Africa's Rising Investment Tide:
Investment Action Plan

Unlocking USD 30 Billion per Year to Achieve Water Security and Sustainable Sanitation in Africa

The International High-Level Panel on Water Investments for Africa's 2023 report, Africa's Rising Investment Tide, found that at least US$30 billion can be raised per year by 2030 in order to achieve water security and sustainable sanitation for all on the continent. The High-Level Panel's Investment Action Plan proposes critical actions needed to unlock these investments and close the continent's water investment gap.

At least 90% of finance can be accessed from domestic resources by improving the enabling environment for investments, better water governance, higher budget allocations, the efficient delivery of water services, and others. Less than 10% needs to be sourced from international funds.

Water security is interpreted in its broadest sense and hence linkages with other sectors that use or benefit from water is key: water for energy, water for food, water for health, water for livelihoods, water for ecosystems and water for social progress.

Figure 1. Key actions to unlock at least US$30 billion/year from nine investment sources in the Pyramid of Transformation

Investment Sources and Value mobilised by 2030	US$ Billion per Year	Key Actions Needed to Unlock Investment sources
Bilateral ODA and philanthropy for Africa Additional US$0.5 billion/year	$0.5	• Renew ODA effectiveness • Donor coordination • Leverage private finance and implement results-based financing
Multilateral and Development Finance Institutions Additional US$1 billion/year	$1.0	• Improve loan conditions (affordability of capital) • Coordinate and strengthen national project facilities • Leverage private finance and implement results-based financing
Multilateral Climate Funds Additional US$3.2 billion/year	$3.2	• Communicate evidence on water-climate linkages • Integrate water into National Adaptation Plans and Nationally-Determined Contributions • Coordinate Water-Climate actors
National Banks, commercial banks and MFIs Additional US$1.5 billion/year	Domestic resource mobilization $17.5	• Develop water project pipeline • Support sub-sovereign lending • Strengthen credit-worthiness of service providers
African Governments budgets Additional US$2 billion/year		• Water as a national development priority • Conduct tariff review and increase spending targets • Improve financial tracking, auditing and reporting
Pollution and Mineral Resources Taxes Additional US$4 billion/year		• Identity tax reform opportunities (e.g. close tax avoidance loopholes) • Update legislation and regulations • Transparent and efficient system of spending revenues
Institutional Investors Additional US$10 billion/year		• Strengthen legal basis (and regulations) for private sector investment • Utilize model PPP laws • Financial sector regulation • Robust project pipeline and improved credit-worthiness
Valuing water related risks and observing environmental standards Several billion US$ water related costs averted each year from improved water stewardship	Significant savings generated by industries	• Establish economic value of water and inform tariff review • Monitoring of regulations to strengthen compliance • Imposition of fines • Promote disclosures and identify corporate water champions
Sector governance: Efficiency Gains & Cost Savings US$1.5 billion/year efficiences existing assets US$10 billion/year efficiences new assets	$ 11.5	• Commit funds to strengthen enabling environment for water investment • Develop a comprehensive, multi-sectoral, costed water investment programme • Strengthen public financial management and monitoring and evaluation systems • Service provider benchmarking & performance improvements • Improve water, energy, & irrigation efficiency. Reduce non-revenue water and increase revenue collection

Supply side and measures to strengthen and improve the enabling environment attract finance are shown in blue text.

Demand side measures are shown in orange text.

African governments play a pivotal leadership role in influencing the enabling environment for successful implementation of the proposed actions, including:

- Prioritising water security and sustainable sanitation on national and continental agendas as a key part of climate change adaptation, energy, food security and job creation;
- Mainstreaming gender empowerment within water investments;
- Establishing cross-sectoral political leadership at the highest level, with commitment to substantially increase public budgets and allocations to water security and sustainable sanitation;
- Mobilising new sources of funding and innovative sources of finance, supporting matchmaking platforms with a focus on climate resilient and gender transformative approaches;
- Strengthening public financial management systems, institutional regulation for water investments, and economic regulation, as well as ensuring that fiscal funds allocated to water are justly disbursed and efficiently used in order to attract more public funds;
- Rallying business leaders and investors, and earmarking corporate tax revenues for water;
- Strengthening integrated government approaches to water resource management and development while implementing national water investment strategies, programmes and plans;
- Supporting project development and preparation;
- Tracking progress and enhancing mutual accountability for results in the mobilisation of water investments and promoting peer review mechanisms at all levels (continental, regional, national, sub-national, and community)

Develop a solid legal and regulatory framework to draw private investment in water. Model laws for institutional investors-public partnerships exist and need to be adapted to each country.[i] For schemes that are not fully commercially viable, some form of de-risking is needed from public entities via guarantees or subsidies that are legally binding. African governments and institutional investors need to engage and understand each others' motivations and objectives.

Use Official Development Assistance (ODA) to de-risk water investments and leverage larger funding streams. ODA providers must seek opportunities to maximise impact. This may require them to coordinate and consolidate international and bilateral support. ODA is highly fragmented in the African water sector. While some Africa water funds are contributed to by multiple donors, most donor-supported projects are implemented by a single source. Donors need to assess how they are meeting the Paris Declaration on Aid Effectiveness 2005 and identify improved ways of working.

Leverage climate finance for increased resilience and water adaptation. Water needs to be better reflected in plans for Nationally Determined Contributions, National Adaptation Plans, as well as plans to meet water-related Sustainable Development Goals (SDGs) such as disaster risk reduction, biodiversity protection, drought and flood management and others.

Improve implementation capacity and quality of bankable projects, and strengthen international cooperation by aligning technical and financial support with regional, transboundary and national water investment programmes, strategies and plans.

Water is a significant investment opportunity for Africa

Africa's water investment gap, which stands at US$30 billion/year, also represents a significant investment opportunity. Every US$1 invested in climate-resilient water and sanitation returns at least US$7. Investing in water security and climate resilient sanitation will realise Africa's social and economic developmental objectives, with gains in health, education, energy, food security, gender equality, and more.

During the preparation of this Investment Action Plan, 53 projects with a combined investment value of US$27 billion were submitted for AIP assessment. The submissions were made by 19 countries. The investment opportunities cover the entire water supply value chain including infrastructure projects (hydropower, irrigation, water and sanitation, water resources development) and governance (integrated water resource management, capacity building, planning, information systems).

Several projects link the project aims with the need to build water and sanitation services that are resilient to climate change, they include major components on water resource development and flood protection. Only a small number of projects include wastewater treatment and reuse as a way to address water scarcity.

Several projects were focused exclusively on strengthening the enabling environment by improving information systems and training. However, most projects contained financial allocations for components that strengthened the enabling environment.

The estimated financial requirement for the fifteen prioritised transboundary projects under the second phase of the Programme for Infrastructure Development in Africa (PIDA-PAP 2) is estimated at US$9 billion. Projects include hydropower and multi-purpose dams, water resource development and water transfer projects.

The African Water Facility's 2023 call for proposals received 416 project concept notes, of which 80 have been selected for the organisation's initial pipeline. The pipeline's total project preparation cost is €213 million.

5 actions to take now to unlock investment

01

Prioritise continental and country-level platforms that match funding sources to investment opportunities, projects, and programmes seeking finance

Matching supply and demand of finance is a time consuming and inefficient process. The lack of viable programmes and project pipelines tailored for different lending opportunities was one of the major bottlenecks identified by the nine task forces for water investments in Africa that met to inform this Investment Action Plan and the panel report.[ii] While some project development facilities are available, they tend to be narrowly focused on specific mandates, donor or investor priorities.

More flexible, transparent, and state-of-the-art project development technical assistance is therefore vital for identifying a project pipeline, assessing economic and financial viability, matching supply and demand, tailoring proposals for climate funds, and conducting feasibility studies.

The value of water in different uses and locations should be assessed at project development phase, together with proposals for regulations and tariffs that support the twin goals of cost recovery and equity.

While governments will play a key coordinating role, a range of investors and supporters is needed to bring a range of ideas and expertise to the table, to build capacity and to generate a pipeline of projects that is relevant to the main investor groups.

Project development should be coordinated among key ministries and across different financial organisations to avoid duplication; they should reflect each country's climate adaptation targets and financing options, and they should engage existing water and sanitation service providers to enable opportunities for service expansion.

At continental level, multilateral and multi-national organizations need to consult with each other and coordinate their support and capacity development for regional and national project development platforms. Cheaper or concessional finance should be reserved for projects in communities without basic water and sanitation services, who typically cannot afford commercial lending rates. The role of Regional Economic Communities in guiding transboundary projects needs to be strengthened.

Investment summits should be held at national and regional level to facilitate dialogue between important stakeholders. Investment advisory services should be set up to provide practical advice and case studies of best practices for attracting direct investment and pension funds to water.[iii]

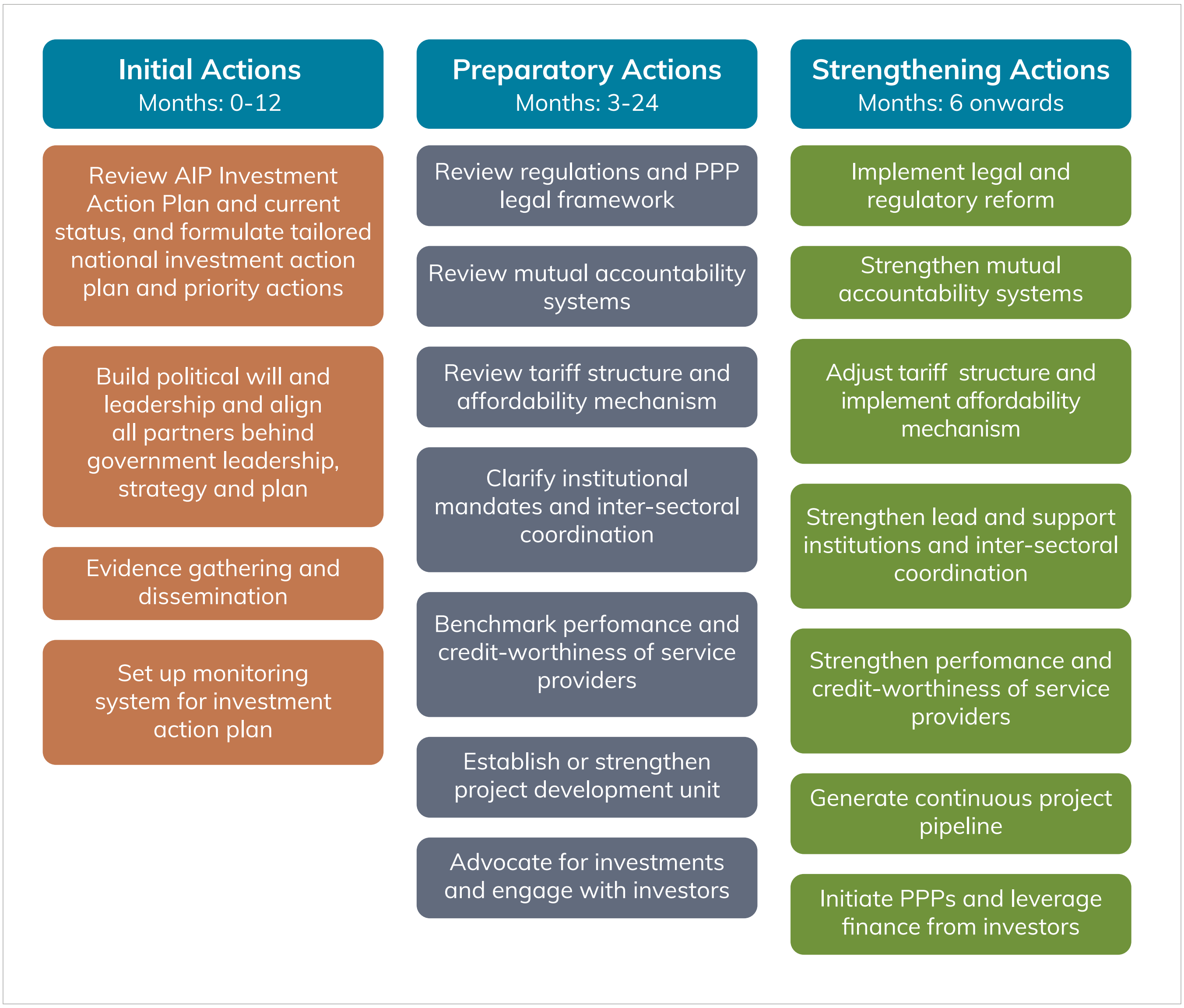
02

Commit to long-term strengthening of the enabling environment and increasing the bankability of service providers and projects

African governments, bilateral donors, foundations and development finance institutions must invest in strengthening of the enabling environment. This includes updated and robust national policies and strategies, institutional capacity building, costed water investment programmes, monitoring and reporting, financial management systems, legal frameworks, clear regulations, and efficient service providers.

Lead national agencies should engage a range of stakeholders and initiate key foundational actions (see Figure 2). Depending on the funding available, it will be necessary to prioritise and sequence actions.

Figure 2. Sequencing of selected actions



The emphasis on planning does not mean that investment sources cannot be tapped immediately. There will be some low-hanging fruit, investment-ready projects (or near ready projects), and finance partners who see immediate opportunities to invest.

03 Create the legal and regulatory environment that promotes water stewardship amongst commercial water users

Enhance monitoring and reporting systems, compliance frameworks, and legal and regulatory instruments for the use of water by industrial and agricultural enterprises, and increasingly digital companies.

Water and sanitation are central to social and economic development. Therefore, water-using commercial entities should be held responsible by national governments, not only for paying for water resources, but also for water resources' protection and development.

To be successful, these will need significantly enhanced monitoring and disclosure systems, compliance frameworks, and legal and regulatory instruments. Financial institutions should account for water related risk that the activities they finance are exposed to and reflect water risk in their pricing of capital.

04 Enable African governments to access cheaper capital for water and sanitation

Sovereign debt ceilings and the cost of capital prevent access to many sources of finance. If the public sector cannot access concessional capital because it is too expensive, then there will also be limited access to private finance.

Development finance partners have a responsibility to provide access to concessional finance, and to participate in blended finance mechanisms that leverage larger funding streams.

The private sector will be attracted by improved financial sector regulation, innovative financial vehicles that reduce transaction costs, and robust project proposals containing a breakdown of project components with different financing arrangements.

Water security must be positioned as key to economic development in order to influence the reform of global financial architecture, including greater financing of public goods such as water.

At the continental level, an African Union committee comprising Heads of State should be established to mobilise high-level political leadership and commitment to champion water investments and identify the specific areas to be addressed, including areas related to climate resilience. The roles for key multilateral agencies, multi-national organizations and investors need to be identified through a consultative approach.

05 Strengthen data and information systems so that progress can be monitored and evaluated

Countries should invest and allocate resources for data, implement comprehensive and regular reporting, review, and analysis of progress on water security through the AIP-PIDA Water Investment Scorecard, the African Ministers' Council on Water's (AMCOW's) Water and Sanitation Sector Monitoring and Reporting System (WASSMO), national Joint Sector Review processes and participation in global reporting mechanisms.

Countries should implement the AIP-PIDA Water Investment Scorecard as a tool to engage with public and private investors on financing water infrastructure. The scorecard will guide governments to identify the changes required to increase water investments, identify opportunities from cross-country learning, and mobilise political and leadership commitment.

Prioritise the key aspects of water security and water services to be monitored and evaluated, strengthen the WASSMO monitoring framework, and build the capacity to monitor and evaluate progress and performance against targets, as well as what is spent.

Disaggregation of indicators by population groups and strengthening civil society engagement are required to improve equitable access to basic services. Financial monitoring should be achieved through strengthened public financial management systems to improve reporting and accountability on water, including financial auditing of government accounts.

The High-Level Panel invites African Heads of State and global leaders to join efforts to at least double current water investments and implement national water investment programmes by 2030.

Published by the International High-Level Panel on Water Investments for Africa. The Panel was formally launched on 25 March 2022, during the 9th World Water Forum in Dakar, by the President of the Republic of Senegal His Excellency Macky Sall.

Suggested citation: International High-Level Panel on Water Investments in Africa Investment Action Plan: Unlocking US$30 Billion Annually to Achieve Water Security and Sustainable Sanitation in Africa, International High-Level Panel on Water Investments for Africa, South Africa, November 2023.

Download the full Investment Action Plan: https://aipwater.org/high-level-panel/

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[i] DLA Piper. (2022). Institutional Investor Public Partnerships Model Law.

[ii] In addition, research conducted by McKinsey & Company reported that only 10% of priority projects sourced result in a financial transaction ('financial close'). McKinsey terms this as 'Africa's infrastructure paradox'. Source: Lakmeeharan, K., Manji, Q., Nyairo, R., and Pöltner, H. (March 2020). Solving Africa's infrastructure paradox. McKinsey & Company. https://www.mckinsey.com/capabilities/operations/our-insights/solving-africas-infrastructure-paradox

[iii] For example, see UNCTAD's Investment Advisory Publication Series https://unctad.org/official-documents-search?f%5B0%5D=product%3A613 and OECD's Investment Promotion Agency (IPA): https://www.oecd.org/investment/investment-policy/investment-promotion-and-facilitation.htm