“Blended finance beyond the hype: Financing WASH in least developed countries”

- Patrick Moriarty and Catarina Fonseca

Blended finance has become one of the latest buzz words in development, including in the Water, Sanitation and Hygiene (WASH) sector. Faced by what sometimes seems an insurmountable challenge - financing the ambitious Sustainable Development Goals - many organisations are exploring blended finance as a possible solution: a way to reach out and tap the “trillions of dollars” of private capital looking for a place to invest. Yet the reality is that few outside the world of finance really know either what blended finance is or what accessing it implies, particularly in terms of the conditions necessary to make it work for those countries that are most off track to reach SDG6.

At the moment, blended finance mechanisms involving significant private finance face many limitations if they are to be used in least developed countries. This is for a long list of reasons that can be captured under the catch-all term “lack of the necessary enabling environment”. A term which, when unpacked includes weakly developed national financial sectors, high financial risks; limited regulation; weak governance at decentralized levels; and weak efficiency of WASH service providers (both urban and rural).

The corollary of this finding is that blended finance is mostly available for higher-income countries with a strong enabling environment: stable and well-regulated financial markets, and strong WASH sectors. Blended finance is also, in general, more easily attracted to large (greater than US$ 1 million) projects, where it is typically brought in on the back of large public sector investments (or guarantees). The perverse result of this latter point is that, especially for poorer countries, scarce public finance may be used to de-risk private as part of large projects that may be of little benefit to the poor.

On a positive note, there are some emerging innovations for poorest and more challenging areas, interestingly more bottom up than the existing blended finance mechanisms. Of all the forms of blended finance, impact investment is emerging as the most promising for rural and informal areas of least developed countries but the deals are incredibly complicated to set up. The latest examples include the Azure model and water.org models presented at Stockholm Water Week.

Being more specific and thinking about the type of organisations that will be present in this meeting, a particular challenge is a general lack of transparency surrounding blended finance deals, particularly regarding the amount of public finance required to bring in private finance by reducing the risk to private investors. Often required for reasons of commercial confidentiality, at the same time this lack of transparency makes it incredibly difficult to work out whether countries are getting good deals, or, indeed, to ensure that money is going to where it should.

Linked to this latter point is the challenge provided by the lack, in least developed countries, of the accountability instruments needed to provide accurate assessments on how (public) finance is being used in the sector. The 37 country scans published by Sanitation and Water for All show the limited availability of either financial sector plans or expenditure reports for the sector.

	Yes	Partly
Sector finance plan exists?	4 out of 37 countries	20 out of 37 countries and mostly for urban sub-sector
Are WASH government expenditure reports available?	21 out of 37 countries	10 out of 37 countries
Are WASH government expenditure data available?	0 out of 37 countries	12 out of 37 countries

Source: SWA 2017

In summary, in the short to medium term, least developed countries will remain predominantly reliant on other financial instruments, predominantly public finance, concessional loans, Official Development Assistance (ODA) and philanthropy. Strengthening domestic resource mobilization should be at the core of the development agenda for least developed countries. If other sources of finance are to be “crowded in” to the poorer countries a sizeable part of what is invested will need to be in strengthening national systems and creating an attractive investment environment.

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