ACCELERATION of innovation

NEW VENTURES FUND REPORT
FISCAL YEAR 2014-2015
Safe water brings joy and celebration. It transforms lives and saves them. Together, through Water.org’s New Ventures Fund, we will ensure that children, like Poppy’s, will never know the water crisis.

“I am happy that my children will not know the water crisis like I did before.”

-Poppy, Bangladesh
Dear Friends and Supporters,

We are excited to share with you the transformative impacts of your generous investment in Water.org’s New Ventures Fund. What began as a simple internal call-to-action—to share ideas for accelerating our work—is now a disciplined engine for innovation at Water.org. By affording us the critical opportunity to pilot, disseminate and scale innovative approaches for water and sanitation access, your support accelerates our impact, allowing us to reach more people, more quickly, all while decreasing the philanthropic cost per person served.

This year, your commitment to the New Ventures Fund enabled us to: further scale our WaterCredit and WaterCredit Advisory Services initiatives; explore new opportunities and partnerships for expanding water and sanitation finance beyond Water.org; launch the first-of-its-kind WaterCredit Investment Fund; and advocate for specific policy reforms to advance water and sanitation finance in India. As we continue to apply heightened rigor to the management of the New Ventures Fund, we are increasingly optimistic that each year will bring us closer to ensuring that everyone can take a safe drink of water and experience the dignity of a toilet.

Thank you for your continued belief in our vision, team, track record and ambitions. By fostering a strong culture of innovation your support galvanizes our ability to break down the barriers that separate people from water and sanitation. The New Ventures Fund continues to be a powerful tool and we are grateful for your visionary partnership.

Sincerely,

Gary White
CEO and Co-founder

Chevenee Reavis
Director, Strategic Initiatives and Global Advocacy
New Ventures Fund:

**Accelerating Our Global Impact**

By affording us the critical opportunity to pilot, disseminate and scale innovative approaches to water and sanitation finance, the New Ventures Fund accelerates our impact by allowing us to reach more people, more quickly, all while decreasing our cost per person served.

**Decreased cost per person served with WaterCredit***

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost Per Person</th>
<th>Loan Amount Disbursed</th>
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</thead>
<tbody>
<tr>
<td>FY04-11</td>
<td>$14.42</td>
<td>$14.42</td>
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<tr>
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<tr>
<td>FY15 YTD</td>
<td>$5.01</td>
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**Launched new initiatives to break down the barriers to water and sanitation**

- WaterCredit Advisory Services
- WaterCredit Investment Fund
- Alternative Channels
- Global Advocacy and Learning

*Cumulative average cost per person of WaterCredit | Inclusive only of Smart Subsidy cost | Loan Amount Disbursed in Millions

**Reached more people, more quickly with safe water and sanitation.**

- **68%** increase in people reached with safe water and sanitation (2013 to 2014)
- **62%** increase in number of programs worldwide (2013 to 2014)

**Fueled expansion of WaterCredit into new geographies (2011-2015)**

- Bangladesh
- Brazil
- Cambodia
- Ethiopia
- Indonesia
- Peru
- Philippines

**Enhanced ability to secure long-term program support**

- **$1.6M** New Ventures Fund investment in early-stage program support unlocked
- **$13M** in long-term program support (FY11-FY14)
Innovation in Action

Your investment supported several New Ventures Fund projects that ensure we aren’t just making strides against the water crisis, but accelerating it into extinction.
Global advocacy is a cornerstone of our strategy to accelerate access to water and sanitation finance for those in need. Through a mix of policy and regulatory reform and partnerships with influential institutions, we can reach up to 55 million people by 2020 with safe water and sanitation.

This year we developed a three-year strategy to guide our newly formed global advocacy practice, which aims to:

• Raise awareness of water and sanitation finance as a unique solution and best practice for enabling access, especially in the context of the new Sustainable Development Goals (SDGs);

• Build a coalition of champions among influential institutions to ensure policies and practices of water and sanitation finance can drive impact beyond our efforts; and

• Create an enabling environment for water and sanitation finance by advocating for policy and regulatory reforms at a global level and in key countries where we operate.

As we laid the foundation to launch our global advocacy practice, we continued prioritizing our public affairs efforts, successfully securing new commitments to the cause—the U.S. Congress passed the Senator Paul Simon Water for the World Act and the Clinton Global Initiative as well as the World Economic Forum’s Global Agenda Council on Water both declared ending the global water and sanitation crisis as a priority for 2015. As we look to the year ahead, we will continue partnering with the United Nations community to incorporate principles and practices of water and sanitation finance into the SDGs means of implementation guidelines. We are inspired to see a dedicated goal—SDG 6—focused on ensuring universal, sustainable and equitable access to water and sanitation. We are also encouraged to see that UN Water notes microfinance as a means of implementing this goal. Building on this momentum, we will continue working with governments to raise awareness of water and sanitation finance as a viable opportunity to achieve SDG 6.
GOAL
Catalyze awareness of and investments in global water and sanitation access.

Photo: Gary White (far left) at the Global Citizen Festival

Building the Water and Sanitation Lending Movement
This year, through public relations outreach and public speaking engagements, your support enabled us to raise awareness of the global water and sanitation cause, ensuring that it’s placed firmly on the global development agenda, and that water supply and sanitation finance is elevated as a viable solution to address it.

Highlights: Conference Participation + Speaking Engagements
- Aspen Ideas Festival
- Clinton Global Initiative Annual Conference
- Global Water Intelligence Summit, Athens
- Milken Global Conference
- Singapore World Water Week
- Stockholm World Water Week
- SEEP Conference
- United Nations Financing for Sustainable Development Conference
- World Water Forum South Korea

Media

Forbes  Investor  GLAMOUR
CNN  USA TODAY  CSQ  CCTV AMERICA
YAHOO!  THE HUFFINGTON POST  HORIZON
Launching WaterCapital

Over the past decade, we’ve seen a growing interest in commercial capital investments related to water and sanitation in the developing world. While the capital markets have found bankable deals here in the form of securing water resources, large-scale infrastructure projects and high-end water treatment, the social impact of these investments has been negligible. Although this capital remains open to investments that can provide risk-adjusted (or near risk-adjusted) returns, few have demonstrated a deal flow that is significant enough to attract capital further down the economic pyramid.

Throughout the past year, we began developing WaterCapital, a new strategic practice for the organization, through which we will focus our efforts to further address the gap between current water supply and sanitation financing and the needs of the world’s poor.

Our first WaterCapital initiative was the development of the WaterCredit Investment Fund (WCIF), a limited liability corporation to raise, deploy and manage social impact investments for the purpose of expanding water and sanitation among people in need in India. To date, we’ve secured $10 million in commitments for the WCIF. In the upcoming year, we will deploy this capital in the form of loans at concessionary rates to a select group of our high-performing WaterCredit microfinance institution partners in India. Through the WCIF, we aim to demonstrate...
that social impact capital can be deployed in the context of water and sanitation solutions that meet the needs of the poor, all while providing an acceptable financial return to social impact investors. We believe that this influx of new capital will expand opportunities for immediate access to water and sanitation improvements, as well as nudge markets over time to become more attractive to commercial capital. If successful, the WCIF will increase the sustainability of our WaterCredit program by driving the philanthropic cost per person reached toward zero. Over a seven-year period, the WCIF is expected to reach one million people with safe water and/or sanitation.

Through WaterCapital, we will begin exploring opportunities to lend to microfinance institutions, small and medium-sized enterprises and utilities serving those most in need in India and beyond. We believe that we have a unique opportunity to become a source of capital for international and local nonprofit organizations adopting market-based approaches by supporting investments within their networks to provide water and sanitation goods and services. The ultimate opportunity at hand is to: illuminate a path to achieving water and sanitation access at the base of the economic pyramid that does not require traditional charity; and unleash new capital that can ultimately drive sustainable access to hundreds of millions of people.
India: Dissolving Policy Barriers to Ensure Safe Water for All

While enhancing financial inclusion at the base of the economic pyramid for water and sanitation needs in India has improved through programs such as WaterCredit, there remains a significant unmet demand among households living in poverty for microfinance for improved water supply and sanitation solutions. We view seeking changes in regulatory policies at both a national and state-government level as a key way to accelerate water and sanitation finance growth.

This year we conducted a large-scale regulatory and policy analysis to determine the most significant policy barriers to the acceleration of water and sanitation finance. Informed by our findings, we began advocating for the following two key policy reforms:

• Priority Sector Lending guidelines to include lending for water and sanitation improvements; and

• Swachh Bharat implementation guidelines issued by the Central government to incorporate household lending for water and sanitation needs as a key strategy for meeting targets at the State level.

Additionally, we worked to create an enabling environment for water and sanitation lending in India by co-hosting a workshop on sanitation financing in Rajasthan with UNICEF, the Water and Sanitation Partnership of the World Bank and the Center for Microfinance Rajasthan. A key outcome of the workshop was an in-depth scoping exercise between the World Bank and Water.org to confirm a scaling strategy to support the State government of Rajasthan to achieve open defecation free status by 2019. This partnership will take shape in the upcoming year.
GOAL

Inspire interest in and uptake of water supply and sanitation finance policies and practices by practitioners by investing in developing and open-sourcing our water and sanitation lending resources.

Sharing Our Knowledge

Through our global learning programs, we continue to develop and deliver new tools and resources to enhance the number of practitioners engaged in water and sanitation lending for people in need. This year we expanded our offering on WashMicrofinance.org, a one-stop shop that provides information and tools for financial institutions to develop microfinance products for water and sanitation. Specifically, two new toolkits were added:

1. **WASH Finance Process Mapping, Risk Management, Pricing, Internal Audit and Controls**

2. **WASH Financial Product Portfolio Management**

Both toolkits offer critical insight for practitioners to refine and implement water and sanitation lending within the contexts of where they operate. Additionally, in India and Bangladesh we piloted an online communication forum to facilitate the sharing of key learnings and best practices among our WaterCredit partners. If the online forum enables our partners to collaborate to strengthen and scale their work, we will look to expand it to other key markets.

In 2014, in partnership with the World Bank Water and Sanitation Program, we conducted a loan portfolio analysis based on data from more than 245,000 WaterCredit loans. The analysis aimed to better understand the demographic characteristics of households borrowing for water and sanitation, and identify differences in delinquency rates and characteristics for low-income clients. This year, we co-published the key findings in “Financing Sanitation for the Poor: Household level financing to address the sanitation gap in India.” The information was shared at the 2015 Stockholm World Water Week. By sharing our knowledge with key stakeholders in the water and sanitation sector, we are raising awareness of water and sanitation finance as a viable opportunity for developing countries to end the water crisis.
WaterCredit: Expanding Financial Inclusion to New Markets

WaterCredit has quickly become an engine for enhancing financial inclusion at the base of the economic pyramid for safe water and sanitation needs, ensuring philanthropic dollars have a greater and more efficient reach. Determining opportunities to increase WaterCredit’s long-term viability and ensure its successful expansion in new markets is key to our ability to accelerate an end to the global water crisis. This year we evaluated opportunities to expand WaterCredit within Cambodia. As a result we certified four new WaterCredit partners and officially launched two new WaterCredit programs. We are now poised to secure new, long-term commitments to expand WaterCredit in Cambodia.

Beyond scaling WaterCredit in its current form, we continued to invest in evaluating opportunities to enhance its long-term financial viability following the end of our smart subsidy grants. In 2014, we commissioned a third-party analysis by Deloitte and Micro Credit Rating International Ltd. to assess the WaterCredit business models of our microfinance institution partners in India, our most mature market. Based on the findings, we allocated resources to provide our partners with customized financial modeling and recommendations to reduce or maintain their operating and expense ratios and secure increasingly reliable and lower-cost forms of growth capital.

WaterCredit Advisory Services: Building the Case

In 2014, we launched WaterCredit Advisory Services (WCAS), which includes a robust technical assistance component rather than a financial subsidy to jumpstart the water and sanitation lending portfolio of our microfinance institution partners. By reducing our upfront costs, we hypothesize that WCAS could be a bridge to a zero-subsidy model for water and sanitation financing for those in need. This year we conducted market-assessments and partnership development activities in both Indonesia and India. We successfully secured new WCAS partnership agreements in both countries which will begin loan disbursement in the upcoming year.

GOAL
Expand a “lighter touch” approach to WaterCredit—WaterCredit Advisory Services—a bridge to a zero-subsidy model for water and sanitation financing for those in need.

GOAL
Confirm strategies that will increase WaterCredit’s long-term viability with existing partners and support its expansion in new geographies.
Innovating to Scale Impact: Exploring New Channels for Water and Sanitation Lending

While WaterCredit remains our principal way to address the global water crisis, as a pioneering, entrepreneurial organization, we are keen to refine this model to achieve greater economies of scale. This year we conducted exploratory research to identify and assess new partnerships through which we could facilitate access to affordable capital for water and sanitation needs. The potential partners we evaluated included public and private commercial banks, country governments, product manufacturers, mobile services providers, small to medium-sized enterprises and utility service providers. Specifically, we conducted partnership evaluations in Peru with water supply and sanitation small and medium-sized enterprises, Cambodia with water and sanitation service providers and Bangladesh with remittance service providers. We also engaged two international consultancies to analyze the ability and interest of financial and non-financial channels in India and Kenya to implement water and sanitation finance.

Through these explorations and early-stage piloting efforts, we gained critical insight to make decisions on alternative channels and partnerships that present the strongest opportunity to further democratize access to financial capital, especially among those who cannot avail the services of microfinance institutions. In India we found that there remains significant potential to work with microfinance institutions as well as with banks and Housing Finance Corporations to implement water and sanitation lending. In Kenya we determined that digital finance could offer significant opportunities for water and sanitation lending, however more analysis is required to confirm the value proposition and identify the most viable partners. We also identified potential opportunities to partner with select country governments and municipal service providers in Kenya on water and sanitation finance. In the upcoming months we meet with potential partners in India and Kenya. Based on the outcomes of these meetings, we will further prioritize new channels and partnerships for water and sanitation finance and craft market-entry strategies for them.
GOAL

Partner with the utility sector and community-based organizations to expand water and sanitation access in Indonesia.

Photo: view from a village near Jakarta, Indonesia.

Indonesia: Improving Water Access in Rural and Urban Areas

Despite hosting the largest economy in the region, Indonesia lags behind the majority of Southeast Asian nations in terms of access to safe drinking water and sanitation. For many households in both rural and urban settings, safe water sources and private sanitation facilities are still inaccessible and/or unaffordable.

In urban areas the Government of Indonesia (GOI) assigns water provision responsibilities to municipal utilities. To determine opportunities to expand water and sanitation provision in urban areas, we conducted an in-depth market assessment of the Indonesian utility sector. Informed by this analysis, we are developing a strategy for engagement with the utility sector to improve and expand their water and sanitation service provision in the upcoming year.

Seeking to address the low access rates in rural areas, the GOI prioritized developing the ability of community-based organizations (CBOs) through one of the largest rural water and sanitation programs ever undertaken in Indonesia: Penyediaan Air Minum dan Sanitasi Berbasis Masyarakat (PAMSIMAS) and Sanitasi Berbasis Masyarakat (SANIMAS). Since 2006, PAMSIMAS and SANIMAS invested heavily in the construction of village water and sanitation infrastructure and the establishment of CBOs to manage it. However, there remains significant unmet demand for water and sanitation services, and the expansion of CBO services is key to the GOI’s strategy for increasing access. CBOs struggle to operate sustainably and secure financing to expand infrastructure. This year, we conducted a pilot program in collaboration with the GOI to increase water and sanitation access in rural areas served by CBOs by facilitating CBOs to access commercial sources of financing for new infrastructure. The approach included identifying strong CBOs, providing strengthening in basic capacity areas, and linking qualified CBOs to banks to access financing to expand services. The pilot focused on two districts in Central Java where seven high potential CBOs were identified. To date three CBOs have secured bank financing for infrastructure improvements.
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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