

Expert Consultation Workshop on
Finance and Water
in North Africa and the wider Mediterranean Region

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Report and Recommendations

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Abbreviations and Acronyms

ACWUA	Arab Countries Water Utilities Association
AICD	Africa Infrastructure Country Diagnostic
AFD	Agence Française de Développement
AfDB	African Development Bank
AMCOW	African Ministerial Council on Water
AWF	African Water Facility
BOT	Build-Operate-Transfer
BMZ	German Federal Ministry for Economic Cooperation and Development
EC	European Commission
EIB	European Investment Bank
EPE	European Partners for the Environment
EMWIS	Euro-Mediterranean Water Information Systems
FWG EUWI	Finance Working Group of the EU Water Initiative
GDP	Gross Domestic Product
GEF SPM	GEF Strategic Partnership for the Mediterranean Large Marine Ecosystems
GWP	Global Water Partnership
GWP-Med	Global Water Partnership-Mediterranean
IDB	Islamic Development Bank
IFIs	International Financing Institutions
IME	Institut Méditerranéen de l'Eau
INBO	International Network of Basin Organisations
IWRM	Integrated Water Resources Management
MAP UNEP	Mediterranean Action Plan of the United National Environment Programme
MDGs	Millennium Development Goals
MED EUWI	Mediterranean Component of the EU Water Initiative
MENBO	Mediterranean Network of Basin Organisations
NAMCOW TAC	North African Ministerial Council on Water – Technical Advisory Committee
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PPP	Public Private Partnership
PSP	Public Sector Partnership
SWM	Strategy for Water in the Mediterranean
TDG	Technical Drafting Group (for the Strategy for Water in the Mediterranean)
UfM	Union for the Mediterranean
UNEP	United Nations Environment Programme
WEG	Water Expert Group (of UfM)
WFD	Water Framework Directive of the European Union
WSS	Water Supply and Sanitation
WWF	World Water Fund for Nature

1. Introduction

The catalytic role of finance in the promotion and implementation of integrated water resources management (IWRM) 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 Official Development Assistance (ODA), loans or other, 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 new Strategy for Water in the Mediterranean (SWM). The decision for the elaboration of the SWM was taken at the Euro-Mediterranean Ministerial Conference on Water (Dead Sea, Jordan, 22 December 2008). A Euro-Mediterranean Water Expert Group (WEG), chaired by France and Egypt as UfM Co-Chairs, was entrusted to work on preparing the SWM, which has followed a structured, open and inclusive regional preparatory process involving national governments, local authorities and regional stakeholders. A Technical Drafting Group (TDG), chaired by Spain, prepared the draft SWM texts through an elaborate process. The Mediterranean Component of the EU Water Initiative (MED EUWI)¹ provides technical and administrative assistance to the process in close cooperation with the UfM Co-Chairs (France and Egypt) as well as with the EU Presidency, Spain (January to June 2010). The SWM is currently (March 2010) under finalisation and is anticipated to be adopted during the UfM Ministerial Conference on Water scheduled for 13 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 States and Governments 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, a political gathering 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. The EUWI-Finance Working Group (FWG) and the Global Water Partnership (GWP) provide assistance to this process.

Responding to the call for more attention towards water and financing, MED EUWI with technical support from the Global Water Partnership – Mediterranean (GWP-Med) has been engaged in a number of activities relating to the theme. Indicatively, MED EUWI has been facilitating, in close cooperation with the Organisation for Economic Cooperation and Development (OECD), a National Policy Dialogue on a Financing Strategy for the Water Supply and Sanitation Sector in Egypt, since 2006, under the lead of the Egyptian Holding Company for Water and Wastewater and carried out an assessment of the framework conditions for Private Sector Participation (PSP) in the water sector; has commenced activities on Financing and IWRM in Lebanon with an emphasis on PSP in water infrastructure under the lead of the Lebanese Ministry of Energy and Water; 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. These activities are supported by a range of institutions including the European

¹ MED EUWI aims to assist developing countries in the Mediterranean and Southeastern Europe to meet the water-related Millennium Development Goals and Johannesburg Targets. Launched in 2003, it constitutes an integral part and one of the four geographic components of the overall EUWI. MED EUWI develops targeted regional and national activities through annual work programmes, supported through the participation of a variety of institutions and stakeholders. MED EUWI is led by the government of Greece, while GWP-Med services the MED EUWI Secretariat.

Commission, the Greek Government and the GEF Strategic Partnership for the Mediterranean Large Marine Ecosystems.

With the aim to contribute to the above regional processes and to enhance synergies between the Mediterranean and the wider African context through related actions, MED EUWI, GWP-Med and partner institutions and organisations plan the implementation of regional and national activities on the theme of financing and water, including policy and technical dialogue, assessments, capacity building, etc.

The *Expert Consultation Workshop on Finance and Water in North Africa and the wider Mediterranean*, held in Madrid, Spain, on 24 February 2010, constitutes the first in a series of such meetings. A second Expert Consultation Workshop, providing input from the national level, was organised in Beirut, Lebanon, on 8-9 March 2010, hosted by the Lebanese Ministry of Energy and Water, with emphasis placed on private sector involvement in water infrastructure in the country. Furthermore, a third Consultation Workshop, benefiting from the findings of the previous two events and focusing at the regional level, is planned later in the year, in order to contribute to the outcomes of the Barcelona Ministerial Conference (and the elaboration of an Action Plan for the SWM) and also to assist towards the preparations for the African Ministerial Conference later in 2010. Most likely this third Workshop will take place during the Third Beirut Water Week, scheduled for early July 2010.

2. Context and objectives of the Madrid Workshop

The Expert Consultation Workshop took place (24 February 2010, Madrid) back-to-back with the 3rd Meeting of the Water Expert Group (25 February) that is mandated by the UfM Ministers on Water to elaborate on the SWM.

The Workshop was organised by the MED EUWI Secretariat / GWP-Med and the EUWI-Finance Working Group with the support of Spain (EU Presidency), Greece (MED EUWI Lead Country), the European Commission (EC) and the African Development Bank (AfDB). The activity also forms part of and contributes to the objectives of the GEF Strategic Partnership for the Mediterranean Large Marine Ecosystems.

The Workshop brought together more than 70 targeted participants, including official representatives of Ministries in charge of water and finance in the countries of North Africa; the members of the Technical Advisory Committee of the North Africa Ministerial Council on Water (NAMCOW-TAC); representatives of Ministries in charge of water from other Mediterranean countries; major donor agencies and IFIs working in the water sector (AfDB, AFD, EIB, BMZ); regional organisations (OECD, UNEP MAP, Plan Bleu, MedWet, MEDCITIES, ACWUA, WWF, EPE, , IME, EMWIS, INBO, MENBO, etc); representatives of the private sector and consulting companies (Grupo Agbar, Consultoría de Auditorías e Ingenierías, ARNAIZ, DRACE MEDIOAMBIENTE, AEAS Company, etc) and universities (University of Alcalá, etc). The complete list of participants is attached (Annex I) to the present report.

The Workshop served as a platform to discuss the main opportunities and priorities the North African countries encounter with regard to financing the water sector in its two inter-related, but distinct, components: *resource management and service provision*. The objective was to address the insufficient access of the water sector to finance 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.

The set of ideas/recommendations issued from the Workshop will be fed into the two processes that form the background to the meeting. In that respect, input will be sought for the SWM preparatory process, and particularly for the SWM's Water Financing Chapter (the full title of the Chapter is 'Optimizing water financing, water valuation and appropriate instruments, with emphasis on innovative mechanisms'), in view of the SWM's anticipated adoption during the UfM Ministerial Conference on Water (13 April, Barcelona, Spain). The ideas/recommendations will

also serve as part of the direct input to the planned meeting of African Ministers of Finance and Ministers of Water that is currently being prepared by the AMCOW and the AfDB with support from the EUWI-FWG, GWP and others. The North African participants, coordinated by the Chair of the North African Technical Committee of AMCOW, will use the outcomes of the Workshop to make their own preparations for the planned meeting of the African Ministers of Finance and Water.

3. Some key findings

The Workshop's participants acknowledged the existence and magnitude of the financing gap in the water sector and the limitations it poses to the countries' socio-economic development. Furthermore, they agreed that additional efforts have to be made by all stakeholders (governments, donors, private investors, etc) to make more effective use of existing funds, including the improvement in service's operational efficiency, the sequencing of investments as well as raising additional funding.

Developing national policies and investment plans for the water sector, including both "hard" and "soft" components, considering efficiency gains and maintenance and rehabilitation costs and paying attention to the involvement of actors from outside the water sector/sphere (primarily Finance and/or Economy Ministries) all support the case for increasing the allocation of public budget to the water sector and facilitate the access to regional and international funds. On the other hand, donor agencies and International Financing Institutions (IFIs) need to work closer with national governments to make their funding more predictable for the water sector and for the countries. At the regional level, financing mechanisms and flow of funds need to be linked to the SWM objectives and the forthcoming Action Plan for the Strategy's implementation.

It was highlighted that the two sources of finance, apart from the international transfers, include taxes (budget allocations) and tariffs (user charges), despite the political difficulty in raising either of them. However, not doing so will starve the sector of essential investment. Thus, water sector has to face reality and make tough choices. The issues of tariffs and cost recovery received prominent position during the Workshop's discussions, without however any commonly agreed suggestions on the preferred way forward, as the countries, the IFIs and the regional organisations supported substantially diverse opinions on the issue. Nonetheless, all participants agreed on the importance of experience sharing from countries that are already practising –to various degrees- policies towards cost recovery, with the view to replicate good practices.

At the same time, there was consensus that a common understanding and a clear definition need to be agreed upon for cost recovery, addressing the questions of what (Operation and Maintenance - O&M, full, replacement, investment?), for which sub-sectors (Water Supply – WS; Water Supply and Sanitation - WSS; Water Resources?) and from which source for each sector (tariffs, other sources of revenue?). Moreover, it was agreed that increasing the proportion of cost recovery through tariffs needs to be reached progressively according to each country's socio-economic objectives and particularities. Preparing Strategic Financial Plans would help countries identify gaps and match them with sources of finance and thus, provide solid answers to these questions.

The participants accentuated the need for and value of alternative and innovative financing mechanisms and were particularly positive on exploring further the opportunities from private sector involvement in water infrastructure, without compromising though, the prevalence of water as a social good. A Strategic Financial Plan for water needs to also consider the mobilisation of the wide and diverse sources of private financing (private capital, pension funds, micro-finance, etc). It was suggested that a Mediterranean forum is set-up between private investors, finance institutions and governments in order to draw-up a roadmap that will establish the necessary mechanisms and shape the appropriate instruments that will make the most from private financing (improving regulatory framework, providing guarantees, etc.)

4. Structure and sessions of the Madrid Workshop

The Workshop was a one-day event and was structured in four Sessions. The detailed Agenda of the meeting is attached to this Report as Annex II.

The First Session aimed to present an overview of the policy framework on financing water in the Mediterranean. During the session, the two key regional political processes in the region were presented namely:

- i) the Sharm El Sheikh Declaration for Accelerating the Achievement of Water and Sanitation Goals in Africa (2008) and the upcoming joint Conference of Ministers of Water and Finance in the context of the African Union,
- ii) the Strategy for Water in the Mediterranean and specifically the Chapter on Water Financing, and the forthcoming UfM Ministerial Conference on Water (13 April 2010, Barcelona) in the context of the Union for the Mediterranean.

The presentation of the twofold policy framework was coupled with experiences and perspectives on water financing in the Mediterranean region coming from a European donor side (EIB), an Arab utility network (ACWUA) and an inter-governmental organisation (OECD).

The Second Session was devoted to the presentation of the opportunities and priorities in relation to water financing at country level with an emphasis on the North African countries. Official representatives from Ministries in charge of water and finance from Algeria, Egypt, Mauritania, Morocco and Tunisia outlined the current situation in their respective countries as well as the general orientations of national policies on water and finance. Prior to the meeting and in order to channel and facilitate interactive discussions, a series of questions were sent to the countries' representatives. The complete set of Questions for this Session is provided in Annex III.

The Third Session moved the debate from the country to the regional level. It provided an opportunity for regional organisations, IFI's and other related stakeholders to present their views on regional priorities and opportunities in relation to water financing. As done for Session 2, and in order to channel and facilitate interactive discussions, a series of Questions were sent to the participants prior to the workshop. The list of Questions for Session 2 is included in Annex IV.

The Final Session was devoted to summarising the ideas and recommendations from the previous sessions with a side-goal to provide concrete input to the discussions on the SWM Water Financing Chapter that were held during the Third WEG Meeting of the following day (25 February 2010). In addition to the key points presented by the Chairs of the previous sessions, a brief outline of the main ideas/recommendations was put together by the Session's Co-Chair (also under the capacity of co-drafter of the SWM's Water Financing Chapter), which was subsequently opened to roundtable discussion among the Workshop's participants.

5. Synthesis of the Sessions' presentations and discussions

OPENING SESSION

The Opening session consisted of brief interventions by Spain (as EU Presidency and host of the meeting), NAMCOW-TAC Chair, Greece (as MED EUWI Lead Country) and the project manager of the GEF Strategic Partnership Large Marine Ecosystems. The speakers made references to the dire water situation in the Mediterranean and the linkages between water and finance for meeting internationally-set goals, with which all countries in the region have to abide. In addition, the latter speaker explained succinctly the goals, timeline and main components of the GEF project with emphasis placed on the linkages with the SWM process

The session was concluded with a presentation made by the MED EUWI Secretariat/ GWP-Med on the purpose, structure, expected outcomes and suggested follow-up steps of the Workshop. Special reference was made to the Workshop's linkages with the wider Mediterranean and African context with regard to the theme of finance and water.

SESSION 1

The session was chaired by Mr. Jose Rizo Martín, *DG Environment, European Commission*

The African perspective

Mr. Arthur Swatson from the AfDB highlighted the imperative of achieving water security in Africa and stressed the significant investments required in that respect. The recent revision of the Africa Regional Position Paper, delivered at the Africa Water Vision, estimates the investment needs at a cost of up to \$50Bn per year. However improvements in sector efficiency will help bridge the financing gap by almost 40% according to the comprehensive assessment carried out by the Africa Infrastructure Country Diagnostic (AICD).

Achieving water security is clearly on Africa's agenda and it is recognised at the highest political level as an important element for socio-economic growth. Priorities have been identified and commitments have been made by the political leadership. These include:

- Increase substantially domestic financial resources allocated to the implementation of national and regional WSS development activities and **call upon Ministers of water and finance to develop the appropriate investment plans.**
- Call on African Ministers in charge of water and finance, in collaboration with the AfDB and development partners, to **hold a meeting of Ministers of Water and Finance to develop appropriate financing policies.**
- Establish specific public sector budget allocations for **sanitation and hygiene** programs, which need to represent a **minimum of 0.5% of GDP.**

The African Regional Position Paper, presented in Istanbul during the 5th World Water Forum (March 2009), clearly outlined the key actions needed to address the financing challenge. The guiding framework for implementation provides the overall structure for putting into practice the commitments and monitoring evaluation through the AMCOW Annual Progress Report. It includes 7 main themes, 48 commitments and 143 actions and constitutes a tool for reviewing country and regional actions on water security, a reference for regional bodies and partners in defining actions, a framework for reporting according to the African Union requirements. It captures key commitments on water and sanitation, defines broad strategies at regional/country level for water, defines roles and expectations of regional and country institutions and outlines implementation issues.

At regional level, action will build on already existing initiatives and major programmes (RWSSI, AWF, Water for African Cities, NEPAD-CAADP, etc) rather than creating new ones. At country level, actions aim to strengthen practical support to national and local efforts for sustainable water development and management.

The Medium Term Strategy (2008-12) guides the engagement of the Bank in addressing Africa's developmental challenges. The water sector's contribution is central and the Bank will continue supporting "hard" and "soft" interventions including improving IWRM planning and implementation, scaling up financing for Water Supply and Sanitation (RWSSI initiative), addressing food and energy security needs (investment in irrigation and increase storage capacity in the framework of the Business Plan for 2008-13 for Agricultural Water Development) and strengthening water sector governance (support AMCOW and the regional dialogues and processes in Africa, management of key African water sector initiatives).

The Second African Water Week, held from 9-11 November 2009 in Johannesburg, South Africa, included a separate Session on Financing. The key messages from this session include:

- **Many positive developments in recent years.** Good platform for progress;
- **Huge financial challenge:** \$30-50Bn/yr. Need to harness all financial means and develop bankable projects and programmes;
- Demonstrate the compelling **economic case for investment** in water and sanitation;

- Countries should **develop national plans** with clear financing strategies and ensure development partners align with these plans;
- **Balance** financing of physical infrastructure, the enabling environment and governance functions – hard and soft actions are all essential;
- Financing for **hydropower and agricultural water** constitute re-emerged priorities;
- Countries to overcome major political dilemma – set **tariffs that recover costs**;
- **Recognise diversity across Africa**: fragile states need special attention;
- Sustainable cost recovery from the “3 Ts”, **tariffs, transfers and taxes** are key to accessing repayable funding;
- Neither public funding nor ODA or the combination of both will be enough; **innovative approaches are needed** to meet the challenge;
- Create enabling environment to facilitate **private investment** and develop **local capital markets**;
- **Investment in water is not just for water’s sake!** Economy-wide development benefits are high. Essential for meeting other MDGs;
- Apply economic justification criteria to **use grants and concessionary loans** as viability gap funding;
- Ministers should insist on efficiency in water institutions as a **condition for investing** public funds.

The Mediterranean perspective

In the Mediterranean context, the Strategy for Water in the Mediterranean includes a chapter on “Optimising water financing, water valuation and appropriate instruments with emphasis on innovative mechanisms”. The key messages of this Chapter were presented by Ms. Katharina Hoefer from the German Ministry of Economic Cooperation and Development. Approaches and instruments recommended in the Chapter try to address three main objectives and priorities:

- Improving efficiencies to reduce investment needs and improve cost coverage;
- Mobilising financing with emphasis on innovative mechanisms;
- Enhancing regional action.

The recommendations for action are summarised as follows:

- Develop economic models for national strategic choices for water regarding allocation between agriculture, industry and domestic use;
- Develop tangible realistic country-sector financial strategies for the water sector;
- Integrate river basin planning with spatial and economic development planning;
- Quantify and communicate economic benefits of investments in the water sector;
- Improve fiscal systems to render subsidy flows into the sector and revenues from the sector more transparent;
- Transform water service providers into autonomous public entities, operating according to commercial principles in their day-to-day work with a stronger accountability to their customers under an appropriate regulative framework;
- Support water efficiency measures for irrigation: incentives for water saving irrigation techniques, progressive introduction of tariff structures, support the development of self-sustained irrigators’ associations;
- Improve coordination and synergies between grants and loans between bi- and multi-lateral financial institutions; market these more effectively by increasing awareness and ensure clear and consistent procedures; improve donor coordination;
- Explore and promote innovative financial mechanisms;
- Raise awareness on existing and emerging funding and financing mechanisms and build capacity to benefit from them;
- Identification of niches and subsidy mechanism for crowding in equity / private sector skills;
- Development of a pipeline of technical assistance and investment projects with regional visibility aiming at supporting the implementation of the Strategy for Water in the Mediterranean;

The Arab water utilities perspective

Mr. Mohamed Bany Mustafa from the Arab Countries Water Utilities Association (ACWUA) reminded the water situation and the challenges for sustainable development in the Arab countries. The key concerns on water and sanitation from the Water Utilities perspective include:

- the growing cost of financing the upgrade and expansion of water and sanitation services;
- improving the overall performance of the water and sanitation sector, especially water and sanitation utilities and groundwater management, through improved governance and more effective institutions; and
- the lack of effective demand for financing water and sanitation projects.

The Islamic Development Bank (IDB) estimates that Arab countries may need to invest up to \$200Bn in water-related infrastructure over the next ten years, in order to meet the rapidly growing demand for water and sanitation services. This is a huge sum of money to be provided by government budgets. Therefore, it is necessary for the public sector to restrain the monopoly on the water sector and give the opportunity to the private sector to contribute to financing water projects within a solid and well-functioning regulatory framework.

Since it has become difficult for the Arab countries to provide adequate funds for the implementation of water and agricultural projects, the implementation of which requires significant financial resources, the framework of private sector participation in water infrastructure -such as implementing, upgrading and managing drinking water networks, sewage systems, building treatment plants and irrigation systems- has emerged. The public sector in any Arab country, regardless of its potential financial capabilities, and due to the current conditions of the world economy, is no longer able to provide the necessary financial resources to adequately invest in water. A number of countries have already started implementing this approach as is the case of Morocco, Tunisia, Jordan and Egypt. Saudi Arabia for example has started considering involving the private sector in building water desalination units. Water utilities see a greater role for the private sector in meeting demand for water and sanitation infrastructure services over the next decade. However, there is no doubt that the implementation of such projects requires the allocation of additional funds.

Perspective from intergovernmental organisations

Mr. Roberto Martín-Hurtado from the OECD presented a brief synthesis of the results and policy recommendations from the recent work conducted by OECD on financing WSS. In order to close the financing gap, recommended actions target two simultaneous objectives: reducing costs and increasing revenues. Reducing costs can be achieved by improving the operational efficiency of services, the sequencing of investments taking into account O&M costs and the choice of interventions based on cost-effectiveness analysis. Revenues can be increased from the three ultimate sources: the 3Ts – tariffs and other user charges (higher levels and/or increased collection rates), tax-based subsidies, or international transfers (e.g. ODA). Attracting repayable finance (such as that brought by direct private investment), requires a clear financing and regulatory framework. Preparing a **Strategic Financial Planning** can help finding the right mix of the 3Ts.

Also, a “**reference framework**” on financing WRM informed by case studies is currently under preparation by OECD. WRM functions that need to be paid for include:

- **Governance:** research, monitoring and information management; policy-making and planning (including stakeholder involvement); administration; enforcement;
- **Infrastructure:** water storage and distribution, flood control, environmental protection, etc.

Some early findings point that a number of building blocks for financing frameworks are available. For example, many countries have explicitly adopted the polluter pays and cost recovery principles and a number of countries have in place administration /abstraction

/development / pollution levies and local taxes instruments. Some challenging areas where countries need to pay further attention include:

- Identification and quantification of benefits to make economic case;
- Calculating costs: use replacement costs;
- Considering the reduction of costs.

Related to the private sector participation, OECD developed a *Checklist for Public Action*. The Checklist is relevant both for WSS and WRM infrastructure and intends to help governments and other stakeholders properly assess and manage the implications from private sector participation in the financing, development and management of water and sanitation infrastructure. It underlines the importance of an appropriate allocation of roles, risks and responsibilities and of establishing the framework conditions that are necessary to make the best of such cooperation. A private sector participation assessment study has been conducted in Egypt in close cooperation with OECD, in the framework of the MED EUWI National Policy Dialogue on Water that focuses on a Financing Strategy for the water supply and sanitation sector in Egypt and is facilitated by GWP-Med, within its capacity as MED EUWI Secretariat. A similar activity is planned to be launched in Lebanon in the near future (early March 2010), again in close cooperation with OECD, and another in the next period in Tunisia. A regional event is also planned to draw together the experience and lessons learnt with regard to private sector involvement in the water sector across the Mediterranean countries.

Ten messages can be considered so far:

- Need to finance both governance and infrastructure
- Look for savings (e.g. demand management, cost-effectiveness analysis)
- Select cost recovery instruments carefully and get the most of them (rate setting, billing rates, bill collection rates)
- Explore opportunities for off-budget financing
- Consider WRM-WSS links (cost and revenue implications, budget competition)
- Consider the financial implications of other sectors' policies
- Climate change adaptation: additional costs, additional revenues?
- Establish clear national financing (and regulatory) frameworks
- Clarify the role of ODA and development lending as one element in the framework
- Invest in financial information of the water sector and possibly develop strategic financial plans.

Perspective from EU donors (EIB in cooperation with AFD, the European Commission and KfW)

Ms. Monica Scatosta from the European Investment Bank placed emphasis, in agreement with the idea presented by OECD, on the need for an appropriate mix of sources of finance (tariffs, taxes and transfers for different activities). At the same time, she stressed the 3 inter-linked constraints the sector faces with regard to access to finance, the 3Gs:

- **The GAP of financial resources:**
 - o Access to credit is constrained by unpredictable cash flow and poor utility performance -> Ensure sustainable cost recovery from "3T's"
 - o Public funds are governed by political choices -> Improve their reliability and cost-effectiveness
 - o Grants are constrained by budgets -> Improve their effectiveness
- **The GAP of capacity:** need to strengthen sector governance and utility management
- **The GAP in the financeability of projects:** need a new approach for the development of project pipelines and project screening criteria

To address these issues, a set of actions should be undertaken at sectoral level as well as at project level. The sector should display clear rules and realistic goals including adequate political, institutional and regulatory frameworks, consolidated structure between centralised and decentralised entities and realistic investment programmes based on long-term strategy, minimising costs and containing sustainable and financeable projects. The sector should also ensure financeability of providers providing them with affordable capital and stable revenues

once their service targets are set. Clear cost recovery policy from taxes, tariffs and transfers is an asset for the sustainability of the sector. Coordination of different stakeholders, including donors, should be enhanced.

The projects should not be prepared in isolation but should consider the links to national and local policy dialogues and wider sustainability issues. Affordable capital cost should be ensured and factors promoting the success of the projects should be improved: absorption capacity by strengthening planning and implementation capacity of all relevant parties and supporting project preparation; providers' creditworthiness strengthened by ensuring reliable revenue streams, increasing operational efficiency and strengthen commercial management / financial discipline.

Responding to the request expressed during the 'Dutch-Egyptian Conference on the Elaboration of the Strategy for Water in the Mediterranean' (2-3 November 2009, Cairo) for donors to provide a clear description of the criteria considered for projects' financeability, a donors' coordination meeting took place in mid-January 2010, in Paris. Criteria were grouped in two categories:

- The first category is interested on "intangible" criteria. These criteria examine whether the project supports sectoral development including the consistency with a strategic approach towards a sectoral or regional objective, the good understanding of the problem to be tackled, the systematic project selection with support for project preparation, the fast-tracking of no- or low-regret solutions to achieve results and maintain momentum and commitment to sector improvement and the replicability and demonstration effects. The criteria examine also whether the project preparation process is appropriate and whether the establishment and assessment priorities and the comparison options process are rational and transparent. These criteria try also to secure that stakeholders as well as the local and national ownership are clearly identified and that the project is consistent with policies in other sector (e.g. energy, agriculture).

- The second category concerns "tangible" criteria in order to ensure technical, financial and economic viability as well as environmental and social soundness. For that purpose, the quality of project planning and design is evaluated: realistic demand forecasts, cost-effectiveness of selected solution, environmental impacts assessed and mitigated, social issues considered including affordability for low-income populations, planning and technical "integrity", appropriate phasing. The effectiveness of the entities that implement and operate the project is also evaluated: regulated and viable service providers, adequate technical and human resources to execute projects and operational sustainability regarding the means to operate the system as well as the means to prevent erosion of the assets.

Closing the financing gap requires **more** than reducing costs and increasing revenues. The following recommendations were made:

- Focus on both revenues and external funding - they interact!
 - o Loan financing requires reliable revenue stream
 - o Subsidies/ grants should be targeted to remove sector/project constraints
- Involve Ministries of Economy/Finance, Spatial Planning, etc. as:
 - o Success of the SWM hinges on its appeal outside the water community
 - o Integrate water resource planning with economic development
- Address systemic issues of governance and project financeability
- Project selection needs to follow a systematic approach
- Base project selection on environmental and economically relevant intermediary objectives, possibly at sub-regional level.

SESSION 2

The session was chaired by Mr. Mohamed El Alfy, Assistant Minister, Ministry of Housing, Utilities and Urban Development of Egypt and facilitated by Ms. Monica Scatasta from the European Investment Bank. It consisted of brief presentations from the representatives of North African countries on the main characteristics of policy framework and the priorities and opportunities related to water financing in their respective countries.

The priorities of the water sector and the subsequent financial needs have similarities across North Africa. The five countries that made presentations face analogous water sector problems. All countries have limited water resources, with frequent episodes of droughts. They consider drinking water access as a priority objective, as well as basic sanitation services, for the entire populations. Water for agriculture is another expected goal. However, no country has environmental quality at the top of their priorities' list.

During the session's introduction, Mr. El Alfy reminded the audience of the need for countries to specify their priorities and list their demands to the donors. At the same time, he also put special emphasis on the need for financial institutions to be more transparent on the amount of money available for the water sector and for the countries.

Algeria

Mr. Rachid Taibi from the National Water Agency reminded that the Algerian Government raised water as a top priority in the late 90s after a long succession of dry years. As a result, the intervention of the Government developed on two strategic axes: infrastructure development and governance and institutional reinforcement.

Infrastructure development concerned the mobilisation and the transfer of conventional and non-conventional water resources (construction of 71 dams of a total capacity of 7.1 billion of m³), the rehabilitation and the extension of water supply systems as well as sanitation systems, the construction of treatment plants and the rehabilitation and the extension of irrigated areas. All infrastructures have been developed through the **public budget**. Water spending represents an amount between 20 and 30 per cent in the government budget. The public expenditure during the decade 1999 – 2009 for infrastructure development totalled the amount of 2,300 billion Algerian Dinars, almost 22 billion €. Currently it reaches almost 1.3 billion € per year.

The country has also developed a desalinisation program in order to secure water supply for big cities and coastal localities thus, allowing the reallocation of water collected in dams to the highlands. 13 stations are planned to be built along the coast of the country with a total capacity of 2.26 million m³ per day: 3 plants are already operational and one is under trial. The first projects were financed through public budget while there is a shift towards PPP for recent projects. Two plants have been built by foreign partners, among them ORASCOM. Since 2004, the Government has decided against relying on foreign investment for the hydraulic sector, and desalination plants will therefore be financed by Algerian banks and companies (gas).

During recent years, the government has undertaken a set of institutional reforms in order to implement integrated and sustainable water resources management on the one side, and improve the regulation and the efficient management of water and sanitation services on the other.

The legal framework was enhanced by a new Water Law that was promulgated in August 2005 and supplemented since then by a set of Decrees. Major restructuring has been done to the water sector with the creation of a national advisory committee at the central level and 5 basin organisations at the regional level. A regulatory authority for water services has been recently established with autonomous administrative status. Water services are under the responsibility of the Government and the municipalities. The services' management can take three forms: concession granted by the Government (or municipalities) to public bodies (Basin organisations, National Office of Sanitation), municipality's direct management with financial autonomy, and delegation granted by the Government or public institutions to public or private companies. Currently there are 4 major cities in Algeria that are managed through delegated management systems (Alger – Oran – Constantine – Annaba/Tarf).

Financing is covered by the Government. Water tariffs do not suffice to recover operation and maintenance costs of the infrastructures and services. Tariffs are determined by the operating

agency, approved by the Ministry or by the Regulatory Authority and fixed by the Parliamentary Assembly. Increasing water tariffs or taxes is not considered feasible because of institutional and social obstacles. The government introduced **new taxes** to support the water sector like the one applied to petrol companies thus, mobilising some funds.

Recent cooperation programs include the following:

- European Commission (20 Million €): Water Sector Support Program - risk management and risk of flooding;
- Special project with Belgium on putting water principles into action;
- Germany-GTZ (540 000 €): IWRM, follow-up of institutional reforms and capacity building;
- France- AFD: Fund for projects' preparation;
- OSS – GEF – FAE – FFEM – FAO - UNESCO: Transboundary water resources management.

Egypt

Mr. Mohamed El Alfy from the Egyptian Ministry of Housing, Utilities and Urban Development, emphasised the high priority the Government attributes to WSS. In 2004, the water sector was reformed following the trend on privatisation and corporatisation. In the last five years (2006-2010) Egypt has spend the equivalent of US\$10Bn in new infrastructure development. At present, Egypt has a high percentage of urban water services coverage (99% drinking water coverage in urban and 95% in rural areas, 75% sanitation coverage in urban areas). It is nevertheless true that rural areas have very low sanitation coverage percentage (11% sanitation coverage in rural areas). Also wastewater treatment services constitute a pending matter. This leads to a huge financing challenge and to the need to raise more funds.

Currently loans and grants from international financing institutions are focused on increasing the rural sanitation coverage. The Egyptian policy is moving towards debt financing than depending on state budget for the water and sanitation sector. Repayments will be through annual tariff increase (latest increase was at 20% in November 2009 and a plan for an annual 10% increase over the next ten years was presented to the Minister of Housing, Utilities and Urban Development) and Government subsidies.

Also there is a current focus on public-private partnership (PPP) projects. The experience started with a build-operate-transfer (BOT) contract for a waste-water treatment plant in New Cairo; and the intention is to move to other PPP structures as well, besides BOT.

The recent restructuring on the WSS sector (in 2004) identified three key roles related to governance issues: 1) service provision through a Corporatised Structure (Holding Company for Water and Wastewater and its Subsidiary Companies), 2) regulation, through the Egyptian Water and Wastewater Regulatory Agency (EWRA), 3) policy making, through the Ministry of Housing, Utilities and Urban Development. This restructuring led to an increase in public funds.

International Financing Institutions should increase lending to the water and sanitation sector improvements and loans should be coupled with grants. Priority support should be given to the following areas: improving efficiency, tariff structure, regulatory oversight, Human Resources Development and capacity building, PPP. IFIs should also state what/how much money is available, so countries can better plan their water sector development.

Mr. Mohamed Abd El Motaleb from the Egyptian Ministry of Water Resources and Irrigation, reminded the dependency of Egypt on water coming from outside the national borders. He drew attention on the important investments needed in order to maintain the watercourses (drains and canals) and the water infrastructure. Pollution is also a major issue impacting treatment plants' investment and increasing the required de-pollution financing, though, as he stressed, investment on pollution does not generate revenue. Irrigation projects differ from water resources projects. The constraint is that when talking about finance, discussion is only on those aspects

that can generate revenue. Financing institutions are willing to finance WSS because the water is then sold; the same applies to hydropower production. Pollution is not considered in those terms, and neither is water resources management. There is a need to have a holistic and sectoral approach for the management of these productive projects.

Mauritania

Mr. Mohamed El Moctar Ould Mohamed, from the Ministry of Hydraulics and Energy, gave an overview of water resources in Mauritania specifying that groundwater (from the two main aquifers: one in the south-east and another in the west) is the main source of water supply in the country. The water policy in Mauritania is structured around 5 strategic axes: 1) water access improvement, 2) water resources protection, 3) sanitation conditions improvement, 4) promotion of PPP, 5) capacity building.

The Mauritanian government gives high priority to water and sanitation provision in urban and rural areas. To this date only 30 % of urban population and 49% of rural population has access to water supply. Sanitation services are provided for 55% of the urban population and 20% of the rural population. Achieving the water-related MDG objective by 2015 would require the additional supply of around 1.4 million people with water and 1.5 million of people with sanitation services.

The annual public budget allocated to the water sector is around \$20 million, representing less than 3% of the Government budget. 10 % of the water sector budget is devoted to maintenance and renewal operations. In the past six years, ODA reached \$ 430 million; among them \$ 410 millions have been invested in urban areas.

National and regional investment plans are needed in order to optimise financing. Once developed, appropriate data should also be gathered for programmes' monitoring and evaluation.

With the aim to improve access to finance and creating favourable conditions for PPP, a multi-sectoral authority for water, electricity and telecommunications was established in 2006. Since that date, 69 delegation service contracts have been granted. The majority of these contracts are local PPPs with low levels of finance for rural or semi-urban systems' management.

The estimated finance requirement for the implementation of the water infrastructure investment program 2005-2015 is about \$ 557.8 million for water supply and \$ 227.7 million for sanitation. This program has secured only \$ 278.55 million, which has been already dedicated to water supply, while a total amount of \$ 506.95 million needs to be therefore further mobilised.

Morocco

Mr. Abdeslam Ziyad from the Ministry of Energy, Mining, Water and Environment pointed out the significant achievements in the water sector of Morocco: large water storage infrastructure, modern institutional and governance frameworks including IWRM, polluter-pays and user-pays principles, high water services coverage with 100% and 83% water supply coverage respectively in urban and rural areas and 70% sanitation coverage, irrigation infrastructure for food security reaching 1.5 million irrigated hectares with 2/3 of the these areas set up by the public sector.

These important achievements are the result of the government's active policy of investing in the water sector. 2 Bn € per year, representing almost 20% of the public expenditure, are directed to the water sector (61% in water supply and sanitation, 22% in irrigation and 17% for water resources). According to the World Bank report, the Moroccan water sector contributed with 3.6 % to the GDP in 2005.

The contribution of the actors to the financing of the sector varies depending on the sub-sector. The Government finances 100% of the water resources projects. For irrigation projects, 2/3 of the financing is secured by the state and 1/3 is brought in by farmers through tariffs. The WSS projects are supported for the large part by users through tariffs and receive 15% as loans

contracted by operators. Grants and donations are kept for rural water supply and for sanitation and each represent 10% of the total financing.

The state subsidies of the water sector represent 10% of the state investment budget: 40% for managing and mobilising water resources, 40% for irrigation and 20% for WSS.

Morocco has recently prepared a new National Water Strategy that is articulated around six major components: 1) demand management, water conservation and increasing efficiency in water uses, 2) new water supply development, including desalination programmes and water reuse for irrigation, 3) preservation and protection of natural systems and water resources, 4) reducing vulnerability and risks related to water and in relation to climate change, 5) continue with institutional and legal reforms, and include new areas that are not covered currently like desalination, 6) improve and modernise the information systems. The estimated cost for the implementation of the Strategy is 14Bn € over 20 years (up to 2030) among them 7.5Bn € will be financed through public funds. The allocation of costs between the various components is as follows: 25% for water demand management, 30% for managing and developing supply, 30% for the preservation and protection of natural systems and water resources and 15% for the remaining components.

Phasing (short, medium, and long term) and multi-sectoral actions (establishment of Thematic Project Management Units) are foreseen during the implementation of the Strategy. Partnership with local authorities will be reinforced through territorial contracts for the execution of the Strategy's actions.

Financing the Strategy will be supported through conventional sources (government budget, ODA) that however, need to be increased. Cost recovery needs to be strengthened to make the sector financially self-sufficient. But also, private participation is foreseen for expensive contracts (desalination, water supply and sanitation, water transfer). PPP contracts have already commenced in the areas of WSS and irrigation and are expected to be replicated and extended in other areas as well.

Water sector plays a significant role in the economy; there is space for development, but there is also an investment shortfall. Public sector needs to continue being involved but needs to be assisted by international institutions. Other sources of revenue need also to be mobilised such as tariffs revision, PPP, etc.

Tunisia

Ms. Yousra Ben Salah from the Ministry of Agriculture, Hydraulic Resources and Fishery pointed out the active policy of the government for water mobilisation succeeding the quasi-complete resource mobilisation. In some areas, groundwater aquifers are overexploited. Littoral aquifers are seriously threatened by marine intrusion. Alternative resources, such as desalination, brackish water and wastewater reuse, are increasingly considered to ensure the hydraulic balance of the country. The water policy is considering a sustainable use of water resources and a reduction of the declining environmental quality. Huge efforts are also made to protect wetlands.

The National Water Strategy until 2050 will be prepared in the next period.

Tunisia considers drinking water provision on the top of its financing priorities, along with governance improvement and the reinforcement of institutional capacities. Tunisia will continue its effort in developing regulation infrastructure and interconnection and water transfer systems between regions. High priority is also attributed to infrastructure rehabilitation and renovation including irrigated areas modernisation and efficiency increasing in the irrigation systems. Tunisia counts already 100 treatment plans and will continue its effort to improve sanitation service and increase water treatment.

National development plans dictate the national priorities and therefore the budget allocated to the sector as well as the sources of financing. Currently, 70% of the total budget of the Ministry of Agriculture is allocated to the water sector, among which 25% is devoted to operation and maintenance. Innovative resources of financing are being tested in Tunisia and pilot projects (desalination with solar energy in rural areas) are being developed but are still modest (representing no more than 5%). Cost recovery for WSS services reaches currently 87%.

Many programmes and studies related to water sector planning and development have been undertaken. Ms. Ben Salah mentioned the PISEAU project and its second phase that is financed jointly by the World Bank, AFD and AfDB; the legal reform and revision of Code des Eaux; the Water Strategy by 2050, etc.

Mr. Ismail Hemadi from the Ministry of Finance added that Tunisia receives support from the European Commission in the implementation of Budgeting by Objectives for 4 Ministries among them the Ministry of Agriculture, Hydraulic Resources and Fishery. Performance indicators will thus, be agreed and monitored and indicatively include: mobilisation ratio, water economy, water supply coverage, etc.

Comments by Session's Chair and Facilitator

Based on the description of the countries' priorities, the focus seems to be on increasing water security, managing resources (demand management) and developing PPP.

The share of public budget allocated to the sector is rather high; however it is important to have more concrete definitions regarding the kind/type of financing that is available and for which sub-sector.

It appears from the presentations that countries are seriously considering the cost recovery issue. Nevertheless, the percentages presented by the different country representatives may not be referring to the same things. Further clarifications are needed on the definition and the objectives of cost recovery.

Different countries – Algeria, Mauritania- stressed the urgent need for investments in new infrastructure, with due consideration for issues of sustainability and financing.

Concerning improving or advancing with governance issues, it is clear that the countries will not respond to requests coming from outside the country, but rather to requests coming from within. Regular monitoring of the progress achieved was recognised as both desirable and necessary.

The request placed by the countries to the IFIs regarding availability of funds is legitimate in the case of aid and grants. However, for loans there is no predetermined basis but the availability depends on the sector's reliability and the quality of the submitted projects.

The point on budget allocation linked to performance indicators, suggested by Tunisia, holds particular interest. Moreover, donors and IFIs can play an important role in transferring/sharing experiences from one country to the other.

Discussion

Mauritania has been targeting objectives and priorities for the past 4 years through the Four-Year Medium-Term-Expenditure Framework ("Cadre de Dépenses à Moyen Terme"). The preparation of this Framework document took significant time and effort. Nevertheless, the document didn't help the Ministry of Agriculture to obtain the required financing since the Ministry of Finance doesn't consider it in the budget allocation.

It is important to assess the utility and impact of investment plans and documents in supporting the water sector and evaluate their consideration by the Ministries of Finance and/or Economy

before committing countries to their preparation and thus, squander resources (funds and time). **This accentuates the need to bring in people from outside the water sector/sphere and get them involved.**

Loans directed to the WSS sector have to include provisions relating to the obligatory maintenance and rehabilitation of the infrastructure systems.

Public budget holds the largest part with regard to financing the water sector. Each country develops its own strategy to meet the financing needs; however cost recovery constitutes widely a socially sensitive issue. A suggested way forward would be to identify first the costs that need to be recovered and then conduct gradual progress in that respect. Diversified rates for different categories of users could be considered. **Putting in place a cost recovery system (including a tariff structure) requires time.**

Sustainable cost recovery does not mean 100% recovery through tariffs but it refers to the sustainable combination of the 3Ts. It is important to have **a clear vision in the national policies on how to recover operational costs if not done through tariffs and how it can be reliable**; IFIs need to know where the cost recovery is going to come from, who will be providing it and how reliable this can be.

SESSION 3

The Third Session was chaired by Mr. Mohamed Ait Kadi, Chair of the GWP-Technical Committee, and facilitated by Ms. Josefina Maestu, UN DESA.

Starting from the common denominator for the region (water security, resources scarcity requiring optimal mix of supply and demand management, pollution abatement, progress in water supply but less in sanitation and waste water treatment particularly in rural areas, adaptation to climate change and risk/disaster management, dealing with water management and capacity building, the use of soft investments, increasing the total expenditure on water that usually represents less than 1% of GDP, etc) and considering the diverse conditions within countries (different levels of socio-economic development; prioritisation not easy,...), the session debated around the following 4 questions:

1. What are the priority financing needs in the region?
2. What are the most important criteria for selecting priority recipient countries and projects in the Mediterranean Region for regional banks? In light of competition for donor support what are the strengths of the region in that respect?
3. Are financial flows sufficient and is there enough money coming into the region; how can access to these resources be improved?
4. How to improve financial flows to the region (loans and grants)?

Increase Financing

There is no lack of money; the issue is how to collect money especially for water that is considered a social good; it needn't be difficult when the objectives are clear.

The countries are well aware of their priorities. However, many countries don't have the capacity to develop and submit projects for funding that meet internationally-set standards. **Assistance is needed not for defining priorities but for capacity development at national level in order to address the IFIs' prerequisites.**

Developing national policies in the countries facilitates access to regional and international funds. This lesson was learned from the regional experience of a GEF-funded project in 2003 related to the development of national policies for pollution reduction (freshwater and marine). 20 national policies were developed to address the issue and this triggered financial assistance in order to implement the national policies. **Existence of national policies triggered the regional**

financial programmes. At present there are 3 processes relating to financing that have been triggered this way in the region (though not necessarily related to water).

In order to make the SWM operational, there is a need to ensure **links between financing mechanisms and flow of funds on one hand and the SWM objectives on the other.**

South and East Med countries do not have problems accessing bilateral financing, as they have been engaged in such processes since the 1960s. What needs to be considered in the framework of the SWM is a **regional mechanism or facility that encourages local and foreign private investment and support improvements of the regulatory framework to ease private involvement.**

Countries are looking for other funds, besides the public budget, to implement their water-related plans and strategies. They need to know from IFIs how much funding is available and over what period of time so that the Governments can carry out their plans accordingly. Financing institutions are in the business of lending – Governments are in the business of borrowing: there is a need to bridge the two. However, loans have to be paid back (from taxes/tariffs) and are constrained by public sector borrowing limits.

Criteria for selecting projects

The criteria exposed in the donors' presentations (during Session 1) need to be interpreted as the maximum ones. They form a checklist for donors when examining a proposal and deciding whether to finance it or not. There are some common sense criteria on what constitutes good planning of projects.

More transparency on the side of donors on how they approach projects is needed. Dialogue is a way of providing transparency, which is also done through sharing visions (e.g. WB vision). On the other side, information sharing is needed from the part of the countries (to determine their needs). **More interaction is needed to reduce information asymmetry, identify the risks and try to minimise them.**

Private sector involvement

Governments need to understand that a wide number of financing instruments is available. However, there is a need to develop working groups between governments, local public bodies and private banks and investors.

Integrated strategy on financing water projects needs to consider that private investors cover diverse areas (ethical investment funds, retail, farmers, etc). The strategy must respond to the expectations of all these actors. Private/saving/retail/investment/Islamic/cooperative/pension banks/funds have different financing tools available and all of them need to be mobilised. As recommended in Athens in October 2007 during the regional conference organised by GWP-Med and partner organisation on "Involving Private Investors in the Horizon 2020 Initiative for the Depollution of the Mediterranean", **a roadmap is needed to establish the mechanisms necessary for improving private participation. A "task force" needs to be launched and have the responsibility of setting-up a Forum between Governments and Private Investors to engineer new financial mechanisms.**

Public authorities have the right and the obligation to guide private investors on environmental/social/governance issues. For that purpose, private investors involved in PPP must report annually on how they develop their activities with respect to the requirements of sustainable development.

The SWM tends to focus on traditional players and investors. It has to pay more attention to non-traditional actors. A survey of available funds and financial tools to mobilise private capital (supply and demand side) and how donors and countries can facilitate access to these capitals

should be undertaken. The financing chapter of the SWM should include an invitation to private banks and micro-finance institutions to negotiate with Governments five-year framework agreements on how to mobilise funds and assist with the SWM implementation.

At the same time, the value of micro-finance shouldn't be ignored. Algeria for instance is currently being developing micro-finance in agriculture but also on WSS (networks operation and maintenance, metering). Micro-credits should be developed to encourage young/new companies for specific activities, such as operating treatment units or processing sludge from sewage to be used as fertiliser in agriculture.

Cost Recovery

A common understanding and a clear definition need to be agreed upon for cost recovery: for what (O&M, full, replacement, investment?), for which sub-sectors (WS, WSS, resources?) and from which source for each sector (tariffs, other sources of revenue?).

To avoid extending the concept to embrace all resources used to reduce the expenditure of the sector, it was recommended to talk about cost recovery on running the facilities which seems to be a realistic option. **This way, commitments in the region can be agreed in order to guarantee proper servicing of the sector.**

There is a need to change users' mind regarding their perception of water pricing. People prefer to pay the telephone bill before the water bill. First of all, it is necessary to eradicate the consideration of pricing and increasing tariffs as a "taboo" by some people in some countries. However, this is a very slow process and in the meantime, there is a need to think on how to take advantage of funding channels in other sectors (such as energy, telecommunications) and utilise these profits and make them pay back into developing the water services.

Increasing cost recovery for services has to happen and each country has to find its own strategy recognising that it is better that the beneficiaries/users pay rather than the general population. Advocacy programmes to sensitise the public into understanding cost recovery and regional actions could help improve awareness and enhance acceptance.

Climate Change

There is a need to improve the understanding on Climate Change and the magnitude of its impacts in the Mediterranean basin (e.g. will sea level rise really affect the region and in what ways?). Regional projects and studies, in which countries can contribute financially, need to be launched.

The Mediterranean region is a hotspot regarding climate change predictions. Special reference was made to wetlands, the crucial role they play in the water cycle and the importance of their conservation (mitigation of major risks of flooding, supporting livelihoods, preservations of coastal areas, etc). Even though selectively protected by international agreements, wetlands continue to face threats and reduce in numbers. Funds for wetlands should not be put in competition with other water-related projects and in any case need to be developed further.

SESSION 4

Session 4 was co-chaired by Mr. Alan Hall, Chair of the EUWI-Finance Working Group and Ms. Katharina Hoefler, Federal Ministry for Economic Cooperation and Development, Germany.

Ms. Hoefler presented a summary of the ideas raised in the previous sessions and suggested a grouping of the ideas/recommendations under four categories: 1) Mobilise finance, 2) Increase efficiency, 3) Enhance regional action, 4) Other.

Open discussion followed and comments were made on the recommendations.

1. Mobilise finance

- Support project preparation to improve submissions to funding agencies (mobilise resources for capacity development and training)
- Improve predictability of financing flows from donor institutions and from public sector (longer term planning from both sides)
- Sustainable cost recovery through tariffs for water services is inevitable and can be reached by a step by step policy on tariff levels, a common understanding on cost recovery (not referring to the price of water but to paying for water services), public awareness raising on the cost of delivering water → national and regional action
- Study on all available, especially non-traditional, funding sources (private capital, pension funds, micro-finance, etc) and raise awareness to benefit from them → Mediterranean platform, invite private investors, finance institutions and governments → roadmap to establish necessary mechanisms to take advantage from private financing and shape instruments to accelerate the implementation of the water programme (improving regulatory framework, providing guarantees and so on)

2. Increase efficiency

- Assistance in developing national water policies and linking them to national development plans (enhance dialogue with people from outside the water sector and get them involved -Ministries of Economy and Finance in particular)
- Focus on efficiency gains, operation and maintenance, demand-side management → training and capacity building
- Improve governance to attract investment and to make more effective the use of funds. Also focus on cost effective analysis of projects, including financing water governance
- Clarify what kind of “cost recovery” through tariffs is targeted → e.g. use Strategic Financial Planning to get the right balance of the 3Ts
- Harmonise prerequisites and procedures of funding agencies; there is interest on the side of the donors to determine some criteria for project financeability every few years.

3. Enhance regional action:

- Use the Union for the Mediterranean and the SWM framework as a platform to share information between partner countries and donors, enhance South-South dialogue
- Carry out study for the whole Mediterranean basin on the impacts of climate change on the water sector
- Share experiences in the region on water sector financing. How to finance pilot projects as show-cases?
- Cooperation for the management of transboundary water resources and financing of shared regional projects
- Inform governments on available financing instruments
- Public-Private dialogue in order to bridge/close the financing gap

4. Other:

- The majority of aid is used via bilateral mechanisms; ambition of the SWM is focused on regional level, without disregarding the bilateral level; the same principles need to be used
- Improvements within humid zones in the context of the effects of climate change - > prevention of floods
- Importance of integrated basin management including wetlands
- Apply or extend the application of the polluter-pay principle through taxes on pollution

CLOSING SESSION

Closing remarks were made Mr. Saadou Ebih Ould Mohamed El Hacen, NAMCOW-TAC Chair, Mrs. Maria Peppas, Head of International and EU Affairs, Ministry of Environment, Energy and Climate Change, Greece, and Mrs. Marta Moren-Abat, Water Director Ministry of Environment, Rural and Marine Affairs, Spain.

In addition to the closing remarks, Mrs. Peppas offered some key messages and ideas for further consideration based on the day's discussions. More specifically:

- Water supply and sanitation coverage rates have improved significantly in the Mediterranean region. However, the pressures on water resources are increasing enormously.
- In order to effectively tackle the challenges, shortcomings and pressing needs we need to mobilise new investments. But we have to admit that business as usual is not an option anymore. We have to change our approaches.
- The new investments which are required to bridge gaps and shortcomings in water supply and sanitation should be available from public and private sources. However, the involvement of private sector investing in water in the Mediterranean is still expensive.
- The use of investments should be based on an adequate framework formulated through policy and strategic planning and institutional and regulatory setting in order to be more effective.
- Cost recovery should be based adequately on instruments/tools such as tariffs, taxes and transfers (3Ts) in a balanced way (for each country).
- Based on Greece's experience leading the MED EUWI, there is a need to not only invest on actual infrastructure projects, but also to invest in soft projects, such as capacity building, regional and national consultations, institutional reform, sources of funding etc.../ country dialogues on water.
- There is a need to promote innovative means of finance such as the use of revenues from the auctioning of greenhouse allowances to share the adaptation costs of water resources to climate change impacts and the investment risks between public and private sectors.
- Last but not least, increase cooperation, improve coordination, further use of tools available and interact more actively aiming at exchanging experiences in order to duplicate success stories.

ANNEXES

Annex I: List of Participants

Annex II: Workshop's Agenda

Annex III: Questions for Workshop's Session 2

Annex IV: Questions for Workshop's Session 3

Annex I: List of participants

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Annex II: Agenda



Expert Consultation Workshop on Finance & Water in North Africa and the Mediterranean 24 February 2010 IFEMA, Plenario Room Madrid, Spain Agenda

08:30 – 09:00	Registration
09:00 – 09:30	<p>Opening Session</p> <ul style="list-style-type: none"> - Ms. Marta Moren-Abat, <i>Water Director, Ministry of Environment, Rural and Marine Affairs, Spain (tbc)</i> - Mr. Saadou Ebih Ould Mohamed El Hacem, <i>Vice Chair, Technical Committee, North African Ministerial Council (NAMCOW-TAC), Mauritania</i> - Mr. Ivica Trumbic, <i>Project Manager, GEF Strategic Partnership for the Mediterranean</i> - Ms. Maria Peppas, <i>Head of International and EU Affairs, Ministry of Environment, Energy and Climate Change, Greece - MED EUWI Lead Country</i> <p>Purpose of the Workshop</p> <ul style="list-style-type: none"> - Mr Vangelis Constantianos, <i>MED EUWI Secretariat/ GWP-Med</i>
09:30 – 11:00	<p>Session I: The policy framework on financing water in the Mediterranean Chair: Mr. Jose Rizo Martin, <i>DG Environment, European Commission</i></p>
	<p>Financing Water and Sanitation Infrastructure in Africa - Supporting Africa's Agenda for Growth: Perspectives of the AfDB and Feedback from the AWW2</p> <ul style="list-style-type: none"> - Mr. Arthur Swatson, <i>Principal Water and Sanitation Engineer, African Development Bank</i>
	<p>Strategy on Water in the Mediterranean: Main messages from the Chapter on Water Financing</p> <ul style="list-style-type: none"> - Ms. Katharina Hofer, <i>Federal Ministry for Economic Cooperation and Development, Germany</i>
	<p>Financing the Water Sector in the Mediterranean: A European donors perspective</p> <ul style="list-style-type: none"> - Ms. Monica Scatista, <i>European Investment Bank</i>
	<p>Financing Water Services in Arab Countries: A southern utilities perspective</p> <ul style="list-style-type: none"> - Mr. Mohamed Bany Mustafa, <i>Arab Countries Water Utilities Association (ACWUA)</i>
	<p>Water Financing in the Mediterranean – An OECD perspective</p> <ul style="list-style-type: none"> - Mr. Roberto Martín-Hurtado, <i>Environment Directorate, Organisation for Economic Cooperation and Development (OECD)</i>
	Discussion
11:00 – 11:30	Coffee Break
11:30 – 13:30	<p>Session II: Financing the water sector-opportunities & priorities at country level Chair: Mr. Mohamed El Alfy, <i>Assistant Minister, Ministry of Housing, Utilities and Urban Development, Egypt</i></p>
	<p>Roundtable Interventions <i>Facilitator: Ms. Josefina Maestu, Programme Coordinator, UN DESA</i></p>

	Representatives from North African Countries to make short (5-10') interventions on the national situation: Algeria, Egypt, Libya, Mauritania, Morocco, Tunisia
	Discussion Identifying and prioritising the raised key points also with reference to the wider Mediterranean
13:30 – 14:30	Lunch
14:30 – 16:15	Session III: Prioritising objectives and means for Water Financing at regional level Chair: Mr. Mohamed Ait Kadi, <i>Chair, GWP-Technical Committee</i>
	Roundtable Interventions <i>Facilitator: Ms. Monica Scatasta, European Investment Bank</i> Representatives from regional organisations, donor agencies and other regional stakeholders intervene and debate on questions related to the Session's theme
	Discussion Outline and prioritise the key regional issues
16:15 – 16:45	Coffee Break
16:45 – 17:50	Session IV: Recommendations Co-Chairs: Mr. Alan Hall, <i>Chair, EUWI-Finance Working Group</i> & Ms. Katharina Hoefer, <i>Federal Ministry for Economic Cooperation and Development, Germany</i>
	Ideas on Recommendations - By the Sessions' Chairs
	Roundtable Discussion Discuss and agree on a set of recommendations
17:50 – 18:00	Closing Remarks - Mr. Saadou Ebih Ould Mohamed El Hacen, <i>NAMCOW-TAC Vice Chair, Mauritania</i> - Ms. Maria Peppas, <i>Head of International and EU Affairs, Ministry of Environment, Energy and Climate Change, Greece</i> - Mr. Vangelis Constantianos, <i>MED EUWI Secretariat/ GWP-Med</i> - Ms. Marta Moren-Abat, <i>Water Director, Ministry of Environment, Rural and Marine Affairs, Spain (tbc)</i>

VENUE:

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

www.ifema.es/

Buses to IFEMA will depart from Hotel Intur Palacio san Martin at 08.00 am



Annex III: Questions for Session 2: financing the water sector – opportunities and priorities at country level

The Tour the Table in Session 2 will be the opportunity for countries to present their priorities and opportunities in relation to water financing. The questions below are intended to help prepare the presentations. To insure interactive discussion we will expect that country presentations will focus on answering questions in section 3 and that during the debate there will be an opportunity to discuss also on priorities and needs of the countries (questions in section 1).

QUESTION 1: WHAT ARE THE PRIORITY FINANCING NEEDS IN YOUR COUNTRY?

Priorities	Order of Priority (you may number in order of priority from 1 to 8)	Comments
Insuring access to safe drinking water and basic sanitation to un-served population		
Investment costs for Urban drinking water supplies		
New Irrigation projects		
Major water storage, regulation and transportation infrastructures		
New Wastewater treatment investments.		
Repairs and maintenance of existing deteriorating infrastructures.		
Improvements of existing services in already served areas		
Improvement of rivers and ecosystems		
Improving Governance (including planning and capacity)		
Operation and maintenance of existing services		
Other (please indicate)		
Other (please indicate)		

2 QUESTIONS ON FINANCING SOURCES

How much is the approved annual public budget dedicated to investments in water infrastructures? How much in Operation and maintenance? What are the criteria for Public Budget allocation?

How much are the ODA transfers and how are they being used today? Do you consider that ODA is being used effectively? Could you specify ways to improve this?

How much are innovative sources of funding being used in your country and for which types of expenses?

In answer to this question you may indicate if there are other sources of financing being used such as: blending grants and repayable financing, microfinance, output based aid, grouped financed vehicles, direct lending to sub-sovereign entities, public private partnerships (PPPs), payments for ecosystem services and using of revenues from the auctioning of greenhouse gas allowances and mechanisms to share the risks between the public and private sector.

3 QUESTIONS ON INCREASING FINANCING, AND IMPROVING ACCESS TO FINANCING

What options would you consider for optimising existing water financing?

In answer to this question you may provide information on the existing situation or on what you consider would be necessary in relation to:

- Whether there are water plans and/or analysis of needs and gaps.
- Whether proposed actions and water investments are being prioritised through cost – effectiveness and/or cost benefit analysis or if you consider this needs to be improved.
- What are the contents of the plans and if they include preventive actions to reduce pollution discharges as to reduce the cost of water treatment, measures to reduce water losses, incentive-based instruments like user tariffs and metering.
- If there are economic analyses to facilitate strategic choices for water regarding allocation between agriculture, industry and domestic use and for valuation of environmental services.
- Improving the efficiency of the sector. How far is it possible to reduce investment by improving system efficiency?

What options would you consider to increase financing and improve access to financing sources?

In answer to this question you may provide information on the existing situation or on what you consider would be necessary in relation to:

- Strengthening the sector's self-financing capacities by improving tariffs' structure and collection by water utilities. What are the main obstacles for recovering some of the costs of services via pricing? Would this be possible if affordability issues are considered?
- Improving governance arrangements such as improved regulatory oversight, incentives and accountability of water operators aiming to attract the private sector investment.
- Supporting increasing capacities of countries to identify prioritise and present in a bankable manner projects, programs and plans.
- Having clearer preparation mechanisms for projects consistent with the procedures of financial agencies and coordinated with loans from bilateral agencies to support coherent and complementary actions.

What are the barriers (administrative) limiting accesses to different sources of finance and constraints facing the Ministries of Finance? (International agreements, borrowing limits, etc..)

What options would you consider to better use different sources of financing for different types of projects?

In answer to this question you may provide information on the existing situation or on what you consider would be necessary in relation to:

- Is there any specific types of investment and infrastructures that could be better financed by accessing to the capital markets or through private companies. In which regions and for which type of investments this would be more appropriate?
- It is possible to consider private partners? If so under which conditions?
- Is it possible to improve coordination and synergies between grants and loans and between bilateral and multilateral financial instruments?
- What would facilitate to market them more effectively?
- Improving donor coordination at regional and country-sector level in order to avoid duplication of funded projects, prioritise actual needs and reduce transaction costs and lead times.

Annex IV: Questions for Session 3: financing the water sector – opportunities and priorities at regional level

The Tour the Table in Session 3 will be the opportunity for regional organisations and other stakeholders to present their views about regional priorities and opportunities in relation to water financing. The questions below are intended to help prepare the presentations.

1 WHAT ARE THE PRIORITY FINANCING NEEDS IN THE REGION?

Priorities	Order of Priority (you may number in order of priority)	Comments
Insuring access to safe drinking water and basic sanitation to un-served population		
Investment costs for Urban drinking water supplies		
New Irrigation projects		
Major water storage, regulation and transportation infrastructures		
New Wastewater treatment investments.		
Repairs and maintenance of existing deteriorating infrastructures.		
Improvements of existing services in already served areas		
Improvement of rivers and ecosystems		
Improving Governance (including planning and capacity)		
Operation and maintenance of existing services		
Other (please indicate)		
Other (please indicate)		

2 What are the most important criteria for selecting priority recipient countries and projects in the Mediterranean Region for regional banks? In light of competition for donor support what do you consider to be the strengths of the region for donors?

- Need (Coverage in the country) and level of development
- Projects oriented to the un-served (slum dwellers, rural population)
- In country presence
- Existence of water plans and programs
- Quality of Governance: water management and banking institutions.
- Security Quality of Country Portfolio
- Others (please specify)

3 .- Do you consider that Financial Flows are sufficient in the region? How do you consider this could be improved? Do you recommend that other innovative sources of financing are also used in the region? What are the main obstacles for this?

In answer to this question you may indicate if you think if some of the following options are viable or adequate to deal with the regions needs: blending grants and repayable financing, microfinance, output based aid, grouped financed vehicles, direct lending to sub-sovereign entities, public private partnerships (PPPs), payments for ecosystem services and using of revenues from the auctioning of greenhouse gas allowances and mechanisms to share the risks between the public and private sector

4.- How do you recommend improving Financial Flows to the region? What types of ODA financing would be more adequate for the region?

- Support for the preparation of Water plans and/or analysis of needs and gaps.
- Support for improving the efficiency of the sector.
- Support for providing services to the un-served population.
- Improving evaluation and monitoring
- Support for improving tariffs' structure and collection by water utilities.
- Support for improving regulatory oversight, incentives and accountability of water operators aiming to attract the private sector investment.
- Support for Human resources development.
- Supporting increasing capacities of countries to identify prioritise and present in a bankable manner projects, programs and plans.
- Making ODA catalytic for improving access to other sources of financing.