

## Concept Note

Expert Consultation Workshop on

*Finance and Water  
in North Africa and the wider Mediterranean  
Region*

24<sup>th</sup> February 2010

Madrid, Spain

*Venue:*

IFEMA (Feria de Madrid), Plenario Room  
28042 Madrid, Spain

[www.ifema.es/](http://www.ifema.es/)



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**CONCEPT NOTE**

**Introduction**

The catalytic role of finance in the promotion and implementation of integrated water resources management is widely acknowledged. Although the water crisis has been recognised as primarily a crisis of governance, seeking and securing the necessary financial resources in order to support much-needed water sector reforms has proven a real challenge; a challenge in which many countries seem to be underachieving. In the Mediterranean region, and the North African context in particular, and despite the –often generous- flow of funding in the form of ODA, loans or otherwise, the countries struggle and usually fail to meet the financial requirements that water-related strategies and plans entail.

In the Mediterranean context, and within the framework of the Union for the Mediterranean (UfM), water financing has been recognised as a key element and it constitutes one of the four chapters of the Strategy on Water in the Mediterranean (SWM), the elaboration of which was mandated by the Euro-Mediterranean Ministerial Conference on Water (22 December 2008, Dead Sea, Jordan). The SWM is currently under preparation and is planned to be adopted during the UfM Ministerial Water Conference scheduled for 13-14 April 2010, in Barcelona, Spain.

In the wider African context, and during the Eleventh Ordinary Assembly of the African Union (30 June - 1 July 2008), the Heads of State and Government adopted the Sharm El Sheikh Declaration for Accelerating the Achievement of Water and Sanitation Goals in Africa. The Declaration stresses the need for increasing the engagement of local, international and other financial resources for the water and sanitation sector and also calls for the development of appropriate financing policies and investment plans. Following the Declaration's explicit call for a Ministerial meeting, which was also agreed during the Second African Water Week (Johannesburg, November 2009), a meeting of the African Ministers of Water and Finance is planned later on in 2010 with the aim to progress with the implementation of the Sharm El Sheikh commitments and develop the appropriate national financing policies.

Responding to the call for more attention towards water and financing, GWP-Med has been engaged in a number of activities relating to the theme. Indicatively, and within its capacity as MED EUWI Secretariat, GWP-Med has been facilitating, in close cooperation with the OECD, a National Policy Dialogue on Financing Strategy for the water supply and sanitation sector in Egypt since 2006; has commenced activities on Financing and IWRM in Lebanon; has conducted exploratory activities in Tunisia with regard to private sector involvement in the water sector and has been also providing technical assistance to the elaboration process of the SWM.

With the aim to contribute to the above regional processes, to enhance synergies between the Mediterranean and the wider African context and to encourage related actions, GWP-Med plans the organisation of a number of meetings/workshops on the theme of financing and water.

The first such meeting will be an Expert Consultation Workshop prior to the Barcelona Ministerial; the Workshop will provide concrete recommendations from the North African perspective, as well as the wider Mediterranean, to the Background Briefing Paper that is currently being prepared jointly by the African Union, AMCOW, AfDB and the GWP as a direct contribution to the African Ministerial. The Workshop is planned to take place back-to-back with the 3<sup>rd</sup> WEG meeting (25 February 2010, Madrid) that will elaborate on the SWM's progress and in that respect will complement and be complemented by this process and particularly the development of the Water Financing Chapter.

A second Expert Consultation Workshop is planned after the Barcelona Ministerial in April, in order to facilitate the preparatory process for the implementation of the adopted SWM and also to contribute towards the preparations for the African Ministerial Conference later in the year.

### **Background to Finance and Water in North Africa**

The international community agrees nowadays on the necessity for the adoption of an integrated water resources management approach in order to support sustainable and equitable socio-economic development and to achieve the Millennium Development Goals (2000) and the World Summit on Sustainable Development Targets (Johannesburg, 2002). Securing the financing needed for IWRM implementation and the achievement of the internationally-agreed commitments poses a serious challenge. The importance of incorporating financial considerations in the water sector has been raised at high political level and has been explicitly recognized in related Declarations of Ministers and Heads of States and Governments (Sharm El-Sheikh, 30 June-1 July 2008 - Dead Sea, Jordan, 22 December 2008).

In support of the country efforts towards sustainable financing of the water sector, several EU-Mediterranean cooperation initiatives have been launched and are ongoing such as the Barcelona Process and its successor, the Union for the Mediterranean, the European Union Neighbourhood and Partnership (and the related Instrument) or the UN Barcelona Convention and the subsequent Mediterranean Strategy for Sustainable Development, just to name a few. Additional frameworks aligned with these efforts include the Mediterranean Component of the EU Water Initiative (MED EUWI), a process led since 2003 by the Government of Greece and technically supported by GWP-Med, that provides a platform for strategic policy dialogue, both at national and regional levels. Also the GEF Strategic Partnership for Large Marine Ecosystems in the Mediterranean, which has recently commenced and has as its main objective to assist basin countries in implementing reforms and investments in key sectors –including the water sector- in order to address transboundary considerations. Also, the Horizon 2020 Initiative, launched in Cairo during the Euro-Mediterranean Ministerial Conference on Environment in November 2006, that aims to tackle the top sources of Mediterranean pollution by the year 2020 and attributes particular importance to the role of financing and the involvement of the private sector in pursuing this goal.

At the African level, major initiatives have been also launched including the AMCOW Trust Fund established to facilitate the financing of MDG related actions; the African Water Facility (AWF) established as a Special Fund of the African Development Bank

(AfDB) in May 2004 and mandated to facilitate the availability of financial resources to build Africa's water institutions and management capacity to meet the MDGs and the targets of the African Water Vision; the Rural Water Supply and Sanitation Initiative (RWSSI) aiming to accelerate access to water supply and sanitation services in rural Africa; the Water and Sanitation Programme (WSP) of the World Bank focusing on developing policies, finding innovative solutions, promoting best practices and developing capacity for sustained service access; the Water and Sanitation for African Cities Programme aiming at creating an enabling environment and capacity building for pro-poor investments in water and sanitation in urban areas; the Africa Civil Society Network on Water (ANEW) aiming to promote dialogue, learning and cooperation on water issues in the region, and to facilitate and support the participation of the African civil society in water policy formulation and the implementation of development plans in the African water sector.

Due to their geographical position, the North African countries are concerned with and are involved in the African as well as the Mediterranean processes initiated to assist the countries to meet the water financing challenges. The water situation in the North African countries is acute, resulting from the complex interaction of a plethora of parameters: environmental, socio-economic, geo-morphological as well as political. Scarce water resources and their unequal distribution in space and time, the rapid demographic growth, the uncontrolled urbanisation trends and the increasing demand on water, the overexploitation of aquifers and the degradation of water quality make complex the satisfaction of all users' needs. The projected climate change impacts aggravate the situation and make the need for action even more urgent. The combination of efforts for improving efficiencies, enabling the optimization of financing needs and financing strategies elaboration and facilitating the mobilization of additional financial resources is a key factor for the sustainable development and adaptation of the water sector in these countries.

#### Public expenditure on water sector

The North African countries have made big efforts to meet their population and economic development's water needs. Huge investment programs have been engaged for securing supply, building dams and water transfer networks, promoting irrigation projects, extending and improving water services, etc. These programs have been largely supported by public funds. Governments are spending between 1 and 3.6 percent of GDP on the water sector, as summarized in the following table. These figures, already large, exclude the significant private investment in well construction and maintenance and irrigation infrastructure, and private expenditure to pay charges on water services. Water represented between 20 and 30 percent of government expenditures in Algeria and Egypt in recent years (World Bank, 2007).

**Table 1 : Public expenditure on water, as a share of GDP**

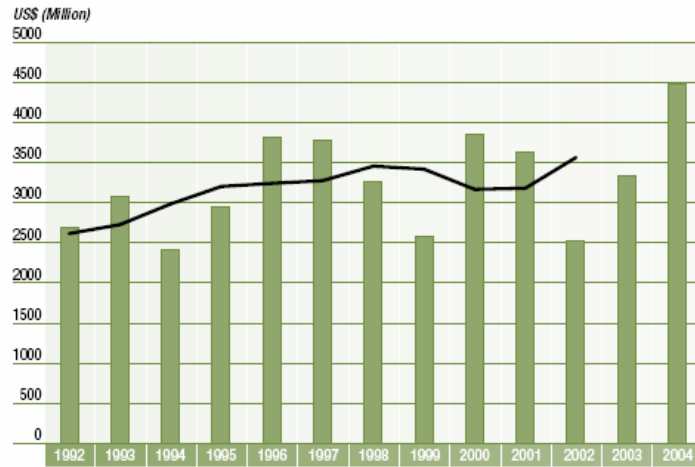
Country	2001	2002	2003	2004	2005
Algeria	1.3	1.7	1.7	1,5	1.9
Egypt	-	3.6	3.3	2.4	-
Morocco (avg 2001-4)	3.6	3.6	3.6	3.6	-
Tunisia (avg. 1997-2001)	1.7	-	-	-	-

Source : World Bank, 2007

#### Official Development Assistance

In addition to domestic resources, investment on water infrastructure is being made through bilateral and multilateral agreements. The annual ODA commitments for water face significant fluctuations at international scale.

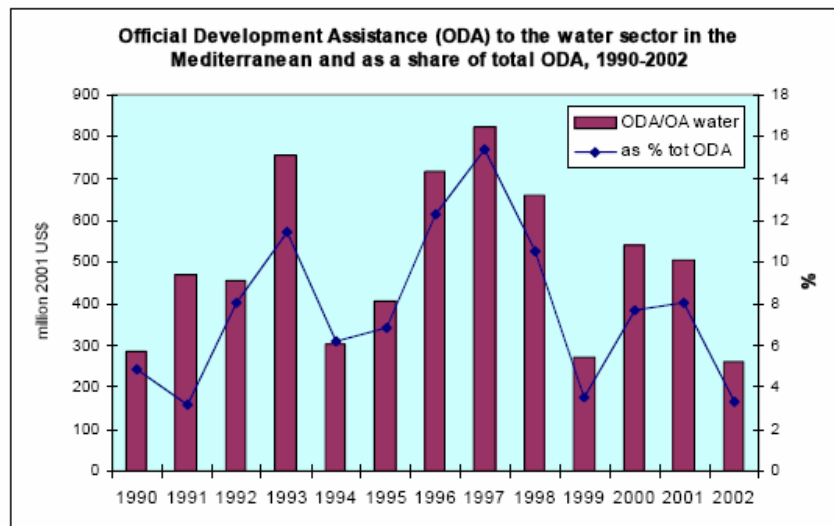
**Figure 1 : ODA commitments for water in 2003 constant dollars between 1992 and 2004: annual commitments (bars) and five-year moving average (curve)**



Source : World Water Council, 2006

The case in the North African countries does not differ much. Considered within the wider Mediterranean region, high and low peaks every 4-5 years may be observed, which might reflect a trend for funding ‘cycles’.

**Figure 2 : ODA to the water sector and as a share of total aid in the Mediterranean region 1990-2002**

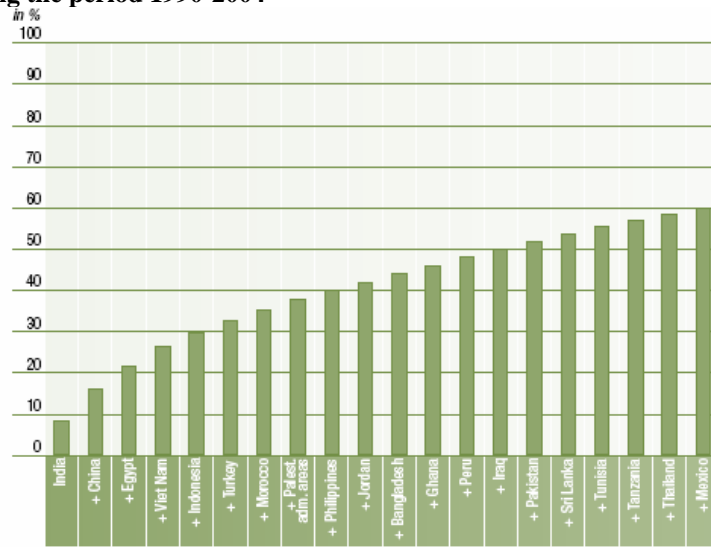


Data refer to ODA/OA commitments for the water sector and as a % of total allocable ODA/OA. Data exclude aid for waste management.  
Source: OECD CRS Aid Activity Database.

Source : Med EUWI, 2005

Looking at the recipient countries, three Northern African countries are listed among the 20 countries receiving most ODA for water during the period 1990-2004: Egypt is in the third position, Morocco in the 7th position and Tunisia in the 17th position.

**Figure 3 : Cumulative percentage of ODA commitments for water allocated to the top 20 recipients during the period 1990-2004**



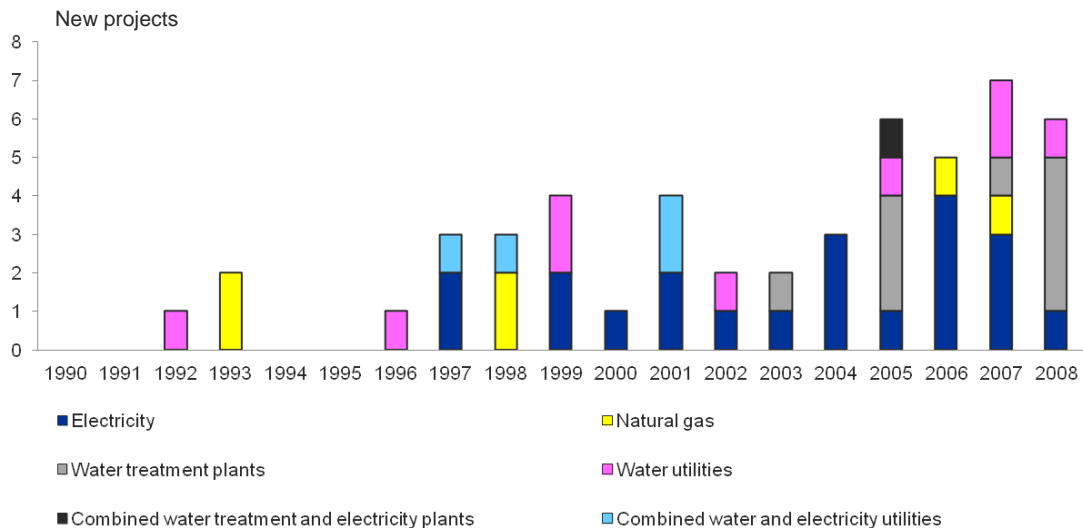
Source : World Water Council, 2006

When considering population figures, Tunisia occupies the seventh position among the largest recipient countries having a population of more than 1 million with an average commitments of 54 millions US \$ for the period 1990-2004 and an average commitment of 5 \$ per capita.

### Private Participation

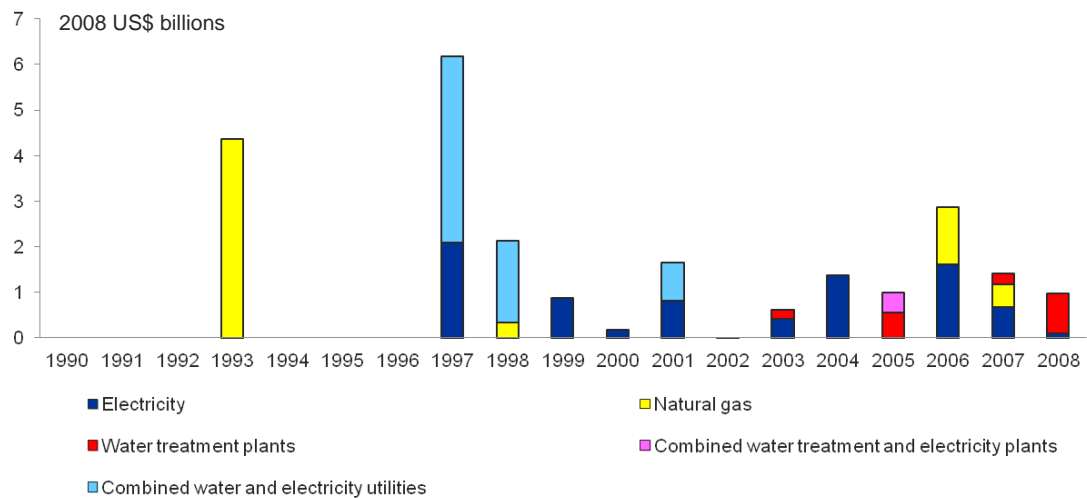
North Africa has small but growing private involvement in the water sector. Regarding water and sanitation services, as we can see from the following figures relevant to the wider MENA region, the recent trend for private participation is for water treatment plants.

**Figure 4 : New energy and water projects with private participation in the Middle East and North Africa, by sub-sector, 1990–2008**



Source: World Bank and PPIAF, PPI Project Database

**Figure 5 : Investment commitments to energy and water projects with private participation in the Middle East and North Africa, by sub-sector, 1990–2008**



Source: World Bank and PPIAF, PPI Project Database.

Morocco is the most active country in outsourcing water supply services among the North African countries, and recent projects are likely to encourage replication. The Moroccan government awarded a thirty-year concession contract for a power-water-sewerage operation in the Rabat and Sale regions, following a similar project implemented in Casablanca in 1997.

After a few years experience with service contracts, Algeria signed for the first time a BOT contract for a desalination plant in 2001, and outsourced in 2005 the water supply of Algiers by awarding a management contract to Suez. After the first five years, more responsibilities might be delegated to the private sector and the contract could turn into a concession contract.

In Tunisia, private sector participation concerned only wastewater with limited service contracts until now. However, concession contracts are under preparation for desalination and used water treatment plants.

In Egypt<sup>1</sup>, the Government adopted in 2006 a new long-term policy of pursuing partnerships with the private sector to expand and increase the country's infrastructure investments and a PPP Central Unit (Public Private Partnership) was established in the Ministry of Finance. According to the PPP Unit some 10-15% of the annual infrastructure needs (new investment and maintenance – not just in water) could be mobilised through PPPs. With the sanitation sector leading the PPP activity in the country, the first BOT (Build, Operate and Transfer) Contract was signed in the summer 2009 for the construction of the New Cairo Wastewater Treatment Plant<sup>2</sup>. The Government has four additional similar projects in the pipeline for the coming 12 to 24 months with two of them (6<sup>th</sup> October and Abu Rawash Wastewater Treatment Plants) being in the pre-qualification stages.

<sup>1</sup> An Assessment of Private Sector Participation in Egypt's water infrastructure is under finalisation within the MED EUWI Water Dialogue in Egypt in close cooperation with the OECD.

<sup>2</sup> The project attracted significant interest from the private sector, with five bidders being pre-qualified and finally a consortium including the Egyptian company Orascom and the Spanish company Aqualia winning the tender.

New experiences with private participation in irrigation infrastructure are also initiated in some countries. Indeed, two recent cases of public-private partnership in irrigation have been concluded, both using groundwater for growing exportcash crops. These are the Desert Road project in the Western Delta, Egypt, and the Guerdane scheme in Morocco.

### Water pricing policies

#### *Irrigation systems*

Water pricing in agriculture is making slow headway. In practice, tariffs applied in public irrigation schemes cover less than operation and maintenance costs. Heavy deterioration of infrastructures and resulting inefficiencies lead to a vicious cycle of build-neglect-rebuild.

At the same time, highly subsidised public systems benefit only a few privileged farmers, since those outside of such systems pay the full cost of water, e.g. from groundwater pumping (where energy provision is not subsidised).

Efforts have been made in some countries to improve cost recovery in irrigation. Morocco and Tunisia have introduced volumetric pricing for public irrigation, charging farmers by the amount of water they use, rather than the hectares they have under cultivation. Irrigation charges cover almost completely operation costs in Tunisia and are moving toward that goal in Morocco.

Several countries have taken steps on the organizational side delegating public irrigation systems to users with the target of progressively disengaging them from the central government. The region has plenty of experience in water user associations (WUAs) and irrigation management transfer (IMT), but less than 10% of the irrigated area is affected by such operational systems and only 10% of WUAs are functioning well (Working Group on Financing Water for Agriculture, 2006).

#### *Water and sanitation services*

The degree of cost recovery for water and sanitation utilities varies significantly. In most cases, the costs of operation and maintenance are recovered through revenues. However, water prices make generally no contribution to recovering capital costs and are insufficient to allow the service to be financially autonomous. The table below, extracted from a water sector analysis scorecard presented by OECD, gives an outlook of sector performance and the water pricing policy in 4 North African Countries.

**Table 2 : Sector performances and pricing policies for WSS**

Country	Algeria	Egypt	Morocco	Tunisia
<b>Improved Drinking Water Coverage in Urban Areas (Total)</b>	88%	99%	99%	99%
<b>Continuous water supply</b>	No	No	Yes	Yes
<b>Average hours of access to tap water (hours/day)</b>	12 hours in Algiers	12 hours	24 hours	24 hours

<b>Estimate of unaccounted for water</b>	40%	50% in Alexandria and Cairo	Around 25-30%	Around 20%
<b>Operating cost coverage ratio</b>	82%	40%	110% in Casablanca and Rabat	87%
<b>Geographical tariff setting</b>	Tariff set locally	Tariff set locally	Tariff set locally	Tariff set nationally
<b>Progressive tariff structure</b>	Yes	Yes	Yes	Yes
<b>Sustainable level</b>	No. But tariff reform is on track, prices increased in 2005	No	Yes	Yes overall, but the high level of cross subsidies does not seem sustainable

Source: Pérard E (2008)

### Challenges

Countries of North Africa have developed major infrastructures to meet the populations' needs and support the national socio-economic development. Widespread water storage has provoked competing claims for water rights use and environmental problems. Aware of the potential conflicts on water resources, Governments are shifting progressively from supply management to demand management and the use of non-conventional water resources. The achieved steps towards this objective are mainly related to promoting water savings and improving network efficiency. Obviously, considerable mobilisation of funds still remains needed for most countries in order to achieve financially sustainable investments on water saving. However, implementing a successful water demand management policy requires good sector governance in order to reach efficient allocation of water resources between users. Involving key stakeholders and achieving coordinated planning are therefore prerequisites. National strategic choices for water regarding allocation among users needs to be built on economic benefit evaluations and models.

Also, success in delivering water supply to a wide section of the population led to increasing expectations of the population *vis a vis* water and service quality. At the same time, the remaining population, which is not connected to water services, is largely located in rural areas. Thus, responding to the expectations of the serviced population and connecting the remaining is an expensive development that will depend on increasing public subsidies. Simultaneously, limited cost recovery leading to deferring operation and maintenance of existing infrastructure, accentuates the need for additional finance towards rehabilitation. Reforms in water pricing policies are necessary and strategic financial planning needs to be developed with a focus on strengthening the sector's self-financing capacities through water tariffs and user fees and ensuring the financial sustainability of service providers. Social and pro-poor considerations, complemented by a balanced subsidy system, need to be also considered when setting the tariff structure.

Water resources in North African countries face severe quality degradation problems due mainly to overexploitation and the discharge of untreated wastewater in water

bodies. Reducing and preventing pollution will secure the availability and the quality of water resources as well as significantly reduce the cost of water treatment. Water pricing needs to integrate user-pay and polluter-pay principles to encourage pollution reduction and cover environmental costs.

Private participation in the water sector remains modest in North Africa. Opportunities for public private partnerships and commercial loans as well as innovative financing mechanisms need to be considered for additional financing. Improving governance is a key factor to enhancing the ability of the water sector to attract private financing. This depends, primarily, on improving the legal, institutional and regulatory frameworks.

### **Expert Consultation Workshop (24 Feb. 2010) – Context and Objectives**

The Expert Consultation Workshop is scheduled for the 24<sup>th</sup> February, in Madrid, back-to-back with the 3rd Meeting of the Water Expert Group (WEG) that is mandated by the UfM Ministers on Water to elaborate on the SWM.

The Workshops will be a platform to discuss the main opportunities and priorities the North African countries encounter with regard to financing the water sector by bringing together experts, donors, IFIs and North African Government officials from both ministries of water and finance. The objective is to address insufficient access to finance in the water sector by supporting improvements of policies that are relevant for sector investment, strengthening the capacity for strategic financial planning and clarifying the opportunities and risks from private involvement in the water sector. This will assist the water sector to become financially more sustainable and attractive for investors of all kinds (i.e. public, private and ODA).

It is envisaged that the Workshop will be attended by official representatives from ministries in charge of water and finance or economic planning in the countries of North Africa, major donor agencies and IFIs working in the water sector, the NAMCOW-TAC members, regional organisations and representatives of other Mediterranean Ministries in charge of water.

The Workshop will debate the financing of the two inter-related but separate aspects of water sector development: managing the resource and provide the water and sanitation services. Among others issues, the conference will focus on:

- priorities and investment requirements regarding the sub-region specificities,
- economic approaches for water resources allocation choices,
- optimization of financing and increasing the domestic budget,
- actions/changes needed for increasing private investment in the sector,
- alternatives and innovative mechanisms for financing.

With the above focus, the February Workshop will consist of three major sessions on:

- The policy framework on financing water in the Mediterranean,
- Financing the water sector - opportunities & priorities at country level,
- Prioritising the key issues at regional level

The outcome of the Workshop will be a set of realistic recommendations on how to effectively address the issue of financing and water in North Africa with possible application to the wider Mediterranean. These recommendations will be fed into the

SWM preparatory process, leading to the Strategy's adoption during the UfM Ministerial Conference on Water (13-14 April, Barcelona, Spain). The document will also serve as part of the direct input to the African Ministerial Meeting that is currently being prepared by the EU Water Initiative - Finance Working Group (EUWI-FWG).

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