



WATER, CLIMATE AND FINANCE

Strengthening water
finance and investment
policies to address the
climate emergency
in the Mediterranean
region

**UfM WATER
FINANCE SERIES**

#4



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The UfM Water Finance Series

This is the fourth 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. 2018. The UfM Financial Strategy for Water. UfM: Barcelona.**
- **UfM. 2019. Public Private Partnerships and the Financial Sustainability of the Mediterranean Water Sector. UfM: Barcelona.**
- **UfM. 2021. Improving Water Investment Policies In the Southern and Eastern Mediterranean. UfM: Barcelona.**

About this publication

This publication describes a policy agenda for strengthening water finance and investment policies to address the climate emergency in the Mediterranean region. It presents the conclusions and recommendations of the EU-UfM High Level Conference on Water Finance and Investment co-organised on 17th-18th October 2022 in Cairo (Egypt) by the Union for the Mediterranean (UfM) and the European Union (EU) Delegation in Egypt, in partnership with the Egyptian Ministry of Water Resources, the Arab Network of Water Experts, GWP-Mediterranean, and INWRDAM, and with financial support from Sweden. The High Level Conference is part of the series of annual events that since 2019 the EU and the UfM have co-organised in the framework

of Cairo Water Week to discuss key issues around water governance, investment and finance in the Mediterranean region.

This publication has been developed by Roberto Martín Hurtado (Senior Water Economics Advisor, UfM and Director of Alboran Consulting Ltd) under the guidance of Almotaz Abadi (Deputy Secretary General for Water, Environment and Blue Economy, UfM). The UfM would like to thank the moderators and panellists at the EU-UfM High Level 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.

Towards a regional action agenda on water, climate and finance

Since 2017, the Mediterranean water sector is engaged in a regional process to address the regional water challenges through regional cooperation. The UfM Water Agenda is articulated around four themes: Water, Sanitation and Hygiene (WASH), Water-Energy-Food-Environment Nexus (WEFE), Water, Employment and Migration, (WEM), and Water and Climate Change Adaptation (WCCA). This process, launched through the first UfM Ministerial Meeting on Water, includes a specific focus on water finance and investment and has delivered the UfM Financial Strategy for Water (2018) as well as recommendations for engaging private financiers and mobilizing public-private partnerships (2019), and for improving water investment policies (2021).

By mid-2022, the need for a regional agenda on water, climate and finance was overwhelming. In the five years since the launch of the UfM Water Agenda process the urgency and importance of water and climate issues in the Mediterranean had kept rising. A UfM flagship report published in 2020 showed how climate change is profoundly affecting the Mediterranean water sector. The region warms 20% faster than the rest of the world. Freshwater availability is set to decrease by 15%. Within 20 years, more than 250 million people will be classified as “water-poor”. And a Mediterranean country, Egypt, was set to host the 27th Session of

the Conference of the Parties of the UNFCCC (COP-27) in November 2022.

As a response, the UfM and the EU Delegation in Cairo agreed to focus their fourth annual collaboration in the framework of Cairo Water Week on the topic of water, climate and finance. It would be a regional contribution to the upcoming COP-27 and the UN 2023 Water Conference. UfM member states and partners rallied about the idea of a High-Level Conference on Water Finance and Investment focused on the water, climate and finance nexus.

In October 2022, a High-Level Conference brought together the Mediterranean water policy community to discuss how to strengthen water finance and investment policies to address the climate emergency. Speakers at the conference included:

- Ministers and other high-level officials: the water ministers from Egypt, Lebanon and Palestine; the Secretary General of ministry of water of Jordan; the directors general for water from Slovenia, Spain and Türkiye; the Special Envoy for International Water Affairs of the Netherlands; the FAO Assistant Director General for the Near East and North Africa; the EU Ambassador to Egypt; and the UfM Deputy Se-

cretary General for Water, Environment and Blue Economy.

- Government representatives from Albania, Algeria, Jordan, Lebanon, Malta, Palestine, Spain, Sweden, Tunisia and Türkiye; as well as representatives from the EU (DG NEAR and EU Delegations in Egypt, Jordan, Lebanon, and Tunisia).
- Representatives from regional stakeholders: regional water networks (AWEN, EurEau, GWP-Med, and INWRDAM), private sector (Greentech), and banking sector (Union of Arab Banks).
- Representatives from international partners: FAO, OECD, SIWI, Water Aid and four international financial institutions (AFD, EIB, EBRD, and IFC).

The High-Level Conference delivered an action agenda on water finance and investment for climate resilience. The Cairo Action Agenda is aimed at national governments, with support from stakeholders and partners. Governments have to play the leading role in implementing the Action Agenda, but they are not alone. The High-Level Conference showed that national and regional stakeholders as well as international technical and financial partners are ready to support UfM member states in implementing this strategic and realistic Action Agenda.

In November 2022, the Cairo Action Agenda was approved by the UfM Water Expert Group (WEG) and distributed by the UfM Co-Presidencies to all UfM member states for follow up.

Water, climate and finance in the Mediterranean

Climate change is significantly driving up the costs of providing water security in the Mediterranean. Water-related investments support the generation of social, environmental and economic benefits across the water-energy-food-environment (WEFE) nexus and beyond. Climate change is jeopardizing those benefits, as a result of too little water, too much water, and higher temperatures. Addressing the impacts of climate change on water requires more investments – for example, for sourcing freshwater, managing stormwater, and treating wastewater. Traditional solutions are becoming more expensive. Delayed adaptation is leading to further increases in costs.

Climate change strengthens the case for improving water investment policies. In some countries, water policies and plans are outdated and disperse. They do not always highlight the positive externalities of water management and investments or that climate impacts are not gender neutral. They do not always address the fact that the impacts of climate change vary across basins (within countries), and that those impacts require a response from different sectors. They do not always ensure that public finance is used effectively and efficiently – for example by systematically assessing different alternatives to achieve water goals under different climate scenarios. And they rarely consider the role of water investments in contributing to the national mitigation goals.

Despite its key role in ensuring the climate resilience of the national economy, water remains underfinanced. Mediterranean countries are investing very significant amounts of public resources on water management. But given the large and increasing needs, more repayable finance needs to be mobilized. The main barrier is not a shortage of re-

payable finance -- for example, Union of Arab Banks (UAB) members have USD 5.2 trillion to invest, and, if mandated, national public development banks could contribute significantly (as Il Bank does in Türkiye). It is not the availability of financial instruments or financial innovation, either – for example the EU is using blending and guarantees to leverage more loans. The barriers to mobilizing repayable finance, similarly to other regions, relate to the enabling environment and the absorptive capacity.

Climate finance has a role to play in the national water finance framework – not major but strategic. The climate finance market is growing steadily. And water currently represents only about 3% of climate finance. These two facts combined mean that climate finance for water has significant potential to grow and contribute to finance the adaptation of the sector. At the same time, climate finance is not going to be the panacea to finance water-related investments. Examples indicate that climate finance may represent about 6% of individual project financing, and much less as % of total sector budget.

Accessing climate finance for water is still too hard. There are (too) many climate finance sources. They have different characteristics (not all concessional) and requirements. In addition to project finance, there is also “balance sheet” finance -- for example, more than 50% of Egypt’s green bond is allocated to water investments. Accessing climate finance demands the same basic requirements as do other finance sources (sound sector and project fundamentals, good understanding by investors of how water works) plus specific expertise (on how climate finance sources work).

Domestic stakeholders and international partners are ready to support governments in ad-

ressing the water, climate and finance challenge. For example, Team Europe Initiatives (TEI) for Water have been launched across the region in Egypt, Jordan, Lebanon and Tunisia, bringing together different financing tools and European actors (EU budget, EU member states and European development financing institutions) to address policy reform and investment finance needs and achieve transformation results. There is an opportunity for sharing lessons across TEIs and developing common approaches for shared challenges across Mediterra-

nean countries – for example through a possible regional TEI. Many other partners have expressed their willingness to contribute their convening power, analytical and advisory capacities, technical skills, and financial capacities to the implementation of the different elements of the Cairo Action Agenda. The EU and UfM are keen to explore how to consolidate the annual Water Investment Policy Forum in Cairo as a regional policy dialogue platform and support countries to implement its recommendations.

A regional policy response – the Cairo Action Agenda

1. Adopt a strategic approach to enable the water-related sectors to contribute effectively and efficiently to addressing the climate emergency. Invest in knowledge to enable evidence-based policy-making. Elaborate long-term strategies (linked to action plans and key performance indicators). Improve governance (leadership, stakeholder involvement, cross-sectoral coordination, finance framework). Encourage stronger engagement of the private sector.

2. Make the case for investing in water as part of national climate adaptation and mitigation strategies. Invest in understanding the benefits of water investments for agriculture, energy, urban and rural development, transport, health, education, environment and other sectors. Engage with those sectors to discuss those benefits and how to realize them. Assess how water-related investments (e.g. water and energy efficiency, use of renewable energy, water reuse, hydropower generation) can contribute to national mitigation goals.

3. Integrate climate change risk in water investment policies and planning. Assess your current water investment policies and revise them to integrate climate risks. Adopt a gender transformative approach to investment policy development and implementation. Implement the recommendations of the 2021 EU-UfM Water Investment Policy Forum. Use basin and catchment management plans to articulate coordinated multi-sectorial investment programmes.

4. Develop a climate-smart portfolio of water projects. Move away from the traditional focus on supply-augmentation. Invest more on soft solutions (e.g. national water allocation, tenure, insurance), nature-based solutions, and hard solutions that support a circular economy (e.g. water reuse). Invest more on water-saving (e.g. modern irrigation, network rehabilitation) and cost-saving measures (e.g. energy recovery and efficiency).

5. Strengthen your national water finance framework to ensure that the water sector is re-

ady to address the climate emergency. Define the contributions of user and polluter charges (tariffs), public budgets (taxes) and development and climate grants (transfers) as sources of finance to ensure the financial sustainability of projects and programmes – possibly through the development of a national water finance strategy, building on the UfM Financial Strategy for Water. Undertake institutional, policy and regulatory reforms to strengthen the enabling environment for attracting public and private financiers (repayable finance) – possibly supported by a regional initiative. Build capacities to develop beneficial projects that offer a fair risk-reward balance. Use water tariffs to help reduce sector costs (through water demand management) and to increase sector revenues, while providing targeted support to ensure that services remain affordable.

6. Mobilise and use climate finance strategically. Don’t let the climate finance “tail” wag the water investment “dog”: formulate the investment programmes and projects that make sense, identify the “climate additionality”, and then look for the climate finance source that is the best match. Engage in a whole-of-government approach to climate finance -- avoiding competition among sectors and duplication of efforts and capacity needs. Use climate finance as part of blended finance, to attract private investors.

7. Use partner support to identify and implement water finance and investment policy reforms. Engage meaningfully in policy dialogue opportunities offered by the EU’s Team Europe Initiatives on Water and other partners to identify priority policy reforms: whether through TA recommendations, donor coordination mechanisms, or annual sector reviews. Use financial resources mobilized by the EU and other partners to support the implementation of policy reforms. Lead the coordination of partners, don’t play them against each other. Take part actively in regional initiatives that aim to support the implementation of this Cairo Action Agenda.

Contributors

The Cairo Action Agenda on Water, Climate and Finance has been developed building on the contributions of nearly 50 highly-qualified moderators and speakers at the High-Level Conference on Water Finance and Investing.

Setting the stage, moderated by Shahira Amin, Freelance Journalist

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H.E. Walid Fayad, Minister of Water and Energy, Lebanon

H.E. Mazen Ghunaim, Minister of Water, Palestine, and Head of Arab Water Experts Network

H.E. Dr Hani Sewilam, Minister of Water Resources and Irrigation, Egypt

Climate, water and finance: implications for the financial sustainability of the Mediterranean water sector, moderated by Tahani Sileet, Head of Central Department for External Cooperation, Ministry of Water Resources and Irrigation, Arab Republic of Egypt.

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Attracting climate finance for water, moderated by Tahani Sileet

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Improving Water Investment Policies under Climate Change, moderated by Haitham TAANI, Head of Desalination and Water Quality, National Carrier Unit, Ministry of Water Resources and Irrigation, Jordan

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