SHOW Notes - WASHTalk EP07 Blended Finance

To meet SDG 6, there is an estimated yearly financial gap of 114 billion for capital expenditure and 1.5 times that amount for maintenance. Enter the concept of blended finance. We are joined on the WASHtalk podcast today by Sophie Tremolet of the World Bank We cover what blended finance is, how it might help us meet that financing gap, and some of the challenges and opportunities out there. We use some financial language that is not widely understood in the sector, so if you're not an economist and are new to the financing world, this episode might help you bridge that gap, and help you have those necessary conversations.

Some of the takeaways in this episode include:
Blended finance is not new. It has traditionally been the concept of mixing different financing sources, with different conditions. It was usual to refer to blended finance as the mix between concessional finance and grant funding, so for example, grant funds for technical assistance to government services provider alongside development bank infrastructural investments.
More recently, the OECD referred to blended finance as the use of grant funding and concessional finance to mobilise private (commercial) capital.
There is a risk that traditional, concessional, development bank finance has been crowding out commercial finance, because it has taken the easier, low-hanging fruit of investment (i.e. the most financially viable utilities in the most stable, progressive markets). The idea being promoted by the World Bank is to use concessional or grant funding in a strategic way to mobilise private (commercial) financing towards the low-hanging fruit, whilst also putting the development bank finance to work in the harder, more challenging contexts.
But there's much work to do - in working with service providers to make them more creditworthy, and to develop bankable projects. But also supporting the commercial banks to be able to see the opportunity of the water and sanitation sector and those working in financial sector reform towards well-functioning capital markets.
Bottom line is that there's a variety of different financing options and combinations that fall under the term 'blended finance'. For example, household finance is a significant segment of the total funding needs, particularly for sanitation, and grant funds can be put to use mobilising micro-finance institutions, such as what Water.org has been doing with their Water Credit programme.
There are a range of different tools available to leverage private finance. Many of these different tools can be used more effectively in combination, like guarantees or a line of credit (for commercial banks to on-lend) alongside grants. The line of credit tool has been used more in the energy sector for industry to convert to more renewable energy technologies, but less so in the water sector. Usually, this would work alongside new policy and a regulator requiring industry to comply with new emission or discharge standards. Then grants would come in to provide technical assistance to help the industrial players to adapt to the new policy.
WASH sector actors can take practical steps by engaging with the Ministry of Finance who would understand the limitations of standalone grants or concessionary finance, and the need to bring in private finance, as it's being done in other sectors. But they know less about the financing needs of the water sector and the latest creative approaches being used around the world in the water sector to leverage private finance. The World Bank is taking practical steps by conducting a strategic financial planning exercise in many of the countries where they work to see what elements of the water or sanitation sector investment shopping list (to reach SDG6 by 2030) could be met by commercial finance, and which will need scarce government subsidies and heavily subsidised financing to deliver a basic level of service, like rural water supply or sanitation.Utilities also need to think hard about where they get their financing from, because concessional finance, which comes in hard currency (like dollars or Euros), could end up costing them way more than domestic finance from local banks in local currency, especially when their currency sees a period of devaluation - as has been seen in many emerging markets for a variety of reasons.
The third thing WASH sector actors can do is to work with the financial sector, with commercial banks and micro-finance institutions, to make them more aware of the opportunities for investing in the WASH sector, to structure the service providers so they satisfy financier due dilligence requirements, and use tools like development bank guarantees to lower the interest rates so they become attractive to service providers.

Links to resources mentioned in this episode:
OECD. -2015 report
World Bank publication out recently (Easing the transition to commercial finance)
Philippines Water Sector Revolving Fund
Dutch blended finance study in Kenya