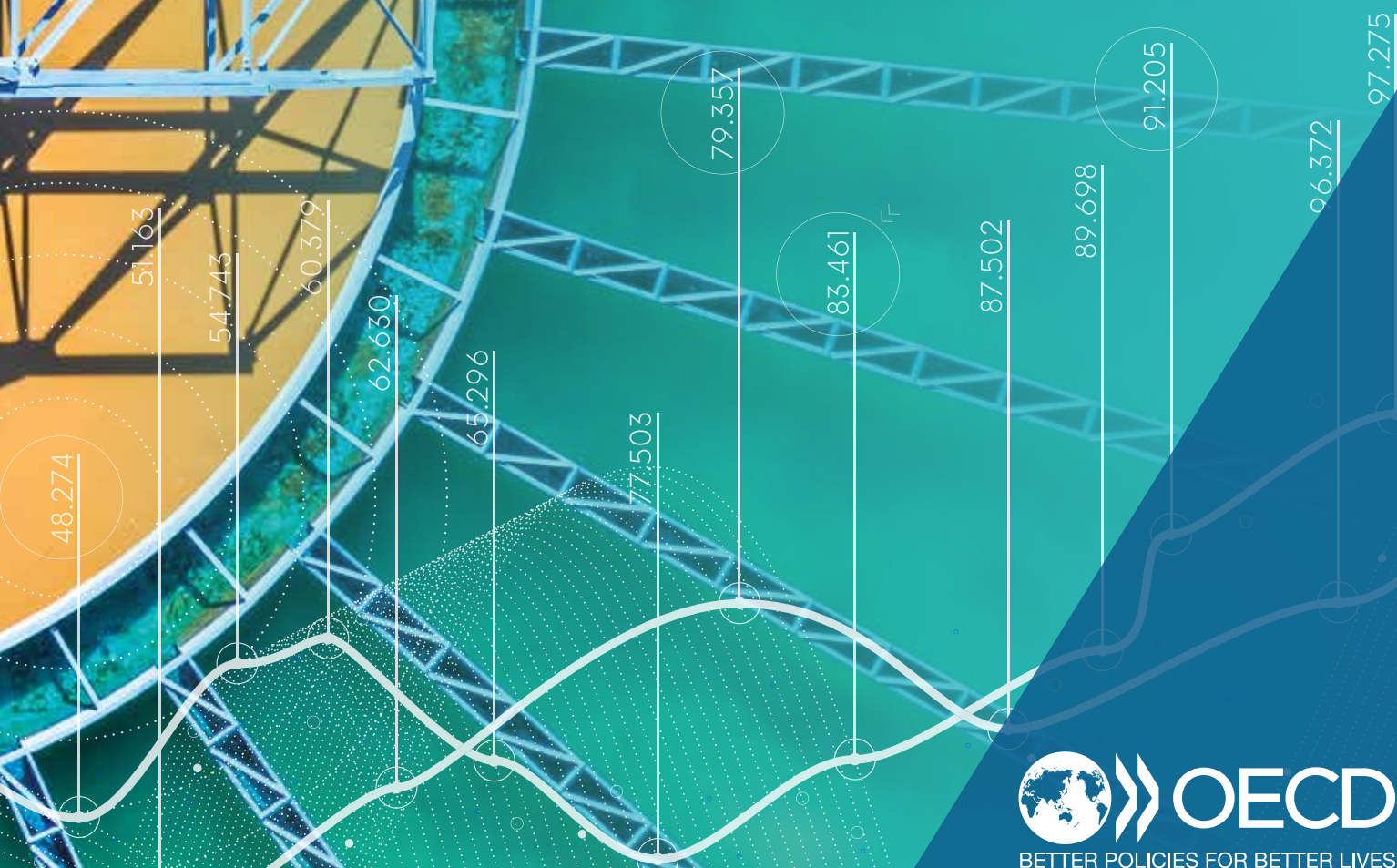


Making Blended Finance Work for Water and Sanitation

Unlocking Commercial Finance for SDG 6

POLICY HIGHLIGHTS



Foreword

“Blended finance has the potential to attract additional commercial finance for water-related investments as well as act as a market building instrument to provide a bridge from reliance on concessional financing towards more self-sustaining financing approaches.”




Rodolfo Lacy
Director of the Environment
Directorate, OECD



Jorge Moreira da Silva
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Co-operation Directorate,
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Water-related investments are key for sustainable development and inclusive growth. Blended finance can play a critical role in mobilising commercial finance and strengthening the financing systems on which water-related investments rely. The OECD defines blended finance as the strategic use of development finance to mobilise additional finance towards sustainable development in developing countries (OECD, 2018). Blended finance can add value by shifting funds to sustainable development in countries and sectors that have significant investment needs. It can also act as a market building instrument to provide a bridge from reliance on grant and other donor financing towards more self-sustaining financing approaches.

Water-related investments have spill-over effects on multiple SDGs, including those on food security, healthy lives, clean energy and marine and terrestrial ecosystems. This reflects the variety of water-related investments and the multitude of different needs these investments can address (e.g. supporting reliable freshwater supply, reducing pollution, providing drinking water, sanitation and wastewater treatment services, irrigation, etc.). This research, supported by the Swedish International Development Agency (SIDA), therefore takes a broad approach to water-related investment and covers blended finance models that contribute to the achievement of water-related Sustainable Development Goals (SDGs). It focuses on three subsectors selected to provide three distinct perspectives based on experience with blended finance to date, requirements for blended finance to successfully emerge, and potential for the use of different blended finance instruments and mechanisms. The subsectors are: (1) water and sanitation utilities, (2) off-grid sanitation and (3) multi-purpose water infrastructure (MPWI), including emerging landscape-based approaches.

This Policy Highlights summarises key messages from the publication ***Making Blended Finance Work for Water and Sanitation*** (OECD, 2019a). The publication draws on case studies, interviews, workshops and extensive desk research, in order to examine: (1) what has worked so far in terms of experience with blended finance for water-related investments; and (2) the potential to scale up blended finance approaches to apply to a broader range of investment types and contexts. It distils lessons learned and provides emerging guidance to scale up and exploit the full potential of blended finance to deliver on water-related SDGs.

Scaling up financing for water-related investments is key to achieve the Sustainable Development Goals

Sustainable Development Goal (SDG) 6, “ensure availability and sustainable management of water and sanitation for all” has spill over effects on a variety of further development challenges, including food security, healthy lives, energy, sustainable cities, sustainable consumption and production, and marine and terrestrial ecosystems .

THE CHALLENGE, IN NUMBERS

6 CLEAN WATER AND SANITATION



2.1 billion people lack access to safely managed drinking water services¹

4.5 billion people lack access to sanitation compatible with the SDG 6 objectives¹

Annual economic losses related to water insecurity globally:²

- Inadequate water supply and sanitation: **USD 260 billion**
- Urban property flood damages: **USD 120 billion**
- Water insecurity to existing irrigation systems: **USD 94 billion**

Projections of global financing needs for water infrastructure by 2030: **USD 6.7 trillion**; by 2050: **USD 22.6 trillion**³

Annual investment needs to meet water, sanitation and hygiene needs by 2030: **USD 114 billion**⁴

Sources: 1 – WHO-UNICEF, 2017; 2 – Sadoff et al, 2015; 3 – Winpenny (2015); 4 – Hutton and Varughese, 2016

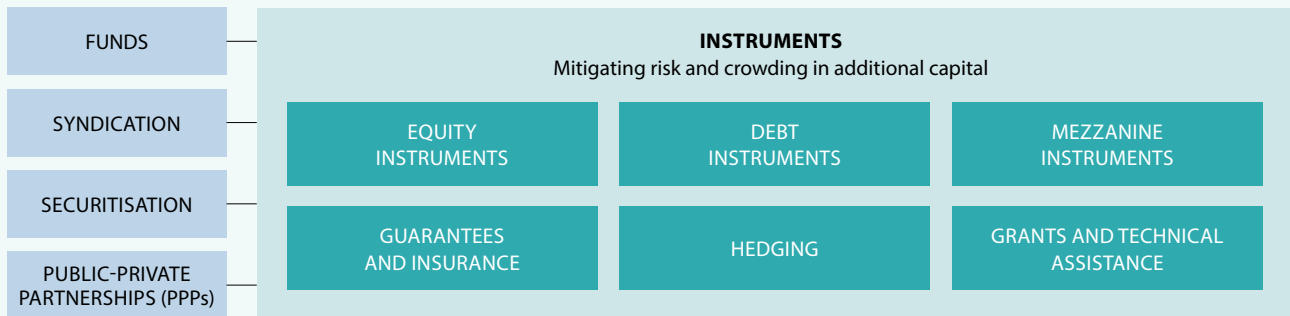
Water and sanitation have historically been financed by the public sector, however, public sources of finance alone will not be sufficient to achieve SDG 6. Following the Addis Ababa Action Agenda in 2015, the international development community has put the private sector – including domestic commercial finance - at centre stage as a source for additional investments in sustainable development. However, private finance for the water sector has not reached an adequate scale.

Blended finance can be an effective instrument to mobilise commercial finance to bridge the financing gap and to strengthen the financing systems on which water and sanitation investments rely.

Blended finance is the strategic use of development finance to mobilise additional finance towards sustainable development in developing countries (OECD, 2018). Development finance can include concessional finance or non-concessional finance coming from public or private sources, such as philanthropic actors. Additional finance focuses on commercial finance, which refers to finance invested at commercial rates from private sources or public investors such as sovereign state funds. Blended finance approaches can be categorised according to mechanisms and instruments (Figure 1).

Figure 1. **BLENDED FINANCE MECHANISMS AND INSTRUMENTS**

Structure and/or intermediation of instruments to mobilise private capital

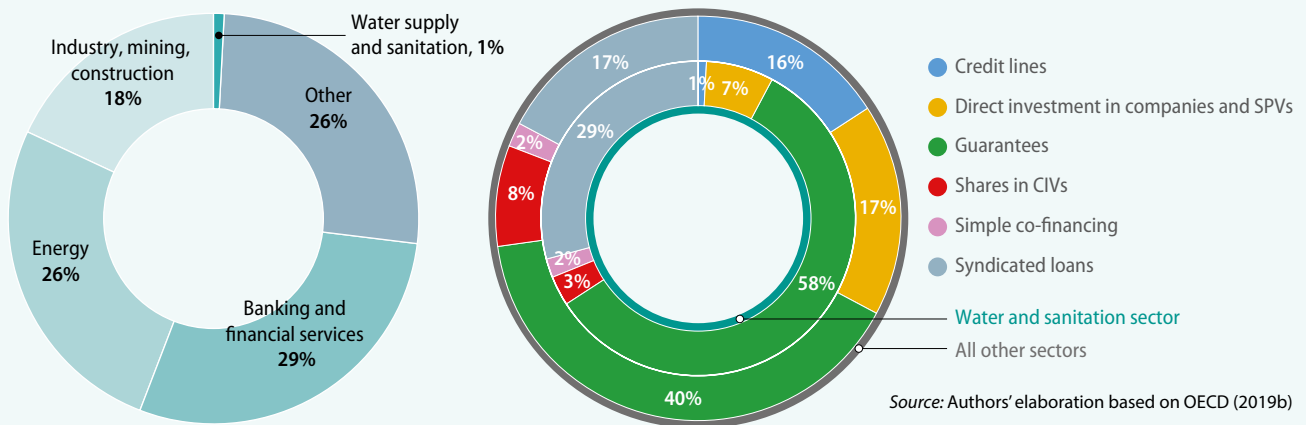


Source: OECD (2018)

The amount of commercial finance mobilised by blended finance for water and sanitation is limited compared to other sectors (Figure 2). Only 1.36% (USD 2.14 billion) of total private finance mobilised from 2012-2017 (USD 157.2 billion) was mobilised in the water

and sanitation sector. In terms of blended finance instruments, guarantees accounted for 58% (or USD 1.24 billion) of the private finance mobilised in the water and sanitation sector, followed by syndicated loans at 29% (or approximately USD 0.6 billion).

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



Source: Authors' elaboration based on OECD (2019b)

Water-related investments comprise a spectrum of diverse subsectors, each with distinct risk-return profiles. For this research, three diverse subsectors were selected

in order to delve into different issues that arise related to blended finance (e.g. different degrees of experience with blended finance to date; different types of risks and degrees of attractiveness of risk-return profile; different stages of market development, etc.).

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.

SCALING UP FINANCING FOR WATER-RELATED INVESTMENTS IS KEY TO ACHIEVE THE SUSTAINABLE DEVELOPMENT GOALS · 3

Case studies of blended finance for water-related investments

Water and sanitation utilities

Off-grid sanitation

Multipurpose water infrastructure and landscape-based approaches

JAMAICA

Construction or rehabilitation of wastewater treatment plants

RWANDA

Construction of a water treatment plant

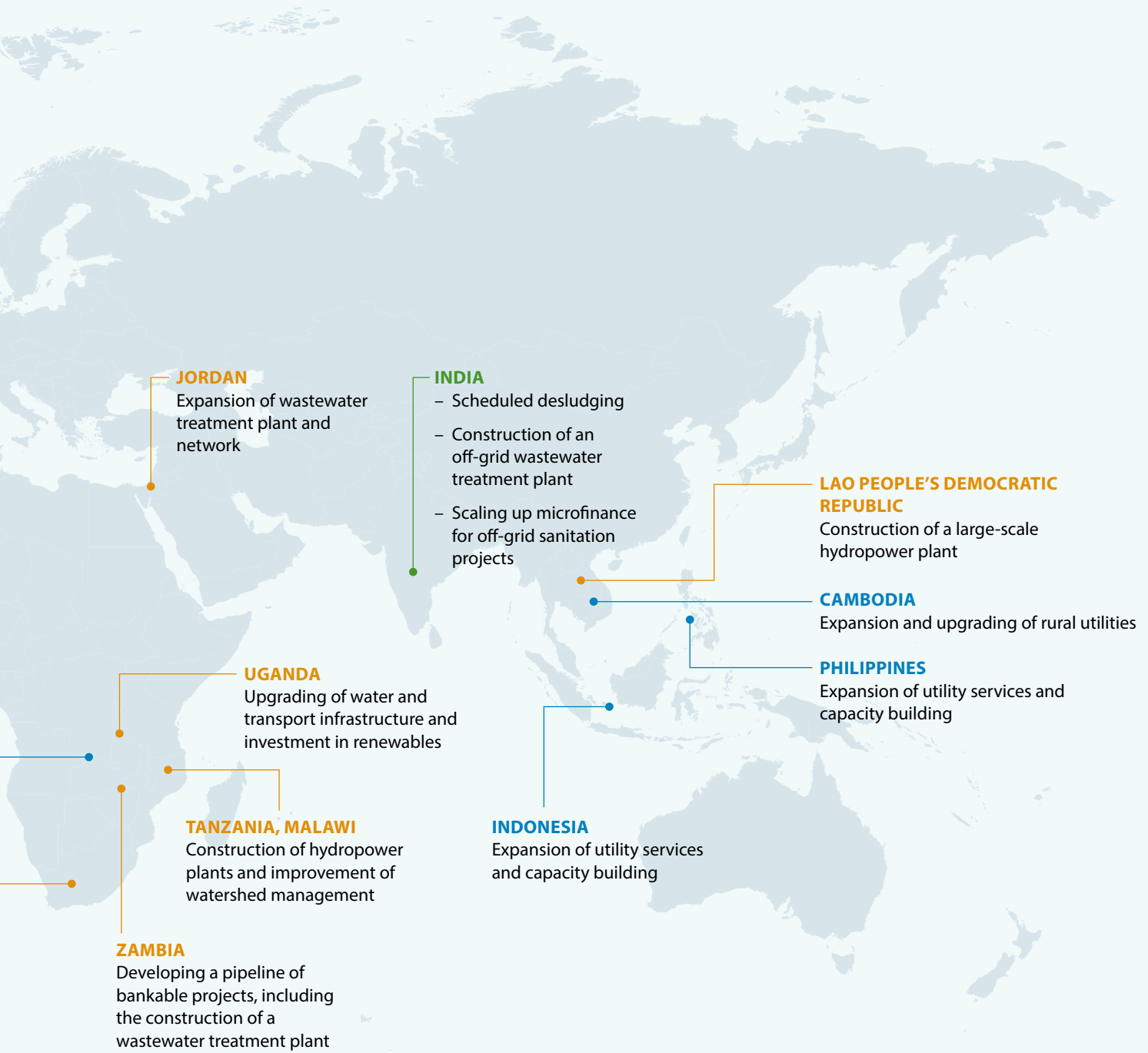
LATIN AMERICA

Improvement of watershed management through landscape-based approaches

SOUTH AFRICA

Large-scale water conservation, water demand management and cost recovery







Lessons learned from experience with blended finance for water-related investments

A range of blended finance instruments and mechanisms are in use, with a strong emphasis on guarantees and technical assistance: **Guarantees**, including credit risk and political risk guarantees, are an effective tool to mobilise commercial investment in the utilities and the MPWI subsectors. **Development actors** can use guarantees to limit the risk exposure of commercial lenders. Beyond guarantees, technical assistance plays a major role in water and sanitation. **Technical assistance** can have different entry points in blended finance transactions (Figure 4), including for project development, for investees such as utilities, or financiers such as banks to set up new lending programmes for the water and sanitation sector. Technical assistance has a crucial role to play in tailoring existing blended finance structures to local contexts.

Blended finance models are emerging but have not reached scale.

Blended financing models across the three subsectors reflect different stages of financial market building.

Utilities

Blended models have proven to be an appropriate tool for creditworthy or near creditworthy utilities to move away from purely concessional donor finance towards market financing. Traditional blended finance instruments are used at different stages of the projects, while new instruments, such as the Sustainability Awareness Bond (a new bond product recently launched by the EIB), are gaining traction in the sector.

Off-grid sanitation

Grants and concessional financing are predominant, whereas blended finance models that mobilise commercial financing are largely absent. However, innovative financing models such as development impact bonds are increasingly explored to attract additional finance, for instance by Social Finance based in the United Kingdom.

MPWI and landscape-based approaches

Blended finance models are an established financing instrument for MPWI mobilising commercial finance at scale. Blended finance can potentially operate as a fit-for-purpose financing instrument for landscape-based approaches as it can pool funding from different stakeholders responding to their individual investment preferences, but developments remain at a very early stage.



Figure 3. **THE THREE SUBSECTORS REFLECT DIFFERENT STAGES OF MARKET DEVELOPMENT IN TERMS OF LEVEL OF COMMERCIAL FINANCE MOBILISED**



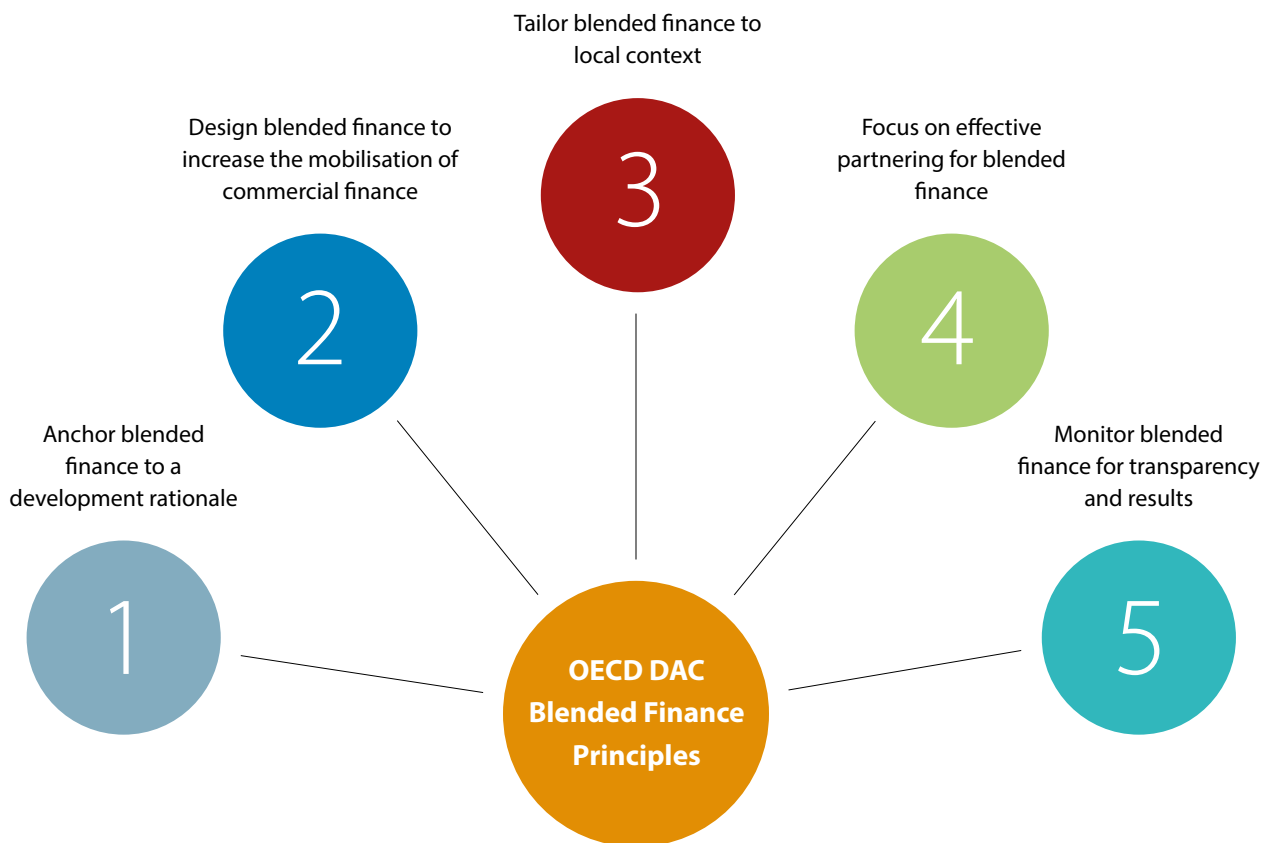
Source: OECD (2019b)

Figure 4. **TECHNICAL ASSISTANCE MODELS CAN BE USED IN A VARIETY OF WAYS FOR WATER AND SANITATION**

CAPITAL FLOW	CAPITAL PROVIDER	FINANCING STRUCTURE	USE OF FINANCE
Technical assistance	Example: Capacity building to enhance the financing spectrum of commercial financiers	Example: Project development	Example: Capacity building on the investee/borrower side; demand generation

Source: OECD (2019a)

Figure 5. **OECD DEVELOPMENT ASSISTANCE COMMITTEE (DAC) BLENDED FINANCE PRINCIPLES**



Source: Author's elaboration based on OECD (2017)

Blended finance for water and sanitation reinforces the need for, and benefits from, tailoring to the local context. In general, blended finance should aim to build local capital markets by working with and mobilising local financiers, as highlighted in the OECD Development Assistance Committee (DAC) Blended Finance Principles (Figure 5). Water and sanitation services and water resources management are, by definition, locally sourced and provided. At the same time, due to the public good dimension of water and sanitation services and the common pool nature of water resources, the sector requires a robust regulatory and policy framework to function well. These characteristics emphasise the need to work closely with local actors and align with local development needs.

Blended finance is a transitory market building tool that is designed to enable stand-alone commercial investment in the long run, by providing confidence, capacities and a track record in markets where commercial investors are not yet investing. Blended finance, starting with concessional elements, should phase out over time and ultimately exit in order to prevent market distortion. An analysis of the exit strategy should be integrated in any programme design.

Water-related investments typically concern an investment in part of an overall system (e.g. rehabilitation of distribution infrastructure; expansion of water production or treatment facilities, etc.). How that investment is structured (e.g. what aspects of the overall system are included or not) can influence the appropriate financing structure. A common vision for impact across all stakeholders is thus key to the successful implementation of the blended finance arrangement.

Pooling projects could be an effective way forward to address selected unfavourable project attributes; for instance: providing commercial investors with access to a variety of different transactions in the water and sanitation sector (through blended finance funds, for example) can mitigate concerns around small ticket size, risk exposure, limited sector or regional knowledge as well as high transaction costs.

Cross-cutting policy implications

- **Blended finance enables commercial investors to develop a track record of operating in the sector** by altering the risk-return balance in a way that the commercial sector is willing to invest. However, there is a need for more rigorous measurement, monitoring and evaluation of the development impacts of blended finance investments beyond the measurement of financial performance in order to prevent “impact” washing (OECD, 2019c).
- **Increasing transparency is essential to make a valid business case for commercial investment.** Commercial investors are cautious about uncertainty regarding any of the risks related to an investment opportunity. With adequate contractual arrangements or blended instruments and mechanisms, it is possible to mitigate a variety of risks, share the remainder with the public sector or commercial co-investors, or take a certain level of risk on the financier’s own book. However, in order to make such an assessment, risks associated with an investment should be transparent and hence quantifiable.
- **There is a need to design blended finance in conjunction with efforts to improve the enabling environment.** Blended finance cannot compensate for an unfavourable enabling environment (e.g. policy framework and institutional arrangements), but rather needs to be accompanied by efforts to promote a stable and conducive policy environment. A weak enabling environment characterised by poorly designed or absent regulation, policy settings (e.g. water prices and tariffs) and institutional arrangements constrain commercial investment.
- **A lack of co-ordination and co-operation can limit the mobilisation of commercial finance in the sector.** Co-ordination among development and commercial finance actors on their blended finance engagements is a key success factor for the market building aspect of blended finance, in particular when a concessional element is involved. This is also important to avoid the risk of crowding out. While there is general agreement about the need for improved co-operation, actions on the ground remain fragmented.





Key findings: Water and sanitation utilities

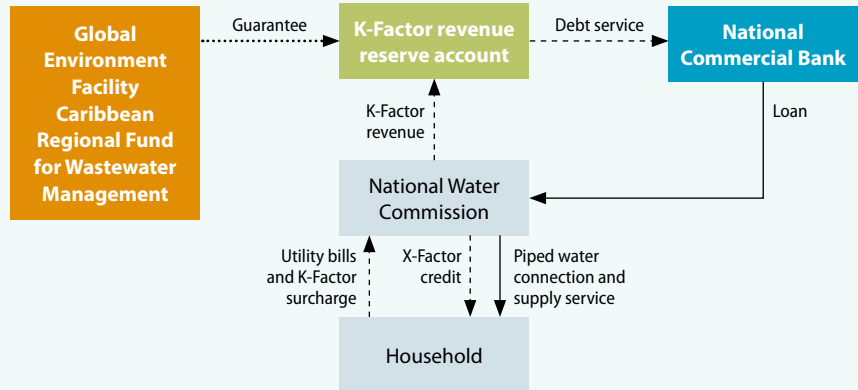
- **Water and sanitation utilities have distinct needs when it comes to accessing finance**, in part because they require long tenors in order to service debt while maintaining affordability for users, and also because they often do not have sufficient levels of operational and financial efficiency to provide attractive risk-adjusted returns on investment.
- **Water and sanitation utilities that are moving towards creditworthiness can benefit from well-targeted blended financing strategies**, for instance in support of improving their operational efficiency and financial sustainability. In this context, the use of blended finance can serve a market building purpose, because these utilities lack sufficient cost-recovery capacities to independently be financially sustainable, as well as the creditworthiness required to obtain commercial financing.
- **Guarantees are most commonly used blended finance instrument for water and sanitation utilities.** Guarantees are particularly effective in mobilising commercial finance through the mitigation of financial risk resulting in lower cost of capital.
- **Credit enhancement can be a powerful tool** to improve the credit profile of structured financial products or transactions. For example, credit enhancement can be employed to allow existing revenue streams to be used as collateral.
- **Capacity building through technical assistance is a common instrument in the blended financing of utilities.** By improving the technical and financial performance of the utility, technical assistance contributes to enhancing the creditworthiness of utilities. Improvements in the quality of the service provided by the utility, can lead to demand generation, improved willingness to pay from customers, and a larger paying customer base.
- **Commercial financiers also benefit from capacity building.** Technical assistance can play a role in helping commercial financiers adjust their lending practices by creating financial products specifically targeting the needs of the sector, including longer tenors with a sufficient grace period, and reduced collateral requirements.
- **The effectiveness of blended finance arrangements also depends on the enabling environment** (e.g. the policy framework and institutional arrangements) in which they are implemented. Providing utilities with the financing needed to upgrade and expand their services is necessary, but it is not sufficient to make a blended finance arrangement work. Improving the enabling environment by strengthening the policy and regulatory framework as well as the institutional arrangements is equally important.

INNOVATIVE FINANCING IN PRACTICE

THE JAMAICA CREDIT ENHANCEMENT FACILITY

The challenge:

- Reducing pollution from untreated wastewater
- Increasing access to piped water supply and sewer connections
- Unlocking adequate commercial financing to decommission, rehabilitate and build a pipeline of projects



The solution:

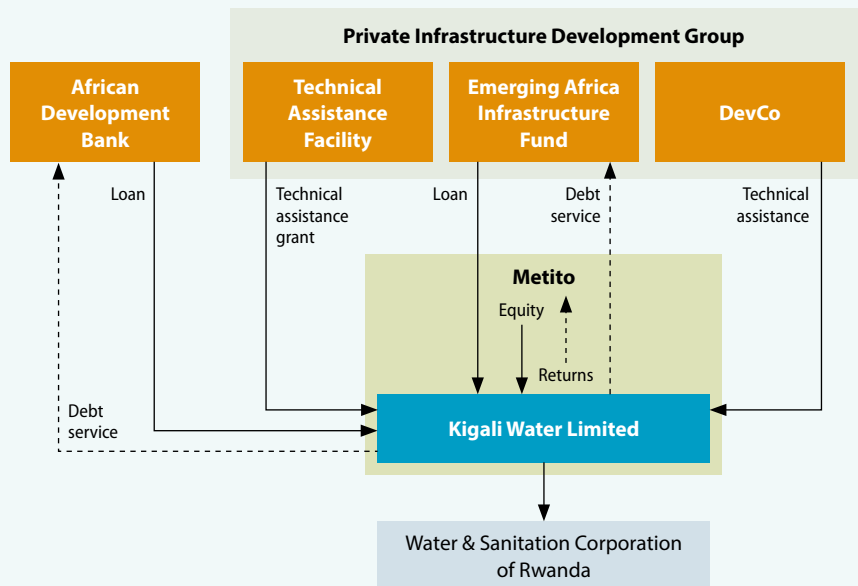
A USD 3 million grant from the Global Environment Facility’s Caribbean Regional Fund for Wastewater Management was disbursed and placed in a reserve account. The grant serves as a guarantee to an existing revenue stream, the K-Factor. This was instrumental in unlocking a USD 12 million loan to finance 8 wastewater treatment projects island-wide.

The K-Factor is a surcharge on water bills that is earmarked for investments in the water and sanitation sector. Although not sufficient to act as a stand-alone collateral, it is now used to service the debt. Efficiency gains from investments made are reflected on water bills as X-Factor credits.

KIGALI BULK WATER SUPPLY

The challenge:

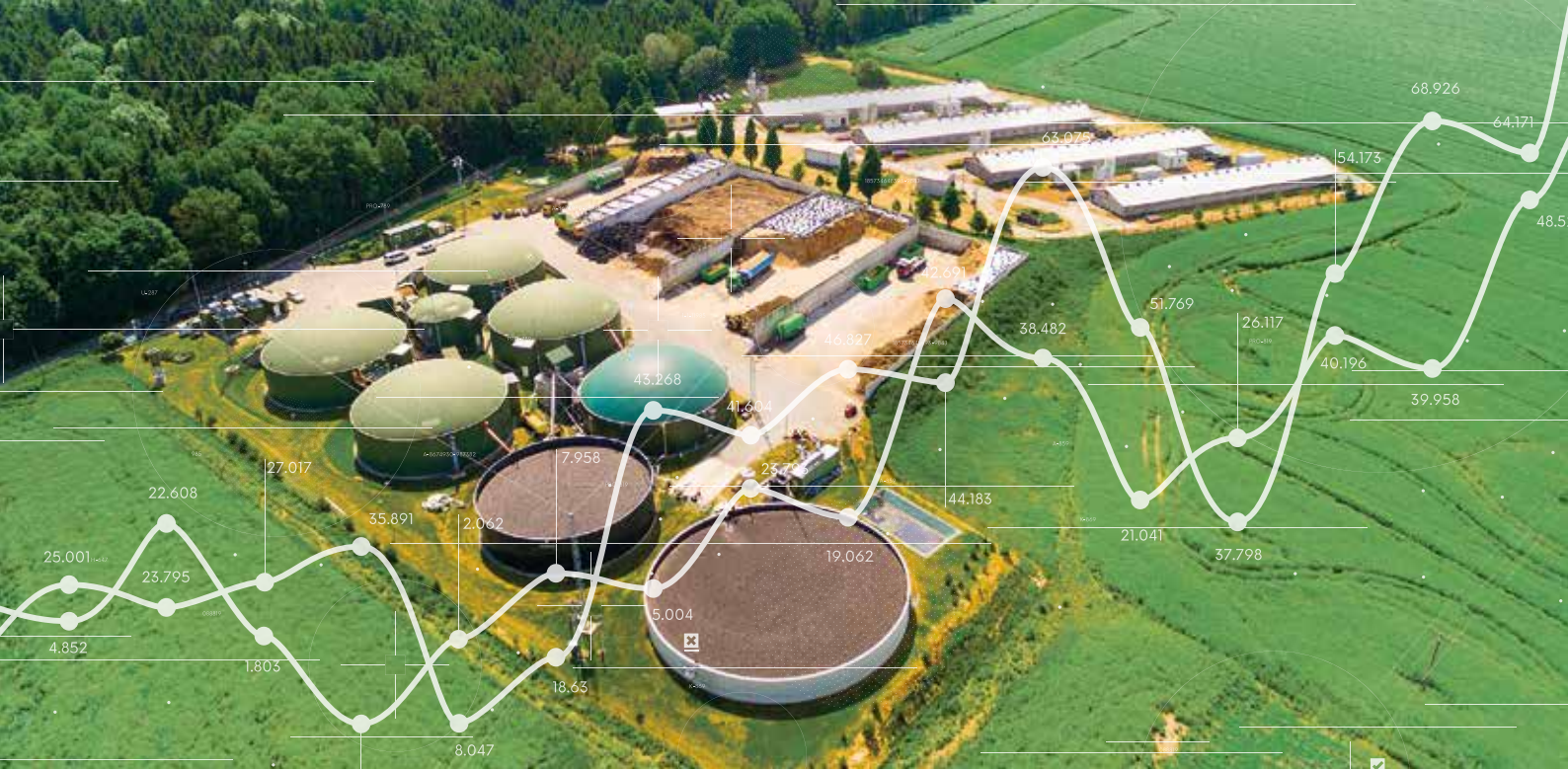
- Increasing access to piped water supply in Kigali, the capital city of Rwanda in a context of rapid urbanisation, population growth, and strained infrastructure



The solution:

The Kigali Bulk Water Supply Project is the financing of a large-scale water treatment facility via a public-private partnership. The plant will cover 40% of Kigali’s water needs, supplying drinking-quality water to half a million people. Development finance, provided as debt and technical assistance, covered 80% of the USD 60.9 million project. Dubai-based Metito, in charge of building,

operating and maintaining the plant, provided the 20% balance as equity. The agreement is financed via a tiered capital structure such that Kigali Water Limited, a subsidiary of Metito, will transfer the plant to the Water and Sanitation Corporation of Rwanda, sole off-taker of the plant, at the end of the 27-year period (inclusive of a 2-year grace period).



Key findings: Off-grid sanitation

The off-grid sanitation subsector is driven by small-scale businesses that are perceived as comparatively high risk due to relatively new technologies and business models as well as their need for long-term capital. At this stage, these characteristics make the subsector relatively unattractive to commercial investors.

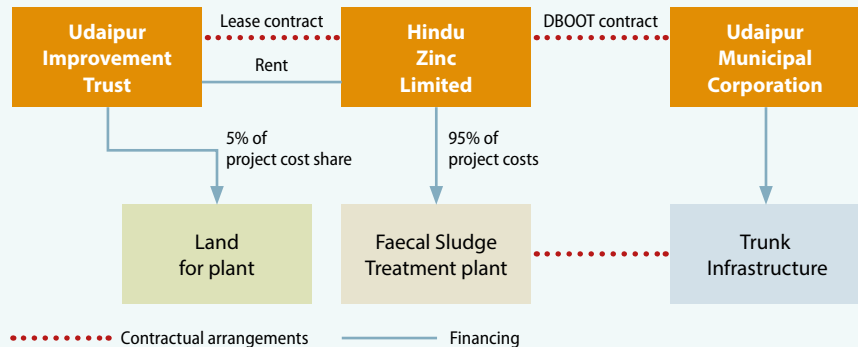
- **The commercial investment perspective on small-scale off-grid sanitation is not appealing under current conditions.** Small, early-stage enterprises with innovative, but nascent, business models operating in the subsector present (1) limited capital absorption capacity and hence require commercial investment at small-scale and (2) higher risk due to relatively unproven technologies (e.g container-based solutions and new faecal sludge management technologies). These characteristics make the subsector more suitable for patient long-term equity investment.
- **Blended finance models to unlock commercial investment have not yet emerged.** At present, commercial finance is largely absent from the subsector as a consequence of the aforementioned investment characteristics. Philanthropic actors and social impact investors play a major role in providing grant funding at this stage, with no expectation for financial returns.
- **Blended concessional finance can offer a pathway into beyond-grant models and help build local markets.** For off-grid sanitation, government or philanthropic grant facilities could be blended with Development Finance Institutions' (DFIs) own resources to generate investment opportunities in the long run.
- **Microfinance can increase access to sanitation by increasing access to finance for end-users.** Blended models such as loans and credit lines to microfinance institutions can work to increase the demand for sanitation services and assets and hence indirectly support scaling of sanitation enterprises.
- **Blended finance models may play a role in strategically valuing business models across the supply chain.** The development of financing approaches for integrated business models that link the provision of sanitation services with complementary waste collection and treatment service can help scale the delivery of off-grid sanitation services by attracting commercial finance.
- **A conducive policy and regulatory framework is needed in order for small-scale off-grid sanitation approaches to achieve scale and provide clarity for investors.** Unclear and underdeveloped legal frameworks can hinder the development of the market. For example, in some cases enterprises are unable to sell material produced from faecal sludge (compost, fertiliser, etc.) on open markets because the necessary legal framework does not exist.

INNOVATIVE FINANCING IN PRACTICE

FUNDING WASTEWATER AND FAECAL SLUDGE TREATMENT AND REUSE IN UDAIPUR

The challenge:

- Improving faecal sludge management in Udaipur City, India.
- As of 2014, only 20% of the city's population was covered by the network in place to dispose, recycle and effectively treat waste.



The solution:

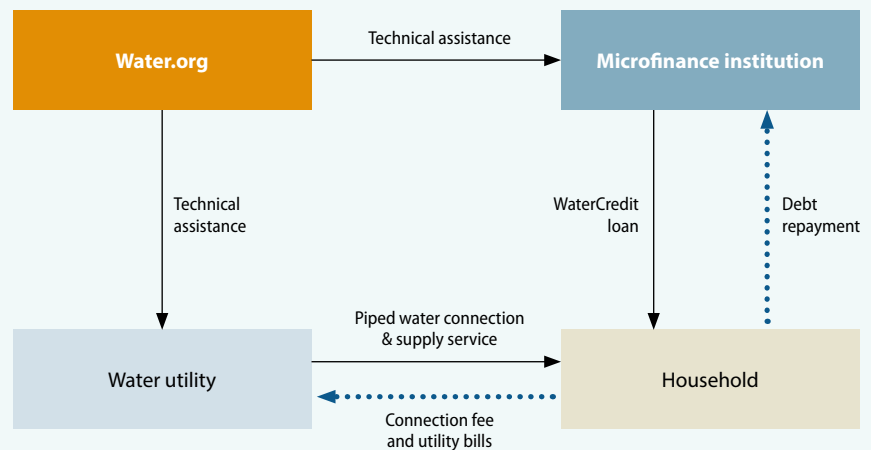
In this context, the project “Partnering for MEWAR: Managing Environment through Waste Reuse” has been conceptualised by the Indian Centre for Policy Research in partnership with the Bill and Melinda Gates Foundation to introduce a specific system of improved faecal sludge and septage management in Udaipur. The project aims to build on an existing partnership between the public and private sector to provide faecal sludge treatment and reuse.

A Faecal Sludge Treatment Plant of 15 kilolitres per day capacity to cover the requirements of the non-sewered parts of the city is being developed. The municipal government will provide 80% of the construction costs, while 20% of the costs will be provided by the concessionaire, likely Hindu Zinc Limited (a mining company operating in the area). The project is structured as a Design Build Operate Transfer project for a five-year initial term.

WATER CREDIT: MICROFINANCE SANITATION LOANS TO EXPAND ACCESS TO SANITATION IN INDIA

The challenge:

- Making the population of India open defecation free.
- Incentivising eligible households to invest in toilet construction and access to water supply.
- Addressing up-front cash reserves gap for construction of toilets.



The solution:

Water.org's WaterCredit initiative facilitates household sanitation asset or service acquisition through partnership with local financial institutions. It provides technical assistance and project preparation funds to financial institutions to set up dedicated water and sanitation loan products to low-income borrowers. Under most circumstances, these institutions already lend to low-income clients but are reluctant to lend specifically for water and/or sanitation due to perceptions of high repayment risk. The WaterCredit structure is designed to

support these institutions to pilot water and sanitation lending. The strategic use of technical assistance and/or small grants from Water.org's philanthropic donors for project preparation – market assessment, loan product development, borrower education materials, etc. – aims at increasing the outreach of sanitation services by mobilising household and commercial finance.



Key findings: Multipurpose water infrastructure and landscape-based approaches

For multipurpose water infrastructure, blended finance models are an established financing instrument for typically large-scale special purpose companies directed to delivering multiple water-related benefits.

- **MPWI is typically financed via project finance and hence constitutes a well-known structure to commercial investors.** Blended finance is applied in MPWI projects with a clear revenue proposal. For example, MPWI projects that include an energy element such as hydropower are associated with tariffs and power purchase agreements (PPAs).
- **A diverse range of blending instruments are used.** Within MPWI projects, development actors engage in providing equity, debt, and/ or viability gap grant funding, underwriting guarantees, or engaging in

project development with the ambition to mobilise commercial financing typically from local and international financing institutions.

- **In addition, technical assistance for project development is an effective enabling blended finance instrument.** Large-scale MPWI projects have long preparation and financing tenors, which leaves them vulnerable to changing circumstances. The assessment and addressing of negative environmental and social impacts of large scale MPWI can be complex and should be integrated from the outset.

For landscape-based approaches, blended finance can potentially operate as a fit-for-purpose financing instrument as it brings together different stakeholders responding to their individual investment preferences.

- **Development financiers are gaining experience with landscape-based approaches which can mobilise local actors with a stake in improved water resources management.** Moreover, nature-based solutions are also attracting increasing interest, as a complement to conventional grey infrastructure to deliver multiple water-related benefits.
- **Technical assistance and pooling mechanisms are prevalent blending instruments in landscape-based approaches,** which have mainly attracted public funds and corporate philanthropy to date, rather than commercial finance. The use of blended finance

remains at an early stage. A functioning model thus far has been to source grant funding from commercial actors.

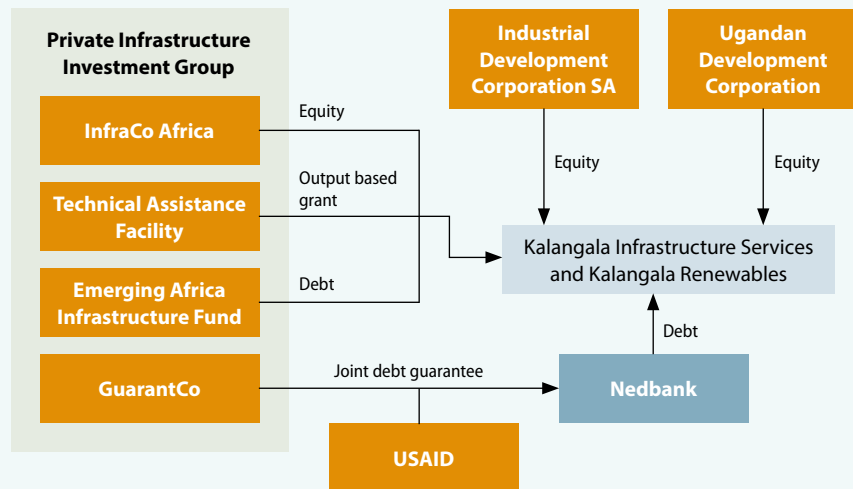
- **Landscape-based approaches need innovative techniques to quantify and value often implicit revenue streams, such as land and other asset appreciation.** For example, Water Funds build on the implicit gains for locally-based actors (e.g. water utilities and corporates) who benefit from avoided costs due to improved watershed management in the spatial area. It remains a challenge to monetise such avoided costs in a way that commercial investment can be attracted.

INNOVATIVE FINANCING IN PRACTICE

KALANGALA INFRASTRUCTURE SERVICES

The challenge:

- Improving basic infrastructure and access to water in the town of Kalangala.
- Bugala Island was previously one of Uganda's poorest districts, and had a prevalent potable water shortage.



The solution:

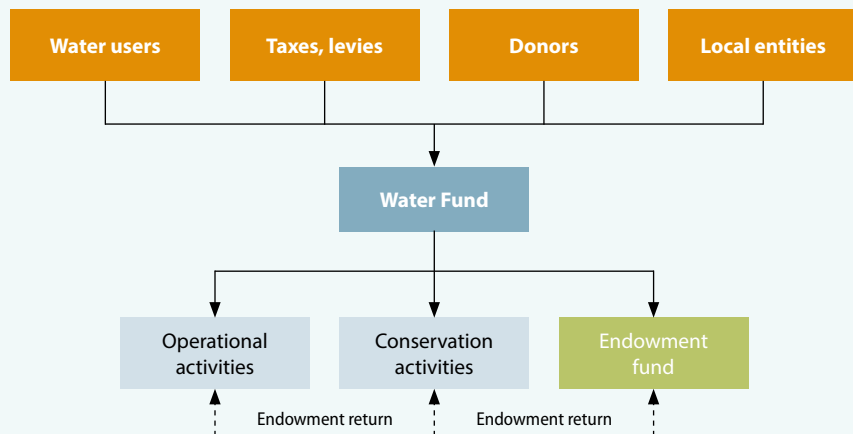
In 2005 InfraCo Africa established the Kalangala Infrastructure Investment Services (KIS) to address these issues. KIS operates as a multi-donor public-private partnership with the KIS responsible for the investment and maintaining the infrastructure for 15 years. The KIS investment in water infrastructure was part of a broader

multi-sector initiative, aiming to improve access to water, safer transportation, and more reliable, renewable (solar powered) electricity. In respect to water infrastructure, the project involved: the rehabilitation of the existing piped water system in Kangala, the expansion of the network and creation of a water treatment plant.

WATER FUNDS IN LATIN AMERICA

The challenge:

- Improve watershed management by providing institutional and financial mechanisms for conservation and sustainable use of water resources.
- Create incentives for downstream users to proactively engage in conservation and climate adaptation practices in upstream catchment areas.



The solution:

Water Funds are a financial and institutional mechanism that promotes public and private sector participation for watershed conservation. The funding model brings different types of commercial and non-commercial actors together in pooling mechanisms that provide long-term funding to contribute to sustainable watershed management through nature-based solutions. The benefits of more effective watershed management attracts capital contributions in the form of grants from large water users

such as water supply companies, hydropower plants, and food and beverage companies. Large water supply companies and other water users benefit as improvements in water management lead to reduced treatment costs and more reliable supply, among other benefits. Contributions to the Water Funds do not generate financial returns to investors. The funding model provides a stepping stone towards blended finance, but it remains a challenge to attract external commercial investment at this stage.

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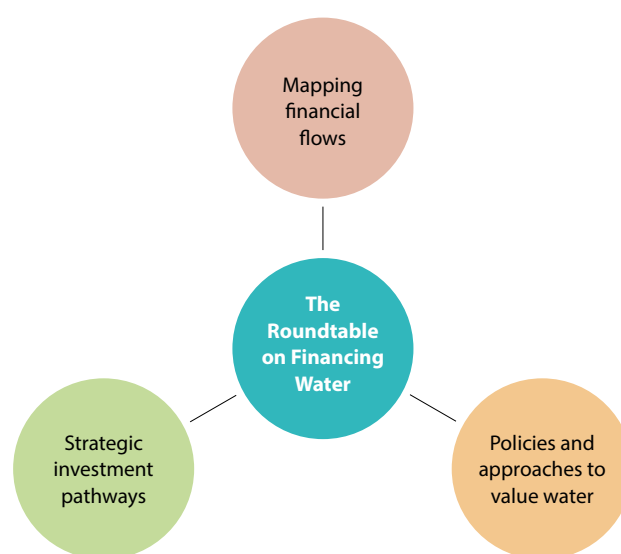
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OECD'S WORK ON FINANCING WATER

The Roundtable on Financing Water, an initiative of the OECD, the World Water Council, the Netherlands and the World Bank, provides a unique forum to catalyse engagement with the water and finance communities. The Roundtable draws upon political leadership and technical expertise, with the ambition of facilitating increased financing of investments that contribute to water security and sustainable growth.



The Roundtable 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 finance institutions, multi-lateral and bi-lateral donors, corporates, philanthropies, international organisations, academia and civil society organisations – focused on finding novel ideas and solutions.

Specifically, the Roundtable and related analytical work on financing water aim to:

- Raise the profile of the importance and urgency of issues related to financing water on the international political agenda and within the finance community.
- Deepen the evidence base on how to strengthen the policies and broader enabling environment to scale up investment and maximise the effective use of existing sources of finance.
- Push the boundaries of conventional thinking about financing water-related investment.

- Provide a knowledge hub to identify emerging trends and to share good practice.
- Stimulate action-oriented dialogue and promote impactful ways of encouraging water-related investment.

oe.cd/water-roundtable

OECD'S WORK ON BLENDED FINANCE

The OECD's work on blended finance is part of the wider work on Private Finance for Sustainable Development (PF4SD). The OECD has played a key role in highlighting new approaches and tools to leverage and redirect private finance for sustainable development. This includes approaches used in blended finance (Figure 6), which have a primary focus on the mobilisation of additional financing for development. Currently, the OECD is increasing the evidence base by gathering additional evidence on specific contexts, sectors and instruments. In addition, the OECD is promoting a co-ordination process of various blended finance actors and initiatives under the Tri Hita Karana (THK) Roadmap for Blended Finance, an international framework for mobilising additional commercial capital towards the Sustainable Development Goals (SDGs).

As part of PF4SD, the OECD is looking into efforts to promote investment with measurable social and environmental impact under its social impact investment

work. The OECD report "Social Impact Investment 2019: the impact imperative for sustainable development" sets out four pillars and recommendations to help ensure that financing for sustainable development achieves the desired impact and results: financing (shifting the trillions), innovation (piloting new approaches), data (transparency and standards) and policy (tools and evaluation).

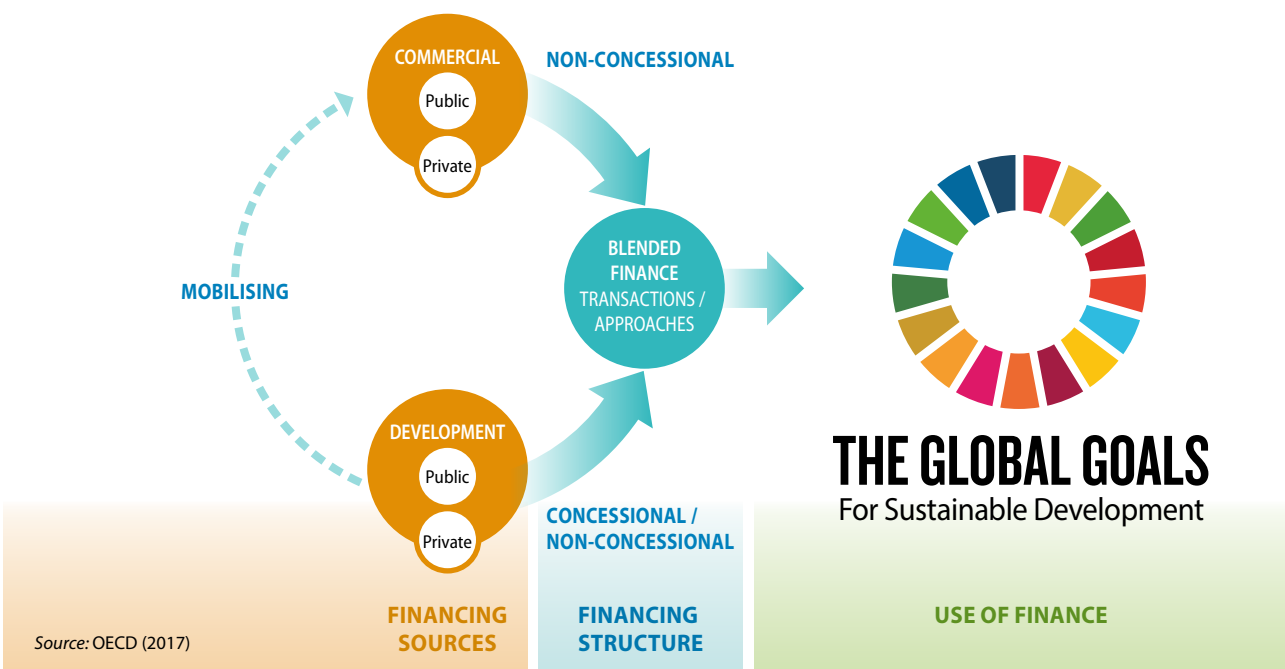
The third international Week and Conference on Private Finance for Sustainable Development (PF4SD) will bring together main actors from policy and practice from 28-30 January 2020.

oe.cd/blended | oe.cd/social-impact

www.oecd.org/dac/financing-sustainable-development/development-finance-topics/tri-hita-karana-roadmap-for-blended-finance.htm

Achieving the Sustainable Development Goals, delivering on the Paris Agreement and making the Human Right to Water and Sanitation a reality will require a historic scaling up of investment into the development and management of water resources and water services. While there is often a strong economic case for investment in water security, this does not always translate into a compelling financial case. Strengthening the enabling conditions for investment, maximising the effective use of existing resources and mobilising additional financing for water-related investments requires urgent and concerted action.

Figure 6. **WHAT IS BLENDED FINANCE?**



Making Blended Finance Work for Water and Sanitation

UNLOCKING COMMERCIAL FINANCE FOR SDG 6

This Policy Highlights summarises key messages from the publication *Making Blended Finance Work for Water and Sanitation* (OECD, 2019a). The publication draws on case studies, interviews, workshops and extensive desk research, in order to examine: (1) what has worked so far in terms of experience with blended finance for water-related investments; and (2) the potential to scale up blended finance approaches to apply to a broader range of investment types and contexts. It distils lessons learned and emerging guidance to scale, and exploit the full potential of blended finance to deliver on water-related SDGs.



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