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UfM Recommendations on Water Finance

Final Draft, 28th August 2025

BACKGROUND:

This is the Final Draft of the UfM Recommendations on Water Finance. The document brings together the key recommendations developed under the UfM Programme on Water Finance since 2019. It has been developed by the UfM Working Group on Water Finance and Investment (WG-WATFIN). A concept was discussed and approved at the Second Meeting of the UfM Working Group on Water Finance and Investment in October 2024. A list of headline recommendations was discussed at the Ad Hoc Meeting of the Drafting Group of the Second UfM Ministerial Declaration on Water in February 2025. A revised version was shared with WG-WATFIN members in late May 2025, addressing the written comments received from WG-WATFIN members by 23rd May 2025. This is the final version of the document, as approved at the Third Meeting of the UfM Working Group on Water Finance (8th July 2025) and updated to reflect the recent evolution of the Water Finance Coalition towards the OECD's Public Development Banks for Water (PDB4Water) Initiative.

ACTION REQUIRED:

Members of the UfM Regional Platform on Water are invited to approve this document, subject to addressing any final comments. They are also invited to agree to include this document in the Ministerial Package for the Second Ministerial Meeting on Water that will take place in Rome on 24-25 March 2026.

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Introduction

At the First UfM Ministerial Meeting on Water (2017), Ministers recognised the critical importance of water finance to support the implementation of a common water agenda for the Mediterranean. They mandated the development of the UfM Financial Strategy for Water, which was approved by the UfM Senior Officials Meeting in December 2018. Implementation of the UfM Financial Strategy for Water rests with individual member states. In this regard, UfM member states are making substantial efforts to address the water challenges in the region, but finance still represents a key bottleneck.

The aim of this document is to increase the visibility of the water finance agenda among policy-makers. Its primary target audience includes directors general for water, CEOs of water utilities, directors of infrastructure sectors in ministries of finance and planning, and heads of water departments in development cooperation agencies, among others.

Water finance includes both the revenue and spending sides of the water sector. Sector revenues are represented by the 3Ts of **tariff** revenues and other user contributions (such as self-provision), **tax**-funded public budget allocations, and **transfers** (grants from development and climate funders that don´t need to be repaid). Sector expenditures include those for sector governance, sector investments (including maintenance), sector operations, and repaying debt. Financial mechanisms (such as development and commercial loans) can be used to bridge the finance gap when sector expenditure are larger than sector revenues, but need to be repaid.

This document has been developed by the UfM Working Group on Water Finance and Investment (WG-WATFIN). It brings together the key recommendations developed under the UfM Programme on Water Finance, which has been implemented since 2019 to provide further guidance and support to UfM member states to achieve the objectives of the UfM Financial Strategy for Water. More specifically, the document builds on the discussions on water finance that took place at the five editions of the annual conference on water finance and investments (Rome 2019, Cairo 2021-2024) and the side event on Water Finance in the Mediterranean organised by the UfM as part of the UN 2023 Water Conference in New York.

This document identifies key solutions to the most relevant water finance challenges faced by UfM member states. It presents nine headline recommendations, and for each headline recommendation it presents a brief rationale and a set of recommended actions. The recommendations are mutually reinforcing, although in order to keep the document brief those links are not fully explored. The recommendations address: sector finance strategies (#1); investment planning (#2); the quality of public expenditure programmes (#3); tariffs and economic regulation of WASH services (#4); climate finance (#5); the engagement of financiers, focusing on public development banks (#6) and commercial lenders (#7); the role of public-private partnerships (#8); and regional cooperation on water finance (#9). The implementation of each of these recommendations will require targeted capacity development of government agencies and relevant stakeholders, and should take advantage of available and emerging digital tools (which are further explored in the *UfM Regional Strategic Framework for the Digitalisation of the Water Sector*), as applicable.

The implementation of these recommendations will strengthen the governance framework around water finance. It will lead to greater transparency and less corruption, increased equity and efficiency in the use of existing financial resources, and the progressive closing of the finance gap. All UfM member states are encouraged to implement these recommendations, and to continue to develop a common water finance agenda for the Euro-Mediterranean region.

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Recommendation #1 – Develop a national water finance strategy

Rationale

The UfM Financial Strategy for Water was developed in 2018 as a tool to support UfM member states in making progress towards mobilising financial resources and achieving the financial sustainability of the water sector. It provides a framework to address water finance issues systematically around three pillars: approach water finance in a strategic way, make the best use of existing financial resources, and mobilise additional financial objectives. Most countries around the Mediterranean do not yet approach water finance in a strategic way and they would benefit from developing a similar framework at national level, possibly in the form of a national water finance strategy.

Actions

- *Allocate the responsibility within the national government* for developing and overseeing implementation of the national water finance strategy, in line with national circumstances – this could be, for example, a high-level official in the ministry of finance, or the planning office in the ministry in charge of water.
- *Constitute a national working group on water finance.* Strong collaboration among key national ministries (planning, finance, and those in charge of water issues) is essential for developing a strong national water finance strategy. But the national working group should also gather representatives from other relevant government agencies, local authorities, financial partners, and other relevant stakeholders (such as large water users and water service providers and representatives of women, youth and vulnerable people), as far as possible.
- *Invest in collecting and sharing the required data in both the revenue and spending sides* to ensure transparency and support evidence-based decision making.
- *Bring outside expertise as needed* in order to complete the development of the national water finance strategy.
- *Develop an implementation calendar* adapted to the priorities and constraints of the member state.

Recommendation #2 – Enhance investment planning in the water sector and across the WEFE nexus

Rationale

Sustainable progress across the UfM Water Agenda requires major investments. But the significant finance gap in the Mediterranean water sector means that a focus on developing and financing individual projects is not enough, and that a more strategic approach to water investments is needed. UfM member states do not always have sector-wide investment plans. Water investment projects should be guided by policy goals, and prioritised and sequenced accordingly. They need to be coordinated with other investment efforts across the water-energy-food-ecosystem (WEFE) nexus. Spatial and sector-wide bottlenecks for developing investment opportunities and attracting investment finance need to been identified, and capacities to address them need to be developed. These issues don't relate to individual investments but to sector-wide investment policies.

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Actions

- *Support a more inclusive investment policy development and planning process* -- with stronger collaboration between government agencies, local authorities, water services providers, and other relevant stakeholders (including representatives of women, youth and vulnerable groups).
- *Develop a more balanced portfolio of investment solutions* – possibly including better information management, a clearer institutional framework, an improved mix of infrastructure investments, a greater focus on demand management (vs supply augmentation), and attention to operation and maintenance costs.
- *Adopt a more integrated approach for water investment planning and programming* - transitioning from approving water investment projects "on demand" to developing a multi-decade water sector investment plan that includes a prioritised portfolio of investment projects and is revised periodically. Encourage integrated investment frameworks by linking water projects to broader sustainability goals, such as climate adaptation.
- *Ensure the financial sustainability of water investment plans* – by identifying and selecting investments that are cost-effective over their lifetime and articulating how investments will be paid for.
- *Identify and manage synergies and trade-offs between infrastructure investment projects across WEFE sectors*, including through the development and implementation of integrated WEFE investment projects and programmes.

Recommendation #3 – Increase the quality of public expenditure programmes related to water

Rationale

A large part of the water expenditures, in particular water investments, is financed by tax-funded public budgets. Public budgets are increasingly under pressure and the water sector has to compete with other sectors for budgetary resources. In addition to making the case to the ministry of finance for increases in the allocation of budgetary resources, the water sector needs to ensure that the resources allocated produce the maximum impact.

Actions

- *Enhance public financial management (PFM) in the water sector* -- by developing capacities for financial planning, financial management, financial control, and evaluation. Implement transparent governance to improve accountability in water finance and reduce inefficiencies and financial losses due to corruption.
- *Reform existing subsidies* that promote inequalities (by subsidising everyone and not only those that need social protection), distort water use, and undermine climate resilience. Redirect support toward targeted social protection measures and sustainable and efficient practices.
- *Ensure that water expenditure programmes* are aligned with water policy priorities and that they fund activities that provide the highest social, economic and environmental benefits, as far as possible.

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- *Increase value-for-money in the design and implementation of water-related projects* – for example by securing time and capacity for the development of successful investment projects so that all project phases (planning, project preparation, procurement, construction and operation) can be carefully managed; and by expanding the use of competitive bidding procedures that combine price and quality criteria, and of performance-based contracting.
- *Carry out regularly (e. g. every 5 years) a public expenditure review of the water sector* – assessing how government funds are allocated and spent, the consistency of spending with policy priorities, and their effectiveness and efficiency.

Recommendation #4 – Review WASH tariff policies and strengthen the economic regulation of WASH services

Rationale

The mobilisation of user contributions via tariffs is the keystone of the financial sustainability of WASH services. WASH services are natural monopolies and economic regulation addresses the problems posed by natural monopolies by compelling to keep costs down, charge fair tariffs, and provide good service. Good economic regulation of WASH services ensures that decisions about tariffs are technically sound rather than politically motivated. Credible regulation is a catalyst for water investment and financing -- by increasing the likelihood that any loans and bonds will be effectively repaid, it increases the creditworthiness of utilities.

Actions

- *Review current tariff policies for WASH services* to ensure that they achieve the national policy goals regarding financial sustainability, affordability, and water demand management.
- *Implement policy measures to ensure the affordability of WASH services* for low income and other vulnerable groups (such as access subsidies, tariff-based measures, and social protection measures) to ensure social equity while pursuing financial sustainability.
- *Review the current system for economic regulation* of WASH services to ensure that it reflects the key principles of regulation, but also local needs, local instruments, and local organisations.
- *Designate an entity to implement and enforce economic regulations.*
- *Ensure that efforts to enhance economic regulation of WASH services are carried out in tandem with other reform efforts* that develop supportive policy and governance of service providers.

Recommendation #5 – Better integrate water, climate and finance

Rationale

Climate change is significantly driving up the costs of achieving the water-related SDGs in the Mediterranean. But despite its key role in ensuring the climate resilience of the national economy, water management remains underfinanced. While climate finance is not going to be the panacea that solves the water finance gap, it has significant potential to grow and contribute to finance climate mitigation and adaptation in the water sector. Accessing climate finance for water investments is still too hard, even if domestic stakeholders and international partners are ready to support governments in addressing the water, climate and finance challenge.

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Actions

- *Integrate water and climate at strategic policy level* – ensuring that the climate policy framework encourages the water-related sectors to contribute effectively and efficiently to addressing the climate emergency, and that it recognises the case for investing in water as part of national climate adaptation and mitigation strategies.
- *Integrate climate in water investment policies and plans* – mandating the integration of climate change risks in water investment planning and programming, and developing a portfolio of climate-smart water projects.
- *Integrate climate finance in water finance strategies* -- strengthen your approach to water finance to ensure that the water sector has the financial means to contribute to address the climate emergency, and mobilise and use climate finance strategically.
- *Develop regional climate finance hubs* that link investors, banks, commercial lenders and water project developers, including utilities and municipalities, as appropriate, to build trust and pipelines.

Recommendation #6 – Mobilise more public finance through Public Development Banks

Rationale

Public Development Banks (PDBs) are banks within the public sphere (by mandate, ownership or governance) that have a specific mandate to deliver on public policy objectives that support economic and socially. They include international PDBs such as the European Investment Bank or the Islamic Development Bank, as well as national PDBs such as ICO in Spain and Il Bank in Turkiye. National PDBs have played a significant role in water sector development in high-income UfM member states, but they are underused in the southern and eastern Mediterranean to raise finance for achieving the water-related SDGs. Globally, water sector investments represent on average between 5% and 15% of PDB´s portfolio.

Actions

- *Provide political leadership for ensuring that the mandate of the PDBs includes investing in the water sector.*
- *Define the role of PDBs in the national water finance strategy* and engage PDB staff in the development of the national water finance strategy.
- *Strengthen the capacity of PDBs capacity for engaging in, and provide finance for, the water sector.*
- *Allocate public funds to initiate PDBs to provide water sector investments*, starting with small projects, as a basis for standardising processes.
- *Bolster the development of a substantive Euro-Mediterranean chapter of the OECD's Public Development Banks for Water (PDB4Water) Initiative* – bringing together PDBs operating in the region to facilitate peer learning among PDBs, policy dialogue with government authorities, and initiatives to pool financial resources, in line with national circumstances.

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Recommendation #7 – Promote a larger role of commercial finance

Rationale

In many UfM member states, water investment needs largely surpass the capacity of governments to pay for the required investments on an on-going basis. International public development banks have been supporting governments to implement their water investment plans by providing development loans, but this is not enough and there is a need to attract commercial finance. There is no shortage of financial resources or financial mechanisms in the region; rather, the barriers to attract commercial finance relate to the enabling environment and the absorptive capacity. While a significant part of the agenda for attracting commercial finance for water investments, such as the regulation of capital markets, is beyond the responsibility and capacity of the water sector, water authorities still can take significant steps to enhance the bankability of water projects and crowd-in commercial finance.

Actions

- *Develop a more supportive enabling environment* – including in the areas of sector leadership, investment planning, economic regulation, and stakeholder engagement.
- *Enhance the creditworthiness of water utilities* – by ensuring good governance, stable revenue flows, and operational efficiency.
- *Develop stronger project pipelines* -- by building the capacities of project promoters (such as ministerial departments, municipalities and utilities) to design bankable projects, and mobilising technical assistance from development partners to facilitate project structuring and pipeline development.
- *Reduce the risks for commercial financiers* – for example, by bundling multiple projects/utilities together, encouraging the development of partnerships between international banks and local banks (as local banks can assess local risks better), making use of catalytic funds (such as the GCF and the EFSD+), mobilising risk mitigation instruments (such as government or donor-provided guarantees), and ensuring prompt payment by project promoters to contractors (so they can pay back loans timely to lenders).

Recommendation #8 – Leverage public-private partnerships for enhancing financial sustainability

Rationale

The experience with public-private partnerships (PPPs) in the water sector shows that private operators should not be seen as a source of financing for the sector. At the same time, private operators can contribute significantly to enhancing the financial sustainability of the sector by: helping to develop a long-term vision of financial sustainability for the sector; reducing short-term and long-term costs through efficiency gains and improved asset management; and increasing revenues through improved billing and collection systems – including through AI-based solutions. PPPs can also focus on the delegation of IT services. PPPs will happen when there is a confluence of interest from government, operators and financiers.

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Actions

- *Develop government capacities* to drive progress in the key areas of economic regulation, strategic use of public finance, project screening procedures, getting ready efforts, contracting (including performance-based contracting), and functioning billing and collection systems, as far as possible.
- *Adopt a results driven approach* that puts water users and beneficiaries at the centre of water PPPs, where appropriate.
- *Identify, develop and prioritise tools* to perform financial viability and cost recovery analysis, including tariff design and subsidy modeling.
- *Take steps to make the most of water PPPs* by focusing first on optimising existing assets, promoting competition in private sector participation, investing in knowledge management of water PPPs, and leveraging the potential of digitalisation.

Recommendation #9 – Contribute to improved regional cooperation on water finance

Rationale

Countries around the Euro-Mediterranean region share similar water finance challenges – including increasing costs of adapting to climate change and tightening constraints on public budgets. Even when the water management challenges are not always the same, the water finance solutions often are. These UfM Recommendation on Water Finance reflect the water finance solutions that are most relevant across the region. The region has mechanisms in place for knowledge sharing and peer learning in water finance, in particular the annual conference on water finance and investment and the UfM working group on water finance and investment.

Actions

- *Designate a national focal point for water finance issues* and include in the job description responsibilities for knowledge management and regional cooperation, and document national successes and lessons learned in enhancing the financial sustainability of the water sector.
- *Establish a permanent national dialogue platform* to discuss water finance issues (and provide related training when appropriate), involving water and economic authorities, financiers, service providers and main water users. Feed lessons learned across the region to the national dialogue platform. Bring the lessons learned in this setting to the regional level.
- *Make the most of existing regional mechanisms* for knowledge sharing and peer learning in water finance by participating at the appropriate level, helping to mobilise other actors (such as domestic financiers), and sharing successes and lessons learned.
- *Consider taking part in the (Rome) Initiative on Water* to be launched at the 2026 UfM Ministerial Meeting on Water, and contribute to ensure that it supports the implementation of these recommendations through its components on capacity development and project facilitation.

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