



**GLOBAL
INVESTMENT FUND
FOR WATER**

FINAL REPORT

ASSESSING THE FINANCING NEED IN
THE GLOBAL WASH SECTOR AND
IDENTIFY THE MOST EFFICIENT
STRUCTURE FOR DISBURSMENT

January 2017



LION'S HEAD
global partners

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Executive Summary

The driving concept behind the Global Investment Fund for Water (GIFFW) is the creation of a new vehicle to catalyse additional funds to support the achievement of Sustainable Development Goal 6 (SDG6), ensuring availability and sustainable management of water and sanitation for all. The GIFFW seeks to not only create an additional revenue stream for developmental activities in water, sanitation and hygiene (WASH) but to use those funds in such a way as to catalyse innovation and improvements in the sector that are beyond a continuation of “business as usual”. This report is part of a feasibility study commissioned by Global Ethics, and funded by the Rockefeller Foundation, to examine what such a fund could look like.

Lion’s Head Global Partners (LHGP), working with a group of sector experts, have outlined a use of proceeds for incremental funds raised by the GIFFW that would provide a valuable complement to the existing WASH financing landscape, and be a positive contribution to achieving SDG6. Focusing on two underlying values of complementarity and efficiency, this report outlines the WASH financing landscape, considering not only the financing gap in achieving SDG6 in terms of quantum of funds, but also the type of funding needed. We find that there is an opportunity for long term capital with a high risk tolerance to support sustainable WASH services. Key focuses for GIFFW will be considering WASH as a service, rather than as infrastructure or products; the “unsexy” side of WASH, or areas that are often ignored by donors because they are difficult to tackle; the need for information on what has or hasn’t worked historically; and on reaching the Bottom of the Pyramid (BoP).

Building on this landscaping analysis and consideration of the key issues in WASH, LHGP and the Working Group developed a definition of success for the GIFFW. This is to “enable the development of sustainable WASH services at scale that are able to become independent of aid within a 10-15 year period by relying on sustainable revenue streams and potentially subsidies”. From this definition of success, we derived three core pillars to the GIFFW approach, namely Systems Change; Market Support; and Transaction Support. The recommendations for this use of proceeds were complemented by feedback from a wide range of sector experts who responded to a call for “Blue Sky Thinking”.

From the definition of success, we have outlined a set of recommendations for the structure of the GIFFW, governed by a set of Engagement Principles for the fund. These are:

1. Leverage other funding, resources and partners;
2. Flexibility of fund’s interventions, applicable across WASH;
3. Establishing an enabling environment;
4. Replicability & Scalability; and
5. Ensuring rewards and therefore appropriate incentives for action.

These Engagement Principles are supported by a set of founding Eligibility Criteria for the GIFFW, though to preserve the flexibility of management these may change over time due to developments in the sector or views on alternative approaches. The Eligibility Criteria will provide guidance to groups seeking funding from the GIFFW as to whether their programs or projects are suitable. These are:

- I. Evidence of sustainability;
- II. Evidence of impact on the BoP;
- III. Evidence of government support;
- IV. Strength of team and / or partners;
- V. Strength of replicability;
- VI. Ability to measure outcomes and share knowledge; and
- VII. Innovation.

Due to the importance of learning from experience, both within the GIFFW and across the sector, these activities will be underpinned by monitoring and evaluation protocols that will both serve to ensure accountability for the use of GIFFW funds and inform knowledge sharing across the WASH sector.

Finally, this study examines the appropriate governance for the GIFFW. This will be a charity, governed by a Board that draws representation from donors, industry, independent members, and sector experts. The day-to-day operations of the GIFFW will be governed by a management team that comprises of an Administrative Secretariat and a Fund Review Board, overseen by a CEO. The fund's disbursement will happen through Implementing Partners. These will be established players in the WASH sector aligned with the fund's focus activities and with the capacity to manage the fund's capital per the fund's own criteria and mandates.

Lion's Head are excited to be part of the genesis of this project – developing the recommendations outlined in more detail in this report, we, alongside the Working Group of sector experts, have become convinced of the value that this GIFFW design could bring to the WASH sector beyond incremental funds, and the contribution it could make to achieving the SDGs.

Section A Introduction & Approach

The idea of the Global Investment Fund for Water (GIFFW) is born from the possibility of harnessing a micro-levy from bottled water sales and using the proceeds to support development in the WASH sector and to aid the achievement of **Sustainable Development Goal 6 (SDG6)**:

Ensuring availability and sustainable management of water and sanitation for all.

To understand how such an amount of capital could be used to support progress towards SDG6 within the current landscape of investment and initiatives in the sector, a three-part study was commissioned by Global Ethics, funded by the Rockefeller Foundation. Lion's Head Global Partners (LHGP) is working to address two parts of this, namely the following questions:

1. How would a given quantum of proceeds be best used in the current WASH landscape? What financing mechanisms would best complement existing funding initiatives and best suit the use of proceeds?
2. How would such a Fund be structured and governed?

A.1 Methodology

Recognising that LHGP are experts in innovative finance rather than sector specialists in water, sanitation and hygiene (WASH), to address the questions posed by this feasibility study with the appropriate level of sector-specific knowledge and expertise, we chose to convene a Working Group of WASH sector experts. Drawing on specialists across the sector, from both public policy, advocacy, citizen engagement, philanthropy and finance, allowed us to access broad-based expertise and simultaneously engender support through ongoing engagement into the concept of the GIFFW. This means that when launched in full, the GIFFW in its proposed format will benefit from established awareness and support across WASH key opinion leaders.

A.1.1 Convening an Expert Working Group

The Working Group calls, held fortnightly (for a total of six calls), allowed experts from institutions spanning public sector, supra-nationals, academia and civil society to opine on the two key questions being tackled in this combined study. The Working Group were supported ahead of each call by memorandums circulated in advance by LHGP, combining a summary of the prior discussions and additional research on topics of interest or concern. Facilitated by LHGP, the Working Group was therefore the main driver in identifying best use of proceeds for the GIFFW and determining the most appropriate financing mechanism.

The Working Group was chaired by Louis Boorstin of the Osprey Foundation, with almost a decade prior experience leading the WASH program at the Bill & Melinda Gates Foundation (BMGF) and a further 15 years at the International Finance Corporation (IFC). The Working Group core membership consisted of a team of experts who committed to reviewing the research material provided by LHGP ahead of each call and providing expert input on calls, as well as a group of observers, who received all research material but were not obliged to attend all the Working Group calls, but rather can dial in at their discretion.

Table 1: Working Group Membership

Core Working Group Members	Observer Members
Louis Boorstin (Osprey Foundation), <i>Chair</i>	Nanneke Nix (Sinavi)
Piers Cross (SWA)	Guy Hutton (UNICEF)
Jeff Goldberg (USAID)	Eddy Perez (Emory University)
Yi Wei (iDE)	Usha Rao-Monari (Global Water Development Partners)
Eleanor Allen (Water for People)	
Barbara Evans (Leeds University)	
Catarina Fonseca (IRC)	
Paul Gunstensen (Stone Family Foundation)	

LHGP acted as operational and research support, as well as structuring the overall agenda and for each specific call to ensure that the questions posed by the feasibility study were adequately addressed in the time allocated, and that the Working Group members were appropriately briefed. A schedule of these calls can be found below.

Table 2: Agenda for Working Group Calls

Call Date	Call Time	Suggested Topic
Thursday 6th October	15:00 BST 10:00 EDT 09:00 CDT	What does success look like for the GIFFW?
Monday 17th October	15:00 BST 10:00 EDT 09:00 CDT	Identifying the focus of the fund (1): <ul style="list-style-type: none"> - What gap will the fund fill? - Including the BoP in the fund mandate - Focus activities
Thursday 27th October	16:00 BST 11:00 EDT 10:00 CDT	Identifying the focus of the fund (2): <ul style="list-style-type: none"> - Pillars of the multi-strategy approach - Defining broad Eligibility Criteria - Finalising BoP focus and strategy - Geographic considerations
Wednesday 9th November	16:00 GMT 11:00 EST 10:00 CST	Structure: <ul style="list-style-type: none"> - Recap of structure for disbursement of funds and Eligibility Criteria - Governance considerations for a multi-strategy fund Considerations for Monitoring & Evaluation: <ul style="list-style-type: none"> - Reporting requirements - Learning feedback loop Potential Instruments for GIFFW disbursements
Wednesday 23rd November	16:00 GMT 11:00 EST 10:00 CST	Fund structure: <ul style="list-style-type: none"> - Review of the demand-based disbursement approach in the Fund Structure Monitoring & Evaluation <ul style="list-style-type: none"> - Consolidation of approach Governance: <ul style="list-style-type: none"> - Outsourcing of tasks - Implementing agencies
Friday 16th December	16:00 GMT 11:00 EST 10:00 CST	Review of structure, governance and mandate.

A.1.2 “Blue Sky Thinking”

To complement these discussions, and recognising that not all sector experts were able to commit to the time requirement of full Working Group membership, LHGP also reached out to a wider group of stakeholder from the WASH sector with a more “blue sky thinking” approach. The purpose of this was two-fold: to syndicate support and engagement from a broader group of stakeholders; and to check alignment with the direction of the Working Group discussion on the mandate for the GIFFW with a more diverse set of key opinion leaders. This “blue sky” feedback was then communicated to the Working Group and incorporated into the discussion. The question posed was for experts to consider what they would do with US\$200mm – US\$300mm of unencumbered capital. We asked respondents to think outside the agendas and priorities specific to the initiatives or institutions they are involved in, and give a “wish-list” response to the question of ‘how to spend it’.

A.2 Complementarity & Efficiency

The final structure of the GIFFW took shape through a cumulative process. This process, with each discussion building on the last, was guided by LHGP but driven by the Working Group members themselves with considerable and valuable input from the Chair. Recognising the many activities already ongoing in WASH, with many Working Group members representing the institutions delivering

them, one key principle for the GIFFW was that, if launched, it would be complementary to the existing actors in the sector. Our work began therefore with an understanding of the WASH Financing landscape and the different groups already active in this space, and a grounding in what the key issues are in WASH today. This ensured that all Working Group members were broadly aligned on both the challenges the sector was trying to tackle, and how the GIFFW could sit alongside those groups already trying to tackle them. We subsequently chose to take a top-down approach, beginning with a definition of success for the GIFFW, thereby deriving the broad thematic focus, and building on this to establish the appropriate use of proceeds for the fund. The use of proceeds then determined the most suitable structure, the specific fund focuses, instruments and finally, governance. During the consultation and research process we did not separate the two work streams (defined as distinct in the original terms of reference for this feasibility study) but rather the discussions which lead to the determination of use of proceeds (Stream 2), led seamlessly into the considerations around governance, instruments and structure (Stream 3).

A second governing principle for the GIFFW was efficiency. With considerable backlash against the development sector in the current media environment, and to maximise the impact potential of the fund, the Working Group sought to ensure that any incremental funds mobilised for the GIFFW would be utilised efficiently, both in terms of leveraging their impact potential through complementing and catalysing other funders, being smart about financial instruments and currency, but also in GIFFW administration and management. This means that of funds raised, donors and contributors can be confident that as much as possible is being used to deliver impact where it is needed, rather than on organisational expenses. This approach should support fundraising efforts.

Through this process, LHGP has developed a clear understanding of the issues and challenges in deploying capital in the WASH sector in support of the SDGs, but also of the potential impact of a well-allocated and currently-untied pot of funds like the GIFFW. The following report lays out the conclusions reached by LHGP following the Working Group discussions, and the proposal for how to structure GIFFW, with the broad endorsement of the Working Group members.

Section B The WASH Financing Landscape

In the spirit of complementarity and efficiency, our study on the potential role of the GIFFW in supporting the achievement of SDG6 takes as its starting point the existing WASH financing landscape, to ensure that any activities supported by the GIFFW are cognisant of and supportive of the existing financing landscape.

B.1 The Financing Gap

Between 1990 and 2015, 2.6 billion people worldwide gained access to improved drinking water sources and 2.1 billion gained access to improved sanitation. This not only met but exceeded the Millennium Development Goal (MDG) of halving the proportion of the population lacking access to improved water and sanitation. It is estimated that this effort cost approximately 0.12% of global product¹. Despite this significant achievement, a vast amount of people, falling primarily within the two lowest wealth quintiles, are still using basic sanitation (2.4 billion people as of 2015), including open defecation, and unimproved water sources (663 million at 2015). This is particularly true in Sub-Saharan Africa and Southern Asia, where most of the world's poorest and most difficult to reach are located. The GIFFW seeks to mobilise additional funds to catalyse the provision of safe and reliable WASH services. While theoretically the GIFFW has the potential to raise billions, the target launch size for the GIFFW is \$100-300 million. \$300 million is large in absolute terms, but in the context of global development WASH financing it remains relatively small. Therefore, when considering the financing gap that the GIFFW seeks to help fill, we considered both the total quantum of finance needed (leveraging existing analyses conducted by sector experts) and the type of funds needed. By being strategic about how GIFFW monies are used, the GIFFW can seek to leverage the existing funding activities in the WASH sector and therefore, by providing a different *type* of financing, multiple its impact potential beyond what its quantum of funds would suggest.

B.1.1 Total Quantum of Finance Needed

Sustainable Development Goal 6 was introduced to finally bridge the gap left by the MDGs. It is important to note that unlike the MDG objective, SDG6 looks beyond simple access to also tackle equity and sustainability. With the understandable focus on measurable impact, many of the actors working to deliver on the MDGs focused on increasing access to those that were easier to reach. While laudable, the success of the MDGs around increased access means that delivering further impact becomes harder still, as reaching those still unserved will be significantly more expensive. The more ambitious targets of the SDGs, around continued service provision, increase this challenge further still. Guy Hutton and Mili Varughese's technical paper on the cost of meeting the SDGs (written while both were at the World Bank, though Guy Hutton is now Senior Advisor at UNICEF), clearly outlines the difference in expense between simply taking the MDGs forward to grant basic access to clean water and sanitation to all those currently underserved, and meeting SDG6 in full:

- The total cost of extending access to basic water, sanitation and hygiene to all is estimated to add up to \$28.4 (average) billion per year², which is roughly in line with the current WASH finance flows;
- The estimated cost of meeting SDGs 6.1 and 6.2³, on the other hand, will be \$114 billion per year to 2030⁴.

This analysis suggests that to extend safely managed water and sanitation to the unserved by 2030, we need to at least triple current capital flow into the WASH sector. The relative expense is heavily

¹ G. Hutton, M. Varughese, "The Costs of Meeting the 2030 Sustainable Development Goal Targets on Drinking Water, Sanitation, and Hygiene", the World Bank, 2016

² Ibid.

³ 6.1 By 2030, achieve universal and equitable access to safe and affordable drinking water for all;

6.2 By 2030, achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situations.

⁴ This is the median cost of a range estimated assuming that 50% of households will invest in basic sanitation before upgrading to improved services.

skewed towards the poorest regions, with Sub-Saharan Africa's cost of achieving both basic WASH and SDGs 6.1 and 6.2 vastly outpacing that of other regions as a proportion of gross regional product.

The need for increased access to capital in the sector is clear. However, the more nuanced message that is particularly important for the purposes of this study concerns the specific type of capital that is needed to support advances in WASH. The cost of extending WASH services to the unserved only accounts for the capital investment needed to establish the required infrastructure, not to reliably maintain them. This is an important point because, unlike other infrastructure sectors, water and sanitation services have a particularly high ratio of ongoing costs to establishment costs, or operating expenditure (OPEX) to capital expenditure (CAPEX). Unlike most infrastructure spending (electrical grid, roads etc.) after the original investment to construct WASH infrastructure, maintenance remains a significant expenditure. Often in WASH, spending targets and activities focus on the creation of facilities and on delivering access as a binary challenge, and, incentivised by the MDGs, much developmental spending and consequent results have been a short burst of increased access with limited sustainability of service. Anecdotal evidence abounds of broken and abandoned pumps, wells and pipelines – and though there have been limited systematic efforts to assess (a feature considered in more detail further in the report, and a lesson taken on board for the GIFFW) the success of historic WASH interventions, the broader WASH community, as reflected by the SDGs has refocused its efforts on ensuring lasting access.

This means that across the sector, as more and more people gain access to WASH services, the quantum of finance required to maintain those services will also increase. For the purposes of the GIFFW, we recognise the need to consider the use of proceeds both in terms of upfront expenditure and the demands on maintenance – to ensure not just reportable, but sustainable, impact.

B.1.2 Type of Finance Needed

A message that we heard often in delivery of this study was that there is adequate funding in the WASH sector, at least for the delivery of basic access, however it is not spent well. Or put differently, there is not adequate funding of the 'right type'. The analysis by UNICEF, the World Bank and others around the financing gap notwithstanding, what is clear is that the impact potential incremental funds mobilised for the WASH sector will not be maximised if deployed under 'business as usual'.

The development space is largely dominated by donor and concessional capital from multilateral and bilateral institutions, which, though vital, is typically risk averse and bound by very specific requirements. This reality extends to the WASH sector, where donor aid made up 80% of total official finance flows in 2014⁵. Due to the heavy restrictions and requirements of public money, which (appropriately) needs to be heavily justified in its use, there are relatively few sources of flexible capital with a reasonable risk capacity in the WASH sector. This is true of development spending across all sectors, however the challenge in the WASH sector is particularly acute given the lack of precedent for successful service delivery, such that the risks of WASH projects in low resource settings are both perceived to be higher and less well understood. This combination of higher risk (both actual and perceived) and increased uncertainty around WASH projects has limited the development of WASH financing and the involvement of the private sector (institutional finance; manufacturers). Furthermore, the understandable focus of donor funding on reportable results restricts the types of activities it can be engaged in. Our first lesson therefore is that there is limited capital in the WASH sector that has a high risk tolerance, but considerable demand. As the GIFFW would be untied by donor obligations, this is a role it could play, which would have a high complementarity to the existing funding landscape.

Increasing private sector engagement in WASH, both financial institutions and industry, is a key focus of many donors and development finance institutions. However, as noted the nature of their risk appetite means that funding is usually restricted to smaller size and focuses on innovative products. An example of this is UNICEF's Innovation Fund, which seeks to bring a venture capital-like approach to

⁵ Total official finance flows here refer to the estimate by the UN of \$10bn in 2014, can be found on this page: <https://sustainabledevelopment.un.org/sdg6> and does not equal the total finance flows quotes earlier in the document which are about triple this amount.

development, with total funding is \$11.2 million. Similar initiatives are the Global Innovation Fund and Water.org's New Ventures Fund. There is however a need for innovations around business models and ways of structuring service delivery, in particular, funding to pilot these approaches at scale. Private sector engagement in WASH has been limited, and while there are some examples of successful product introductions, feedback from the private sector is that while there is ambition and appetite to play a role in service delivery of WASH in LMICs, they struggle to access the right kind of capital and partnership structure. Countries where novel solutions around how to deliver services are most needed are those same countries where the public sector often cannot currently support efficient public-private partnerships (PPPs). With a limited risk appetite, donor capital can often only accommodate pilot partnerships (for example, the relatively small scale PPP between Vegnet Hydro and UNICEF in Burkina Faso), but does not have sufficient risk appetite to support completely new initiatives at scale. Because of the high perceived risk of the WASH sector discussed previously, commercial capital is typically not viable due to inaccessibly high rates. The resulting landscape is one where very little financing happens to support innovations around business models, perpetuating a vicious cycle where a lack of "tried-and-tested" approaches contributes to continued uncertainty and perception of high risk around involvement in the WASH sector.

The public sector also suffers from the uncertainty surrounding the risks of participating in the WASH sector. Even where there are established actors in service delivery, such as contracted or state-owned utility companies, they can rarely access commercial capital due to costs of capital that far outweigh their expected profit margins, preventing them from investing in their business model and operations and improving or expanding service delivery. The lessons for the GIFFW are that there is a need in the sector for funding with a high risk tolerance that can support innovations around business models, and in particular, in bridging the gap between pilot and scale.

Sustaining change in WASH requires longer timelines and sustained support, and this is particularly evident for utilities. In developed markets, water utilities are typically seen as very low-risk (AAA-rated), with a prominent role played by both the government or by the private sector, but where both are operating with access to finance through capital markets, with an established payor base and often with access to subsidies. This has not translated to most of the countries where this need is greatest. Countries with poor access and services also tend to have poorly run utilities, however, as previously noted, more than CAPEX is needed to improve these. Any initiative looking to make significant impact on the provision of services through a utility must be prepared not only to support CAPEX investment, but also internal capacity building over time. Not many sources of public or private finance can accommodate this sort of requirement.

On an even simpler level: utilities and private service providers simply can't access the capital needed, for the time required, at reasonable rates. We therefore note that funding looking to support innovative business models must also consider the pathway to financial sustainability over time, and the possible need for ongoing maintenance support. More than simply needing more money, the WASH sector needs funding that can accommodate an extended timeline – even with the large growth in impact investing, the risk profile, time horizon and typical project size for WASH opportunities have meant limited engagement by the impact investing community. A further lesson is that by funding innovative projects at scale, the impact of a successful project is multiplied through the demonstration effect – once a business model or structure for partnership has been proven *at scale*, the perceived risks may be low enough for the broader development financing community, both donors and impact investors, and ultimately even institutional finance, to participate. In this way, the GIFFW could deliver on its mandate to be catalytic by serving as the "guinea pig" for trialling business models at scale.

Finally, we note that the WASH sector is inherently political. Delivery of WASH services combines the need for large scale infrastructure (piping, water management) and local involvement (municipal maintenance). Social and cultural factors limit the ability to charge for services (particularly for sanitation), and as such much philanthropic activity has avoided these complications and focused on non-infrastructure initiatives or product innovation, such as "no water toilets". These are easy to measure and to therefore demonstrate 'impact' in the short term. Similarly, donor organisations, in particular multilateral organisations like Unicef and the World Bank, focus on supporting government-led solutions, channelling funding via political authorities in recipient countries. This is an important and

necessary role, ensuring that beneficiaries retain ownership of their sectoral development, however the resulting landscape is one where fewer resources are available for initiatives that work with, but are not part of, governments. This, coupled with an increasing demand for 'demonstrated results' can leave organisations working on less measurable, but not less laudable, targets of creating an enabling environment or long-term change with limited access to funding. The final lesson for this study is that measuring impact for 'systems change' initiatives is difficult, and is therefore less attractive to funders. However, the need for this type of activity is great.

The long-term nature of change in WASH reflects the challenges of WASH financing: to make real, sustained impact very patient and sustained capital (rather than one off-investments) is needed. Water and sanitation are not simply a question of infrastructure but encompass the political and social spheres as well, as such the construction of hardware or the innovation of products is not enough to sustain change. In summary, there is some (though not enough) capital available for WASH, and even if wildly successful the GIFFW cannot plug this gap in full. However, by considering the type of finance the GIFFW provides, it can service some key activities that will leverage and complement the existing financing landscape with not just more funds, but a different *type* of funds. In summary, the lessons from our analysis of the financing gap are that incremental capital can multiple its impact if it:

- Has a high risk tolerance with a long time horizon;
- Can accommodate less directly-measurable outcomes;
- Focuses on business model innovation rather than product innovation;
- Provide ongoing as well as set-up support;
- Can bridge the gap between pilot and scale;
- And seeks to engender systems change.

B.2 The WASH Financing Landscape

As an initiative that seeks to be complementary and catalytic, GIFFW supported activities must be additive rather than duplicative, or worse, displacing, in the current landscape of existing initiatives and efforts. Alongside our analysis of the financing gap, LHGP conducted a review of the existing financing landscape and the actors and institutions that are already playing a role. This is outlined below, and supports the lessons outlined above. The sector players can be broadly split into providers of financing, such as DFIs, and receivers of financing such as civil society organisations. Both play an important role in the sector and both are relevant to GIFFW as it looks to both the financing gaps and the activity gaps within WASH. Table 3 illustrates a (non-exhaustive) summary of potential gaps in terms of particular transactions that GIFFW funds may fill, from a financing perspective rather than an activity perspective. Given the likely quantum of financing GIFFW might be able to provide (for our initial purposes, targeting \$300 million), the amount of finance available overall is less relevant than the areas which are underfunded. The table was developed in consultation with Working Group members to serve as a framework and a reminder for how the GIFFW could be most complementary to the existing landscape.

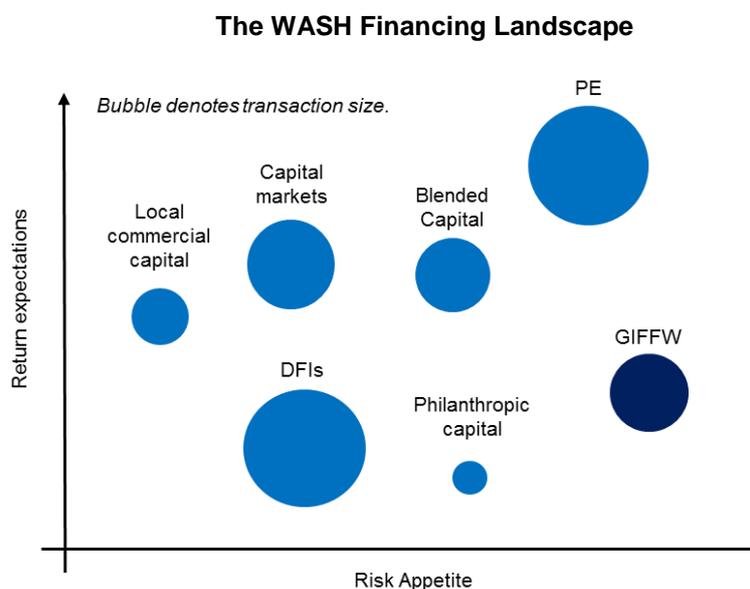


Table 3: Existing Actors and Institutions in the WASH Funding Landscape

Type	Entity	Activity Focus	Type of interaction	Indicative size
Finance provider	USAID	<ul style="list-style-type: none"> - Regulatory reform support - Review of utilities including investment needs, management and operational recommendations - Financing of new technologies at pilot scale - Guarantees for infrastructure development 	<ul style="list-style-type: none"> - Grant funding - Guarantees 	<ul style="list-style-type: none"> - US\$ 5 million + transactions - Challenge funds – US\$ 100k – US\$ 1 million
Finance provider	World Bank	<ul style="list-style-type: none"> - PPP technical support in middle-low income countries 	<ul style="list-style-type: none"> - Grants, Loans, Guarantees, - Government channels - Very little water PPP financial assistance 	<ul style="list-style-type: none"> - US\$ 20 million+ transactions
Finance provider	DFID	<ul style="list-style-type: none"> - One of the biggest funders of WASH programmes - Main focus on basic access to water and sanitation at large system scale - Targets poorest areas geographically 	<ul style="list-style-type: none"> - Grant funding - Government channels - Municipality scale 	<ul style="list-style-type: none"> - US\$ 30mm
Finance provider	DFAT	<ul style="list-style-type: none"> - Country programmes implemented through government - Civil Society WASH Fund: provides financing to NGOs and community level projects - Multilateral global programmes tackling policy reform, WASH investment, capacity building in local institutions and knowledge management 	<ul style="list-style-type: none"> - Grant funding - Government channels - NGOs 	
Finance provider	DGIS	<ul style="list-style-type: none"> - Focus on rural areas - Government level programmes such as Ghana Netherlands WASH programme - Mostly focused on providing new services rather than improving existing service - Funds multi-lateral agencies and increasingly funds PPPs - Skew towards sanitation projects - Creation of local Water Banks (Kenya) 	<ul style="list-style-type: none"> - Grant funding 	
Finance provider	Gates Foundation	<ul style="list-style-type: none"> - Transformative Technologies: grant financing to innovative approaches to toilets and FSM, small grants. - Market based approaches: working with private and public sector on provision of services - Systems change: promotion of evidence-based practices in service providers - Policy reform and political advocacy 	<ul style="list-style-type: none"> - Grant Funding 	

Finance receiver & provider	UNICEF	<ul style="list-style-type: none"> - Access programmes - Capacity building and behavioural change programmes - Accountability and framework programmes with governments (with implementation support) - Financing of new technology 	<ul style="list-style-type: none"> - Grant funding - Project Funding - Government support 	
Finance receiver	WSP (WBG)	<ul style="list-style-type: none"> - Capacity building for private sector through local government, access to finance for private sector providers - Support to governments in sector reform for poor-inclusive strategies, policy strengthening, coordination and service delivery options - Community-Led Total Sanitation and social marketing strategies 	<ul style="list-style-type: none"> - Technical Assistance 	- N/A
Finance receiver	SWA	<ul style="list-style-type: none"> - Country programmes for capacity building in local and national governments on finance and WASH specific skills - Increasing political prioritisation - Strengthening of evidence-based approach to decision making in governments - Conferences and awareness 	<ul style="list-style-type: none"> - In kind support - Organisational and advocacy 	- N/A
Finance receiver	iDE	<ul style="list-style-type: none"> - Market based approaches to sanitation, supporting local industry players - Product design support (R&D) - Follow-on support to country programmes 	<ul style="list-style-type: none"> - In kind support 	- N/A
Finance receiver	WHO	<ul style="list-style-type: none"> - Country programmes to help governments and utilities implement water and sanitation programmes 	<ul style="list-style-type: none"> - In kind support - Grant funding to governments 	- N/A
Finance receiver	IRC	<ul style="list-style-type: none"> - Institutional support: to governments in developing effective WASH policies - Advocacy - Public finance advisory support - Research: best practices, costs 	<ul style="list-style-type: none"> - In kind support - Advocacy 	- N/A
Finance receiver	Water Aid	<ul style="list-style-type: none"> - Government partnerships for policy development - Financing of hardware (pumps toilets etc.) - Behavioural change campaigns 	<ul style="list-style-type: none"> - Grant funding - In kind support 	
Finance receiver	Water for People	<ul style="list-style-type: none"> - Data collection and analysis for evidence-based decision making - Engagement with government and institution for sector reform - Partial financing support for local, private sector service providers 	<ul style="list-style-type: none"> - In kind support - Grants 	

B.3 Key Issues in WASH today

In addition to the financing landscape, in conversations with the Working Group and our research we noted a series of recurring themes that Working Group members raised throughout the process. Many of these areas are touched on in our discussion of the type of financing needed, but explicit consideration of these overarching themes and an understanding of how a vehicle like the GIFFW could address them or support ongoing initiatives in this space were a key focus for the Working Group. We would note that while there was by no means total agreement between Working Group members, the importance of these considerations reflects the evolution in how the WASH sector as a whole has sought to tackle the challenge of delivering water and sanitation in a sustainable way.

B.3.1 WASH as a Service

Echoing the evolution from the MDGs to the SDGs, the sector has seen a shift in thinking about water and sanitation as a challenge of *products* compared to a challenge of *services* was recurrent in our conversations. Many experts reiterated that finding ways to support the provision of WASH services, which means making a provision for longitudinal value rather than solely contemporaneous use, in developing countries is fast becoming the focus of global WASH efforts. This effort spans the support of sustainable business models for the provision of services and fostering an enabling environment within government policy, regulation and investment. The precursor to the SDGs, the MDGs, focused on access to water and sanitation. This meant that groups seeking to deliver impact were motivated around reporting number of connections and proximity. However, the SDGs emphasise that unlike some other health and development interventions such as vaccination, this access must be considered in the context of sustainable service provision. This shift in approach is critical for ensuring that the long-term benefits of adequate WASH facilities in terms of health and economic development can be materialised. However, when considering long term service provision in the WASH sector there are hurdles:

- **Lack of political support:** because sustainable WASH services will require implementation and maintenance over a long period, they cannot be 'parachuted' in, and therefore it is critical that government authorities (the relevant authority may be national, regional or municipal) support WASH service initiatives through political prioritisation, appropriate regulation and potentially subsidies.
- **Lack of local capacity:** the provision of sustainable services requires both implementation capacity, for which there is a training gap, but also a sustainable financing strategy. In many LMICs, relevant ministries and national utility providers are relatively limited in their financial fluency. This has restricted the engagement of the private market in the WASH sector, unlike the activity seen from both financiers and private providers in energy and infrastructure. This is a chicken-and-egg challenge, whereby a lack of private sector engagement diminishes the willingness and capacity of the political authorities to interact with and present viable opportunities to them, which in turn impacts the viability of business models and interactions with capital markets and concessional investors.
- **Lack of proof:** WASH as a sector is relatively 'behind' sectors like energy in terms of successful precedents for effective implementation models. Sustainable services require adequate financing, however poor collection rates and tariffs that are too low to support a sustainable business model (or too high and have low uptake, with the same result) have contributed to a perception of unviability in WASH service delivery. We would note that sustainable business model does not have to mean entirely self-financed, as many utilities remain subsidised in developed countries, but rather that there is visibility over structures for partnership that can contribute to a long-term sustainable financial model (of which one component could be government or donor contributions) around WASH service delivery, and this makes access to capital difficult. This supply side challenge is further compounded by an initial reticence to pay on the part of users of WASH services. Despite evidence that people, even the poorest, would be willing to pay for good, reliable water and sanitation services, negative precedents in some markets have contributed to a disbelief that a rate hike, necessary to pay for improved service, will be followed by reliable supply. This leaves companies unable to access finance to improve their service commercially as their business

model cannot sustain low rates of coverage, particularly when rate hikes are unviable due to consumer distrust. This leads to very few innovative approaches to service provision being financed and even fewer investors participating in refinancing of existing activities.

B.3.2 The ‘Unsexy’ Side of WASH

As in much of development, some activities in WASH are motivated by the need to demonstrate tangible results. This may be because a corporate engaging in CSR has ambitions to recoup the reputational benefit from their activities, or because many actors in the philanthropic sector have fundraising requirements that benefit from reported (or photographed) impact. This often leads to a prioritisation of ‘lower hanging fruit’ in terms of WASH development activities, either in terms of their relative simplicity or in terms of visibility. The Working Group repeatedly highlighted a subsector of activities in WASH which receive less funding due to their more complex nature and the associated difficulty encountered in communicating results to donors or investors. These are identified below. Given the ambition of the GIFFW to be complementary to the existing WASH funding landscape and to be catalytic in leveraging existing financing to maximise the impact of a (likely) relatively small quantum of funds. These areas directly informed the decision making around the target use of proceeds for GIFFW.

- **Capacity Building and Technical Assistance:** Provided to governments, utilities and local entrepreneurs focusing on financial literacy, business model development and management and operations.
- **Local Currency Support:** Many would-be borrowers of development finance face currency risk, as multilateral development finance institutions (DFIs) typically lend in hard currency. The availability of a pool of currency exchange capital dedicated to hedging investments in the WASH sector could be helpful in increasing financing flows and access to these.
- **Tolerance for Failure:** Commercial Financing for new transactions and initiatives is relatively low; this is primarily due to a lack of successful precedent transactions that limit the involvement of developed capital markets in WASH financing. This is also due to limited local knowledge on the part of both municipalities and utilities around accessing commercial finance. Enabling key, medium scale transactions to prove business models and set a precedent might help to remove this hurdle and provide additional impact through the demonstration effect.
- **Operating Expenditures:** While much of the development funding focus is on capital expenditure (focused on infrastructure and “hardware”), operating expenses remain a challenge for water and sanitation service providers. These are a key feature of sustainable services. Operating expenditures remain a hurdle for utilities and other providers due to poor collection rates, poor management and the political nature of tariff levels. In this context, providing innovative financing structures to support operating expenses could be catalytic in the development and expansion of the sector.

B.3.3 The Need for Data and Long-Term Monitoring and Evaluation

There is currently a lack of data in WASH. It is hard to report measuring impact when the baselines are unclear. Many monitoring and evaluation efforts focus on countable interventions (number of toilets; water points), but there is limited information on uninterrupted service provision. Building on our earlier point about a paucity of proven models for successful (and sustainable) intervention, there is also a clear lack of publicly available data (though Working Group members consider it likely this does not exist in private either) around the efficacy and cost efficiency of historical initiatives. This is true both at government level in recipient countries and at the organisation level for implementers. As a key source of information for decision-making, increased data collection and subsequent use of data has been flagged as one area where the impact of such information would have limited direct benefit, but multiplicative indirect benefit for all future WASH activities.

Monitoring and evaluation (M&E) is also a key issue for donors, availability of indicators that are measurable and comparable is crucial to the communication and verification of programme success. How these metrics are constructed are critical for ensuring sustainable and equitable service delivery –

a simple focus on numbers of access, as seen in the MDGs, led implementers to prioritise the easiest to reach, which while having increased impact in terms of absolute numbers of beneficiaries, has meant that those hardest-to-reach, but therefore most needy, groups remain marginalised. To this end further discussions will be held on the most appropriate M&E strategy for the GIFFW once the list of focus activities has been finalised.

B.3.4 Reaching the Bottom of the Pyramid (BoP)

As mentioned, though the MDGs were successful in increasing access to water and sanitation overall, this was mainly amongst the middle and lower-middle classes. The poorest, the BoP, being usually the hardest to reach, were largely unaffected. Equality is more explicitly included in the SDGs and as such a greater effort is now being made to find sustainable solutions for the poorest consumers. With market-based approaches being favoured instead of government-to-government aid, which is seen as disincentivising local government accountability, finding models which are suitable for the BoP has proved challenging and is an area with still much room for development. As such, the Working Group emphasised that any GIFFW support in reaching the BoP, particularly around proving new models for sustainable service delivery to the BoP, could be very impactful.

There remain some tensions here however. As previously mentioned, a key feature of sustainable service delivery is financial sustainability. As discussed in greater detail in Section D, this does not necessarily mean that services need to be self-financing. However, the BoP is hard to reach precisely because the cost of service delivery is the highest, while the capacity to pay for service delivery is the lowest. How to effectively address this challenge in a long-term, sustainable manner remains an unsolved question in the WASH financing community and the cause of some dispute among our Working Group members. Recent years have seen a fashion for community-run services, whereby (usually philanthropic) groups install water and sanitation access and train local community members in maintenance of those services. While this may sound attractive, feedback from the Working Group is that these initiatives typically do not work in practice as poverty-stricken community members rarely relish the prospect of additional, unpaid, work responsibilities. The original terms of reference for this project refer to the workforce constraints such as availability and productivity as a factor in determining the mandate for the GIFFW. Feedback from the Working Group on this issue is that interventions that create real opportunities for employment are usually met through market incentives, perhaps with some requirement for training capacity. However, interventions, however in vogue, that place an additional onus on already strained populations for success are unlikely to be viable in the long run.

Similarly, while there is some evidence to suggest that there is in fact a willingness and capacity of the BoP to pay for WASH services, as previously mentioned a history of unreliable or failed interventions (many of which were directly related to reliance on community-led maintenance) has often led to a reticence among BoP groups to support novel initiatives. An area identified by the Working Group where the GIFFW could be catalytic is in recognising that *after* a successful a proof of concept around service delivery for the BoP, those same consumers may then be willing to fund the service, at least in part, themselves. A funder that can assume the entire risk of failure for a project can, not unlike how many energy and infrastructure projects are refinanced post-construction, once the project is completed, look to shift some of the maintenance responsibilities onto the beneficiaries. An externally-funded demonstration period can showcase the impact of a functioning service, but once successful, can reallocate that value, and as such lead to more financially sustainable service delivery in the long-term.

Section C GIFFW: Defining Success

In considering the target activities and therefore use of any proceeds raised by the GIFFW, we tried to maintain a balance between preserving the flexibility of the GIFFW in the face of evolving information, opportunities and learnings from the sector, and establishing a functional framework that will support fundraising and implementation. Before defining a use of proceeds for the GIFFW and therefore the target activities for the fund, LHGP worked with the Working Group to define what success looks like for the fund. This was considered in the context of the financing landscape in the sector (where gaps were, what type of financing is needed) and the key issues in WASH today. The definition of success, and the consequent target use of proceeds for the GIFFW, has been designed with this complementarity in mind. This complementarity is important to maximise the potential impact of the GIFFW through leveraging existing programs of other actors and thereby multiplying the impact of GIFFW disbursements. It is similarly important from a fundraising perspective, in justifying why any donor to the GIFFW (alongside contributions from corporates and / or the levy funding, the GIFFW may also seek donor and government commitments) would support the Fund rather than any other existing institution or organisation in the sector.

C.1 The Definition of Success

Given the above considerations, the Working Group set about defining the driving motivation behind the GIFFW in the context of the current needs and current activities within the WASH sector. In line with the initial inception of this feasibility study, which centred on the SDGs, sustainability in the broadest sense (temporal, financial, environmental) was a key theme which resonated deeply with both Working Group members, key opinion leaders and industry professionals. This remained an underlying theme throughout all our research, discussion and analysis.

This definition of success is the starting point from which the mandate, structure, use of proceeds and governance of the GIFFW were derived. Given the scope of potential interventions and activities that the GIFFW could seek to address, identifying what success looked like early on was critical to guide further Working Group discussions to systematically reduce the universe of possibilities for the GIFFW. The GIFFW takes progress to SDG6 as its overarching motivation. As previously discussed, this aligns with the shift in WASH sector initiatives more broadly away from investment in 'hardware' and towards supporting the development of market-facing solutions. This was further elaborated on using other key elements that emerged from bilateral conversations between LHGP and Working Group members and other key opinion leaders in the sector.

For the GIFFW, success is:

“Enabling the development of sustainable WASH services at scale that are able to become independent of aid within a 10-15 year period by relying on sustainable revenue streams and potentially subsidies”.

This definition is disaggregated and analysed in its constituent parts below:

- **Sustainable services:** this is the next frontier in WASH, the development of functioning service provision utilising the existing infrastructure. While the MDGs focused was on access, which lead to investment mainly focussed on the provision of hardware alone, the SDGs shift focus to sustainability, and thus to the provision of water, sanitation and hygiene as an ongoing and reliable service to consumers. The challenge presented by developing the provision of services is very different from that of providing hardware, and a relatively new one that the GIFFW funds could be instrumental in overcoming.
- **Scale:** As noted, despite relatively well financed pilot schemes, and the availability for large-scale funding from DFIs for large, often government-led programmes, there is a lack of finance available for the transition between the two, or “pilots at scale”, particularly where these involve the private sector. Achieving scale is defined at the point at which additional expansion would occur through replication.

- **Independent of aid within 10-15 years:** the WASH sector in many developing countries is still strongly dependent on international aid, yet intrinsic to the concept of sustainability is a service which does not rely on aid. A key aspect of GIFFW's success would be to support the development of services in such a way that eventually international support might become redundant – though we note this does not mean that WASH services should be financially *self-sustaining*, as government subsidies may play a critical role. The timescale over which such independence might be achieved is specified as it is sizeable and it should be within the expectations of the funds that it might take 10-15 years. It should be noted that this long time frame is both important for WASH funding due to the nature of the sector, and relatively lacking, *precisely* because of the challenges it poses in communicating to donors quickly about the impact of their interventions. If the GIFFW is to be truly catalytic it will need to overcome these challenges.
- **Revenue streams and subsidies:** the focus on sustainable revenue streams arises from the current circular problem faced by many utilities and other sanitation service providers in developing countries – high tariffs, combined with poor collection and few customers, leading to a gap in their operational financing. Thus, developing a sustainable revenue stream requires identifying the correct tariff level and efficient management. However, this does not preclude the support of (non-distorting) government subsidies, which are still in place for WASH services in many developed countries.

It should be noted that this definition of success is not explicit on how to manage some of the issues identified previously as key issues in the WASH sector. This is because there was not clear consensus among Working Group members (nor is there across the sector). Additionally, the Working Group felt it important to preserve the flexibility of the management of the GIFFW to adapt and learn from other groups and initiatives to update their approach over time. Highlighted below are some areas that are indirectly linked to success for the GIFFW but are not an explicit part of the definition of success. These areas are developed further in the Engagement Principles for the GIFFW, outlined in Section D.

- **Inclusion of the BoP.** The Working Group discussed extensively whether accounting for the BoP should be included explicitly or implicitly within the definition of success. Tension between group members arose from the reality that, as previously discussed, provision of services to the BoP is both the costliest to deliver and they are least able to pay, and therefore most likely to be ignored by groups seeking to show measurable impact. Similarly, market-based initiatives are unlikely to address the BoP. However, other members felt that including the BoP as an explicit focus of the GIFFW would limit the range of potential interventions by the fund to the detriment of its potential impact. We noted that there is some precedent for market-based interventions targeting the BoP that leverage non-distorting subsidies, a technique which could be replicated and tested at scale by the GIFFW. Therefore, the conclusion was to include the BoP as a passive rather than active definition of success – the GIFFW could fund initiatives that support the BoP both directly and indirectly, but never any initiative that could be damaging to the world's poorest peoples.
- **Government buy-in.** Recognising the critical role of government, both national and municipal, in the provision of WASH services, the GIFFW seeks to complement and empower existing government led processes rather than duplicate or displace them. Again, this is included as a passive rather than active provision – the efforts of GIFFW should not disincentivise governments from providing WASH services to all the population sustainably and at an acceptable standard of quality, but rather it should either directly incentivise government-led processes or not affect those incentives negatively. Engagement by the GIFFW should be conditional on government buy-in and recognition of accountability, though the extent of this would vary depending on whether government support required for an intervention to be successful and sustainable needs to be active support or simply not opposed.
- **The importance of monitoring and evaluation.** Measurability of success is important in donor and investor backed initiatives, and similarly the GIFFW would seek to ensure internal and external accountability through well-established monitoring and reporting protocols.

However, as the success of the GIFFW will largely be based on process improvement and service provision, we note this will be harder to quantify than the construction of infrastructure. As previously noted, the longer time frame of the GIFFW window will also contribute to difficulties in communicating this impact. This may be a challenge in fundraising or securing commitments from industry, who could seek to influence the mandate to prioritise nearer term, “quick wins”. It is the view of the Working Group and of LHGP that this would limit the impact potential of the GIFFW, even if it is harder to quantify how so.

C.2 Use of Proceeds & Target Activities

Building on the group discussion, the review of the landscape, and the Blue Sky Thinking responses (see below), the Working Group determined a multi-strategy approach for the GIFFW that would contribute to the success of the Fund as previously defined. These activities seek to deliver impact, complement the existing funding landscape, and accommodate the potentially hugely varied funding amounts (\$100 million to \$3 billion). There are three pillars to this strategy:

- 1. Systems Change:** activities aiming to support the government in the creation of a supportive regulatory environment, increase awareness of WASH issues and prioritise WASH on the political agenda, and support the development of local processes for ongoing service provision.
- 2. Market Support:** initiatives to expand the use of commercial capital, both local and international, to support sustainable WASH services; and
- 3. Transaction Support:** the provision of capital with a high risk tolerance and long time horizon for both public and private entities to pilot models for sustainable WASH services at scale.

This holistic approach, deliberately tackling more than one aspect of development of the WASH sector (from private sector access to finance to government capacity strengthening) looks to remove the hurdles facing the development of sustainable services in water and sanitation across the spectrum of the enabling landscape.

Table 4: Summary of GIFFW Target Activities

ACTIVITY TYPE	ACTIVITY	OBJECTIVE
Systems Change	Coordination and facilitation initiatives	Increase in coordination of activities at government level
	Government-level engagement and capacity building programmes	Increased local capacity in management, organisation, decision-making, financial literacy
	Social marketing	Increased demand for WASH services
	Institutional strengthening	
	Data collection and analysis programmes	Improve decision-making and organisational set-up; The creation of credible local systems for monitoring and maintenance.
Market support	Currency risk hedging	Greater flow of international investment in WASH initiatives
Transaction Support (examples, including but not limited to)	Support to utilities in the medium-long terms whilst new processes put in place to improve service and increase cost coverage	Increased financial and institutional sustainability
	High risk capital for PPPs at scale	Increased deployment of private sector participation in WASH

As a result of its high risk tolerance – which means that some of the Fund’s activities will fail – the Fund will also have a strong appetite for learning, and as such one of the Fund’s other activities will be knowledge sharing. This will be done alongside fund disbursement activities, and will be important for

the development of the sector. Activities financed by the Fund will need to be able to provide reporting on and measurement of outcomes, which will be used by the Fund to collate experience reports to be made available to the wider WASH community.

C.2.1 Systems Change

Water and sanitation service development cannot be carried out in isolation from the political and social context of the host country. For the uptake of long-term, sustainable models there must be political prioritisation (reflected in budgetary allocation), an enabling regulatory environment and government level capacity. In addition, on the social front, transparency, education and information are key to establishing informed demand in the consumer base. Activities such as “government-led resource planning and programming” and “financial management”, while incredibly important, have difficulty to quantify results and are complicated to explain, thus difficult to fund by donors who have clear reporting requirements. The onerous and extensive reporting requirements often tied to development finance means that these important though intangible activities are often underfunded.

The fund would look to partially fill the funding gap by provide grant financing for eligible systems change activities, with more flexible reporting requirements than offered elsewhere.

C.2.2 Market Support

Lack of access to capital for private and public sector service providers is largely driven by a perception of increased risk and uncertainty about what the risks are. This is compounded by the mismatch of currencies created by international donor and investor capital typically provided in hard currency:

- Where investors might be a suitable source of capital the FX risk is too great for them to provide financing in local currency, thus leaving the onus of that risk to the borrower. Assuming such risk significantly increases the cost of capital as the revenue stream for the business is in local currency. This effectively cuts off a large swathe of potential investor capital from accessing local, viable businesses.
- Where donor money is required a similar mechanism takes place; most major development finance institutions lending is in hard currency, leaving the FX risk with the borrower.
- Currency hedging markets are either non-existent or not well developed, meaning borrowers are faced with either sizable hedging costs or considerable currency exposure.

Despite this being a substantial hurdle to accessing finance, not very much capital has been dedicated to solving this problem. The KfW sponsored Africa Local Currency Bond fund is one example of donors seeking to address this, however even then activities are limited to more mature markets (SME lending). The GIFFW could therefore have significant impact by providing dedicated funds for such a purpose, such as a currency reserve for groups offering hedging that is explicitly earmarked for WASH activities. By doing so the fund would remove the currency risk borne by investors and borrowers, and potentially absorb some of the hedging costs, thus reducing hurdles to market participation on the part of both borrowers and lenders. In practice, such an activity would look like a dedicated pool of capital that would be allocated or committed to other groups explicitly to be used for hedging currency risk in transactions financing WASH projects and businesses.

C.2.3 Transaction Support

As previously mentioned the WASH sector in developing countries has seen limited innovation in terms of service delivery, business model and financing mechanisms. The problems which lead to this are largely circular and stem from a distrust in the business model by investors, and a distrust in the service providers by consumers. By providing capital with a high risk tolerance (and therefore an explicit allowance for failure) to firms presenting innovative, impactful and sustainable ideas the fund can look to set precedents which illustrate the feasibility of the business model on hand, and the attainability of reliable, quality service on the other. The same mechanism can be put in motion by providing long-term OPEX support to existing, struggling utilities which can demonstrate a viable business plan, thus allowing them the financial room they need to improve their service. Due to the wide range of possible

financing need, and more complex nature of this activity window, the fund would look to deploy both grant and concessional finance for transaction support activities.

C.3 “Blue Sky Thinking”

As a complement to discussions with the Working Group, and to syndicate wider feedback on the mandate and definition of success for the GIFFW, LHGP reached out to WASH sector participants and experts who are not currently involved in the Working Group and asked them to consider the following question:

“Given your experience in the WASH sector, if you had a new bucket of funds to enhance efforts to reach the WASH SDGs (US\$50mm, US\$500mm, US\$1bn), which was entirely unconstrained, how would you spend it?”

Note that this could either be expanded funding for existing initiatives or funding for new areas that, for whatever reason, aren’t currently being funded.

The responses are outlined in the table below.

Table 5: Blue Sky Thinking Responses

Concept	Brief Explanation	Example Activities
Global Sustainability Fund	The concept of the fund would be based on increasing the use of M&E and smart technology in water access and services. Countries would be eligible to use the fund if they could demonstrate internal efforts to establish a sound local system for monitoring and maintenance of WASH systems.	<ul style="list-style-type: none"> - Funding for the installation of smart monitoring technology for water access systems, with the objective of improving service provision to the customer through prompt maintenance response, and improved data access for regulators, utilities and service providers. - Support PPPs for firms targeting the maintenance market, this would use a blend of the fund’s capital government money and maintenance tariffs. - Invest in systems and technology to monitor and support open defecation-free communities, including feedback loops for corrective action.
Systems Strengthening Support	The capital would be used to increase the effectiveness, efficiency and sustainability of WASH financing. Focus would be on systems as: government-led resource planning and programming, financial management and auditing, procurement, review, monitoring and evaluation.	<ul style="list-style-type: none"> - Government capacity increase programmes, with a key objective of avoiding brain drain, - High level oversight to identify incentives and disincentives created through support programmes; - Promoting joint diagnostics, assessments and reviews to identify sector bottlenecks and enact prioritised programming at government level.
Flexible, Risk Focused Capital	The availability of risk capital is important to funders who focus on market based solutions. Capital used to mobilise private / commercial finance (low margin, high risk, low slow return business) by de-risking transactions for other investors.	<ul style="list-style-type: none"> - Guarantees (first loss) - Interest rate subsidy - Junior tranches - Technical assistance (due diligence; covering transaction costs) - Outcome payer in an impact bond - Currency support - Covering up front costs in a payment-by-results structure
Funding Existing Initiatives	Supporting DFIs in their ambitions to mobilise cash from the private sector.	<ul style="list-style-type: none"> - Matching donor or DFI funding to achieve scale.

		<ul style="list-style-type: none"> - Funding those initiatives that are not profitable (don't have a robust revenue model) - Groups like: SWA; IRC; WSUP
Small Scale, Innovation Fund	Innovation pot to incentivise new ideas in the sector.	<ul style="list-style-type: none"> - Open call for small size projects with innovative solutions - Avoid the larger DFIs - Look for new partners / actors in the sector
Currency Hedging	Local currency lending is a huge issue in WASH financing support.	<ul style="list-style-type: none"> - Create a dedicated hedging facility that is reserved for WASH projects.

C.3.1 Conclusions from Blue Sky Thinking

We were encouraged that elements of the responses from the Blue Sky Thinking outreach exercise aligned with the structure that LHGP had developed in consultation with the Working Group members, and incorporated this feedback into our three-pillar strategy for GIFFW use of proceeds. In addition to the suggestions noted in the table above, there were several points worth noting, many of which are reflected in the final mandate for the GIFFW.

- The different ideas from the respondents are not mutually exclusive, and indeed several suggested that we consider multiple “pots” or funding channels. As such, the GIFFW would almost function as several different funds that address the challenges of the sector at different levels and at different levels of sophistication.
- From the replies, we also noted a tension between allocating funds to existing initiatives and providing capital that is more flexible than what is currently available. Allocation to existing organisations would minimise GIFFW internal transaction costs, whilst wanting to do something different that has the potential to circumvent the existing political restrictions or flaws. Therefore, there is a trade between reducing GIFFW management costs and using funds to change or influence what is already there compared with developing something new that has the potential to really add value. This is considered further in the governance and management section of the study.
- Respondents also identified a concern that *if* the GIFFW were to raise the quantum of funds that is theoretically possible (~\$3 billion) then in its implementation, the GIFFW would need to be careful it does not distort the market and create poor incentives. However, for the purposes of this feasibility study, we would consider this to be a good problem to have.

Section D Fund Structure

Having determined the use of proceeds and mission of the GIFFW, LHGP conducted a review of the existing fund landscape to consider existing structures of deployment – how opportunities are sourced, reviewed and approved – across the international development sector. Learnings from this informed the discussion with the Working Group about the best way to structure the GIFFW to ensure both efficiency of operations and maximal impact from the Fund’s activities.

D.1 Lessons from Other Funds⁶

After conducting a diligence exercise (both desk based and in person, as well as drawing on LHGP experience), we have briefly summarised the key positive and negative takeaways from a selection of other funds with some alignment to the GIFFW’s objectives.

Table 6: Key Takeaways from a Review of Other Funds in International Development

Positive	Negative
Broad mandate for innovation investing: not having sectoral restrictions allow funds to pick most investable ideas from any sector.	Lack of financial expertise: leads to slow disbursement and inefficient channelling of funds.
Multi-phase approach allows funds to invest at different stages and achieve early wins. For example: <ul style="list-style-type: none"> - Seed: for pilots - Test: for transition finance - Scale: for initiatives with a strong track record 	Lack of experience in working through local governments, leading to lack of scale in the reach of funds and a fragmented portfolio of small projects.
Range of instruments: grants, convertible loans, working capital loans and equity investments, allow greater flexibility.	Low quality controls for project design can lead to inefficient allocation of resources and lack of impact.
Strong technical expertise of managers leading to successful investments from early on and strong investor backing.	Very slow disbursement process to date (partly due to slow set-up).
Efficient allocation of capital through competition: businesses looking for financial support must apply and will be awarded funding based on the soundness of their business models.	Devolved approach leading to inefficiencies in financial allocation.
Fast project review process enables the fund to achieve early wins.	Failure to sufficiently allocate costs for diligence / management leading to slow deployment.
Tiered approach to M&E, smaller projects and less successful grantees have a lighter reporting schedule which allows for cost efficiencies	Very rigid approvals process and structured funding milestones that restrict strategy changes in the face of new information. Failure to consider long term sustainability (including financial) in early project funding.

These findings informed the discussion with the Working Group and were taken into consideration when determining the structure for fund deployment for the GIFFW.

D.2 GIFFW Fund Structure

Given the multi-strategy approach of the GIFFW, the structure of the fund is split into three windows. For both Systems Change and Market Support, it would not make sense for GIFFW to attempt to implement or administer these activities itself. Therefore, for these pillars, it is anticipated that funds will be largely allocated to existing institutions and actors. The GIFFW will be guided in these allocations by the Engagement Principles, and the recipients will be responsible for reporting back to the GIFFW. At larger sizes of the Fund, the largest pillar is that of Transaction Support, and similarly where there is

⁶ The funds we reviewed as part of this exercise are: Global Sanitation Fund, Global Innovation Fund, Grand Challenges Canada, Africa Enterprise Challenge Fund.

the most variation in the type of opportunities that the GIFFW could support. It was decided that to encourage innovation and broadest possible chances of financing impact, the sourcing of opportunities would be demand based through open applications where appropriate. This preserves flexibility for the GIFFW management, but also places a responsibility in terms of judgement and capacity. This structure and its management seeks to maximise efficiency of GIFFW operations to ensure funds are used predominantly in delivering impact, rather than in unnecessary duplicative administration.

D.2.1 Summary of GIFFW Structure

Figure 1 Schematic of GIFFW structure

SYSTEMS CHANGE	MARKET SUPPORT	TRANSACTION SUPPORT
<ul style="list-style-type: none"> • Funding to existing initiatives and entities, such as SWA, Water for People, WSUP and IRC; • Data & information: funding to existing initiatives promoting and supporting data collection and use by institutions; 	<ul style="list-style-type: none"> • Currency risk: pool of capital for exchange rate hedging given to existing service provider e.g. TCX; 	<ul style="list-style-type: none"> • Project/firm – level financing for intervention at scale; • Demand based disbursement through direct application; • Criteria-based selection.
<p>Knowledge Sharing: knowledge and data gathered through its activities will be made public in order to strengthen capacity in the broader sector and facilitate replication and improvement.</p>		

D.3 Engagement Principles for the GIFFW

The view of the Working Group was that by being too prescriptive with the GIFFW would hinder its ability to adapt to changing market information and the role that may be played in the future by other actors in the sector. Therefore, rather than define specific projects, LHGP and the Working Group developed a set of “Engagement Principles” which will govern the activities of the fund and which the management of the GIFFW may implement, preserving some leeway for their own interpretation. These principles are outlined below. They are considered binary in nature, and failure on any one principle would deem a proposal ineligible for funding.

The activities and types of intervention the Fund will engage in will be shaped by its definition of success, and its Engagement Principles. The Engagement Principles describe key characteristics of the type of activities the Fund looks to support and inform the types of instruments the Fund will use. Given the decision to have direct application for funds where possible, these principles will serve as the guidance provided to those submitting requests for funding. Evaluation will by nature be subjective, and the Fund will not ascribe a formulaic or numeric weighting to assess or compare proposals.

1. **Leverage** other funding, resources and partners
 - Create structured entry point for private partners / household / public;
 - Develop and execute outreach strategy for new partnerships;
 - Additive and complementary to existing funding.
2. **Flexibility** of fund’s interventions, applicable across WASH
 - Cross-product;
 - Cross-border;
 - Range of types of partnership;
 - Accountability for results.
3. **Enabling Environment**

- Support the creation of an enabling environment through engagement;
- Expect willingness to create an enabling environment.

4. Replicability & Scalability

- Scale and sustainability of funding;
- Collection and dissemination of learning outcomes to facilitate replication;
- Creation of potential for follow-on funding mechanisms.

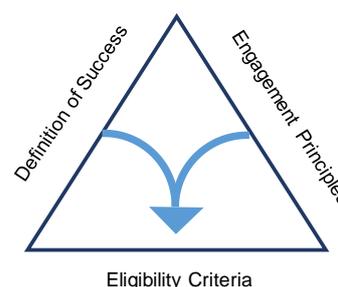
5. Rewards

- Support provided for the creation of sustainable systems;
- Provide incentives for corrective action (such as sustainable tariffs and budget expansion).

D.3.1 Eligibility Criteria

The Eligibility Criteria for funding applications (largely funding allocated under the transaction support window) for the GIFFW were developed by overlaying the Fund's definition of success with its Engagement Principles. Key features of these criteria are:

- The Fund will not be prescriptive in the activities it supports, but rather will support activities which meet specific objective-based criteria, whilst being agnostic as to how the objectives are attained (i.e. the type of technology, private or public support, urban or rural).
- The Fund will preserve flexibility for management decision making, an important takeaway from the analysis of lessons learned from other existing funds.
- The Fund is agnostic to the applicant's sector: public (government, and government-affiliated services and agencies), private and civil society.



Going forward, the Eligibility Criteria may be further refined (by future management of the GIFFW). However, two overarching Eligibility Criteria have been established that must be met for the Fund to provide financing:

- I. **Ensure the activities supported, if successful, will contribute to the Fund's definition of success.**
- II. **Ensure government commitment and support *where needed* for a Fund investment to succeed.**

Government commitment to work towards supporting the provision of sustainable WASH services is key to the success of many approaches, whether led by the public sector, private sector or civil society. Without government support for the prioritisation of WASH and for the development of an enabling regulatory and financial environment, many at-scale projects are unlikely to succeed. This requirement is included in the selection criteria. This does not mean that the Fund needs to directly engage with the government but evidence of a supportive atmosphere must be provided by the financing seeker. However, we note that not all projects require active government support and therefore this may be as simple as ensuring that the government is not opposed to the proposed intervention.

As per the fund structure, ongoing learning is an overarching theme that is included both in the Eligibility Criteria and the M&E process, thus both the providers and would be receivers of the funding can improve on their offering over time. At each stage feedback to unsuccessful applicants will be given, this will be a crucial part of increasing local capacity and a practice that is not often carried out rigorously enough by providers of funding.

The Eligibility Criteria established as a starting point by the Working Group and LHGP for the GIFFW are as follows:

1. Evidence of sustainability (financial, environmental, institutional)

The project or initiative must demonstrate how it contributes to the creation of sustainable WASH service provision, this can be directly through e.g. service delivery, or indirectly through supporting the implementation of data collection and monitoring. For transaction support sustainability of the business model beyond the period during which it receives support from the Fund will need to be demonstrated.

2. Evidence of direct or indirect impact on the bottom of the pyramid (BoP)

The project or initiative must clearly explain how its impacts reflect on the poorest in society, and how the effect will continue beyond the end of the project.

3. Evidence of support from national/ district/ municipal government

The applicant must be able to demonstrate willingness from the public sector to support the initiative as needed; support does not look to mean strictly financial support but also willingness to work with the private sector or the project implementer, for example to improve the enabling environment through the proposed activities.

4. Strength of team and or partners

The team will need to demonstrate relevant expertise and capability to implement the proposed activities, and where applicable highlight partnerships with relevant entities.

5. Strength of replicability

The solutions and initiatives funded must be suitable for replication in different contexts without substantial modification to the structure of the activity. Highly specialised solutions suitable for only small local context may not be suitable for GIFFW funding. The applicant must be able to demonstrate thinking towards replication.

6. Ability to measure outcomes and share knowledge

The Fund is committed to supporting advances in the WASH sector, as monitoring of operations and impact evaluations are key sources of insight applicants must demonstrate a willingness and capacity to collect data and provide feedback on their activities – and be open to these being published for the benefit of the broader sector and to aid replication.

7. Innovation

To apply for funding through the Transaction Support window, private sector firms must demonstrate innovative approaches to service delivery, funding from the GIFFW will demonstrate feasibility and set up a precedent for replication.

D.3.2 Monitoring and Evaluation Considerations

As mentioned previously, a key activity for the Fund will be to share learnings from its activities, both in pioneering new transactions and in systems support. Its long investment horizon (up to 10 -15 years) also means that the Fund and the activities it supports need to be able to respond to performance metrics in real-time – this gives activities the scope to adjust their strategy guided by their results data during the project. For both, a robust M&E framework is needed.

Due to the long investment horizon of the fund, leading indicators of sustainability will be key to determining the fund's success in supporting sustainable services ahead of project completion – which could be as long as 10 years – and allow the fund to learn from these and re-strategise / review its approach if necessary. As sustainability of services can be difficult to measure proxy indicators may have to be used at times.

The exact M&E framework for the fund is outside of the scope of this work, however once launched, the GIFFW should look to work with one or more M&E experts from the WASH sector to establish a framework.

Table 7: Monitoring and Evaluation Indicators across the GIFFW Strategy

WINDOW	INDICATOR/ OUTPUT	LEADING OR PROXY INDICATOR	OUTCOME
Systems change	Increase in Recurring WASH Budget		Improved service provision
	Public sector capacity building and coordination strengthening	Penetration of service delivery at relevant level (National, District, Municipal)	Improved institutional capacity
	Use of data in planning		Improved institutional capacity
	Existence of monitoring system		Improved institutional organisation
Market Support	Social marketing penetration	Number of social marketing activities	Increased demand for service
	Number of projects receiving financing from hard currency sponsors/ investors		Increased financial sustainability
Transaction support	Increase in consumer base		Increased financial sustainability
	Tariff level		Increased financial sustainability
	Collection rates		Increased financial sustainability
	Response times for maintenance		Increased operational sustainability
	Existence of monitoring system		Increased operational sustainability
	New access to WASH services		Increased scope of service delivery
	Continued service provision	Use of service OR Functionality of service at year time-lags from implementation	Sustainable service delivery

D.4 Examples of Instruments Available to the Fund

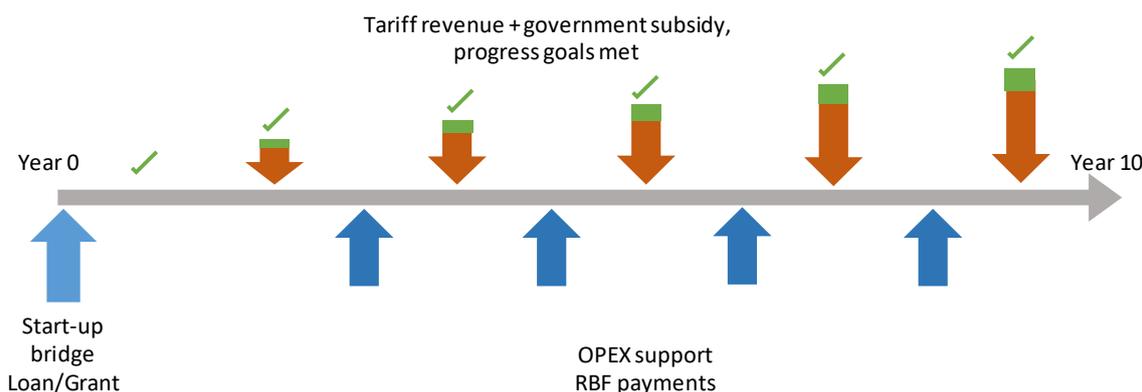
While the recommendations of this feasibility study deliberately do not seek to be prescriptive about the specific opportunities that the GIFFW would fund, preserving a flexible and holistic approach to allow the Fund to support multiple aspects of the WASH ecosystem, for the purposes of illustration we have identified some examples of instruments and potential transactions that could be funded under the “Transaction Support” window of the GIFFW. We expect the greatest variety of instrument to be found in the Transaction Support window, with the Systems Change window being largely made up of grants, and the Market Support window simply carrying out cash transfers to existing current hedge providers. This list is by no means exhausted, and should not be considered as restricting the available options for deploying capital, as the implementation team for the GIFFW will have the availability to tailor the instrument used to the project or initiative they are supporting.

To note, this list is neither exhaustive nor a reflection of what GIFFW *would* fund, but simply what GIFFW *might* fund:

- 1. Vanilla grant funding to existing initiatives in relevant geographies.**
- 2. Innovative results-based financing (RBF) for urban utilities:** e.g. RBF with partial bridge financing.

Urban utility companies, whether private or state-owned, face a fundamental catch-22 in attempting to become financially sustainable: for utilities to improve service delivery, collection rates must be improved and, in most cases, tariffs need to be increased; however, for customers to be willing to pay higher rates, they first want to see higher service levels. This causes a capital gulf, to support the company in providing improved services but bridge the period until recipient confidence in that service is established such that it translates into higher willingness to pay. To maintain improved service, continue to improve it and extend services the utility will need additional, ongoing support until it is financially sustainable (possibly with government subsidy). A traditional CAPEX investment is not suitable as it does not create the correct incentives, and traditional RBF is not suitable either as funding is needed up front. Thus, an RBF hybrid could be deployed:

Figure 2 Schematic of cash-flows in OPEX support financing



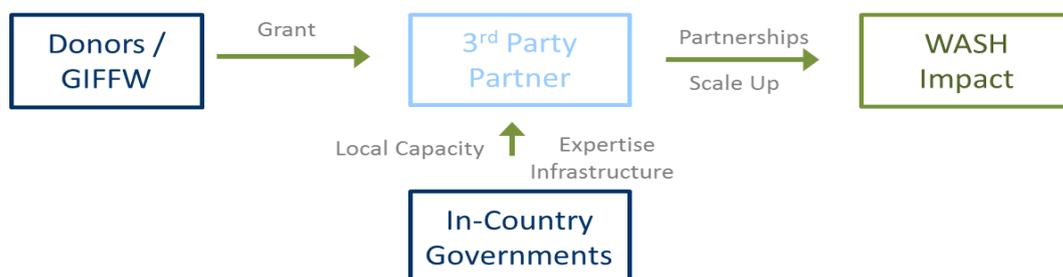
Start-up loan or grant financing is deployed to enable the utility to start delivering improved service to existing customers. Following proof of improved service delivery and recognition of this by recipients, the utility can then raise the tariff. Pursuant to these conditions having been met, further funding is released to continue the expansion and improvement of the service with the objective of leaving a financially and operationally sustainable utility in place once the support stops. The Fund’s definition of success and design principles are met in this example as monies are used to support improvements that would ultimately lead to sustained service delivery. However, this solution would be best suited to an urban setting with existing utilities.

3. Equity / grant financing for private sector company guaranteeing the ongoing provision of sanitation services in rural communities.

One such example of this could be a traditional PPP, whereby the provider is committed not simply to building the infrastructure, but rather to guaranteed service delivery across a period of time – this is traditionally known as a Build Own Operate Transfer (BOOT) model of PPP. The right to charge tariffs for water or sanitation supply is contingent on quality provision of services with a minimum repair time. This could be funded with a loan whereby a failure to provide services without resolution is considered an event of default. There are companies working with similar structures, for example the UNICEF-Vegnet Hydro PPP in Burkina Faso.

This would be most suitable for rural locations where there is no existing supplier or reliable infrastructure.

Figure 3 Basic schematic of PPP stakeholders



Section E Management and Governance

The mandate of the GIFFW is deliberately broad, however this poses challenges to governance and management given the breadth of focus activities that could be financed. To administer and implement the three pillars of the GIFFW strategy internally would need considerable in-house expertise. Due to the range of activities envisioned, and the wide set of instruments best suited to support these activities, internal administration (particularly at smaller fund sizes) would result in a cumbersome management team. Given the modest size of the fund, at least in its initial phases, a large and knowledge intensive management team would not be economically sensible, would be onerous to put together, and would not best utilise the existing expertise and capacity across the sector.

To both leverage the expertise of other institutions and actors, and to preserve the efficiency of GIFFW operations (the consensus view among Working Group members being that the last thing the sector needs is another overly bureaucratic administrative cost-sink), our recommendation is to outsource the direct management of the GIFFW disbursement activities. However, even outsourcing these will require a set of governance processes and in-house oversight, as well as ongoing advocacy and fundraising capacity within the fund itself.

E.1 Efficiency of Operations

The management and governance structure we have developed seeks to align itself with the spirit of complementarity and efficiency that has guided many of the other recommendations around the GIFFW mandate. It looks to ensure that not only the activities funded by the GIFFW occur in dialogue with other organisations and existing initiatives, but that also the implementation of those activities complements the existing landscape.

E.2 Governance Structure

With the above in mind and using existing fund structures as potential models, a structure which leverages outsourcing to existing entities would be a suitable way of accommodating both flexibility of instruments and breadth of activities. Such a structure would look to deploy pools of investable/disbursable capital to existing entities active in relevant activities within the WASH space, with a specific mandate around use of proceeds. A similar model, though at larger scale and with some additional complications, is being used by the Green Climate Fund (GCF), whereby entities become “accredited” and GCF funds are deployed through them.

In taking this approach the structure would also allow for a small, lean management structure focused on oversight of implementing agencies (and broad fund allocation) rather than day to day evaluation and disbursement decisions, and a dedicated advocacy/ fundraising team within the fund itself. Such roles might be filled by a Fund Review Board as the main oversight and decision-making body within the fund, considering the amounts of funding that the GIFFW has available for disbursement and which implementing agencies to allocate that to and the terms (duration, mandate, fees) of that allocation. The ongoing fundraising, advocacy and communications role could be fulfilled by a small team of administrative staff dedicated to these activities within the fund.

As the fund seeks to fill a funding gap rather than providing additional “status quo” funding – particularly with respect to the transaction support activities – the terms of outsourcing must be closely scrutinised. To support the fund’s mandate, potential implementing agencies would need to manage the GIFFW funds per the fund’s own criteria and principles, which may differ from their own internal mandates and restriction. We fully recognise that some agencies may charge fees for these activities (though not necessarily), though the precise proportion of those fees will be determined by the administrative requirements of the funding allocation and negotiations between the GIFFW management team. Given the different mandate for GIFFW funds (particularly with respect to transactions and risk appetite), monies would need to be kept separate from the internal pool of implementing agencies’ own funds. The transfer of criteria for the fund to the implementing agencies is critical to allow for GIFFW complementarity rather than duplication or displacement in WASH financing activities. Complementarity between GIFFW fund allocation and implementing agencies’ own activities may also be more explicitly constructed by creating provisions for direct trade-offs or criteria for co-investment. For example, the

World Bank has a limited provision of multilateral, low-rate, lending to each LMIC country. A choice by a country to use that borrowing to finance WASH infrastructure construction could be rewarded with matched grant funding by the GIFFW for a related transaction. This example is illustrative only – there have been no explicit discussions with implementing agencies so should not be taken to suggest the World Bank will be a GIFFW implementing partner.

E.2.1 Bodies within GIFFW Governance

1. GIFFW Board

As a not-for-profit organisation, the GIFFW would be set up as a charity. This would be governed by a Board, incorporating the recommendations outlined in this study to guide the long-term direction of the GIFFW. This group would ensure that the GIFFW is properly run according to its mandate, ensure accountability to donors, and govern potential conflicts of interest. The Management Team, consisting of the Fund Review Board and Secretariat, would report into the Board. It is likely that founding donors to the GIFFW would require a seat on the Board. We would also expect the CEO of the GIFFW to also have a seat. The Board should also have independent representation amongst its members, as well as sector experts (some of which may also sit on the Fund Review Board). The Working Group repeatedly highlighted the risk that GIFFW donor agendas may conflict with the underlying fund management. Therefore, and in keeping with traditional board representation, the donors should elect representatives (either external or from within the donor entities) to sit on the board on their behalf, but it should be seen to that their executive power and collective vote does not outweigh that of the other members. The board is headed by a Chair. This may be the CEO of the GIFFW, but not necessarily. The Board has the ultimate legal responsibility for the GIFFW and has input and oversight of overall policy, direction and strategy in the GIFFW, however the specific fund allocation decisions, M&E and operations is handled by the Fund Review Board.

The Board would also likely include a set of committees, for example an Audit Committee, and membership would be drawn from a sub-set of the Board members, specifically the Independent Board members. While donors with Board members would be unpaid, Independent Board members would be appropriately compensated depending on their time commitment. As the GIFFW grows, keeping an appropriate balance between donor representation and independent members, and between the executive functions and operational oversight of the dedicated Board committees will become increasingly important. For example, the Gavi Board has membership drawn from a range of partner organisations, as well as experts from the private sector. With a total of 27 seats, nine are reserved for independent members.

2. GIFFW Management Team

The GIFFW day-to-day management would consist of two groups, the Fund Review Board which has responsibility for fund allocation decisions and oversight of implementing agencies, and the Secretariat, who are responsible for the administration of the GIFFW. It is LHGP's recommendation that both groups be managed by a GIFFW CEO, who would sit on the Fund Review Board and the GIFFW Board.

Fund Review Board (FRB): This is the main decision-making body of the fund and the executive power within the governance structure. It would be a small group of sector experts with expertise ranging from investments and finance to systems change implementation, we would expect the Fund Review Board members to be active and knowledgeable players in the WASH sector and as such have an open dialogue with potential Implementing Partners. The FRB meet at specific time intervals (at smaller sizes of the fund, it is likely that quarterly will be sufficient) to make overall fund allocation decisions to implementing agencies (long-term strategy). A sub-set of the FRB, the Investment Committee will also conduct a high-level approval (veto rights only, with explicit reference to violation of one of the GIFFW's Engagement Principles / Eligibility Criteria) of implementing agency disbursement of funds over a given threshold amount. The Fund Review Board will also monitor the activities of the implementing agencies, reviewing the M&E reporting that implementing agencies, as a condition of receipt of funds, would provide. Creating M&E process that are not so onerous to hinder implementation activity, but equally allow for appropriate oversight, will be considerable work. A cost for outsourcing (likely to a consultant) the creation of such protocols should be incorporated into the GIFFW set up costs. The Fund Review

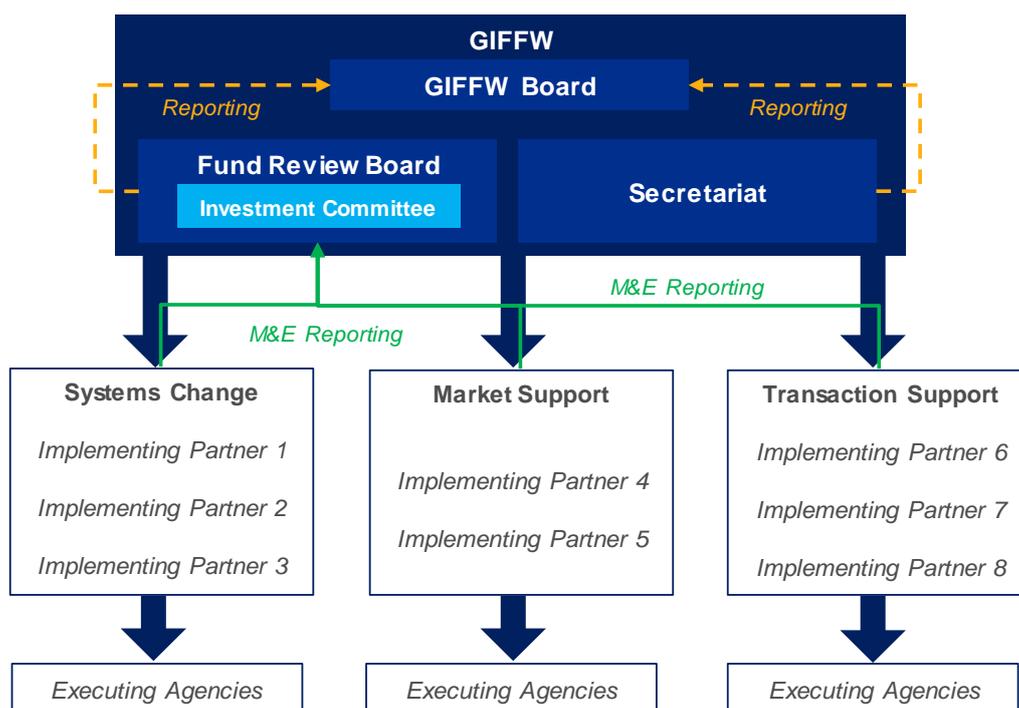
Board will then be responsible for assessing whether the M&E protocols continue to be appropriate for evolving GIFFW activities, and making provisions to update them if needs be. The members of the Fund Review Board will come from across the sector spanning financial and sectorial expertise. These experts should be appropriately compensated for their time – it is not expected to be a voluntary position. Some Fund Review Board members may sit on the GIFFW Board, though not all.

This structure is similar to Gavi’s Programme and Policy Committee (PPC), which assists the Board in fulfilling its responsibilities in respect to the programmatic and policy oversight. Like the proposed GIFFW structure, there are some members who are represented on both the Gavi Board and the PPC. The PPC is responsible for decision making and screening, while the Board serves to ratify the PPC’s choices.

The GIFFW Fund Review Board would also be responsible for co-ordinating and making publicly available the results of the GIFFW funded activities, in line with the knowledge sharing that is an overarching value in the GIFFW’s approach.

Administrative Secretariat: a small team within the fund dedicated to reporting to the fund’s stakeholders, raising awareness of the fund’s activities amongst potential donors and in host countries, and collating and drafting of activity reports. The Secretariat would report to the Board. These would be full time, paid, positions. We would however not see it as necessary that this Secretariat was physically present in one office – GIFFW could function just as well as a virtual organisation.

Figure 4 The proposed governance structure for GIFFW



3. Implementing Partners

These are entities with capability to manage and disburse funds as per the GIFFW mandate for each window which have existing expertise in that area. The types of entities which will qualify as implementers for each window will arise naturally from their existing alignment with those activities. Multilaterals, private sector funds, not-for-profit and civil society organisations qualify as implementing agencies. It is important that implementing partners span these different types of entities to ensure there is full “market coverage”, namely that they can service the full range of potential activities that the fund wants to finance, without restricting eligibility to, say, the types of entities or activities which can receive financing from a DFI.

4. Executing Agencies

The executing agencies are entities which will carry out the funded activities, having been allocated funds for a specific purpose by one of the implementing partners. These will be entities with sector expertise and can be private sector companies, public sector bodies (e.g. utilities) or civil sector organisations whose proposed activities will be eligible for funding under the fund's Engagement Principles and Eligibility Criteria. To note, that a group may be both an implementing agency and an executing agency – an implementing agency may, under the criteria of fund allocation, execute on activities themselves. The appropriate protocols should be put in place to govern conflict of interest, but where appropriate, this combination of roles is viewed favourably as it maximises operating efficiency.

The Working Group considered the alternative approach of delegating and outsourcing activities to consultants for the review of proposals. However, it was decided that this strategy would be less effective due to:

- Higher costs of hiring the expertise required on a short-term basis;
- Increase the administrative burden of managing these consultants; and
- The need for internal expertise nonetheless to oversee the work.

E.2.2 The Requirements of Managing Stakeholders

LHGP would flag that in assigning responsibilities for the different bodies within the GIFFW governance it is preferable to err on the side of lower requirements, oversight, approvals and decision points, above a minimum level sufficient to ensure adequate checks and balances, and to the satisfaction of the donors. With a range of stakeholders spanning donor governments, industry, DFIs, not-for-profits and others, it is foreseeable that the GIFFW could rapidly move to a point whereby the level of governance expectation requires considerable resources to satisfy. Typically, governance requirements escalate over time, as stakeholders move to request more information and oversight rather than less, a process that is rarely reversed. At very large scale, this is justified, but as the GIFFW launches and scales over time, care must be taken to ensure this balance is maintained and the governance process is appropriate for the size of the fund. As it is critical that all individuals within the governance structure are appropriately compensated for their time, increasing the requirements and therefore the time demands on individuals of governance could rapidly become expensive for the fund.

E.3 Practical considerations on structuring and operations

Please note that this section has been developed by LHGP and was not discussed as part of the Working Group calls. The Working Group focused on more overarching principles governing the GIFFW, recognising that many of the details of GIFFW governance and structuring will be defined by the requirements and preferences of the founding donors. Leveraging our experience establishing funding vehicles for sustainable development, LHGP has outlined a set of recommendations below on how the GIFFW could be structured in line with the above.

Due to the decentralised nature of the funds raised by the GIFFW (funded by a levy on bottled water sales in developed markets globally), GIFFW donations could originate in any number of countries, depending on where the participating retailers or bottlers operate. As charitable donations, commitments to the GIFFW are typically subject to tax breaks but to benefit from this, funds raised in a particular domicile would need to be transferred to a charitable structure or not-for-profit in that same domicile. For example, a US donor cannot receive the tax benefit for a donation directly to a charity located in the UK. It is therefore likely that any collection of GIFFW donations would need to occur at the national level. Depending on how donors (corporates, governments) choose to make their donations to the GIFFW (see complementary study on how the fundraising levy may be applied and potential mechanisms that donors may use), they may have preferences on the structure of the recipient body. The appropriate structure and jurisdiction for the entity receiving donations to the GIFFW will have operational nuances that are driven entirely by the needs of the donor. However, all funds will need to be then be aggregated in a centralised entity. This structure also creates the provision for funds raised

in LMICs to be ringfenced for use in those countries. This is not expected to be a challenge for launch and the first years of GIFFW, but may become relevant for future operations.

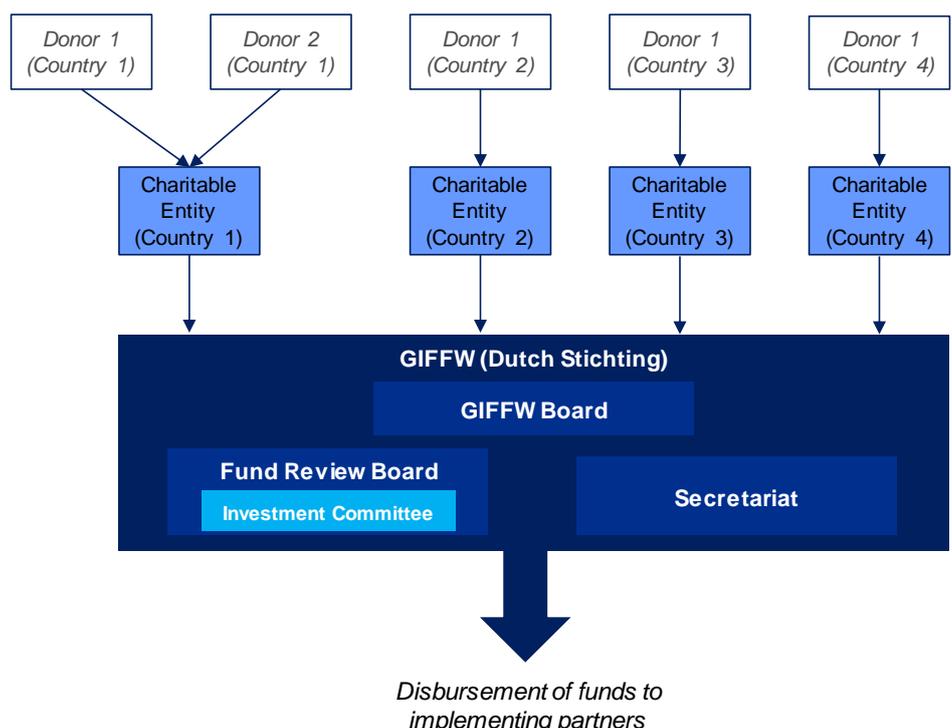
We would note that there are organisations to whom charities can outsource international fundraising that have existing entities in countries for collecting funds across the world. Justgiving is an example of a platform that does this for retail or consumer markets. One option for the GIFFW would be to outsource this collection management to an organisation or multiple in relevant jurisdictions for founding donors. There is however a fee associated with this. However, for the minimum viable scale that GIFFW is targeting, and assuming that, at least in the launch years, there are a relatively small number of donor domiciles, it is likely more efficient from a long-term perspective for GIFFW to establish funding collection entities of its own. As the number of charitable entities for national receipt of funds required will likely increase with the number of donors to the fund, and hence with fund size, we believe this to be a reasonable structure. Similarly, an existing not-for-profit, such as Unicef, that has an established presence in almost every country in the world, could act as a conduit for GIFFW. However, ringfencing these donations for GIFFW would be very difficult, and would also present a considerable accounting challenge for both GIFFW and the conduit organisation.

Considering only funds raised from developed markets, or pure donors geographies, monies that are collected in individual countries will need to be aggregated within a single parent entity, which given the mission of the GIFFW should also be structured as a not-for-profit. While the domicile for this entity may be driven by founding donor preferences, LHGP would note that the Netherlands is a particularly attractive legal environment for the incorporation of charitable activities. This is due to the minimal legal form of the entities and the attractive tax regime they are subject to. As such we would advise that, absent any explicit preferences from founding donors or stakeholders, the GIFFW be set up as a Dutch “Stichting” (foundation). Such entities can be governed by a Board and do not require any shareholders. This entity would then be used to house the GIFFW legal entity and disburse the funds.

LHGP’s recommendation is that the GIFFW be set up as an independent foundation to ensure unrestricted access to the funds under management and to avoid additional management costs by potential host entities. Large multilateral organisations do not provide an “account holding” service where access to the funds by a board is easily arranged.

The recommended structure is depicted in the figure below.

Figure 5 GIFFW Incoming Funding Flows



E.3.1 One Illustrative Example of Structures for Implementing Agencies: the World Bank

One example of an implementing agency could be the World Bank. There are two existing structures for the receipt of additional funds into the World Bank – a Trust Fund, or a Financial Intermediary Fund (FIF). FIFs are financial arrangements that leverage a variety of resources, typically in support of one global priority. For example, the recently launched Coalition for Epidemic Preparedness Innovations (CEPI) is structured as a FIF, as is the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM). The latter has channelled almost \$40 billion to fight infectious diseases from a range of donors. FIFs are managed whereby external agencies provide funds, and the World Bank provides a set of agreed financial services that involve receiving, holding and investing contributed funds, and transferring them when instructed by the FIF governing body. FIFs are externally governed according to the mandate of the funds. However, FIF Trusteeship does not involve overseeing or supervising the use of funds. Therefore, it is less viable as a structure for an implementing agency of the GIFFW.

However, Trust Funds are a second mechanism at the World Bank that can be used to finance a wide range of projects and activities. The World Bank's role and responsibilities in managing the Trust Funds vary depending on the type of fund. One possible structure for GIFFW is to allocate funds to the World Bank in a Trust Fund, whereby the World Bank is responsible for controlling the allocation of funds under the mandate of the GIFFW. Such a mechanism would also allow explicit complementarity between the GIFFW and the World Bank. For example, the World Bank has a designated amount of capital per country for International Development Assistance (IDA) or concessional lending. GIFFW could be used as an incentive to motivate countries to use part of their IDA allowance for WASH investment, through the use of a complementary grant or other financing. This would also allow the GIFFW to multiply its impact by catalysing the use of other funds for WASH that would not previously have flowed to the sector.

Section F Other Considerations

F.1 Considerations on the size of funding available

The quantum of available finance will play a role in the relative weighting of types of activities the fund will support, but would not change the use of proceeds categories themselves. As the exact size of the fund is yet to be determined the Working Group had to consider the impact of varying fund sizes on the viability of the fund as much as on the activity of the fund. Some fundamental guidelines were identified:

- If the funds raised were to fall short of a threshold amount for the operationalisation of the fund, the funding should be transferred directly to existing initiatives in its entirety. This minimum limit on the fund size is required to ensure that capital raised is used efficiently: the fund must be large enough to warrant the management and administration fees associated with its operation – which in the case of the GIFFW will be lean, but nonetheless will exist.
- For a fund looking to make a significant impact in the three target areas the GIFFW will be looking to address, such a minimum size would be \$100 million.

Beyond the \$100mm minimum limit the fund should operate on a sliding scale:

Table 7: Example Distribution of Fund Activities by Fund Size

Fund Size	Systems Change	Market Support	Transaction Support
\$100mm	Proportion of funds allocated: 33%	Proportion of funds allocated: 33%	Proportion of funds allocated: 33% - 1-2 large transactions (\$5-10mm) - 2-3 medium transactions (\$1-4mm) - 4-6 small transactions (<\$900k)
\$250mm	Proportion of funds allocated: 33%	Proportion of funds allocated: 33%	Proportion of funds allocated: 33% - 2-4 large transactions (\$10-25mm) - 2-4 medium transactions (\$1-10mm) - 5-8 small transactions (<\$900k)
\$500mm	Proportion of funds allocated: 30%	Proportion of funds allocated: 20%	Proportion of funds allocated: 50% - 5-8 large transactions (\$10-25mm) - 10-12 medium transactions (\$1-10mm) - 15-25 small transactions (<\$900k)
\$1bn	Proportion of funds allocated: 25%	Proportion of funds allocated: 15%	Proportion of funds allocated: 60% - 10-20 large transactions (\$10-25mm) - 15-25 medium transactions (\$1-10mm) - 30+ small transactions (<\$900k)

F.2 Geographical considerations and case studies

The Working Group provided a global perspective on the current state of WASH financing and development. In line with the fund's flexible and relatively untethered approach, the fund's scope will also be global: no specific, explicit geographical restrictions will be placed on the fund, allowing it to provide financing wherever demand meets its Eligibility Criteria and principles for engagement. Within the Engagement Principles and Eligibility Criteria however, geographic restrictions come into focus through the requirement that there be some evidence of a supportive political alignment or a willingness at national level to develop a favourable enabling environment if this isn't in place. The decision to include Eligibility Criteria 3 (evidence of political support) and Engagement Principle 3 (enabling environment), was driven by the combined experience of the Working Group engaging in different geographical and political contexts. The need for political support for the improvement of WASH services was a point of unanimous agreement across the group, however the exact level of support required is a point which is less straightforward.

Having agreed that evidence of political support is necessary for the fund to engage in a particular geography, the group turned to discussing the viability of obtaining such support and the extent of support required in order to engage. Requiring too stringent evidence of support could cut the fund off from supporting potentially viable projects in entire countries. The group's combined experience across different types of initiatives in WASH and across numerous geography was used to provide case studies for the discussion, here we present two particularly important and illustrative ones, which clearly highlight:

- The need for broad political support in WASH initiative; and
- The varying degree to which such support is necessary depending on the activity being undertaken.

The current Agenda for Change experiences in Honduras provide a very good illustration where lack of political prioritisation and institutional involvement are hampering the development of the WASH sector and undermining what could otherwise be a successful initiative. Where fundamental institutional creation and strengthening is being tackled and public service provision is the focus outcome of the activity, political willingness – manifest through active participation and the availability of resources (human and monetary) are key to success.

On the other end of the spectrum of WASH activities we find market-based initiatives, such as the programme implemented by iDE in Cambodia: iDE here have worked with local stakeholders to design and produce products which suit the local needs and market, and assisted the local industry in promoting the uptake and use of these products. The programme does not involve high-level political engagement nor the need for strong political support, but merely “no objection” on the part of the institutions and government to the activities of the programme.

The two examples above highlight the vast differences in political support required across different types of initiatives. Having taken this into account, the group agreed that though necessary, the level of political backing that the fund would need to verify to engage in a particular geography would need to be commensurate to the activities being proposed rather than a having to meet a hard criterion across all project types. As expected the demonstrable level of political engagement required to support a government capacity building initiative will be substantially higher than that needed for the development of a local market for WASH products or for the provision of hedging capital.

F.2.1 Channelling Funding from LMICs

Geography impacts the fund structure and operations through a second dimension: the geographic source of funds raised. While the initial targets for GIFFW fundraising will be multinational corporates and developed country donors, in the long run the GIFFW may become a conduit for funds raised locally. It is our view and that of the Working Group that where incremental monies are raised in countries that could be recipients of GIFFW-supported activities, through a levy on sales of bottled water or any other mechanism, these should be ringfenced for local spending. Local resource mobilisation is important for sustainability, and an activity that the fund would look to support. There must be sufficient incentives to encourage local fundraising, and leaving aside currency challenges, if funds raised locally were to be transferred to the “communal pot” this would be neither politically viable nor efficient for the GIFFW. The two main issues with any LMIC funds being moved out of country are:

- Politically, local government wouldn't be able to support such an initiative where local capital would be spent on projects across other countries; and
- Financially, exchanging locally raised capital into hard currency to then spend it in other currencies does not make economic sense and would be an inefficient use of proceeds.

Because of the above considerations, the recommendation for locally raised funds is that they be ringfenced for exclusive spend on that country, and kept in local currency. This however adds considerable administrative costs to the fund, as such a minimum requirement for the total fund size should be met before considering ring-fenced country pots. The overall size of the fund must be large enough that higher administrative costs can be easily absorbed by economies of scale, and the local

capital mobilised must be large enough to warrant the additional expense. Our recommendation is that the minimum GIFFW size for this activity be \$300 million, and that the local capital raised be a minimum of \$25 million per recipient country.

Conclusion

This report outlines the recommendations for the structure, activities, and management of the Global Investment Fund for Water. Developed by Lion's Head Global Partners in collaboration with a Working Group of sector experts, it seeks to define a novel mechanism in WASH financing that would present an attractive and different use for incremental funds raised to support the sector. Developed deliberately in partnership with many of the important actors in this space, and designed to be explicitly complementary to their existing activities, we are optimistic that this recommended structure has been endorsed by key opinion leaders. We look forward to seeing the launch of something which we believe will be a step beyond "business as usual" and seek to deliver genuine and sustainable impact under the banner of the Sustainable Development Goals.

LHGP would like to thank all the Working Group members for their guidance and support, as well as all those other sector experts who gave their time and input freely. In particular, Louis Boorstin of the Osprey Foundation has been an invaluable resource and we are hugely grateful. We look forward to the next stage of the GIFFW – operationalising the fund to deliver on its promise and ambition.

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About Lion's Head Global Partners

Lion's Head is a financial advisory firm based in London and Nairobi focusing on finance for sustainable development. Regulated by the UK's Financial Conduct Authority (FCA), we specialize in providing independent financial advice to corporates, governments, parastatals and development institutions. LHGP's business is built on three core pillars – strategic advisory, financial structuring and fund management. These three functions are complimentary, creating an ability to leverage cross-sector expertise and take a “bigger picture” view of any single transaction. Through them, LGHP brings capital markets expertise to development finance, leading “first-of-their-kind” transactions across Africa and other frontier markets.

With 16 investment and banking professionals and an office in Nairobi, we leverage our financial expertise to support clients in their market, fundraising, capital structuring and implementing commercial strategies. Clients range from donors, and governments to multinationals and start-ups. We are Fund Manager of the African Local Currency Bond Fund, a €40 million investment vehicle sponsored by KfW to improve access to long-term funding in local currency, strengthen the capacity of local markets and create opportunities for local investors. Our sector focus is in four main areas: **Infrastructure & Energy, Health & Education; Agriculture & Sustainability and Financial Markets**. However, as the “go-to” group for innovative financial structures in non-traditional settings, we are also working on a number of other mandates, such as an international financing facility to support the integration of migrants in Jordan.

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