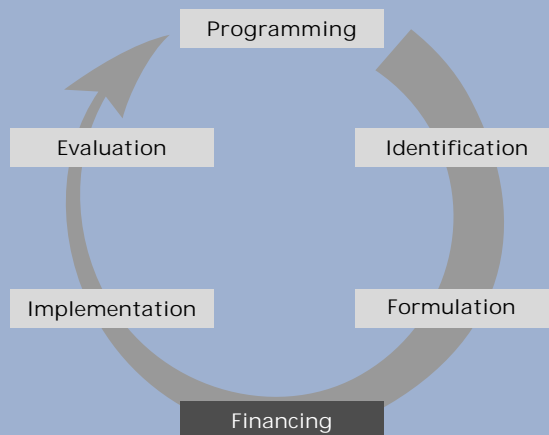


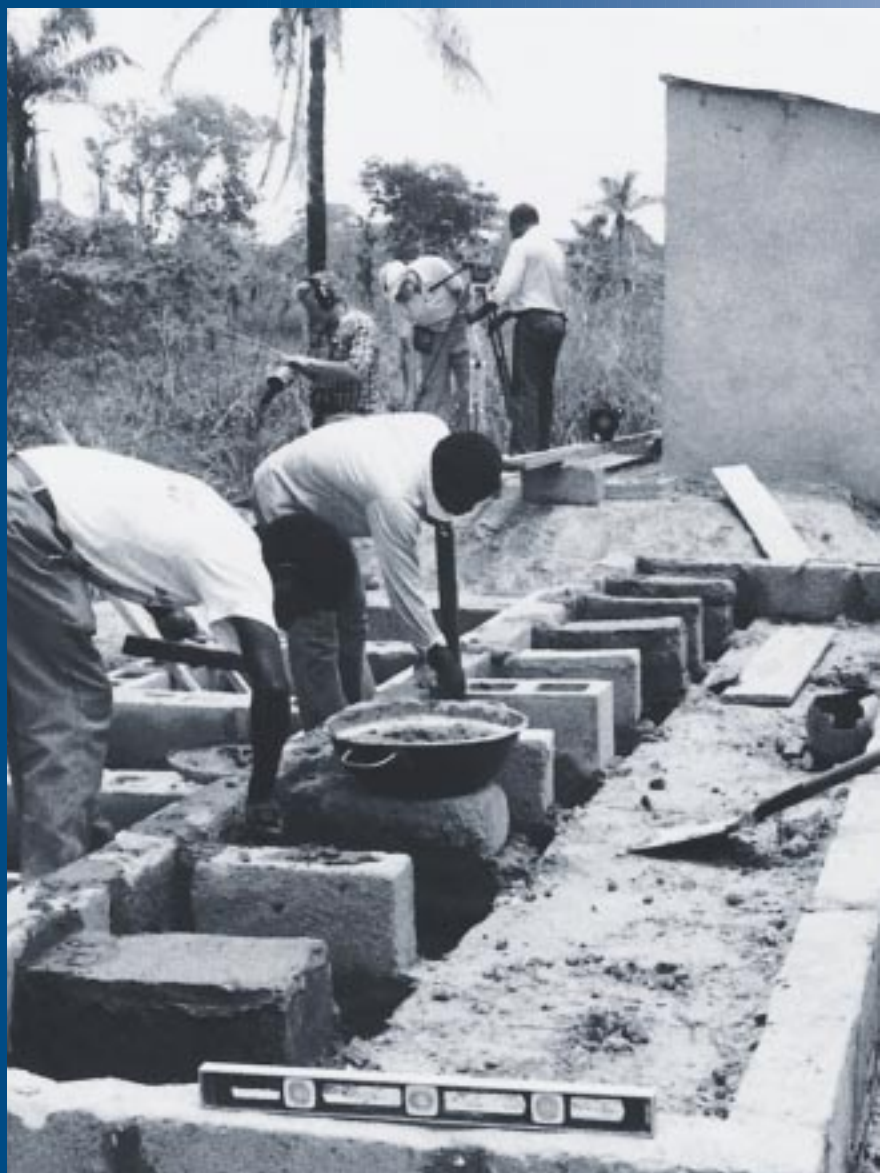
Financing

Securing of financial agreement for the project

Chapter 9



The purpose of the financing stage is to reach an informed decision to implement the project and to secure funding for it. The decision is taken on the basis of a Financing Proposal, which has a standard format for EC projects and includes the logical framework. The conclusion of the financing stage is a decision to grant funds by the EC, following the favourable opinion of the EU member states.



For all phases of the project cycle other than programming, checklists have been prepared in the same format, to allow the user of the Guidelines to examine **key issues** likely to arise in the preparation and implementation of projects, alongside **possible responses**. Issues and responses are grouped according to a set of problem statements within the framework of principles established in the strategic approach,

starting with Institutional and Management principles, and proceeding through all categories of principles. In the **Identification** and **Formulation** phases, each programming context is handled separately since issues and responses differ between Focus Areas. In other phases, issues and responses are generic, and the same set of checklists applies in every Focus Area.

ALL FOCUS AREAS

Securing project financing requires the preparation of a Financing Proposal (FP), for water-related projects as for others. This is presented to the Commission for approval and agreement by the EU member states.

The information presented in the FP will be derived from studies carried out during the Identification and Formulation stages of projects in all Focus Areas. Reference to these studies, and their principal findings, should be included within annexes to the FP. The FP, excluding annexes, must be succinct with a maximum of seven pages plus a one page logical framework. For projects costing less than ECU 2 million the FP must be a maximum of three pages plus the logical framework. The standard formats for these Financing Proposals are set out in Tables 1 and 2 at the end of this chapter. Annexes should be added to the FP to give details of the responses presented in the Proposal.

The checklist presented below serves as a guide for effective drafting of a Financing Proposal for a water-related project. To help in the preparation of an FP, it is structured around the standard format for larger projects but applies equally to a project of less than ECU 2 million.

Checklist for Section 1: Summary

- Give a brief overview of the key project elements including the overall objective, the purpose, results, activities and overall costs, with a reference to the logical framework attached as an annexe.

Checklist for Section 2: Background

2.1 Governmental/sectoral policy

- State how the project/programme conforms to the relevant National Indicative Programme (NIP) or Regional Indicative Programme (RIP). Identify those international standards or targets to which the project/programme conforms or contributes.
- Verify that the project/programme is consistent with any recent changes in national policy
- Identify how the project/programme conforms to stated government policy relating to water.
- Summarise the government's attitude to any institutional, legal or policy reform that is required for effective implementation, ensuring that there is no contradiction between required reforms and government commitment to reform.

2.2 Features of the Sector

- Summarise the evaluations of previous projects/programmes and indicate how the lessons from these are incorporated in the proposed project/programme.
- Confirm that any pre-conditions for financing, identified during formulation, have been met. (Give details in an annexe)

2.3 Beneficiaries and parties involved

- Identify all the stakeholders in the project. Specify numbers and their geographic locations and state the nature of the intended benefits.

2.4 Problems to be addressed

- State the causes and effects of the problem(s) that the project/programme aims to address.
- Define the physical, institutional, social and/or managerial constraints that the project/programme aims to remove and, if relevant, what complementary actions must be taken before the full benefits of the intervention will be realised.

2.5 Other operations

- Identify other donor agencies and projects that are active in fields related to the proposed project/programme and specify what co-ordinating activities are proposed to avoid duplication of inputs.

2.6 Documentation available

- List key reports, sector reviews, policy statements and legal statutes that underpin the proposed project/programme. Highlight the most significant findings of the feasibility studies, environmental impact assessments, mission reports, economic evaluations etc. in an annexe.

Checklist for Section 3: Intervention

- Verify that the project's logical framework provides a clear and coherent resume of the details described in section 3 of the FP.

3.1 Overall objectives

- Repeat the goal or 'overall objective' stated in the project's logical framework that is annexed to the FP. The overall objective must be consistent with programming guidelines set out in the NIP or RIP.

3.2 Project purpose

- Repeat the project purpose statement set out in the project logical framework. Except in the case of highly complex projects or programmes, there should be only one project purpose which should be specified in quantitative terms wherever possible.

3.3 Results

- Quantify the expected physical and non-physical results or outputs of the project/programme, and wherever possible, value them.

3.4 Activities

- Specify the major activities necessary to accomplish each of the results.

Checklist for Section 4: Assumptions

4.1 Assumptions at different levels

- State the assumptions made in formulating the project which must be satisfied so that: (1) The activities yield the expected results; (2) The results lead to the expected project purpose; and (3) The purpose contributes to the overall development objective. Provide an assessment of the level of risk that any of the assumptions may not be fulfilled, and the likely impact of that on the benefits arising from the project.

4.2 Risks and flexibility

- Indicate what flexibility has been built into the project/programme structure to allow adjustments to be made as a consequence of changes in external factors; for example, allow for a mid-term review to revise the project plan.
- Specify the measures included to overcome any observed weaknesses in other projects/programmes that have been evaluated.

Checklist for Section 5: Implementation

5.1 Physical and non-physical means

- List the physical and non-physical inputs required to achieve the specified project results. This will be based on the findings of the feasibility study. Inputs should be categorised under the following headings: infrastructure, equipment, operational inputs, local personnel, services (external technical assistance), credit lines and contingency funds.

5.2 Organisation and implementation procedures

- Specify the public and private agencies charged with responsibility for project/programme implementation.

- While external advisory services and technical assistance may be essential for project implementation, they should not fill posts where local expertise already exists, and measures should be included to ensure sustainable services once the external assistance ends.
- Identify the process indicators to be used to monitor implementation and state what contingency plans exist if targets are not met.
- Identify where the data required to calculate the process indicators will be obtained and designate the agencies responsible for its collation, storage and processing; plan for adequate resources to be supplied for continued data collection.
- Justify the assumed institutional capacity of the implementing agencies to manage and disburse funds adequately.
- For Decentralised Co-operation interventions the FP should describe the relationship between local agents and central public authorities and the measures taken to ensure effective management by the local agents.

5.3 Timetable

- The timetable for implementation must be verifiable and should therefore contain quantitative targets or milestones to be reached at specified times.
- Detailed implementation and financial disbursement schedules will normally be included as annexes to the FP.
- The timetable must include a date for the start of the project, a definition of the action that constitutes the start of the project, and a date by which the project will be finished and all payments made.

5.4 Costs and financing plan

- Costs should be broken down by type of input and expressed in local currency and foreign exchange depending on the source of funding. Cost data will normally be presented in an annexe.
- All sources of funds have to be included in the FP, which should be designed in such a way that proposed disbursement targets cover all financing needs.
- Ensure that any resources to be committed by the commercial sector, NGOs or other stakeholders are fully quantified and are available on a sustainable basis.

5.5 Special conditions: accompanying measures taken by the Government

- State any special conditions (i.e. pre-conditions) entered into by government at the programming stage, the agreed programme for adherence to those conditions and the degree of compliance.
- State all accompanying measures (i.e. conditions to be fulfilled during or after implementation), that have been agreed with government with quantitative and time-bound measures to permit monitoring of compliance.

Checklist for Section 6: Factors ensuring sustainability

6.1 Policy support measures

- This relates to broad policy changes that are distinct from project specific ‘accompanying measures’ described at 5.5.
- No project or programme can be viable in an unsupportive policy environment. If the feasibility study identifies the need for changes in policy the nature and extent of such changes and any need for technical assistance should be stated. These may include:
 - Policy and legislative changes regarding cost recovery
 - Policy and legislative changes regarding land tenure reform
 - Policy relating to participatory project design and implementation

6.2 Appropriate technology

- Justify why particular technical and engineering approaches have been adopted. Demonstrate that they are compatible with the financial, technical, managerial and social capabilities and preferences of the operating agencies and final end users.
- Indicate where the selection of technologies is fully reviewed in the feasibility study.

6.3 Environmental protection

- If an Environmental Analysis or Environmental Impact Assessment (*see Part III*) was carried out in formulation, summarise the findings of the review detailing:
 - The key environmental concerns arising within the project.
 - Any specific environmental design, management, and monitoring of mitigation measures that are recommended to avoid unacceptable environmental damage.

6.4 Socio-cultural aspects/gender sensitivity

- State to what extent the users and other stakeholders have taken part in the identification and formulation phases of the project and how their support for the proposed intervention has been manifested.
- Refer to the conclusions of any Social Impact Analysis (*see Part III*) carried out during formulation.
- Indicate the extent to which users will effectively participate in project implementation.
- State how the specific needs of women have been identified during formulation and what measures are in place to ensure that women are empowered to influence project design, implementation and operation.

6.5 Institutional and management capacity, public and private

- Identify the public and private sector agencies, including user organisations and other participatory groups, that will be involved in project implementation and all aspects of subsequent operation. Summarise their capability to discharge their responsibilities and state the measures included in the project to raise the management capabilities of these agencies.

6.6 Economic and financial analysis

- Explain which economic entities were considered; upon which assumption the 'with' and 'without' scenarios are based; what benefits and costs were taken into account; what alternatives were considered and why they were rejected; and the project's sensitivity to change relating to key factors.
- Justify the form of economic and financial analysis applied to the project. Where appropriate, the findings of economic and financial analyses should be presented in an annexe (*see Part III*).
- State how the long term costs of the project – operation, maintenance and depreciation – will be met after implementation is completed.

Checklist for Section 7: Monitoring and evaluation

7.1 Monitoring indicators

- State, in quantitative and time bound terms, the results that the project/programme aims to achieve. Make sure a set of monitoring indicators and realistic targets have been set (*see Part III*).
- Indicate what data will be collected, and which agency is responsible for its collection and processing, to permit objective monitoring of project progress and impact. These will be reflected in the project logical framework.

7.2 Reviews/evaluation reports

- Identify the agencies responsible for carrying out project reviews and preparing evaluation reports.
- Specify the frequency and timing of reviews, e.g. annual, mid-term, ex-post.

Checklist for Section 8: Conclusion and proposal

- The FP should conclude with a decision to approve the project financing.
- Following approval of the FP, a Financing Agreement should be drawn up and signed by the EC and Partner Organisation.

However, during the preparation of the Financing Proposal, if any weaknesses are identified in any of the above sections of the standard form, the project should be reassessed or redesigned, which may require further studies and a return to the formulation stage. If the weaknesses are insoluble the project should be rejected.

Table 1 - Basic Format for a Financing Proposal

(projects greater than ECU 2 million)

- 1 Summary
- 2 Background
 - 2.1 Governmental/sectoral policy
 - 2.1 Features of the sector
 - 2.2 Beneficiaries and parties involved
 - 2.3 Problems to be addressed
 - 2.4 Other operations
 - 2.5 Documentation available
- 3 Intervention
 - 3.1 Overall objectives
 - 3.2 Project purpose
 - 3.3 Results
 - 3.4 Activities
- 4 Assumptions
 - 4.1 Assumptions at different levels
 - 4.2 Risks and flexibility
- 5 Implementation
 - 5.1 Physical and non-physical means
 - 5.2 Organisation and implementation procedures
 - 5.3 Timetable
 - 5.4 Costs and financing plan
 - 5.5 Special conditions; accompanying measures taken by the Government
- 6 Factors ensuring sustainability
 - 6.1 Policy support measures
 - 6.2 Appropriate technology
 - 6.3 Environmental protection
 - 6.4 Socio-cultural aspects/women in development
 - 6.5 Institutional and management capacity, public and private
 - 6.6 Economic and financial analysis
- 7 Monitoring and evaluation
 - 7.1 Monitoring indicators
 - 7.2 Reviews/evaluation reports
- 8 Conclusions and proposals

Annexes: To give supporting information

Table 2 - Basic Format for a Financing Proposal

(projects less than ECU 2 million)

Summary comprising the following information:

- 1 Recipient state
- 2 Project title
- 3 Type of project
- 4 Authority submitting the project
- 5 Registration number
- 6 Sectoral classification
- 7 Amount
EU delegation and official responsible
- 8 Background
 - 8.1 Main features of the sector
 - 8.2 Problems to be addressed
- 9 Objectives and expected results
 - 9.1 Project purpose
 - 9.2 Project results
- 10 Project implementation
 - 10.1 Inputs
 - 10.2 Time schedule
 - 10.3 Accompanying measures
- 11 Factors ensuring sustainability
- 12 Monitoring and evaluation