreed to and these will be reflected in the operations of the Water Facility. Specifically these are:

- ?? Meeting basic needs in water supply and sanitation;
- ?? Adherence to the IWRM approach in the formulation of national policy;
- ?? Effective management of shared water basins;
- ?? Ensuring food and energy security and environmental sustainability; and
- ?? Capturing the current window of opportunity, offered at the highest political levels, for time bound and very targeted investments to add value to existing processes.

IV. Scope of Activities

The AWF's scope of activities are to be defined under the broad ambit of NEPAD, the African Water Vision and the priority areas identified at the Accra Water Conference, as summarized below. Accordingly, the AWF is expected to focus on the following activities throughout Africa, at the national, regional, and sub-regional levels (Figure S1 in the Summary indicates the medium term activity schedule).

A) Implementation of capital investment programmes

The programmes to be financed in this category will be determined through consultation with countries, based on their priorities and programmes. The focus will be on basic service delivery and output-based approaches.

B) Facilitation Activities

At the National and sub-national levels:

- ~~///~~ Project and program preparation and implementation
- ~~///~~ Capacity building, including at the local and community levels and especially in the context of program development, affordability and procurement
- ~~///~~ Design and carrying out of policy and institutional reform
- ~~///~~ Integrated Water Resources Management planning, projects and programmes
- ~~///~~ Data collection, analysis, and dissemination
- ~~///~~ Consensus building
- ~~///~~ Assistance with drafting and negotiating agreements
- ~~///~~ Regulatory instruments and monitoring capacity
- ~~///~~ Research, training and public awareness
- ~~///~~ Environmental management planning, projects and programmes

At the Regional and sub-regional Levels, the AWF would provide support for:

- ~~///~~ Developing shared river basin visions and trans-boundary environmental management and securing political support;
- ~~///~~ Support to river basin activities, regional and sub-regional groups;
- ~~///~~ Support Monitoring Mechanism for the implementation of the African Water Vision 2025 (African Water Development Report);

- ~~///~~ Support Regional Information Clearing House and related Information Networks;
- ~~///~~ Multinational project and program preparation and implementation

V. Implementation Plan

The short-term action programme will cover a five-year period from the establishment of the Facility in 2003 up to 2008. The Facility is expected to be formally established by end of 2003 and commence its operation from 2004. In the initial five years it will concentrate on seven programmes areas. These are:

- ?? Investment in capital projects for basic service delivery
- ?? Project planning and preparation;
- ?? Establishment of investment information center;
- ?? Establishment of bench marking and monitoring system;
- ?? National IWRM policy development and reforms;
- ?? National and sub-regional capacity building;
- ?? National integrated river basin management plans
- ?? Support for transboundary river basin management.

VI. Financial requirements

The immediate goal of the facility is to raise about US\$ 615 million by 2008 to enable it to contribute to the achievement of the MDG targets and the African Water Vision and Framework for action. This is less than 1% of the investment requirement for delivery of the MDGs by 2015. At this level of funding the Facility is expected to provide the impetus for demonstration investment programmes at scale and to enhance the enabling environments to facilitate the expanded investment required in the sector. Of this amount, about US \$ 115 million is for overall capacity building while US\$ 500 is for capital project financing.

VII. Hosting Arrangements

The Bank has indicated its willingness to host the Facility and support it in attaining its objectives. The Facility would operate under the trusteeship of the African Development Bank Group. This implies that the Bank would hold in trust the funds, assets and receipts of the Facility and manage them in accordance with the provisions and objectives of the Facility. A Board consisting of members from AMCOW, donors, the Bank, NEPAD and UN Water will govern the Facility. The Board of Directors of the Bank will approve the hosting arrangement and help monitor its implementation. An Executive Committee will be established to take decisions on programme implementation. The facility will be led by an internationally recruited Executive Director

Table S1: African Water Facility Implementation Plan Matrix

Goals		Objectives		
<p>?? To contribute to poverty reduction through improved access to WSS within the context of AWV and MDGs</p> <p>?? To contribute to water targets & goals established by the AWVFFA and MDG</p>		<p>?? To address African priorities in the water sector</p> <p>?? To accelerate investment to meet water target</p> <p>?? To coordinate aid flows to water sector in Africa</p> <p>?? To support regional cooperation and integration through joint development of shared waters</p> <p>?? To enhance national and regional capacity</p> <p>?? To enhance national and regional water knowledge</p>		
Activities	Outputs	Outcome	Impacts	Beneficiaries
?? Support for programme and project preparation in RMCs	?? Bankable projects prepared ?? Capacity of RMCs to produce bankable projects enhanced	?? RMCs receive more funding for water infrastructure projects and increase water coverage	?? Increased access to water and sanitation in Africa ?? Increased access to water to meet basic food, energy and ecosystem needs	?? Regional institutions/initiatives ?? National governments Local /municipal authorities and communities ?? NGOs and private sector
?? Establishment of an Investment Information Centre	?? Quality information on water investment is available and used by African countries, ADB and other potential public community and private invest mentors	?? Increased preparedness and capacity to access existing global and African funding ?? Organised information base available for all users	?? Magnitude of gaps between financial needs & supply established and monitored ?? Investment resources more focused and directed to water targets	?? Donors and financing agencies ?? National governments ?? NGOs and private sector
?? Establishment of a bench marking and monitoring system	?? Monitoring and evaluation standards implemented ?? Progress of implementation regularly reported	?? Obstacles & impediment to access investment lowered or removed ?? Greater awareness on progress achieved, outstanding challenges and level of effort needed	?? Efficient use of investment resources ?? Accountability and transparency ensured	?? Donors and financing agencies ?? National governments ?? NGOs and private sector ?? Communities
?? Develop National IWRM policy development and support sector reforms	?? National policies, reformed legislations and institutions established/strengthened ?? Water activities prioritised in PRSPs	?? Enabling policy framework and institutional set upstructure	?? Increased flow of public and private sector investment resources	?? Donors and financing agencies ?? National governments ?? NGOs and private sector ?? Communities ?? Local/municipal authorities
?? Preparation of integrated river basin management plans	?? Short, medium and long term investment plans for sustainable development	?? Institutionalisation of river basin management and establishment of river basin organizations	?? Sustainable water resources development taking into account the economic, social and environmental needs for water	?? National governments and communities ?? Donors and financing agencies
?? Transboundary river basin management at sub regional level	?? Mechanisms for cooperation developed ?? Existing river basin organisation strengthened and new once established. ?? Plans for mutually benefiting programmes prepared	?? Better rRegional cooperation for the development of share water resources	?? Potential conflict avoided and integration on mutually beneficial use of shared water enhanced	?? Regional economic communities ?? National governments and communities ?? Donors and financing agencies
?? Implementation of capital projects	?? Increased access to clean and safe water and sanitation	?? Sustainable service provision ensured ?? Replicable projects operationalised & adopted	?? Better hygiene and health attained and quality of livelihood enhanced ?? Increased contribution to socio-economic activities particularly by women achieved	?? National governments and communities ?? Local/municipal authorities
Risks				
<p>?? Failure to mobilize sufficient funds to commence the in a credible manner particularly for the capital investment component</p> <p>?? Inadequate response from RMCs with respect to appropriate project pipelines</p> <p>?? Insufficient enabling environment and lack of political commitment to water resources development</p> <p>?? Failure of institutions and infrastructure facilities due to inadequacy of resources commitment for O&M</p>				

Figure S1: Indicative Five-Year Activity Schedule

Item	Activities	Responsibility	2003				2004				2005				2006				2007				2008											
			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24								
1.0	Formation and Establishment																																	
1.1	Conceptualization and approval	AWTF/AMCOW/Bank																																
1.2	Legalization of the African Water Facility Trust Fund	Bank																																
1.3	Donor approval and fund mobilization	Donors/Bank/AMCOW																																
1.4	Recruitment of Director	Bank																																
2.0	Organization and Administration																																	
2.1	Office equipment and facilities	AWF																																
2.3	Operation manuals and procedures	AWF																																
2.4	Staff Recruitment	AWF																																
3.0	Implementation of Facilitation Programmes																																	
3.1	Project planning and preparation	AWF																																
3.2	Establishment of investment information center	AWF																																
3.3	Establishment of bench marking and monitoring system	AWF																																
3.4	National IWRM policy development and reforms	AWF																																
3.5	National sub-regional capacity building	AWF																																
3.6	National integrated river basin management plans	AWF																																
3.7	Support for transboundary river basin management	AWF																																
4.0	Implementation of Capital projects																																	

1 Background

1.1 Introduction

The African water situation is characterized by extreme temporal and spatial variability, very low level of resource utilization to meet economic, social and environmental needs, and the multiplicity of trans-boundary waters. Africa's annual renewable water resources are estimated to be about 5,400 billion m³ per year. However the level of exploitation is low with only about 150 billion m³ or 3% of the total amount withdrawn for domestic water supply, agriculture and industrial use each year. In 2000 WHO estimated that nearly 40 % of Africans or over 300 million, mostly poor people living in rural, peri-urban and urban areas, do not have access to safe water supply and adequate sanitation facilities. Only about 12.5 million hectares of land are under irrigation, accounting for less than 6% of the total cultivated area. Only about 4 % of the generated power is from hydropower sources, which is insignificant when compared to the estimated potential of 1.4 million GWh of energy per year.

In identifying the investment requirements for the transformation of the water sector in Africa, the African Water Vision and all the Millennium Development Goals (MDG) provide useful frameworks. The African Water Vision identifies important targets in the areas of improving water governance and meeting urgent water needs mainly in the areas of water supply and sanitation, food and energy security and environmental well-being. A preliminary assessment shows that an average investment of US\$ 20 billion is required each year over the coming 25 years to attain the targets set above.

Achieving the various targets requires the mobilisation of public, private and community resources. It requires governments to raise their budgetary expenditure on water and to institute global cost recovery without jeopardising access to the poor. It requires creating the necessary environment for private sector participation and in developing specific instruments to facilitate such participation. Official Development Assistance levels have to increase significantly (to double, according to the Camdessus Report on Financing Water Infrastructure) to support the development of water infrastructure if the millennium development goals are to be achieved.

A series of regional responses have been designed to provide water for basic life activities and address the impending water crisis as an outcome of concerted efforts of all concerned. The Water Facility is designed to be one of such measures that would contribute to facilitating availability of financial resources to build Africa's water infrastructure. The African Water Facility (AWF) was conceived at a series of meetings and dialogues that have taken place over the last few years as a stepping-stone to meet the targets and goals for the water sector that were established by the African Water Vision and the MDGs.

The recommendation to establish an African Water Facility was made at the Accra Stakeholders Conference organized by the African Water Task Force in April 2002. The idea has been well received on international and regional forums and the process of its establishment has commenced. This inception document provides the rationale, context, and operational designs with activity and funding proposals for its short-term operation from 2004 to 2008.

1.2 Rationale

The AWF aims to take advantage of the momentum that has been growing politically, through initiatives such as the New Partnership for Africa's Development (NEPAD), the African Ministerial Council on Water (AMCOW), and the African Water Task Force (AWTF).

- ?? The goal of the AWF is to help reduce poverty and promote development by providing investment support for water resources management and water service provision in Africa in order to help meet the MDG targets for water and sanitation (See Box 1).

There has been an extensive review of priorities that have been articulated and quantified in the African Water Vision for 2025, the NEPAD program and not least, the report of the 2002 Accra Conference on Water and Sustainable Development. The AWF would support operational actions for priorities that have been established and agreed to through international and regional dialogue. Specifically these are:

- ?? Meeting basic needs in water supply and sanitation;
- ?? Adherence to the Integrated Water Resource Management approach in the formulation of policy, particularly at the national level;
- ?? Effective management of shared water basins; and
- ?? Ensuring food security and environmental sustainability.

Cognizant of the central role played by women in the African water sector, the Facility would seek to mainstream gender issues and dimensions within its programmes and activities at all levels.

1.3 Context and Framework

The AWF owes its inception to the policy discussions and movements that have evolved over the last few years with regards to improving the water sector in Africa. These movements, notably the African Water Vision and the Framework for Action, NEPAD, AMCOW, and the African Water Task Force, are outlined below to provide a context and framework for understanding the Facility.

The African Water Vision and the Framework for Action

The African Water Vision and Framework for Action, which was developed as part of the contribution to the Global Water Vision at the Second World Water Forum, outlined a Vision of "An Africa where there is an equitable and sustainable use and management of water resources for poverty alleviation, socio-economic development, regional cooperation, and the environment." The main components of the Framework for Action in this Vision are:

- ?? *Strengthening governance of water resources*: (development of national IWRM policies and comprehensive institutional reform; helping to develop an enabling environment for Regional cooperation on shared water)

?? *Improving water wisdom* (establishing or strengthening systems for information generation, assessment and dissemination; IWRM Capacity Building; sustainable financing for information generation and management)

?? *Meeting urgent water needs* (achieving a substantial reduction in the numbers of people without access to safe water and sanitation; water for food security achievement; development of water for agriculture, hydropower, industry, tourism & transportation; conservation and restoration of environment, biodiversity, and life-supporting eco systems; effective management of drought, floods and desertification)

?? *Strengthening financial base for desired water future* (sustainable financing for policy and institutional reform and capacity building; sustainable financing for information generation and management; financing urgent water needs)

The investment requirement for meeting the targets set in the Vision Framework for Action is estimated to be about US\$ 20 billion per annum (US\$ 12 billion for water supply and sanitation; US\$ 4 billion for irrigation; US\$ 2.5 billion for energy, industry and risk management; and US\$ 1.5 billion for capacity building, research and information). According to the WHO Global Assessment 2000 Report, the average annual investment between 1990 to 2000 for water supply and sanitation was US\$ 4.6 billion, or 40% of the requirement for meeting basic needs. This gap is a critical, driving factor behind the creation of the AWF.

New Partnership for Africa Development (NEPAD)

The New Partnership for Africa Development (NEPAD) provides a framework through which the African Water Facility can come into being. NEPAD is an African initiative to promote democracy and good governance to attract stronger private investment and aid flows to Africa, with an expected US\$6.4 billion a year in investment.

The basic principles that underpin NEPAD are African ownership and leadership; anchoring the redevelopment of the continent on the resources and resourcefulness of the African people; accelerating and deepening regional and continental economic integration; building on the competitiveness of African countries; and creating a new partnership with the industrialised world.

The NEPAD programme building blocks include peace and security; political governance and democracy; economic and corporate governance; human resource development; regional infrastructure; economic integration and intra-African trade; agriculture and access to international markets; and capital flows. The NEPAD Draft Action Plans set priority action in the areas of agriculture and Market Access, Infrastructure, Capital Flows, and Human Development. Water and Sanitation are identified as part of the Infrastructure priority area, along with Information and Communications Technology, Transport and Energy.

The NEPAD Short-Term Action Plan for Water and Sanitation emphasized the application of integrated water resources management (IWRM) approaches; effective

management of shared river basins, mitigation of floods and droughts, and meeting basic needs in water supply and sanitation.

NEPAD provides an opportunity to enhance the profile of the water sector in the political arena and prioritize its development in the economic planning process. Primary responsibility for preparing these Action Plans has been vested with the Bank. The preparation of the plans has involved extensive consultation with the UN Economic Commission for Africa (ECA), World Bank, Regional Economic Communities, and others.

African Ministers Council on Water (AMCOW)

AMCOW came into being during a special launching conference held in Abuja, Nigeria during 29-30 April 2002. AMCOW is intended to be the political mouthpiece on African water issues and, through that, to contribute to social and economic development and poverty alleviation in Africa. Its mission is to provide political leadership, policy direction and advocacy in the use and management of water for social and economic development and maintenance of Africa's ecosystems.

AMCOW is expected to keep the state of Africa's Water Resources under review and promote desirable actions of common interest to the continent; to facilitate international co-operation through the co-ordination of issues relating to water policies and actions amongst African countries; and support trans-national cooperation on water-related issues through development of common positions on matters of global concern as well as cooperation in implementation of environmental conventions and international agreements. AMCOW will encourage mechanisms that will promote best practices in water policy reforms and water resources management and also assist in delivery in national and sub-regional programmes; develop a political strategy for arresting the water crisis in Africa; and keep under review the financing of the water sector in Africa.

African Water Task Force

In 2001, two regional events related to water presented an opportunity to develop concrete ideas and actions to improve the sector. The World Summit on Sustainable Development (WSSD) and the Third World Water Forum both would later benefit from a unified voice and position on water, based on a consensus of stakeholders. The first event relates to the September 2001 meeting held in Abidjan, Cote D'Ivoire under the guidance of the Bank, where representatives from more than 20 regional and international organizations dealing with water in Africa agreed to forge collaboration among the different organizations in a way that would promote synergies, coordination and efficient use of resources. As a result, the African Water Task Force (AWTF) was established, with a goal to initiate and accelerate activities and programmes that would help to accelerate the pace of investment in the water sector. At this time, the idea for an African Water Facility was initially suggested, along with a proposal to hold a regional stakeholders' Conference.

The AWTF has a membership of about 35 representatives from international, bilateral, regional, sub-regional, governments, NGOs and private sector organizations including the Bank, UNECA and other UN agencies, the World Bank, the Dutch Aid Agency, OAU, RECs, GWP, SADC, IGAD, and other sub regional economic and civil society

groups. The Task Force has also been providing technical support to the initiatives taken by AMCOW, and regularly reports on its work. The AWTF is responsible for the conceptualization of the Facility and development of its operational plans and for promoting its broad acceptance on the international and regional arena. The second event relates to the 2002 Accra Stakeholders' conference, which is briefly discussed below.

Accra Conference and Declaration

Following the launching of NEPAD it was decided that a conference of stakeholders should meet to agree on a platform to show how water can help in achieving NEPAD's broader goals and to help mobilize resources for implementing the targets set in the African Water Vision and Framework for Action. The African Water Task Force took the lead in organizing this event.

The Accra Conference on Water and Sustainable Development brought together stakeholders in the water sector in order to arrive at a common understanding and consensus on the main priorities and to devise a mechanism for mobilizing the required financial resources.

- ?? The main goals of the Accra Conference were to help increase political awareness on the central importance of water in sustainable development; identify water problems that can constrain the contribution of water resources to the goals of NEPAD and agree on priorities for water development along with action programs and financial resources mobilization plans.

The main outcome of the Conference was the Accra Declaration, which was based on identified challenges and issues in the water sector in Africa, and provides recommendations for action plans to address these challenges. The Declaration highlighted the important role water can play in achieving NEPAD's objectives and called for the establishment of a dedicated financing facility to support the sector's development. The Declaration called on African leaders to place water infrastructure financing higher on their agenda and on African governments to include water resource development in country poverty reduction strategy papers (PRSPs) to attract international finance.

WSSD and the WaterDome

The WaterDome was the water event of the WSSD, which provided a unique opportunity to bring all people in the water sector together. The WSSD provided an opportune moment for the African Water Task Force to launch the African Water Facility. This took place amongst the lurch of other initiatives with which the AWF can align and grow with, notably:

- ?? The CGIAR Challenge Programme on Water and Food;
- ?? The Water in African Cities initiative launched by UN-HABITAT;
- ?? EU Water Initiative Regional Component for Africa, developed in close partnership with AMCOW; and
- ?? The West Africa Water Initiative of USAID
- ?? Canada Water Support Programme

The need for the African Water Facility gained considerable support from regional leaders and donors, which called for its immediate establishment and operation.

African Development Bank Group

The Bank has been a significant player in the water sector in Africa, not only in providing funds, but also playing a policy coordination and development role. Since the spring of 2000, the Bank Group has operated under a policy for integrated water resource management. That policy sets out priorities and strategies for increasing the efficiency and effectiveness of investments in the water sector. The Bank has also played an important and constructive role in developing the water sector having spent US\$ 5 billion or about 12% of its overall funding over the past 34 years. An important plank in the implementation of Bank's water policy is the Rural Water Supply and Sanitation Initiative, which is being developed by the Bank as a contribution towards the achievement of the MDG targets and the AWV. The Initiative is an accelerated program to provide access to clean water and adequate sanitation to 80% of the rural inhabitants of the region by 2015.

The Bank supported the creation of the African Water Task Force and coordinates its work. The Bank has agreed to consider hosting the Facility as called for at the Accra Stakeholders Conferences and subsequent endorsement at WSSD and the 3rd WWF in Kyoto, and as formally requested by AMCOW. The Bank has been facilitating the development of the inception documents and providing financial and intellectual support to establish the Facility.

2 The need for an African Water Facility

2.1 Key Issues and Challenges

The preceding section highlights the background that led to the formation of the AWF. With this context in mind, this section describes the core reasons why an initiative such as the Water Facility is urgently required to help meet the MDGs for water in Africa. In brief, the African Water Facility is required because:

- ✍* Domestic spending is low and currently constrained, especially for low cost solutions in rural areas;
- ✍* Water is not yet sufficiently prioritised at central government level even though there is a strong evidence of huge demand at local levels, according to a recent World Bank Study. This causes strategic problems for funding the sector.

Current financing mechanisms are not in tune with the needs of some non-revenue generating aspects of water development such as policy development, water assessment and monitoring and low income generators such as rural water supply and sanitation. To bridge the gap required in order to meet the MDGs, public sector funding would have to rise, ODA will have to be increased and used effectively, especially to lever other forms of finance from the private sector and users. Triggering more user finance will require challenging governance and policy

reforms to be designed and implemented; and triggering more private finance will require addressing a number of constraints and commercial/ political risks. Currently, neither water nor private investments in Africa are seen as especially attractive areas for financiers.

Low levels of domestic budget spending

Domestic budgets for water and sanitation in Africa are low, especially for low cost services. External support provides the bulk of financing.

A comprehensive study undertaken by WHO and UNICEF examined coverage of water and sanitation services and current funding in developing countries. On average external support agencies provided 42 percent of average investments into the water sector in the period 1990-2000 across Africa, Asia and Latin America and the Caribbean. However, the study found that in Africa the contribution of external support agencies to the domestic water sector was the highest (68 percent). Unfortunately, only ten countries receive about 50% of such support.

Furthermore, within the remaining 32 percent of public sector water budgets in Africa, often little more than one percent of these are directed towards low-cost water and sanitation, with sanitation's share either abysmally low or non-existent. Possible reasons for this include:

- ✎ External donors and initiatives compete to provide low-cost water services, and operate in a weak institutional environment;
- ✎ Other pressing needs, including health and education and competing demands over limited resources;
- ✎ Heavy debt loads: some African governments spend up to 60% of their national budget on foreign debt service payments.

Within these figures, it is important to differentiate between recurrent and capital (development) expenditure for the water and sanitation sector, and to note that most public sector funding is going toward development rather than recurring costs. Further, while contributions from Africa's public sector are low relative to the global average, a large percentage of funding for the sector is channelled through NGOs. This profile is typical of other water resources management financing arrangements in the continent.

The African Water Facility is a unique initiative for Africa not only because it was conceived by Africans in response to the challenges faced by Africa; but also because it is in fact the practical outcome of several years' development of policy frameworks to address these challenges. Given its alignment with NEPAD and AMCOW, the AWF is strategically placed to shape the development process through its experience and to "raise the profile of water" politically within Africa and among donors through AMCOW. Because the AWF seeks to address capacity building at the sub-regional, regional, and national levels, and given its linkages with Africa-wide and international initiatives and goals, it can provide a harmonisation of policy goals with practical outputs. This will enhance the allocation of domestic resources to match the perceived needs for water resources development.

Low Priority for Water

PRSPs in Africa are currently failing to give enough priority to water resources, water supply and sanitation services and to see the potential contribution of water services to sustainable development and growth.

Even though water investments are perceived as basic needs at the grass roots level, they often do not figure prominently in priority investment plans through the Poverty Reduction Strategy process and papers, or PRSPs. The UNDP/World Bank Water and Sanitation Program recently undertook a study of water supply and sanitation in the PRSP process, and found that initiatives within PRSPs for water are lacking in general, with even fewer considerations specifically for water service improvements and the poor. Further, initiatives addressing sanitation are largely absent.

This is in stark contrast with recent research by the World Bank, which has found that the water and sanitation sector is the most likely (with a score of 100 out of an index of 100) to achieve improvements in poverty reduction, when placed within the logical framework of the PRSP process (see Table 2.1).

Table 2.1 Sectors likely to reduce poverty (maximum index of 100)

Sector	Index
Water and sanitation	100
Private sector growth and investment climate	85
Transport	79
ICT	74
Energy	69
Urban Micro-finance	40
Small and medium sized enterprises	38

Source: http://www.worldbank.org/energy/energyweek/2002/gov_fclottes.pdf

This “under-prioritization” is partly because many African governments, when drawing up these plans, rely on the continuance of significant levels of donor support for their water and sanitation sectors, via bilateral programmes falling outside of the PRSP process. This may be due to the way in which the water and sanitation sector is organized at the country level, where water and sanitation lack institutional weight and presence compared with other sectors, and at the sector level, where monitoring and evaluation systems are often weak. In some cases, it also points to a failure in governance to translate local level concerns into national priorities.

Combined with a lack of regional and national coordination in financing for the water sector (across donor, public and private sectors), this could be creating a situation where the prioritization for investments in the water sector falters when the PRSP document is assembled. Other sectors, such as health and education may be seen as “more difficult” to secure resources for and, as a result, they move up the PRSP priority list.

Consequently, there is a danger that the status quo of many uncoordinated and possibly redundant water sector projects, programmes and initiatives may continue. Worryingly, they may increasingly lie outside of the mainstream PRSP and therefore integrated development - priorities.

As a grant-making facility, the A has the potential to influence the impact of water within the PRSP process by offering grants for programmes and projects that specifically target capacity building and integrated development. Further, the AWF has the potential to support countries assess the role of water in poverty reduction and overall socio-economic development thus enhancing the prioritisation of water in the PRSPs. Its alignment with development banks and donors under the NEPAD framework and political leadership of AMCOW provide it with a unique opportunity for influencing water resources planning and prioritisation.

Contribution of ODA

Projected increases in ODA will not necessarily feed through to the water sector without more thought on how to use it more effectively

The Monterrey Agreement, whereby developed countries pledged to increase aid from an average 0.33% of GNI to 0.39% of GNI, will bring an additional US\$16 billion per year in ODA by 2006, and could potentially bring an additional US\$48 billion per year if just the EU countries were to allocate 0.7% of GNI to ODA. These additional funds can make a significant contribution to meeting the MDGs, but only if the water sector as a whole is treated as a key priority.

Furthermore, given the finance challenge faced within Africa, extra ODA available via mechanisms such as Monterrey will have to be spent more efficiently, with the objective of leveraging other forms of finance, including users and the private sector (PPP).

The African Water Facility aims to improve project preparation directly and indirectly through grants for building capacity in areas such as public and financial management; skills and knowledge transfer; research and data collection; training; and other areas. The proposed operational structure also suggests that the AWF lead by example, by adopting programme evaluation principles at the outset (including preparation, execution, and evaluation of projects and programmes). In this way the AWF has the potential to demonstrate efficient use of funding, and to actively share these skills and experiences with its partners in Africa, and its grant recipients.

Investment Constraints

There is a wide range of constraints to leveraging more finance from users and the private sector into water in Africa. The African Water Facility aims in the short term to help overcome these constraints. Many of these constraints particularly affect private sector finance. These constraints include the following:

- ✎ Inadequate enabling environment in the recipient country (in terms of policy, legislation, level of decentralisation, political commitment to tariff reform, the ranking of water within the PRSP or PRSC process, etc.);

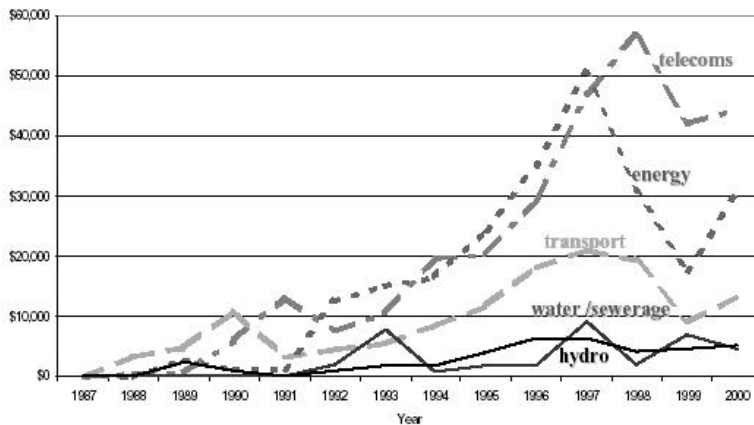
- ✂ The lack of availability of favourable long-term debt conditions and mechanisms necessary for the long-term investments required for water related projects;
- ✂ The difficulty of mobilising local currency guarantees and the need for risk guarantees against factors that are difficult to guarantee against (for example, political risk, non-sovereign entities);
- ✂ A lack of guidance on the most appropriate way to use or mobilise subsidises and grants, either in country or from donors;
- ✂ The high up-front costs of project preparation and the large difference in financing requirements, project design and issues of risk, which face water projects in urban, peri-urban or rural areas;
- ✂ The problem of potential transboundary issues (conflicts over water allocation or problems of pollution across river basins) that may add further risk to successful project delivery;
- ✂ The problem of a lack of public sector capacity to regulate or to partner with water projects at municipal (or lower) levels of delivery, which can often follow decentralisation. A lack of local private sector capacity can also be a problem;
- ✂ The problem of insuring against issues of climatic variability such as drought or climate change, which may affect project performance over the long term;
- ✂ Difficulty of mobilising public and private finance for low revenue generating activities such as policy and strategy development, assessment and monitoring of water resources, provision of rural water supply and sanitation and the problem of cash affordability among rural users;
- ✂ The difficulty in ensuring that all donors and IFIs are in harmony, in terms of their project designs, the levels of subsidy and the types of finance on offer;
- ✂ Low rate of return compared to other sectors, long repayment period of investment and financing in local currency
- ✂ The difficulty in designing affordable, demand driven projects for the poor - these tend to be very local, small scale and communally owned schemes which do not offer an obvious potential for either scaling up into a larger programme, or for returns on external financing; and
- ✂ For irrigation projects especially, there is the problem of wider water subsidies. Difficulty of designing efficient pricing policies within the context of policy non-harmonisation.

For private finance in particular, both the water sector and Africa are seen as higher risk areas. Hence, there is an additional barrier to attracting more private finance to water in Africa. However, if private sector finance and participation is seen as a way to help meet the large financial challenge of the water and sanitation MDGs in Africa, then some of these constraints must be addressed.

For water generally, at present, the private sector accounts at best for 5 percent of all water services provided worldwide. *Figure 2.2* shows private capital flows to infrastructure globally. As seen, the water sector receives just a fraction of total infrastructure investments worldwide and this share has been stable or declining in recent years rather than increasing.

Figure 2.2 *Private Investment in Infrastructure, 1987-2000, US\$ billion*

Private Investment in Infrastructure, 1987 - 2000



Source: World Bank PPI database

Large scale private financing faces many risks, including currency and devaluation risk, as well as risks associated with the highly capital intensive, long-term nature of water and sanitation infrastructure. This has been well elucidated in the Report of the Camdessus Panel on Financing Water Infrastructure. Experiences with the private sector for large-scale deals, particularly for municipal development, have been slow and have proven difficult where the government capacity for regulatory and legal reform is low. Further, private capital flows to the water sector have converged towards other regions than Africa, and particularly Latin America and South-East Asia as they are considered more stable and have established local capital markets and regulatory systems in the context of the introduction of private sector participation. However, recently, major instability has also struck those regions (particularly, macro-economic risk affecting flagship concessions such as the one in Manila or in Buenos Aires) leading to a much more cautious attitude by private investors.

Private direct investment in Africa is a challenge. In the absence of increased public sector and external aid - or another kind of intervention - it is highly unlikely that large-scale private financing will be able to address the challenges facing Africa's water sector. Although there are some instances of positive results with concessions, the sector itself requires widespread governance reform and innovative project development, in order to adequately promote, facilitate, and effectively regulate increased private sector participation in the longer term.

2.2 Meeting the Challenges

The conclusion of the above review is that additional investments will be required in order to meet the MDG Water and Sanitation targets for Africa and current and projected trends of financing are unlikely to be sufficient to do so, unless important reforms are carried out and available funds are used more efficiently.

Many donor agencies have been looking at these problems and a number of initiatives have taken place or are underway to try and address them, often within the context of the wider infrastructure sector. They can provide important context to and building blocks for an African focused water-specific facility. Annex 1 provides information on these initiatives and a summary of their objectives are indicated in Section 2.3 below.

The African Water Facility builds on the challenges proposed by the African Water Task Force, discussed at the Accra Conference, and developed as Draft Action Plans by NEPAD. As a “new” initiative, it is in fact a culmination of the efforts of African water sector professionals and varied African Ministers with the task of assisting in implementing these action plans. The AWF will provide assistance in implementing these plans as a result of its strong partnerships, notably with the EU through the EU-Africa Strategic Water Partnership. Hence, the AWF will not be “reinventing the wheel”; instead it will build upon existing expertise with its partners, at the international donor level, and with sub-regional, regional, and national entities within Africa.

2.3 Current Financing Initiatives

An assessment of existing financing mechanisms and initiatives has shown that while there are opportunities for investment in infrastructure development in general, these resources are not structured for poverty orientated water sector development. An exception to these would be the EU water initiatives and the recommendation of the Camdessus Panel, which recognises the Facility as an appropriate mechanism for accelerating the provision of water and sanitation in Africa.

A brief discussion on each of these mechanisms and initiative is provided as follows while more details are given in Annex I.

- ?? The Private Infrastructure Donor Group develops financial instruments mainly to promote private sector participation for infrastructure projects. The structures of the PIDG include: an Infrastructure Development Company for preparation of private or joint venture infrastructure projects; and a Development Guarantee Company which provides partial risk guarantees for infrastructure projects.
- ?? The Emerging African Infrastructure Fund (EAIF) provides long-term debt capital for infrastructure projects in Sub-Saharan Africa. It provides dollar denominated loans and could also offer guarantees to facilitate local currency lending by local Banks.
- ?? The Financial Sector Reform and Strengthening Initiative (FIRST) has the objective of providing technical assistance to support short and medium-term capacity building and policy development in the financial sectors of low and medium income countries. Its support is designed to facilitate longer term assistance from donors

and to replicate successful experiences. It has the potential to be used to develop the capacity for long term lending for infrastructure projects, including the water sector.

- ?? Public-Private Infrastructure Facility (PPIAF) aims at supporting private participation in infrastructure development in developing countries.. The focus of its activities are appropriate policy and regulatory framework, institutional reforms and capacity building. A significant proportion of its activities are in the water and sanitation sector.
- ?? The Public Private Partnerships for the Urban Environment (PPPUE) is a partnership composed of multiple stakeholders with the objective of improving urban environmental services at the local level. It mobilises resources from donors into a Trust Fund to support its activities, which focus on developing or strengthening the policy, legal and institutional framework for public private partnerships.
- ?? The Panel on Financing Water Infrastructure (Camdessus Panel) was set up by the Global Water Partnership and the World Water Council. It issued a report at the Third World Water Forum which made a number of recommendations, including the need to: build financial and public management capacities within governments to attract international finance for water and to develop appropriate financial relationships with local water institutions; prioritise the water sector in developing countries; encourage and support financial institutions to facilitate sub-sovereign lending; exhort donors to strengthen their support for countries that are prioritising water.
- ?? The EU Water Fund, amongst others, aims at improving financing of water supply and sanitation services and the management of water resources, with an initial focus on Sub-Saharan Africa.
- ?? The Global Environment Facility (GEF) provides incremental cost grant finance for country driven projects that address transboundary water resources management, integrated land and water resources management, biodiversity conservation, land degradation and desertification.

While it is clear that the existing initiatives for financing water in Africa do not obviate the need for the African Water Facility, yet there is considerable room for collaboration between the Facility and the initiatives identified above. Providing grant based support to improve the “enabling” environment for attracting water and sanitation investments into Africa would effectively dovetail with the recommendations of the G8 Water Action Plan and also address the key concerns of private investors.

The Facility could collaborate with the PIDG, EAIF and FIRST on helping to build institutional capacity at local and municipal levels to reduce perceived risk; It could contribute to cover the cost of project preparation to give a stronger incentive to private investors under the PIDG as well as strengthen capacity, particularly at the local level, for project preparation and contract negotiations. It could also combine resources with PPIAF to support policy, regulatory and institutional reform. In addition, the Facility could combine resources with FIRST to help focus on strengthening capacities for local currency financing for water infrastructure.

2.3 The Role of the African Water Facility

In meeting the great challenge of MDGs for water and sanitation in Africa, there is as yet no specifically African or water focused facility, which provides funding support. Many of the existing donor initiatives are more broadly focused on infrastructure and/or reducing commercial risk to leverage private sector finance. Furthermore current global initiatives on water and finance are working to provide information and recommendations. They do not have new, additional hard currency commitments to help implement their findings.

There is clearly a niche, therefore, for an African based water facility, which can:

- ?? Focus on meeting the MDGs for water and sanitation in, particularly in those countries with inadequate access to donor and investment funding;
- ?? Provide grants for important non-revenue generating water sector activities where full cost recovery is not feasible in the short run in order to support economic development and poverty reduction;
- ?? Act as a harmonising influence and leverage for donor and IFI ODA focused on water and sanitation in Africa;
- ?? React quickly and with minimal bureaucracy in partnership with African states to meet their needs;
- ?? Provide a robust project preparation facility for potential water and sanitation investments;
- ?? Focus on supporting issues of governance reform (a key obstacle in lowering perceptions of political risk for private investors);
- ?? Focus on raising the strategic importance of water as a factor for production and economic development within African states' PRSP processes;
- ?? Focus on benchmarking, monitoring and evaluation in order to track progress toward meeting the MDGs for water and sanitation; and
- ?? Develop a strong sense of ownership by the African water community.

More generally, the AWF could provide incentives for and support to those governments that propose to implement sector reforms through necessary legislation amendments and institutional reforms. Grants could support activities such as the cost of developing the reform program, meeting initial labour costs of rightsizing central ministry and local authority staff structures, or the costs of safety nets or easing the political costs of tariff reforms and of well-targeted subsidies for the poor in the context of local tariff reforms. A specific focus of grants could be to assist countries to incorporate water more centrally in national poverty reduction strategies. No other initiative currently offers such specific help.

There is much concern that the Facility would, in its facilitation activities, unnecessarily duplicate the activities of other organisations and institutions and therefore not add value. For example, NEPAD, the EU Water Initiative and others have identified integrated water resources management plans as an important area of intervention. However, the ground that needs to be covered in these areas and the time frame for action are such that there is room for many actors to be involved in the process, as long as there is effective coordination on coverage and approach. For example, the MDG targets are to support all countries in the region to develop integrated water plans by 2005. Even with the involvement of the Facility, EU and NEPAD, it would be a major challenge to achieve this target. Yet, developing such plans are important ingredients for an enabling environment, which would attract other investors and improve the

efficiency of local programmes and investments. If relatively few countries in the region have developed integrated plans, even fewer have developed a mechanism for prioritising water in their PRSPs or the appropriate legislative and institutional framework. Capacity is another area in which the challenges are huge. The demand for support in this area, particularly at sub-national levels is virtually inexhaustible. Clearly, these issues require concerted efforts from many sources, albeit in a coordinated manner.

Building on this reform process, the AWF will complement bilateral grant-based budget support to countries, where political commitment is high, the policy framework adequate and where there is an appropriate institutional structure, for water sector operations. This could be seen as a key step toward leveraging other forms of finance into the sector, a process the AWF can become instrumental in achieving.

Furthermore, while many initiatives are recognising the importance of trans-boundary and integrated water resource management approaches for Africa, the AWF is among the first to potentially offer grants for sub-regional and trans-boundary Water Resource Management Program development. It could be envisaged that the AWF would offer support for river basin organizations, for generating new investment opportunities, for laying the ground work for inter country collaboration and national and international investment (following the model of the Nile), and for investment in start-up and pilot activities promoting sound management of water resources across boundaries. In this regard, it can provide valuable financial support to help implement NEPAD programmes on shared waters.

Finally, the fourth area of the AWF's operations - a benchmarking and monitoring facility - could provide a valuable comparative performance assessment mechanism for all African countries on agreed performance indicators. This can help assess:

- ?? Level of country commitment on IWRM and WSS sector reforms;
- ?? Progress on implementation of IWRM and WSS sector reforms, both institutional, financial and coverage;
- ?? Overall country framework for fiscal and governance reforms;
- ?? Progress and performance on development and implementation of country's PRSP; and
- ?? Extent and nature of IWRM and WSS components in country owned poverty reduction strategy papers.
- ?? Progress towards achieving MDGs

It is clear that, within this context of potential activities, the African Water Facility could become a key institution and a catalyst for triggering the use of other multi-donor initiatives at play within the region, for water and sanitation. The value added of the AWF could therefore be great, both in terms of using donor ODA more effectively and in terms of leveraging other forms of finance for the water sector. This will be essential if the MDGs are to be reached.

3 Operational Plan and Design

3.1 Goals, Objectives and Scope of Activities

The AWF intends to bring added value to the problem of accelerating water development in Africa. It will not by itself appreciably reduce the recognized financial shortfall in investment in the water sector, but it should be able, by its focus and dedication to its objectives, to make an appreciable difference to the utilization of existing resources, mitigate future misallocation in the water sector and reduce obstacles to further investments in the sector.

The creation of an African Water Facility is an effort to turn the political momentum into a reality. It is not offered as a panacea to solving all the problems in the development of the water sector but it will turn good intentions into action. It will put an African focus to the formulation of program actions and most of all, it will provide the needed focus to the key element of water in development in a part of the world where the needs are overwhelming and often not realized.

While it is important that the African Water Facility have its own resources and its own right to initiate projects, it is not envisaged as a new multilateral aid organization. Neither is it conceived as a duplication of existing organizations or programs. It is to be a special facility of the Bank and to be successful it must work constructively with existing organizations and bring an added dimension to both policy and program development and actions in Africa. At the same time, the Water Facility is envisaged to have a limited duration, with actions linked to meeting the MDGs by the year 2015.

3.2 Goals of the Water Facility

The main goal of the Water Facility is to contribute to poverty reduction through improved access to water and sanitation within the context of the African Water Vision and the MDGs. The Water Facility will address African priorities in the water sector and provide an African response to the established international targets for development in the water sector.

To attain these goals, it is envisaged that the AWF, in addition to providing technical help and facilitating the work of existing bodies will also mobilize its own resources and disburse them on a grant basis. The AWF would work in conjunction with existing programs of the African Development Fund (ADF), the International Development Agency (IDA), and the European Development Fund (EDF), UN agencies and bilateral donors, NGOs and the private sector in this regard. It would pay particular attention to those areas that are not reached by current development assistance, and in particular in those areas where the provision of water would have a significant impact on the reduction of poverty.

By raising its own resources to be provided on a grant-basis, the AWF recognises the difficulties associated with the terms and conditions of some donor lending in the past and will strive to operate with less stringent but transparent and accountable procedures. Only about half of the countries in Africa are receiving international financial support and within many of them, a modest additional investment in the water sector would

have a major social and economic impact. The African Water Facility would take these local situations into account in its grant-making policies.

3.3 Programme Objectives

The African Water Facility will also be able to play an effective role in supporting policy development in member countries in water resource planning and support the efforts of the transboundary water organizations, many of which are under funded and short of technical expertise. In essence, the work over the past two years has established a long-term framework and a set of objectives that are consistent and far reaching. In this context the programmes of the facility are designed to achieve the following key objectives

- ?? To address African priorities in the water sector
- ?? To accelerate investment to meet water targets
- ?? To promote Private Public Partnerships with the AWF acting as a lever to generate private sector investments
- ?? To coordinate aid flows to the water sector in Africa
- ?? To support regional cooperation and integration through joint development of shared waters
- ?? To enhance national and regional capacity
- ?? To enhance national and regional water knowledge

3.4 Scope of Activities

The AWF's scopes of activities are to be defined under the broad ambit of NEPAD, MDG targets, the African Water Vision and the priority areas identified at the Accra Water Conference. Accordingly, the AWF will focus on two broad activities that are designed to create the enabling environment for investment and provide infrastructures to meet basic water requirements throughout Africa, at the national, regional, and sub-regional levels as outlined below.

I. Facilitation Activities

The Facilitation activities are intended to remove obstacles impeding progress and create the enabling environment for increased investment in the sector. In this context the support will be given to the areas outlined below at national, sub regional and regional level.

At the national and local levels:

- ?? Integrated Water Resources Management planning, projects and programmes
- ?? Capacity building, including at the local and community levels, especially in the context of program development, affordability and procurement
- ?? Data collection, analysis, and dissemination
- ?? Design and carrying out of policy and institutional reform
- ?? Project and programme preparation
- ?? Awareness and consensus building

- ?? Assistance with drafting and negotiating agreements
- ?? Regulatory instruments and monitoring capacity
- ?? Research, training and public awareness
- ?? Environmental management planning, projects and programmes
- ?? Development of Public Private Partnerships and Public-Public Partnerships (PPPs)

At the Regional and sub-regional Levels, the AWF would provide support for:

- ?? Developing shared river basin visions and transboundary environmental management and securing political support
- ?? Support to river basin activities, regional and sub-regional groups
- ?? Support monitoring mechanism for the implementation of the African Water Vision 2025 .
- ?? Support regional information networking and infrastructure development
- ?? Multinational project and program preparation

II. Implementation of capital investment projects

The second broad activity of the Facility is to provide capital grants for the development of water infrastructure designed to meet basic requirements. It is aimed at adding value to bilateral programs and to kick-start investment in service delivery in poor countries. As earlier indicated, a few countries receive the bulk of ODA inflows into water and sanitation. To meet the MDGs, therefore, it is important to bring in the neglected poorer and weaker countries and to help countries emerging from conflicts. Where the constraint is lack of capacity for project preparation, the Facility will help with skill development for project preparation. Where the constraint is absence of the prerequisite reforms for donor investment, the Facility will help with the two-track approach in which investments and reforms will be pursued simultaneously. It is envisaged to build up “a project portfolio” during the early consultation stages in order for the facility to begin to implement capital investments from the second year.

The African Water Facility will work on an “action-planning, action-learning” basis by committing capital funds together with the support required for project preparation and institutional development. The aim is to “kick-start” a process of sustainable project implementation and institutional development that will create the basis for an expanded implementation programme.

The justification for a capital window within the facility for investments in physical infrastructure will include the following:

1. To serve as a medium for addressing the needs of countries unable to attract investments due to inadequate policy reforms

The facility can address the problem through the “learning by doing” or “action learning” approach which allows reforms and investments to take place simultaneously. This must be based on a credible program and commitment (at the highest level) to reforms simultaneously. The “learning by doing” approach should

Table 3.1 : African Water Facility Implementation Plan Matrix

Goals		Objectives			
?? To contribute to poverty reduction through improved access to WSS within the context of AWV and MDGs ?? To contribute to water targets & goals established by the AWVFFA and MDG		?? To address African priorities in the water sector ?? To accelerate investment to meet water target ?? To coordinate aid flows to water sector in Africa ?? To support regional cooperation and integration through joint ?? To enhance national and regional capacity ?? To enhance national and regional water knowledge			
Activities	Outputs	Outcome	Impacts	Indicators	
?? Support for programme and project preparation in RMCs	?? Bankable projects prepared ?? Capacity of RMCs to produce bankable projects enhanced	?? RMCs receive more funding for water infrastructure projects and increase water coverage	?? Increased access to water and sanitation in Africa ?? Increased access to water to meet basic food, energy and ecosystem needs	??	
?? Establishment of an Investment Information Centre	?? Quality information on water investment is available and used by African countries, ADB and other potential public community and private invest mentors	?? Increased preparedness and capacity to access existing global and African funding ?? Organised information base available for all users	?? Magnitude of gaps between financial needs & supply established and monitored ?? Investment resources more focused and directed to water targets	??	
?? Establishment of a bench marking and monitoring system	?? Monitoring and evaluation standards implemented ?? Progress of implementation regularly reported	?? Obstacles & impediment to access investment lowered or removed Greater awareness on progress achieved, outstanding challenges and level of effort needed	?? Efficient use of investment resources ?? Accountability and transparency ensured	??	
?? Develop National IWRM policy development and support sector reforms	?? National policies, reformed legislations and institutions established/strengthened ?? Water activities prioritised in PRSPs	?? Enabling policy framework and institutional set up structure	?? Increased flow of public and private sector investment resources	??	
?? Preparation of integrated river basin management plans	?? Short, medium and long term investment plans for sustainable development	?? Institutionalisation of river basin management and establishment of river basin organizations	?? Sustainable water resources development taking into account the economic, social and environmental needs for water	??	
?? Transboundary river basin management at sub regional level	?? Mechanisms for cooperation developed ?? Existing river basin organisation strengthened and new once established. ?? Plans for mutually benefiting programmes prepared	?? Better regional cooperation for the development of share water resources	?? Potential conflict avoided and integration on mutually beneficial use of shared water enhanced	??	
?? Implementation of capital projects	?? Increased access to clean and safe water and sanitation	?? Sustainable service provision ensured ?? Replicable projects operationalised & adopted	?? Better hygiene and health attained and quality of livelihood enhanced ?? Increased contribution to socio-economic activities particularly by women achieved	??	
Risks					
?? Failure to mobilize sufficient funds to commence the Facility in a credible manner particularly for the capital investment component ?? Inadequate response from RMCs with respect to appropriate project pipelines ?? Insufficient enabling environment and lack of political commitment to water resources development ?? Failure of institutions and infrastructure facilities due to inadequacy of resources commitment for O&M					

Figure 3.1: Indicative Five-Year Activity Schedule

Item	Activities	Responsibility	2003				2004				2005				2006				2007				2008			
			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
1.0	Formation and Establishment		■	■	■	■																				
1.1	Conceptualization and approval	AWTF/AMCOE/Bank	■	■	■	■																				
1.2	Legalization of the Water Fund	Bank				■																				
1.3	Donor approval and fund mobilization	Donors/Bank/AMCO					■	■	■	■																
1.4	Recruitment of Director	W BANK					■	■	■	■																
2.0	Organization and Administration						■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
2.1	Office equipment and facilities	AWFTF					■	■	■	■	■	■	■	■												
2.3	Operation manuals and procedures	AWFTF					■	■	■	■	■	■	■	■												
2.4	Staff Recruitment	AWFTF					■	■	■	■	■	■	■	■												
3.0	Implementation of Facilitation Programmes						■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
3.1	Project planning and preparation	AWF						■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
3.2	Establishment of investment information center	AWF							■	■	■	■	■	■												
3.3	Establishment of bench marking and monitoring system	AWF							■	■	■	■	■	■												
3.4	National IWRM policy development and reforms	AWF					■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
3.5	National sub-regional capacity building	AWF							■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
3.6	National integrated river basin management plans	AWF							■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
3.7	Support for transboundary river basin management	AWF					■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
4.0	Implementation of Capital projects										■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■

3.7 Funding Proposals

3.7.1 Financial requirement for Short Term Activities

The immediate goal of the facility is to raise at least US\$ 615 million by 2008 to enable it achieve its objectives. This is less than 1% of the investment requirement for delivery of the MDGs by 2015. At this level of funding the facility is expected to provide the impetus for demonstration investment programmes at scale and to enhance the enabling environments to facilitate the expanded investment required in the sector.

Gross estimates of funding requirements have been made for financing the programmes planned for immediate implementation. Funding details for each of the activities envisaged in the establishment, organisation and administration and programme implementation are provided in Table 3.1 while annual figures are summarised in Table 3.2. The underlying assumptions in these estimates are that:

?? The Facility will be established in 2003 and commence its operation from 2004. This planning period covers a five-year implementation programme to 2008.

The Facility will target to mobilize USD 25 million per annum from 2005 for sector reform and development and build up to US\$ 200 million annually for the investment programme. The capital investment component of USD 500 million over this period will focus on programmes to achieve the MDG targets in Africa. In 2003 the main funding requirements are for its establishment, staffing, public awareness and mission programme, which will be covered by the Bank from its technical assistance grants and from the first resources received from donor support. In 2004, when actual operation commences, the Facility will build up to a level of US\$ 15 million for undertaking the establishment of the operational activities and also commence programme implementation.

On this basis, the Facility will raise US\$ 615 million for the implementation plan during 2004 to 2008 with disbursements running over the period 2005-2015. US\$ 15 million will be required in 2004, which is the first operational year and a yearly average of US\$ 175 million there after. About US\$ 0.5 million will be need for establishment activities in 2003. Of the total annual requirement, the average allocation for the routine organisational and administrative activities is US\$ 2.25 million per annum totalling US\$ 11.5 million over the plan period excluding the cost of administering the capital grant process which is included in that budget line. The requirement for capital grant administration has to be detailed depending on the level of grant commitment. Table 3.2 provides the indicative annual budget for the implementation period.

Table 3.2: Indicative Annual Budget Requirement (Reflect disbursements up to 2015)

Item	Activities	Requirement in million USD						
		2003	2004	2005	2006	2007	2008	Total
1.0	Formation and Establishment							
1.1	Conceptualization and approval	0.11						0.11
1.2	Legalization of the Water Facility	0.05						0.05
1.3	Donor approval and fund mobilization		0.06					0.06
1.4	Recruitment of Director		0.03					0.03
1.5	Sub total	0.16	0.09					0.25
2.0	Organization and administration							
2.1	Office equipment and facilities		0.75	0.00	0.00	0.00	0.00	0.75
2.2	Staff and other recurrent costs		1.50	2.00	2.25	2.25	2.25	10.25
2.3	Operation manuals and procedures		0.25	0.25	0.00	0.00	0.00	0.50
2.4	Sub total		2.50	2.25	2.25	2.25	2.25	11.50
3.0	Programme and Project Implementation							
3.1	Project planning and preparation		1.50	2.00	3.00	3.00	3.00	12.50
3.2	Establishment of investment information center		0.40	1.00	0.00	0.00	0.00	1.40
3.3	Bench marking and monitoring system		1.50	1.00	0.00	0.00	0.00	2.50
3.4	National level IWRM policy development and reforms		2.75	4.00	4.00	2.00	0.00	12.75
3.5	National sub-regional capacity building		0.50	2.00	2.50	2.50	2.50	10.00
3.6	National integrated river basin management plans		1.10	6.90	7.00	8.00	9.00	32.00
3.7	Transboundary river basin management		5.00	5.85	6.25	7.25	8.25	32.60
3.8	Project implementation			50.00	100.00	150.00	200.00	500.00
3.8	Sub total		12.75	72.75	122.75	172.75	222.75	603.75
4.0	Total implementation cost	0.16	15.34	75.00	125.00	175.00	225.00	615.50

3.7.2 Fund Mobilisation

The African Water Task Force has held a number of discussions with various donors since its inception at the Accra Stakeholders conferences in 2002. The Water Facility was announced at the WSSD in Johannesburg and implementation progress reviewed at the 3rd WWF in Kyoto. It has attracted significant interest from various donors. Some have indicated their willingness to consider supporting the Facility once its inception document is agreed on and formal requests are made.

The Bank has indicated its willingness to host the Facility and develop details on the hosting implications. The Netherlands Government, CIDA, EU, and the French Government have shown interest in supporting the Facility.

The considerable interest shown for supporting the objective of the Facility is very encouraging and indicative of the expected response to provide the needed resources. A likely funding scenario involving the Bank, Donors and RMCs has been designed and further details would be developed in consultation with the relevant donors. The actual funding arrangement and annual cash flow situation will depend on the commitment level of each donor and contribution from the African countries.

Generally:

- ?? The Bank will provide for the initial establishment cost from its bilateral technical assistance sources, use its staff to assist in the recruitments of personnel and establishment of the Facility and support project planning and implementation through its operations. The Bank will specifically provide two full time professional staff, adequate office space with the necessary equipment and facilities including coverage of operation and maintenance costs and support for programme and project planning and preparation in RMCs.
- ?? Donors are expected to provide grant support for the operational cost of the Facility and implementation of projects and programmes in the seven action areas. It is anticipated that the EU will consider applying a part of the funding announced in terms of the EU Water Initiative to the US\$500 capital component of the programme.
- ?? RMCs governments and communities will also support the Facility activities by providing for part of the local cost through provision of facilities, services, staff and equipment. The RMCs would also ensure the sustainability of institutions and investments through O&M cost recovery and budgetary support.

4 Modalities For Hosting The AWF In The Bank

4.1 Hosting Arrangements

Basis for Hosting

In fashioning the hosting implications of the African Water Facility at the Bank, a number of considerations are taken into account. These are as follows:

- ~~✍~~ A Fundamental consideration is that achieving the MDGs, African Water Vision, NEPAD water targets etc; would require a new way of doing business, since relying on the old methods would imply that an unacceptably long period of time would be needed to lift a substantial number of Africans from water poverty.
- ~~✍~~ The implication therefore is that the normal methods of project development and implementation would need to be substantially revamped.
- ~~✍~~ The Facility aims to help coordinate, streamline, simplify and harmonise the requirements of various donor institutions for project implementation as an essential component of changing the way business is done.
- ~~✍~~ In consideration of the above mentioned principles, it is essential that the modes of operation of the Facility itself would need to be flexible, innovative, efficient and swift if it is to reflect its objectives and the purposes for which it is established
- ~~✍~~ Speed and flexibility of operation should in no wise be taken to imply the dilution of accountability and transparency. The operations of the Facility must be

regularly and effectively audited and must be in conformity with the highest standards of probity and good governance.

While recognising that the AWF is not a new institution or a new donor but a specific facility managed by a special unit within the Bank, and taking the foregoing into account, a number of options for the structure of the Facility have been considered. The models of the African Micro Finance Initiative for Africa (AMINA), Nordic Trust Fund, Nigerian Trust Fund, Fonds Petrolier Arabe, Fonds Mamoun Beheiry, Fonds Special de Secours, Emergency Fund for Assistance to Famine and Drought Affected African countries, all of which are managed by the Bank, have been reviewed.

Furthermore, the Global Environmental Facility and the Public Private Infrastructure Advisory Facility have been examined. A major issue is to decide whether it would operate as a special fund or not. To operate as a special Fund, the proposal would require approval of the Board of Governors of the Bank.

The structure of GEF and its relationship to the World Bank offers some useful ideas, but cannot be in large part duplicated because GEF, although a trusteeship of the World Bank, is also managed by UNDP and UNEP and reports to an assembly of a fairly large number of countries. AMINA and the Nordic Trust Fund also offer some valuable examples to be utilised, but differ from the Facility in a number of important ways due to differences in the stakeholder configurations.

The model for the Facility therefore borrows from the structures of the institutions and funds referred to above, but would need some specific provisions of its own, in order to enable effective control of the Bank but with sufficient autonomy and flexibility to achieve its mission.

Legal Status

The Facility would operate under the trusteeship of the African Development Bank. This implies the following:

- ~~///~~ The Bank would hold in trust the funds, assets and receipts of the Facility
- ~~///~~ Manage them in accordance with the provisions and objectives of the Facility
- ~~///~~ Keep them separate from other accounts and assets
- ~~///~~ The trustee would be accountable to the Board of Governors of the Facility and provide reports and information to the Board of Directors of the Bank
- ~~///~~ Would be responsible for maintenance of records
- ~~///~~ Would be responsible for auditing the operations of the Facility
- ~~///~~ Would be responsible for monitoring the application of budgetary and project funds
- ~~///~~ Would be responsible for hiring the **Executive Director** and other staff of the Facility in accordance with the provisions for the Facility.

Bank contributions

As host for the Facility, the Bank is expected to make the following contributions from its own resources to the commencement and operations of the Facility:

- ?? Provide a secretariat for the facility, including office accommodation, furniture, computer hardware and software, printer, copiers, telephones etc.
- ?? Be responsible for payment of office rent, telephone, electricity and other reasonable recurrent expenses.
- ?? Second two members of staff at the professional level to work for the Facility. The costs of their services should be provided for in the Bank's 2004 budget.
- ?? Provide support for project planning and preparations activities in RMCs
- ?? Bank staff time would be used to provide support and assistance wherever possible, in developing manuals and procedures, and particularly where synergies could be established with projects under NEPAD and the Bank Rural Water Supply and Sanitation Initiative, and in project pipeline build up and project cycle activities.

Bank staff could when possible combine project cycle missions with visits to help implement and monitor projects financed under the Facility and help build a projects pipeline. This would be an important contribution to the facility from Bank resources.

Financial Management

The resources of the Facility would be managed and administered in accordance with the financial rules and regulations of the Bank with respect to procurement and disbursement. The Bank procurement procedures provide a number of options, and the managers of the Facility can arrange to utilise the options which would ensure efficiency and flexibility, in line with the programme of the Facility.

4.2 Governance

Structure and Functions

The African Water Facility must become a beacon for donors looking to provide effective aid to Africa. In this sense the AWF is taking on a great challenge, as well as a great opportunity, to make progress towards the Millennium Development Goals and sustainable development for Africa. At the same time, the African Water Facility must not become overly bureaucratic due to disputes over priorities and programme management amongst Africa's various donors.

The evolution of the AWF will reflect not only the goals and objectives of the AWF itself, but also will take into account the experience and standing of the African Development Bank. The structure of the AWF is important, as it will be a test of the

ability of the founders to transform it from a concept to a working organization capable of managing its affairs on a day-to-day basis.

The governing and management structure of the Facility is to be guided by the considerations of flexibility, efficiency of operations and the need to establish the presence and credibility of the Facility quickly. Furthermore, it is important to ensure that all the relevant parties at the financial, technical and political level are involved at the policy level.

To provide an appropriate political context, garner stakeholder participation and support for the operation of the Facility, the African Ministers Council on Water (AMCOW) has assumed a leadership position with respect to the Facility. AMCOW would represent stakeholders at the national level since a large proportion of the resources of the Facility would be committed to national and sub-national programmes in the region. AMCOW would also represent and project the interests of the Facility at the inter-governmental and international levels (e.g. European Union and G8).

The resources of the Water Facility would be mobilized from the donor community. It therefore follows axiomatically, that those donors that demonstrate their interest and commitment by contributing financial resources towards the operation of the Water Fund must also be represented in the Board as crucial components of the stakeholder community.

The African Water Task Force should also be involved in the affairs of the Water Fund at the policy level. The Task Force continues to provide a Forum under which various regional and international organizations and institutions collaborate on African water programs. As an example, one important mandate of the Water Fund is to implement relevant programs at the sub-regional river basin and continental levels. The representation of UN agencies, multilateral development institutions working in the African water sector, as well as regional economic communities and international NGOs within the Task Force enables an effective voice for this stakeholder constituency within the Governing Council of the Facility.

With the establishment of UN Water, which brings together various UN agencies active in the African Water Sector, a valuable mechanism for coordinating activities both within the UN, as well as between the UN and other institutions in the region has been launched. The participation of UN Water in the Governing Council of the Facility would clearly add value in terms of network, experience and coordination.

.As indicated in Section 1.3 above, NEPAD provides one of the main frameworks for the Facility. It represents a consensus on a major path for development at the highest level among African countries and also between them and their international development partners. In addition, its identification of priorities on regional programs water supply and sanitation and for integrated water development strategies combine to make it critically relevant for the implementation of the Facility. It should therefore be involved at the policy level.

It would also be essential that the Bank as trustee of the Facility, as a major participant in its creation and as the bearer of the responsibility for its operations be appropriately represented. Given its size and objectives, a complicated and overburdened governance structure would do as much to defeat the purpose and objectives of the AWF as any other factor, including under-funding. Considering the importance of effective representation of stakeholders and the need to ensure efficient operations, a simple but effective structure would be set as follows (See Annex IIA for organizational structure).

The Governing Council will consist of

- ?? 1 Chairperson
- ?? 5 members appointed by AMCOW on a sub regional basis
- ?? 1 member appointed by AfDB
- ?? 1 member appointed by NEPAD
- ?? 1 member from UN – Water Africa
- ?? 2 Donor representatives
- ?? Executive Director of the Facility (as ex-officio member)

The Bank will propose the Chairperson for AMCOW's approval.

The functions of the Governing Council of the Facility are listed as follows:

- ?? Determine the general policy direction of the Facility
- ?? Approve operational procedures in consultation with the Bank
- ?? Approval annual pipeline of projects
- ?? Receive quarterly reports on implementation progress and make recommendations
- ?? Receive report from Independent auditors on the performance of the facility

The Board of Directors of the Bank would have the following functions:

- ?? Approve Bank hosting and trusteeship of the Facility
- ?? Recommend to the Board of Governors the establishment of the Facility
- ?? Approve operational procedures for operations (in consultation with the Governing Council of the Facility)
- ?? Receive Progress Reports and issue advice and guidance as necessary
- ?? Receive Audit Reports

The Executive Committee would be composed of:

- ?? 3 members from the Bank
- ?? Executive Director of the Facility

The Functions of the Executive Director would include but not be limited to having responsibility for the following tasks:

- ?? Mobilising resources

- ?? Managing the Secretariat
- ?? Developing an operations manual and guidelines for project cycle.
- ?? Developing benchmarks, performance indicators and a monitoring and evaluation programme
- ?? Developing Annual budgets
- ?? Working with countries to develop a project pipeline and to implement the projects
- ?? Liasing and coordinating with existing water initiatives
- ?? Serving as an ex-officio member of the governing council
- ?? Developing progress reports on implementation of the programme, which will be presented to the Board of Governors of the Bank and the governing council of the Facility and others as necessary.

Approval Limits

- ?? With regard to “soft” institutional, project preparation and capacity building projects, the Facility would consider for financing only projects consisting a minimum of USD 50,000 and not exceeding USD1.5 million.
- ?? With respect to Capital projects, the minimum considered would be projects costing US\$0.5 million and the maximum US\$50 million

The Executive Committee will approve programmes and projects for implementation.

Staff and Secretariat

The Secretariat would function under the leadership of the Executive Director to ensure programme formulation, implementation and monitoring. In addition to the Executive Director, the other seven professional staff would have expertise in the areas of water resources management, irrigation, water supply and sanitation, data analysis, finance, economics, communications and procurement. While the Bank will second two staff, the other five staff would be recruited specifically for the Facility, or provided in the form of technical assistance or secondment from any of the other donor institutions and organisations participating in the Fund.

It should be clarified that the staff of the Facility would be responsible for developing the project pipeline and carrying out all project cycle activities, with the assistance of consultants whose services would be paid for from the resources of the Facility. Bank staff would provide advise and support as needed.

Also provided from the resources of the Facility would be a secretary for the Executive Director who would also serve as an administrative assistant as well as a secretary and technical assistance for the office.

5 Implementation Follow-Up

5.1 Recruiting an Executive Director

The Executive Director should have a broad experience in water resource management and a record of successful accomplishment in the sector. Knowledge of the work, policies and procedures of the Bank would be helpful. Recruitment of the Executive Director will be the responsibility of a search committee made up of the Chair of the African Water Task Force, a senior executive of the Bank, a representative of one of the donors and one other person from a suitable international organization. The position would be advertised. Once a shortlist has been compiled, the interview of potential candidates would be organised by the Search Committee and the Bank. This process is to commence immediately upon approval of the Water Facility by the Board of Directors of the Bank.

5.2 Mobilisation of Funds

The establishment of the initial organization and its commencement of operations are inextricably tied to the raising of additional funds.

The environment for mobilizing multilateral aid flows particularly where new institutional arrangements are involved has not improved for many years. Even well established organizations with proven records of accomplishment have to spend more and more of their time and energy on replenishment negotiations. An investment program of a yearly average of about US \$150 million over its first five years is considered to be realistic to bring about the desired impact and within the capability of the initial organization.

An operational plan on how to mobilize funds, including who will be responsible for canvassing potential donors, needs to be established before the commencement of the initial start-up phase, in 2003. Given that the African Water Facility is a new organization, some consideration should be given to naming a chief fundraiser who is well recognized in the international financial community. This person's chief contribution to the mobilization plan would be to help gain access to potential contributors at the political and policy level. The basic responsibility for fund raising would rest with the Executive Director and other staff.

5.3 Implementation and Evaluation

All participants in the field of development assistance have become more conscious of and placed a much higher priority on the need to measure the effectiveness and efficiency of their programs. In recent years, donors and recipients alike have put great emphasis in building into their organization an evaluation system that measures their past actions and current operations. This evaluation system covers not only infrastructure projects but also those areas such as consulting, policy development and institution building, and other areas, which are sometimes categorized as 'soft'.

Many donors and multilateral organizations have their own evaluation system built into the program cycle. There is a wide range of evaluation methodologies and there is no consensus in determining what is best practice.

An Water Facility should, both for its own benefit (it would do much to raise donor's confidence in its expertise) and for the benefit of its regional members build a capacity to evaluate all elements of the programme from the day it starts operations. As it gains experience and expertise in evaluation methodologies it should share this information with its members, some of whom will be looking for assistance.

A recognized evaluation capability could help immeasurably where the African Water Facility is assisting its members in drawing up integrated water management programs. Finally, and not inconsequentially, an ability to evaluate its programs and improve efficiency of its operations would enhance the capacity of the AWF to raise new funds.

5.4 Operational Issues

The discussion to date would suggest that there is a consensus on the following premises and that any structure should reflect them:

- ?? The AWF would have its own resources and would be responsible for raising them;
- ?? As a consequence of having its own resource base, the AWF would operate with a degree of autonomy and authority in the utilisation and disposition of mobilised funds; and
- ?? The AWF would be closely allied to the ADB, not only to the extent that the ADB would provide it with a physical base of operations, as well as assistance and support in financial administration and management, project preparation and analysis, as well as monitoring and evaluation.

Given this, the following is a list of some outstanding issues that will need to be addressed preferably before, or during the initial start up phase of development.

Creating an African Water Facility that would have reporting and operational responsibilities to more than one existing body.

Establishing clear lines of authority and responsibilities among AWF partners is necessary, along with clear and transparent organisation and operating rules to guide donors. This will also help both management and staff in the initial phase of operations. It is critical that the AWF present a model structure that will ensure interested participants from within Africa and among donors that the AWF is making a clear difference in the water sector in Africa.

Establish rules covering the holding and management of funds contributed to the AWF

It would seem most practical to extend the policies and practices of the ADB, including its treasury and audit operations, to the AWF. The authority to manage funds pledged to the AWF could be delegated to the ADB. It is unlikely that the AWF could build a competent financial arm within a reasonable period of time even if contributions could warrant it. Indeed it should be reasonably expected that most if not all donors would insist on the ADB being responsible for the financial administration of the AWF.

Decisions on staffing, both with respect to numbers and terms and conditions of employment

A separate decision is needed to establish a procedure on how an executive head would be selected and what would be the responsibilities and accountabilities of that position. Salaries and terms and conditions of employment would equate to permanent employees of the Bank who were evaluated as their counterparts. The Executive Director of the Water Facility should be in place early enough to participate in the negotiation of the formal arrangements, and should also be part of the exercise in the mobilization of funds that will have to be instituted at the time of start up.

Determination of the role of the AWF in initiating projects, including projects that could be under consideration by other funding agencies.

If the AWF can come close to its expected resource target there will need to be a detailed and transparent agreement on the scope of the AWF in programme management. Without such an agreement, controversies regarding overlaps or variance on terms and conditions of assistance are bound to arise at a cost of undermining the credibility of the AWF. There may be at the time of start up an advantage in accepting the operating policies of the ADB. Exceptions to those policies would be introduced only with the agreement of all participating parties including donors and the ADB.

Agreement on who will be responsible for evaluating and doing the management audit of the AWF.

Good management practice would suggest that the financial audit should be the responsibility of the Bank as trustee of the Water Fund and the management audit should be at arms length from both the Bank and the other stakeholders. Indeed it could well be that the form and responsibility of the management audit and evaluation could be a condition of some donor's participation in the AWF. In these areas there may be room for these functions to be carried out by an outside body. Private firms, whose services would be paid for from the resources of the Facility, would carry out audits of the specific projects supported by the Facility in RMCs. Reports from these audits would be submitted to both the Board of Directors of the Bank and the Governing Council of the Water Fund.

Working out detailed arrangements with the Bank on modes of operations and procedures.

If, as contemplated, the Water Facility would have a greater flexibility in its operations and a greater delegation on the approval of spending, then a working procedures manual is needed that would set out the variances between the AWF and the Bank on operating rules and regulations. This document would be approved by both the governing council of the AWF and the Board of the Bank. This work will take some time to complete and the person assigned to do the work should have an intimate knowledge of the policies and procedures of the Bank.

5.5 Conclusion

The Water Facility is the product of several years' hard work on behalf of African ministers and water sector professionals, and is a result of the dedication to the cause of improving water sector development throughout Africa. It also marks the creation of a Facility that was conceived of and driven by Africans, which is a significant political achievement. As a new concept, the Facility carries with it the hopes of many committed professionals to attract new investments to the water sector in Africa, while building capacity for sustainable development. In the upcoming months, a great deal of work will be required to shape the Facility into a functional and operational entity, building on the enthusiasm and momentum that has been generated in the process of developing the idea.

Annex 1 : Current Financing Initiatives

The Private Infrastructure Donor Group (PIDG).

PIDG is a planned multi-donor fund for the development of financial instruments for private sector participation in infrastructure. Current members include Holland, Sweden, Switzerland, and the UK, although other grant donors have also expressed interest in joining. The Fund's structure aims to promote private sector participation while building the financial capacity of local governments to be active partners in a project. It is expected that water and sanitation investments will play a key role in each of these components.

The following are proposed structures that will contribute to PIDG:

- ?? an *Infrastructure Development Company (DevCo)*. This would be a project preparation facility seeking to develop potential infrastructure projects to the point where they can be offered to private sector companies on a transparent, competitive basis. Implementation would be by the private sector alone or (commonly) working in partnership with other stakeholders in-country. Successful bids would be charged a levy to recover operating costs.
- ?? a *Development Guarantee Company (GuarantCo)*. This proposes to provide partial risk guarantees for local currency bonds issued by municipalities and utility companies for infrastructure works, and to offer to put operations to local banks for loans to municipalities and utility companies for infrastructure works. Feasibility studies for GuarantCo are expected in mid-2002, with a goal to form the company in 2003.

The Emerging Africa Infrastructure Fund

PIDG was also instrumental in the creation of the Emerging Africa Infrastructure Fund (EAIF). EAIF is the first fund to provide long-term debt capital in Africa for infrastructure projects. EAIF is expected to help catalyse private investment by evaluating investment opportunities in a professional manner and structuring and negotiating sound investments. Funding agencies that support EAIF include DFID, FMO (Dutch DFI), DBSA (South African DFI), DEG (German DFI), Standard Bank Group, and Barclays Bank.

EAIF's initial financing comprises committed equity capital of US\$ 100 million, underwritten by DFID; a tranche of US\$ 85 million of development finance debt from FMO, DEG and DBSA; and US\$ 120 million of commercial debt from Standard Bank Group and Barclays. DFID is combining with other European donors to provide additional equity capacity to enable EAIF to grow to around US\$ 450 million on a similar level of gearing. The innovative structure of the Fund aims to reduce the risk of lending to levels that will enable it to offer competitive long-term lending terms within a 15-year

period, to significant infrastructure companies throughout sub-Saharan Africa. Emerging Africa Infrastructure Fund Ltd. aims at making investments in the Sub-Saharan countries, except the Republic of South Africa and Mauritius.

The majority of lending will be US\$ based, although the Fund may also offer guarantees to local banks to facilitate local currency lending where this is beneficial. EAIF will make loans per transaction ranging from US\$ 10-30 million across the following product categories:

- ?? US\$-denominated senior debt
- ?? Subordinated debt and mezzanine finance
- ?? Guarantees to support local currency facilities
- ?? Non-core products (underwriting, bridging finance, etc)

The Financial Sector Reform and Strengthening (FIRST) Initiative

The FIRST Initiative was launched in April 2002. It aims to provide technical assistance grants to low and middle-income countries for short and medium-term capacity building and policy development in the financial sector. FIRST is an international initiative jointly undertaken by the World Bank (up to US\$0.5 million), the International Monetary Fund (IMF) and national development agencies - the UK Department for International Development (up to US\$29 million), the International Development Agency of Canada (up to US\$7.5 million) and the State Secretariat for Economic Affairs of Switzerland (up to US\$8 million). Discussions are currently underway for the involvement of the African Development Bank in this Initiative.

FIRST is designed to act as a catalyst for longer-term support from traditional bilateral and multilateral donors. Project results in one country under the FIRST initiative will be used or adapted in others, saving money and providing developing countries with a much more coordinated approach to financial sector assistance. In addition, FIRST will play a key role in the co-ordination of donor activity in the financial sectors of developing countries by establishing an information exchange on the delivery of financial sector technical assistance in developing countries.

Its scope includes:

- ~~///~~ Financial system reform
- ~~///~~ Financial sector legal, regulatory and supervisory frameworks
- ~~///~~ Banking systems
- ~~///~~ Capital markets
- ~~///~~ Payment systems
- ~~///~~ Corporate governance
- ~~///~~ Accounting and auditing
- ~~///~~ Insolvency regimes
- ~~///~~ Debt markets and management
- ~~///~~ Insurance/other collective investment schemes, including pensions

- ✍ Market integrity and financial crime (anti-money laundering)
- ✍ Financial systems diversification (development of non-bank financial institutions and new market instruments)

FIRST will support activities and interventions mainly in the public sector (primarily technical assistance to policy makers and regulatory bodies) but will also support private sector activities where organised through capital market institutions such as stock exchanges, self regulatory organisations and relevant associations or institutes (e.g. of brokers, bankers or insurance companies).

Public-Private Infrastructure Advisory Facility (PPIAF)

PPIAF is a multi-donor technical assistance facility aimed at helping developing countries improve the quality of their infrastructure through private sector involvement. PPIAF was established in 1999 at the initiative of the governments of Japan and the UK, working closely with the World Bank. PPIAF is owned and directed by participating donors, including bilateral and multilateral development agencies and international financial institutions.

PPIAF finances country-specific and multi-country advisory and related activities in framing infrastructure development strategies to take full advantage of the potential for private involvement, building consensus for appropriate policy, regulatory, and institutional reforms, building government capacity in the design and execution of private infrastructure arrangements and in the regulation of private service providers and supporting the design and implementation of pioneering projects and transactions.

PPIAF utilizes a core fund (US\$27.6 million in receipts for 2001), which consists of untied funds that can be used for any PPIAF project and are not subject to donor restrictions, and a non-core fund (US\$5.7 million in receipts for 2001), which is subject to donor restrictions. In 2001, 22% of PPIAF's portfolio went towards services in the water and sanitation sector.

Public Private Partnerships for the Urban Environment (PPPUE)

Established in 1996 with support from Switzerland, New Zealand and the UK, PPPUE brings together government, private business and civil society to pool resources and skills to improve basic services at local levels, with an overarching goal of developing tripartite partnerships. Focusing on small and medium size cities, PPPUE works with all potential stakeholders including investors, providers, regulators, users and experts to meet the challenge of providing basic urban environmental services. PPPUE maintains a flexible financial structure that allows donors to contribute to the PPPUE Trust Fund in general or for specific activities.

The PPPUE Innovative Partnership Grants support projects and activities in establishing adequate policy, legal and institutional frameworks for public private partnership development at local level, building local capacity for public private partnerships and designing and implementing innovative partnership arrangements.

The Panel on Financing Water Infrastructure

The Panel on Water Financing is an important initiative from the GWP and the World Water Council and includes representatives from all of the major International Financing Institutions, private businesses including banks and water supply companies, and several poverty-related NGOs such as WaterAid, Transparency International, and the International Secretariat for Water. It is chaired by Michel Camdessus. The panel has convened a series of high-level meetings on the issue of finance and water, has presented its findings at the Third World Water Forum in Kyoto.

Its recommendation focused on addressing key areas such as

- ?? Capacity building within central government for building financial and public sector management skills to attract financing and reduce risk, and developing financial relationships with local governments and water authorities in order to have real political “ownership” of development;
- ?? Prioritising the water sector both within national budgets and through debt relief (which ties closely with the PRSP process);
- ?? National Banks or other specialised financial institutions to develop a role as intermediaries for channelling external and central government funds, and funds raised in local markets, to sub-sovereigns;
- ?? Donors to earmark funds to reward countries that are making progress towards the MDGs and increase their ODA to Monterrey Targets, preferably for grants rather than concessional loans; and
- ?? Countries that are far behind in progress towards reaching the MDGs - such as Africa - should be a priority for ODA.

The Panel has identified the African Water Facility as one of the innovative approaches aimed at addressing the water problem of Africa.

The EU Water Initiative

The European Union launched a Water Initiative at the World Summit on Sustainable Development in Johannesburg in September 2002. The overall goal of the EU Water Initiative is to halve the proportion of people without access to safe drinking water and sanitation by 2015, and to develop plans for the sustainable management of water

resources in all countries by 2005. A key region the EU Water Initiative is focusing on initially includes sub-Saharan Africa.

This Initiative raises a considerable financial challenge, which is why financial aspects have been identified as a key-crosscutting component. The specific purpose of the financial component is to improve the sustainable financing of water supply and sanitation services and of the management of water resources, with a specific focus on sustainable development and pro-poor outcomes. It aims to provide suggestions on how the EU can:

- ✍ Improve the efficiency of existing and future EU aid flows to water;
- ✍ Promote the inclusion of water in poverty reduction strategy processes and in budgetary support;
- ✍ Use development funding as a lever for other forms of finance, including user finance and other forms of finance to bridge the funding gap;
- ✍ Encourage improved financial effectiveness;
- ✍ Promote affordable access to services for poor customers, ensuring that subsidies are directly targeted;
- ✍ Support and encourage financially viable integrated water resource management (IWRM) institutions;

Support the development of IWRM policies informed by economics to allocate water between competing demands and appropriate water quality standards.

Global Environment Facility (GEF)

The GEF was established on a pilot scale in 1991 and was confirmed as a permanent facility in 1994 through negotiation of the GEF instrument. The GEF provides grant financing to developing countries and those in economic transition in five focus areas, viz: climate change; biodiversity conservation; desertification/land degradation; international waters; and persistent organic pollutants. GEF projects are undertaken through its three implementation agencies (UNDP, UNEP, World Bank) and other organizations such as FAO, IFAD and the Bank may serve as GEF executing agencies in Africa.

Over the period 1993-2003, GEF supported 15 transboundary water projects in its international waters focus area in Africa to the tune of \$125 million with a similar amount of co-finance, 12 projects of which are still active in 2003. The focal area also funded \$100 million transboundary coastal/marine projects covering the entire coast of Africa (including small island states), when counting 4 additional projects that are in the pipeline. Another several hundred million dollars in grant funding has been provided to African nations for GEF projects in biodiversity conservation, desertification/land degradation and integrated land/water management.

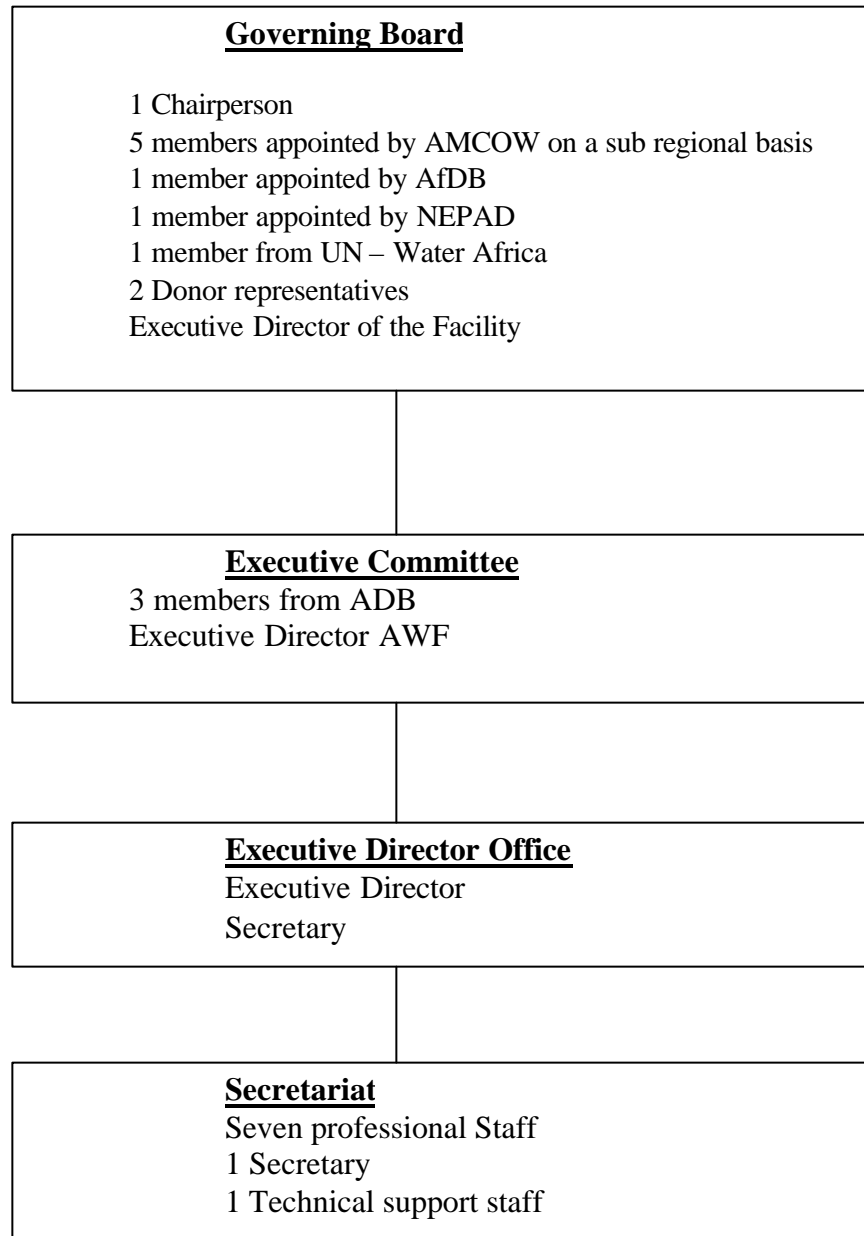
These same focal areas, especially the international waters focal area, may be of assistance to nations in meeting the MDG targets and may benefit from co-finance from the Water Facility. In particular GEF operational programme numbers 2, 8, 9, 10 and 12

(see GEF website www.GEFWEB.org) may be of interest to nations that are considering projects under the Water Facility in order to bring considerations related to aquatic biodiversity considerations, integrated land/water resource management, and transboundary surface and groundwater resources into the scope of the project. This would be consistent with GEF's contribution to the WSSD process that underscored the importance of achieving sustainable use of water resources for multiple users, including livelihoods for the poor, and integrated approaches to land and water resources management in basins and catchments as preconditions for meeting almost all the MDGs.

Key topics for possible collaboration include:

- ?? Integrated ecosystem management (sustainable land and water resources, including groundwater systems, within basins and catchments)
- ?? Conservation and sustainable use of aquatic biodiversity of river basins, lake basins and wetlands as part of IWRM
- ?? Improved management of transboundary surface and groundwater systems to address water scarcity, competing water use and pollution reduction
- ?? Demonstration projects for addressing water scarcity, environmental flows, community based sewage collection and low cost treatment systems and mobilizing private sector resources for related priority investments
- ?? Protection of coastal ecosystems through pollution reduction in freshwater basins, coastal habitat protection/restoration and coastal flow enhancement.

Annex IIA: Organizational Structure of the Facility²



² *Organizational structure and staff requirement does not include requirement for administering capital fund. Details for this aspect need to be developed depending on funding level.*