

1st Regional Conference

Governance & Financing for the Mediterranean Water Sector

Project labelled under the Union for the Mediterranean

Conference organised in cooperation with the EU-funded SWIM-SM project

28-30 October 2014

Athens, Greece

Venue: Acropolis Museum & Hotel Divani Acropolis

Background Note

Purpose & Setting of the Conference

The 1st Regional Conference of the Union for the Mediterranean (UfM) labelled project *Governance & Financing for the Mediterranean Water Sector* is organised in collaboration with the EU funded *Sustainable Water Integrated Management - Support Mechanism (SWIM-SM)* project, in Athens, Greece, on 28-30 October 2014.

The Conference aims to continue and reinforce the Regional Policy Dialogue, set off during the Launching of the UfM project in May 2013, and the sharing of experiences and best practices on the water governance and sustainable financing nexus by bringing together targeted Mediterranean stakeholders from within and outside the water sector, including public authorities, civil society and the private sector.

More specifically, the purpose of the Regional Conference is to:

- present and disseminate widely the outcomes from the Water Policy Dialogues conducted in Jordan and Tunisia during the first year of the UfM project's implementation (2013-2014) and discuss the way forward for the second year;
- present the completed and ongoing work on water financing conducted by SWIM-SM, especially in view of the programme's completion (Dec 2014) and the potential next phase of work;
- share experiences and views on sustainable financing mechanisms for water infrastructure and identify ways for promoting action at both policy and implementation levels, including through a regional platform among public, private and civil society actors;
- explore synergies (existing and upcoming) with related initiatives and projects, as well as the role of cross-cutting themes (e.g. gender, integrity, rights, etc) in the water governance and financing line of work.

The Regional Conference is relevant to:

- Representative of government authorities dealing with water services and public-private partnerships
- Representatives of water and wastewater utilities
- Private sector representatives with an interest in water PPPs
- Representatives of Regional and National Stakeholder Organisations including Civil Society Organisations
- International and Regional Institutions and Organisations
- Representatives of donor and financing institutions active in water issues in the Mediterranean Region

The Conference represents an integral part of the activities of the *Governance & Financing for the Mediterranean Water Sector* regional project that has been officially labelled under the UfM and is jointly implemented by the Global Water Partnership – Mediterranean (GWP-Med) and the Organisation for Economic Cooperation and Development (OECD).

The Conference is organised in close cooperation with the ‘*Sustainable Water Integrated Management-Support Mechanism (SWIM-SM)*’ project that is funded by the EU and is implemented by a Partners’ Consortium led by LDK Consultants SA.

The Conference is supported by the Swedish International Development Agency (Sida) and the European Commission and will be conducted in strategic partnership with the European Investment Bank (EIB), the GEF/ MAP UNEP MedPartnership programme and the Mediterranean Component of the EU Water Initiative (MED EUWI).

The Sessions of the Conference will be held at the Acropolis Museum and at the Divani Acropolis Hotel. GWP-Med is the key organisers of the event. The working languages of the Conference will be English and French.

Information and current status of the UfM and the SWIM-SM projects

Governance & Financing for the Mediterranean Water Sector

The three year (mid-2013 – mid 2016) regional project aims to diagnose key governance bottlenecks to mobilising financing through public private partnerships (PPPs) for the Mediterranean water sector and to support the development of consensual action plans based on international good practices.

The official labelling of the Project by the Union for the Mediterranean (UfM) in 2012 through its endorsement by its 43 members, demonstrates wide political support and a clear acknowledgment of the Project’s potential to deliver concrete benefits for the citizens and the environment of the Mediterranean and contribute to the regional stability. It is implemented by the Global Water Partnership-Mediterranean (GWP-Med) and the Organisation for Economic Cooperation and Development (OECD).

Important for launching the implementation of this regional project has been the strategic partnership with the Swedish International Development Agency (Sida) and the European Investment Bank (EIB). The steady support, already since 2009, of the GEF/ MAP UNEP MedPartnership programme and the Mediterranean Component of the EU Water Initiative (MED EUWI) has been instrumental for concretising the project’s line of work.

With the presence of more than a hundred stakeholders, among them three Ministers and one Deputy Minister indicating a strong political support, the *Governance & Financing for the Mediterranean Water Sector* Project was officially launched on 28-29 May 2013, at the seat of the UfM Secretariat, in Barcelona, Spain.

At national level, in Jordan and Tunisia, Water Policy Dialogues were conducted during 2013-2014 and completed in June 2014. Tangible outcome of these multi-stakeholder Policy Dialogues is the elaboration of two country-tailored National Reports on Governance Challenges to Private Sector Participation in Water. These Reports include a diagnostic analysis of the key governance bottlenecks to private sector participation (PSP) in water supply and sanitation services as well as concrete policy recommendations and an action plan for overcoming them. Respective work has been routed thus far in Palestine (to be

completed by June 2015), with two additional countries currently under exploration for the period 2014-2015. Further to Jordan, Tunisia and Palestine, Albania, Egypt, Lebanon and Morocco have provided official support letters for being involved in the conduct of similar national work.

At regional level, the 28-30 October Conference represents the annual regional event of the Project constituting a platform for experience and knowledge sharing while showcasing the results of the analytical work conducted at national level.

Sustainable Water Integrated Management - Support Mechanism (SWIM-SM) project

The EU funded Programme 'Sustainable Water Integrated Management' (SWIM, 2010-2014, www.swim-sm.eu) aims to contribute to the extensive dissemination and effective implementation of sustainable water management policies and practices in the Southern Mediterranean Region.

SWIM – Support Mechanism (SWIM-SM) is the Component of the Programme that provides Regional Technical Assistance to Partner Countries. SWIM-SM includes Governance among its four focus areas and is implemented by a Partner's Consortium led by LDK Consultants SA and is technically directed by GWP-Med.

Wastewater treatment and reuse has been a priority action requested by the SWIM-SM Partner Countries (PCs) during the inception phase and firmly included in the project's work under one of its Thematic Pillars (i.e. on Non-Conventional Water Resources). Consequently, several activities (reports, policy assessments, trainings, study tours, best practices compilation...) have been organised/completed during the years of implementation and are planned for the remaining life of the project.

Lack of resources, as a hindrance for the development of wastewater treatment and reuse in SWIM PCs, has come out prominently in the recommendations/conclusions of activities of SWIM-SM. This aligns fully with the Draft Strategy for Water in the Mediterranean, elaborated under the UfM framework, where financing in the water sector emerged as a priority topic for capacity development in the region. To support resource mobilisation, the need was obvious for transfer of knowledge and experience and for facilitating the engagement between the public sector, private sector, civil society and IFIs for a constructive, forward looking dialogue around resource mobilisation.

In order to serve best the priorities of the PCs under the theme of wastewater treatment and reuse and in order to strengthen the synergies with on-going initiatives and projects with the overarching objective of developing the capacity of PCs in resource mobilisation for depollution investments and engaging stakeholders in dialogue, the organisation of a regional conference has been included in the SWIM-SM workplan (activity 2.2.8). Given the thematic convergence between this conference and that of the UfM-labelled project, a synergy was put in place between the two projects aiming to strengthen the engagement between water and financing stakeholders, to identify capacity needs for future interventions and finally and most importantly to contribute to the creation of a regional platform for financing the water sector in the Mediterranean. This Regional Conference is scheduled to take place on 28-30 October 2014 in Athens, Greece, as per the information described above.

Some background to water governance & financing

The water challenge is widely recognised as a complex interaction of multiple causes and effects. At its core, governance deficit, mismanagement and under-financing play a major role, inducing and reinforcing each other and undermining the quality and sustainability of the water and sanitation sector. In the Mediterranean region, despite the significant dedication of public funds and the flow of funding in the form of Overseas Development Assistance (ODA), loans or otherwise, countries struggle and usually fail to meet the financial requirements that water-related strategies and plans entail. In particular, the lack of basic elements of a sound governance framework, including absorption capacity at both national and local levels, impedes the efficient use of available funding and the mobilisation of much needed additional sources of financial and managerial resources, particularly from the private sector.

The governance deficit has been put under the spotlight by the wave of protests and demonstrations calling for in-depth reforms in socio-political settings, popularly known as the Arab Spring and its aftermath, that have set the Mediterranean region into an unprecedented and most challenging trajectory. Although the end result and long-term implications are yet to be seen, the imprint in the way essential services such as water are being managed can easily be inferred. To assuage the popular need for more effective and responsive water service provision, wider participation of stakeholders, more bottom-up and decentralised planning and implementation processes and more transparency and accountability in the policy and decision making are called for¹. In a way this represents a call for water governance that complies with the principles of good governance and within an integrated water resource framework that tackles gaps and shortcomings, notwithstanding those posed by the lack of adequate financing. The recent regional unrest has also strongly highlighted the urgent need for action in order to re-establish trust and reinforce ownership; consultative processes and constructive multi-stakeholder dialogues figure among the effective ways of responding to this need.

This situation is better comprehended when considering the available funding together with the pertaining financial needs for water infrastructure. More specifically, the large water-related investment programmes, on-going in most countries, have been primarily supported by public funds. For example, North African governments spend on average between 1 and 3.6 per cent of their GDP on the water sector², while in the post-2005 period water represented 20 and 30 per cent of government expenditures respectively in Algeria and Egypt³. Significant variations can be observed in the public spending for the water sector (where the optimal has been set at 0.8 per cent of GDP), with Tunisia for example dedicating 1.7 per cent, while Lebanon directing 0.5 per cent of its GDP for public investment in the water and wastewater sector.

Despite the reducing flows of funding through external sources, the priority national authorities attribute to the water sector (and the needed infrastructure) and the positive outlook of the Southern Mediterranean countries in meeting water-related international goals (e.g. Millennium Development

¹ As reflected in the processes initiated in several of the countries towards constitutional reforms (i.e. Algeria, Jordan, Morocco) and/or setting in place new constitutions (i.e. Egypt, Tunisia). The wealth of analyses in related articles/studies (including as these are presented in national and international press) and the plethora of workshops/conferences reflect also on these elements.

² World Bank (2007), *Making the most of scarcity, Accountability for better water management in the Middle East and North Africa*

³ Ibid

Goals⁴), the situation in most countries remains challenging, with large needs for further investments. It should be noted however, that the Southern Mediterranean countries do not face the classic infrastructure access gap observed in other developing countries, since they have largely achieved universal access to basic infrastructure. Nonetheless, strong demography and rapid urbanisation combined with structural transformation of the economies have resulted in strong demands for infrastructure services that most governments in the region struggle to cope with. It has been found⁵ that middle income countries in the region will need to invest the equivalent of 9.2 per cent of their annual GDP over the period 2008-2015 in order to sustain their economic growth prospects. This represents a total investment effort between 75 and 100 billion US \$ (for all infrastructure including water and electricity), of which 33 per cent is for the maintenance of the existing stock of infrastructure. To date, about half of this amount is mobilised by countries across the region.

Specifically for the water sector, the needed investments in Jordan for example for the period 2011-2013, 1 billion Jordan Dinar (about 1.1 billion Euros) have been secured against the needed 2.2 billion Jordan Dinar⁶. Based on the findings of the joint work GWP-Med and OECD conducted in Lebanon⁷, the needed investments in the country for the next 10 years have been estimated at 7.7 billion US\$, among which only 1.6 billion US\$ have been secured. The Lebanese government has estimated that financial contributions through the state budget and ODA will not suffice to cover the needs. Within the same line of work, in Egypt the financing gap for water infrastructure in water supply and sanitation for the period 2006-2026 was estimated at 169.2 billion Egyptian Pounds (about 23.6 billion Euros, in 2006 prices), with this gap increasing by 45 per cent in the 20-year period⁸. The significant financing gap formed the rationale for the Egyptian government to adopt in 2006 a long-term policy agenda for pursuing partnerships with the private sector in order to increase the level of investment in the country's infrastructure. As reported by the PPP Central Unit (within the Egyptian Ministry of Finance) the government would need to allocate between 5.5 and 7 per cent of its annual GDP (about 13 billion US\$) to cover its infrastructure needs, of which some 10-15 per cent could be mobilised through private-public-partnerships.

Considering the magnitude of investment needs for the water sector and the accompanying financing gap, involving the private sector has formed a steady policy option globally. In the southern Mediterranean countries, there has been a modest but growing private involvement in the water sector. At a global scale, while the 1990s were mostly about water utilities (74 per cent of new projects in 1991-2000), in the last decade most new water projects concerned sewerage treatment plants (242 or 46 per cent of new water projects in 2001-2010)⁹. The same trend is valid for the wider MENA region as seen below in Figures 1 and 2.

⁴ The Millennium Development Goals Report, 2012,
<http://mdgs.un.org/unsd/mdg/Resources/Static/Products/Progress2012/English2012.pdf>

⁵ MENA Conference on Infrastructure Reform and Regulation, Amman, 7-8 Dec. 2009,
http://www.ppiaf.org/sites/ppiaf.org/files/publication/MENA%20Infr.%20Reg.%20Forum_Conference%20Proceedings.pdf

⁶ Ministry of Planning and International Cooperation of Jordan, Executive Development Program

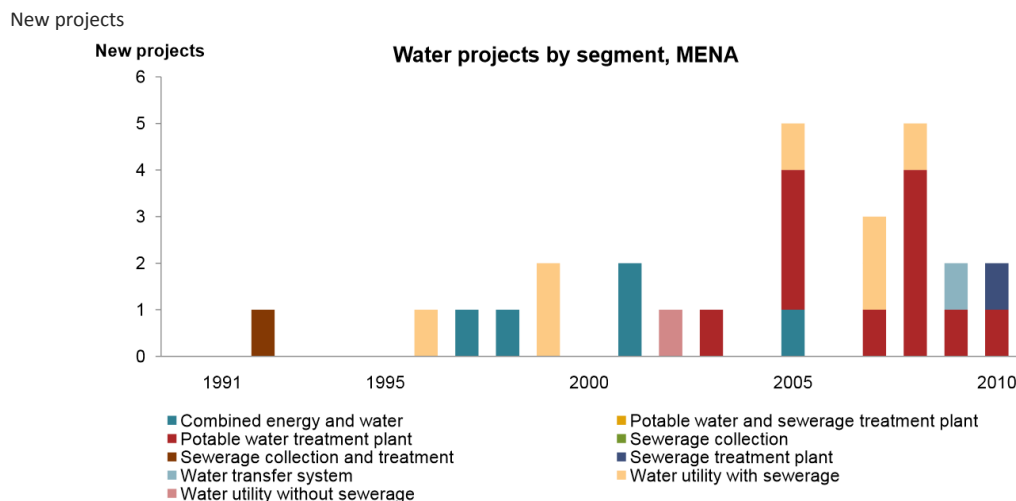
2011-2013, <http://www.mhplants.gov.jo/uploads/22011.pdf>

⁷ The full assessment for Lebanon is attached in Annex 8

⁸ The full assessment for Egypt is attached in Annex 7

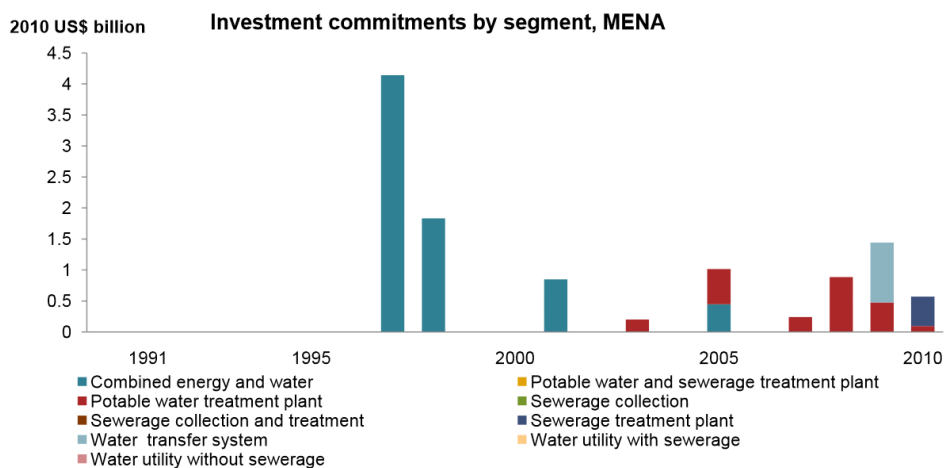
⁹ <http://www.ppiaf.org/sites/ppiaf.org/files/documents/Review%20of%20PSP%20in%20water%20infrastructure%20over%20the%20last%2020%20years.pdf>

Figure 1: New energy and water projects with private participation in the MENA region, by sub-sector, 1990-2008



Source: World Bank and PPIAF, PPI Project Database

Figure 2: Investment commitments to energy and water projects with private participation in the MENA region, by sub-sector, 1990-2008



Source: World Bank and PPIAF, PPI Project Database

From the above, it becomes apparent that Public-Private Partnerships can play an important role in bridging the investment gap of the water sector. So far, South Mediterranean is lagging behind other world regions in terms of investment commitments to private infrastructure projects. However, international experience has shown that well designed and socially sensitive PPPs can lead to significant gains in terms of efficiency, welfare, financing and fiscal space. This requires careful planning, government capacity, procedures, knowledge, and oversight; and, in order to attract private investors, good regulation, transparency, well-structured conflict-resolutions systems, etc.

The current and lingering financial crisis is posing serious challenges for investments and financing. Its impacts have varied across regions and income groups. In southern Mediterranean countries many projects have been delayed as a result of the crisis. However, differently from the financial crisis of the 1990s where infrastructure investments were halved, this time governments worldwide have not reacted by significantly cutting investments in infrastructure, in fact many have increased such outlays¹⁰. Today, governments around the world are aware of the crucial role that investment in infrastructure plays in economic growth and poverty reduction and subscribe to the urgency of implementing appropriate reform measures towards this objective.

The combination of efforts for improving efficiencies, enabling the optimisation of financing needs and financing strategies' elaboration, and facilitating the mobilisation of additional financial resources represent a key factor for the sustainable development and adaptation of the water sector in the southern Mediterranean countries. The previous analysis attempted at illustrating the bottlenecks of the financing-governance nexus in the water sector. It is noted that a clear diagnosis of these bottlenecks does not exist yet, while at the same time multi-stakeholder platforms dealing with the issues rarely exist within and across the countries. A consensus on reform requirements and on the action plan needs to be developed to make water reforms happen. This involves evidence-based analysis and facilitated platforms for discussion and consensus building, as well as access to other countries' practices for replication of good cases.

With the above in mind, and with due consideration to i) the recommendations of the Euro-Mediterranean Ministerial Conference on Water Declaration (Dead Sea, Dec, 2008), ii) the objectives of the Union for the Mediterranean (UfM) and its Secretariat's scope of work, iii) the context of the chapters on water financing and water governance of the draft Strategy for Water in the Mediterranean as well as of the Arab Water Strategy, and (iv) the scope and operational framework of the Mediterranean Component of the EU Water Initiative (MED EUWI), the OECD/GWP-Med Project on *Governance & Financing for the Mediterranean Water Sector* aspires to address and promote action on the *financing-governance nexus* in the water sector with emphasis on the potential role of the private sector. In this endeavour, synergies and strategic partnerships are crucial for the wide outreach of findings, the strengthening of action and the sustainability of national and regional efforts. The 1st Regional Conference that will take place on 28-30 October, in Athens, Greece, endeavours to fortify this effort and identify plausible ways forward.

¹⁰ http://www.ppiaf.org/sites/ppiaf.org/files/publication/MENA%20Infr.%20Reg.%20Forum_Conference%20Proceedings.pdf