



Financing Water in the Mediterranean: Recent developments through regional processes



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Key investment drivers in the Med



1. Improving the security of supply

- A water scarce region, under conditions of population & economic growth as well as of climate change
- Mitigating supply risk by investing in water storage infrastructure and exploiting groundwater is increasingly limited
- Investing in alternative supply augmentation options is highly capital intensive; but is it cost-effective ?

2. Increasing Access / Improving Services

- Coverage rates have improved significantly; but sanitation and rural areas lag behind
- New investments need to be made to keep up with realities
- Increasing focus on maintenance and replacement of existing infrastructure to maintain/ improve service levels





Key investment drivers in the Med

3. Pollution Abatement Measures

- Investments in wastewater infrastructure lagging behind
- Discharge of untreated wastewater as a result of a lack of wastewater infrastructure has led to pollution problems
- The economic impacts of pollution in the region has been estimated to be in the region of 2.2% to 4.8% (World Bank)
- The financial resources required for wastewater infrastructure are significant





Key issues in financing the sector



- Inadequate cost recovery levels
- **High levels of subsidies supplement revenues but revenue cycle is not closed**
- Affordability concerns may justify subsidies; but they are often poorly targeted.
- **Political inertia in tariff setting**
- Sector is left financial unsustainable
- **Investment needs put an increased burden on public finances**
- But funds from public budgets are limited and sector seeks other sources of finance including debt financing
- **Used prudently long-term debt financing can allow for a substantial leveraging of cash flows**
- Access to finance is constrained by utility operational inefficiencies and poor institutional frameworks that increase risk perception



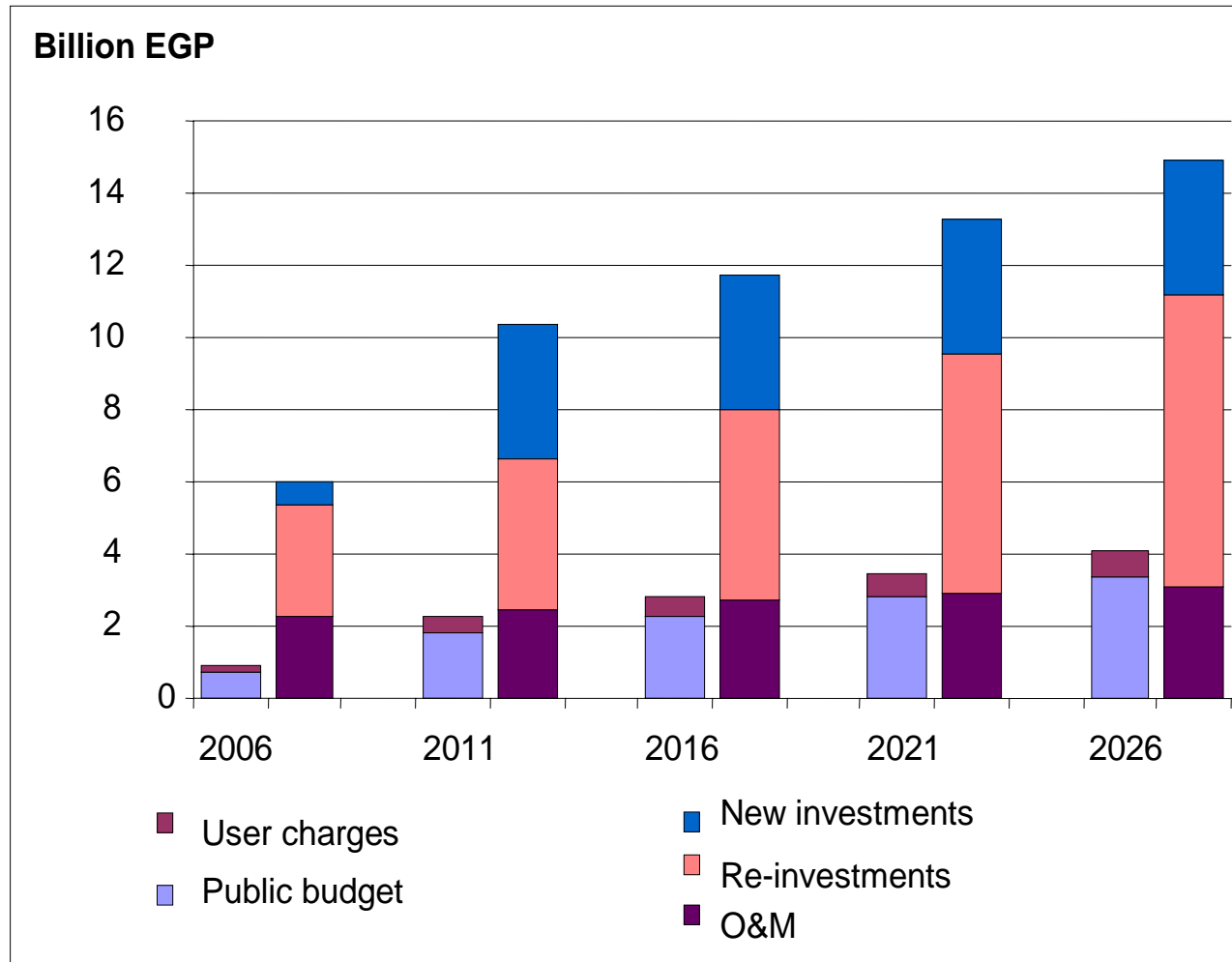
Case Study: Greater Cairo

Results from MED EUWI Dialogue in EGYPT

- **Dialogue** chaired by HCWW, in the framework of MED-EUWI, with technical support from OECD, commissioned two reports: affordability assessment and 20-year financing strategy
- Large and increasing **financing gap (over EUR 1 billion/year)** driven by very low tariffs (1/40 of Istanbul) and the need to replace very old infrastructure and serve rapidly growing population
- **Efficiency gains can reduce costs by 19%** but not enough to close financing gap
- **User charges could be increased (threefold for lifeline) to cover O&M while keeping water bill affordable** (100 lcd to cost less than 2% of household income)
- But need for continued support from **public budgets, full cost recovery would require increases in tariffs of x12 for lifeline and x29 for second block**

Case Study: Greater Cairo

Results from MED EUWI Dialogue in EGYPT



Drinking water supply and sanitation: revenues do not cover costs



UfM Strategy for Water in the Mediterranean

CONTEXT:

- **Union for the Mediterranean** (launched in July 2008, Paris)
- **EuroMed Ministerial Conference on Water** (Dec 2009, Dead Sea)
- **Process for the elaboration of the Strategy** (Water Expert Group met 3 times, Technical Drafting Group met 2 times)
- **Chapter on Optimizing Water Financing, Water Valuation and Appropriate Instruments, with emphasis on Innovative Mechanisms**
Draft prepared by Germany and Italy, with several contributions
- Strategy is expected **to be approved** at the
UfM Ministerial Conference on Water, 13 April 2010, Barcelona

SWM Chapter on Water Financing

Objectives and priorities

a) Improving efficiencies to reduce investment needs and improve cost coverage

b) Mobilizing financing with emphasis on innovative mechanisms

c) Enhancing regional action





SWM Chapter on Water Financing Approaches and instruments

a) Improving efficiencies to reduce investment needs and improve cost coverage

- 1) Improving sector **governance** to reach an efficient allocation of water resources between users taking into account a global economic approach
- 2) **Preventing pollution** as the most cost-effective strategy
- 3) Efficiency improvements in **investment planning** and **technology choice**
- 4) Efficiency improvements in the **management of irrigation** and **service provision**



SWM Chapter on Water Financing Approaches and instruments

b) Mobilizing financing with emphasis on innovative mechanisms

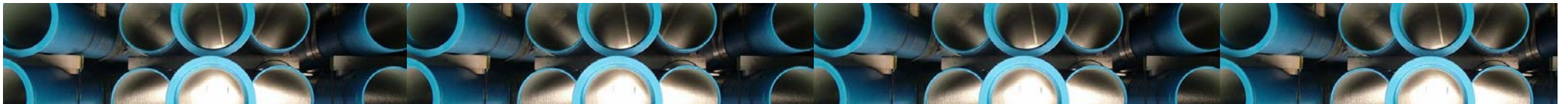
- 1) Mobilizing public subsidies
- 2) Strengthening the sector's self-financing capacities through water tariffs and user fees for water services
- 3) Mobilizing external transfers (grants, ODA loans & private)
- 4) Developing innovative financing mechanisms
- 5) Mobilizing innovative sources of funding – including climate change funds



SWM Chapter on Water Financing Approaches and instruments

c) Enhancing regional action

- 1) Benchmarking activities, developing **methodologies at regional level and economic methods**
- 2) Improving the supply and accessibility of **bilateral and multilateral finance**: Coordinate, harmonize and innovate
- 3) Supporting **projects** and **preparatory activities** for projects





SWM Chapter on Water Financing Recommendations for Action (1/3)

- 1) Develop economic **models for national strategic choices** for water regarding **allocation** between agriculture, industry and domestic use
- 2) Develop tangible realistic **country-sector financial strategies** for the water sector
- 3) **Integrate river basin planning** with spatial and economic development planning
- 4) Quantify and communicate **economic benefits of investments** in the water sector
- 5) Improve **fiscal systems** to render subsidy flows into the sector and revenues from the sector more **transparent**



SWM Chapter on Water Financing Recommendations for Action (2/3)

- 6) Transform water service providers into **autonomous public entities**, operating according to commercial principals in their day-to-day work with a stronger accountability to their customers under an appropriate regulative framework
- 7) Support **water efficiency measures for irrigation**: incentive for water saving irrigation techniques, progressive introduction of tariff structures, support the development of self sustainable irrigators associations
- 8) Improve **coordination and synergies between grants and loans between bi- and multilateral financial institutions**; market these more effectively by increasing awareness and ensure clear and consistent procedures; improve donor coordination



SWM Chapter on Water Financing Recommendations for Action (3/3)

- 9) Explore and promote **innovative financial mechanisms**
- 10) Raise **awareness** on existing and emerging funding and financing mechanisms and build capacity to benefit from them
- 11) **Identification of niches and subsidy mechanism for crowding in equity / private sector skills**
- 12) Development of a pipeline of technical assistance and investment projects with **regional visibility** aiming at supporting the implementation of the





Exploring Private Sector Involvement

- Ultimately water is paid for by water users or tax-payers, but private sector may help in financing lumpy investments (bridge the gap)
- Private sector may contribute to reduce the financing needs by improving efficiency
- OECD Checklist for Action - Relevant both for WSS and WRM
- However, several obstacles
- Mediterranean – joint MED EUWI and OECD activity
 - Egypt: Recent focus of MED EUWI Dialogue Phase II (2009-2010)
 - Lebanon: Launching on 9/3/10 within MED EUWI Dialogue Phase II
 - Planned in Tunisia for 2010
 - Planned regional event in 2011



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