# UN 2023 Water Conference Side Event

***Bridges Close Gaps! Moving the Blended Finance Needle to Generate Financeable Water Plans***

Friday March 24th, 8-9:15 AM, UNHQ Room B

Organized by: WaterEquity, Water.org, Green Climate Fund, Aqua for All, Netherlands Ministry of Foreign Affairs, Climate Fund Managers, FMO – Dutch Entrepreneurial Development Bank, Invest International, Incofin Investment Management, WASTE, Convergence Blended Finance.

## Background on the event (one paragraph)

The present value of the additional investment needed to achieve universal and equitable access to safe and affordable drinking water for all by 2030 is around USD 1.7 trillion, which is about three times the current investment levels (Hutton and Varughese, 2016). A promising vehicle to leverage private sector investments is the use of blended finance. This session aims to kickstart an open dialogue between public and private sector specialists around blended finance applications to the water sector to build comfort with and confidence in it while fostering collaborative pathways.

## Water Action Agenda (one paragraph, if possible, please include the link to your commitment in the Water Action Agenda database)

We collectively as co-convenors commit to continue an open dialogue and strengthen our cooperation while creating additional blended finance facilities for water, and further evolving existing initiatives based on shared learning from successes as well as from failures. We aim to increase from our individual strengths the synergy between our instruments and organisations to create an efficient financial and impact ecosystem for blended finance and manage effectively the commitments of concessional finance/ ODA providers such as the European Commission, the GCF, The Government of the Netherlands and others. By doing so we aim to over time achieve at least an average leverage ratio of 1 to 4, meaning that each dollar of concessional capital invested in these transactions mobilizes 4 dollars of commercial capital (including capital deployed by private, public (e.g., Multilateral Development Banks and Development Finance Institutions (DFIs) and philanthropic investors at market rates).

## Key Issues discussed (5- 8 bullet points)

- We are way behind in achieving SDG6 and since 2016 we seem to be stuck and failing people around the world that remain without access. Still in the 21st century people and most often women and girls, are spending a considerable amount of their productive time fetching water.
- Three important dilemmas and trade-offs faced by donors of concessional finance within the blended finance equation: a) how to achieve both equity in access to water supply and sanitation services while ensuring risk-adjusted returns so that water investments are attractive to the private sector; b) how do we keep learning from our experiences using blended finance, accepting the possibility of failures as we advance and pioneer new structures; c) what is a fair allocation of risks between providers of concessional finance and private sector investors and providers of commercial finance?
- To advance the use of blended finance in the water sector, the role of catalytic capital combined with water sector and microfinance expertise, as well as understanding of local markets is essential. Providers of such

patient, tolerant and flexible sources of catalytic capital in the form of first loss capital, guarantees and social impact incentives (such as Aqua for All and InvestInternational) enable the engagement of other impact investors in the provision of WASH services to the last mile.

- When moving towards investments in water infrastructure (which are capital intensive, have limited revenue generating options, require a stronger O&M model, and so forth), a new approach is required, one that enable the monetization of co-benefits. This requires a closer engagement with other sectors to identify these co-benefits and innovations on the business and financial models of these projects. Climate finance could be a game changer and accordingly the GCF is working with partners in the development of water co-investment platform that promoting the scope of treating water as a new asset class. Finally, GCF can de-risk investments and mobilize the private sector, improve water security and community resilient while helping reduce the GHG emissions and supporting carbon market, we call for Water Asset Transition by treating water as a new asset class[1].
- Blended finance holds a great promise and is all about creating the plumbing necessary for local and effective solutions for specific villages and households to access the billions of dollars available in global funds like Climate Investor I and II as well as WaterEquity and Incofin various water access funds. Incofin's fund for instance, the Water Access Acceleration Fund (W2AF), is a blended finance structure, of a total first close size of EUR 36m where 20% is structured in first loss. Unfortunately, there are still regulatory and fiduciary barriers that make the process burdensome, like the fact that for donors it falls under subsidies, and they have often limited understanding of how this new development cooperation strategy work; or the current system of accreditations of institutions like the GCF.
- There is an increasing interest from private sector in blended finance vehicles for water security, a greater number and variety of impact investors are emerging, such as corporates investing from their balance sheet, which have a greater and a more direct interest on the impacts generated by their investments, have a different logic than the traditional risk return metrics of traditional impact investors and a longer trajectory in investing in climate related goals. This creates an opportunity to leverage additional sources of finance for water but also requires innovation in existing mechanisms.

## Key recommendations for action (5 - 6 bullet points)

- Public sector participation through the provision of larger flows of concessional finance to blended finance investment vehicles is crucial to mobilize a greater amount of private investment and achieve SDG6. Blended finance due to its potential to leverage additional sources of finance to close existing SDG6 gaps needs to be considered a human rights program.
- To leverage the full potential of blended finance vehicles and scale up investments in water we need to move from a pure contractual relationship towards a partnership approach. Both development Finance Institutions and private investors need to strengthen their long-term partnership capabilities and move away from a transactional, deal-focused culture. To improve this practice of partnerships it is in turn essential that:
- The public sector enhances their private finance expertise, for example by creating blended finance and impact investing expert taskforces.
- Public finance providers -both development and climate related- need to reduce the bureaucracy, create fit-for-purpose reporting and fiduciary practices and requirements that are aligned with those of the private investors in a facility.
- All in all, we must enhance collaboration between existing financing institutions and experts in blended finance, developing a clear moral compass focused on achieving the envisioned societal outcomes, establishing a clear unity of purpose supported by success metrics among all partners, whereby profit and financial returns are but a mean to attract additional sources of capital to achieve our main goal: universal access to water and sanitation and water secure future for all.

[1] More information about Water Asset Transition available at: https://www.mdpi.com/2225-1154/10/12/191