



Exploring pathways for blended finance in WASH



**Lean
Finance**

Inclusion, Stability, Resilience and Wellbeing

Why blended finance (BF) for WASH

Sustained demand for financing in the WASH sector

- **Increased** funding gap and **demand** for investment
- Increased **interest of investors** in finding innovative ways of blending capital and fund development



Reduced supply of public funding not bridged by private sector

- **Reduced supply of ODA:** reduced overall government funding
- **Insufficient tailored** lending from the finance sector
- Limited availability of long-term debt capital
- High collateral requirements not suited to sector (e.g. smaller enterprises)



Need for new innovative solutions to provide

- **Better access** to finance
- Better ability to absorb available capital
- **Reduced reliance** on concessional financing, leading to more self-sustained approaches

Challenges for BF in developing economies

Weak Enabling Environment

1. Underdeveloped and weak financial systems.
2. **Limited enabling structures:** for example, regulations and standards that drive investments.
3. High levels of **corruption** and **indebtedness**.
4. Water **pricing** and local **nature** of water
5. **Deficiency in bankable projects and investable assets** ready for financing (linked to poor regulation).
6. **Limited evidence and data on BF:** need for piloting and track record, risk-takers.
7. **Problems with PPPs** (a form of BF).

BF innovations to overcome some challenges

Soft tolerance to risks

1. **De-risk investments** to improve asset **liquidity**: below market terms funding, credit enhancements, guarantees, insurances, grants.
2. **Changing investors and flows of funding** – ESG, tax credits and offsets.
3. **Changing borrowers, outcome payers, service deliverers.**
4. **Others**: direct investments through funds of funds, changing investment terms, deal evaluations, performance measures, matching and mixing investments to tailor to local and programmatic context.

Blended finance for WASH approach*

Diagnostic assessment of country X or other geographical unit

informs design of



Blended finance program for WASH in country X

activities leading to



Enabling environment strengthening & blended finance structures for WASH

scaling



Market-based WASH & nonmarket-based WASH



Example from Ghana,

transforming sanitation sector from a social problem to an opportunity

The Problem

Lack of sanitation

- 13 million live without safely managed sanitation (40% of total population)
- Emptying services fragmented

Poor solid waste and e-waste management

- 10% of waste generated is collected and disposed of at approved disposal sites

Limited access to safely managed water

- Only 40% have access to water free from contamination

Funding arrangements not delivering solutions – the case of sanitation

- Household expenditure US\$ 400 m annually

leading to...

Pollution of natural ecosystems, groundwater contamination and GHG emissions

- Untreated sludge decomposition and solid waste in landfills produces methane (GHG directly contributing to global warming)
- Chemicals (including carbon dioxide) released when solid waste and e-waste burns

Adverse impacts on quality of life, health, education, safety and gender empowerment

- Poor health leading to low school attendance
- Safety of women and girls
- Burden of water fetching falling disproportionately on women and girls

Solution (the What) – addressing the water, sanitation and waste management challenge by...

1 Lifting demand and supply barriers

- Unlocking **demand** for **higher quality services**
- Making services **affordable** (and attractive) from service users' perspectives
- Making available products and services meeting users' **preferences**
- Building capacity of the **supply** to provide **quality standardised** services and products

2 Enabling access to capital

- Using public funds in a strategic manner to make **capital available** for enterprises – “the **missing missing middle**”
- Designing **financial products suitable** for the market (tenor, interest rate, ticket size)
- Building organisational and financial capacity of enterprises, empowering them to run **investable** business and to create appealing investable solutions

Solution (the How)

- Set-up and operationalise a **blended finance facility**
- Set-up a concurrently run **enabling facility** to strengthen the market and build the pipeline

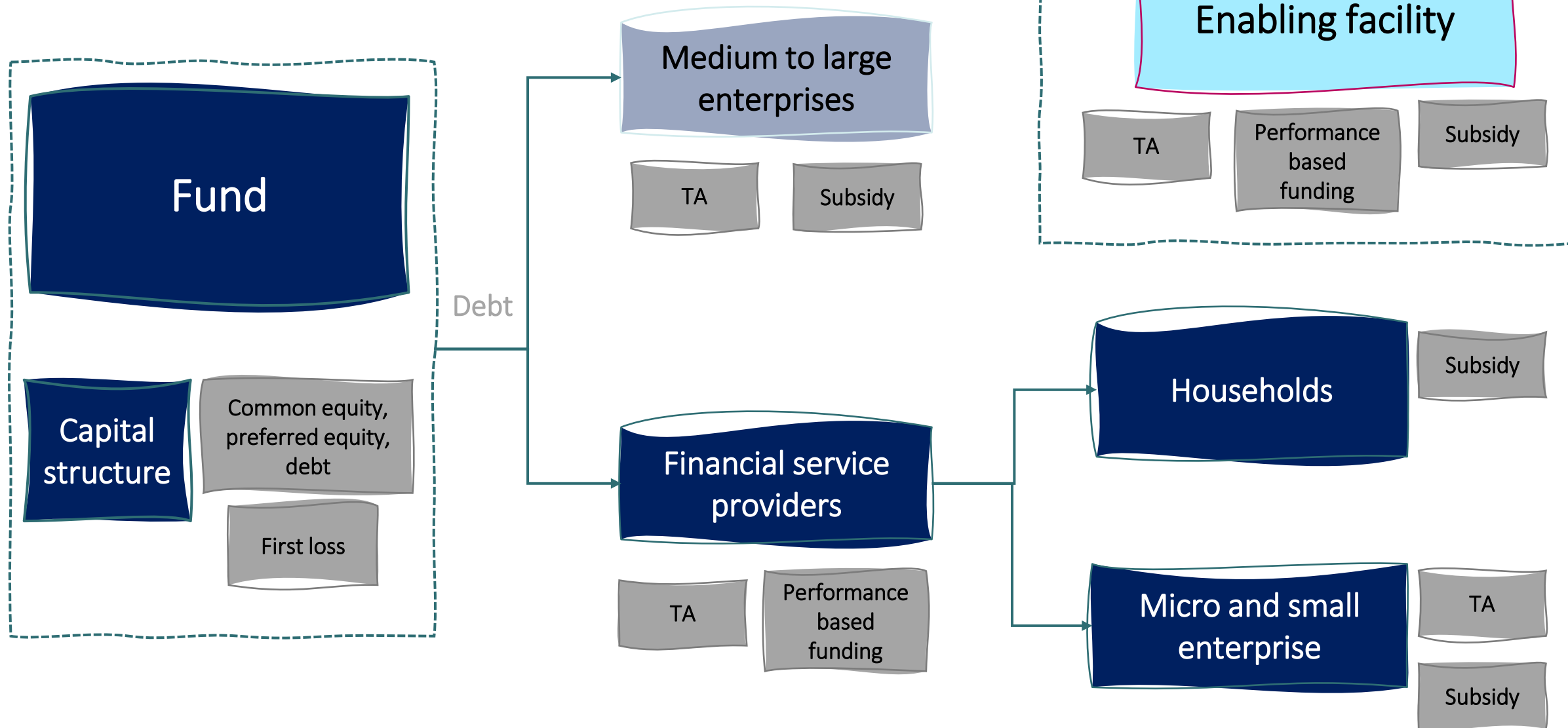


empowered lives



**Unlocking Public and Private
Finance for the Poor**

Solution (the Programme)





unicef
for every child

REPORT

ASSESSMENT OF WASH FUNDING AND FINANCING IN VIET NAM

November 2022



UNICEF Viet Nam

Assessment of WASH Funding and Financing in Viet Nam

Team:

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By 2030:

Piped water -100% urban, 80% rural

100% access to household sanitation

20%-15% wastewater treatment in urban and rural areas

**USD 8.8
billion CAPEX**

Some of current trends in Viet Nam water sector

**Much more
readiness for
blended
finance
compared to
Ghana**

- **Urban water** is increasingly funded via **tariffs and commercial finance**, which is a positive indication of financial sustainability
- The bulk of Official Development Assistance (**ODA**) is allocated to **wastewater** services development
- Investments in **rural water** services have been dependent (mostly) on **ODA** in many provinces;
- **Alternative concessional finance** is emerging for **rural water** investments
- There are significant **unmet investment** needs for **rural sanitation**

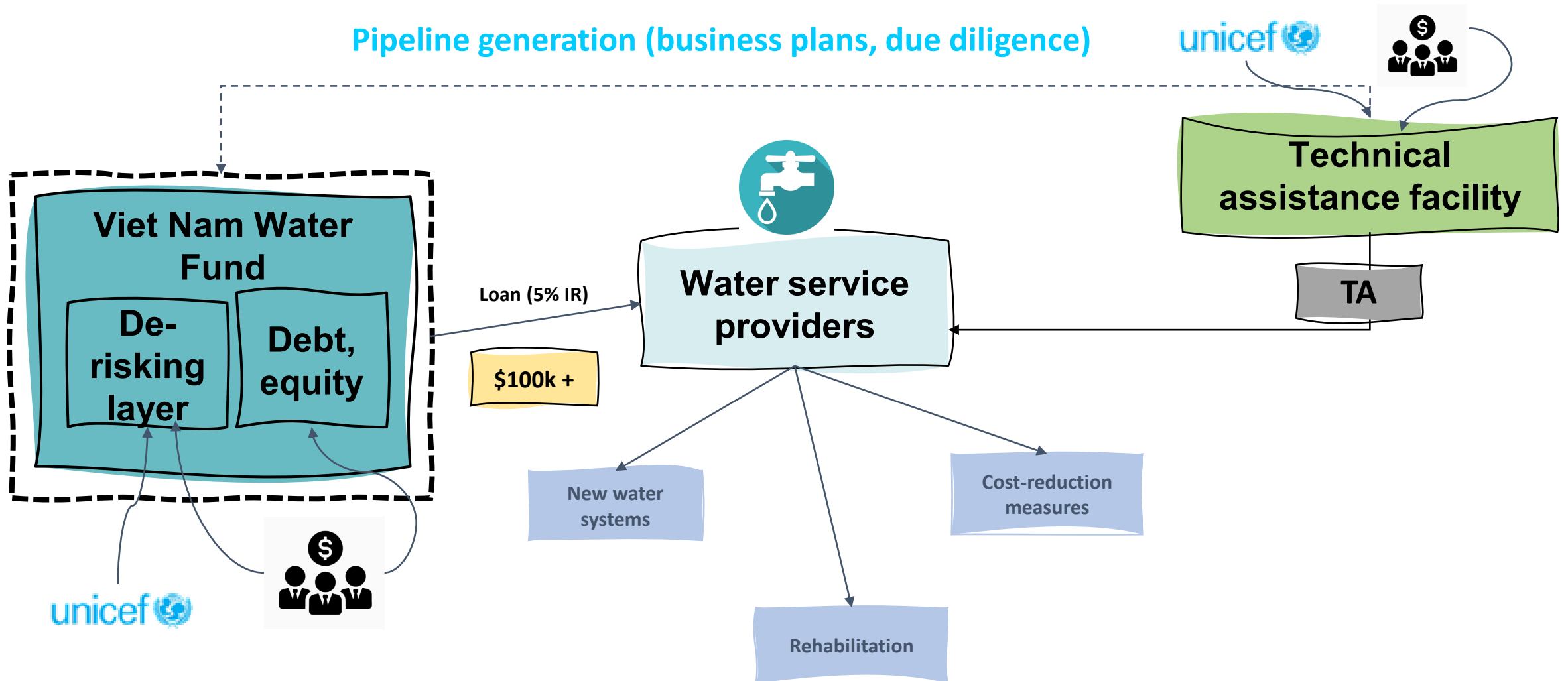
Recommendations

1. Investigate effective channels for **facilitating access** to alternative **repayable finance**:
 - To complement **existing public lending** mechanisms (VBSP and Viet Nam Development Bank) set up a dedicated, independently managed, **blended finance facility**: a 'Water Fund'
2. Incentivise PPCs to fully implement **tariff policies**.
3. **Improve** private sector **participation conditions** for water sector investment purposes.
4. Improve **efficiencies in wastewater** facilities to attract investments.
5. Introduce more **incentives** for WSCs' investments in water supply to **poor areas** and for improved **quality of water** to meet government standards.
6. Prepare WASH sector for **climate finance**.

Rationale for the fund

- The **public expenditure** of WASH **declined by about 30.7%** over the 3 fiscal years
- **Unsuitability** of existing financial products – high interest rates 9-10% for long term loans
- **Existing pipeline:**
 - Several public utilities reached financial autonomy
 - Other potential borrowers could be interested (cheaper loans could provide incentive for investments)
- **Existing investors:**
 - Local Vietnamese investors already put in \$\$ in social funds
 - International impact investors (foundations)
 - Corporates

Dedicated fund for water



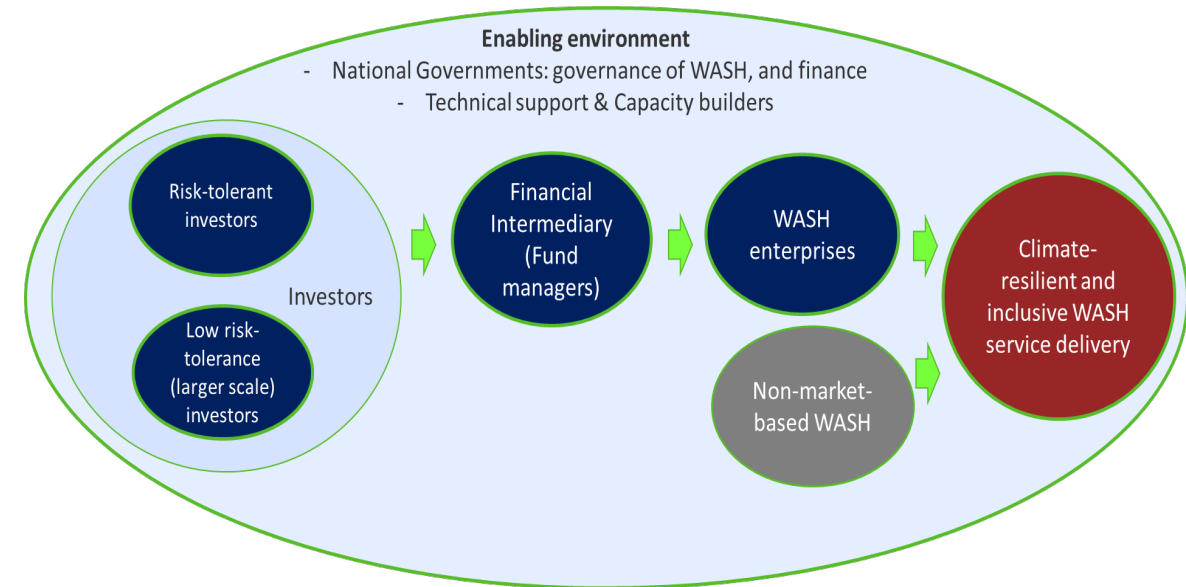
The background features a dark blue gradient with numerous out-of-focus light spots in shades of blue and green. A prominent, bright green diagonal streak of light particles runs from the bottom-left towards the top-right, creating a sense of movement and energy.

An opportunity for the WASH sector

Lessons learnt to deliver effective BF solutions

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

1. New level of innovation - public and private partnerships = **a larger pool of funding** for WASH + **influences the quality and nature of WASH services**.
2. **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.
3. A **strong technical partner** with local WASH context, is essential for the success of blended investments.



Enabling environment for WASH

An enabling environment for water-related investments combines 4 dimensions:

1. A **policy framework for investment** (not specific to water)
2. **Water policies and regulations** that are conducive to investment
3. The capacity to develop projects which are both **bankable and beneficial for communities**
4. An economy-wide **water lens**.

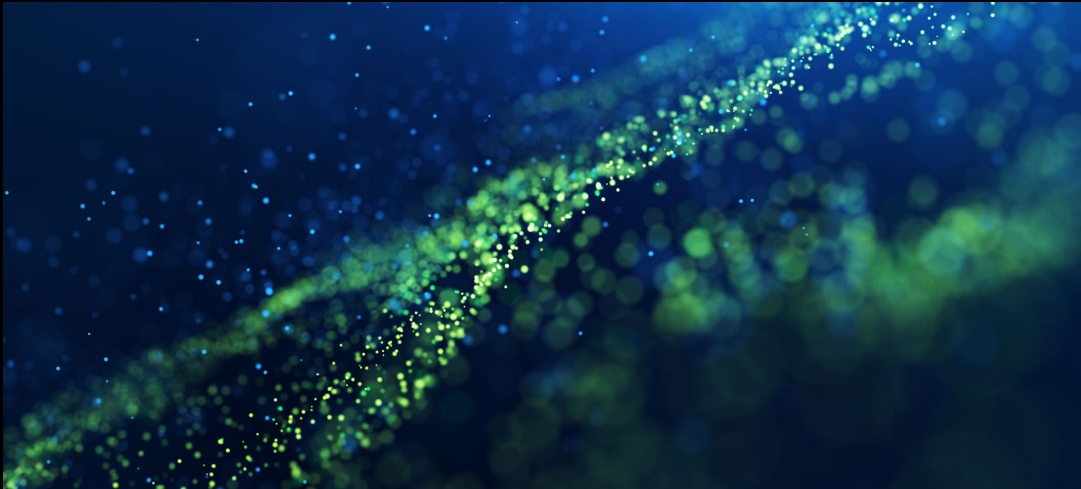
Reflections from both projects

1. Demonstrated the **need and technical feasibility** of blended finance for WASH.
2. **Design** is hard work: time to **align partner's interests and priorities** is underestimated.
3. **Implementation** is even more difficult: requires competencies, efficiencies, commitment and strong leadership from the implementing organisation.
4. Involving **local government** at the start of the project is critical to strengthening sector commitments.
5. Paving the way for **private sector involvement** requires work and perseverance by governments **beyond current levels of effort and action**.
6. Fund managers and investors need to structure and operate with **fairness and equality of opportunities** in the local context.

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