

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

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#### “Will BF help utilities to become ‘part of the solution’?”

- Leonardo van Straaten

I am pleased to share some personal thoughts related the topic of developing credit-worthy utilities as a mayor prerequisite for Blended Finance. Of course, referring to the picture of the leaking bucket, the question is how to fix the leaks and – not less important – how to prevent the additional buckets from starting to leak soon after having been filled. I agree, that the main reasons why the bucket is (often) leaking can be summarized in the terms of “governance” and “utility management”. Both are “intangible assets”. Therefore, scaling up improvements in fixing and preventing leaks will require:

- Investment in people: undervalued water is followed by undervalued (public) water services which are followed by (mostly) undervalued salaries in the water sector. No surprise, that brain drain effects occur after successful trainings. Effective and sustained leak fixing is therefore closely related to long perspective local HR and better salaries (investments will soon pay off by less “leaks in the bucket”).
- Investment in culture: obviously very difficult. Can a spirit of “ownership” be taught? Why should utilities take care of maintenance, if to much donors are willing to finance new assets? Think about financing incentive-systems to reward good asset management and give more room to organizational development.
- Investment in processes: we can imagine “leak fixing” being correlated with three main and interdepending success factors: “quality”, “compliance” “speed”. To much compliance drastically slows down both speed and quality (an issue that popped up in the Stockholm session where the water strategies of donors where presented). To much speed is dangerous if we want to maintain certain levels of compliance and (sustainable) quality. Overstressing quality will take to much time and undermine the economic aspects of compliance.

There isn’t enough space to go into details here. However, probably every participant of this conference knows many examples of what goes wrong and ideas of what could be done to achieve improvements. How can we bring this together and make it work?

- Time factor: it is well known that change processes take a long time to become effective. Obviously, usual project duration periods of three years and subsequent interruptions of partnering processes can’t be considered helpful for change management. How can long lasting and continuous partnerships with utilities (e.g. WOPs) be better organized, financed and scaled up? How can their impact be enhanced?

Can BF be tailored in a way that these aspects can be considered in an appropriate way? Such a tailoring should also include ways of handling unforeseen incidents: Many operational problems in a utility, which have to be solved on a daily, monthly or yearly basis require the availability of funds beyond the utility's own financial capacity. However, such funding is (often) not included in the scope of ODA projects and too small to be of interest for conventional banks. Fast availability of instruments serving such needs (for example non earmarked revolving funds for relatively small investments) could contribute to pave the road towards credit-worthy utilities.

These thoughts and suggestions arise from many years of (technical oriented) private consultancy for medium sized water utilities and municipalities, some insight into the functioning of a large municipal water utility and a couple of international projects in the context of strengthening the O&M performance of local water utilities.

*Leonardo van Straaten is the representative for international cooperation and innovation at Hamburg Wasser.*