



INVESTMENTS IN INNOVATION

New Ventures Fund Report
Fiscal Year 2014



Dear Friends and Supporters,



Thank you for your continued generous commitment to Water.org's New Ventures Fund. Your support galvanizes our ability to evaluate, implement and scale innovative solutions to successfully expedite an end to the global water and sanitation crisis.

This past year was one of deep reflection, as we evaluated how to best align our investment allocations with Water.org's strategic priority—to make financial services for water and sanitation ubiquitous and affordable for the world's poor. We have successfully implemented WaterCredit in several key geographies the past seven years. We still view this effort as our strongest opportunity to accelerate global access to water and sanitation. As such, the majority of our future investments will center on expanding water, sanitation and hygiene (WASH) finance geographically, through new models and channels, and through targeted advocacy activities.



Through this report you'll see the immediate benefits of our investments. Specifically, you'll learn how your support enabled us to secure multi-year partnerships to begin to expand WaterCredit initiatives in three new countries—Ethiopia, Ghana and the Philippines. And, you'll see how your support led to the launch of WaterCredit Advisory Services—our new approach that represents a key bridge to a zero-subsidy WaterCredit model.

We recognize that we have a unique opportunity to leverage this momentum to ensure that ending the global water and sanitation crisis becomes a true development imperative. We believe that achieving universal access to water and ending open defecation must be at the top of the global development agenda. Through a strategic investment in advocacy, your catalytic philanthropy allows us to make this objective a reality.

Due to your generous support and visionary leadership, we have more reasons to feel optimistic that we will achieve our shared vision—the day, in our lifetime, when everyone in the world can take a safe drink of water and experience the dignity of a toilet. On behalf of the Water.org team and the millions of people that we work to empower, we thank you.

Sincerely,

Gary White, CEO and Co-founder

Chevenee Reavis, Director, Strategic Initiatives



NEW VENTURES FUND

PROJECT SUMMARIES



Introducing the WaterCredit Investment Fund

Over the past seven years of WaterCredit, Water.org has established a partner network of 61 microfinance institutions (MFIs) who together have capitalized \$70M in loan capital for water and sanitation products and services. While our partners are able to tap into commercial sources of debt capital to scale their water, sanitation and hygiene (WASH) loan portfolios, they acknowledge specific regulatory and market constraints that hinder their ability to scale them over the long-term.

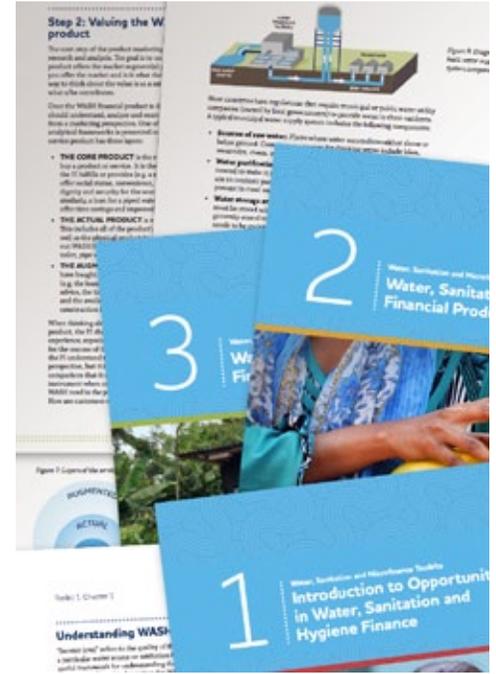
Through expanded research with MFI partners in India, we estimated that \$36M in concessionary debt capital could as much as double the loan portfolios of six partners and reach an additional one million people with safe water and sanitation over a five-year period. As a result, we have begun to form the WaterCredit Investment Fund (WCIF), through which we'll provide lower-cost capital to our Indian MFI partners to support the growth of their WASH loan portfolios.

We view concessionary lending for WASH solutions at the bottom of the economic pyramid (BOP) as an important opportunity for social impact investing. The social investment market will discount

market-rate returns in exchange for creating a critical social impact that addresses the most basic human needs. Water and sanitation solutions for those living at the BOP, including those living on as little as \$1.25 per day, fit squarely into this category.

In the Fall of 2014, Water.org will officially launch the WCIF, which will demonstrate that social impact capital can be raised and deployed in the context of WASH solutions, all while providing an acceptable financial return. Based on initial expressions of interest from MFI partners in India, we will aim to raise \$12M and in turn deploy lower cost debt capital to these partners. To date, we have secured commitments of more than \$4M. A private placement memorandum will be available for accredited investors.

If successful, the WCIF will increase the sustainability of WaterCredit and drive the philanthropic cost per incremental person reached towards zero. Beyond our own partners, we hope that the WCIF will serve as a powerful signal to the social impact investing community, spurring greater consideration of water and sanitation access as a significant investment opportunity.



Investing in Advocacy, Collaboration and Learning

Water.org’s experience positions us to increase our advocacy efforts in countries where we have a robust presence. We believe that by doing so, we can enable more people and organizations to get involved and help scale solutions, like WaterCredit, more quickly.

To inform our advocacy efforts, we made strategic investments to listen and learn from more than 30 practitioner organizations in the sector as well as advocacy experts within and outside of the field. Through these engagements, we pressure tested assumptions and learned what the marketplace expects from us. Based on these early investments, we have identified several strategic partnerships that will enable us to scale WaterCredit well beyond our reach. These customized partnerships target institutions that are both poised to and enthusiastic about implementing and expanding WaterCredit according to their organizational mandates.

Beyond direct partnerships, our research confirmed practitioners’ desire for increased access to our WaterCredit methodology, data sets and best practices. To address this interest, we continue to invest in developing an open source, online learning platform where practitioners can download a series of resources and toolkits offering insight and practical examples to develop WASH finance products. The toolkits are designed to be applicable across a variety of markets, lending methodologies and business models. Through our online platform we aim to support multiple organizations to adopt elements of WASH financing over the next five years and, in turn, serve even more people than Water.org could alone.

Opposite page: A woman takes a microfinance loan at a microfinance branch office in Bangalore, India.

*Above Left: Group sessions at a Water.org Partners Annual Meeting in India.
Right: Samples of WASH Microfinance Toolkits.*



Accelerating Impact Through WaterCredit Advisory Services

In 2013, Water.org piloted a new approach to water and sanitation delivery—WaterCredit Advisory Services (WCAS). Through WCAS, we hypothesized that we could successfully support both financial and non-financial institutions to pursue WASH lending through the provision of technical assistance only versus our traditional “smart subsidy” approach. As such, we believed that WCAS could be a bridge to a zero-subsidy model for WASH financing.

Through support from the New Ventures Fund and informed by nearly a year of deep market analysis and due diligence, we developed an initial, two-year business plan for WCAS. Executing against this plan, we engaged more than two-dozen prospective WCAS partners throughout nine countries and signed our first WCAS agreement with one of

India’s largest and most sophisticated MFIs to provide WASH financing for 135,000 people over a three-year period. It will require our WCAS partner less than three months to bring their WASH loan portfolio to market, half the time required by a typical WaterCredit partner. Additionally, as the WCAS partnership does not include a financial subsidy, we project Water.org’s cost per person served to be less than two dollars, a 60 percent cost reduction from traditional WaterCredit.

By supporting the development of WCAS, the New Ventures Fund enabled us to successfully secure long-term support for this new approach. In the upcoming year, we will continue to invest in WCAS’s expansion, demonstrate the model and secure the necessary proof points to garner increasing commitments from long-term funders.

Above: Collecting water at a public tap in Bangalore, India.

Strengthening WaterCredit's Sustainability

Following several years of evolving and scaling WaterCredit, Water.org invested much of 2014 conducting analysis of the model to better understand its key elements of success. As such, we commissioned a third-party analysis by Deloitte and Micro Credit Rating International Ltd. (M-CRIL India) to assess the WaterCredit business models of our MFI partners in India, our most mature market. Our goal was to understand how partners could achieve financial sustainability and at what point our smart subsidies could be reduced or entirely removed.

The study conducted sensitivity analyses of six potential drivers for WASH loan portfolio viability and gathered input from partners concerning qualitative, non-financial motivations for developing and scaling WASH loan portfolios. The analysis illuminated the following key findings: operational expenses stand out as the single most critical factor impacting profitability; an MFI's cost of capital and operating margins are factors that can significantly impact the long-term profitability of their WASH loan portfolios; and WASH loan portfolio growth alone does not lead to profitability. Based on these findings, we saw both a need and opportunity to support the long-term growth of partners' WASH loan portfolios by providing lower cost capital, drawing on the social capital markets. Additionally, the research indicated that Water.org could play a more active role in creating an enabling environment for WASH microfinance in India by seeking changes in the regulatory policies. Specific policies include those regulated by the Reserve Bank of India, notably the Priority Sector Lending policy as well as income-generating loan portfolio restrictions in microfinance.



Chart analyzing drivers for profitability in WASH microfinance

This research investment was critical to WaterCredit's long-term success. Based on its findings, we will continue to refine WaterCredit into 2015 so that new and existing partners may more quickly develop sustainable WASH loan portfolios.

Early Stage Market Testing Prepares WaterCredit for Expansion to Brazil

More than 25 percent of Brazil's population lives without access to safe water or basic sanitation. At the same time there is a growing set of financial institutions looking to extend the reach of their WASH services to address the needs of those living at the BOP. With an expanding microfinance market that is poised to help the 15 million people who lack access to safe water and 37.4 million who are without proper sanitation, Brazil is a market well-suited for WaterCredit.

This past year, Water.org conducted an extensive market assessment of microfinance, utilities and WASH sectors in Brazil to gauge potential opportunities to implement WaterCredit. Based on results from our assessment, planned activities for next year may include selecting and building

the capacity of local financial institutions and/or utilities to design WASH loan products that align with local market demand and meet disadvantaged households' water and sanitation needs.

Research Investments Help Secure Long-term Funding for WaterCredit

Determining opportunities to successfully implement WaterCredit in new markets is key to Water.org's ability to accelerate an end to the global water crisis. This past year we evaluated the opportunity to expand WaterCredit in Ethiopia, Ghana and the Philippines. As a result, Water.org was able to secure a \$1.3M grant to implement WaterCredit in Ethiopia, potentially reaching an estimated 40,000 people with access to water and/or basic sanitation over the next three to four years. To date, we hosted a workshop to share initial research results and subsequently began certifying a new WaterCredit partner. In an effort to share our experience and results, we will collaborate closely with the Millennium Water Alliance in Ethiopia.

Investments in early-stage market research also enabled us to prepare and secure a \$650,000 grant to expand WaterCredit in the Philippines, beginning in 2015. Additionally, this research will allow us to develop a WaterCredit initiative in Ghana in mid-2015.

Accountability & Transparency—Assessing New Opportunities

Accountability and transparency (A&T) efforts are central to Water.org's goal of unleashing the intrinsic power of those at the bottom of the economic pyramid as customers and citizens to meet their own water and sanitation needs. Corruption, or a lack of accountability, transparency and participation remain key barriers to ensuring water and sanitation access for all. As such, this past year, we conducted a global landscape analysis coupled with deep stakeholder research on A&T in the water sector. The goals of this analysis were three-fold: to inform our strategic thinking around A&T; to identify A&T leaders and their respective initiatives; and to determine preliminary opportunities for partnership. In the upcoming year, based on our findings and an assessment of our organizational assets and expertise, we plan to refine our approach to promoting A&T throughout the sector and engage in formal partnership discussions, as appropriate.



HEALTH SAFETY HOPE

The New Ventures Fund: Transforming Lives

WaterCredit is changing lives in the communities we serve. The loans afford women like Lakshmi opportunities for better health, safety and a brighter future. Since her late husband passed away Lakshmi worked hard to fund her children's education, and her daughter's wedding. With her children grown and established, Lakshmi decided it was time to invest in something she had long-desired, something she believed could provide her safety and better health. Lakshmi took a WaterCredit loan to fund the construction of a toilet at her home. She shared, "When there was no toilet, I had to spend 30-45 minutes every day to go out for defecation. During rainy days, the roads become muddy and slippery making it unsafe, and unclean. In the night, it wasn't safe to go out alone. I was constantly afraid of stepping on a snake in the dark. In the day time, I was embarrassed to sit in the field."

Your support of Water.org's New Ventures Fund accelerates our ability to successfully end the water and sanitation crisis for women like Lakshmi. On behalf of Lakshmi and the millions of other individuals we serve, we thank you.

Karnataka, India: Lakshmi proudly displays the new toilet she was able to secure with support from to Water.org's WaterCredit initiative.

New Ventures Fund Council: Join Us

The New Ventures Fund Council is a group of visionary supporters who share Water.org's belief that innovation is needed to eliminate the global water and sanitation crisis. Their generous financial support and expert guidance enables Water.org to pilot, disseminate and scale innovative solutions that address the underlying causes of the water crisis—lack of capital, accountability, transparency and participation in the cause. The Council meets annually to review the Fund's impact. They also serve as strategic partners to Water.org and act as global advocates for the issue. For more information, please contact info@water.org.

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Give Life.**

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