



# Technical Assistance Consultant's Report

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**PUBLIC**

Project Number: 53266-001  
October 2022

## Accelerating Sanitation for All in Asia and the Pacific

### WASH Scoping Study Summary

Prepared by Dalberg Global Development Advisors

For Asian Development Bank

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**Asian Development Bank**

**Dalberg**

# ADB WASH private sector investing: Executive summary

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RECOMMENDATIONS FOR ADB INTERVENTIONS

**ADB**

**Dalberg**

# ADB wants to catalyze WASH financing in India and Asia; Dalberg was engaged to conduct a rapid landscape assessment and identify opportunity areas

## Key questions

### Phase 1: Rapid WASH private sector operator + investor landscaping

- Who are the **key players** across water and sanitation and what are their major roles?
- Who are the **main investors, donors and financial institutions** invested in WASH and what is an early view of their financing activities?
- What are the **financing challenges and support needs** in WASH financing (*ingoing hypotheses*)?

### Phase 2: Investor segmentation & needs, history of catalytic efforts

- For key private investors, what are the **perceptions** towards WASH financing and biggest bottlenecks to scaling up investments?
- What are their **top support needs** and what are the key differences based on the level of maturity w.r.t WASH investments?
- What kinds of **successful interventions** have been used to deploy private sector capital (look beyond WASH and India)? What learnings can be adopted for ADB?

### Phase 3: Recommendations for ADB

- Based on the landscape needs and ADB's priorities/ capabilities, **what types of interventions can it explore and prioritize?**
- Specifically for the proposed A4A **guarantee facility** – what are the pros and cons?
- What should be ADB's **next steps**?
- What factors can ADB use to shortlist another **country** in SEA to intervene in?

The following slides contain a summary view of the landscape report, investor needs, instrument mapping, and potential interventions for ADB



Segmentation of enterprises/  
financers and opportunity  
identification



# Investment attractiveness for WASH operators is driven by six types of industry characteristics that can be used as segmentation variables

## Market concentration

Is the market consolidated with a few large players who hold significant market share or is the market is fragmented with multiple smaller-scale MSMEs?

*Presence of large players indicates increases attractiveness*

## Formalization

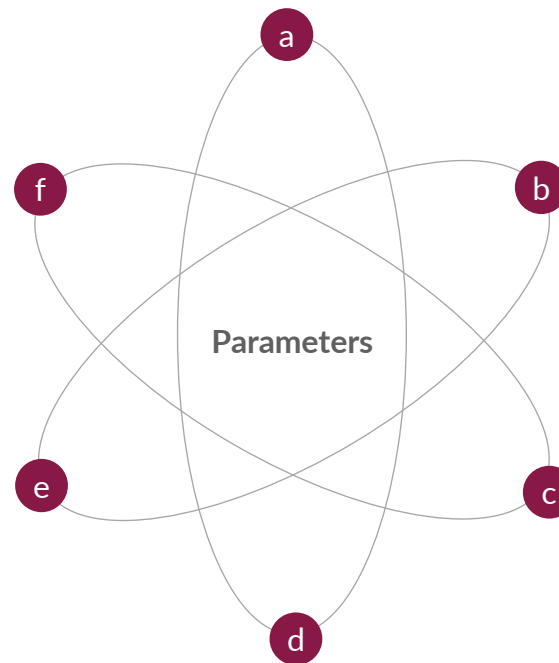
Is the typical business registered, has formalized processes for bookkeeping, taxations and maintenance of financial histories?

*High formalization increases attractiveness*

## Predictability/ repeatability of cash flows

Are cash flows predictable to the extent that financiers are able to understand the business dynamics and assess risks effectively? Is repeat business common?

*Predictable and repeatable increases attractiveness*



## Growth potential

Is there potential for enterprises to grow due to unaddressed need, evolving business models etc.? Is there potential to consolidate the existing market?

*High growth potential increases attractiveness*

## Diversified client base

Is the typical client base concentrated towards a single type/ small set of buyers or is it diversified in the number and types of buyers (e.g., B2G vs B2B)?

*Higher diversity increases attractiveness*

## Tech complexity/ asset intensiveness

Are fixed assets available that can be used as collateral? Is there some key IP/ process/ technology which differentiates enterprises?

*Increased asset intensiveness drives competitive advantage and hence investability*

# These parameters help segment investment opportunities into five segments with varying levels of existing investment activity

## Existing financing coverage

Segments	Large-ticket	Mature operators	Emerging innovators	Old guard	Fledglings
<b>Overview</b>	<i>Tendered projects in large cities</i>	<i>Small/ medium enterprises with some assets &amp; formalization</i>	<i>Business models with key innovations/ IP being tested</i>	<i>Legacy business models with predictable cashflows</i>	<i>Fragmented with micro players, low growth rate</i>
<b>Annualized market size (approx. range)</b>	• \$ 1-1.5 B	• \$ 2-2.5 B	• \$ 50-250M	• \$ 1-1.2 B	• \$ 2-2.5 B
<b>Average ticket sizes</b>	• \$ 1-200 M+ onwards	• \$ 50K-600 K	• \$ 15-30 K	• \$15-30 K	• \$ 1,500-6,000
<b>Market concentration</b>	High	Medium	Low-medium	Medium	Low
<b>Diversified client base</b>	Low-medium	Medium	High	Low-medium	Medium
<b>Formalization</b>	High	Medium-high	High	Low-medium	Low
<b>Asset intensiveness</b>	High	Medium-high	High	Low-medium	Low
<b>Predictable, repeatable cash flows</b>	Medium-high	Medium	Low-medium	Low	Low-medium
<b>Growth potential</b>	Medium-high	Medium – high	High	Medium	Low
<b>Value chain operator categories (examples)</b>	<ul style="list-style-type: none"> <li>EPC contractors for centralized piping</li> <li>Large STP operators</li> </ul>	<ul style="list-style-type: none"> <li>Large integrated storage, piping players</li> <li>Large cleaners &amp; transporters (10+)</li> </ul>	<ul style="list-style-type: none"> <li>Water kiosks, water monitoring systems</li> <li>FSTP operators</li> </ul>	<ul style="list-style-type: none"> <li>Central water systems part suppliers</li> <li>STP O&amp;M players</li> </ul>	<ul style="list-style-type: none"> <li>O&amp;M for water supply systems &amp; purification</li> <li>Toilet O&amp;M contractors</li> </ul>

Parameters used to segment

# Five categories of investors have WASH exposure in a country such as India; impact investors and fintech players have low levels of penetration

## 1 Banks/NBFCs/ MFIs

## 2 Impact Investors (incl. PE/VC funds)

## 3 Fintech players

## 4 Multilaterals, DFIs

## 5 CSR/ Foundations

### Focus areas

- **Household lending** mainly by MFIs, SFBs for water and sanitation connections
- **SME lending** via long-term secured (incl. vehicle loans) & short-term unsecured loans; NBFCs, SFBs are critical for WASH SMEs; **segment lagging in WASH**
- **Large enterprise lending** (capex, opex) for large projects with high credit rating and collateral
- **Wholesale lending** where banks/ NBFCs invest in MFIs/ SFBs for on-lending

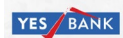
- **Invest in high-growth enterprises** – e.g., technology focused, market leaders
- **Invest in WASH funds** that on-lend to financial institutions, enterprises and households; **very few funds have explicit WASH**
- **Lend or invest in financial institutions** for on-lending to enterprises and households; **WASH focus typically lacking** in use of these funds

- **Enterprise lending** to those with demonstrated history of government contracts, e-commerce transactions or a digital footprint; **very restricted in WASH**
- **Vehicle loans** using AI/ ML to connect dealers, OEM's, and customers/ enterprises digitally; **limited** to large, multi-region enterprises in WASH

- **Loans to governments** to build large-scale infrastructure
- **Capital allocation to FIs** for direct lending or on-lending to households and enterprises; **dedicated WASH allocation missing**
- **WASH focused funds** by allocating capital to impact investors
- **Concessional/ guarantee facilities** to FIs to support lending, incl. in govt. projects; **uptake of facilities has been slow**

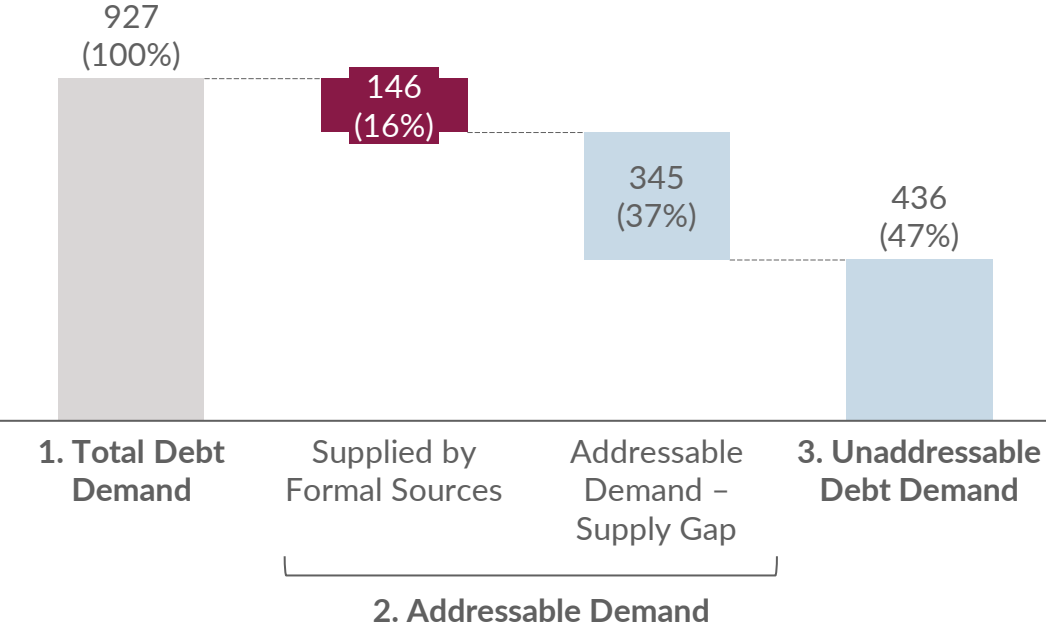
- **Funding to social enterprises and initiatives** to support set up or expansion in the form of catalytic/ investment/ returnable grants; **preference for guaranteed, visible outcomes annually** (e.g., WASH assets like toilets)
- **Pooled resources for large-scale infrastructure** – pool CSR budgets to enable funding of larger scale, capital intense WASH infrastructure; **lack funding for O&M**

### Examples



# Poor access to finance limits the potential of the private sector

**Lending Demand and Gap for MSMEs**  
2017, India, \$ B



- High-level estimates and expert inputs indicate that for WASH, less than 16% of demand is met by formal finance providers. **Debt provision in the sector is skewed towards household lending**
- **Equity investors have also not been active within WASH.** Less than \$ 66 M has been invested by impact investors/ PE/ VC funds in WASH over the last 10 years

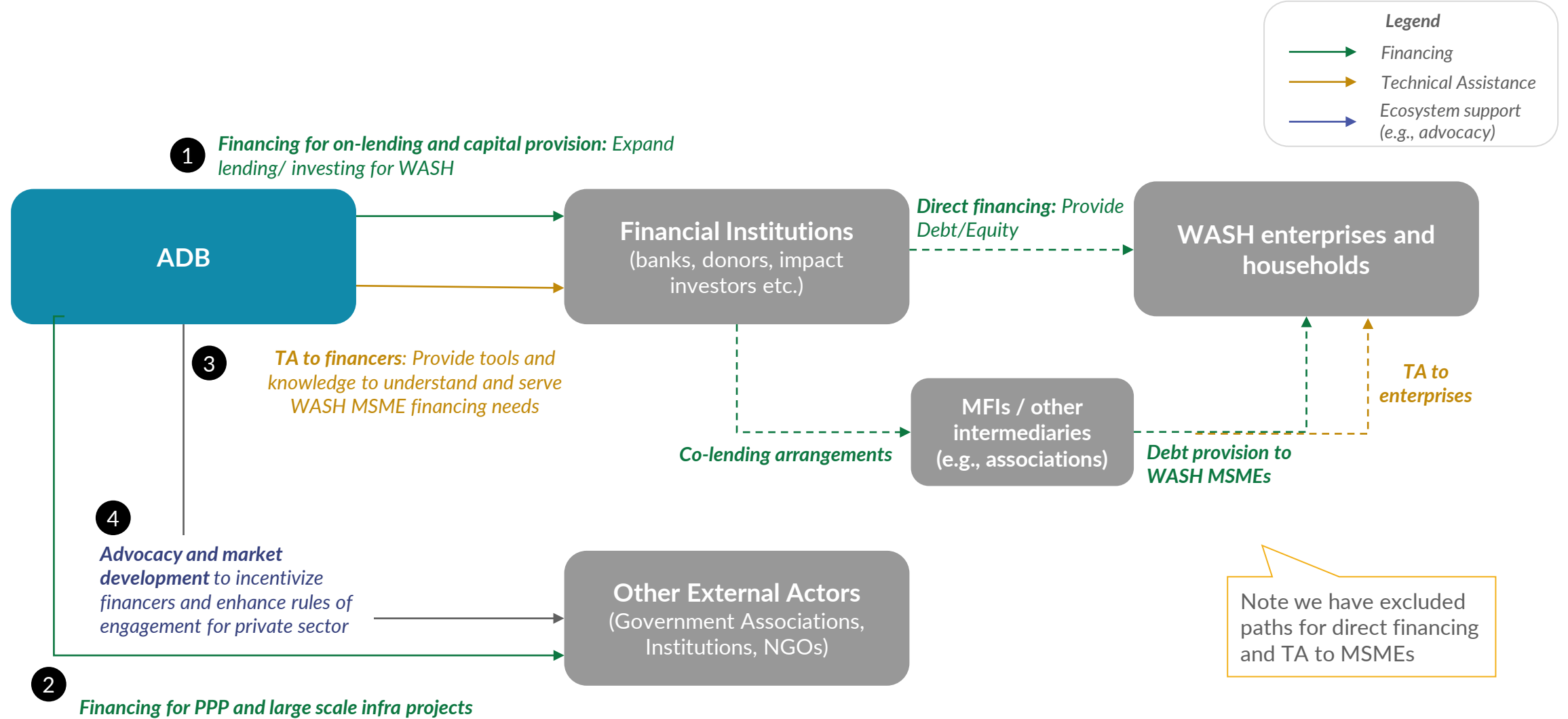
*FIs and impact investors have stayed away given lack of understanding of SME needs and business model challenges of WASH enterprises...*

*...leading to high-risk perception and limited visibility around opportunities*

Source: IFC, "Financing India's MSMEs - Estimation of Debt Requirement of MSMEs in India", 2018; Tracxn analyses ; Dalberg interviews and analysis



# ADB can boost private capital by expanding financing for large projects, on-lending and engaging in market development activities

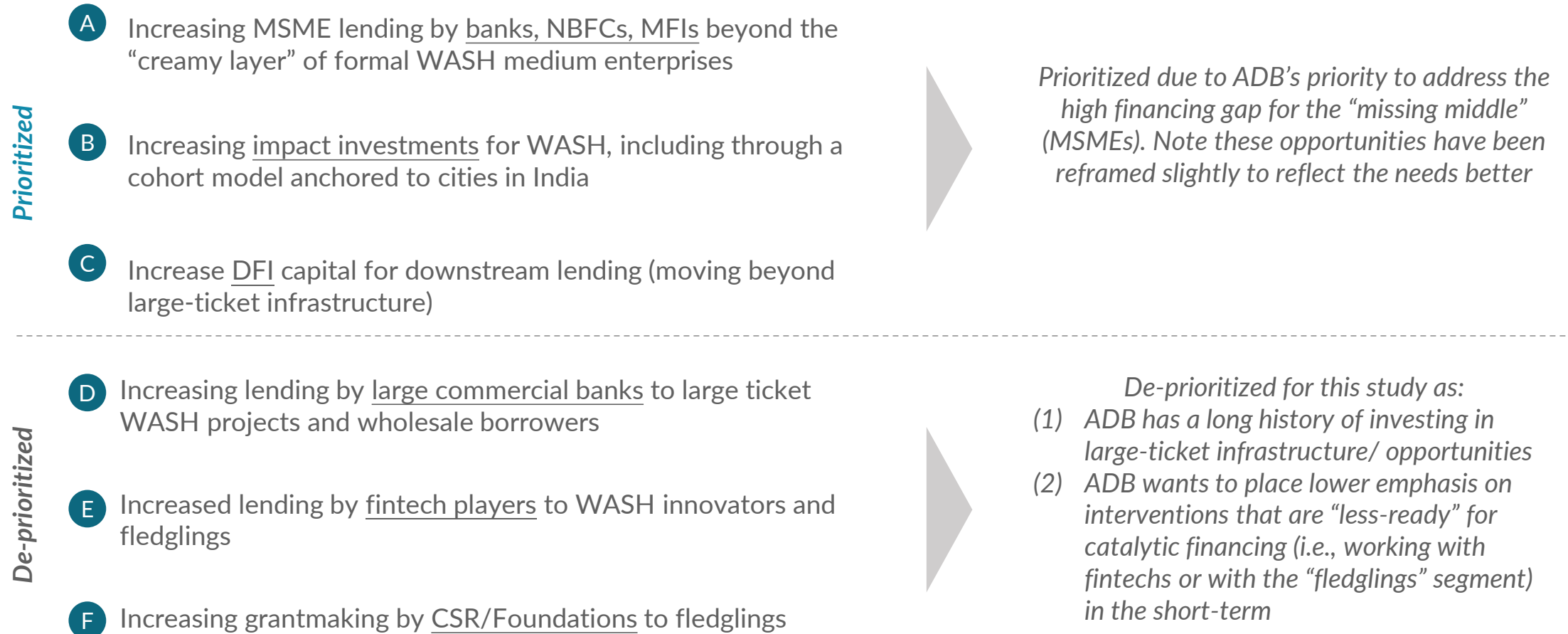


# Specifically, we identified six opportunity areas for ADB at the intersection of WASH segments and investor categories

**Legend**  Prioritized potential opportunity area  De-prioritized opportunity area

Financer type	Involvement	Large-ticket	Mature operators	Emerging innovators	Old guard	Fledglings
Traditional lenders (banks, NBFCs, MFIs)	Current	<b>A</b> Medium	<b>B</b> Low-Medium	Low-Medium	Low	Low
	Potential	High	High	Medium-High	Medium	Medium
Impact investors	Current	<b>C</b> Low	Medium	Medium	Low	Low
	Potential	High	High	High	Medium	Medium
Fintech	Current	Low	<b>D</b> Medium	Medium-High	Low	Low
	Potential	Low-Medium	High	High	Medium	Medium-High
Multilaterals/DFIs	Current	<b>E</b> Medium-High	Low-Medium	Low	Low	Low
	Potential	High	High	High	High	High
CSR/Foundations	Current	Medium-high	Medium	Medium-high	<b>F</b> Low	Low
	Potential	High	High	High	Medium	Medium

# Of these opportunity areas, three were prioritized for further analysis based on ADB's inputs



To identify interventions within the prioritized areas, we first looked at financier-related barriers preventing these opportunities to be realized today

# Six key constraints restrict finance interest in realizing these opportunities; given they apply to different degrees, there is value in customized interventions

		High presence of challenge	Medium presence of challenge	Low presence of challenge		
<i>Challenge</i>	<b>1. High perceived risk</b>	<b>2. High transaction costs</b>	<b>3. Low financer capacity</b>	<b>4. Siloed financing approach</b>	<b>5. Poor exogenous economics</b>	<b>6. Suboptimal endogenous economics</b>
<i>Description</i>	<ul style="list-style-type: none"> <li>Perception of WASH as a “<b>public service</b>” and <b>lack of experience lending</b> to WASH enterprises</li> </ul>	<ul style="list-style-type: none"> <li>High cost to serve due to <b>low discoverability of enterprises, small ticket sizes, and costly due diligence</b></li> </ul>	<ul style="list-style-type: none"> <li>Limited understanding of WASH opportunity areas and suitable financial products; low prior WASH investing experience</li> </ul>	<ul style="list-style-type: none"> <li><b>Lack of blended finance solutions</b> that combine debt, equity, and philanthropic capital within the WASH sector</li> </ul>	<ul style="list-style-type: none"> <li>Factors outside the control of enterprises– e.g., <b>delayed payment from governments, high geographic spread</b> of operators</li> </ul>	<ul style="list-style-type: none"> <li>Factors <b>in control of enterprises</b> contributed by low digitalization, inefficiencies in business model that squeeze profits/ margins</li> </ul>
<i>Support need</i>	<i>De-risk/ increase protection</i>	<i>Cost reduction</i>	<i>TA to scope, serve opportunities</i>	<i>Facilitate blended financing</i>	<i>Improve enterprise readiness</i>	
<i>Opportunity area</i>					<i>“Backstop” / reduce external risks</i>	<i>Capacity building of enterprises</i>
<b>A</b> Bank-MSME lending						
<b>B</b> Equity-MSME investment						
<b>C</b> DFI capital-small ticket						

In the next section, we look at specific instruments that can help address these challenges

Note: (1) Mapped to the red cells where there is high presence of the challenge; (2) Mapped to the yellow cells where there is medium presence of the challenge

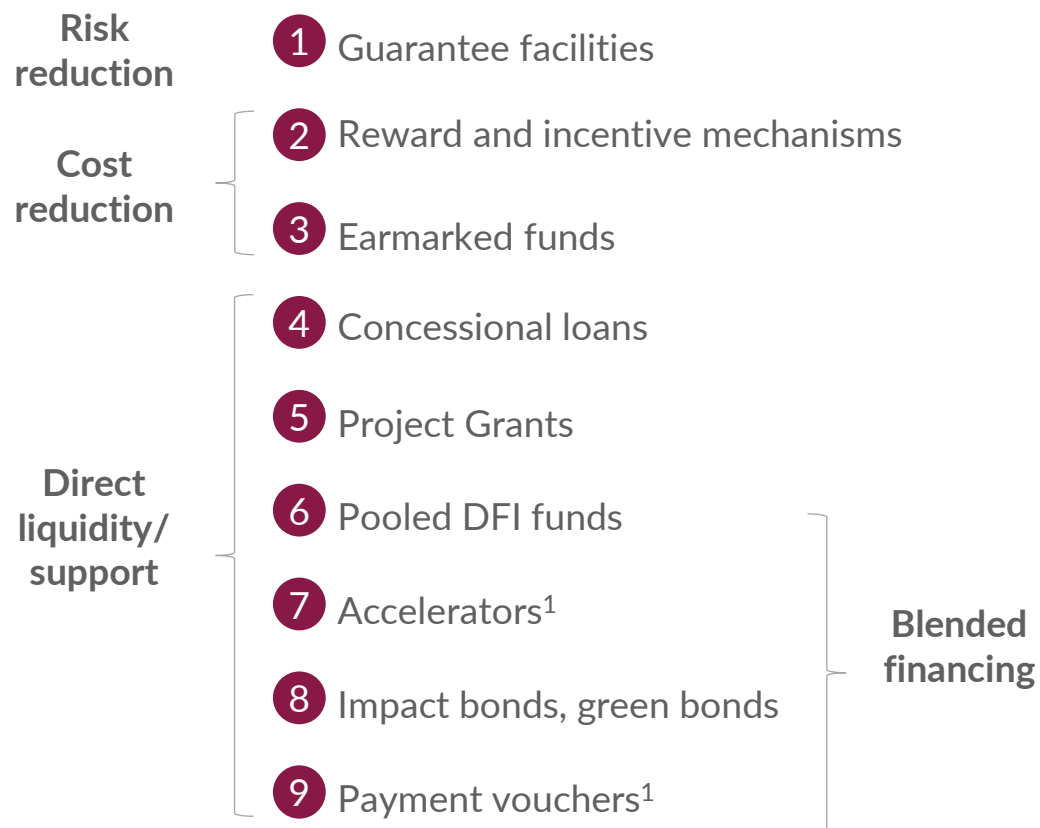


# Instruments to unlock opportunities and proposed role for ADB



# To address these challenges, 13 instruments of high-relevance were identified

## Financing instruments



## Non-financing instruments



Note: Instruments were shortlisted based on applicability to the six key challenges financiers face

# These 13 instruments were assessed based on previous performance, applicability to financiers' challenges, and potential to unlock additional private funding

## Instrument

- 1 Guarantee facilities
- 2 Concessional loans
- 3 Reward and incentive mechanisms
- 4 Earmarked funds
- 5 Project Grants
- 6 Pooled DFI funds
- 7 Accelerators
- 8 Impact bonds
- 9 Payment vouchers
- 10 Financer TA
- 11 City WASH Marketplace
- 12 WASH Intelligence Platform
- 13 Advocacy

	High perceived risk	High transaction costs	Low financer capacity	Siloed financing approach	Poor exogenous economics	Suboptimal endogenous economics
1	High applicability	Low immediate applicability	Low immediate applicability	Low immediate applicability	High applicability	Low immediate applicability
2	High applicability	Low immediate applicability	High applicability	Low immediate applicability	High applicability	High applicability
3	Low immediate applicability	Low immediate applicability	Low immediate applicability	High applicability	High applicability	Low immediate applicability
4	Low immediate applicability	Low immediate applicability	High applicability	Low immediate applicability	Low immediate applicability	Low immediate applicability
5	High applicability	High applicability	Low immediate applicability	High applicability	High applicability	High applicability
6	Low immediate applicability	High applicability	Low immediate applicability	High applicability	Low immediate applicability	Low immediate applicability
7	Low immediate applicability	High applicability	High applicability	High applicability	High applicability	High applicability
8	High applicability	Low immediate applicability	Low immediate applicability	High applicability	High applicability	Low immediate applicability
9	High applicability	Low immediate applicability	Low immediate applicability	High applicability	High applicability	Low immediate applicability
10	Low immediate applicability	High applicability	High applicability	High applicability	Low immediate applicability	Low immediate applicability
11	Low immediate applicability	High applicability	High applicability	High applicability	Low immediate applicability	High applicability
12	High applicability	High applicability	High applicability	High applicability	Low immediate applicability	High applicability
13	High applicability	Low immediate applicability	High applicability	High applicability	High applicability	Low immediate applicability

High applicability

Low immediate applicability

*E.g., Guarantee facilities have been used extensively due to larger multiplier effect as compared to instruments like project grants or concessional loans*

We combined this analysis with challenges that opportunity areas face to arrive at interventions that ADB can explore. Please refer to the annex for details on the analysis

# Based on the instrument mapping and previous assessment of binding constraints for each opportunity, some top instruments emerged

	A Bank-MSME lending	B Equity-MSME investment (incl. working with cities)	C DFI capital-small ticket
Financial instruments	<ul style="list-style-type: none"> <li>• <b>Guarantee</b> to reduce collateral requirement to enable enterprises to borrow more and encourage lending to new enterprises</li> <li>• <b>Concessional loans</b> to increase liquidity and reduce cost of capital for financiers in on-lending to lending</li> <li>• <b>Project grants</b> provide added incentive to focus on WASH, reduce cost and can be structured as output-based to focus on high-impact areas</li> </ul>	<ul style="list-style-type: none"> <li>• <b>WASH Marketplace</b> to help investors to source and evaluate enterprises who win city contracts; backstop city payments to establish initial comfort for investors</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Pooled funds</b> to bring together DFIs, philanthropic capital, impact investors with different risk appetites and facilitate both debt and equity capital for WASH MSMEs</li> <li>• <b>Rewards and incentives</b> to increase rate of return within WASH, bringing it closer to hurdle rate requirements</li> <li>• <b>Accelerators</b> to bring together different investment types, improve enterprise unit economics, and address macro risks by working closely with government entities</li> <li>• <b>Impact bonds</b> to demonstrate impact of WASH investments, especially for innovative solutions that have high potential for scale (e.g., fecal sludge management solutions, groundwater conservation solutions)</li> </ul>
TA	<ul style="list-style-type: none"> <li>• <b>Financer TA</b> to provide overview of WASH models, segment nuances as well as assist in enterprise due diligence, risk mitigation etc.</li> </ul>		<ul style="list-style-type: none"> <li>• <b>Financer TA</b> to provide detail around lucrative opportunities, how to assess impact, price risk etc.</li> </ul>



# These were combined into 5 intervention packages for ADB, of which ADB shortlisted 3 to focus on in the near future

## Intervention package overview

## Potential ADB role

Opportunity-specific

- 1 **Risk/ cost reduction facility with TA** to boost WASH-MSME lending; can be coupled with concessional loans and output based grants where needed<sup>1</sup>
- 2 **Blended finance facility** bringing together DFIs, commercial investors and non-commercial donors. Funds can be used for (a) a **pooled fund** to support MSME investment by providing liquidity or incentives for meeting WASH targets, (b) an **accelerator** to improve enterprise readiness/ scale viable solutions and/ or (c) an **impact bond** to establish impact/ proof of concept<sup>2</sup>

- Provide guarantee (second loss onwards<sup>4</sup>), debt or grants for concessional loans and incentives depending on structure
- Fund technical assistance through a suitable partner
- (a), (b) Pooled fund and accelerator: capital and TA provider
- (c) Impact bond: outcome funder and/ or fund design/ feasibility assessment

Note: ADB has prioritized only (b) the accelerator out of the 3 proposed sub-interventions

- 3 **City WASH marketplace** that facilitates impact investment into cohort of enterprises who win city contracts<sup>3</sup>

- Fund the marketplace that brings all parties together
- Backstop city payments initially to provide impact investors' comfort

Cross-cutting

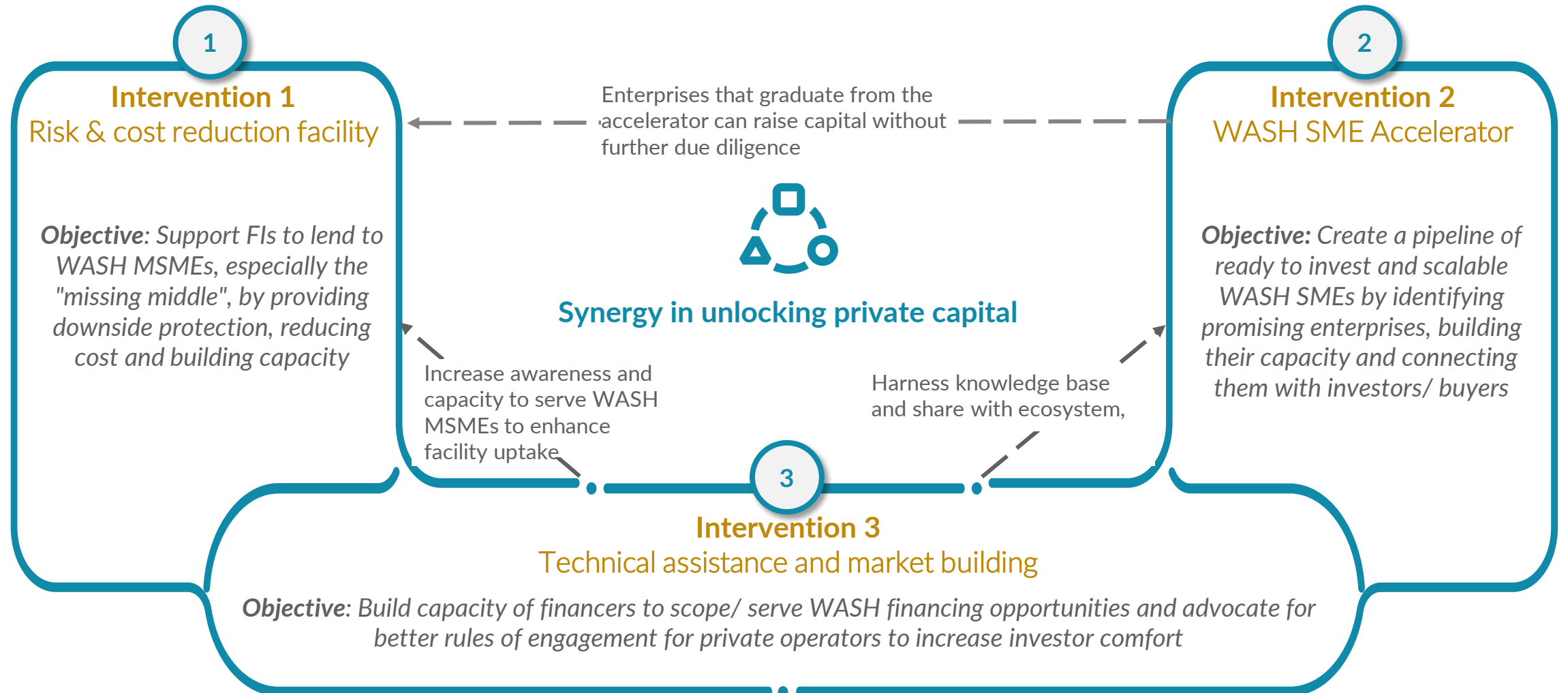
- 4 **WASH intelligence platform** that helps financiers understand the market opportunity, aid discovery of enterprises, streamline capital flow and strengthen collaboration across stakeholders
- 5 **Advocate for common standards** to formalize/ improve quality perception of WASH enterprises and for **ULBs' to uptake credit ratings**

- Full or partial funding for creation and maintenance of a neutral platform (starting with an initial design and scale-up strategy)
- Create materials, train employees to build government capacity in these specific areas (can be part of ADB's current work with state/ city governments where relevant)

Interventions 4 and 5 have been combined with a sharp focus on TA that can complement financing interventions

Notes: Financer TA is a part of interventions 1,2,3,4 and has not been considered separately; (1) Maps to opportunity A: bank-MSME lending, (2) Opportunity B: Equity-MSME investment (incl. working with cities); (3) Opportunity C: DFI capital-small ticket; (4) Based on our understanding that ADB does not take up first loss positions

# Through these three interventions, ADB can play an important role in addressing challenges faced by FIs and MSMEs, and unlocking capital



The following slides include an overview of what the interventions can focus on, the detailed reports submitted include details on learning goals, design considerations, partnerships needed, roadmap and risks

# Intervention 1: The facility should aim to incentivize FIs into lending to WASH SMEs via downside protection and by reducing cost of funds

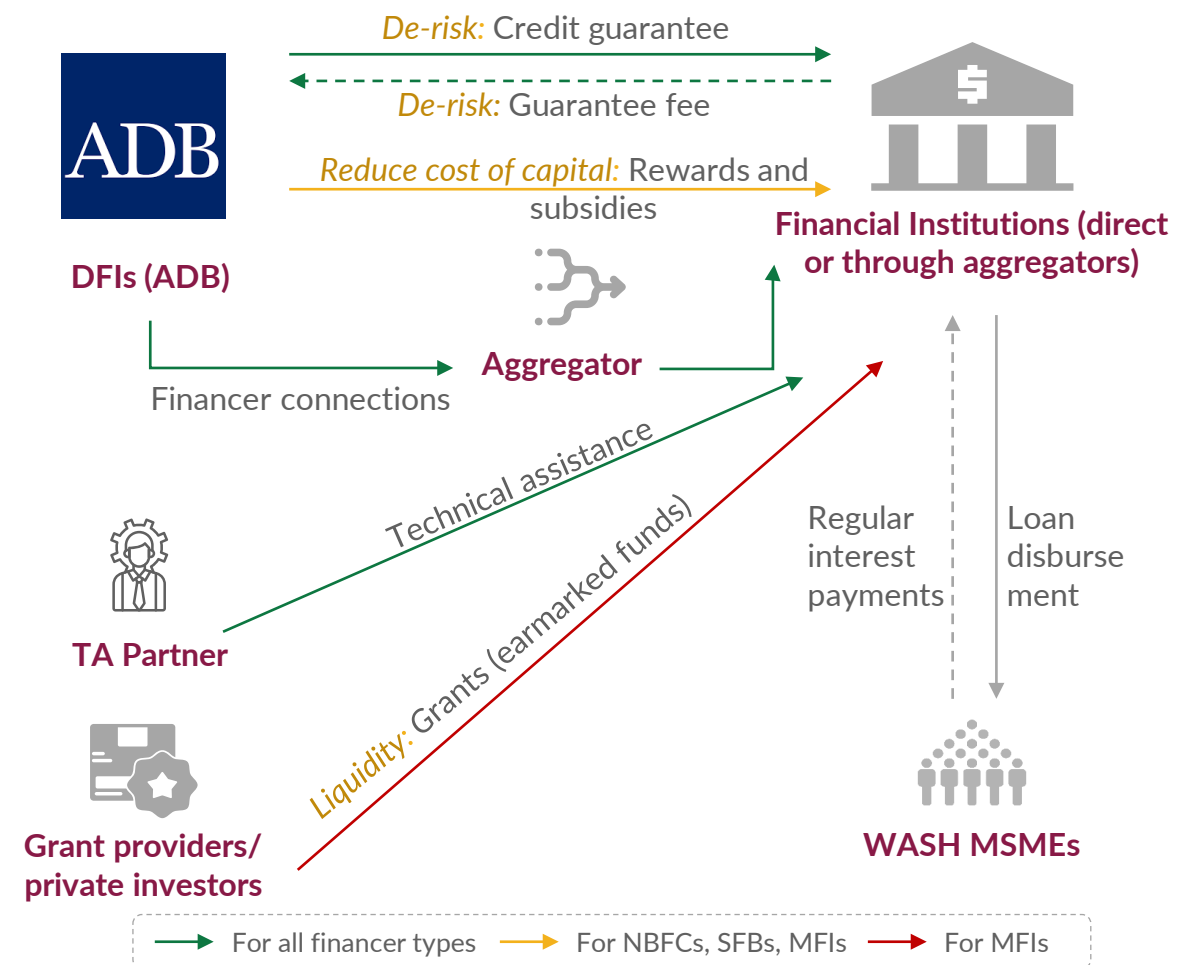
## Key objectives

- Address key bottlenecks FIs face to lend to WASH MSMEs, especially the “missing middle” layer
- Test what works by deploying a combination of instruments that reduce financiers’ risk and cost – e.g., de-risk via guarantees for larger financiers and combine with subsidies to reduce cost for smaller financiers (whose cost of capital is higher). Liquidity should be provided as an add-on where it is a known bottleneck (e.g., for MFI lending) alongside TA in all combinations

## Potential impact

- **Pilot:** A \$5-10 million pilot facility could unlock over \$12-26 million in loans to WASH enterprises over the next 2-3 years<sup>1</sup>
- **Scale-up:** The facility has the potential to scale up to \$100-500 million<sup>2</sup> after the timeframe of the pilot program

## Illustrative structure of the potential pilot



Note: (1) Size of the facility is driven by number of financiers selected, number of loans through each financier, and multiplier effect of instruments in facility; (2) USAID WASH Guarantee facility of \$60 million, USAID-Mastercard \$100 million credit facility, World Bank- SBI \$625 million credit line to rooftop solar SMEs

# Intervention 2: The accelerator focuses on improving the discovery and attractiveness of SMEs for impact investors

## Key objectives

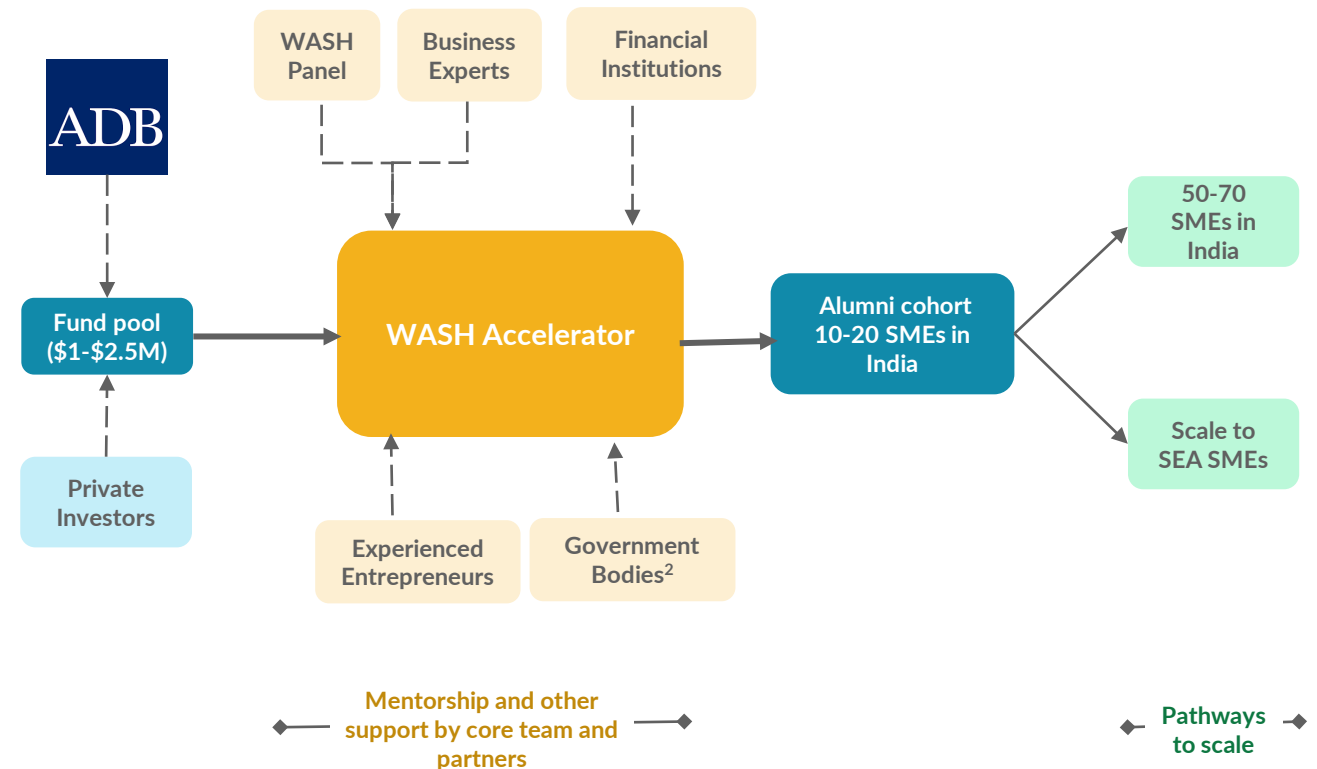
Support innovative WASH SMEs with developed business models to scale and become ready for commercial financing

- **Provide 1:1 mentoring** on how to scale (e.g., working with governments, quality standards) and become ready for/ seek private financing
- **Connect enterprises with partners** who can help enterprises formalize operations/ systems and connect with buyers (esp. government for scale)
- **Partner with FIs, impact investors**, other capital providers to match demand and supply of private finance

## Potential impact

- **Pilot:** To support an initial cohort of 10-20 enterprises, a \$1.25M - 2.5M, pool fund can help unlock private finance of \$15 - \$30M
- **Scaled up:** Accelerator can scale to support 40-70 enterprises / \$50-60 million<sup>1</sup> based on initial results

## Illustrative structure



# Intervention 3: TA for financiers should be custom-designed to address key challenges they face across the lifecycle for both opportunity areas

		High presence of challenge	Medium presence of challenge	Low presence of challenge		
<b>Investment lifecycle</b>		<b>Awareness</b>	<b>Discovery</b>	<b>Due diligence</b>	<b>Transaction</b>	<b>Post transaction</b>
	<b>Financers, intervention 1 (FIs)</b>	Some awareness gaps in understanding the WASH sector and recognizing attractive financing opportunities	Difficulty in sourcing WASH enterprises to finance; addressable enterprises can be limiting	Difficulty in assessing creditworthiness of WASH enterprises, especially if they work with governments	Some difficulty in creating products that meet WASH consumer needs and adjusting internal risk / quality systems to better serve WASH financing needs	
<b>Financers, intervention 2 (investors, FIs)</b>	Few ready enterprises and difficulty in identifying suitable ones beyond the usual suspects		Difficulty in assessing enterprises that have proven business models that can scale and be profitable	High search cost, small ticket sizes, limited visibility over ready enterprises increases transaction cost/ complexity		
<b>Enablers (governments)</b>	Lack of awareness, incentives, capacity to improve engagement with private operators in a way that increases financier/ investor comfort – including working more with MSMEs, setting of common standards etc.					

## TA needs

- Support with understanding the WASH sector – size, business models, policies, attractive opportunities etc.
- Support with making the WASH MSME pipeline more visible<sup>1</sup>
- Support with conducting due diligence of WASH enterprises (higher need for FIs in intervention 1)
- Support with matchmaking/ facilitating transactions (higher need for investors in intervention 2)
- Support with creating a conducive environment for private capital for WASH

Note: (1) Support required to make enterprises more ready including the enterprises' TA needs have been covered as part of intervention 2

# Intervention 3: Key TA needs of FIs across the investment lifecycle could be addressed through four specific TA interventions

A

## WASH Fellowship

- Fellowship program with WASH / financing sector experts can be deployed as secondees to partner FIs and investors to help build internal capacity in scoping attractive WASH opportunities, assessing enterprises, designing products, building internal systems to manage risk and track etc.

B

## Primers/ toolkits and targeted dissemination

- Create primers to help understand WASH (segments, business models, policies) and toolkits which provide detailed information on how to serve WASH opportunities (product design, risk mechanisms required etc.); these can be updated based on pilot learnings
- Conduct workshops, trainings with cohorts of financiers combining all these learnings

C

## Tools & market intelligence to identify and assess enterprises efficiently and accurately

- In the short-term, develop pipeline data for FI partners in intervention 1 and 2 and develop market research report(s) on SME financing opportunities; ensure to capture learnings from the pilots clearly
- Over time, these learnings can be merged into a one-stop platform that includes: *(ADB can decide on the intensity and scale of support)*
  - **An enterprise database** using secondary databases (e.g., GST, e-commerce data) and primary research in select states/ districts to showcase the WASH MSME pipeline
  - **A WASH centric risk assessment calculators** created in collaboration with market experts (including fintech players) that can support financiers evaluate WASH enterprises
  - **Market trends** in WASH financing to reduce information asymmetry (e.g., total disbursements, percentage of non-performing assets, number of enterprises receiving capital)

D

## Advocacy

- Leverage ADB's sovereign team to work with state governments, ULBS to advocate for adoption of common industry standards, equitable risk sharing in government tenders and adopt credit ratings for ULBs<sup>1</sup>

# Annex

# To assess them, we looked at the instrument's track record, applicability to solve WASH/India challenges and potential in unlocking more capital



## History

### *History of uptake, frequency of instrument being used*

- **High:** Strong evidence of financiers participating, with quick uptake; frequently used
- **Medium:** Moderate evidence of financier participation, slow uptake; used with moderate frequency
- **Low:** Negligible evidence of financier participation; limited frequency



## Investor interest

### *Likelihood of solving issues financiers face in WASH in India and applicability across financiers*

- **High:** High likelihood of solving issues financiers face and widely applicable
- **Medium:** Moderate likelihood of solving issues financiers face and moderately applicable
- **Low:** Limited likelihood of solving issues financiers face and limited applicability



## Multiplier effect

### *Range of capital invested and multiplier it can generate*

- **High:** Large amount of capital invested, with strong multiplier/ ripple effects (greater than \$100M)
- **Medium:** Moderate amount of capital invested, with considerable ripple effects (\$10-100M)
- **Low:** Small size of investment, with low multiplier effects (\$0-10M)

Note: Analysis for TA interventions differs from the financial interventions, with multiplier effect excluded for these interventions (difficult to accurately estimate multiplier impact of indirect capacity building and support)



# Financing: Most interventions are well suited to address the numerous WASH challenges in India (1/2)

Financial instruments

Instrument	Description	History	Investor Interest	Multiplier effect
<b>Guarantee Facilities</b>	Facility to protect against credit losses (MSME default)	<ul style="list-style-type: none"> <li><b>High.</b> Demonstrated history of participation in FLDGs, partial guarantees across geographies and sectors</li> </ul>	<ul style="list-style-type: none"> <li><b>High.</b> Increases collateral coverage, reducing credit risk of loans. Suited for banks, NBFCs, MFIs that lend to higher risk (perceived) enterprises</li> </ul>	<ul style="list-style-type: none"> <li><b>High.</b> Potential to set up large facilities (\$100- 500 million) or smaller targeted guarantees. Unlocks 2-3x of capital invested in the facility</li> </ul>
<b>Concessional loans</b>	Loans at below market rates to FIs to increase financial viability of lending	<ul style="list-style-type: none"> <li><b>Medium.</b> History of use across energy, infrastructure. However, low speed of capital deployment due to higher reporting requirements hinders effectiveness</li> </ul>	<ul style="list-style-type: none"> <li><b>Medium.</b> Lowers interest rate for end borrowers. Best suited for financiers with high cost of capital &amp; lacking liquidity (NBFCs, MFIs)</li> </ul>	<ul style="list-style-type: none"> <li><b>Medium.</b> Large ticket loans (\$100-500 million) provided directly to financiers; limited multiplier effect as it provides direct liquidity</li> </ul>
<b>Reward and incentives</b>	Incentives for making WASH investments (direct or for on-lending)	<ul style="list-style-type: none"> <li><b>Medium.</b> Origination incentives, impact bonuses have seen moderate deployment and participation. Lower costs for financiers; previously catalysed retail WASH loans</li> </ul>	<ul style="list-style-type: none"> <li><b>Medium.</b> Increases capital deployed when financiers have high cost of borrowing (NBFCs, MFIs) and when borrowers have high-cost sensitivity<sup>1</sup> (mature operators, emerging enterprises)</li> </ul>	<ul style="list-style-type: none"> <li><b>High - Medium.</b> Investment allocated varies from (\$0.5-5 million); multiplier effect of capital is high (5-10x), as loans are affordable for both the borrower and lender</li> </ul>
<b>Earmarked funds</b>	Dedicated capital for on-lending to WASH	<ul style="list-style-type: none"> <li><b>High.</b> History across sectors and has seen ample financier uptake. Deployment speed may be slow for WASH due to lack of a sufficient deal pipeline</li> </ul>	<ul style="list-style-type: none"> <li><b>High.</b> Increases total capital allocated to the sector; forces financiers to find investable opportunities across enterprises. Less suited when deal pipeline/ investment discovery is a bottleneck</li> </ul>	<ul style="list-style-type: none"> <li><b>Medium.</b> Large ticket loans (\$100-200 million) allocated to financiers; low multiplier effect (1-2x) of capital as the instrument provides liquidity directly to financiers</li> </ul>

Note: (1) Includes enterprises whose business models and unit economics are sensitive to the rate at which they borrow capital

# Financing: Most interventions are well suited to address the numerous WASH challenges in India (2/2)

Financial instruments (blended)

Instrument	Description	History	Investor Interest	Multiplier effect
<b>Project grants</b>	Grant to projects/ financiers de-risk investments for private capital	<ul style="list-style-type: none"> <li><b>High.</b> Have been used to de-risk large-scale infrastructure, enabling financiers to commit large loans; have also been used to reduce cost of capital by meeting output targets</li> </ul>	<ul style="list-style-type: none"> <li><b>Medium.</b> Reduces cost and perceived risk for banks, NBFCs, impact investors for investments to mature and emerging enterprises</li> </ul>	<ul style="list-style-type: none"> <li><b>Medium.</b> Can be for multi million-dollar infrastructure projects. Grants range from \$2-10M covering 2-5% of project costs, with a large multiplier effect on capital unlocked (20-50x)</li> </ul>
<b>Pooled DFI fund</b>	Private, philanthropic capital for targeted deployment	<ul style="list-style-type: none"> <li><b>High.</b> Successfully used to mobilize capital and offer different asset classes/ return profiles within a single investment vehicle</li> </ul>	<ul style="list-style-type: none"> <li><b>High.</b> Reduces cost of funds for investors and allows impact investors, CSR and DFIs to co-invest under a fund; increases total capital allocated</li> </ul>	<ul style="list-style-type: none"> <li><b>Medium.</b> Capital invested (\$50-500 million) through debt, quasi-equity or equity. Limited multiplier effect since the instrument provides direct capital</li> </ul>
<b>Accelerator</b>	Provides seed financing to young SMEs/ start-ups	<ul style="list-style-type: none"> <li><b>High.</b> Accelerators have helped increase investment readiness of enterprises across multiple sectors and geographies</li> </ul>	<ul style="list-style-type: none"> <li><b>Medium.</b> Provides initial capital to high-risk enterprises; enables impact investors and lenders to invest as enterprises scale up</li> </ul>	<ul style="list-style-type: none"> <li><b>Medium.</b> Range from (\$5-50M); indirect multiplier effect as they provide high risk initial capital that later enables enterprises to raise larger rounds from investors</li> </ul>
<b>Impact bonds, green bonds</b>	Targeted capital allocation to projects and/or impact outcomes	<ul style="list-style-type: none"> <li><b>High.</b> Over 50 impact bonds deployed globally with ~70% of DIBs achieving both impact &amp; capital return targets. Increasing interest for green bonds with the ESG push.</li> </ul>	<ul style="list-style-type: none"> <li><b>Medium.</b> Reduces cost of capital and increases capital allocated by large impact investors, institutional investors and banks to the sector</li> </ul>	<ul style="list-style-type: none"> <li><b>Medium.</b> DIBs range between \$3-10M. Green bonds are capable of drawing in \$50-200M; multiplier effect limited since they reach few at a time but can help establish proof of concept to attract more capital</li> </ul>
<b>Payment vouchers<sup>1</sup></b>	Stabilize revenue by “topping up” funds as needed	<ul style="list-style-type: none"> <li><b>Low.</b> Payment vouchers yet to see wide scale adoption across financial landscape</li> </ul>	<ul style="list-style-type: none"> <li><b>Medium – low.</b> CSR funds could be well-positioned to purchase vouchers and direct it for use within WASH</li> </ul>	<ul style="list-style-type: none"> <li><b>Low.</b> Channels philanthropic capital to at need enterprises; negligible multiplier effect (1-2x) as it directly funds working capital constraints</li> </ul>

Note: (1) Payment voucher (e.g., E-RUPI) is a cashless voucher based mode of payment that allows individuals and small businesses to receive payments without a card, payments app, or internet banking

# Non-financing: Additionally, there are multiple TA interventions that can help improve financier capacity and enterprise addressability

	Instrument	Description	Investor Interest/ impact potential
Investor TA	<b>(Individual) financier capability support</b>	Assistance to lenders, impact investors (and governments if applicable) whilst setting up/ participating in WASH facilities/ funds - capital structuring, enterprise selection, risk mitigation etc.	<ul style="list-style-type: none"> <li>Effective structuring and support will <b>facilitate successful uptake of facilities</b> and ensure equitable risk distributed among SMEs, investors and government entities</li> </ul>
	<b>Sector knowledge support</b>	Create publicly available WASH primers, toolkits to generate interest in WASH enterprise financing, debunk myths around riskiness, and provide details around typical business models	<ul style="list-style-type: none"> <li>This can help serve as a <b>one-stop knowledge hub for financiers</b> to meaningfully look at WASH opportunities (given such information is not readily available today)</li> </ul>
Market building	<b>City WASH Marketplace<sup>1</sup></b>	Marketplace to bring together enterprises, city governments and impact investors. Investors offer funding when SMEs win tenders, DFIs can backstop initial transactions/ government payments; investors in turn benefit from increased deal flow	<ul style="list-style-type: none"> <li>The WASH focused marketplace to bring <b>together providers of capital</b>, looking for investable opportunities, to enterprises that need capital. Marketplace will provide support to enterprises, governments, lenders and investors</li> </ul>
	<b>WASH Intelligence platform</b>	Platform to bring together the entire WASH ecosystem in one place and use data to drive investment decisions and research. Provide investors with support on discovery, funding, and tracking	<ul style="list-style-type: none"> <li>WASH focused platform to allow existing financiers and those new to the sector to <b>shortlist and explore investable opportunities</b>; reduce time for diligence and sourcing</li> </ul>
Advocacy	<b>Quality and process standards</b>	Targeted engagement with government entities to establish industry standards for materials and processes used in WASH; increases tender eligibility for SMEs and create addressable investment opportunities for financiers	<ul style="list-style-type: none"> <li>Adoption of common standards will allow financiers to <b>compare enterprises</b> and in turn <b>increase enterprise formalization</b>, boosting financier confidence within the sector</li> </ul>
	<b>Credit ratings for ULBs</b>	Advocate for uptake of ULB credit ratings alongside loans provided to state and central bodies that rates government entities' ability to pay	<ul style="list-style-type: none"> <li>Credit ratings for ULBs will enable <b>financiers to gauge risk of delayed payments</b> effectively and lend to enterprises that engage with higher rated government entities</li> </ul>

Note: (1) There can also be a version of this without government involvement – one stop hub for information on WASH financing opportunities, typical enterprise financials, market trends that financiers can use to guide investments