

# Water Finance Coalition

**Boosting international cooperation on water challenges: the role of public development banks in unlocking water and sanitation investments**

**World Water Forum - Session 3CA**



# **The Water Finance Coalition**

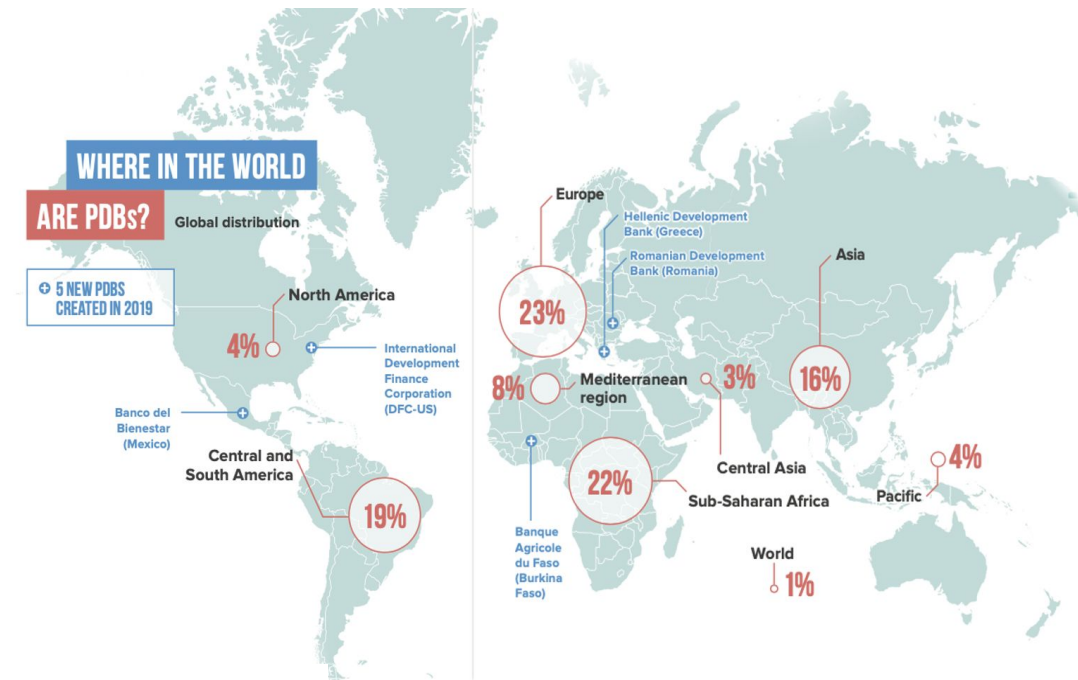
## **A coalition of Public Development Banks**

## Context & rationale

- SdG 6 “Ensure availability and sustainable management of water and sanitation for all” is not on track:
  - \$ 200 bn/year required to reach SDG 6 and water-related SDGs
  - Current level of investment is **not at scale**
  - **Private finance** remains very limited even in blended schemes (1,4%)
  - Minor share of **climate finance** (less than 3% of tracked flows)
- **Levers of action** for bridging the financing gap:
  - For optimized, more attractive and sustainable investments, it is required to:
    - Improve the **enabling environment** (institutional, policy, planning, regulation issues, etc.)
    - Support service providers for **increased efficiency** and **better performance**
  - Proposing **financing tools adapted to** maturity level of each context (governance, creditworthiness, etc.) and to market failures
- **Starting point:** can the role of PDBs, especially national, be enhanced to face these water and sanitation financing challenges? How can they catalyze mobilization of public and private resources?

# Context & rationale

- In November 2020, first edition of the **Finance in Common Summit** gathering **Public Development Banks**:
  - 450 PDBs which commit **USD \$2,3 trillion** each year = **10% of annual global investment**
  - Either international, national, regional or local PDBs
  - **Joint declaration** with commitments to form a global coalition ; shift their own strategies/activities and reorient global finance towards SDGs and Paris Agreement objectives
- For SdG 6: **Water Finance Coalition** launched by AFD, CAF, EIB, etc. in coordination with **Sanitation and Water for All**:
  - **Governance**: AFD and Banobras (Mexican NDB) co-chair institutions, secretariat implemented by IRC



About **450 PDBs** in the world in 2019. **30%** of them were created after 2000



**\$11.2 TRILLION** in assets in 2018, roughly equivalent to **70%** of the entire USA banking sector



Finance in Common

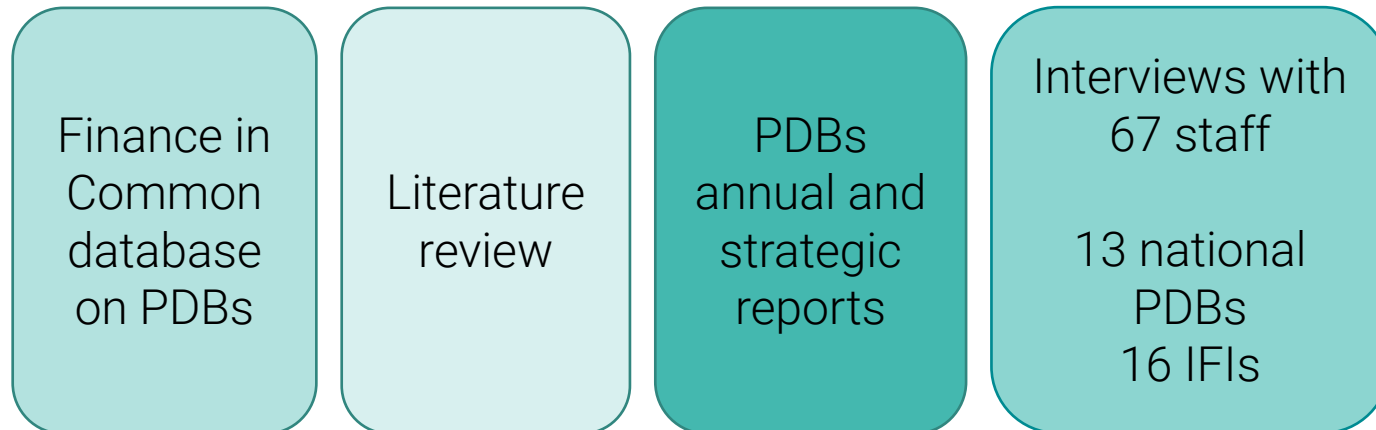
# Objectives and activities

- Share good practices and enhance mutual knowledge among national PDBs and between IFI and national PDBs => a network has been built with 4 working group meetings held ;
  - Understand the current role played by PDBs, especially national/local => knowledge production:
    - a Global Study on the Role of National Public Development Banks in the sector produced by IRC Wash;
    - an analysis of case studies from Latin America produced by IRC Wash;
    - a policy brief for governments published by AFD.
  - Reflect on how water and sanitation can be mainstreamed in climate strategies within PDBs:  
=> a tool kit is under preparation on accounting for climate co-benefits in water/sanitation projects
  - Highlight the role of national PDBs as a tool to reach SdG6 to government and other stakeholders:
    - ⇒ a joint declaration was launched last November with already 20 signatories to commit and advocate for more PDB's involvement
    - ⇒ participation in international events
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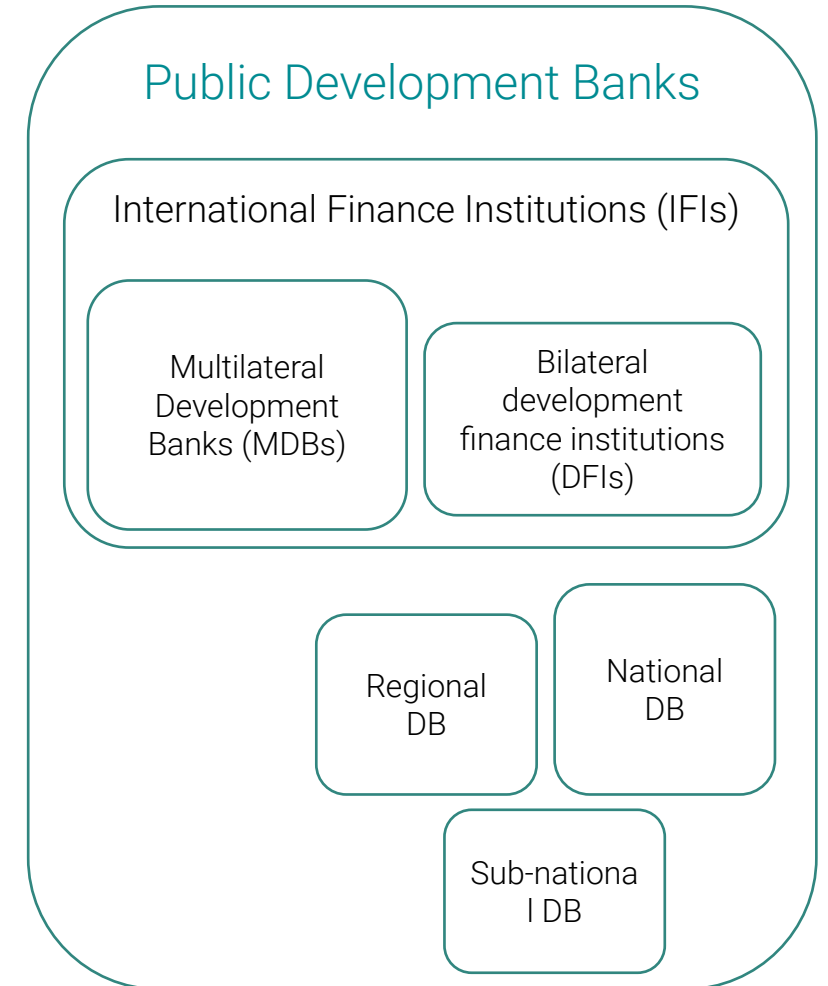


# Global Study: methodology

*The main objective was to analyse the current role, experience and practice of existing Public Development Banks in the water related investments*



<https://www.waterfinancecoalition.org/>



## Global study: conclusions

*Main Hypothesis : PDBs are underused in the water sector and that there is a potential to further enhance their role*

- Historic evidence that PDBs have played an important role to support water sector development at scale
  - Well-established role for national PDBs in the water sector. Europe and Latin America host PDBs active across the sector
  - Many countries where national PDBs exist, either do not have a mandate in the sector or only have a nascent/limited role, implying untapped opportunities
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# Global study: Extent of National PDBs' involvement in the water sector

*Water-related investments represent on average 5-15% of PDBs' portfolio*

Within the water sector, most focus is on sanitation and water supply services:

- **Predominantly** sewerage and wastewater treatment, and large water treatment and desalination works.
  - **Less involved** in water resources management, stormwater and flood management
  - Climate change adaptation emerging area of investment, though **not a key driver**
  - Ecosystem and biodiversity protection **not a specific area** of investment
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# Global Study: PDBs able to provide unique range financial instruments

## All PDBs:

- Credit to local governments or utilities for infrastructure development through:
  - 1) balance sheet finance
  - 2) credit
  - 3) project finance via Special Purpose Vehicles

## Most PDBs:

- Structuring project finance
- Financing project preparation, through:
  - 1) grants
  - 2) repayable finance if project preparation leads to a bankable project
  - 3) Providing grant funding for technical assistance and performance improvement of utilities and local governments

## Some PDBs:

- Influencing sector reforms for improving regulatory frameworks and funding related studies
  - Channeling central government transfers to local governments and utilities
  - Administering dedicated trust funds for the water sector
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# Global Study: Constraints, and PDBs' measures to overcome them

|             | Constraints                                     | Measures   |
|-------------|---|--|
| Demand side | Reliance on government funding                  | Finance strategies / regulation that target role of PDBs       |
|             | Skills and knowledge for project preparation    | Skills development and dedicated funds for project preparation |
|             | Local governments fiscal space                  | Evidence on economic and social returns                        |
|             | Financial viability and operational performance | Dedicated financing and programmes to improve performance      |
|             | Project execution capacity                      | TA for project execution                                       |
| Supply side | Internal pressure to prioritise other sectors   | Dedicated mandate and funds for the sector                     |
|             | Currency risk                                   | Lending in local currency                                      |

# Global study: recommendations

| Constraints |   | Measures   | Recommendations   |   |  |
|-------------|---|--|---|---|--|
|             |   |  | For national PDBs   | For Governments   | For IFIs   |
| Demand side | Reliance on government funding                  | Finance strategies / regulation that target role of PDBs       | Contribute to policy dialogues in the water sector and support the development of finance strategies  | Develop finance strategies that target public finance to utilities / municipalities that most need them | Support policy dialogues and finance strategies for the sector that include explicitly PDBs  |
|             | Skills and knowledge for project preparation    | Skills development and dedicated funds for project preparation | Develop sector expertise / Make more use of South-south cooperation (i.e. staff exchanges and secondments)<br>Support smaller projects and standardisation of processes | Proactively engage PDBs technical staff in relevant sector finance meetings                             | Provide TA to pre-project identification and advocacy  |
|             | Local governments fiscal space                  | Evidence on economic and social returns                        |   |   | Strengthen/ support PDBs capacities and skills in the water sector   |
|             | Financial viability and operational performance | Dedicated financing and programmes to improve performance      | Clearly articulate the specific contributions they make to the SDGs and climate-related targets through their investments   | Develop a climate narrative for the sector finance strategies   | Proactively discuss water sector projects within a climate narrative with PDBs<br>Increase cooperation between climate/environmental and water departments |
|             | Project execution capacity                      | TA for project execution                                       | Support consultations with national and local gov can lift some of the barriers to creditworthiness   | Develop and enforce water sector regulations to enhance (financial) performance of utilities.           | Ensure that grants, concessional finance and TA provided to overcome the constraints in project preparation, utility performance and technical support     |
| Supply side | Internal pressure to prioritise other sectors   | Dedicated mandate and funds for the sector                     |   |   | Provide TA to project implementation   |
|             | Currency risk                                   | Lending in local currency                                      | Establish dedicated windows or programmes for 1) project preparation, 2) utility performance improvement, and 3) technical support in project execution                 | Provide public finance for: 1) project preparation, and 2) utility performance improvement              | Pilot operations where IFIs/PDBs co-finance a water project<br><br>Support smaller projects and standardisation of processes                               |
|             |   |  | Recognise the opportunities of the water sector   | Political leadership for guiding PDBs mandate in the water sector                                       | Channel funds specifically for water sector investments through PDBs (in local currency)   |

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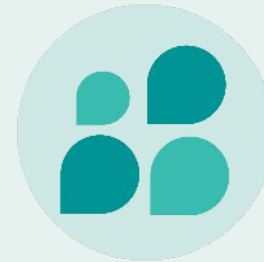
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## Water Finance Coalition

The Water Finance Coalition gathers national and international public development banks aiming to improve the financing of water & sanitation sector in order to achieve the Sustainable Development Goal 6, the Paris agreement objectives and to enhance biodiversity protection