

GLOBAL INVESTMENT FUND FOR WATER

Feasibility Study Outline

Overview

The concept for the Global Investment Fund for Water (GIFFW) started with the idea of applying a one cent per litre micro-levy to sales of bottled water worldwide, to raise funds for investment in water and sanitation facilities in developing countries.

Initiated by Duncan Goose, founder of philanthropic business One Water and further researched and developed with Sarah Beeching of Oshun Partnership, interest in creating a Global Investment Fund for Water has gained traction among civil society, private sector and international development actors. In 2016, The Rockefeller Foundation provided funding to enable further development of the concept.

This report sets out the next phase of work: first by clarifying the challenge that the GIFFW would seek to address, then detailing three studies setting out the approach we will take to creating the GIFFW.

Part 1 will focus on the the bottled water sector value chain to assess where a micro-levy might be applied, with Part 2 assessing how the funds raised might address sections of the WASH funding gap and most effective uses for revenues raised. Part 3 will look at possible structures and governance models.

A final report, The Case for a Global Investment Fund For Water, is due to be published at the end of January 2017.

Water And The Global Goals

If successfully operationalised, a GIFFW could help deliver clean water and sanitation to millions of people, making a significant contribution to the ambitious UN-led global agenda for human development - the Sustainable Development Goals. A key element of the Global Goals is the development of new sources of income and partnerships across all sectors.

As a focus for investment and collaboration, the primary aim of a GIFFW would be to raise funds and foster partnerships to help achieve tangible progress towards SDG 6: Ensuring availability and sustainable management of water and sanitation for all.

THE GLOBAL GOALS

For Sustainable Development



Furthermore, a GIFFW could also be used to raise awareness and encourage sustainable behaviour around consumption of plastics and thus additionally support SDG 12: Ensure sustainable consumption and production patterns.

The Challenge

The question of financing for many global development challenges typically starts with the problem and evaluates the funding needed to address it. In contrast, this project begins with a potential revenue stream and seeks the most impactful use for it. We see 3 ways that the GIFFW can help meet the challenge of water poverty:

FINANCING SDG 6

While progress is being made in water and sanitation provision, many countries, including middle-income countries, will fail to meet SDG 6 by 2030, in part due to insufficient and inefficiently targeted finance.

At the same time, water can be an investable commodity, but the market is often not sufficiently developed or may not deliver adequate returns to attract sizable private capital. The revenues raised by a micro-levy, if correctly channelled, can be used strategically to catalyse, complement and support other sources of funding for WASH development projects and could go a substantial way towards helping to achieve SDG 6 globally.

SUPPORTING SDG 12

A further challenge is to ensure that benefits derived from efforts to meet SDG 6 through a micro-levy are complemented, rather than undermined, by a congruent focus on sustainability in the bottled water industry. An important function of a GIFFW would be to support SDG 12 - encouraging sustainable production and consumption.

MAXIMISING IMPACT

Finally, the sources of revenue identified and mobilised by this project may be diverse, as different countries and companies may choose to participate in different ways. Our aim will be to identify the best possible ways to generate revenue streams and how to employ these funds for maximum impact in ending water poverty and inadequate sanitation.

Our Approach

Our approach to this assignment will be to identify a workable structure through which to raise and allocate financing for water and sanitation investments in low and middle income countries. We will do this by conducting a detailed three-part study to help build the case for the Global Investment Fund for Water.

Part 1 - Understanding the Bottled Water Sector

The aim of this part of the study will be to (i) analyse and quantify the bottled water and wider soft drinks market in detail by geography, participants and format of sales (retail and bulk packaging) and (ii) examine a range of revenue raising models by mapping the supply chain from source to shelf, assessing the commercial impact of a micro-levy, whether voluntary or mandatory and seeking to ensure any solution is sustainable and avoids penalising participants. The study will include consultation with brand owners, retailers, industry associations and other supply chain participants and draw on detailed industry data. Known revenue raising models in the bottled water sector will also be assessed including:

- Mandatory (One-Way) Packaging Deposit (Germany).
- Returnable Packaging systems (Nordics, Netherlands etc)
- Bottled Water Import Customs Levy (Liberia).
- Bottled Water Packaging Controls (South Korea).

Part 2 - WASH Financing Needs and Use of Proceeds

A: Quantifying financing needs

We will use existing analysis from global donors, UN, WHO, World Bank, Economics of Sanitation Initiative Reports and others to gain a holistic picture of the funds required to fill financing gaps in WASH at different levels (household, municipal, national) and within this context attempt to identify and prioritise the timing, type and size of interventions required.

In order to gain a fuller picture of the costs associated with WASH financing, this study will also consider both the return on investments into WASH and the cost of inaction. For example, WHO estimates that lack of access to clean water and sanitation costs developing countries \$260 billion a year, while every dollar invested in WASH provides an average return of \$5.50 in improved health outcomes.

B: Identifying the Use of Proceeds

Whilst we have a sense of the potential revenue stream size based on global sales, we do not yet know the reality. We will take \$100-300 million as the initial target and determine the best use of funds and potential funding mechanisms.

We anticipate that funds accessed through the GIFFW will be less than total financing needs. Thus rather than spreading funds thinly across any number of potential uses, we will seek to assess the most impactful use of the available proceeds, starting by looking at what \$200 million can do over the next five years and how it can best be employed to further the objectives of the sector overall. Recognising that the GIFFW could ultimately grow beyond this size, we will also outline an investment pathway for larger amounts of investable capital.

The GIFFW model also presents an opportunity for domestic resource mobilisation in developing countries and could potentially provide a platform for technical assistance and south-south information exchange for countries that seek to manage revenue streams in-country.

We will work closely with a Working Group of WASH sector experts from across the board of stakeholders in order to arrive at a 'roadmap' for disbursement which deploys the funds in the most impactful way.



Part 3 - Structure and Governance

The structure of the GIFFW will be strongly influenced by the findings of parts 1 and 2 of this study. However, questions we will aim to address in the process of determining the appropriate structure for such a facility include:

- Type of investments: grants vs. investments (market or sub-market); counterparty; size; tenor; return; performance payouts; in-kind support; market facilitation.
- Geography: global vs. regional vs. national; both in terms of use of proceeds and in terms of where the organisation is housed (one entity vs. umbrella entity with national sub-entities)
- Currency: levy currency and currency of investment and how this affects collection and disbursement. Locally mobilised resources should remain in country, while some use of proceeds are better suited to hard currency.
- Fund structure: closed vs. open; lock-in period; free equity; duration; risk tranching etc.
- Relationship with beneficiary countries, such as scaled buy-in and appropriate points of engagement (in-country NGOs, municipal or national governments etc.)
- Other mechanisms and partner complementarity, such as: credit guarantees, GDP-proportional buy in; credit smoothing; matched funding; funding predictability; insurance. Leveraging GIFFW revenues to facilitate partner deployment of capital (technical assistance, first loss protection) and / or leveraging-in partners' instruments (e.g. USAID credit guarantee).

The study will also lay out appropriate governance mechanisms for the fund, with suggested checks and balances, decision-making processes and stakeholder oversight.

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| Partnerships | <i>Role of Partners in leveraging in either in-kind or financial support</i> | First Loss Guarantee GHIF | Capital Smoothing IFFIm | Credit Guarantee USAID |
| Instrument | <i>Investment vs. Grant vs. Technical Assistance</i> | Challenge Fund | Pooled Utilities Loans | Pipeline Development for other Funders |
| Channel | <i>Direct Allocation vs. Government or Donor Programmatic Support</i> | Grants to Partner Govt GPE | Umbrella Fund with local sub-entities | Pre-defined allocation mechanism |
| Management | <i>Independent Entity vs. Housed within an existing organisation</i> | Governance | Appropriate Checks & Balances | Oversight vs. Discretion |

Consultants And Working Group

Part 1 will be led by water industry consultant Jason Holway of Futureau.

Parts 2 and 3 will be led by Kate Antrobus and Christopher Egerton-Warburton of Lion's Head Global Partners.

A Working Group will be convened to advise and provide input to the studies. Lion's Head Global Partners will collate and co-ordinate feedback from Working Group partners.

Reporting Timeline And Key Meetings

SIWI World Water Week, Stockholm

28 Aug-2 Sept 2016

UN General Assembly, New York

19-23 September 2016

Global Bottled Water Conference, Prague

12 October 2016

Part 1 – final report

30 November 2016

Parts 2 and 3 - Interim reports

30 November 2016

Report for SWA Partnership meeting, New York

December 2016

Final report: The Case for a Global Investment Fund for Water, including case studies.

31 January 2017

World Water Day 2017

22 March 2017

World Bank's Ministers of Finance meeting on WASH, Washington DC,

17 April 2017

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