



BLENDED FINANCE FOR WATER INVESTMENT

THE NEED FOR FINANCING IN WATER

Water will play a key role in achieving the Sustainable Development Goals (SDGs) by 2030, making water-related investments a necessary foundation for sustainable development and inclusive growth. SDG 6, “ensure availability and sustainable management of water and sanitation for all” has spill over effects on food security, healthy lives, energy, sustainable cities, sustainable consumption and production, and marine and terrestrial ecosystems. Moreover, water management is foundational to the successful implementation of the Paris Agreement; and climate change in turn has implications for water management, reinforcing the need to address the water investment gap.

675 000

premature deaths
annually stemming from
water and sanitation

7%

of GDP annual
economic loss in
some countries

2.1 billion

people lack access to safely
managed drinking water
services

4.5 billion

people lack access to basic
sanitation

THE POTENTIAL OF BLENDED FINANCE

While recognising the indispensable role of official development finance in funding the Sustainable Development Goals (SDGs), the international community has acknowledged the need for significant additional development finance – and accorded a prominent place to private sector participation. Blended finance offers a promising approach to harness private sector resources for water investments.

Blended finance is the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries¹

Blended finance is capable of strategically addressing the risk-return relationship in developing countries, thereby improving the financial case for water-related investment. In doing so, blended finance can increase development impact in the water sector by crowding-in additional commercial finance towards sustainable development projects.

The OECD DAC Blended Finance Principles serve to assist providers of development finance - DAC member governments, non-DAC donors, development co-operation agencies, philanthropies and any other interested stakeholders - in the design and implementation of blended finance policies and approaches. Under Canadian leadership, the G7 has committed to “work to implement the OECD-DAC blended finance principles including promoting greater transparency and accountability of blended finance operations.”



¹ OECD (2018), Making Blended Finance Work for the Sustainable Development Goals, OECD Publishing, Paris.

<http://dx.doi.org/10.1787/9789264288768-en>

² World Bank (2018), Water Overview. <http://www.worldbank.org/en/topic/water/overview>; WHO-UNICEF (2017), Progress on drinking water, sanitation and hygiene: 2017 update and SDG baselines.

THE ROLE OF BLENDED FINANCE IN FINANCING WATER

Private finance flows to the water sector have been limited to date. A recent survey from the OECD on amounts mobilised from the private sector by official development finance interventions estimates that official development finance mobilised an additional USD 1.5 billion of private resources in 2012-15 for water and sanitation, representing 2% of total finance mobilised in that period.

The OECD is undertaking a project on blended finance and water investments in order to identify best practices and examine challenges in applying blended finance to specific geographies and water-related subsectors. The project seeks to answer the following questions:

- Which types of water investments are most appropriate for private sector investment?
- How can blended finance address risks and mobilise additional commercial investment?
- Which blended finance instruments and mechanisms are best adapted to the specific characteristics of different types of water investments?

Key attributes of investments that influence their attractiveness to commercial finance

Risks	Returns	Project Attributes
Macroeconomic and business risks	Cash-flow generation	Greenfield vs. brownfield
Regulatory and political risks	Developmental return	Scalability
Technical risks		Size
Environmental/social risks		Transaction costs
		Tenor/Longevity

The project aims to engage and reflect the private sector perspective in terms of opportunities available from blended finance in water investments. The key water-related subsectors listed below will be examined through the lens of attracting commercial investment. Policy questions include: (1) Which risks, returns and project attributes are the most relevant for attracting commercial finance? (2) Are there additional subsectors that would be relevant to include in the analysis in addition to those indicated in the figure below? (3) Of the subsectors covered here, which ones are currently most attractive to commercial finance and which ones have the potential to become so? (4) Based on your experience, what would it take to make these subsectors more attractive? Is there a role for governments?

Water-related subsectors

Bulk water supply	Storage & conveyance	Water supply services (treatment, distribution)	Sanitation, wastewater collection & treatment	Irrigation	Flood protection (riverine, coastal)	Urban drainage	Multipurpose infrastructure
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Any comments, feedback, views and suggestions are welcome by email to either Kathleen.Dominique@oecd.org or Wiebke.Bartz-Zuccala@oecd.org by **25 September 2018**. The events listed below offer additional opportunities to engage.

Upcoming Events

- **27 August 2018**, 14.00-15.30, Stockholm World Water Week (Room FH 300): joint session of the OECD, World Water Council, the Netherlands, Water.org and IRC on “Blended finance: From principles to practice”. Highlights from the consultation draft of the paper will be shared.
- **5 September 2018**, 9:30 – 12:30, OECD Boulogne-Billancourt, Paris. (invitation only): A Private Sector Roundtable on Blended Finance for Water Investments.
- **4-5 October 2018**, GIZ Headquarters, Eschborn, Germany. (invitation only): OECD - GIZ conference on “Closing the financing gap for water in line with SDG ambitions: the role of blended finance”.
- **12 November 2018**, OECD Headquarters, Paris (invitation only): 3rd Meeting of the [Roundtable on Financing Water](#).