

Welcome to the session:

Public and private partnerships for scaling up investments in WASH

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Public and private partnerships for scaling up investments in **WASH**

Session convenors:

Dr Regina Souter Snr Research Fellow, International WaterCentre

Fraser Goff Regional Technical Lead for System Strengthening, WaterAid

Oksana Tkachenko Founder/Director, Lean Finance

WASH financing gaps

Fraser Goff, WaterAid

Funding and financing sources for SDG 6

Funding sources, 3 “T’s”



Tariffs

User fees for services provided and households' investment for self supply



Transfers

Transfers from external sources, such as international donors (ODA grants), foundations, NGOs, remittances



Taxes

Domestic taxes levied by local and central governments and provided as grants or subsidies.

Pre-finance
infrastructure



3 T's principally
fund infrastructure
and services, but
also repay loans
from repayable
financing



Repayable financing

Concessional finance

Provided by development agencies, with a grant element and often with grace periods and longer tenure (soft loans)

Commercial finance

Provided by private sector financiers at market rate (vendor finance, microfinance, loans, bonds, equity)

- Private funds
- Mixed public and private funds
- Public funds

Financing the achievement of SDG 6



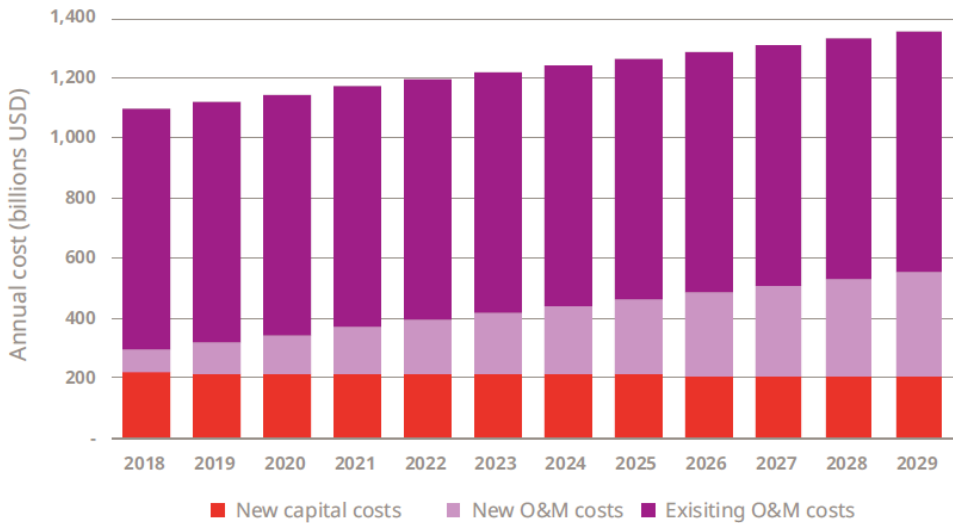
Achieving SDG 6 will require global investments of more than US\$1 trillion per year.

The costs are highest in Low-income countries: estimated at US\$50 billion per year, almost 9% of GDP.

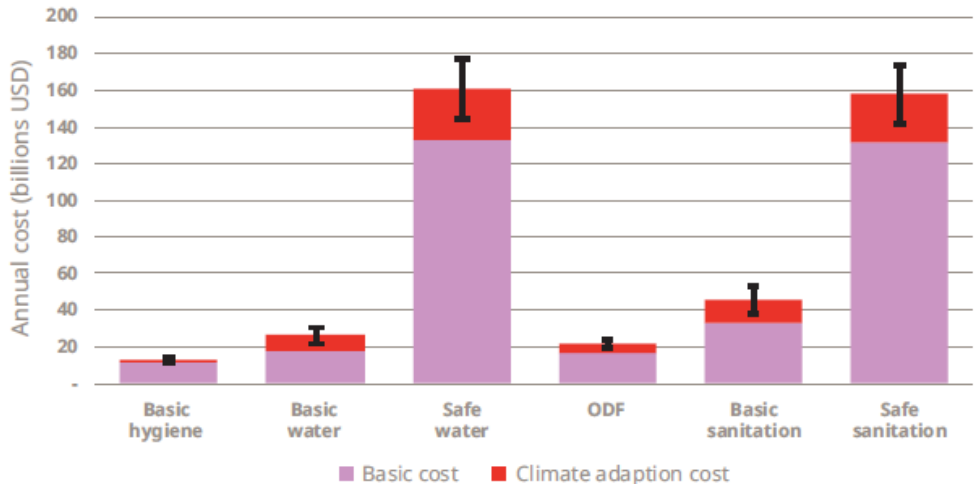
Recurring annual costs (O&M, rehabilitation) represent over 80% of the finance required.

Financing must consider sustainability, equity and climate resilience. WASH climate adaptation measures alone require average US\$83.7 billion per year.

New and existing costs to reach safely-managed climate-resilient WASH by 2030



Average new annual costs to reach safely-managed climate-resilient WASH by 2030



Source: Blueprint. WaterAid and Development Initiatives based on Joint Monitoring Programme, United Nations Statistics Division, World Bank, WaterAid and national data

Data are for 233 economies. O&M costs include capital maintenance expenditure. Average new annual costs consist of Capital and O&M costs of existing and future unserved populations. Figures are presented in constant 2017 prices without discounting.

More and better finance is needed to achieve SDG 6

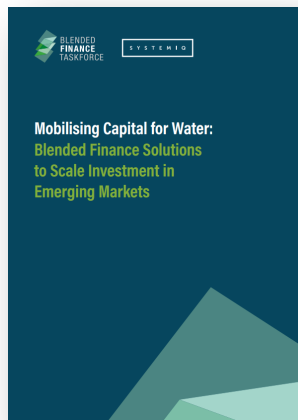


Public finance will not be sufficient: Over 80% of countries report insufficient financing to implement their national plans on water, sanitation and hygiene (GLAAS, 2019)

Partnerships that draw on both public and private sector financing require a strong enabling environment for both WASH and investment:

- **Strategic prioritisation** of WASH by national governments;
- **Legal and regulatory frameworks** that are conducive for effective partnerships;
- **Strong capacity** of governments, enterprises, regulators and financiers;
- **Consumer demand and market supply development**, including enterprises which are attractive for investment;
- **Transparent and available data** to enable investment decisions;
- **Prioritisation of gender, disability and climate resilience** and inclusion of relevant actors in the sector.

The benefits of basic and safely managed WASH vastly outweigh the costs: Analysis shows that basic and safely managed WASH services provide critical and long-lasting health and economic benefits. For example, cost-benefit ratios up to 3 for safely managed sanitation, and up to 21 for basic hygiene services.



Blending public & private finance to fill the WASH gap

Oksana Tkachenko, Lean Finance
Dr Regina Souter, International WaterCentre

Blending public + private finance for WASH

- Blending public capital with private funds allows the public sector to
 - **Leverage** (build on) public funds – to attract private sector funds, which can help to fill in market gaps, and support larger-scale WASH activities (market-based)
 - **Reallocate** (some) public funds to other WASH activities (e.g. strengthening enabling environment, or non-market-based WASH services/activities)
- Blending with public funds allows private sector to:
 - Access lower-risk investments - the financial risks in WASH services can discourage some private investors, or make the investment costs too high → public funds can absorb the risk to a level private investors can manage



Blending options

Blending can take various forms (depending on the what, when, where, how, who and why):

- blending of public and private capital to create a **larger investment pool**
- blending of various **financial tools and structures** within investment pool to meet risk/return/impact expectations of various partners in the arrangement
- blending a portfolio of **funds for deployment** (by sector, by region, by customer (private individuals, enterprises, institutions))
- blending to strengthen access to finance (via fund) and enabling environment (via TA facility)
- blending at **activity level** and various stages of development and **market readiness**
- blending of **impacts** being targeted



Antenna foundation (Blended finance | SSWM - Find tools for sustainable sanitation and water management)

A local & systems approach to blending finance

Localised approaches are essential

- Local contexts greatly affect the types and purpose of financing partnerships, as well as the specific WASH needs to be addressed

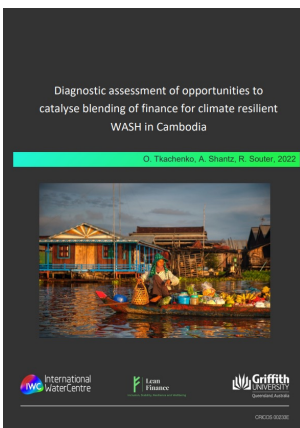
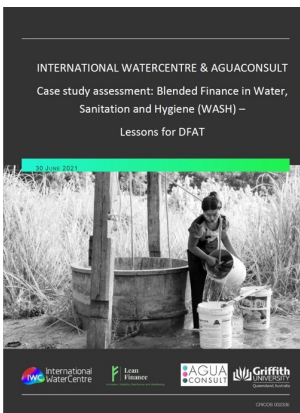
A systems perspective is required

System = types of organisations & functions to align for effective partnership
Enabling environment (investment, WASH) + WASH enterprises + investors + fund managers + technical advisors



Need for location-specific assessment of the local context and system

- identify socio-economic context
- identify status of WASH
- identify existing strengths that can be leveraged
- identify weaknesses/challenges that need attention (pose risks to WASH financial partnerships)
- identify partnership arrangements that are feasible and most cost-effective



(Some) lessons learnt and getting practical (based on three assignments)

As well as the need for **localized** and **systems-based** approaches:

1. **An effective enabling environment is critical** - building this requires upfront capital (grants, subsidies), TA for capacity building, policy strengthening or paying for product development and services creation and promotion.
2. A **strong technical partner** who understands local WASH context, systems and quality expectations, is essential for success of blended investments
3. Public and private partnerships offer **a larger pool of funding** for WASH, and provide other benefits, for example, a mechanism for investors to **influence the quality and nature of WASH** services e.g.
 - opportunity for climate-resilient and inclusive WASH services, and to provide technical assistance to build capacity of WASH enterprises to do this
 - opportunity to strengthen enabling environments for development investment, and/or WASH service delivery more broadly (e.g., support development of sustainable development investment regulations and policies, WASH consumer protections, service regulations & quality standards)



Azure Source Capital

A Financing Solution for Water Service Providers



Azure
SOURCE CAPITAL

 TOTAL
IMPACT
CAPITAL

Eliza Doll, Associate, Total Impact Capital

The Challenge: Access to Safely Managed Water Services



25% of people in the LATAM region* lack access to **safely managed drinking water**



47% of **rural dwellers** lack access to safe drinking water compared to **19% of city dwellers**¹



66% of people lack access to **safely managed sanitation services** in the region¹



99% of **rural dwellers** lack access to safely managed sanitation, compared to **60% of city dwellers**¹



* Latin America and the Caribbean

1. United Nations www.sdg6data.org (2022)

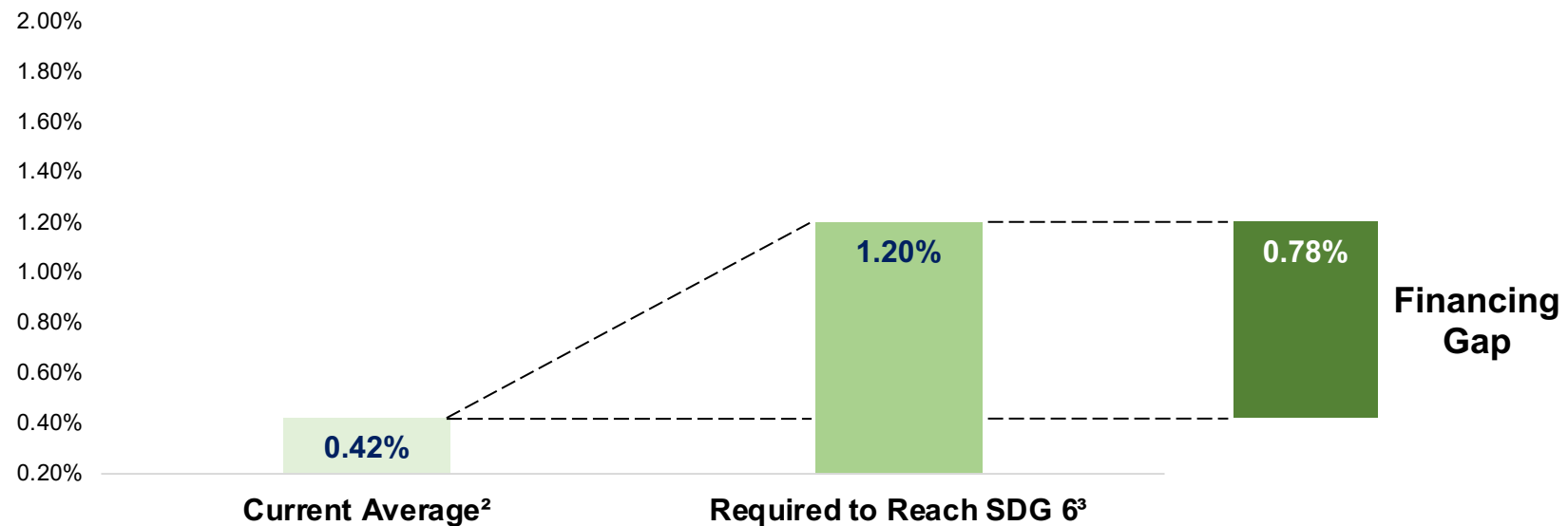
The Challenge: Gap in Financing

The provision of sustainable water services is constrained by a significant financing gap.



LATAM WASH government and ODA budgets are **significantly lower** than **the capital required** to meet SDG 6 (to ensure availability and sustainable management of water and sanitation for all).

LATAM Region WASH Budget as % of GDP



² WHO, GLAAS Report (2019)

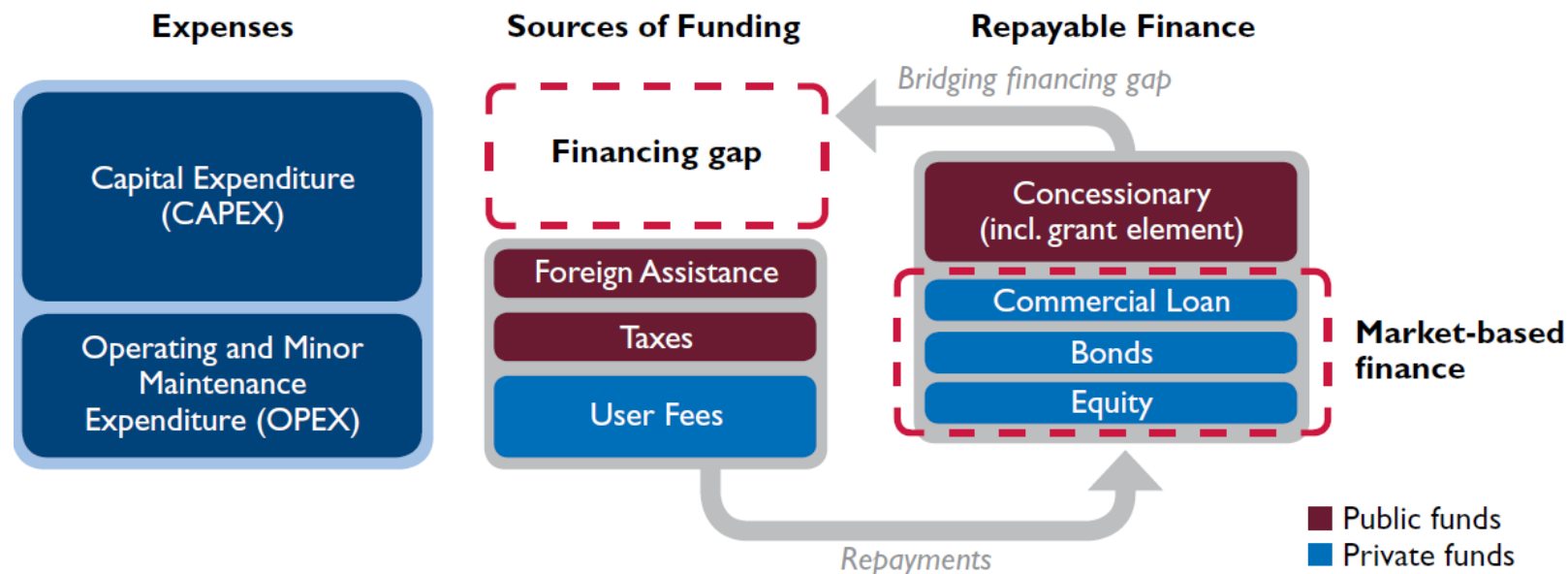
³ World Bank, Beyond the Gap (2019)

The Challenge: Gap in Financing

The provision of sustainable water services is constrained by a significant financing gap.



In order to bring in the capital needed to provide water services for all, **repayable financing mechanisms** are critical. These vehicles supplement the region's WASH budgets and concessionary capital by attracting private capital to fill the financing gap for water services in a **sustainable manner**.



The Challenge: Lack of Technical and Managerial Capacity

The demand for Technical Assistance (TA) by WSPs vastly outweighs the support and resources offered by government and other institutions. TA is offered mainly by local individual consultants or engineering firms who lack a sustainability perspective and community engagement capacities.

WSP TA support needs include:

- ✓ Project development services (engineering studies, design, costing)
- ✓ Capacity strengthening and community engagement to enable loan readiness
- ✓ Development and implementation of standard processes & IT systems.
- ✓ Products and Services driven by sustainability and market objectives vs reliance on grants



The Challenge in El Salvador: Videos

Video #1: Increasing Access to Safe and Reliable Drinking Water Services (3:13)

Video #2: Rosa Elma Amaya, Restaurant Owner, El Salvador (2:25)



The Azure Solution: Integrated Blended Finance and Technical Assistance

Blended Finance Approach



+



=



Provides Water Service Providers (WSPs) with in-country **technical expertise** and assistance to **de-risk commercial loans**.

Unlocks private financial capital through the **Azure Source Capital (ASC)** financing vehicle.

WSPs can **upgrade and expand** their supply of **safely managed** water and sanitation services to **under-served households**.



Azure Structure: Lifecycle

Azure operates as a virtuous cycle, providing WSPs with ongoing technical support and financing with loan repayments serving additional WSPs and communities as it grows.



Step 4:
WSPs repay loans from Azure Source Capital, allowing repayments to investors, more loans to WSPs, and further funding of ATS

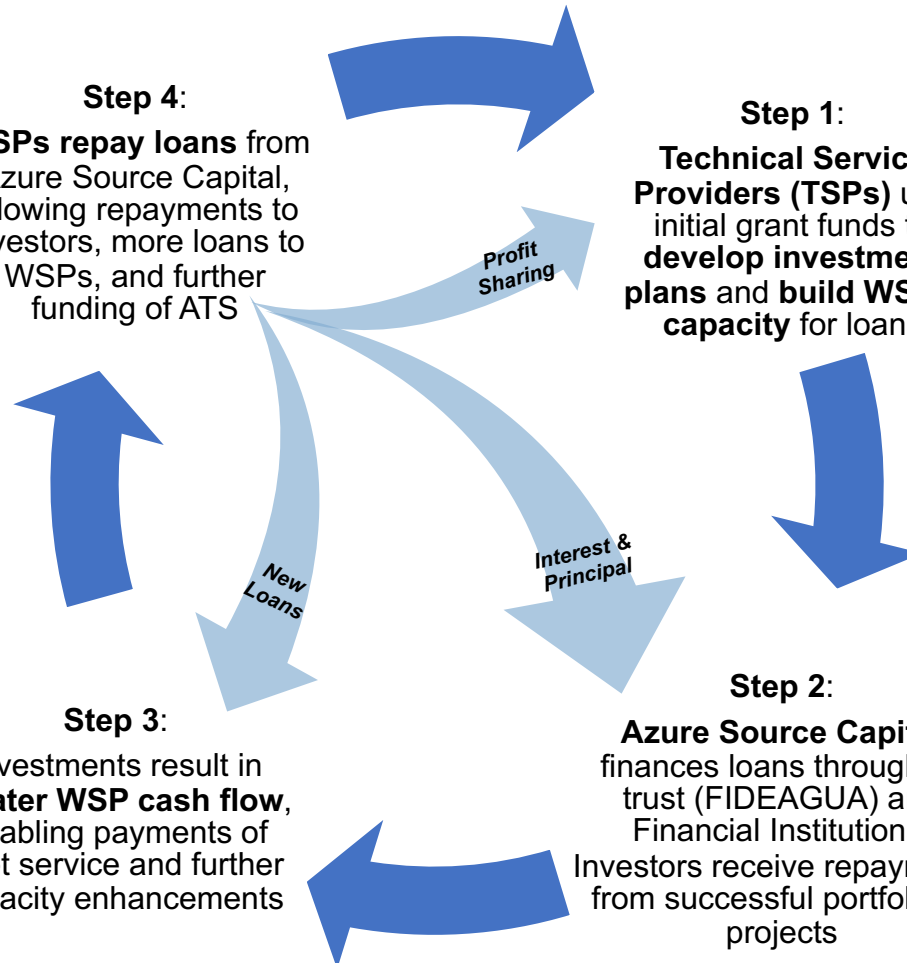


Step 1:
Technical Service Providers (TSPs) use initial grant funds to develop investment plans and build WSPs' capacity for loans



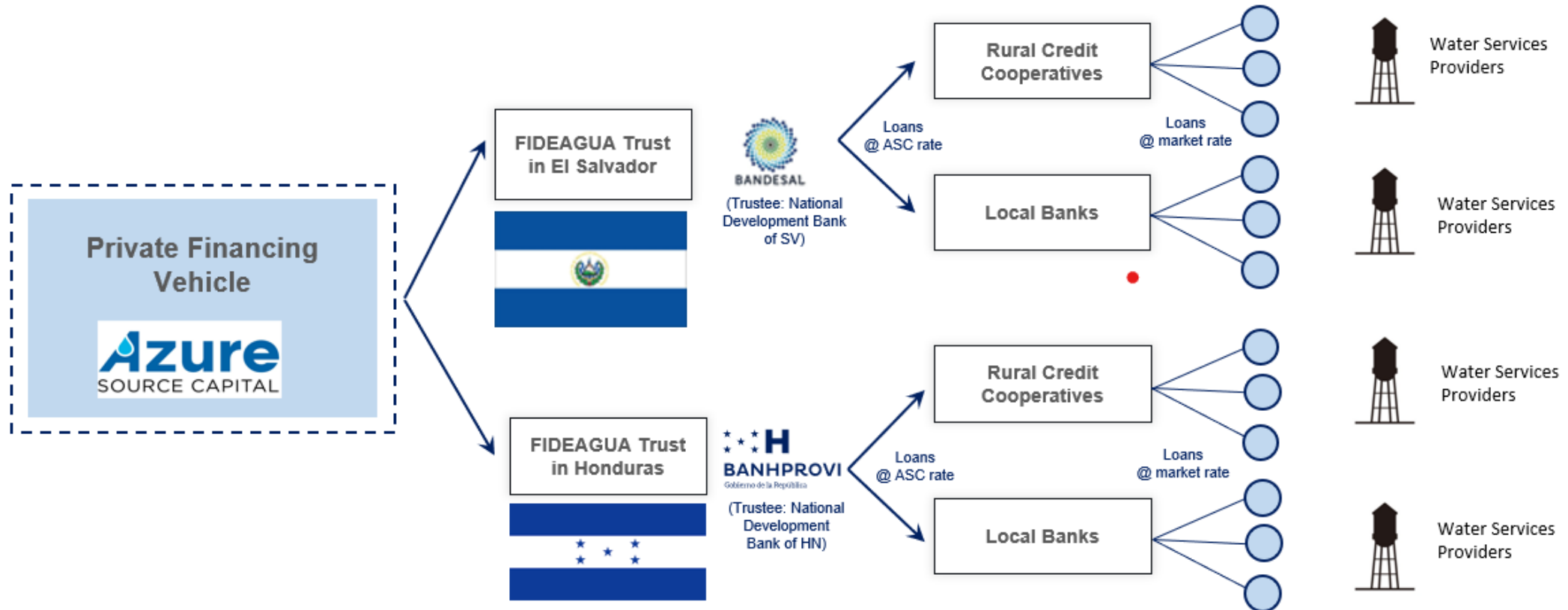
Step 3:
Investments result in greater WSP cash flow, enabling payments of debt service and further capacity enhancements

Step 2:
Azure Source Capital finances loans through its trust (FIDEAGUA) and Financial Institutions; Investors receive repayments from successful portfolio of projects

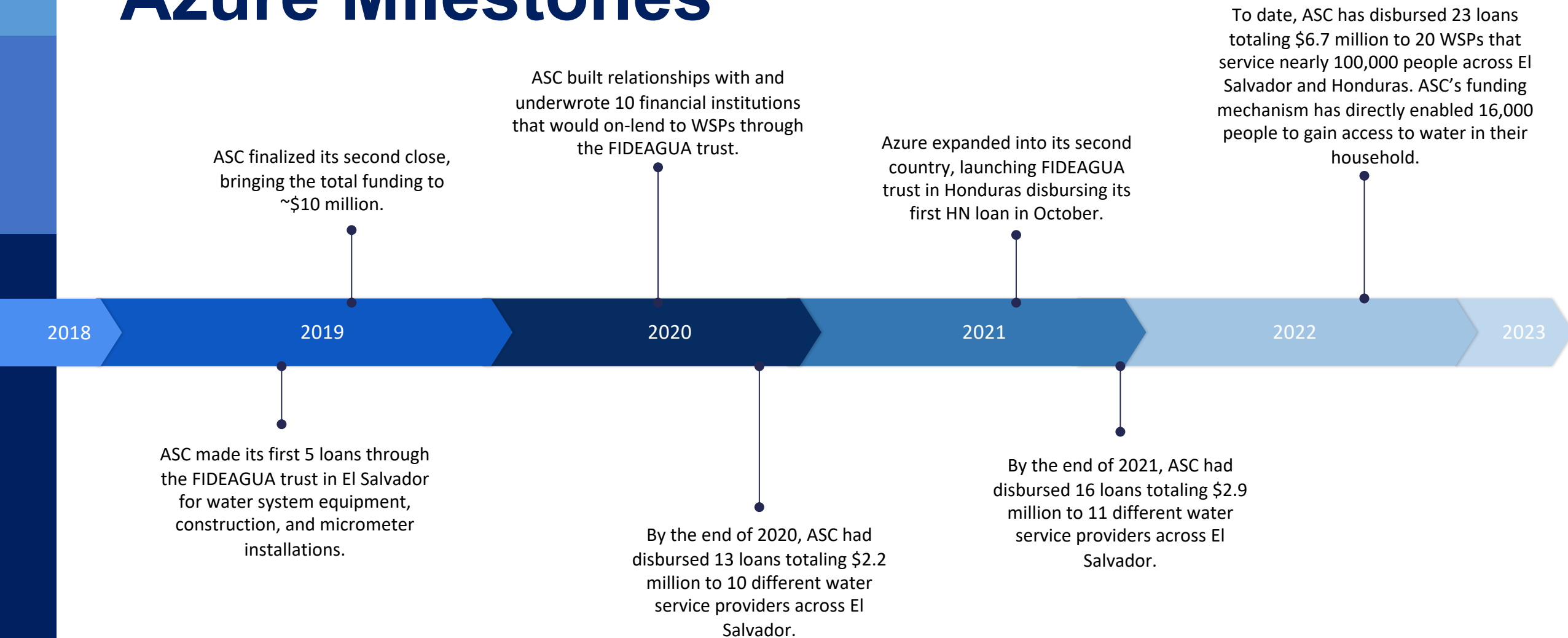


Azure Source Capital: On-lending Approach

Azure Source Capital (ASC), the financing arm of the Azure Blended Finance Initiative, has established local trusts (FIDEAGUA) in each country through which it on-lends to local financial institutions that conduct due diligence on and provide credit to local water service providers.

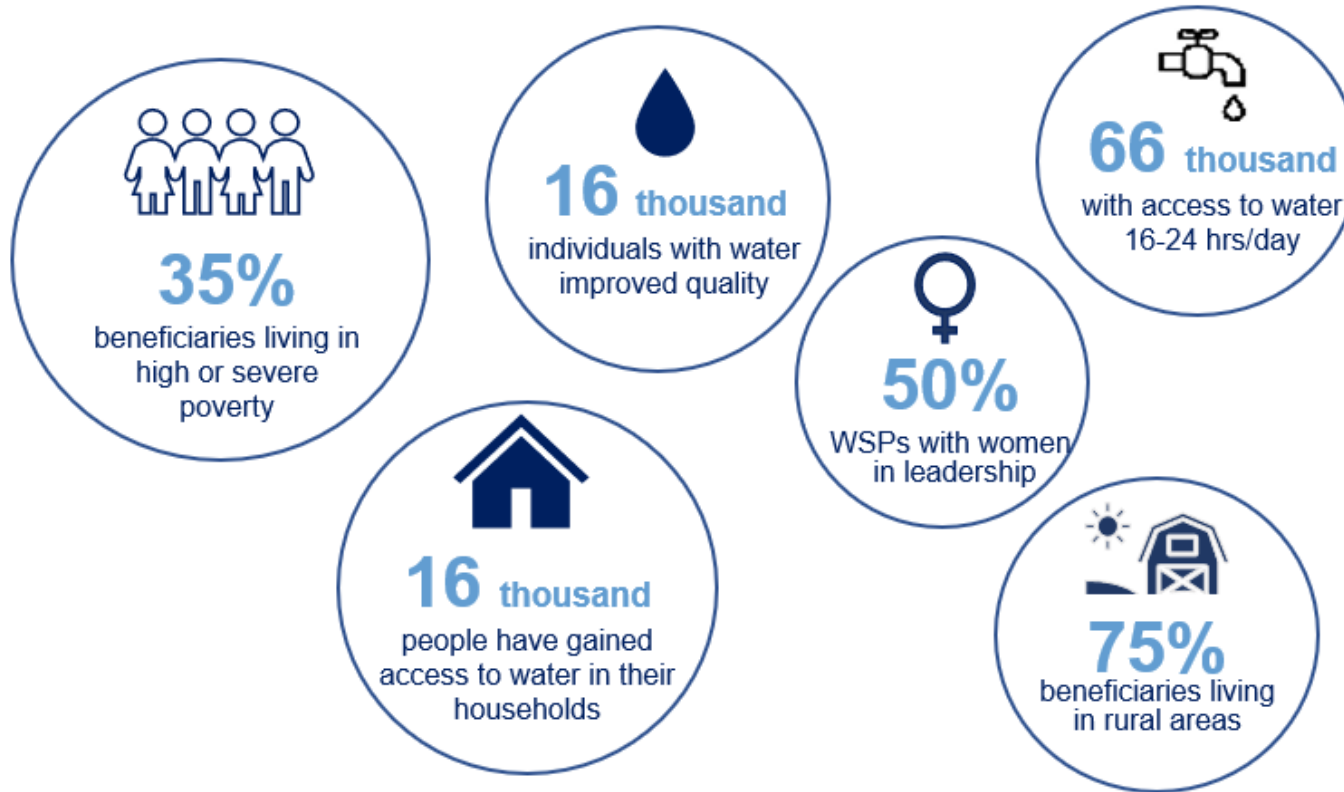


Azure Milestones



Azure Impact

Azure has a comprehensive impact monitoring plan which includes increasing the number of communities with access to water in-households, improving continuity of water services (hours/day), and increasing water metering.



Azure Strategic Partnerships

Working alongside in-country technical service providers, national development banks, and local financial institutions to deliver quality technical and financial guidance to WSPs throughout the project and loan process, further de-risking the loans.

Lenders	      
Technical Assistance	   
Development Banks	 <p>(National Development Bank in El Salvador)</p>  <p>(National Development Bank in Honduras)</p>
Local Financial Institutions	   



Questions?

Azure Source Capital

A Financing Solution for Water Service Providers



Azure
SOURCE CAPITAL

DISCUSSION PANEL

Public and private partnerships for scaling up investments in WASH



Water, WASH and Climate Virtual Symposium

Panel moderator **Fraser Goff** Regional Technical Lead System Strengthening, WaterAid

Panellists **Oksana Tkachenko** Founder, Lean Finance

Eliza Doll Associate, Total Impact Capital

Simon Cramp A/Director, Climate Finance and Programming Branch

Nutan Zarapkar Director of WaSH, RTI Global India

Questions for the panel? Write them in the Q&A box – include your name please!

Thank you for joining:



Public and private partnerships for scaling up investments in WASH

Water, WASH and Climate Virtual Symposium

Visit the Symposium website – webpage for this session to access resources, contacts & the recording

Coming up next:


Water, WASH and Climate Virtual Symposium

Why and how should water management and WASH sector actors reach out to other sectors?



Richard Damania
Panel Moderator
World Bank



Christina Leala-Gale
South Pacific Tourism
Organisation



Dr Tristan Armstrong
Department of Foreign
Affairs and Trade



Saurabh Kumar
Energy Consultant
India



Emma O'Neill
Environment & Planning
Aurecon

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