

# GLOBAL INVESTMENT FUND FOR WATER

## Concept Note

*“How innovative finance can help end water poverty”*

*“Water for Life, Sanitation for Dignity”*

Jan Eliasson, United Nations Deputy Secretary General.

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## Concept

This paper sets out the case for a Global Investment Fund for Water – a new catalytic financing facility, supported by the global retail and bottled water industries, to accelerate access to clean water and sanitation for all.

A Global Investment Fund for Water was conceived by Duncan Goose, inspired by his own philanthropic business, Global Ethics, which makes bottled water drinks including One Water, donating all profits to water projects. Duncan saw the potential to scale up investments to help end water poverty by raising over \$3bn a year from levying one cent per litre from all bottled water sold globally, and commissioned Sarah Beeching of Oshun Partnership to develop the concept further.

More information about Duncan Goose and Sarah Beeching can be found at the end of this paper.

## Background

It will be impossible to achieve the new global Sustainable Development Goals (SDGs) without a significant increase in investment and coordinated political action to end water poverty. Water is essential for life, for improving and maintaining people's health, food security and the environment. Lack of access to clean water and sanitation contributes to women's inequality, while illness and death due to water-borne disease traps millions of women and men in poverty. Poor water infrastructure hinders economic development and sustainability objectives.

At the same time, water is an investable resource. It is generally agreed that, although it is essential for life, people should pay for water and sanitation services. While pricing and access must ensure that water services are safe and affordable for the poorest as well as the better off, investors in WASH can, over time, receive a return on their investment.

Unlike the Millennium Development Goals, which included water within a broader sustainability goal, the new post 2015 Sustainable Development Goals to be formalised by the UN in September 2015 have a new stand-alone goal to be achieved by 2030:

### ***SDG6 "Ensure availability and sustainable management of water and sanitation for all".<sup>1</sup>***

The financial cost of achieving SDG6 will be high. The 2014 GLAAS<sup>2</sup> survey found that 80% of countries reported that current levels of financing are insufficient to meet targets for drinking water and sanitation. However the benefits of investing in water and sanitation are significant: According to WHO estimates, 'for every dollar invested in water and sanitation, there is a US\$ 4.3 return in the form of reduced health care costs for individuals and society'.<sup>3</sup>

By applying a voluntary levy of 1 cent per litre on sales of bottled water, a Global Investment Fund for Water has identified a potential income stream to help meet the challenges of providing safe, affordable domestic water and sanitation to all. Importantly, the income stream could be derived from sales in developed and developing countries, noting that half of those without access to clean water live in middle-income countries, often in rural areas, and a bottled water levy could do much to address inequity in WASH provision.

A key principle underpinning a Global Investment Fund for Water is to ensure it is part of a wider global agenda with strong political backing.

A brief survey of progress since the start of the Millennium Development Goals in 2000 shows that in general, countries with an overarching WASH sector plan led by government, with support from partners in the private and non-profit sectors, tend to do better in delivering services.

Fragmentation and lack of planning is a significant barrier to progress, both at the global and national level. Many countries with poor WASH indicators have no national WASH plan, no explicit ministerial responsibility or separate budget lines for water and sanitation (especially for sanitation), and collect little reliable data. At a global level the WASH sector has been slower than other sectors to come together to reach agreement on evidence-based WASH strategies or to develop effective platforms for information-sharing, policy making and financing – although this is starting to change. What this tells us is that any substantial new financing facility must be closely connected to global and national frameworks. Ad hoc and project-based approaches will not deliver the large-scale investment programmes that are needed.

For developing countries, access to clean water and sanitation is a building block for prosperity and sustainability. For citizens, water means health and dignity. For the private sector, investment in WASH provides a tangible opportunity to engage with the SDG process and contribute substantially to the provision of an essential social good. Investing in WASH is already central to many organisations' corporate responsibility, resilience and social goals, as well as being a commercial proposition.

For all these reasons, Global Ethics' initial concept for, and Oshun's research into establishing, a Global Investment Fund for Water supported by the global bottled water industry, has been well-received by government officials, civil society organisations, financiers and businesses, and its realisation is now a tangible step closer.

<sup>1</sup> SDG6 and draft indicators: <http://www.unwater.org/sdgs/a-dedicated-water-goal/en/>

<sup>2</sup> UN-Water Global Analysis and Assessment of Sanitation and Drinking-Water 2014 (GLAAS 2014) presents data from 94 countries and 23 external support agencies.

<sup>3</sup> WHO: UN reveals major gaps in water and sanitation – especially in rural areas, GLAAS 2014.

## Bottled water & retail industry

In 2014, global bottled water consumption was more than 333 billion litres, with estimated retail sales value of USD \$148 billion. The sector is anticipated to grow to 445 billion litres with retail sales of USD \$200 billion by 2019. By leveraging 1 cent per litre of bottled water sold, a Global Investment Fund for Water could create a fund in excess of \$3 billion per annum, generating a substantive new financial resource to begin to fill the water financing gap. Although it would take time to achieve, the potential for substantial income flow to come online quickly is high. In some jurisdictions higher levies or profit contributions could cross-subsidise less well-off countries. This concept also holds the potential to generate a domestic income stream for developing countries.



The bottled water industry is truly global, with many countries exporting as well as producing domestically bottled brands. The industry's major brands including Coca Cola, Nestlé and Danone already have a number of humanitarian water programmes, however these tend to be linked to corporate social responsibility programmes rather than the core business of the firm. One Water and a number of smaller brands support water projects with philanthropy at the core of their business model. There is no obligation for companies to sustain their programmes, nor to follow good donorship principles or coordinate with others, including governments.

Understanding the value chain for the bottled water industry helps to see where potential funding might come from. While margins vary considerably by manufacturer, brand, distribution and sales channel, on a typical 500ml bottle of water selling at a notional \$1, the state will receive around 20 cents in tax, the bottler will receive around 15 cents, the retailer 45 cents.

The rest will be accounted for by costs of production and other costs such as transportation. This is for conceptual explanation only and not intended to be in favour or against any part of the value chain, but it does indicate several options for raising a 1 cent per litre contribution.

Figure 1: Indicative margins on bottled water sales (for illustrative purposes only)



## Global Bottled Water Consumption 2004 – 2019f, (including bulk), litres millions

	2004	2009	2014	2019f
North America	25.5	33.7	41.5	50.6
West Europe	45.1	47.0	49.0	53.0
East Europe	11.5	16.1	18.4	20.4
Latin America	29.0	37.5	50.6	62.6
Asia Pacific	38.7	72.0	130.9	200.0
Middle East	13.0	19.9	27.5	34.9
Africa	4.3	9.2	15.7	24.1
<b>Total Volumes</b>	<b>167.1</b>	<b>235.4</b>	<b>333.6</b>	<b>445.6</b>

Figure 2: Global bottled water volumes and sales

## Incentivising participation

In order for a Global Investment Fund for Water to be effective in generating resources, it will require the support of bottlers, retailers, and governments. The simple concept of a 1 cent per litre contribution to end water poverty has the potential to cut across competitive boundaries towards a common humanitarian and development goal. It provides all participants with a strong, positive message platform. Participation may also help to mitigate consumer concerns and producer obligations to address the environmental costs associated with bottled water from plastic packaging and transportation.

A long-term strategy to create an investment stream is in the interests of all. Governments and their private sector partners would have access to new financial resources for investment in water management, people benefit from safe water and sanitation, the economy benefits from a healthier population and more reliable water services, and, over time, investors in water and sanitation infrastructure receive returns.

## Compulsory vs. voluntary participation

Ideally a Global Investment Fund for Water would be financed by voluntary contributions. The pros and cons of a levy include:

- **Political feasibility:** a levy on bottled water has strong political support from environmental organisations and water sector advocates, although it could face resistance from industry lobbies.
- **Stability and predictability of resources:** strong predictability with value of market predicted to grow.
- **Management effectiveness:** strong for bigger suppliers, weak for smaller retailers and could prove costly for levy collection unless bottlers can add the levy in advance. Focus should be on larger bottlers and retailers, with potentially no levy for retailers selling less than X thousand litres per annum.
- **Flexibility of implementation:** Strong – levy can be decided at the national level with specific mechanisms in each country including government passing back a % of sales tax.
- **Win-win criterion and ethical risks:** Win-win, will contribute to improved water and sanitation as well as positive brand association.
- **Resource mobilisation capacity:** High – market increasing and demand for good is price inelastic at the margin.
- **Probability of effective use of resources and impact:** Strong if Global Investment Fund for Water is linked to government-led approaches and effective international aid coordination mechanisms.

Compulsory participation in a scheme to generate income from bottled water is attractive for a number of reasons. The income stream is guaranteed (though subject to sales fluctuation) and tax authorities would hold responsibility for its collection. However, there are costs associated with collection that would need to be quantified. Some governments refuse on principle to hypothecate taxes to specific funds on the basis that fluctuating income streams lead to unpredictability for planning purposes. Furthermore, there is no guarantee that funds raised through bottled water sales would be attributed to a Global Investment Fund for Water. This approach would require clear commitments on the part of the governments where the retailer firms are domiciled i.e. global collective action on the part of governments would be required, which could be met with resistance from retailers and bottlers if they chose to take that stance.

## Global Bottled Water Sales 2004 – 2019f, (including bulk), USD millions

	2004	2009	2014	2019f
North America	16.5	21.9	26.6	32.7
West Europe	29.7	32.7	33.5	37.0
East Europe	5.7	9.3	10.7	11.9
Latin America	6.2	12.6	19.8	35.7
Asia Pacific	9.8	21.3	42.6	62.3
Middle East	3.4	5.7	8.3	10.6
Africa	1.7	3.7	6.4	9.8
<b>Total Sales</b>	<b>73.0</b>	<b>107.2</b>	<b>147.9</b>	<b>200.0</b>

Source: Zenith International for Global Ethics

Rank	Retailer	Group Sales \$Bn	% of top 100 grocery retailer sales
1	Wal-Mart Stores, USA	358,751	13.20%
2	Carrefour Group, France	103,887	3.80%
3	CVS, USA	99,227	3.60%
4	Seven & I Holdings, Japan	83,203	3.10%
5	Tesco plc, UK	77,724	2.90%
6	Costco, USA	76,776	2.80%
7	Kroger, USA	74,083	2.70%
8	Schwartz Group, Germany	73,984	2.70%
9	Aldi, Germany	64,175	2.40%
10	Metro Group, Germany	60,471	2.20%

Figure 3: Top 10 grocery retailers

A voluntary approach should be attempted in the first instance. The costs associated with a levy would likely be passed to the consumer, hence the profit risk to retailers is minimal. Though inelasticity is certainly not infinite, at the margin the likely decline in sales from a 1 cent increase in price per litre will be negligible (e.g. a \$1.35 bottle of 500ml water would add half a cent to the retail price). Rather than deal in 'half cents' or fractions thereof, retailers would take a category wide approach to the total cost of the levy. However, retail price per litre tends to be inversely proportional with large formats tending to sell at a lower price per litre than smaller formats, so there may need to be some 'averaging' of a levy across all formats sold at retail. Typically bottled water pricing is raised each year, or every few years by negotiation – a Global Investment Fund for Water levy could be built into the retail price change i.e. a retailer gets an X plus half cent increase, and the other half cent goes to the fund.

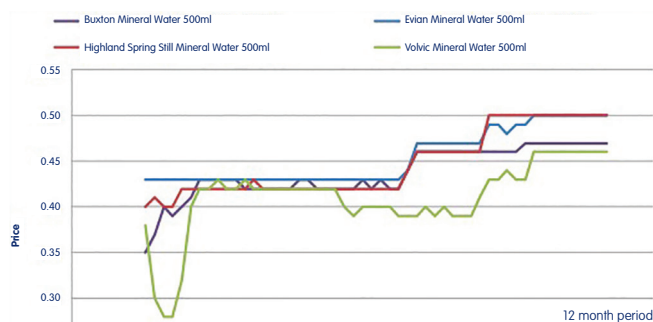


Figure 4: 12 month UK retail grocery price tracker, LBS for Global Ethics

society organisations, water utilities companies, academics and investors, who have encouraged us to take the next steps of fleshing out how a Global Investment Fund for Water could work.

Companies already recognise that water resource management needs improvement and can benefit all, including bottlers and retailers. Achieving this enlightened approach will require an early quorum of big players to agree to participate, for example in the process of implementing their commitment to the UN Secretary General's CEO Water Mandate.

Over the past few months, Global Ethics and Oshun have spoken to dozens of leaders in the WASH sector, bottled water industry and government about a Global Investment Fund for Water. There are clear indications of interest from institutional stakeholders, retailers and bottlers, donor and developing country governments, civil

## The Multiple Benefits of a Global Investment Fund for Water

The 2014 GLAAS report identifies the following key sector challenges

- **Insufficient financing:** 80% of countries reported current levels of financing insufficient to meet targets for drinking water and sanitation.
- **Funding gap in rural areas:** the vast majority of people lacking access to basic sanitation live in rural areas, though the bulk of financing benefits urban residents. Expenditures for rural sanitation comprise less than 10% of total WASH financing.
- **Weak national capacity to execute WASH plans:** despite strong political support for universal access to water and sanitation, less than one-third of the countries surveyed have national WASH plans that are being fully implemented, funded and regularly reviewed.
- **Critical gaps in monitoring:** reliable data is vital. Though many countries have WASH monitoring frameworks in place, a majority reported inconsistent or fragmented gathering of data and weak capacity for analysis.
- **Neglect for WASH in schools, health facilities:** Water and sanitation services in schools can ensure that children, especially girls, stay in school and learn lifelong hygiene habits. In health clinics, WASH services ensure the privacy and safety of patients, particularly expectant mothers during delivery, and are essential to prevent and respond to disease outbreaks.

A Global Investment Fund for Water would provide political and financial focus for water and sanitation investment at global and national levels, helping to address the significant financing gap as well as fragmentation in the WASH sector. Governments would be more likely to improve national planning and create specific budget lines knowing that funds are available. Donors and investors would be better able to see where funds are going and track them through national plans. The investments could and should be designed to stimulate the domestic private sector to invest in WASH businesses, and tackle the urban/rural divide. Long term planning and coordinated action is more likely to deliver more sustainable and equitable outcomes for citizens. Improved data collection and information sharing can also be built into the fund's requirements.

In order to identify more precisely where and how a Global Investment Fund for Water would be most effective, a task team, guided by high level leadership of key stakeholders should be created to identify the key bottlenecks and financial requirements to unlock progress in water and sanitation.



## Progressing the Plan

There are a number of opportunities in late 2015 and 2016 to bring leaders together to discuss the challenges and opportunities associated with a Global Investment Fund for Water. These are suggested next steps:

- 1. Form a high-level leadership group representing all key stakeholder perspectives and appoint a task team:** Ideally the group should include heads of state or government, CEOs of major bottled water producers and retailers, leaders of WASH stakeholder platforms, global philanthropy, financial and development experts. This high level group should then appoint and guide a task team to consider the following areas:
- 2. Determine potential focus areas for a Global Investment Fund for Water, for example:** Analyse WASH finance needs in low income countries with the highest off-track indicators; assess rural water supply and sanitation needs; determine water resource management best practices; research market facilitation methods to stimulate domestic investment in WASH value chain.
- 3. Assess different types of investment or grant capital to help overcome key bottlenecks in the system.** Three potential windows for a Global Investment Fund for Water financing are:
  - Grant finance, to facilitate the preparation of market based investments, and support more marginal communities, where market based solutions will not be appropriate, at least in the first phase of infrastructure development.
  - Investment capital to enable scale up of small and medium scale private sector organisations, that have proven the concept of their delivery model and need capital on concessionary terms to grow.
  - Risk capital to facilitate micro enterprise (<10 employee) creation and stimulate innovative ideas to be tried and tested.
- 4. Consider complementary commitments that will be required to deliver on financing:** e.g. government policy changes and/or domestic budget commitments, reforms to regulation, commitment from communities to contribute financially etc. A Global Investment Fund for Water will work with governments enabling country-led processes that generate solutions that will be effective locally. There will be an expectation that governments will put in place effective regulatory and oversight policies to ensure accountability. A proportion of resources will be allocated on a results-based basis, incentivising governments to prioritise and identify bottlenecks and weaknesses in the delivery chain. The Fund will have a facility to provide technical assistance to tackle these issues, if appropriate.
- 5. Incentivise participation from bottled water producers and retailers:** Contributing to a Global Investment Fund for Water could be a key selling point for retailers and bottled water companies – building brand credibility by contributing to sustainable development in key growth markets. Note that retailers, rather than the bottlers, usually have the largest profit margin in bottled water sales. For developing country partners the potential for a consistent income stream from bottled water sales is attractive. The option of a formal tax is a possibility, but most companies would likely prefer a voluntary arrangement, which can be easily calculated on the basis of volume of water sold on a semi-annual basis.
- 6. Decide governance arrangements for the fund:** Should existing mechanisms be considered or a new investment vehicle created? How will allocation and monitoring and evaluation systems work? Suggestions for consideration include:
  - Governance partners – a fund should aim to strengthen ownership of and capacity to deliver WASH programmes by national governments, private sector (especially domestic) and development actors.
  - Coherence across assessment and planning – There is need for more clearly agreed mechanisms, tools and approaches to align WASH programmes, plans and budgets to meet short, medium and longer-term needs.
  - Adequate data collection, systems and use – Linked with analysis, better data is needed for monitoring, evidence building and national capacity-building around WASH provision.
  - Housing a Global Investment Fund for Water – Options for the potential institutional hosting arrangements for a new facility include:
    - UNICEF which has WASH programmes in over 100 countries allocating over \$700m pa
    - Sanitation and Water for All Partnership (SWA), which has a broad based membership and a mandate focused on delivery of SDG6. The organisation does not have a financing facility, but could provide a role similar to the Global Partnership for Education: stimulating and financing government-led sector plans, working with stakeholders in-country, and allocating resources against highest priority needs.
    - Water and Sanitation Programme of the World Bank (WSP), which already manages a fund and provides technical assistance to governments to facilitate country planning and delivery processes. The spread of country involvement is not as broad as UNICEF, but could be scaled, and the facility could potentially be used to leverage IDA resources from the World Bank
    - A new, independent Global Investment Fund for Water, separately established a legal entity akin to The Global Fund to Fight AIDS, TB and Malaria or GAVI: the Vaccine Alliance.
- 7. Cornerstone grant finance to develop the concept further.** Developing the technical feasibility for a Global Investment Fund for Water will require funds to establish the modalities for the financing facility, gain consensus on who will manage the fund, and how resources will be allocated. The process should be managed by a global expert team experienced in developing innovative financing facilities for other sectors, and drawing in expertise from key institutional, governmental and wider partners.

While ideally the private sector should contribute to laying the groundwork for such a fund, donor governments, multilateral agencies or foundations with expertise in this area will also be approached to contribute.

## Notes

## Acknowledgements

The idea for a Global Investment Fund for Water was conceived and commissioned by Duncan Goose, founder and CEO of Global Ethics Limited, and researched and written by Sarah Beeching, Executive Director of Oshun Partnership.

## Global Ethics

Global Ethics has a number of trading and philanthropic functions including The One Brand, a philanthropic business founded in 2006 that makes bottled water drinks and donates 100% of its profits via The One Foundation to fund clean, sustainable, water projects in some of the harshest regions of Africa. To date, The One Foundation has allocated over \$20 million to clean water projects benefiting more than 3 million people.

## Oshun Partnership

Oshun Partnership is a UK based consultancy, which specialises in mobilising collective action to tackle political challenges across development sectors.

*The views expressed in this paper are those of the author who takes full responsibility for any factual inaccuracies, which, if notified, will be corrected in subsequent and online versions.*

An online version of this document can be found at: [www.globalfundforwater.org](http://www.globalfundforwater.org)

We would like to thank the representatives of the following organisations for their insights and advice in helping us to develop the concept of a Global Investment Fund for Water. Please note that naming organisations here does not imply their support, although most have been enthusiastic and encouraging:

AAR	Khafra Global Services	UN Association of the USA
Afro-Global Consultancy	NEPAD	UN Foundation
Aramark	Government of The Netherlands	UN Global Compact
Berenberg Bank	Ocado	UNICEF
Compass Group	ODI	UN SDSN
The Co-Operative	Oxfam	UN Water
DFID	Plan International	Wateraid
Dzana Investments	Professor Tony Allan	Water.org
Futureau	PSI	Water for People
IFC	Radnor Hills Mineral Water Co.	WSSCC
IGD	Sarona Investments	WSP (World Bank)
K-Rep Bank	Starbucks PLC	World Bank Water
Government of Liberia	Stockholm International Water Institute	World Duty Free
Lions Head Global Partners	SWA Partnership	Zenith International
MEDA (Mennonite Economic Development Associates)	Tesco PLC	
Government of Kenya		

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