

MAKING BLENDED FINANCE WORK FOR WATER AND SANITATION: UNLOCKING COMMERCIAL FINANCE FOR SDG 6

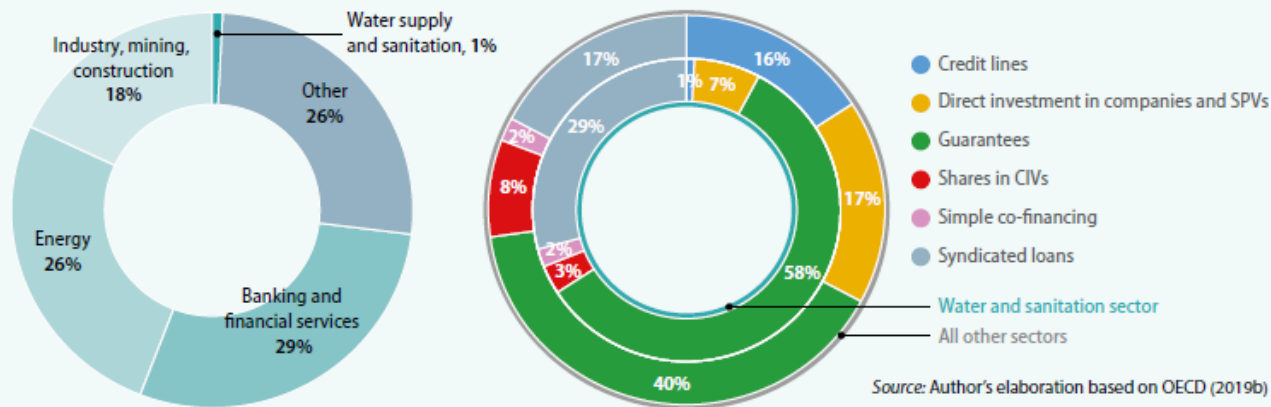
Ps-Eau comité scientifique
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Mobilisation of private finance in the water sector

Figure 2. **COMMERCIAL FINANCE MOBILISED BY DEVELOPMENT FINANCE, BY SECTOR AND INSTRUMENT, 2012-2017**

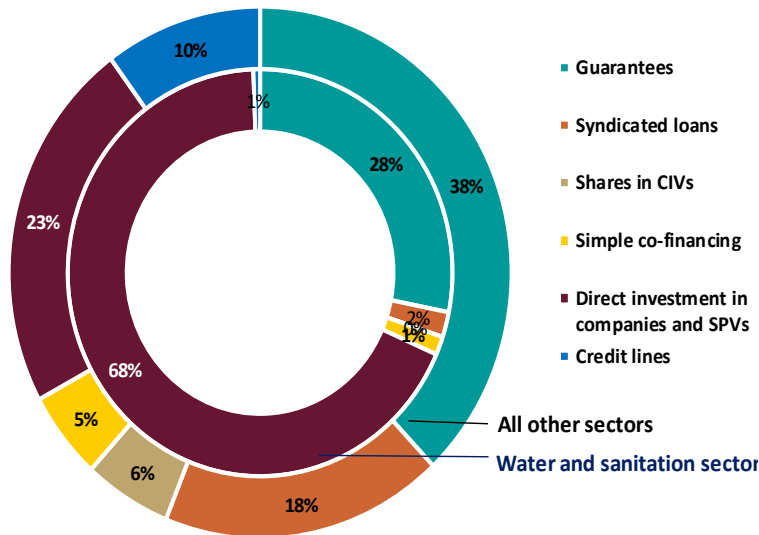
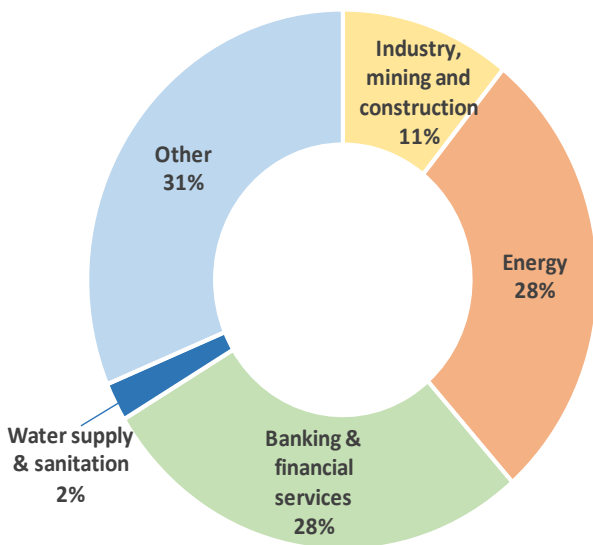


- From 2012 to 2017, USD 2.1 billion (1.4%) of the six year total of private finance mobilised targeted the water and sanitation sector.
- Guarantees account for almost 60% of private finance mobilised, followed by syndicated loans mobilising 29% of private finance.

Source: OECD DAC Statistics. This includes regular CRS reporting and Surveys on amounts mobilised from the private sector in 2015, 2016 and 2018.



Mobilisation of private finance in the water sector, 2017-2018



- During 2017-2018, USD 1 billion on average (2.3%) of the total of private finance mobilized targeted the water and sanitation sector.
- Direct investment in companies and SPVs account for 68% of private finance mobilised, followed by guarantees mobilising 28% of private finance.



Subsectors selected

Water and sanitation utilities

Water and sanitation utilities include public and private enterprises whose main purpose is the production, transmission, and distribution of water and sanitation services, including through water supply, wastewater collection and treatment, and the operation and maintenance of associated infrastructure (e.g. pumps, storage, pipelines, sewers etc.). The benefits of improved water and sanitation are social (e.g. improved human health and well-being), economic (e.g. improved productivity), and environmental (e.g. ecosystems and biodiversity).

Small scale off-grid sanitation

Development solutions in the subsector of small-scale off-grid sanitation, wastewater collection and treatment aim to deliver services for the safe disposal of human urine and faeces in settings where centralised, large-scale infrastructure is not cost-effective or absent. Small-scale off-grid approaches are emerging in the absence of centralised sewerage systems particularly in large urban areas in developing countries, and are ideally complementary to the development of sewerage systems.

MPWI and landscape-based approaches

Multipurpose water infrastructure (MPWI) projects and landscape-based approaches (integrated projects within a given spatial area) deliver multiple water-related benefits across several sectors, for example to agriculture, energy production, fisheries, recreation and tourism. Projects incorporating landscape-based approaches are increasingly being developed to address SDG-related challenges.



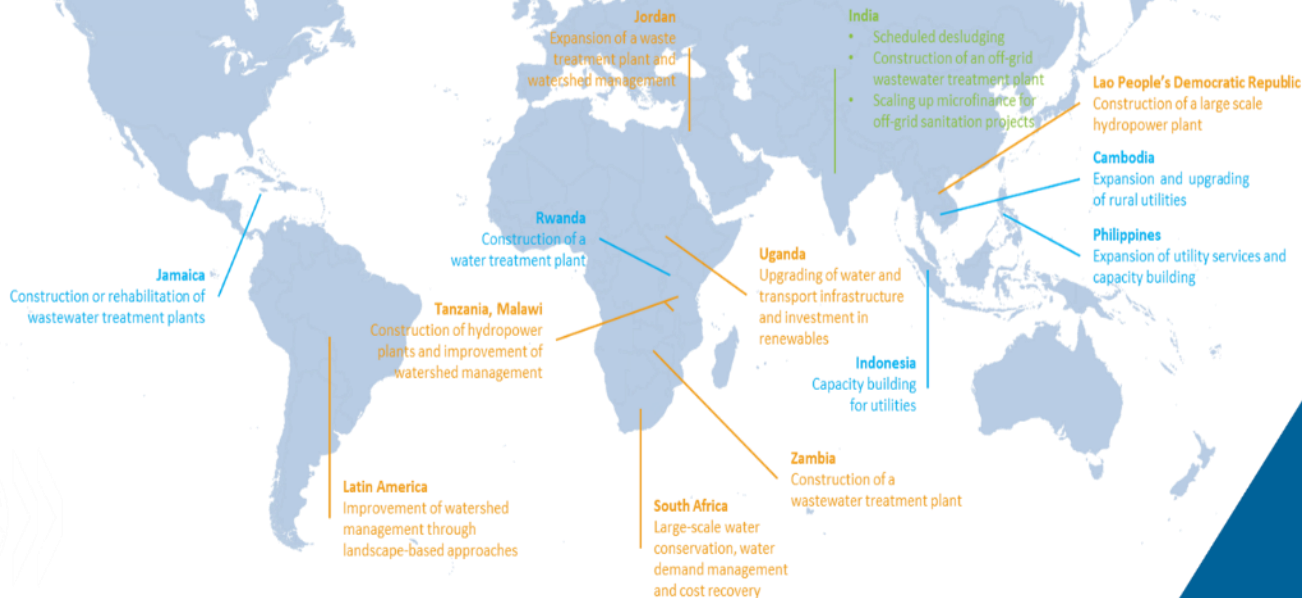


Case study approach

— Water and sanitation utilities

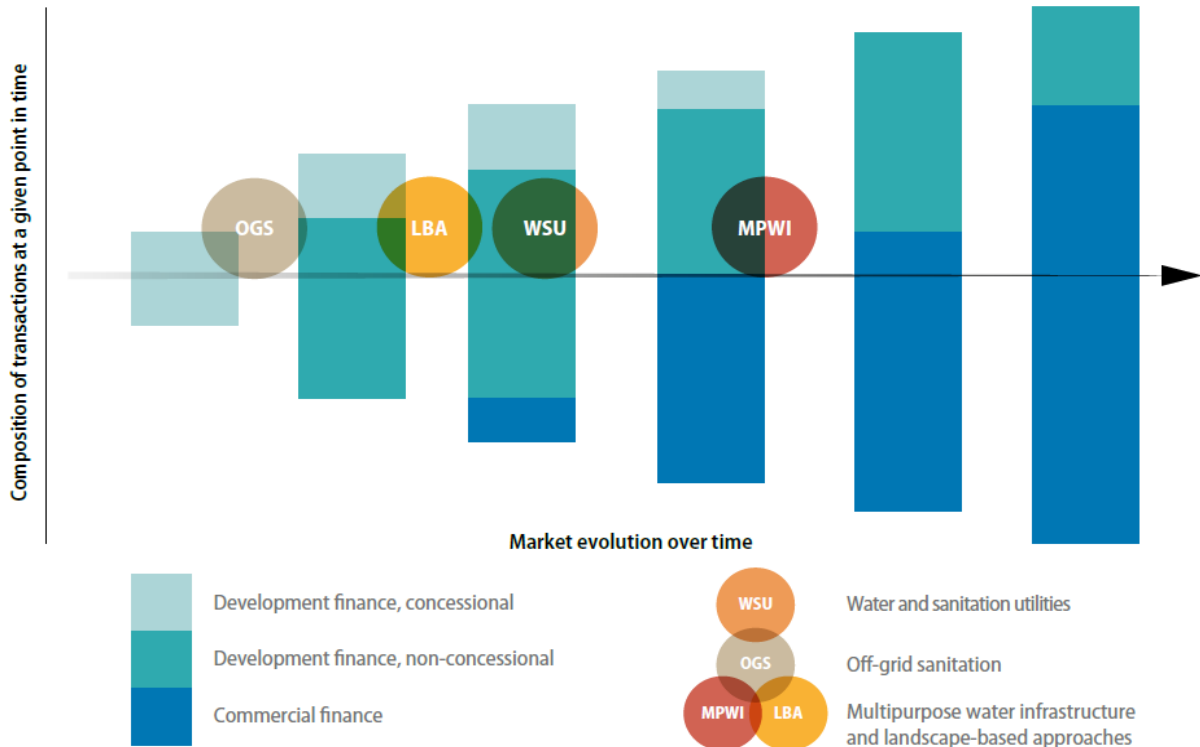
— Off-grid sanitation

— Multipurpose water infrastructure and landscape-based approaches





The state of blended finance in water and sanitation





DEEP-DIVE: UTILITIES



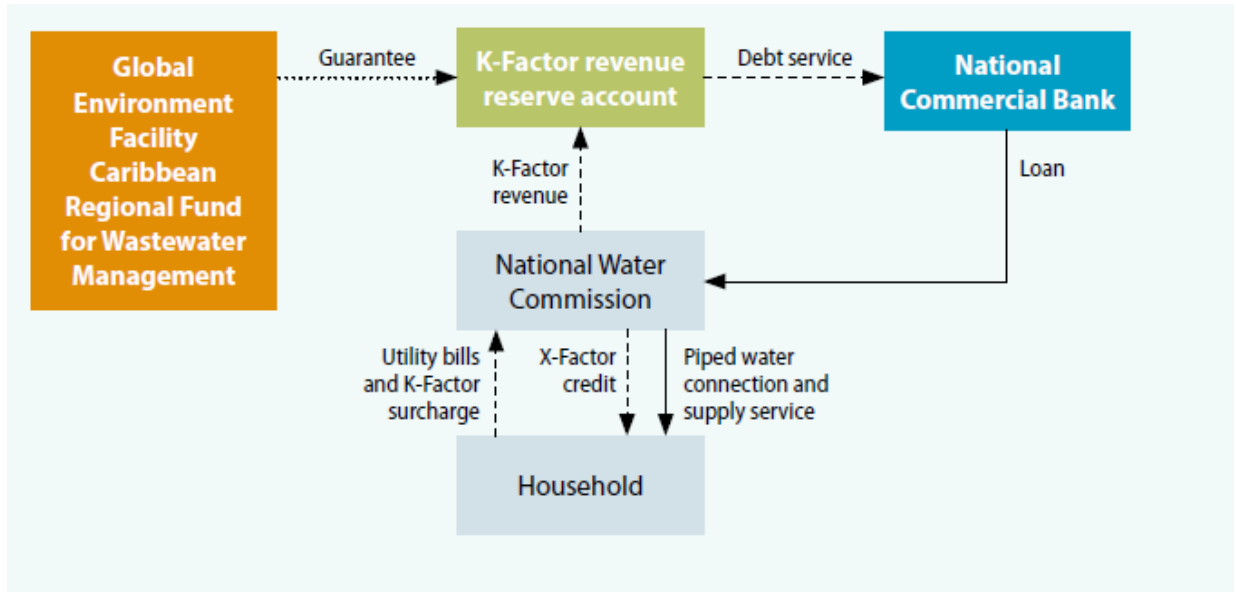
Key findings: Utilities

- Water and sanitation utilities have **distinct needs** when it comes to accessing finance
- Utilities that are **moving towards creditworthiness** can benefit from well targeted blended financing strategies
- **Credit enhancement** can be a powerful tool to improve credit profile
- **Guarantees** are most commonly used blended finance instrument (can lower cost of capital)
- The role of **technical assistance** as an accompanying measure cannot be underestimated: relevant across the financing value chain
- The effectiveness of blended finance arrangements depends on the **enabling environment**





Case study example: Jamaica Credit Enhancement Facility





DEEP-DIVE: OFF-GRID SANITATION



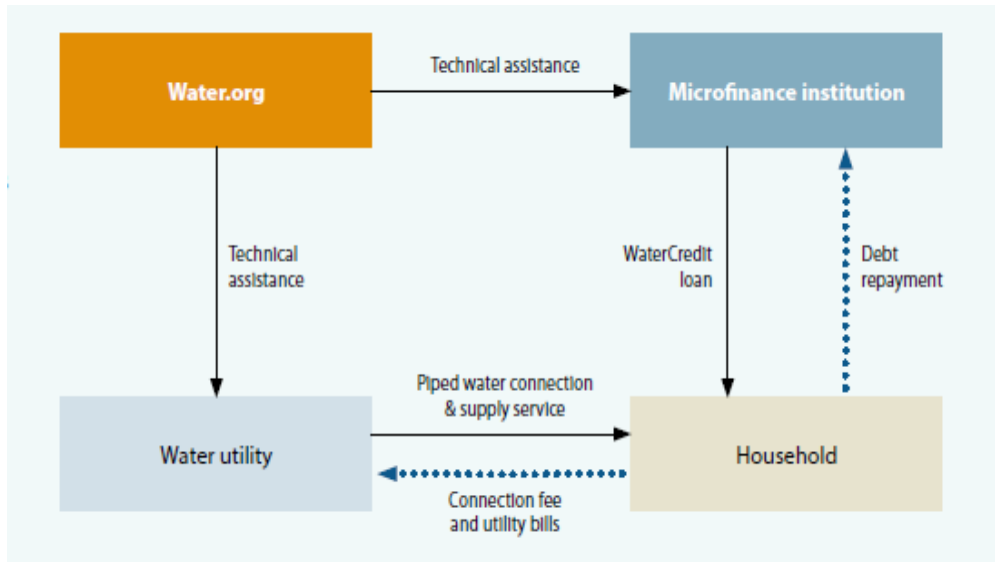
Key findings: Off-grid sanitation

- The **commercial investment perspective** is not appealing under current conditions.
- Blended finance models to unlock commercial investment have **not yet emerged**
- Blended concessional finance can **offer a pathway into beyond-grant models** and help build local markets
- **Microfinance** can increase access to sanitation by increasing access to finance for end-users
- Blended finance models may play a **role in strategically valuing business models** across the supply chain.
- A **conductive policy and regulatory framework** is needed in order for small-scale off-grid sanitation approaches to achieve scale and provide clarity for investors





Case study example: Water Credit microfinance sanitation loans in India





DEEP-DIVE: MULTIPURPOSE WATER INFRASTRUCTURE, LANDSCAPE-BASED APPROACHES



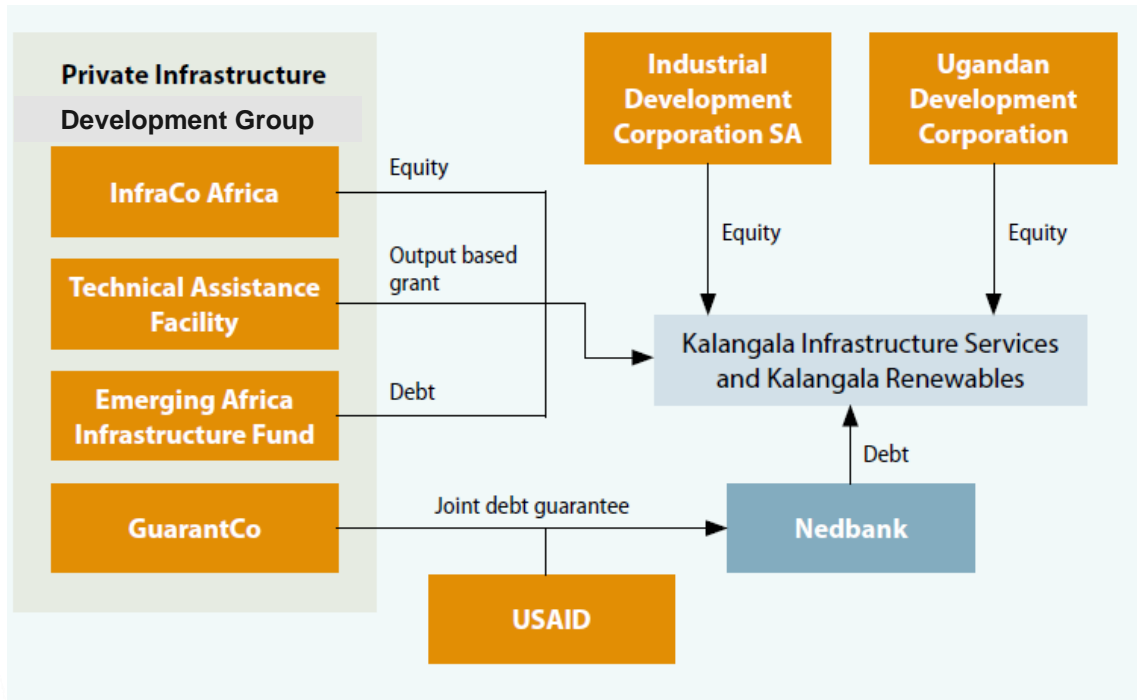
Key findings: Multipurpose water infrastructure, landscape-based approaches

- MPWI is typically financed via **project finance** and hence constitutes a **well-known structure** to commercial investors.
- **Technical assistance** for project development is an effective enabling blended finance instrument.
- Development financiers are gaining experience with **landscape-based approaches** which can mobilise **local actors** with a stake in improved water resources management.
- **Technical assistance** and **pooling** mechanisms are prevalent blending instruments in landscape-based approaches.
- Landscape-based approaches need innovative techniques to quantify and value often **implicit revenue streams**, such as land and other asset appreciation.





Case study example: Kalangala Infrastructure Services





Cross-cutting policy implications



- Design blended finance in conjunction with efforts to improve the **enabling environment**. Technical assistance plays a vital role.
- Increase **transparency** to make a valid business case for commercial investment.
- Establish **more rigorous measurement and monitoring** of impact of blended finance.
- **Build on existing experience** to adapt and extend blended finance to new investment types and contexts.
- Build in an **exit strategy**, especially when a concessional element is involved.
- Strengthen **co-ordination** and co-operation among finance providers to unleash potential for blended finance and avoid crowding out.



The Roundtable on Financing Water



A global public–private platform to accelerate action on financing and investment that contributes to water security and sustainable growth.

Engages a diversity of actors – governments and regulators in developed, emerging and developing economies, private financiers (e.g. institutional investors, commercial banks, asset managers, impact investors), development financing institutions, bi-lateral donors, international organisations, academia and civil society organisations.



Ministry of Infrastructure
and Water Management





Continue the discussion



- Exploring opportunities for country-level work to support the transition to commercial finance
- Meetings of the Roundtable on Financing Water
 - Next meeting: regional meeting, Europe, jointly with EIB: 8-9 June 2020 (TBC)



Making Blended Finance Work for Water and Sanitation

<http://oe.cd/bf-water>

More on OECD's work on blended finance:

<http://oe.cd/blended>

More on the Roundtable on Financing Water:

<http://oe.cd/water-roundtable>