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Mobilizing climate finance for the water sector : Challenges and Opportunities in MENA Region

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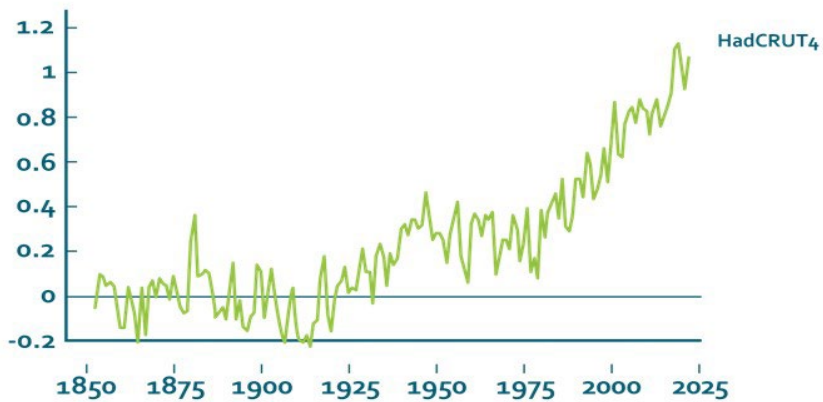
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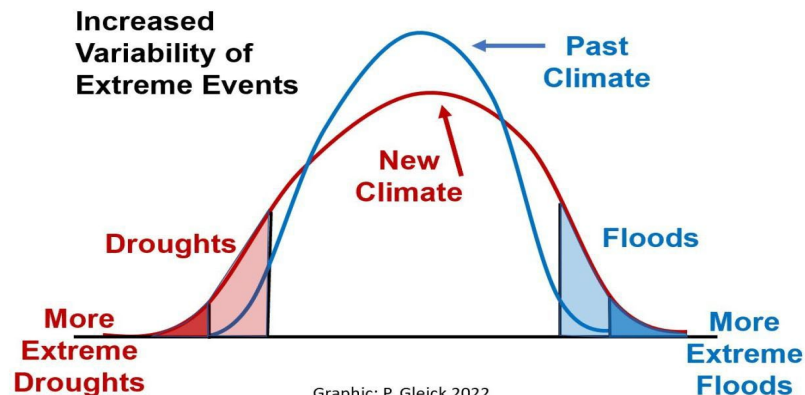
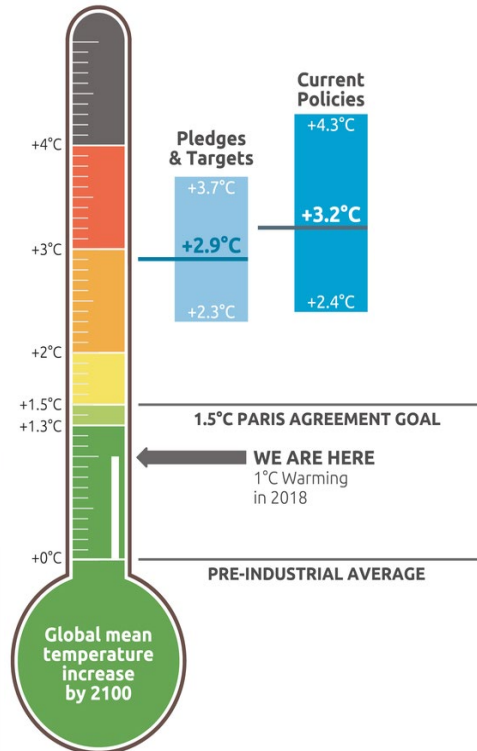
The Climate Crisis: Where we are

Temperature rise since 1850

Global mean temperature change from pre industrial levels, °C



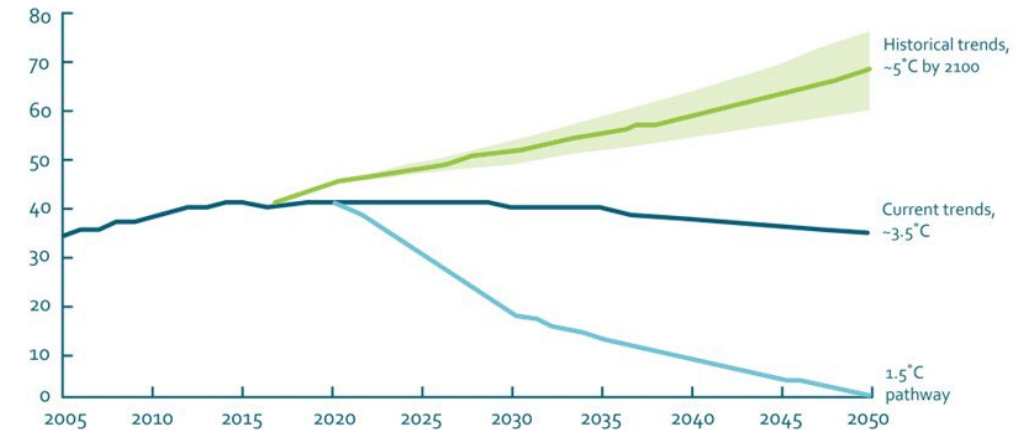
Source: UK Met Office



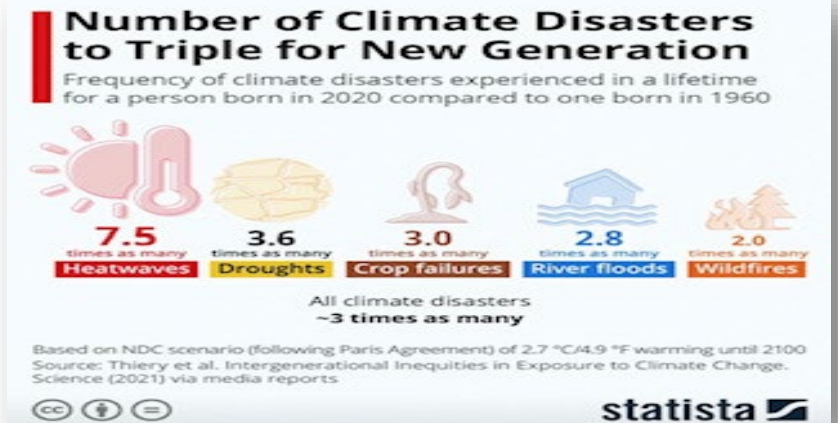
Graphic: P. Gleick 2022

What needs to be done

Projected global CO₂ emissions,

billion metric tons of carbon dioxide (GtCO₂) per year

Source: UNFCCC



MITIGATION AND ADAPTATION BASELINE



Goals in nationally determined contributions (NDCs)

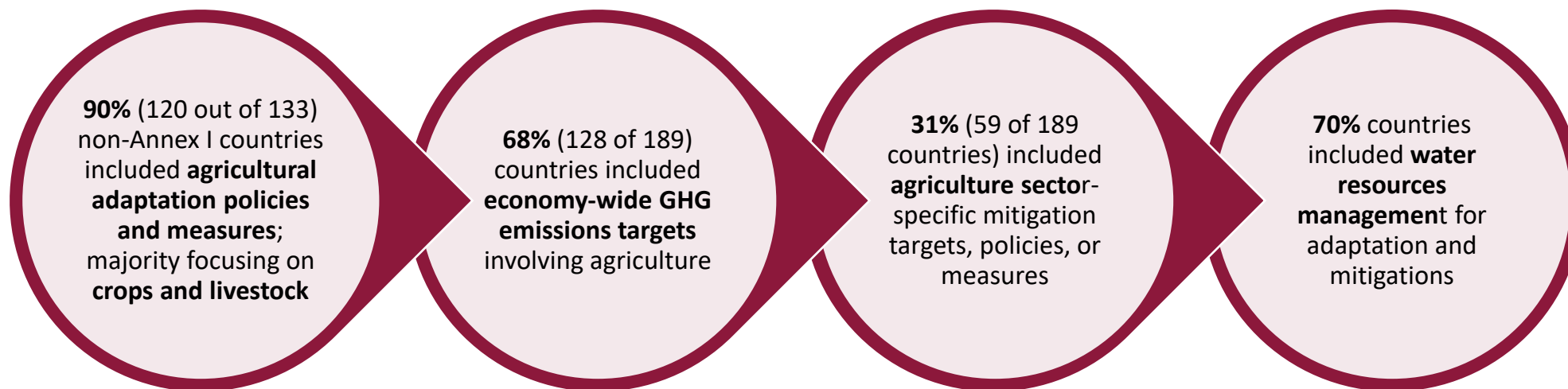
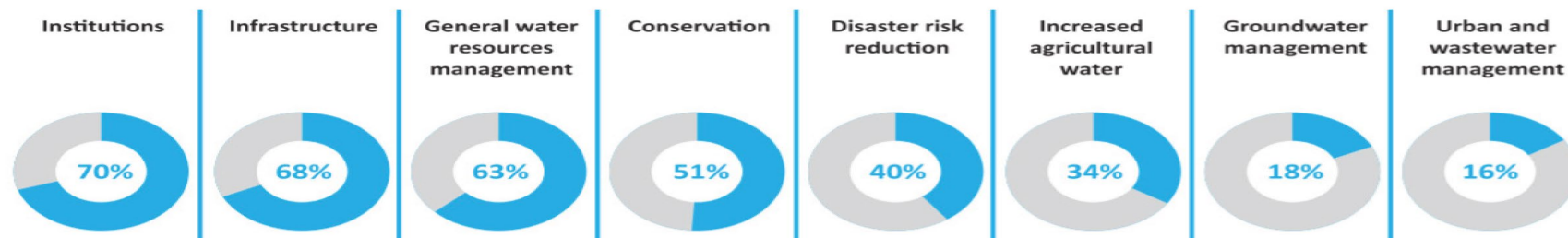
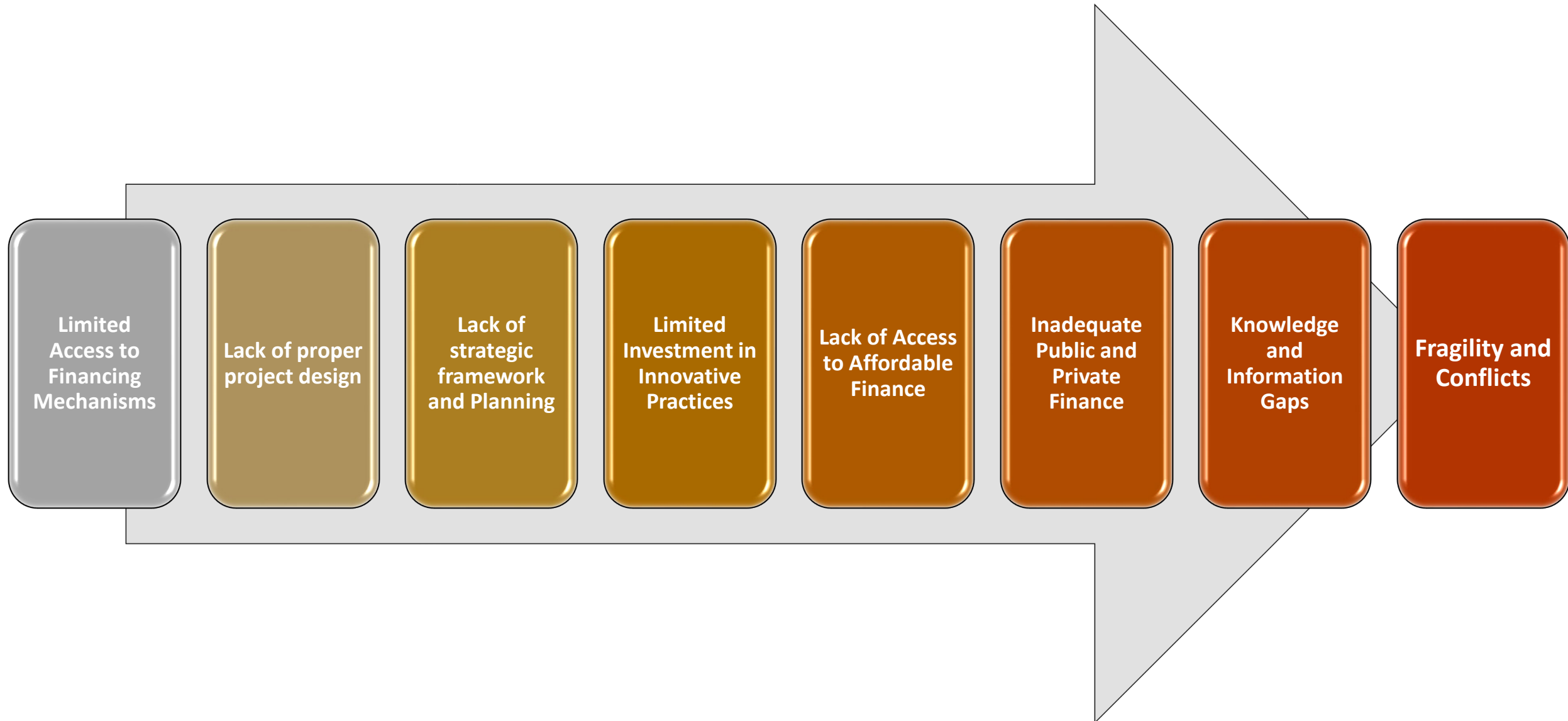


Figure 4: Proportion of first round NDCs that prioritised water actions for adaptation



Source: GWP (2018).

Obstacles to Financing Adaptation and Mitigation



Barriers to Financing Water Security Projects

Identifying the 'True Cost' of Water

Even though groundwater is **FREE**, there are hidden costs...

- Pumping Cost
- Chemical Costs
- Water/Wastewater Treatment
- Product Wastage
- Heating Costs
- Steam Losses Cost

Under-pricing of water: Water is a **public good** and generally an under-valued resource, **not properly accounted** for by the government and the investors that depend on or affect its availability in other sectors such as urban development, agriculture, and energy.

Water services are often under-priced, resulting in low cost-recovery for water investments.

Capital-intensive Water resources, irrigation, water supply, and wastewater **infrastructures** are generally **capital intensive**, with **high sunk costs** and **long pay-back periods**.

Difficulty of monetising benefits: Water management **provides** both public and private co-benefits, many of which cannot be easily monetised. This reduces potential revenue flows.

Context-specific projects: Water projects are often **too small** or **too context-specific**, raising transaction costs and making innovative financing models difficult to scale-up.

Poor business models: Business models often fail to support **O&M efficiency**, hampering the ability to sustain service at least cost over time.

Research and Innovation Gaps

Innovative Financing Mechanisms: Develop and explore new financing mechanisms that can attract **private sector investment**.

Risk Assessment and Management: better understand and quantify the financial risks associated with water-related projects in the context of climate change.

Integrated Water Management Strategies: Investigate strategies that integrate water management with climate adaptation and mitigation efforts.

Data and Information Accessibility: Develop platforms and tools that provide transparent and easily accessible data on water resources, climate projections, and financial flows.

Capacity Building and Knowledge Sharing: Promote capacity building among financial institutions, governments, private sectors and communities to enhance their understanding of the complex interactions between water and climate.

Asset transitions and Ecosystem-Based Solutions: Explore innovative financing mechanisms to support Water as asset class and NBS for water and climate challenges.

Public-Private Partnerships: Investigate how public-private partnerships can be structured to attract investment.

Behavioral Economics and Decision-Making: Understand the behavioral factors that influence investment decisions.

Inclusive Financing Models: Explore ways to ensure that financing mechanisms are inclusive and benefit marginalized communities, especially in the context of water and climate resilience.

Metrics and Measurement: Develop standardized metrics to measure the impact on both financial returns, Paris agreement and environmental outcomes.

INVESTOR PERSPECTIVES ON WATER



➡ Agriculture is the main **employment sector** in low-income countries, it's estimated that **two in five jobs** (80%) are dependent on water.

➡ It's estimated that the risks associated with water availability and quality for industry could be as much as \$439 billion.

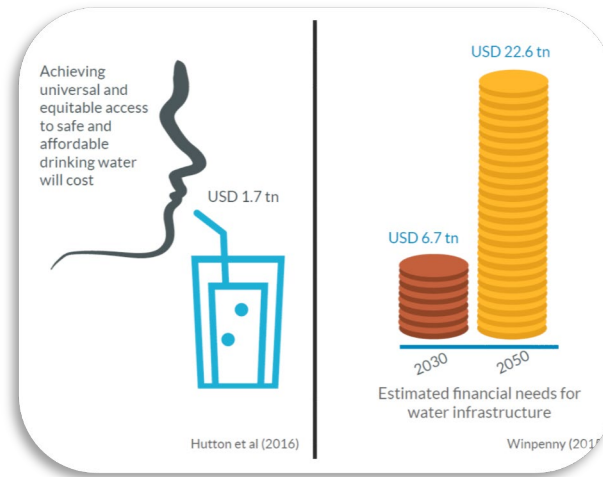
➡ There are huge funding gaps for water infrastructure with estimates for the investment required ranging from **\$6.7 trillion by 2030 to \$22.6 trillion by 2050**

➡ **Climate Change is Water Change:** Water is instrumental to meeting climate goals

➡ Research shows that a 50% increase in renewable energy in the food and drink sector could reduce water consumption by 60%.

➡ The energy sector is also **water-intensive**, accounting for around **10 to 15% of global withdrawals**.

➡ The WB finds that more than **25% of the public funds going into the water sector are not being used**, with the sector's 'budget execution rates average' at around 72% between 2009-20



INVESTOR PERSPECTIVES ON WATER

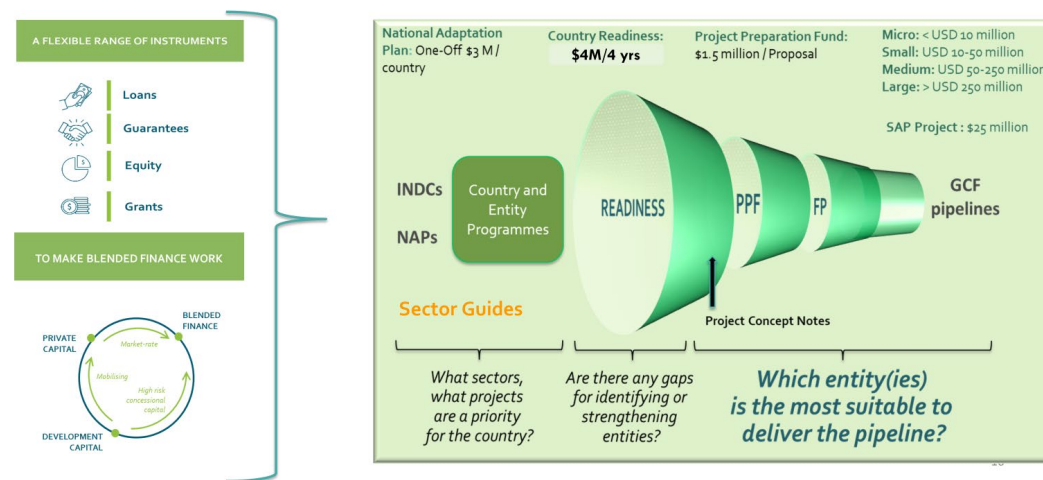


“Water solutions” now rank number one globally in both the US and Europe for investors being “very” or “somewhat” interested, according to Morgan Stanley’s 2024 report on investor sentiment in sustainability.

MENA Should take the same ride!!

RANKED BY INTEREST ('VERY' AND 'SOMEWHAT INTERESTED')									
GLOBAL		U.S.		EUROPE		JAPAN			
Water Solutions	74%	Water Solutions	78%	Water Solutions	77%	Climate Action	68%		
Healthcare	74%	Healthcare	77%	Climate Action	76%	Healthcare	67%		
Circular Economy	73%	Nature & Biodiversity	74%	Circular Economy	76%	Water Solutions	67%		
Climate Action	72%	Education	74%	Healthcare	76%	Circular Economy	64%		
Nature & Biodiversity	72%	Community Development	74%	Nature & Biodiversity	75%	Nature & Biodiversity	64%		
Education	68%	Circular Economy	72%	Education	71%	Just Transition	59%		
Community Development	66%	Climate Action	72%	Community Development	71%	Education	58%		
Just Transition	65%	Just Transition	69%	Just Transition	66%	Community Development	55%		
Financial Inclusion	61%	Financial Inclusion	66%	Financial Inclusion	65%	Multicultural Diversity	52%		
UN SDGs	60%	UN SDGs	64%	UN SDGs	64%	Financial Inclusion	48%		
Multicultural Diversity	58%	Multicultural Diversity	63%	Multicultural Diversity	59%	UN SDGs	47%		
Gender Diversity	53%	Gender Diversity	59%	Gender Diversity	56%	Gender Diversity	42%		
Faith-Based Values	45%	Faith-Based Values	55%	Faith-Based Values	47%	Faith-Based Values	28%		

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Innovative Finance

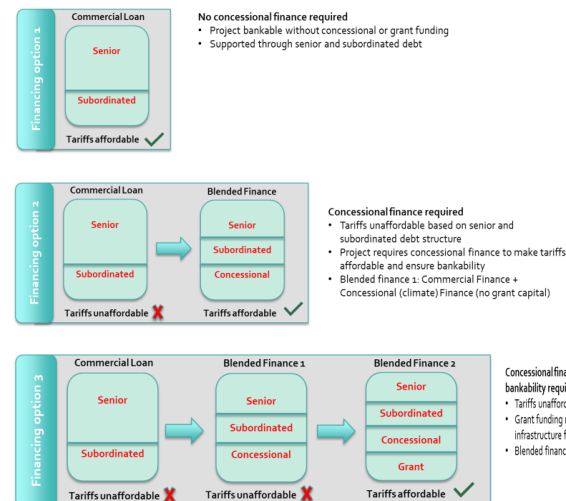
Debt for Climate Swap



- **Governments:** typically taking on project implementation,
- **Financial institutions:** providing oversight and funding,
- **Environmental groups:** offering technical expertise and monitoring

Blended concessional Finance

Credit Enhancement: Concessionally and Affordability For New Asset Class



- **Affordability**
- **Bankability**

- Concessional finance and infrastructure fund (SA Government) grant funding required to make tariffs affordable and ensure bankability required
- Tariffs unaffordable based on senior and subordinated debt structure as well as concessional funding
- Grant funding required to make tariffs affordable and ensure bankability (Grant funding to be provided by SA Government infrastructure fund)
- Blended Finance = Commercial Finance + Concessional (Climate) Finance + Grant Fund (SA government infrastructure fund)

Improving Access to Finance

Political and Institutional Reforms

Streamlining Bureaucratic Processes (Application procedures, reducing paperwork, and minimizing red tape)

Reducing Regulatory Barriers (excessive regulations, high taxation, and stringent licensing requirements)

Policy Support and Incentives (Tax breaks, subsidies, and grants)

Capacity Building and Knowledge Sharing

Financial Literacy Training (access and manage finance, financial products, financial management, budgeting and financial planning).

Knowledge Sharing Platforms (available financing options, requirements, eligibility criteria, and application processes, success stories and best practices)

Training for Financial Institutions (Climate finance and risk assessment)

Activating Partnerships with the Private Sector

Strategies to activate these partnerships include:

- **Risk-Sharing Mechanisms:** Governments can create risk-sharing mechanisms to encourage private sector investment.
- **Value Chain Integration:** Integrating value chains can attract private sector investment.
- **Investment Incentives:** Providing tax incentives or subsidies to private sector entities that invest in climate-resilient water projects can stimulate interest.

Incentives for Private Sector Investment (Tax incentives, grants, and guarantees - reduce the perceived risks)

Partnerships (Supply chain actors, and retailers)

Prospects for Financing Adaptation and Mitigation

Leveraging Climate Finance Funds (support projects that enhance climate resilience, promote sustainable land and water management, and reduce emissions from water sectors)

Scaling Up Microfinance and Digital Solutions (potential to scale up and reach more small-scale farmers, creating a regulatory investment environment, including guidelines for digital financial services and promoting the licensing of microfinance institutions.

Empowering borrowers and water utilities through Capacity Building

Strengthening Public-Private Partnerships that can unlock significant resources

Big Questions-Mobilizing Climate Finance



Barriers

Insufficient funding

Regulatory and policy challenges

Capacity and knowledge gaps

Political and economic instability

Opportunities

Innovative Financing Mechanisms: Green bonds, blended finance, impact investing, Debt-Swap

Public-Private Partnerships: Role of private sector in scaling up investments

Policy and Institutional Frameworks: Strengthening policies and institutions to attract and manage climate finance

Strategic Recommendations

Policy Actions: Recommendations for governments and policymakers to Strengthen frameworks to attract climate finance

Capacity Building: Enhancing local capacities for project development and implementation

Stakeholder Engagement: Foster collaboration between public and private sectors, involving communities, and international partners

Take Home Messages

- **Access to finance** for adaptation and mitigation in the water sectors remains a **pressing challenge in the MENA/Arab Region**.
- **Financing adaptation and mitigation** plans in the Arab region is a **complex with many obstacles** (limited access to finance and knowledge gaps).
- Exploring **innovative international financing mechanisms, prioritizing political and institutional reforms, fostering capacity building and knowledge sharing, and actively engaging the private sector**.
- The **way forward** required a **determined efforts** by **governments, financial institutions, civil society, the private sector and international partners** to break down the barriers that limit access to finance.
- By doing the above to improve access to finance, the MENA/Arab region can:
 - **Strengthen** its water sectors,
 - **Promote** climate resilience, and **contribute** to global efforts to combat climate change
 - **Pave the way** for climate-resilient and sustainable water and agriculture, ensuring food and water security and livelihoods for generations to come.

Thank You



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