

Regional Launching Conference

GOVERNANCE & FINANCING FOR THE MEDITERRANEAN WATER SECTOR

Project labelled under the Union for the Mediterranean

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SESSION III: EXPLORING THE SET UP OF A REGIONAL PLATFORM ON GOVERNANCE AND FINANCING
FOR THE MEDITERRANEAN WATER SECTOR

Issues Paper

SESSION OBJECTIVE

The project *Governance & Financing for the Mediterranean Water Sector* aims to identify and address governance challenges for the mobilisation of financing for the Mediterranean water sector, focusing on (i) mobilisation and efficient use of financing, and (ii) institutional and regulatory challenges for public-private partnerships in infrastructure.

As part of its regional activities, the project will explore the creation of a regional platform as a space for reflection among policy-makers, private sector actors and other stakeholders on how to progress towards governance reforms that will help achieve financial sustainability of the water sector.

The objective of the session is to gather perspectives and opinions from a broad range of stakeholders to guide the creation and operation of such platform.

While the water sector concerns an array of sub-sectors, the initial focus of the regional platform is suggested to be on governance and financing of water supply and sanitation services -- covering both water for human use and water for industrial and commercial water uses. It is expected that the focus will be expanded to the broader water sector e.g. addressing water resources management in relation to water and energy, water and food, water and ecosystems, water and climate, etc, as the work of the regional platform progresses.

BACKGROUND: WATER GOVERNANCE AND FINANCING IN THE MEDITERRANEAN REGION AND THE ROLE OF PRIVATE ACTORS

The delivery of water services requires expenditures in infrastructure development, maintenance and operations. Mediterranean countries have achieved nearly universal access to basic water and sanitation infrastructure but, particularly in the Southern rim, strong demography and rapid urbanisation combined with structural transformation of the economies have resulted in strong demands for water and sanitation services that most governments in the region struggle to cope with.

The 2010 draft UfM Strategy for Water in the Mediterranean highlighted the financial sustainability problem in the region by dedicating one of its chapters on water financing. The financial resources to pay for water and sanitation expenses can have their origin in water users (through direct expenses and through tariffs), domestic tax-payers (through government budgets) or transfers from private donors or foreign governments – these are known as the 3Ts: tariffs, taxes and transfers. Financial markets (through loans and bonds) can provide financial resources, but those resources need to be repaid through revenues from the 3Ts. Developing Mediterranean countries are struggling to meet the financial requirements entailed by their water-related strategies and action plans. While Overseas Development Assistance (ODA) in the form of grants and loans contributes to water financing, large water-related investment programmes are primarily supported by public funds: North African governments spend on average between 1-3.6% of their GDP on the water sector, while Lebanon spends 0.5% of GDP. Joint work by GWP-Med and the OECD estimates that the funding gap in Lebanon is close to EUR 400 million per year and in Egypt it exceeds EUR 1 billion per year.

In the Southern Mediterranean countries, there is a modest but growing involvement of traditional private sector actors in the water and sanitation sector. Every year there is only a handful of new water projects, with very few of them focusing on water utilities and some more focusing on wastewater treatment plants. Morocco awarded its first concession contract for power-water-sewerage operations in 1997. Algeria turned in 2005 a BOT for a desalination plant into a concession contract. Egypt adopted in 2006 a policy of pursuing partnerships with the private sector. Jordan is pursuing private sector involvement primarily through incentive-based performance contracts. Private sector involvement is more limited in other countries, such as Tunisia or Lebanon. Private engagement in the water sector is growing in the Mediterranean South Eastern Europe – for example, in 2012 EBRD signed water projects in Croatia, Serbia and Turkey for a total of EUR 48 million. Throughout the EU, private sector involvement in the water sector varies, but it represents a key feature in countries such as the UK, France and Spain. The diversity of situations and experiences across the pan-Mediterranean region provides a unique opportunity to successfully promote experience sharing.

Private sector actors have an increasing role to play in achieving the financial sustainability of the water sector. An important group of private sector actors are those that provide water services, such as domestic and international water operators – they can reduce financial needs through more efficient operations and they can attract market-based finance (although that will need to be repaid). But there are many more private actors involved in the water sector. At the user end, they range from households to commercial and industrial water users – they are generally willing to pay for good water services or to invest in good water management under the right conditions. At the financier end, they include domestic and international banks and pension funds among others – the water sector can provide steady returns for their investments, again under the right conditions. The providers of commercial goods and services (such as construction works, water meters or laboratory tests) are not included in the scope of this discussion at this first stage, but may be included later.

Unsound governance frameworks impede the efficient use of available funding as well as discourage the mobilisation of additional financing. While private sector actors can have potentially large roles to play in ensuring the financial sustainability of the water sector, they require the right governance framework to fully play those roles. The national dialogues conducted in Egypt (2009-10) and Lebanon (2010-11) by GWP-Med and OECD, identified a number of governance-related issues that need to be tackled in order to achieve financial sustainability – they include the development of financing strategies, improvements in fiscal transparency, greater autonomy of water service providers, strengthening of water user associations (WUAs), development of private-public partnerships (PPP), and better coordination between financiers to increase blended finance. These issues are only a part of the complex governance-financing nexus.

ISSUES FOR DISCUSSION:

- What is the existing interface between public and private actors, at regional and national level, aiming at a common understanding and successful collaboration opportunities?
- Could a regional platform add value and contribute to the needed governance reforms and contribute to the sustainable financing of water and sanitation services?
- What type of actors (public, private, other, and traditional, non-traditional) need to be engaged in the regional platform?
- What specific topics need to be addressed by the regional platform in order to best contribute to support the needed governance reforms?
- How could such a regional platform become operational?