



NILE BASIN INITIATIVE
INITIATIVE DU BASSIN DU NIL

NBI FINANCING STRATEGY

2017-2022

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AfDB	African Development Bank
BWP	Basin Wide Program
CFA	Corporative Framework Agreement
CIWA	Cooperation on International Waters in Africa (trust fund)
D-ED	Deputy Executive Director
DPs	Development Partners
DRC	Democratic Republic of Congo
DSS	Decision Support System
EAC	East African Community
ED	Executive Director
EN	Eastern Nile
ENTRO	Eastern Nile Technical Regional Office
ESP	Environment and Social Policy
EU	European Union
GIS	Geographical Information System
GIZ	German International Cooperation Agency
HCS	Head of Corporate Services
ICT	Information Technology
KM	Knowledge Management
LVBC	Lake Victoria Basin Commission
M&E	Monitoring and Evaluation
MOU	Memorandum of Understanding
NB	Nile Basin
NBD	Nile Basin Discourse
NBDF	Nile Basin Development Forum
NBI	Nile Basin Initiative
NBSF	Nile Basin Sustainability Framework
NBTF	Nile Basin Trust Fund
NCORE	Nile Cooperation for Results
NEL	Nile Equatorial Lakes
Nile-COM	Council of Ministers of Water Affairs of the Nile Basin states
Nile-IS	Nile Information System
Nile-SEC	Nile Basin Initiative Secretariat
NMN	Nile Media Networks
SAP	Subsidiary Action Programs
SoB	State of Basin
SWOT	Strength Weakness Opportunity Threat
TORs	Terms Of Reference
US \$ / USD	United States Dollars
WB	World Bank
WP	Water Policy
WRPM	Water Resources Planning and Management

1. Introduction

This Financing Strategy – FS- (2017-2022) is companion to and an organic part of the Nile Basin ten-year Strategy – NBS. While the NBS identifies the likely major Nile Basin Water Resources development and management challenges for the next ten years and sets out six goals to address them, the Financing Strategy answers the question: where and how is the financing [required to implement the NBS] to be secured?

NBI costs consist of four major categories: (a) core costs (these are costs needed to cover basic operation of the three centers of the NBI, including permanent staff, office running costs, governance meetings and the like); (b) program costs (costs needed to implement planned programmatic activities of the three centers, mainly upstream investment project identification and basic studies); (c) Investment preparation costs (for downstream work following identification of investment projects, which basically fund themselves); (d) investment implementation costs (costs needed to realize implement feasible projects on the ground, which are covered by loans and/or grants countries obtain).

Thus far NBI has had two primary sources of funding to cover the two categories of costs above i.e. core costs and program costs. Core costs have been covered from in-kind and cash contributions from NBI Member States, though for the most part there has been a deficit in meeting the core costs. Program costs have so far been covered from Development Partner support to NBI channeled either as trust funds (e.g. the World Bank managed NBTF- Nile Basin Trust Fund and CIWA- Cooperation in International Waters in Africa) or thru bilateral funding arrangements with the NBI Centers.

With the increasingly challenging financing environment, there is urgency to creatively identify - both within NBI the Member States and from Outside - feasible financing mechanisms.

This NBI Financing Strategy articulates 18 Strategies to enable the Institution meet the funding requirements needed to accomplish the 10-year strategy in general, and the 5-yr center specific Action/Strategic Plans in particular. The Strategy is further elaborated through accompanying detailed Action Plan which details, for each of the Strategies, corresponding discrete sets of necessary actions which will be implemented by the three NBI Centers.

2. Assessment of 2012-2017 Financing Strategies

NBI developed a Financing Strategy in 2012 to support its Strategic Plan for the period 2012-2017. This was in lieu of the imminent closure of the World Bank managed NBTF at the end December, 2012. Three funding requirements were identified (i) Core Costs mainly from Member States contributions (ii) Program Funding mainly from Development partners support and (ii) Investment funding from loans and grants from bi-lateral and multi-lateral sources.

The strategies were categorized into two **(i) to Secure funds** - Increase Members States cash contributions to cover core operating costs for 'Minimum Functionality'; Seek program and project financing from Development Partners; Develop fee-based service arrangements; Expand contributions from power utilities and Explore opportunities for potential alternative funding mechanisms and **(ii) to improve financial flexibility, risks and costs reduction** - Establish a management fee for project grants; Grow a reserve fund; Create an NBI Trust Fund and Explore options for cost reductions.

The main achievements were Member States commitment to increase stepwise country contribution to meet core operations costs of NBI under "*Minimum Functionality*" and the establishment of NBI Capital Reserve fund by the Centres. There was impressive Member States in-kind contributions support particularly the Member States hosting NBI Centres and those that hosted Regional NBI events. Development partners continued to support NBI. Cost reduction initiatives ameliorated the costs and significant savings was made under this Strategy.

However, there were challenges meeting core operational costs due to unfavorable economic situations of some Member States and political factors that constrained the level of financial inflows (country contributions). Thus there were delays and non-payment of country contributions by some Member States (see figure1 below). As at 30th June, 2017 the country contributions arrears stood at US\$5.9mm. This affected the operations of the Centres significantly. There was a reduction in Development Partners support. Some of contributing partners to NBTF discontinued funding after the closure of the trust fund and no new Development partner was brought on board during the period. The strategies that were targeted to improve financial flexibility and reduce risks (resilience) under performed due to challenges in Member States country contributions. Capital Reserve funds were borrowed and depleted to meet the gap in country contributions. There was low intake from commercial loans from commercial banks and private sector for investment financing. Out of prepared investment projects valued at US\$3b only US\$1.09b was realized.

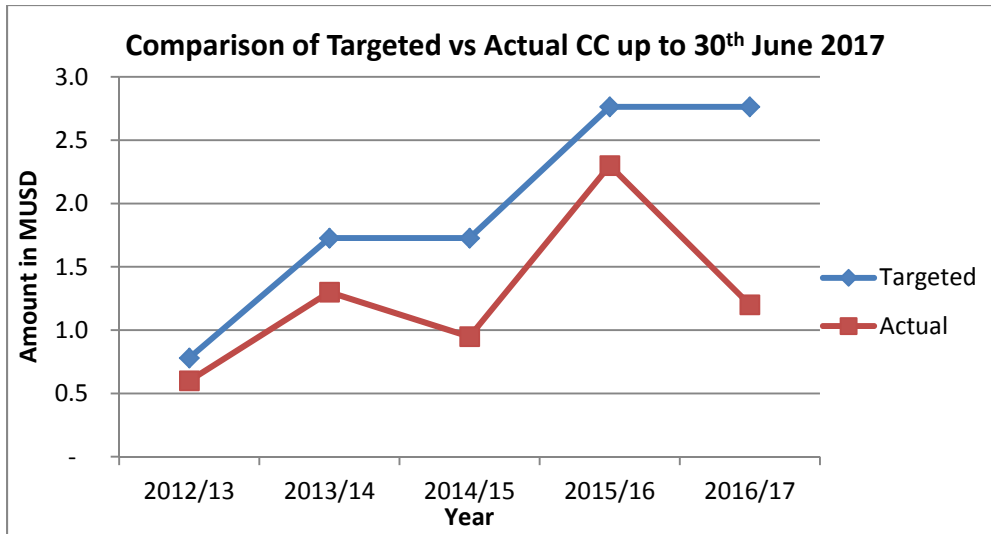
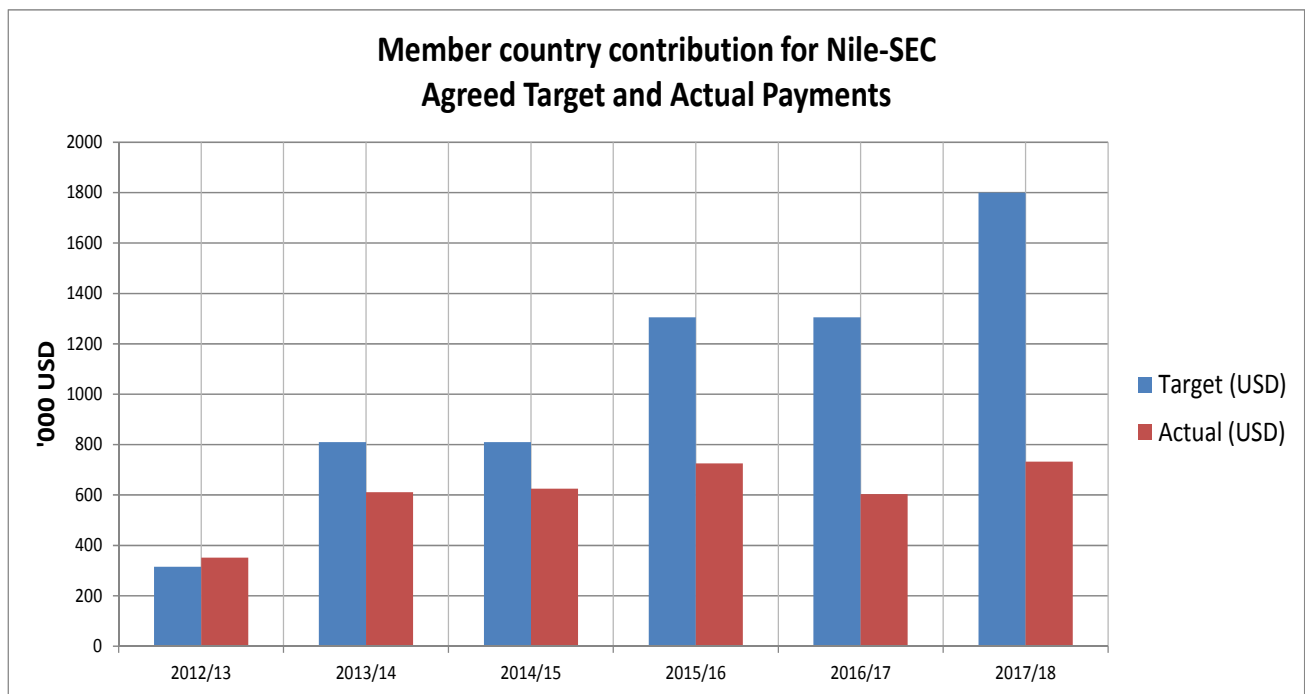


Figure 1: Country contribution comparison of targeted vs Actual



3. Financing Strategies: 2017-2022

3.1 NBI Financing Requirements

The NBI has four forms of financing requirements, these are set out below.

3.1.1 Core costs

Core costs are the required annual resources for the basic operation of the institution and the centers. These are defined to include the core (permanent) staff positions, the office premises, the governance meetings and the basic operations like maintaining the knowledge base (such as portals, DSS and library) as well as basic communication (such as annual reports, newsletters). The core cost budget is set by the respective governance. Currently (as of FY 2017/18) the core cost budget for the centers has been defined as US\$1.8m for Nile-SEC, US\$1M for ENTRO and US\$ 1.5 M). Whilst the Member States have agreed on the principal that core costs are to be covered by the Member States, it is important to note that the agreed core costs are conceptually not equivalent to the agreed financial country contribution, for the determination of which the core costs however do provide the orientation basis. Gaps in core costs may be covered by other mechanisms – such as revenue generation by NBI or in-kind contributions.

The specific resource requirements for core costs are captured in the Nile-TAC decisions on core cost budgets of the centers.

3.1.2 Program costs

Program costs are cost for the implementation of the 5 year Programs/Action Plans of NBI. They include the upstream work for investment project identification (such as basin scoping studies, MSIOAs) and investment program management. Program funding has largely come from development partners.

The specific resource requirements for Program Costs are captured in the 5 Year Programs/Action Plans of the centers

3.1.3 Investment project preparation costs

These are the investment project specific costs after a project has been identified to take it from pre-feasibility to feasibility to implementation stages. Funding mainly comes from dedicated project preparation funding lines of development partners and multi-lateral development banks. Investment preparation is done by the NBI centers.

The specific resource requirements for Investment project preparation costs are captured in the NEL/ENTRO Investment Project Pipeline.

3.1.4 Investment project implementation costs

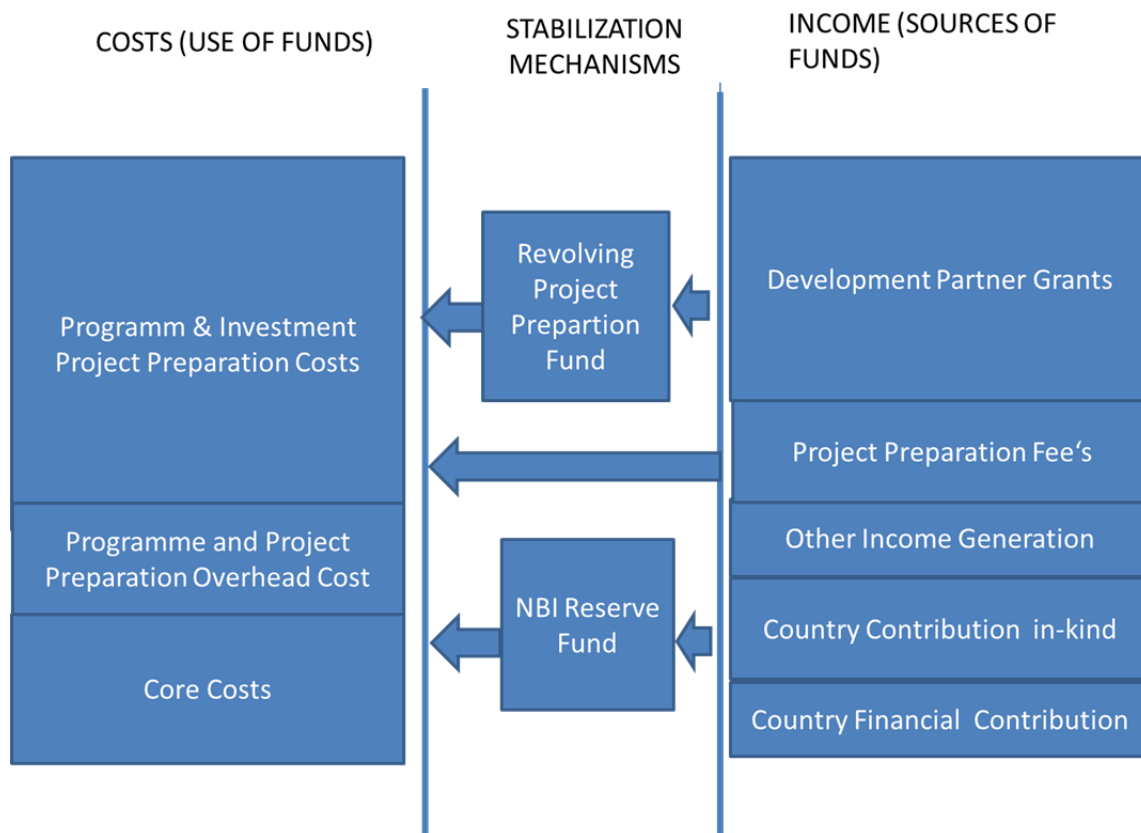
These are the costs for the implementation of investment projects. The funding is required by the Member States for the implementation of NBI prepared projects. Funding mainly comes in the form of loans (and grants) directly to the Member States from development partners and multi-lateral development banks.

The specific resource requirements for investment Project implementation Costs are captured in the NEL/ENTRO Investment Project Pipeline.

The next section sets out the strategies for securing the funding for the required cost categories. The table 1 below summarizes the strategies and maps their contribution to funding each of the cost elements. Whilst most strategies focus on one of the funding requirements, some may address more than one.

Category	Funding requirement	Description	Strategies that address the funding category
1	Core cost	Funding needed to cover costs of core staff and basic operations of NBI centers. Core staff are staff that needed to maintain the running of the institution irrespective of volume of work and/or number of project/program related activities. <i>NBI Member States have committed themselves to cover the core costs. Member States' contributions are of two types: cash contribution and in-kind contribution.</i>	1,2,3,4,5, 6, 7, 11
2	Program	Program funding is needed to cover costs of all studies, such as preparation of state of basin report, water resources analyses studies, policy formulations, maintenance of joint analytic tools and knowledgebase, etc. <i>Most program funding is obtained from development partners.</i>	4, 11,12, 9
3	Investment Preparation	These are costs needed to prepare investment projects for harnessing basin potential for food production, energy generation and energy trade, enhancing water storage, etc. <i>Investment preparation funding has been sourced both from Development Partners and Countries</i>	8, 13, 14, 15, 16
4	Investment	These are costs of implementation for investment projects prepared by NBI, i.e. ENTRO and NELSAP-CU. <i>These are expected to be secured by member countries through loan, grants and/or direct country financing.</i>	13, 16, 17

The following graph provides a conceptual overview of the key elements source and use of funding as well as those elements that essentially can be considered as intertemporal stabilization mechanisms to balance inflow of funds and budget requirements.



3.2 Strategies

3.3.1 Enhancing Reliability and Adequacy of Member Country Contributions

Strategy 1: Member States continue to cover NBI's core costs

- Nile-COM has committed to cover in principle the core cost of NBI defined as the cost of core staff and basic operations;
- As of 2012 the Member States have agreed to make financial contributions towards the core costs to be US\$ 1.8 M for Nile-SEC, US\$ 1 M for ENTRO and US\$ 1 M for NELSAP-CU as of FY 2017/2018.
- For the upcoming period of 2017/18 – 2021/22, Member States commit to maintain the level of financial contribution as per the decision of 20th Nile-COM Meeting of 2012 (Minute #6.2.1) for Nile-SEC and ENTRO and increased NELSAP-CU at US\$1.5m. Any adjustments to be made to cover inflation will be considered and approved within this period.

- At the end of 2021/2022, Member States shall review the core cost and adjust their financial country contributions accordingly. The adjustments shall include the level of financial contribution and the cost - sharing mechanism among Member States.

Strategy 2: Member States agree on catalogue of measures to enhance compliance with countries financial contribution commitment

As of 30th June 2017, the total unpaid financial country contribution arrears were US\$5.9m. Further, the payments have not been predictably remitted as per the agreed time table, i.e. beginning of NBI Financial Year which is July of every year.

Therefore, Member States shall:

- agree on procedural rules on payment process (e.g. invoicing, due dates, reminders);
- review and improve their internal mechanisms for budgeting and remitting their respective contributions to NBI (e.g. direct payment from national treasury, sectoral budgets, etc);
- explore non-treasury mechanisms for covering country contributions that are premised on special policies/legislations (e.g. power utilities, revenue authorities or others)
- agree on a policy to minimize non-compliance that may include (a) incentives for timely and full payment and (b) sanctions and measures for non-timely and incomplete payment;

Strategy 3: Increase Member States' in-kind contributions to core and program costs

- Member States maintain countries the level of in-kind support to NBI covering: (a) national TWM Offices responsible for NBI (b) Hosting NBI events (Nile Day, NBDF, COM) (c) NBI Office Premises Nile-SEC, ENTRO, NEL (d) Tax exemption for centers by host countries (e) TAC and Desk Officers staff time.
- Member States shall strive to increase level of in-kind support in following domains:
 - Cost of coming to TAC meetings;
 - Covering cost of national staff by countries hosting NBI centers and their project/RBM offices
- Member States shall agree on a common framework for reporting and regularly reviewing in-kind contribution.

3.3.2 Increased Income Generation, Resilience and Cost Effectiveness

Strategy 4: NBI shall negotiate funding modalities to cover program overhead

- NBI shall work out a scheme (cost elements, unit rates) to define and quantity program overhead costs
- NBI shall negotiate with program funding agencies modalities to cover program overhead costs

Strategy 5: NBI shall enhance income generation from NBI facilities

- NBI shall continue hosting arrangements for water and related strategic partners to enhance synergies;
- NBI shall expand its services to provide competitive hosting of events for water and related strategic partners;

Strategy 6: NBI shall maintain a reserve fund to enhance financial resilience

- NBI shall review and update Capital Reserve Fund policy to define sources of reserve funds and procedures for utilization of reserve funds
- NBI shall maintain reserve fund for each NBI center to the equivalent of one year core cost, which is equivalent to a total amount of US\$ 3.8 M

Strategy 7: NBI shall continuously improve cost effectiveness of its operations

- NBI shall continuously review the cost effectiveness of its operations and take appropriate actions

Strategy 8: Negotiate investment project preparation fee for NBI projects moving into implementation

- Member States commit to negotiate a fee from NBI prepared investment projects entering implementation to be paid into NBI reserve funds to support investment programs.

Strategy 9: Establish an NBI service-for-fee on water and related resources planning and management

- NBI shall put in place services that provide avenue for NBI countries and third parties including private sector to access Nile Basin knowledge tools and competences complementing NBI's program activities.
- NBI Member State shall agree on a framework document defining the scope; rules and procedures for delivering the services.

Strategy 10: NBI shall leverage private sector's commitment towards Corporate Social Responsibilities (CSR) and water stewardship

- NBI shall establish partnership with the private sector to sponsor NBI activities, events, internships, campaigns etc. as part of their CSR
- NBI shall explore the concept of water stewardship to mobilize contributions from major water users for basin water management activities

3.3.3 More effective access to Investment Preparation and Implementation Funds

Strategy 11: NBI shall improve its access to climate funding for its programs

- NBI shall build alliances with accredited strategic partners such as AfDB to leverage climate finance for its investment pipeline projects;
- NBI shall assess the framework conditions for its own accreditation and accordingly prepare for accreditation;
- NBI shall integrate basin management actions in national planning frameworks under global conventions (NDC Plans; Biodiversity: Aichi Action Plans, and others) that are key to mobilizing funds through the global funding mechanisms;

Strategy 12: NBI shall support Member States to mobilize private sector funding for investment projects prepared by NBI

- NBI shall conduct regular screening of its investment projects in the pipeline to assess their potential for private sector financing;
- NBI shall work with Member States to develop appropriate PPP financing models suitable for specific investment projects;

Strategy 13: NBI shall establish a service-for-fee for accelerating implementation of investment projects.

- NBI-NELSAP-CU shall develop the concept for and establish a project advisory/acceleration service at NELSAP-CU to accelerate preparation, packaging and implementation of prioritized bankable projects;

Strategy 14: NBI shall establish a revolving investment Project Preparation Fund

- NBI shall elaborate the concept for an NBI-NELSAP investment project preparation fund based on the idea of revolving fund. The revolving fund shall be initiated with seed money for preparation of selected projects. Incurred costs for preparation of these projects are repaid with some interest/risk margin and put back into the revolving fund to be allocated to the next tranche of projects to be prepared to bankability.

Strategy 15: NBI shall maximize access to regional infrastructure preparation facilities and regional infrastructure investment programs

- NBI shall establish strategic partnerships to integrate NBI pipeline projects in other regional investment infrastructure programs (e.g. PIDA; NEPAD, Northern Corridor, EAPP, EAC, etc) and related infrastructure preparation facilities;

Strategy 16: NBI shall consolidate its investment pipeline into highly visible Nile Basin/sub-basin investment program with endorsement at highest level

- NBI Member States shall agree on a basin/sub-basin wide highly visible investment programs for endorsements from Heads of States to support effective mobilization of funding for their implementation;
- NBI shall foster and develop strategic partnership with lead banks, such as with WB and AFDB, to champion financing the implementation of the programs;

Strategy 17: Member States shall prioritize NBI prepared investment projects in their national programming processes for financing through bi-lateral windows

- NBI shall develop approaches to better harness opportunities from combining regional and bilateral funding windows under multilateral mechanisms (WB, GEF, etc)
- Member States shall ensure integrating NBI investment projects into country programming and budgeting – (such as the Medium Term Expenditure Frameworks]. In particular, Member States ensure the timely coordination of the respective sectoral ministry with the planning/financing ministries in project identification/preparation process.

3.3.4 Enhancing Program Funding

Strategy 18: NBI shall strive to increase financing from Development Partners with a Program Based Approach

- NBI shall maintain the Program Based Approach with 5 Year NBI Center specific strategic plans/programs as the framework for aligning Development Partner - and NBI priorities and specification of NBI resources need.

- NBI shall Maintain the close dialogue with NBI’s contributing partners, especially through the annual NBI Strategic Dialogue;
- NBI shall develop donor – specific approaches to actively seek and engage with new partners and re-engage previously contributing partners
- NBI shall explore an NBI Basket Fund Mechanism to support the PBA of NBI.
- NBI shall explore and partner as appropriate with RECs to develop funding proposals to access regional funding windows earmarked for RECs.

4 Financing Strategy Implementation Mechanism

4.1 Setting out Specific Funding Requirements

The specific funding requirements are set out in following documents:

- Core Cost funding requirement: this is set out in the agreed core cost budgets endorsed by TAC/COM:
- Program funding requirement: this is set out in the 5 year Work Program/Action Plans. These are the key tool for defining specific resource needs for NBI program implementation and coordination of the funding partners.
- Investment preparation and implementation funding requirement: these are set out in the NEL and ENTRO Investment Project Pipeline / Portfolio, which is the key tool for defining the specific resource needs for investment preparation. The investment portfolio has a longer time frame with projects graduating through the pipeline from pre-feasibility to implementation stages.

4.1 Resource Mobilization Action Plan

NBI centers will put in place “resource mobilization action plan” to define the specific actions that will be carried out to implement the strategy and mobilize the resources

The plan will be reviewed annually by the centers and activities foreseen for the respective financial year will be mainstreamed into the NBI centers annual work plan and budget;

4.2 Role of Governance (COM(s) and TAC(s))

Both COM and TAC hold responsibility at their respective level for the implementation of the countries commitments set out under this strategy.

They are responsible for annually reviewing the Implementation Status of the Financing Strategy and providing guidance to facilitate its implementation.

Both COM and TAC at their respective levels are responsible for supporting the centers in their resource mobilization efforts with third parties by acting as champions of the NBI’s resource mobilization efforts.

4.3 Role of NBI Centers

The senior management of the Centers will hold the overall responsibility for implementation of the Resource Mobilization Action Plan and the monitoring of the Strategy. They will use the resource mobilization action plans to coordinate their efforts in the framework of the three center coordination.

Targeted staff development programs will be arranged to boost the capacity for implementation of the strategies.

4.4 Monitoring and Reporting

Each center will prepare every year an “Annual Report on the Implementation Status of the Financing Strategy”. This will be a standing agenda item on the agenda of Nile-TAC and Nil-COM.

NBI will improve its financial reporting standards by introduction of an Integrated Financial Management Information System (IFMIS) and Accrual Basis International Public Sector Accounting Standards (IPSAS) that will facilitate control environment and accountability, financial reporting and monitoring and evaluation against the various instruments set out in this strategy.