



WATER, INVESTMENTS AND FINANCE

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#3

Strengthening water investment policies in the Eastern and Southern Mediterranean



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Why do UfM member states need to improve their national water investment policies?

UfM member states have jointly developed the UfM Water Agenda as a regional policy response to the high priority of water issues in the Mediterranean.

In 2017 the UfM Ministerial Meeting on Water mandated the development of a regional Water Agenda and a companion Financial Strategy. The UfM Water Agenda is structured around four pillars: ensuring universal access to safe drinking water, sanitation and hygiene (WASH); increasing the climate-resilience of Mediterranean economies; supporting balanced development across the water-energy-food-environment nexus; and contributing to address social concerns, with a focus on employment and migration. The UfM Financial Strategy for Water lays out a menu of options to increase the financial sustainability of the Mediterranean water sector – including making the best use of existing financial resources, and mobilising additional financial resources. Each member state is responsible for adapting and implementing the regional agenda at the national level.

Sustainable progress across the UfM Water Agenda requires major investments.

Protecting existing water resources, developing non-conventional water resources, upgrading and expanding drinking water supply distribution networks, increasing irrigation efficiency, developing

sanitation solutions for rural areas, protecting human lives and economic assets from flooding risks All those areas demand major investment efforts -- just in Egypt the 2017-2037 National Water Resources Plans calls for USD 50 billion of water investments. And thus there is clearly a need to mobilise additional financial resources for national and regional projects.

But it also requires paying more attention to improving national water investment policies.

At the same time, the significant financing gap in the Mediterranean water sector means that a focus on developing and financing individual projects is not enough, and that a more strategic approach to water investments is needed. To what extent are water investment projects guided by policy goals? How are they prioritised and sequenced? Are they coordinated with other investment efforts – whether in urban development, agricultural development, energy development, or environmental protection? Have the sector-wide bottlenecks for developing investment opportunities and attracting investment finance been identified? Does the sector have the capacities to address those bottlenecks? These questions don't relate to individual investments, they relate to sector-wide investment policies.



How can UfM member states improve their national water investment policies?

Support a more inclusive investment policy development and planning process

The policy development and planning process in the water sector in the Southern and Eastern Mediterranean is evolving but it is still characterised by limited openness from governments to inputs from other stakeholders. There is a need to engage civil society in an organised way. Experience from neighbouring countries, such as Spain, shows that stronger collaboration between the public administration and other stakeholders leads to better and more effective water policies and investment planning decisions. The different social aspects (including the needs of the most vulnerable and those related to gender) linked to water management can be better understood and incorporated in water investment plans, and water users are more likely to comply with water regulations. Stronger participation of stakeholders in water investment planning will also help to address geographical inequities, to inform affordability/subsidy policies, and to improve transparency and reduce corruption.

Develop a more balanced portfolio of investment solutions

Information. Water investment policies could pay more attention to opportunities for investing in information management. The countries of the region have invested in gathering water-related data, but they have made comparatively little progress in converting data into knowledge and applying knowledge to inform investment policy decisions and investment planning.

Institutions. Similarly, there are opportunities for investing substantially more in institutional development. This could include clarifying and improving institutional frameworks (as Egypt did 15-20 year ago with the drinking water supply and sanitation sub-sector, or as Morocco intends to do with desalination), creating new agencies (such as independent water regulators), establishing mechanisms for engaging users and other stakeholders at national and basin level, or developing the capacities of public administrations (e.g. for planning and managing investment programmes), project promoters and asset managers. Talent management and skills development of is a critical and often underappreciated opportunity.

Infrastructure. There are also opportunities to improve the mix of infrastructure investments. Infrastructure investments will keep representing the bulk of the water sector investment budget. Large investment programmes for the development of non-conventional water resources, such as desalination is already changing the infrastructure investment mix. However, infrastructure development still focuses mostly on traditional engineering

solutions, with little attention paid to innovative nature-based solutions.

Supply augmentation vs demand management.

Current water investment policies in the still focus too much on supply side augmentation and not enough on demand side management. Major infrastructure development programmes are being developed across the region to develop non-conventional water resources – such as desalination and reclaimed wastewater. Some, but comparatively fewer, efforts are being made on investment programmes to increase water use efficiency – such as investing in the lining of water channels in Egypt.

Adopt a more integrated approach for water investment planning and programming

Within water sub-sectors. In some countries and sub-sectors there is still a need to transition from approving investment projects “on demand” to adopt a more strategic approach. The importance of adopting master planning (5 year plans) in the drinking water supply and sanitation sub-sector is one of the key lessons of the last 20 years of water sector reform in Egypt.

Across water sub-sectors and users. For those countries and sub-sectors which have well developed sub-sectoral investment planning, the next step is to promote integrated investment planning across water sub-sectors. The Spanish experience shows that basin-level planning can be an effective mechanism to guide and coordinate investment programmes across water sub-sectors as well as sources of water (e.g. water efficiency, reclaimed wastewater, desalination). This would also support progress in the implementation of a nexus approach to investments involving the water, energy, food and environment sectors – for example, in Egypt the ministry of water resources and the ministry of agriculture cooperate in selecting crops and area under cultivation to be supported by public expenditure programmes.

Between water and climate programmes.

The Eastern and Southern Mediterranean is possibly the region most affected by the climate emergency. Water investments are crucial to increase the climate resilience of the region's societies and economies. The large investments planned and already being implemented in desalination and reclaimed wastewater are partly a response to the need for climate adaptation. At the same time, the water sector is a large consumer of energy (which in turn is a major driver of climate emissions). There is scope for further strengthening the coordination of water policies and climate policies – for example by enhancing the integration of water investment objectives, policies, and expenditure programmes in

national climate plans (such as national adaptation plans, NAPs, and nationally-determined contributions, NDCs). For example, investments in desalination need to be coordinated with investments in renewable energy.

Ensure the financial sustainability of water investment plans

Identifying and selecting investments that are cost-effective over their lifetime. Water policy objectives can usually be achieved through different combinations of measures. Governments need to find and adopt solutions that are effective, efficient and sustainable. Identifying and selecting solutions that can achieve the intended policy objectives at lowest cost is important to reduce overall price tag of water investment plans, and increase the likelihood that they will be fully implemented. There is

infrastructure and not just the upfront construction costs.

Articulating how investments will be paid for by developing sector and sub-sector financing strategies.

Water investment plans would greatly benefit from the parallel development of financing strategies. A financing strategy would provide an estimate of the initial financial envelope for the investment plan (taking into account likely contributions from water users, government budgets, and development cooperation funds); it would assess the financial realism of the draft investment plan (comparing planned sector expenditures to likely sector revenues), and set out the policy reforms and other measures required to reduce costs (such as investing in demand management or taking advantage of economies of scale) and secure the fi-



room for improvement in considering all possible alternatives in the planning process – for example, nature-based solutions for achieving in-stream water quality objectives, or water-saving programmes for closing the “water availability gap”. It is crucial that the ex-ante evaluation of investments takes into account all costs, and in the case of physical infrastructure it takes into account the full operation and maintenance costs over the lifetime of the

financial resources required to fully implement the investment plan (such as reforming tariffs, creating an independent regulator, increasing budgetary allocations for the sector, or using public funds and development cooperation funds to crowd-in private investment – for example through enabling soft long-term loans for farmers).

Acknowledging the central role of user contributions.

Since governments have limited economic capacity to attend all the investment needs associated with rapid population growth, and development cooperation funding necessarily represents a small share of GDP, user contributions play a central role in ensuring the financial sustainability of water investment plans. The experience of Morocco with investments in desalination shows that there is scope for reducing costs by using renewable energy sources and that public-private partnerships can facilitate the development of desalination infrastructure, but also that securing the commitment of irrigation farmers to cover operational costs has been key to ensure affordability for all users, and that tariffs that are not indexed to react to increasing costs are a constraint to further development, resulting in competition for limited desalinated water resources between towns and irrigation perimeters.

Attract commercial finance for water investments

The water investment needs in the Southern and Eastern Mediterranean largely surpass the capacity of governments to pay for the required investments on an on-going basis. International public development banks such as AFD, EBRD, EIB or KfW have been supporting governments to implement their water investment plans by providing development loans. But this is not enough and there is a need to

attract commercial finance, for example from domestic banks associated around the Union of Arab Banks. Water investment plans should include programmes that help crowd-in private investments – for example aimed at enhancing the bankability of water investments, improving the enabling environment for private sector participation, or providing risk-mitigation instruments. However, as the OECD highlights, a significant part of the agenda for attracting commercial finance for water investments, such as the regulation of capital markets, is beyond the responsibility and capacity of the water sector.

Secure time and capacity for the development of successful investment projects

Infrastructure investment projects represent a large part of water sector expenditures. It is then crucial that they all project phases are carefully managed: planning, project preparation, procurement, construction and operation. Mistakes made in the first year of a project due to time pressures and lack of capacity are suffered for more than 20 years. For example, planning is key to site desalination infrastructure in land of the right location (close to the sea, close to demand centres, close to sources of energy) and the right size (so it can allow for expansions). Project preparation needs to take into account financial sustainability (affordability, subsidies, leakage). In Egypt, more than 70% of project failure is due to bad procurement.

How can regional cooperation support improvements in water investment policies?

The UfM Secretariat can facilitate deeper peer learning to help UfM member states improve their water investment policies.

There is substantial scope to increase peer learning for improving water investment policies. Since water is a high policy priority in the Mediterranean region, there is no shortage of regional events and meetings discussing water issues. They tend to primarily cover technical issues – such as information management systems or desalination technologies. Increasing attention is being paid to water investment and financing issues, but mostly from a project financing perspective. At the same time, the Mediterranean is an area where there is a diversity of experiences and a rapid development and testing of new solutions. There is, thus, an opportunity to support peer learning in the area of water investment policies. But such peer learning would be more productive if it is supported by a critical self-assessment of UfM countries of their own water investment policies. The UfM Secretariat could facilitate the development of national self-assessments and their peer review within the UfM structures.

Triangular cooperation between EU, UfM Secretariat and UfM member states can help ensure that existing major EU initiatives actually support better water investment policies.

Two major, and complementary, EU initiatives can be harnessed to support improvements in the development and implementation of water investment policies. In December 2019, the European Union presented the EU Green Deal (its new growth strategy to transition the EU economy to a sustainable economic model) and through the Green Deal’s external dimension it is supporting partner countries in areas such as better management of natural resources or sanitation. In February 2021, the European Union announced its New Agenda for the Mediterranean, which includes a dedicated Economic and Investment Plan to spur the long-term socio-economic recovery in Southern and Eastern Mediterranean countries. Under the new EU’s Neighbourhood, Development and International Cooperation Instrument (NDICI), up to EUR 7 billion for the period 2021-2027 would be allocated to its implementation. Taking advantage of these opportunities will require leadership and strategic vision from water sector authorities in the Southern

and Eastern Mediterranean. Triangular cooperation between the EU, the UfM Secretariat and the UfM member states would help ensure that these opportunities are realized and not wasted.

The first edition of the EU-UfM Water Investment Policy Forum has served to identify common priorities for improving water investment policies; future editions should focus on self-assessing progress and sharing practical approaches.

The EU and the UfM jointly organised in 2019 and 2020, in the framework of Cairo Water Week and in partnership with the Egyptian Ministry of Water Resources and Irrigation, two events that addressed a number of governance, cross-sectoral, and financing issues. In 2021, the EU and the UfM identified the opportunity to bring a clearer focus to their annual collaboration and agreed to create the EU-UfM Water Investment Policy Forum as an annual regional forum focused on improving water

investment policy issues in the Southern and Eastern Mediterranean. This Policy Brief represents the conclusions of the 2021 edition of the EU-UfM Water Investment Policy Forum and will feed into and complement the regular UfM Conference on Water Investment and Financing, which in 2022 will be held at Ministerial Level in Spain.

The EU and the UfM look forward to continue to support UfM countries through future editions of the EU-UfM Water Investment Policy Forum. Based on the experience from the 2021 edition, future editions should aim to keep a line-up of high quality speakers, offer more options for interacting in small groups, increase the number of presentations by UfM member states, and strengthen the coordination with the Team Europe's event on financing water investment projects. While the 2021 edition had a special session on desalination, the 2022 edition could focus on wastewater recycling



Acknowledgements

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Multi-Stakeholder Roundtable on Improving Water Investment Policies, moderated by Roberto Martín Hurtado, Senior Advisor on Water Economics, UfM-Water

- Ali Hayaineh**, Water and Climate Programme Manager, IUCN Regional Office for West Asia
- David Hernández Gómez**, Coordinator, Euro-Mediterranean Irrigators Community
- Mamdouh Raslan**, Chairman, Holding Company on Water and Wastewater (HCWW), Egypt
- Neil Dhot**, Executive Secretary, AquaFed
- Marwan Alraggad**, Executive Director, Inter-Islamic Network on Water Resources Development and Management (INWRDAM)
- Vangelis Constantianos**, Executive Secretary, GWP-Med
- Xavier Leflaive**, Water Team Leader, OECD

Special Focus Session on Investing in Desalination, moderated by Ahmad Gaber, Chairman, Chemonics Egypt

- Alain Meysonnier**, President, Mediterranean Water Institute (IME)
- Wafae El-Harraki**, Head of Service, Non-Conventional Water Resources Development, Water Directorate, Ministry of Equipment, Transport, Logistics and Water, Morocco
- Ignacio González-Castelao**, Deputy to the CEO, Acuamed, Spain
- Issa Al Wer**, Project Manager, Aquaba-Amman Water Desalination and Conveyance Project, Jordan
- Atter Hannoura**, Director, PPP Central Unit, Ministry of Finance, Egypt
- Mohammad Abdelqader El Ramahi**, Director, Asset Management and Technical Services, Clean Energy, Masdar
- David Tyler**, Associate Director, Water and Wastewater Sector, EBRD
- Harald Scholzel**, Water Engineer, European Investment Bank (EIB)

High Level Session on Investing in Water Security post-COVID 19, moderated by Khaled Habib, Senior Business Consultant.

- H.E. Ambassador Nasser Kamel**, Secretary General, UfM Secretariat
- H.E. Ambassador Christian Berger**, Head of the European Union Delegation to Egypt
- H.E. Mr Wissam Fattouh**, Secretary General, Union of Arab Banks
- Ms. Maria Selin**, Regional Director, MENA Unit, Sida
- H.E. Dr Mohamed Abdel Aty**, Minister of Water Resources and Irrigation, Arab Republic of Egypt



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