



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)

- Ensure that public policies and policy instruments in the WEFE sectors promote private expenditures in efficient water use, reductions in water pollution, and reduced vulnerability to flood and droughts. (Objective 9.1)

The WEFE nexus approach is relevant for both the expenditure and revenue-raising dimensions of water finance. The energy, agriculture and environment sectors demand water resources, and protecting and delivering those water resources entails costs. At the same time, financial resources from those sectors could be mobilized to fund expenditures for sustainable water management.

The adoption of the WEFE nexus approach can strongly contribute to the financial sustainability of the water sector. First, it would enhance the finances of the water sector – by enabling cost savings and attracting more finance. Second, it would enhance the quality, relevance, impact and sustainability of investments. Third, it would help to reform subsidies to reduce unintended harmful effects across sectors.

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.

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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

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

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

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