



WATER, THE WEFE NEXUS AND FINANCE

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#5

Applying a Water-Energy- Food-Environment nexus approach to water finance and investments



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The UfM Water Finance Series

This is the fifth publication developed under the UfM Water Finance Series. The objective of the UfM Water Finance series is to support policy reforms in the area of water finance and investment to support achievement of global, regional and national water goals. Its intended audience are senior officials working on water-related ministries in Mediterranean countries, as well as their partners in government, civil society, private sector and the development community.

The previous publications under the series are:

- **UfM. 2019. The UfM Financial Strategy for Water. UfM: Barcelona.**

- **UfM. 2020. Public Private Partnerships and the Financial Sustainability of the Mediterranean Water Sector. UfM: Barcelona.**
- **UfM. 2021. Water, Investments and Finance - Improving Water Investment Policies in the Southern and Eastern Mediterranean. UfM: Barcelona**
- **UfM. 2022. Water, Climate and Finance - Strengthening Water Finance and Investment Policies to Address the Climate Emergency in the Mediterranean Region. UfM: Barcelona**

About this publication

This publication describes a policy agenda for applying the Water-Energy-Food-Ecosystems (WEFE) nexus approach to water finance and investments. It presents the conclusions and recommendations of the 4th Conference on Water Finance and Investment co-organised on 30th-31st October 2023 in Cairo (Egypt) by the Union for the Mediterranean (UfM), European Union (EU) Delegation in Egypt, and the African Development Bank, in partnership with the Egyptian Ministry of Water Resources, and with financial support from Sweden. The first conference took place in Rome (Italy) in December 2019 and, after a pause due to the impact of the Covid-19 pandemic, subsequent conferences have taken place

annually since 2021 in Cairo (Egypt) in the framework of Cairo Water Week.

This publication has been developed by Roberto Martín Hurtado (Senior Water Economics Advisor, UfM and independent expert) under the guidance of Almotaz Abadi (Deputy Secretary General for Water, Environment and Blue Economy, UfM) and Samira Shaban Pina (Project Analyst, UfM). The UfM would like to thank the moderators and panellists at the 4th Conference on Water Finance and Investment for their time and insights, as well as all the persons (too numerous to acknowledge individually) that supported the organisation of the event.

1. Water finance and the WEFE nexus

Water finance and the WEFE nexus are two major priorities in the Mediterranean water sector. The UfM Water Agenda, mandated by the UfM Ministerial Meeting on Water in 2017, includes “supporting balanced development across the water-energy-food-ecosystem nexus” as one of its four pillars¹. The companion UfM Financial Strategy for Water (approved in 2018) lays out a menu of options, under 10 strategic objectives, to enhance the financial sustainability of the Mediterranean water sector. UfM member states are responsible for implementing the Water Agenda and its Financial Strategy.

The UfM Financial Strategy for Water includes a number of specific objectives related to the WEFE nexus:

- Integrate water finance considerations across the WEFE sectors. (Objective 2)
- Use existing financial resources to fund activities across the WEFE sectors that provide the highest social, economic, and environmental benefits. (Objective 3)
- Improve the coordination of that water-related investments affecting the WEFE sectors. (Objective 4)

¹The others are: ensuring universal access to safe drinking water, sanitation and hygiene (WASH); increasing the climate-resilience of Mediterranean economies; and contributing to address social concerns, with a focus on employment and migration.

2. Enhancing the contribution of the WEFE nexus approach to the financial sustainability of the water sector

Ensure the inclusion of finance issues in the application of the WEFE nexus approach. There are increasing examples of the application of the WEFE nexus approach in the Mediterranean region. As they mature, applications of the WEFE nexus approach are considering investment issues more explicitly -- moving from nexus assessments to action plans to investment portfolios. But more efforts are needed to include finance issues in the application of the WEFE nexus approach, beyond just resource mobilisation.

Move from small projects to cross-sectoral portfolios. Investments projects are a key entry point to promote the WEFE nexus approach. In the Mediterranean region, the WEFE nexus approach has mostly been applied at small scale projects. This is to be expected, but there is a need and potential to move to large scale projects. At the same time, the WEFE nexus approach can deliver best through investment programmes, rather than through individual investment projects, as this allows the costs and benefits for the different sectors to be better balanced.

Promote cross-sectoral policy development. The WEFE nexus approach is also relevant at policy

development level. For example, in Jordan energy pricing reforms that did not take into account their impacts in other sectors greatly reduced the financial sustainability of the water sector. Water is the lead sector in promoting WEFE approaches (e.g. in Egypt and Morocco through national and sub-national water plans). This can be explained by the different positioning of the water sector (“upstream”) compared to the energy, agriculture and environment sectors, and can be expected to continue.

Improve cross-sectoral governance, investment planning, and project implementation. Applying the WEFE nexus approach at scale requires political will and supportive governance arrangements. There are several examples in the Mediterranean region of platforms national (e.g. Jordan) and/or basin level (e.g. France, Morocco) where the different sectors and stakeholders can work together. Effective implementation of cross-sectoral planning can be enabled by legislation (e.g. Morocco) and by funding (e.g. France’s river basin agencies). The WEFE nexus approach can also be applied at trans-boundary level (e.g. Drin river shared by Albania and others).

3. Attracting finance for WEFE nexus projects

We need better WEFE nexus projects. Finance needs in the water, energy, agriculture and environment sectors are huge. But a message that has been made clear since the first Conference on Water Finance and Investment is that finance for water projects is available, and that the bottleneck is the lack of good projects. Similarly, finance (including green finance) is available for WEFE projects, but many project proposals are currently not well designed.

There are many opportunities and a strong appetite among international financial institutions (IFIs) for financing nexus projects. IFIs are financing fewer stand-alone water projects and more integrated (nexus) projects. These include, for example, agricultural development, wastewater treatment, an desalination projects. Although putting together the financing packages takes effort, the key to attracting IFI finance for nexus projects is designing good projects. WEFE investments have to be (self)sustainable.

From the perspective of IFIs, a wider application of the WEFE nexus approach requires:

- Establishing government-led platforms to promote coordination and enable scaling up (moving from small projects to programmes).

- Fixing the incentive framework – by reforming policies (e.g. incentivize water reuse) and re-orienting public subsidies.
- Carrying out impact assessments to avoid unintended consequences.
- Paying more attention to the finance framework (e.g. cost recovery models, use of blended finance).

Attracting private sector finance to large WEFE projects requires de-risking. Monetising the benefits of a WEFE nexus approach requires a portfolio of large projects. Implementing a portfolio of large projects requires private sector investment, which in turn requires private sector investment. Blended finance (including guarantees) is available to help de-risk WEFE projects. Egypt is developing guidelines to transform traditional public private partnerships (PPPs) into green projects. This adds sophistication and costs. But it also promotes bankability and access to green finance (such as green bonds). Instruments like TAIEX and Twinning can be used to support capacity development in this area.

Contributors

This publication has been developed building on the contributions of over 40 highly-qualified moderators and speakers and over 30 participants in the multi-stakeholder working groups of the 4th Conference on Water Finance and Investment.

Setting the stage

Tahani Sileet, Assistant Minister for Development Cooperation, Ministry of Water Resources and Irrigation, Egypt

H.E. Christian Berger, Head of EU Delegation in Cairo

H.E. Nasser Kamel, Secretary General, UfM

H.E. Abdourahmane Diaw, Country Manager for Egypt, African Development Bank

Roberto Martín Hurtado, Senior Water Economics Advisor, UfM

How investment and finance issues are currently included in WEF NEXUS approaches, chaired by **Ayman Ayad**, Water and Social Infrastructure Sector Manager, EU Delegation to Egypt

Samira Saban Pina, Project Analyst, UfM Secretariat

Olfat Hamdan, Head of MedPol, UNEP/Map

Omar Amawi, Deputy Director, PRIMA Foundation

Magnus André, Regional Programme Manager, Sida

Alex Simalabwi, Director, Continental Africa Water Investment

How water investment policies, plans and programmes apply the WEF NEXUS approach: experiences at national and basin level, chaired by Roberto Martín Hurtado,

Mohammed Al-Dwairi, Assistant Secretary General for Planning, Ministry of Water and Irrigation, Jordan

Guillaume Choisy, Director General of the Adour-Garonne Water Agency, France

Dahbi Salaheddine, Director of the River Basin Agency of Oum Er Rabia, Morocco

Kamel Djelonah, Head of Office, Directorate for Drinking Water Supply, Algeria

Alba Zhor, Head of Sector, Water Resources Management Agency, Albania

Walid Hakiki, Head of Planning Sector, Ministry of Water and Irrigation, Egypt

How investment projects apply the WEF NEXUS approach: lessons learned by IFIs, chaired by **Alba Serna**, Senior Water and Sanitation Engineer, African Development Bank

Nadra Wagdy, Portfolio Coordinator, Water Sector, KfW

Khalid Hamza, Head of Egypt, EBRD

Michel N'Guessan, Principal Water and Sanitation Engineer (Southern Africa), African Development Bank

Josep Oriol Bellot, Senior Sector Engineer, EIB
Rajesh Balasubramanian, Senior Water and Sanitation Specialist, World Bank

Zohair Kashgari, Operations Team Leader, Regional Hub of Cairo, Islamic Development Bank

Lukas Vesely, Deputy Head of Unit, Financial Instruments and Investment, EU Commission

How the WEF NEXUS approach can leverage green and sustainable finance to support the transformation of the water sector, chaired by **Ousseynou Guene**, Regional Sector Manager, Water and Sanitation Division, West, Center and North Africa, African Development Bank

Frederico Costa Pereira, TAIEX, Green and Digital Transitions and Connectivity Team, EU Commission

Victor Le Grix, Twinning Coordination Team, DG NEAR C3, EU Commission

Frédéric de Dinechin, Senior Policy Advisor, UfM

Emmanuel Olet, Chief Water Development Officer, African Development Bank

Nicolas Farhat, Manager, WE4F MENA Regional Innovation Hub

Atter Hannoura, Director, PPP Central Unit, Ministry of Finance, Egypt

Multi-stakeholder Roundtable, working groups facilitated by:

Alain Meyssonier, President, Mediterranean Water Institute

Philip Riddell, Water Resources Policy and

Sector Financing Specialist

Frédéric de Dinechin, Senior Policy Advisor, UfM

Alba Serna, Senior Water and Sanitation Engineer, African Development Bank

High-Level Session: Guiding Further Work, facilitated by **Philip Riddell**, Water Resources Policy and Sector Financing Specialist

H.E. Christian Berger, Head of EU Delegation in Cairo

H.E. Almotaz Abadi, Deputy Secretary General for Water, Environment and Blue Economy, UfM

H.E. Mohamed El-Azizi, Director General for North Africa, African Development Bank

H.E. Manuel Sapiano, CEO, Energy and Water Agency, Malta

H.E. Afire Sever, General Director, General Directorate for Water Management, Ministry of Agriculture and Forestry, Türkiye

H.E. Jihad Mahamid, Secretary General, Ministry of Water and Irrigation, Jordan

H.E. Prof. Dr. Hani Sewilam, Minister of Water Resources and Irrigation, Egypt



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Palau de Pedralbes | Pere Duran Farell, 11
Barcelona, Spain - 08034
Phone: 00 34 93 521 4100 | Fax: 00 34 93 521 4102