

DOCUMENT:

Draft Framework Concept Note for the Development of National Water Financing Workshops

BACKGROUND:

After the UfM Financial Strategy for Water was endorsed by the Senior Officials' Meeting in December 2018, the UfM Secretariat launched a work programme to support UfM member countries to achieve of the objectives of the UfM Financial Strategy for Water. The work programme included, inter alia, the organisation of national workshops on water financing.

In 2019, the UfM Secretariat supported the organisation of two national workshops: in Jordan and in Albania. Since then, other UfM member states have expressed interest in receiving support from the UfM Secretariat to organise additional national workshops on water financing.

The UfM Secretariat is organising an on-line consultation (informal meeting of the WEG) on "The UfM Water Agenda and Financial Strategy in view of SDG6 and the Green Deal: Policy Actions, Economic Responses, and Ways Forward in the post-COVID 19 context". The on-line consultation will take place on 9th and 10th June 2020. This Draft Framework Concept Note will be presented and discussed in one of the sessions of the on-line consultation.

The UfM Secretariat intends to finalise the Draft Framework Concept Note before the end of June 2020 taking into account the feedback received at and after the on-line consultation. The Framework Concept Note will then be the basis to discuss with UfM member states the UfM Secretariat support for the organisation of further national workshops on water financing.

ACTION REQUIRED:

WEG members are kindly requested to provide their comments on the Draft Framework Concept Note by 25th June 2020.

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UfM Programme of National Workshops on Water Financing

Draft Framework Concept Note

BACKGROUND

In April 2017, the UfM Ministerial Declaration on Water called for a Union for the Mediterranean Water Agenda to enhance regional cooperation towards sustainable and integrated water management in the UfM region and mandated its development along with an associated UfM Financial Strategy for Water. The UfM Water Agenda and the UfM Financial Strategy for Water were endorsed by the UfM Senior Officials' Meeting on 17th December 2018.

The UfM Financial Strategy for Water is structured around three pillars: (i) approaching water financing in a strategic way, (ii) making the best use of existing financial resources, and (iii) mobilising additional domestic and financial resources. It includes 10 strategic objectives and a menu of 48 actions. Individual countries are expected to implement different actions according to their particular circumstances, priorities, and capacities. Multiple actors have a role to play (whether leading or supporting) in order to achieve the objectives of the UfM Financial Strategy for Water, but the exact actors and their roles will vary from country to country, according to their specific institutional settings and policies.

One of the lines of work of the UfM Secretariat to support UfM member states in their efforts to achieve the objectives of the UfM Financial Strategy for Water is the organisation of National Workshops on Water Financing.

In 2019, two national workshops were supported by the UfM. The first National Workshop on Water Financing took place in Jordan in April 2019. The second workshop took place in Albania in October 2019.

Some UfM member states have expressed interest in receiving support from the UfM Secretariat to organise additional national workshops on water financing. The COVID-19 crisis has forced a pause in the planning and organisation of additional national workshops. It has also created the opportunity to reflect on the lessons learned from the two initial experiences.

OBJECTIVES OF THIS DOCUMENT

The objectives of this document are:

1. To reflect on the lessons learned from the two National Workshops on Water Financing organised in 2019.
2. To provide a framework concept note for the organisation of future National Workshops on Water Financing in 2020-2021.

LESSONS LEARNED FROM THE INITIAL EXPERIENCES

The UfM Water team took a similar approach to the planning and organisation of the two national workshops in Jordan and Albania. The process of organising those workshops had two steps.

- i. First, one scoping mission where the UfM Water team would meet with relevant national authorities and financial and technical partners (to better understand the country context and best identify how the workshop could support the national process) and would agree the parameters of the workshop with the leading national institution. This was recorded in a mission report.
- ii. Second, the organisation of the workshop itself, which included presentations to map out the current situation as well as group work to identify priority actions. This was recorded in a workshop report.

The following lessons learned are the product of the reflection of the UfM Water team. They have been developed by looking critically and comparing the two initial experiences from the perspective of the intended objectives and the regional mandate of the UfM Secretariat. It is not in the scope of this document to evaluate the effectiveness of the two national workshops.

- 1. Adopt a flexible approach to the planning and organisation of national workshops on water financing.** UfM member states are at different stages of discussion and action regarding the financial sustainability of their water sector. This means that the specific objectives of the national workshops may have to differ from member state to member state. But it also means that the process of organising the national workshop may have to differ. For some member states, more preparatory work may need to be carried out – for example by preparing a draft analysis and recommendations document in advance of the workshop instead of during the workshop.
- 2. Increase efforts to maximise the impact of the workshop process and conclusions in the on-going national policy discussions on water financing.** The UfM Water team

purposefully organised preparatory meetings with national authorities (beyond the leading institution) and development partners to engage them and explore how the national workshop could best support the ongoing national process around water financing. In addition, the UfM Water team sought ways to support the member states to communicate the conclusions of the workshop to a broader audience – for example in the case of Jordan, by delivering a presentation at Jordan’s water sector group (that brings together national water authorities and development partners supporting water management). There is scope, however, for deeper upfront discussions with the leading authorities on the role of the national workshop in the ongoing national policy discussions on water financing, in the preparation of related action plans, and in the alignment with on-going water sector programmes and initiatives.

- 3. Strengthen the regional dimension of the programme of national workshops on water financing.** The two initial experiences were driven by national interest and the intended beneficiaries were the member states that requested the support for the organisation of the two national workshops. Already for the second workshop (Albania), the UfM Secretariat explored ways to bring more of a regional dimension by facilitating presentations from Jordan (previous experience) and Morocco (planned as next experience). In addition, sharing of experiences from the national workshops forms part of the agenda of the UfM Water Expert Group (WEG) meetings (e.g. the Jordanian experience was shared during WEG-10 in June 2019). The programme of the national workshops on water financing was also referred to at the First Annual Conference on Water Investment and Financing (Rome, December 2019). There is, however, scope for increasing the regional dimension of the programme of national workshops on water financing, in particular by facilitating more intense peer learning.
- 4. Further finetune the objectives of the national workshops on water financing.** The national workshops on water financing are still a novel product and there is still some confusion about what they can deliver and what they are supposed to deliver. This applies both to different authorities within UfM member states, as well as other stakeholders (including country-based development partners). The objective of the UfM Financial Strategy for Water is to support UfM member states to enhance the financial sustainability of their water sectors, and the same applies to the national workshops on water financing. They are not supposed to be a forum for fundraising (a donor roundtable of sorts) but rather an opportunity to advance domestic priority actions that would enhance the financial sustainability of the water sector (by identifying them,

communicating them to the domestic water community and beyond, and/or increasing their political profile).

FRAMEWORK CONCEPT

1. OBJECTIVES

The general objective of the UfM programme of the national workshops on water financing is to support UfM member states to enhance the financial sustainability of their water sector by:

- supporting a national reflection on the current financial situation of the water sector,
- supporting the identification of priority actions that would enhance the financial sustainability of the water sector,
- facilitating a deeper engagement of relevant national authorities, domestic stakeholders and development partners in water financing issues,
- increasing the political visibility of water financing issues in water sector and national agendas, and
- facilitating the sharing of experiences on water financing across UfM member states.

The specific objectives of each national workshop on water financing will be identified jointly by the respective UfM member state's leading water authority and the UfM Water team. Depending on the specific context and priorities of the leading water authority, possible objectives may include:

- informing national actors about the UfM Water Agenda and UfM Financial Strategy for Water and the roles of each actor in contributing to the achievement of its objectives,
- supporting the leading water authority to launch a national dialogue on water financing or to strengthen financial sustainability issues in an ongoing national dialogue on water management,
- supporting the leading water authority to influence specific national planning processes, whether within the water sector or outside it,
- supporting the leading water authority to carry out a self-assessment of the financial sustainability of the water sector,
- supporting the leading water authority to identify a set of priority actions to enhance the financial sustainability of the water sector,
- contributing to develop the capacities of the leading water agency on water financing,

- encouraging the involvement of as many relevant actors as possible (national and sub-national authorities, domestic stakeholders, country-based development partners,...) in water financing discussions,
- developing specific actions to increase the political visibility of water financing issues – such as organising a high level meeting or drafting a policy brief and presenting it to targeted authorities and other stakeholders.

2. PLANNING PROCESS

Identification of opportunities

UfM member states are welcome to approach the UfM Water team at any time to express their interest in getting support to organise a national workshop on water financing. In addition, the UfM Secretariat will explore the opportunity to organise quarterly on-line meetings of the Water Financing Task Force that was created in 2018 by the WEG to develop the UfM Financial Strategy for Water, inviting all UfM member states as well as partners to take part. In those quarterly meetings, representatives of UfM member states could inform the UfM Water team and other colleagues of the evolution of discussions on water financing and of upcoming opportunities to organise a national workshop on water financing, as well as the expert support that they may be looking for from their peers.

Clarification of objectives

Once a UfM member state has expressed interest in organising a national workshop on water financing, the UfM Water team will engage in a discussion to clarify the objectives of the national workshop and will draft a country-specific concept note to reflect the outcome of that discussion. The draft concept note will include in addition to the objectives, options to achieve those objectives, and a draft timeline for the organisation of the national workshop.

Preparatory planning work

For the first two national workshops (Jordan and Albania) a three-day preparatory mission of the UfM Water team was part of the planning process. The preparatory mission sought to gather input from stakeholders in order to finalise the workshop parameters with the leading water authority, and it was also helpful to engage those stakeholders early in the process. In the current context (of the COVID-19 crisis) this may or may not be possible. If a preparatory mission is not possible, on-line meetings can be organised instead to accomplish those objectives.

3. PREPARATORY ANALYTICAL WORK

For the first two national workshops (Jordan and Albania) the three-day preparatory mission was also used to gather information about water financing issues in the country, which were reflected

in a mission report and were used to design the workshop agenda. This was a light effort that may be appropriate in some cases, depending on the specific objectives of the national workshop. If a preparatory mission cannot be organised (due to travel restrictions linked to the COVID-19 crisis), it may be possible to engage a local consultant to carry out such analytical preparatory work. This would require collaboration between the leading water authority and the UfM Water team for the development of the Terms of Reference and the identification of the consultant.

In the first two national workshops (Jordan and Albania) a rapid self-assessment and identification of priority issues was carried out during the workshop. This approach may not be appropriate in all cases. In some cases, it may be more fruitful to prepare the self-assessment (and possibly the identification of priorities) in advance of the national workshop and focus the national workshop on validating and communicating the findings. This would require, in turn, the organisation of an expert workshop which would necessitate collaboration between the leading water agency and the UfM Water team in order to identify the best option for facilitating the expert workshop and documenting its results. It would also require the UfM Water team to develop a self-assessment tool (based on the UfM Financial Strategy for Water). The UNECE has successfully carried out a programme of self-assessment and action planning on the topic of equitable access to water and sanitation, and lessons learned from that programme could be applied here. Similarly, the OECD-GWP Med Governance & Financing project applied a self-assessment methodology on the topic of private sector participation in water services that could as well inform the approach to be developed.

A more intense option would be the preparation of a peer review report. Several international agencies carry out peer reviews on different topics, which involve the engagement of officials from other countries in carrying out a review mission, writing the peer review report, and presenting the report to the relevant Minister(s) and the media. If some UfM member states may wish to experiment with the development of a water financing peer review (whether in isolation or as part of a broader water sector review), this would be possible but would need to be carefully designed.

4. WORKSHOP PARAMETERS

Length

The length of the workshop will be a function of the workshop objectives. For the two initial experiences (Jordan and Albania), the national workshop on water financing took place over one full day. If the objectives of the workshop include the preparation of an in-workshop self-assessment and priority setting, 1 full day is the absolute minimum and it would be appropriate to extend it to 1.5 days or even 2 days (so that at least 1 full day can be devoted to the self-

assessment, possibly with a more restricted participation, and at least half day to presentations from different stakeholders and validation of the self-assessment and a consensus on the priorities' setting). If a self-assessment and priority setting is prepared in advance, it would be possible to keep the workshop to only half a day, but it may be appropriate to extend to 1 full day, particularly if there is a high level segment.

Date and place

A date for the workshop needs to be fixed at least 6 weeks in advance to ensure adequate notice and facilitate the availability of the relevant officials and other stakeholders.

The workshop could take place in a commercial conference centre (such as a hotel, as it happened in Jordan). It could also take place at some official premises (such as the conference room of the Ministry of Foreign Affairs, as it happened in Albania). While there are advantages and disadvantages for both options, the organisation of the workshop at official premises would in many cases reinforce the status of the workshop and possibly encourage more participation.

Format

The format will again depend on the specific objectives of the workshop. The format will likely include a combination of the following:

- A context setting session – that would inform participants of the objectives of the workshop, provide the background on the UfM Water Agenda and UfM Financial Strategy for Water, and provide an overview of the water management and water financing challenges in the specific UfM member state
- A stakeholders' views session – which may include a panel discussion or a series of presentations from national and sub-national authorities, development partners, and other stakeholders.
- Topical sessions – which would explore in more detail specific topics identified in advance as high priority and with emphasis on action
- Working group sessions – which could focus on carrying out the self-assessment and identification of priorities, or could explore in more detail specific topics with emphasis on action.
- A concluding session – which would summarise the workshop findings and recommendations
- A high level segment – where the workshop findings will be presented to high level officials and decision makers (this could be a formal part of the workshop or a separate event, for example a working dinner).

Participants

While the target audience will depend on the workshop objectives, targeted workshop participants should generally include representatives from water sector institutions; ministries of foreign affairs, finance, economic development, energy, agriculture, energy, and urban development; associations of banks, water utilities, municipalities, farmers, and energy companies; relevant non-governmental organisations; academia and research centres; and development partners.

The number and profile of participants will also depend on the objectives of the workshop. For sessions focused on developing a self-assessment and identification of priority actions, only a limited number of people may be interested and able to contribute meaningfully (may be about 20-25 participants). However, a larger number of people would benefit from sessions setting the stage, presenting views and concluding (may be about 50-60 participants). This consideration should inform the sequencing of the workshop agenda.

5. WORKSHOP OUTPUTS

In the two initial experiences, the outputs of the national workshop have been limited to a **workshop report** (see annexes) and **press releases**. However, there are additional outputs that could be produced as part of the programme of national workshops on water financing.

The findings and recommendations of the workshop could be used to develop a **Policy Brief** that could then be used by the leading water authority and other stakeholders to try to inform and influence domestic policy decisions and support from development partners. The UfM Water team would be available to support the official presentation of the policy brief, for example taking advantage of official visits of high ranking UfM officials, such as the UfM Secretary General.

If and when one UfM member state asks for support for a peer review process, the output would be a **peer review report**.

6. REGIONAL PEER LEARNING

The leading institution and the UfM Secretariat will jointly identify ways to promote regional peer learning throughout each national workshop.

Depending on the specific objectives of the national workshop, options to promote peer learning include:

- Inviting officials from other UfM member states to deliver a presentation at the workshop via video-conferencing. This is the minimum level of peer participation. One advantage of this option is that it allows to mobilise expertise from peers at a low cost. However, in this case the benefits of peer learning is limited to the “host” member state.
- Inviting officials from other UfM member states to take part in the workshop mission. One benefit of this option is that it would also allow the “peer” member state to learn

from the experience of the “host” member state. In order to optimise the benefit of the participation of the official from the “peer” member state, it would be appropriate to organise a seminar or bilateral meetings.

- Inviting officials from other UfM member states to take part in a review mission as part of a peer review (see section 3 above).
- Presentation and discussion of the process and results of each national workshop at the quarterly on-line meetings of the Water Financing Task Force (see Section 2 above).
- Once a critical mass of national workshops has been carried out, the UfM programme on national workshops on water financing will develop a **regional analysis** to facilitate regional peer learning and inform future programming.

7. ROLES OF THE LEADING AUTHORITY AND THE UFM WATER TEAM

A national workshop on water financing is organised under the leadership of the leading water authority of the UfM member state. They will be responsible, inter alia, for:

- selecting the objectives of the workshop,
- making relevant background documents available to the UfM Water team,
- identifying the stakeholders to be consulted during the preparatory process and those to be invited to the workshop,
- identifying what type of peer expertise they would like to benefit from,
- facilitating bilateral meetings of the UfM Water team with relevant stakeholders,
- securing official premises for the workshop (unless a hotel conference room is a preferred venue)
- sending save-the-date and formal invitations to the workshop,
- delivering specific presentations at the workshop, and
- approving the workshop agenda and the workshop report (and other possible workshop outputs).

The UfM Water team supports the organisation of the workshop. The UfM Water team will be responsible, inter alia, for:

- supporting the UfM member state to identify the objectives of the workshop,
- supervising any analytical preparatory work,
- developing drafts of the workshop agenda
- developing drafts of the workshop outputs,
- identifying and financially supporting the participation in the workshop of “peer officials” from other UfM member states,

- financially supporting the organisation of the workshop (facilitation, interpretation if needed, catering, venue if needed,...)
- financially supporting the publication of output reports, and
- mobilising UfM high ranking officials to support the leading water authority in communicating the workshop messages to high level audiences.

8. FURTHER INFORMATION ON THE NATIONAL WORKSHOPS FOR JORDAN AND ALBANIA

Further information on the national workshops for Jordan and Albania can be found in the annexes to this document.

Annex A presents the Workshop Report for the Jordan National Workshop. The Workshop Report provides the background, description, and conclusions of the workshop. It includes three annexes that present the results of the inception mission, the workshop agenda, and the results of the self-assessment carried out during the workshop

Annex B presents the Workshop Report for the Albania National Workshop. The Workshop Report presents the background, summaries of the presentations and discussions, the results of the prioritization process carried out during the workshop, and the workshop conclusions. It includes one annex presenting the substantive findings of the inception mission.

ANNEX A**UfM NATIONAL WORKSHOPS ON WATER FINANCING****ENHANCING THE FINANCIAL SUSTAINABILITY OF THE WATER SECTOR
IN JORDAN****Workshop Report****1. THE UfM FINANCIAL STRATEGY FOR WATER**

In April 2017, the UfM Ministerial Declaration on Water mandated the UfM to develop a policy framework of action “Water Agenda” and an associated Financial Strategy with a view to enhance regional cooperation towards sustainable and integrated water management in the UfM region. UfM member states worked together throughout 2017 and 2018 to develop the UfM Water Agenda and its Financial Strategy, both of which were endorsed by the UfM Senior Officials’ Meeting on 17th December 2018.

The UfM Water Agenda covers four key areas: water supply, sanitation and hygiene; water-employment-migration; water and climate change adaptation; and the water-food-energy-ecosystems nexus. Implementation of the UfM Water Agenda will directly contribute to achieving Sustainable Development Goal (SDG) 6 in the Mediterranean region, as well as to several other SDGs.

The UfM Financial Strategy for Water is a guiding document for all UfM member states on enhancing investments for water and the financial sustainability of the water sector. It is structured around three pillars: (i) approaching water financing in a strategic way, (ii) making the best use of existing financial resources, and (iii) mobilising additional domestic and financial resources. It includes 10 strategic objectives (see box 1) and a menu of 48 priority actions. Individual countries are expected to implement different actions according to their particular circumstances, priorities, and capacities. Multiple actors have a role to play (whether leading or supporting) in order to achieve the objectives of the Financial Strategy, but the exact actors and their roles will vary from country to country, according to their specific institutional settings and policies.

Box 1. Strategic Objectives of the UfM Financial Strategy for Water

1. Reform the water sector to enhance its financial sustainability.
2. Integrate water financing considerations across water-related sectors.
3. Use existing financial resources to fund water-related activities that provide the highest social, economic and environmental benefits.
4. Improve the coordination of water-related investments.
5. Increase value-for-money in the implementation of water-related projects and the delivery of water services.
6. Increase efficiencies in water use and ensure adequate asset management to optimise the use of existing financial resources.

2. THE UFM NATIONAL WORKSHOPS ON WATER FINANCING

Following the endorsement of the UfM Water Agenda and Its Financial Strategy by the UfM Senior Officials on December 17th, 2018, the UfM Secretariat started to develop a programme to support UfM member countries to achieve the objectives of the UfM Water Agenda's Financial Strategy. One of the lines of work is the facilitation of National Workshops on Water Financing, building and capitalising on the previous related work of the UfM-labelled project *Governance & Financing for the Mediterranean Water Sector*¹, which tackled the issue of sustainable financing of water services at regional and selected national level.

The objectives of the National Workshops on Water Financing are:

- to present to national audiences the UfM Water Agenda and its Financial Strategy;
- to identify the areas of the Financial Strategy in which the country is well advanced (and can offer to share its experience with other UfM member states) and the areas of the Financial Strategy in which it needs to accelerate progress (and might benefit from the experience of other UfM member states);
- to identify a short set of key recommendations to enhance the financial sustainability of the water sector and to identify elements of a roadmap for their implementation;
- to communicate to decision-makers the expert consensus about the importance and urgency of financial sustainability of the water sector and how to enhance it.

The Government of Jordan, through its Ministry of Water and Irrigation and the Jordanian Senior Official, requested the UfM Secretariat's support for the facilitation of a National Workshop on

¹ Information on the project as well as access to all resources and produced material is available at the dedicated project website: <https://ufmsecretariat.org/project/mediterranean-water-governance/>
www.gwpmmed.org/governanceandfinancing

Water Financing in the first quarter of 2019, building on the findings and recommendations of the work already done at local level by different actors. The UfMS has responded to that request by organising the National Workshop “Enhancing the Financial Sustainability of the Water Sector in Jordan” on 19th March 2019. The Workshop was preceded by an inception mission on 4-7th February 2019². The conclusions of the Workshop were presented during a dedicated High Level Dinner on the evening of 19th March 2019 and also to the Water Sector Donor Coordination Group during their quarterly meeting of 20th March 2019.

3. THE JORDAN NATIONAL WORKSHOP ON WATER FINANCING

The Workshop “Enhancing the Financial Sustainability of the Water Sector in Jordan” took place on 19th March 2019 at the Fairmont Hotel in Amman. It was co-chaired by the Secretary General of the Ministry of Water and Irrigation and the Deputy Secretary General of the UfM. About 40 participants contributed to the workshop discussions, including government officials from the Ministry of Finance, Ministry of Planning and International Cooperation, Ministry of Water and Irrigation, the Water Authority of Jordan, and the Jordan Valley Authority; members of Parliament; representatives from the Association of Banks in Jordan (ABJ), the Arab Countries Water Utilities Association (ACWUA), the Union for the Mediterranean (UfM), and the Global Water Partnership-Mediterranean; development partners (AFD, EIB, EU Delegation, GIZ, SDC, Spain, USAid, World Bank); and other sector experts.

The workshop included three substantive sessions³:

- I. **Setting the scene.** This session included presentations on (i) the UfM Financial Strategy for Water (by the UfM Secretariat), (ii) the financial situation of the water sector in Jordan (by the Ministry of Water and Irrigation), and (iii) conclusions of the previously conducted National Dialogue on water governance and financing (by GWP-Med). Institutional perspectives were provided by a panel of representatives of Parliament, Ministry of Finance, Ministry of Planning and International Cooperation, Water Authority of Jordan, Association of Banks, AFD, EIB, and EU.

This session confirmed that there is a consensus around the importance of enhancing the financial sustainability of the water sector in Jordan, and that reducing non-revenue water, reducing energy costs, and increasing revenues from water charges remain top priorities.

- II. **Self-Assessment.** This session was organised around group work to identify for which of the 48 actions of the UfM Financial Strategy for Water Jordan is well advanced or needs to accelerate progress.

This session showed that:

² The findings of the preparatory mission are reproduced in Annex 1.

³ The workshop agenda is reproduced in Annex 2.

- The 10 strategic objectives of the UfM Financial Strategy for Water are relevant for Jordan.
- Jordan is well advanced in about a 40% of the 48 actions, while progress needs to be accelerated in about 60% of the actions (see Annex 3 for details).
- Efforts are mostly needed regarding the following strategic objectives:
 - 1-Reforming the water sector to enhance financial sustainability;
 - 2-Integrating water financing considerations in other sectors; and
 - 9-Mobilising resources from domestic private actors.
- Jordan can offer to other UfM member states its experience in many areas, including:
 - cross-sectoral infrastructure planning;
 - project tendering;
 - public private partnerships for large projects;
 - progressive improvements in recovery of operation and maintenance costs;
 - implementation of block tariff systems;
 - blending finance;
 - multi-donor dialogue.

III. **Recommendations and roadmap.** This session was organised around group work to identify a limited set of recommendations to tackle the three priority topics of reducing non-revenue water (NRW), reducing energy costs, and increasing revenues from water charges.

Workshop participants identified seven recommendations, including lead and supporting actors, and indicative timeframes for each (see Annex 4 for details). The seven recommendations are:

- Develop a NRW reduction strategy based on a diagnostic tool and investment plan.
- Develop a performance implementation plan for improving the performance of water utilities.
- Ensure sustainability of NRW improvements (controlling network through smart technologies, capacity building of staff, strengthening of O&M units and NRM units in utilities,...).
- Enhance energy efficiency in pumping.

- Better use of renewable energy (solar as priority, but also hydro & pumped storage, wind, sludge).
- Tariff restructuring -- including energy cost indexation and targeted subsidies.
- Improving billing and collection.

4. CONCLUSIONS OF THE JORDAN NATIONAL WORKSHOP ON WATER FINANCING

The Co-Chairs of the Workshop summarised the conclusions of the workshop as follows:

1. There is a **consensus** among water sector stakeholders as well as ministries of finance and planning on the need to enhance the financial sustainability of the water sector.
2. Jordan is **well advanced** in some of the areas of the UfM Financial Strategy for water, but **needs to accelerate progress** in others. Analysis of the workshop findings can inform future actions. Continued development partner support will be key to make progress.
3. Development partners appreciate **past and ongoing efforts**, including those to implement the action plan for reducing financial losses in the water sector (which resulted on improved cost recovery).
4. **Reducing non-revenue water, reducing energy costs, and increasing revenues from water charges** remain top priorities in Jordan. The workshop identified recommendations on how to make progress, including through the application of a Nexus approach.
5. Financial sustainability of the water sector requires a **whole-of-government approach**, involving coordination of ministries of finance, planning and line ministries.
6. “National workshop on water financing” is a **useful model for advancing policy dialogue and identifying needs for assistance**. It is recommended to replicate it in other countries, to follow up in 2020 in Jordan, and to enhance engagement of other ministries.
7. **MWI, EU and UfM will share the conclusions** of the meeting with other ministries, development partners, and countries.

ANNEX 1 - FINDINGS FROM THE UFM INCEPTION MISSION TO JORDAN

The water sector in Jordan is supported by a large number of development partners, whose related programmes vary considerably in terms of size. Key development partners for the water sector include AFD, European Union, KfW, World Bank and USAID (in terms of budget) as well as GIZ (in terms of personnel on the ground). There is a Water Sector Donor Coordination group co-chaired by the Ministry of Water and Irrigation (MWI) and the French Development Agency (AFD) that meets quarterly at the premises of MWI for about 2 hours to allow for exchange of information among development partners. Stronger coordination among development partners takes place bilaterally and trilaterally. SDC is spearheading the creation of a Donor Technical Working Group on the topic of re-use of wastewater in agriculture.

The topic of financial sustainability of the water sector is highly relevant and timely. The gap between revenues and costs in the water sector is estimated at around 40%. Jordan faces a public debt crisis and is under an IMF programme that is focusing on the energy and water sectors. Since 2018, individual agencies (such as water utilities) are not allowed to take on new debt – the Ministry of Finance is expected to improve debt management (more professional approach, better terms) and close the financing gaps of individual agencies through public transfers. There is a risk (and already some experience) that those transfers don't materialise and the individual entities don't have enough funds to carry out their operations.

There is awareness among key sector experts and agencies on the importance of financial sustainability and its dimensions. This includes the importance of improving efficiency and reducing costs (in particular energy costs, but also those generated by water leakages and illegal use of water). It also includes the need to increase the generation of internal revenues in the sector – both by reducing the rate of non-payments (caused by poor billing or poor bill collection) and by increasing average water tariffs. These issues are already included in the 2016-2025 National Water Strategy. There are good examples of mobilisation of the private sector, in particular for BOT (build-operate-transfer) schemes.

Tariff reform is a key battleground. KfW, AFD and USAID are advising on tariff reform. Financing from IFIs (most prominently the IMF and the World Bank) is contingent on tariff reforms. Tariffs for irrigation water are fixed and tariffs for drinking water and sanitation are structured around a fixed part and a variable part that follows an increasing block tariffs (IBT) model, but even the levels of tariffs in the higher steps are regarded as too low by some observers. The tariffs are the same for the three water utilities that cover the country (which are owned by the Water Authority of Jordan). Water tariffs are set by the Cabinet; past discussions about the creation of an independent water regulator have not fructified (although there is a regulator for energy and telecommunications). The idea of establishing a regulatory unit within WAJ has for now been reduced to the creation of a monitoring and evaluation unit – which is not yet operational.

The Water-Energy Nexus is recognised as having major importance. Reforms to achieve financial sustainability in the energy sector have resulted in significant increases in energy prices, which in turn has increased the financing gap in the water sector (energy is the major cost component of the water sector, the water sector is the major customer of the energy company). The water



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sector would like to promote the use of decentralised renewable energy sources as part of water sector operations.

The Ministry of Planning and International Cooperation would like to see more implementation of “projects of strategic importance” (infrastructure) building on past “soft projects” (governance, capacity development). Regional/transboundary water issues were mentioned several times, in particular the Red Sea/Dead Sea initiative.

ANNEX 2 – FINAL AGENDA OF THE JORDAN NATIONAL WORKSHOP ON WATER FINANCING

Achieving the Water SDGs in the Mediterranean region through the implementation of the UfM Water Agenda and its Financial Strategy

ENHANCING THE FINANCIAL SUSTAINABILITY OF THE WATER SECTOR IN JORDAN

19th March 2019

Hotel Fairmont, Amman, Jordan

8:30-9:00	Registration of participants
9:00-9:30	<p>Session 1. Introduction</p> <ul style="list-style-type: none"> • Ali Subah, Secretary General of Ministry of Water and Irrigation, Jordan • Sirpa Tulla, Head of Trade & Economics Section, EU Delegation in Jordan • Miguel Garcia-Heraiz, Deputy Secretary General for Water and Environment, Union for the Mediterranean (UfM)
9:30-11:00	<p>Session 2. Setting the stage</p> <p>1. Presentations (10 min each)</p> <ul style="list-style-type: none"> • <i>The UfM Water Agenda’s Financial Strategy</i> Almotaz Abadi, Managing Director, UfM • <i>Current financial situation of the water sector in Jordan and vision for the future</i> Ali Subah, Secretary General, MWI • <i>Recommendations and the Action Plan from the Water Governance & Financing National Dialogue in Jordan</i> Anthi Brouma, Deputy Regional Coordinator, GWP-Med <p>2. High Level Panel reactions (60 min) Ahmad Hmaidat, Ministry of Finance Emad Shanaa, Ministry of Planning and International Cooperation Hussein Surakhi, Water Authority of Jordan PM Mohammad Abu Settah, Chair UfM PA WE Adli Kandah, Director, Association of Banks in Jordan Atika Ben Maid, Representative of Donor Partners Omar Abu Eid, Representative of Development Partners Andre Oosterman, Representative EIB- Luxembourg</p>
11:00-11:30	Coffee Break

<p>11:30-13:30</p>	<p>Session 3. Self-Assessment (Chair: Mohammad Dwairi)</p> <p>Introduction: Roberto Martin Hurtado, Advisor to UfM (5 min)</p> <p>Group work (50 min)</p> <ul style="list-style-type: none"> • For which objectives and actions is Jordan well advanced and can contribute its experience to other UfM countries? What are good examples? • For which objectives and actions does Jordan need to accelerate progress and would welcome experiences from other UfM countries? <p>Presentations by working group rapporteurs (20 min)</p> <p>Plenary discussion (30 min)</p> <p>Summary by Roberto MARTIN (5 min)</p>
<p>13:30-14:30</p>	<p>Lunch</p>
<p>14:30-16:30</p>	<p>Session 4. Recommendations and roadmap for enhancing financial sustainability of the water sector in Jordan</p> <p>CO-Chair, Almotaz Abadi, MD-UFMS, and Anthi Brouma, Deputy Executive Secretary, GWP-Med</p> <p>Introduction by the Co-Chair</p> <p>Group work (50 min)</p> <p>What are the 2-3 recommendations for making progress on each key issue? Who should take the lead for each one? Who should support and how? What is a reasonable timeframe to implement those recommendations?</p> <p>Group A: Reducing energy costs (Omar Abu Eid, EU) Group B: Reducing physical water losses (Joseh Valdez, USAID) Group C: Improving revenue collection & Reforming tariffs (Iyad Rammal, WB)</p> <p><i>NB. These are the topics highlighted in the 2016-2025 National Water Strategy. They might be modified in view of the discussions of the morning session (e.g. enhancing asset management, coordinating infrastructure developments, facilitating private sector participation...)</i></p> <p>Presentations by working group rapporteurs (20 min)</p> <p>Roundtable discussion (30 min)</p> <p>Summary by the Co-Chairs</p>
<p>16:30-16:45</p>	<p>Session 5 – Conclusions of the workshop</p> <ul style="list-style-type: none"> • Miguel Garcia-Heraiz, UfM Deputy Secretary-General on Water and Environment • Sirpa Tulla, Head of Trade & Economics Section, EU Delegation in Jordan • Ali SUBAH, Secretary General, Ministry of Water and Irrigation, Jordan

ANNEX 3 –SELF-ASSESSMENT OF THE IMPLEMENTATION IN JORDAN OF THE UFM FINANCIAL STRATEGY FOR WATER

STRATEGIC OBJECTIVE	ACTIONS FOR WHICH JORDAN IS WELL ADVANCED	ACTIONS FOR WHICH JORDAN NEEDS TO ACCELERATE PROGRESS
1. Reform water sector to enhance financial sustainability (FS)		<ul style="list-style-type: none"> • Engagement and coordination • Clarify responsibilities • Review policies and legislation • Integrate FS issues in water policies • Capacities for strategic financial planning
2. Integrate water financing issues in other sectors	<ul style="list-style-type: none"> • Cross-sector planning of infrastructure that will impact water resources 	<ul style="list-style-type: none"> • How policies and plans in other sectors affect FS of water sector • Mobilizing funds from other sectors • Combining funds from different sectors • Capacities cross-sectoral planning
3. Allocate funds to activities that provide highest social, economic & environmental benefits	<ul style="list-style-type: none"> • Developing “good practice” expenditure programmes • Ex-ante analysis of water programmes 	<ul style="list-style-type: none"> • Process of prioritization of water projects • Evaluating use of financial resources • Capacities for financial planning, management, control and evaluation.
4. Improve the coordination of water-related investments	<ul style="list-style-type: none"> • Institutional arrangements • Planning and implementation of IFI-funded projects 	<ul style="list-style-type: none"> • Multi-sectoral portfolios • Transboundary cooperation • Capacities for cross-sectoral planning and investment planning
5. Increase value-for-money in service delivery and project implementation	<ul style="list-style-type: none"> • Considering lower costs options • Use of competitive bidding 	<ul style="list-style-type: none"> • Independent regulation • Capacities for sustainable O&M

<p>6. Increase water use efficiency and improve asset management</p>	<ul style="list-style-type: none"> • Incentive framework for water efficiency • Asset management master plans 	<ul style="list-style-type: none"> • Policy packages to improve asset management • Capacities for asset management in service providers
<p>7. Increase internal revenues</p>	<ul style="list-style-type: none"> • Monitor cost recovery targets • Use of economic instruments • Capacities of utilities for metering and customer-focus 	<ul style="list-style-type: none"> • Water tariff regulation and structures • Incentive framework for bill collection
<p>8. Increase budgetary resources</p>	<ul style="list-style-type: none"> • Capacities for executing 	<ul style="list-style-type: none"> • Enhance credibility by progressing on objectives 3-6 • Public expenditures in other sectors
<p>9. Mobilise additional resources from domestic private actors</p>		<ul style="list-style-type: none"> • Policies to promote private expenditures • Awareness of potential investors • Dialogue with investors on barriers • Creditworthiness of projects and utilities • Capacities for dialogue with investors
<p>10. Use international resources to leverage other sources</p>	<ul style="list-style-type: none"> • National objectives and strategies • Dialogue with partners • Role of climate finance • Good quality proposals • Capacities for prep & blending 	

ANNEX 4 – RECOMMENDATIONS AND ROADMAP TO ENHANCE THE FINANCIAL SUSTAINABILITY OF THE WATER SECTOR IN JORDAN

RECOMMENDATION	ACTORS	TIMEFRAME
Develop a NRW reduction strategy based on a diagnostic tool and investment plan	Lead: MWI and utilities Support: donors, private sector	5-10 years
Develop a performance implementation plan for improving the performance of water utilities	Lead: WAJ and utilities Support: donors, private sector	2 years
Ensure sustainability of NRW improvements (controlling network through smart technologies, capacity building of staff, strengthening of O&M units and NRM units in utilities,...)	Lead: WAJ and utilities Support: donors	
Enhance energy efficiency in pumping	Lead: MWI and utilities Support: Cabinet (budget), PPP, donors	15% by 2025
Better use of renewable energy (solar as priority, but also hydro & pumped storage, wind, sludge)	Lead: MEMR and private sector Support: MWI, cabinet/line ministries, NEPCO	10% by 2025
Tariff restructuring, including energy cost indexation and targeted subsidies	Lead: MWI Support: WAJ, JVA, Cabinet, donors	Gradually over 4 years
Improving billing and collection	Lead: WAJ Support: local companies, MWI	Ongoing



ANNEX B

UFM NATIONAL WORKSHOPS ON WATER FINANCING TOWARDS SUSTAINABLE FINANCING OF WATER RESOURCES MANAGEMENT IN ALBANIA

Ministry for European and Foreign Affairs, Tirana, Albania

31st October 2019

WORKSHOP REPORT

1. BACKGROUND

In April 2017, UfM Ministers called for a Union for the Mediterranean Water Agenda to enhance regional cooperation towards sustainable and integrated water management in the UfM region and mandated its development along with an associated UfM Financial Strategy for Water. The UfM Water Agenda and the UfM Financial Strategy for Water were endorsed by the UfM Senior Officials' Meeting on 17th December 2018.

The UfM Financial Strategy for Water is structured around three pillars: (i) approaching water financing in a strategic way, (ii) making the best use of existing financial resources, and (iii) mobilising additional domestic and financial resources. It includes 10 strategic objectives and a menu of 48 actions. Individual countries are expected to implement different actions according to their particular circumstances, priorities, and capacities. Multiple actors have a role to play (whether leading or supporting) in order to achieve the objectives of the UfM Financial Strategy for Water, but the exact actors and their roles will vary from country to country, according to their specific institutional settings and policies.

One of the lines of work of the UfM Secretariat to support UfM member states in their efforts to achieve the objectives of the UfM Financial Strategy for Water is the organisation of National Workshops on Water Financing. The first National Workshop on Water Financing took place in Jordan in April 2019.

Following the request of the Government of Albania, through the Water Resources Management Agency (AMBU) the UfM Secretariat, the UfM carried a scoping mission on 9th-11th July 2011 to gather input from national authorities and development partners to inform the design of the workshop, and to agree the key parameters of the workshop with AMBU. A national workshop on water financing was welcomed by different government authorities and development partners, as a first step to define what a water financing agenda for Albania should be. It was agreed with AMBU that the focus of the workshop should be the sustainable financing of water resources management.

2. THE ALBANIA NATIONAL WORKSHOP ON WATER FINANCING

The objectives of the workshop were: (i) to present the UfM Financial Strategy for Water to the Albanian water sector and stakeholders, (ii) to help raise the political profile of water financing issues in Albania, in particular regarding water resources management, and (iii) to discuss the need to develop and/or further streamline a national financial strategy for water and how to do it. The objectives of the workshop were: (i) to present the UfM Financial Strategy for Water to the Albanian water sector and stakeholders, (ii) to help raise the political profile of water financing issues in Albania, in particular regarding water resources management, and (iii) to discuss the need to develop and/or further streamline a national financial strategy for water and how to do it.

The workshop took place on 31st October 2019 in the premises of the Ministry for European and Foreign Affairs. The workshop was opened by the Deputy-Minister for EU Affairs and Senior Official for the UfM, Mr. Sokol DEDJA and the Head of Economic Section of the European Union' Delegation to Albania, Mr. Andrea VERA. The workshop was co-chaired by the Director General of AMBU, Ms Gerta LUBONJA, and the Managing Director of UfM-Water, Mr. Almotaz ABADI. More than 50 participants attended the workshop, including representatives from the Prime Minister's Office, ministry of Agriculture and Rural Development, ministry of Infrastructure and Energy, water utilities, municipalities, the chairman of the Water Regulatory Agency, Global Water Partnership-Mediterranean, Austrian Development Agency, and European Investment Bank. In order to support peer learning, the workshop included presentations by representatives from the Ministry of Water and Irrigation of Jordan, and the Ministry of Infrastructure and Water of Morocco.

The workshop was organised around four sessions covering: (i) the strategic framework for water resources management, (ii) financial dimensions of water resource management challenges, (iii) options for enhancing the financial sustainability of water resources management, and (iv) priority actions for enhancing the financial sustainability of water resources management.

3. STRATEGIC FRAMEWORK FOR WATER RESOURCES MANAGEMENT

A top national objective for Albania is to become member of the European Union. This requires significant efforts in terms of improving environmental management and services (including water supply and sanitation and waste water treatment). Indeed Chapter 27 is probably the most difficult and demanding of the EU pre-accession negotiations. While the EU and other development partners are supporting Albania to make progress on this area, the financial requirements are considerable.

Albania has realised the importance of focusing beyond water-related services and improving water resources management. To that end, it has recently established the Water Resources Management Agency, which is in the process of consolidation and development while at the same time working on the development of basin management plans.

Albania is rolling out a system to improve cross-sectoral policy integration, including the establishment of so-called Integrated Policy Management Groups (IPMGs). There are two IPMGs in the water sector: one focusing on water supply and sanitation, and another one on water resources management.

Albania is currently receiving support from development partners to improve the management of its water resources. This includes the project “EU Support for Integrated Water Management”, supported by the EU and the Austrian Development Cooperation. One of the four components of this project focuses on water economics.

Albania is an active member of the UfM Water Expert Group and was one of the countries that contributed to develop the UfM Financial Strategy for Water. Albania can benefit from peer learning and make use of the knowledge generated in past and future regional activities – such as in the UfM-labelled Water Governance and Financing project that run between 2014-17.

4. FINANCIAL DIMENSIONS OF WATER RESOURCE MANAGEMENT CHALLENGES

Water resources management financing challenges in Albania cut across institutional responsibilities. River basin management is the responsibility of AMBU. Catchment management and flood prevention is the responsibility of the Ministry of Agriculture and Rural Development. Water protection through wastewater treatment is the responsibility of the Ministry of Infrastructure and Energy. And the process of decentralization in Albania means that the municipalities also have an important role to play, both regarding protection from water (flood management) and water protection (wastewater treatment).

Water resources management in Albania faces a significant financial gap. This is relevant for the different dimensions of water resources management. The relevant Albanian institutions have developed estimates of the cost of implementing different plans related to water resources management. The estimated financial needs cannot be covered only by the available public financial resources as currently laid out in the medium term budgetary framework.

There is scope for increasing the contribution of water users to financing water resources management in Albania. Albania has an independent water regulator and two of its key responsibilities are to license the water utilities to operate, and to approve the tariff schedules proposed by the water utilities. Water utilities are expected to pay water resource management levies to contribute to the management of water resources. Currently those levies are fairly modest and there is scope for them to be increased without having a significant impact on the affordability of water services. In addition to approving the revised water tariffs (that would include the impact of higher water resource management levies), the water regulator could contribute to ensure the payment of those levies by the water utilities by including in the licensing requirements proof that the water resource management levies have been paid.

5. OPTIONS FOR ENHANCING THE FINANCIAL SUSTAINABILITY OF WATER RESOURCES MANAGEMENT

A strategic financial plan for water resources management can help identify strategies for closing the financing gap. The concept of strategic financial planning was developed by the OECD and has been applied in several countries, mostly for water supply and sanitation services. A strategic financial plan (or financing strategy as it is sometimes referred to) aims to identify options to close the financial gap in the water sector, both by reducing costs and increasing revenues, over a long-term period (typically 20 years). The Ministry of Infrastructure and Energy has applied it recently for the water supply and sanitation sub-sector in Albania. A similar exercise could be applied for water resources management.

Pricing water resources management is a promising avenue to mobilise additional financial contributions from water users and beneficiaries in Albania. There are three sources of funding for water resources management: budgetary allocations (funded by domestic “taxes”), user and beneficiary contributions (mobilised through “tariffs” and other water levies), and financial “transfers” from international cooperation (which includes development cooperation as climate funding). Water pricing is justified under the pollution pays principle and the user/beneficiary pays principle (some countries also apply a “water pays for water” principle). There are many types of water levies that can be introduced, but it is recommended to focus on a small number paying attention to minimising administrative complexity and maximising revenue raising. Several countries have successfully introduced water levies, which are generating substantial revenues. Albania may want to explore in particular the possibility of introducing water levies on hydropower generation.

Albania can tap into the experiences of other UfM countries in working towards enhancing the financial sustainability of water resources management. Jordan highlighted the financial dimension of the nexus between water and energy and how increasing energy efficiency in water operations can free up financial resources for improving water resources management. Morocco highlighted the diversification of funding sources, including incentive pricing, climate funds, and private sector participation.

6. PRIORITY ACTIONS FOR ENHANCING THE FINANCIAL SUSTAINABILITY OF WATER RESOURCES MANAGEMENT

The workshop represented the first step of a roadmap to enhance the financial sustainability of water resources management in Albania. The UfM Financial Strategy for Water is a tool to help UfM member states to enhance the financial sustainability of their water sectors. Workshop participants discussed the 48 actions described in the UfM Financial Strategy for Water. While most actions identified in the UfM Financial Strategy for Water are relevant for Albania, not all of them are equally important or urgent, and they cannot all be tackled at the same time.

The workshop participants identified 10 top priority actions for Albania:

Strategic Objective of the UfM Financial Strategy for Water	Top priority actions for Albania
Reform the water sector to enhance its financial sustainability	<ul style="list-style-type: none"> Review how the current policies and legislation in the water sector support or undermine its financial sustainability
Integrate water financing considerations across water-related sectors	<ul style="list-style-type: none"> Consider how to mobilise financial resources from the sectors that benefit from or affect sustainable water management (such as agriculture, energy, environmental protection, land use, and urban development) affect the financial sustainability of the water sector Improve cross-sectoral planning of infrastructure that will involve or impact water resources
Use existing financial resources to fund water-related activities that provide the highest social, economic and environmental benefits	<ul style="list-style-type: none"> Enhance ex-ante analyses of proposed water management and investment programmes in order to identify and assess the social, economic and environmental benefits and costs of interventions for all stakeholders and at appropriate levels
Improve the coordination of water-related investments	<ul style="list-style-type: none"> Develop capacities for cross-sectoral planning and investment planning
Increase efficiencies in water use and ensure adequate asset management to optimise the use of existing financial resources	<ul style="list-style-type: none"> Review the current incentive framework for water use, and implement policy packages to increase water efficiency among water users and water services providers Analyse the current status of water-related assets and the causes of their deterioration, and develop and implement policy packages to improve asset management
Increase revenues internally generated in the water sector	<ul style="list-style-type: none"> Strengthen economic policy instrument for water management (such as water abstraction or water pollution charges)

<p>Increase allocations of public budgetary resources to water related activities</p>	<ul style="list-style-type: none"> • Ensure that public expenditures managed in water-related sectors (energy, agriculture, environment, urban development) contribute to achieving water objectives by promoting efficient water use, reduction in water pollution, and reduced vulnerability to flood, droughts, and climate change adverse impacts in general, at all levels and among all stakeholders
<p>Use resources from international financial partners strategically to leverage other sources of finance</p>	<ul style="list-style-type: none"> • Develop good quality proposals for water-related projects to mobilise climate finance for the implementation of national-determined contributions and national adaptation plans

AMBU has a key role to play in enhancing the financial sustainability of water resources management in Albania, but it cannot do it alone. For most of the 10 priority actions, workshop participants identified AMBU has the institution to take the lead, while also identifying the line ministries as institutions that would need to play a supporting role. In some cases, leadership will need to be provided also by the Prime Minister's office and the Ministry of Finance.

Development partners have an opportunity to support Albania in making progress on the 10 top priority actions. The 10 top priority actions can be structured around three themes: *studies* (public expenditure review of water resources management, water efficiency, asset management), *capacity development* (cross-sectoral planning, investment planning, development of proposal for climate funding), and *implementation of policy instruments* (cross-sectoral planning, ex-ante analyses of investment programmes, water levies). The cost of supporting AMBU and other Albanian institutions to implement those priority actions can be expected to be moderate (in comparison with the cost of financing infrastructure investments) and the benefit can be expected to be high (in terms of improved cost-effectiveness and financial sustainability of those infrastructure investments).

7. WORKSHOP CONCLUSIONS

1. The workshop has represented a rare opportunity to discuss water financing issues in Albania. The financial sustainability of water resources management deserves a higher profile, both among public institutions and in their dialogue with development partners.
2. Water resources management in Albania faces a significant financing gap. Closing the financing gap will require mobilising additional resources from public budgets, water users and beneficiaries, as well as development partners. A larger share of financial resources will need to come from water users and beneficiaries – such as water utilities and hydropower generation companies.

3. The conversation about water financing in Albania needs to broaden beyond resource mobilisation to financial sustainability. Priority actions for enhancing financial sustainability of water resources management are distributed across the three pillars of the UfM Financial Strategy for Water: governance, best use of existing resources, and resource mobilisation.
4. The priority actions include studies, capacity development, and implementation of policy instruments. In order to provide a stronger strategic financial framework, Albania would benefit from developing a financing strategy (and action plan) for water resources management, as it has done for water supply and sanitation. The economic component of the EU Support for Integrated Water Management project is well placed to support this agenda, but other development partners should be invited to contribute as well.
5. Improving the financial sustainability of water resources management requires the involvement of multiple actors. The Integrated Policy Management Group (IPMG) for water resources management represents an ideal platform to advance the discussion, secure commitment by different actors, and review progress.

ANNEX 1 – SUBSTANTIVE FINDINGS FROM THE UFM INCEPTION MISSION TO ALBANIA

Water governance and financing

- The water sector lead is formally AMBU -- a recently created agency that brings together four separate pre-existing entities (Technical Secretariat of the National Water Council, Department of Water Resources, Water Inspectorate, and Water Resources Offices). AMBU reports directly to the Prime Minister's office, which should help with its role of coordinating the water sector. AMBU is still developing its capacity (including in terms of human resources) and the EU-ADA Support to Integrated Water Management project is expected to help develop it in the area of water economics and financing.
- In addition to AMBU, several ministries and agencies have competencies on water resources management, including the Ministry of Agriculture and Rural Development (irrigation policies and investments), Ministry of Infrastructure and Energy (WSS policies), National Agency for Water Supply and Sanitation for Waste Infrastructure AKUM (WSS investments), or the Water Regulatory Authority. The Ministry of Environment has an important role to play in water financing, as lead authority for negotiations with the EU on Chapter 27 and for accessing climate finance. The Ministry of Finance strongly advocates for improved information of financial flows in the sector to improve its performance.
- As a result of the decentralization of 2014, the 61 municipalities play a key role in water resources management (including catchment management, irrigation, and wastewater treatment) as they are responsible for the provision of public services.
- In order to bring coherence to the sector, the Government has created an Integrated Policy Management Group for Water, with sub-groups for water reform (drinking water supply and sanitation) led by the Ministry of Infrastructure and Energy and water resources management led by AMBU. The role of development partners is important in these groups, with the water supply facilitated by Germany, while water resources by ADA and Sida.
- Albania is divided in six basins, of which two are transboundary, while the majority of resources comes from groundwater. For each basin, there is a basin council (chaired by a Prefect – the representative of the central government at provincial level) and a basin office⁴ (part of AMBU). The budgetary allocations for those institutions seem fairly modest.
- The drinking water supply and sanitation sub-sector is over-fragmented. Water supply and sanitation services are provided by 57 public utilities in a country of less than 3 million

⁴ For the time being due to resource and capacity constraints, there are fewer basin offices than basins and thus some basin offices are serving more than one basin.

people, while almost half of the population is serviced by 2 utilities⁵. Sector authorities would welcome mergers but cannot force them. The public utilities are owned by the municipalities and regulated by the Water Regulatory Authority. Consolidation would likely save costs (e.g. from economies of scale, including for staffing) and increase revenues (e.g. from weakening local political considerations in tariff decisions).

Water financing needs

- Water knowledge. While Albania is a water-rich country (8,600 m³/capita/year), the impacts of increasing demand for water resources and climate change (including future water demands on transboundary waters by neighbouring countries) are not well understood. Observers suggest that expenditures on hydro-meteorological information and knowledge need to increase substantially.
- Water resources planning, administration and compliance assurance. Albania is just starting to build its capacity for these items and expenditures (while likely to be modest in comparison to the overall “water sector budget”) will need to increase. Assuring compliance with laws and regulations includes addressing issues such as illegal logging, illegal wells, illegal extraction of materials from riverbeds, or illegal discharges of pollutants into inland and coastal waters.
- Water storage. Albania built in communist times a network of about 600 water reservoirs, which might need upgrading.
- Water loss reduction. Non-revenue water in water utilities is estimated to be about 70%. This represents an opportunity for cost reductions, but for this to realise it will require an increase in expenditures in loss reduction programmes.
- Wastewater collection and treatment. Currently only 20% of collected wastewater is treated. As part of the process of accession to the EU, wastewater treatment expenditures (initially for investments, and then for operation and maintenance) will need to increase significantly and will likely represent the lion’s share of the overall water sector budget. The National WWS Master Plan for 2011-2040 estimates a need of EUR 4 billion for wastewater services (compared to EUR 1 billion for drinking water services).
- Flood protection. While it is being reversed, illegal occupation of flood plains has led to significant economic damage of floods. River basin plans are expected to include increased expenditures in flood protection, including catchment management activities.

⁵ Water Regulatory Authority (undated) “Water and Wastewater Sector Profile in Albania”.

Water financing sources and mechanisms

Tariffs and other user contributions

- Water abstraction charges are in the process of being introduced.
- Hydropower is a booming business in Albania. Private operators pay a concession fee which amounts on average to about 2.5% of the value of the produced electricity. This financial flow goes directly to the national treasury.
- Irrigation is expanding, with an initial goal of reaching historic levels of area under irrigation (from 280,000 has to 460,00 has). Irrigation water users are currently expected to pay the operation and maintenance costs of the schemes, and an increasing part of investment costs over time. Abstraction charges for irrigation are currently zero. Municipalities decide how irrigation tariffs are implemented.
- The drinking water supply and sanitation sub-sector has developed a financing strategy that estimates that users could afford to pay 100% of O&M expenditures and 50% of capital expenditures. In 2018, revenue from tariffs covered 92% of total costs (119% of O&M costs). Water abstraction charges are to be included in the utilities' request to the Water Regulatory Authority for tariff changes.

Tax-funded subsidies

- Investment costs for irrigation and drainage schemes are currently funded by central budget via the Ministry of Agriculture and Rural Development, sometimes financed by loans from IFIs (such as the ongoing World Bank EUR 20 million project).
- The central government budget has subsidised in the last 15 years about 40% of capital expenditures for drinking water and sanitation services. It also subsidises O&M costs for 42 out of 57 utilities.
- Municipal budgets can also subsidise water-related services, funded by local taxes (e.g. land tax) and block grants received from the state budget.

Transfers from international and local solidarity

- EU funds in particular have been and will continue to be very important for the Albanian water sector.
- Sida has been funding some of the water resources planning and administration expenditures – contributing to the development of the IWRM strategy, the water cadastre, and the creation of AMBU – as well as some investment costs in irrigation through a World Bank-implemented project.
- In the last 15 years, donors have funded 60% of capital expenditures in drinking water supply and sanitation.