



Union for the Mediterranean
Union pour la Méditerranée
الاتحاد من أجل المتوسط



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CONCEPT NOTE

Session 5: « NEW SOURCES OF FINANCE FOR WATER, PERFORMANCE MONITORING AND BLENDED FINANCE »

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""With recurring droughts across the World in general and the Mediterranean in particular increasingly worrying companies and their major investors, Wall Street is paying more and more attention to the risks posed by Water to business, global trade and corporate performance."

From the grain companies that rely on farmers, to GAFAs such as Microsoft or Amazon who need a reliable supply of fresh water to cool their datacenters, not to mention the food, energy, mining and clothing sectors, all economic activities are particularly vulnerable to the risks of water shortages, but no business sector is immune.

Major investors are taking note. In recent years, sovereign wealth funds and major financial institutions have been working to incorporate corporate water risks into their valuation models and investment decisions.

"The economy of the 20th century was based on an abundance of fresh water, and we have less and less of it," says the head of one such fund... "We've really fallen behind on water. We've really fallen behind on water, and as an investment community, we really need to worry about it and do more."

Water is intensely local. Flooding, drought, depletion of aquifers or water quality problems can lead to plant closures (beverage companies) or stifled supply chains (agribusiness). Water use rights will become increasingly restrictive.

Over the past two years, the Institut Méditerranéen de l'Eau has organized a number of conferences on the subject of water finance. This has led to meetings with international groups who have already invested in dealing with this new "Water Risk" to maintain their activity.

These include the OCP Group (Office Chérifien des Phosphates) in Morocco for the mining industry, Groupe DANONE in the food industry and the AXA insurance company. For these three global groups, the challenge is not simply to take commendable CSR action and/or measure their water footprint, but to integrate water risk into their strategy, even to the extent of creating dedicated subsidiaries for OCP (OCP green Water) and AXA (AXA Climate).

For these companies, the association of "Performance \square Trust \square Finance" is a matter of course, which is not always the case for the management of water utilities. These major groups, with their strategy that today encompasses water risk, should serve as a model for water utilities in the various sectors to achieve financial autonomy and the sustainable development objectives linked to water, including MDG6, through renewed confidence on the part of all stakeholders, despite the impacts of climate change.

SESSION 5

Water financing is based on three categories of resources (pricing, taxation, transfer) that are inextricably linked. Consideration must also be given to improving the pricing of water, sanitation and irrigation services, as well as to social assistance, which is the very basis of the virtuous circle of performance → trust → finance, in particular to ensure proper management of facilities over the medium and long term.

Water security generates positive economic, environmental and social externalities. Blended finance as a structuring approach to mobilizing new capital has now amply demonstrated its potential. However, there are still too few large-scale blended finance structures in the water-related investment sector. Let's hope that the commitment of the private sector, constrained by the water risk, combined with a review of tariff policy, will make it possible to develop mixed finance for the water sector, as was recently done between OCP and the IFC for the Renewable Energies sector in Morocco.

On the demand side, the water sector has always been less attractive to commercial financing than the energy, transport or telecommunications sectors. This is due to the lesser capacity of water infrastructure projects to generate the financial flows required to repay the initial investment, principal and interest, and this has always been the case. On the supply side, public development banks generally lack access to the comprehensive data on water projects needed to properly assess credit risk and operational viability.

The meeting of "Water Risk" and "Financial Risk" may give rise to mixed financing solutions that have been ignored until now, and to the need to adapt policies.

Session objective

To provide a response and follow-up to the WWC report presented at Dakar 2022, with a view to its presentation at the Bali 2024 10th WWF. To this end, we would like to be able to draw on experience already gained in the Mediterranean, to learn about the successes and/or failures that have occurred and their causes, and the issues that remain to be resolved, in order to obtain clear, well-founded messages on the criteria that should guide the project funding process from now on.

Session format

A keynote speech to introduce session 5, outlining the current limits of blended finance (see World Water Council report "Blended Finance for the Water Sector", 9WWF Dakar March 2022) and the opportunities offered by companies waking up to water risk.

A round-table discussion, moderated by the UpM, with the participation of two global companies or groups committed to taking water risk into account in their development strategy, alongside two development bank representatives.

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