

FIRST UfM ANNUAL CONFERENCE ON WATER INVESTMENT AND FINANCING

Public Private Partnerships and the Financial Sustainability of the Water Sector

organised in partnership with ISPI and GWP-Med in the framework of the Mediterranean Dialogues

Sala Fernandes, Hotel Parco dei Principi, Rome (Italy)
5th December 2019

Concept Note

1. The private sector and the financial sustainability of the Mediterranean water sector

Ensuring the financial sustainability of the water sector is of paramount importance to support economic growth and achieve the Sustainable Development Goals in the UfM region. There is a significant funding gap for water management in the Mediterranean region. To close the funding gap, there is a need to adjust tariffs, taxes and transfers and consider appropriate options for blending different sources of financing.

The private sector can mobilise financial resources, but these need to be paid for. If private sector involvement in financing the water sector is to be increased, more attention needs to be paid to defining its role and improving the enabling environment for its involvement. Different countries in the region have different positions about the desired level of involvement of the private sector. It is important to clarify that the private sector is made up of different actors – private water sector providers, large water users, banks, and financial investors, to name a few – with different goals and requirements. The international experience suggests that private water sector providers cannot be expected to mobilise significant funding unless very specific conditions are in place. Furthermore, mobilising commercial finance, in particular from domestic sources, would require in most cases additional policy reforms to promote efficiency gains, cost reduction and cost recovery.

Not enough attention has been being paid in many Mediterranean countries to engaging private sector investors. Economic growth has increased savings in most countries in the region. Domestic commercial finance institutions (commercial banks) are looking for opportunities to lend money to projects with appropriate risk/return profiles. There are opportunities to blend development finance (including guarantees) and domestic commercial finance to provide such appropriate risk/return profiles, provided that the sector is adequately funded from tariffs, taxes, and transfers.

2. The UfM Financial Strategy for Water

In April 2017, UfM Ministers called for a Union for the Mediterranean Water Agenda to enhance regional cooperation towards sustainable and integrated water management in the UfM region and mandated the development at the same time of an associated Financial

Strategy. In December 2018, UfM Senior Officials approved the UfM Water Agenda and the UfM Financial Strategy for Water.

The aim of the UfM Financial Strategy for Water is to facilitate increased financing of investments that contribute to access to water; protection against risk of droughts, floods or polluted water; and sustainable growth in the Mediterranean region, while enhancing the financial sustainability of the water sector. Its main message is that UfM member states need to approach water financing in a strategic way, make the best use of existing financial resources, and mobilise additional domestic and international financial resources.

The UfM Financial Strategy for Water sets 10 common strategic objectives and a menu of 48 actions that individual countries are expected to prioritise and implement according to their individual circumstances, priorities, and capacities. Multiple actors have a role to play in the implementation of the UfM Financial Strategy for Water, including international partners. The exact actors and roles will vary from country to country, according to their specific institutional settings and policies.

3. The UfM Annual Conference on Water Investment and Finance

In order to support UfM member states with its implementation, the UfM Financial Strategy for Water includes a menu of supporting activities to be developed over the coming years by the UfM Secretariat as well as by technical and financial partners. These include country-level activities (such as the National Workshops on Water Financing carried out in Jordan in March 2019 and Albania in October 2019) as well as regional activities (such as the capacity development workshop on climate financing organised in June 2019).

At its 10th meeting (Brussels, 13th-14th June 2019), the UfM Water Expert Group (WEG) decided that the series of high-level regional conferences on water investment and finance proposed in the UfM Financial Strategy for Water should take place once a year around the month of November, and the first conference should focus on Public-Private Partnerships.

The chosen label/title for this series of annual events is *UfM Annual Conference on Water Investment and Financing* (UfM ACWIF). It is envisaged that UfM ACWIF will overtime become well-established in the region as a space for open and informed dialogue among UfM member countries and financial and technical partners on matters of water investment and financing.

The aims of the UfM Annual Conference on Water Investment and Financing are:

- to raise the profile of the water investment and financing issues on the regional political agenda and within the finance community;
- to push the boundaries of traditional thinking about water investments and financing by disseminating and discussing evidence-based knowledge on opportunities to facilitate investments and enhance the financial sustainability of the sector; and
- to promote water investments as well as policy reforms to enhance the financial sustainability of the water sector.

The UfM ACWIF is aimed at high-level representatives from UfM member countries, as well as technical and financial partners. Participation from UfM member countries would include representatives from ministries in charge of water, ministries of finance, and other ministries as appropriate, local government, parliament, private sector (irrigators and other major water

users, banks, investment funds, insurance companies, and other financial institutions, companies interested in CSR, foundations,...), and civil society. In order to facilitate meaningful discussions, UfM ACWIF would be limited to a selected number of participants: about 60 participants of which about 40 would represent UfM member states (including advisors to high-level representatives) and about 20 would represent technical and financial partners. Participation at UfM ACWIF is by invitation only.

4. First UfM Annual Conference on Water Investment and Financing: Public-Private Partnerships and the Financial Sustainability of the Water Sector

The UfM Secretariat has been in discussions with the EU Delegation (EUD) in Cairo as well as with the Italian Institute for International Political Studies (ISPI) to explore synergies between the organisation of the first UfM ACWIF and the organisation of two relevant events of regional importance: Cairo Water Week (CWW) (Cairo, 20-24 October 2019) and the Mediterranean Dialogues (MED) (Rome, 5-7 December 2019).

The first UfM ACWIF was preceded by a Water Financing Focus Session in the framework of the EU-UfM Water Governance and Business Forum that was held within the Cairo Water Week. The Focus Session took place in the morning of Monday 21st October 2019 in Cairo (Egypt) under the title “Sustainable Financing for the Mediterranean Water Sector: Role and Requirements of Public Private Partnerships”. The conclusions of the Focus Session were gathered in a short outcome document, which is attached to this concept note and has helped to shape the agenda of the Conference.

The first UfM Annual Conference on Water Investment and Financing will take place on 5th December 2019 in Rome (Italy) in the framework of the Mediterranean Dialogues. It is aimed at High Level representatives of stakeholders of the Mediterranean Water Sector – ministries in charge of water and their partners, but also ministries of finance and economic development, ministries of foreign affairs, sectoral ministries, sub-national governments, private sector representatives (water service providers, water users, financial sector,...) and civil society representatives. The special topic of the first edition of the conference is “Public-Private Partnerships and Financial Sustainability of the Water Sector”.

The first ACWIF is organised by the UfM Secretariat in partnership with the Italian Institute for International Political Studies (ISPI) and the Global Water Partnership – Mediterranean (GWP-Med) including through the ‘Making Water Cooperation Happen in the Mediterranean’ project (aka the Water Matchmaker) supported by the Swedish International Development Cooperation Agency (Sida).

The outcomes of the first UfM Annual Conference of Water Investment and Financing will be transmitted by H.E. Nasser Kamel, Secretary General of the UfM, to the Mediterranean Dialogue on 6th December 2019 and to the UfM Senior Officials’ Meeting of December 2019.

EU-UfM Water Governance and Business Forum

Water Financing Focus Session

Sustainable Financing in the Mediterranean Water Sector: Role and Requirements of Public Private Partnerships

Al-Manara International Conference Center, Nasr City, Cairo Governorate, Egypt
9h30-12h00, 21st October 2019

Conclusions

1. **“Public private partnerships” is a bit of a misnomer.** The public and private sectors are not and should not be equal partners. Rather, the public authorities provide the objectives and invite private sector operators to take part in achieving them. A better label might be “private sector participation” in the provision of water-related services.
2. **There is a need to broaden the discussion beyond “PPPs for the provision of water supply and sewage collection services”.** While that is the area that has accumulated more experience, there are clear opportunities to expand the use of PPPs for wastewater treatment and desalinisation services. There is also a need to explore the use of PPPs for irrigation and flood control services, of which there are some but fewer examples.
3. **There is also a need to broaden the perspective of what constitutes the relevant “private sector”.** Under a traditional technical focus of delivering water-related services, “private sector” has been identified with “private operators”. However, a focus on enhancing the financial sustainability of the water sector requires to engage other private sector actors, in particular private financial institutions (such as commercial banks and bond investors). Private financial institutions should be involved in future discussions about the financial sustainability of the water sector.
4. **Private operators should not be seen as a source of financing for the water sector.** While there are many types of PPPs and in some cases private operators can deploy internal financial resources, in most cases any significant financing will have to be mobilised from public or private financial institutions.
5. **Nevertheless, private sector operators can contribute significantly to enhancing the financial sustainability of the water sector by:**
 - a. Supporting the government to develop a long-term vision of how to achieve financial sustainability of the services – regarding both the expenditure side and the revenue side of the provision of water-related services.
 - b. Reducing short-term operational and management costs – by increasing operational efficiency, including through innovation, staff development, and empowerment of the ecosystem of actors around the provision of water-related services (staff, users, suppliers,...).

- c. Reducing long-term operational and management costs – by bringing an “operational approach” to asset management and the design of new water-related infrastructure.
 - d. Reducing the cost of accessing capital from private lenders and investors – by contributing to increase the creditworthiness of water utilities.
 - e. Increasing internally generated revenue – by improving billing and collection rates.
 - f. Increasing internally generated revenue – by contributing to kick-start and maintain a virtuous circle whereby improved water-related services lead to increased willingness to pay for those services and social acceptance of tariff reforms.
- 6. From a government (Ministry of Finance) perspective, there are three broad types of PPPs:**
- a. Those where the government acts as “off-taker” and pays the private operator directly for the services provided (subsidies funded through “taxes” or “transfers”)
 - b. Those where the government acts as “licenser” and allows the private operator to provide a service to clients in exchange of a service fee (“tariffs”).
 - c. Mixed models that combine subsidies and service fees.
- 7. PPPs will happen when there is a confluence of interest from government, operators (whether public or private), and financiers (whether public or private).** There is a strong need and opportunity to crowd-in private financiers (such as commercial banks and bond investors).
- 8. Government action will determine the success of PPPs.** The design, implementation and management of PPPs require specific and often demanding capacities on the part of the government. Successful PPPs require:
- a. Economic regulation – which will contribute both to increasing internal revenue generation (by ensuring that tariffs are set at levels that protect water users while ensuring financial sustainability of water-related services) and to gaining access to financial markets (by increasing the creditworthiness of utilities). It will also ensure incentives for asset management as well as a fair and efficient remuneration of the operator.
 - b. Strategic use of public financial resources – to reduce the financial risk of projects to levels acceptable to private financiers and thus leverage additional finance.
 - c. Project screening procedures – to ensure that a PPP is indeed the best solution for any particular project, given the level and distribution of benefits, costs and risks under different arrangements. There is no universal decisive advantage of private operators over public operators (for example, in some contexts, public authorities have access to capital at lower cost than private firms) and there are both success and failures with both modes of operation.



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- d. Getting ready efforts – this includes preparatory studies, relations with bidders, and preparing users about the new conditions of service provision.
 - e. Careful contracting – to ensure that the PPP model chosen (among the many possible – from short term management contracts to long-term build-operate-transfer arrangements) fits the needs of the project and delivers the potential gains discussed above (for example, by including incentives for asset management or bill collection).
 - f. Functioning billing and collection systems.
9. **Development partners, such as the European Union, can support progress** by financing preparatory studies, bringing more attention to the whole water sector (as opposed to considering individual projects in isolation), supporting peer learning, and supporting implementation of PPPs that could later be showcased.
10. **The UfM, through the Financial Strategy for Water process, can support progress** by implementing a regional programme that would enable regional benchmarking, peer learning, and engagement of private financiers.

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