

OECD – GIZ Conference: Closing the gap for water in line with SDG ambitions: the role of blended finance

4 -5 October 2018, Eschborn, Germany

“Blending finance at the base of the pyramid”

- Rich Thorsten

SDG6 requires us as development practitioners to help create a world in which everyone can access safe, reliable, and sustainable water services every day and night. It is a reality that those of us as conference participants can easily take for granted, and one that seems too far away for billions of people in poverty. Yet many still aspire toward that goal; and given the opportunity have shown that they can fulfill it.

As Chief Programs Officer at Water.org, I have seen this promise become a reality across our partnerships in a dozen developing countries. Our WaterCredit initiatives, which have enabled financial institutions to offer microfinance to their clients and families for water and sanitation improvements, have collectively improved the lives of nearly fifteen million people and mobilized over \$1B in capital. These experiences demonstrate that 1) there is considerable demand for improved water services which signals both an opportunity for financing and a future base of water customers who demonstrate both an ability and willingness to pay for improved services, and 2) blended finance models which utilize philanthropic and concessionary capital to crowd in private financing can be successful at increasing degrees of scale in the water sector for those living in poverty.

I have had the opportunity to speak with many microfinance clients and water customers across several different countries. From these discussions, I’ve learned a little about seeing the broken set of water service conditions from their perspectives. Generally, people are willing to participate and pay when 1) they can see improvements in the safety, convenience, and/or quality of services provided, and 2) they can understand and afford financing mechanisms and ongoing service payments, especially in relation to alternative water service options. For myself and others at Water.org, blended finance mechanisms must at the end of the day meet the needs of these people living in poverty who are excluded from participating in the water service ecosystem, who want to join under the right circumstances, and who may already receive sub-standard water services that discourage them from being good customers and force them to turn to more risky sources.

Blended finance mechanisms are necessary and hold considerable promise for leveraging private sector capital in order to advance SDG6. The conditions for making blended finance work (good governance, financial viability, operational efficiency and effectiveness, risk management, etc.) are also ones that the water sector should strive for in any case to meet SDG6 objectives. Creating these environments are a net positive – made more so by their ability to bring in additional investment. Done effectively, blended finance instruments can help replace the downward spiral of poor services & limited resources with a virtuous cycle of greater investment, improved services, and better lives.

I believe, and our experience has shown, that domestic financial institutions can provide some of the critical financing that households need to access better water services. Likewise, financial institutions could also be a source of capital for service providers if the water sector can demonstrate credible business cases for investment that align capital needs and repayment streams with terms and instruments that financial institutions can engage. Bi and multi-lateral development institutions therefore have important roles to play in supporting favorable water governance and lending environments, improving operational and financial performance of service providers, and de-risking investments made by (and co-investing with) private sector institutions.

Rich Thorsten is the Chief Programs Officer at Water.org.