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
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?
• 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
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
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

Finance in Common database on PDBs

Literature review

PDBs annual and strategic reports

Interviews with 67 staff

13 national PDBs

16 IFIs

https://www.waterfinancecoalition.org/
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
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
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
## Global Study: Constraints, and PDBs’ measures to overcome them

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# Global study: recommendations

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<td>For national PDBs: Contribute to policy dialogues in the water sector and support the development of finance strategies. For Governments: Develop finance strategies that target public finance to utilities/municipalities that most need them. For IFIs: Support policy dialogues and finance strategies for the sector that include explicitly PDBs.</td>
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<td>Develop sector expertise / Make more use of South-south cooperation (i.e., staff exchanges and secondments). Support smaller projects and standardisation of processes.</td>
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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.