

ADAPTATION  
BLENDED

FUND NAME	Watercredit Investment Fund 3 (WCIF3) <sup>1</sup>
COUNTRY/REGION	Priority countries: Cambodia, India, Indonesia, and the Philippines
MANDATE	To invest in financial institutions and enterprises that increase access to safe water or sanitation services in emerging markets
SIZE, FINANCIAL CLOSE AND TERM	Size: USD 50 million First Financial Close: 2019
INVESTOR(S) AND FUNDERS	A range of impact investors, including foundations, high-net-worth individuals, and development finance institutions ( <i>unspecified</i> ).
GUIDEBOOK TAXONOMY FINANCIAL SYSTEM ACTOR	Philanthropy and Impact Investors Multilateral, Bilateral, and DFIs
OBJECTIVE	The overall goal of the Project was the creation of a blended Fund that provides debt financing to financial institutions and enterprises serving the water and sanitation needs of families living in poverty in Asia (priority countries include Cambodia, India, Indonesia, and the Philippines).
ENVIRONMENTAL IMPACT (ON CLIMATE MITIGATION AND/OR ADAPTATION)	Environmental impacts of the Fund include providing improved water and sanitation services to families living in poverty in Asia. As of July 2019, implementation of WCIF3 has resulted in the following: <ul style="list-style-type: none"> <li>• 224,100 people with access to sanitation</li> <li>• 39,700 people with access to water</li> <li>• 9,373 people with access to water <i>and</i> sanitation</li> </ul>
CAPITAL STRUCTURE	<ul style="list-style-type: none"> <li>• Equity - USD 22.5 million <ul style="list-style-type: none"> <li>- <i>Manager &amp; General Partner (Class III) USD 400,000</i></li> <li>- <i>Common Equity (Class II) USD 6 million</i></li> <li>- <i>Preferred Equity (Class I) USD 16.1 million</i></li> </ul> </li> <li>• Debt (via loan facilities) - USD 27.5 million</li> <li>• First-Loss Guarantee - USD 5 million</li> </ul>
FINANCING MODEL/APPROACH (EX: BLENDED FINANCE)	Blended finance, including concessional equity and a first-loss guarantee.
RATIONALE FOR FINANCING MODEL/APPROACH	The substantial use of blended risk mitigation instruments in WCIF3's capital structure allowed the Fund to meet the risk-return requirements of its investor base. Blended finance can also be an important form of gap financing for transactions such as WCIF3 that have revenue potential but are not yet fully commercial.
FINANCIAL INSTRUMENT(S) (LOANS (COMMERCIAL/ CONCESSIONAL), EQUITY, GUARANTEE)	Senior loans, subordinated debt (financial institutions only)

<sup>1</sup> This case was provided by Convergence as a contribution to the Sharm El-Sheikh Guidebook for Just Financing

DIAGRAM OF THE FINANCING STRUCTURE

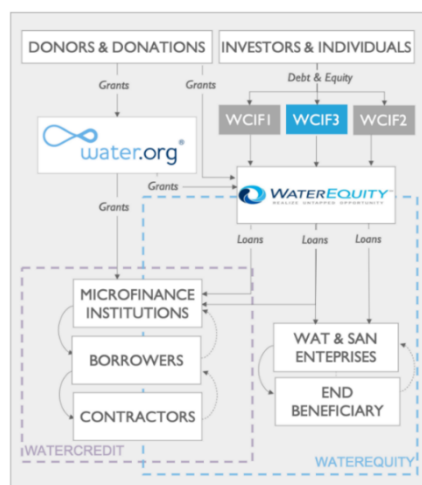


Figure 1 - WCIF3 Financing Structure

**Executive Summary**

WaterCredit Investment Fund 3 (WCIF3) is a blended fund that provides debt financing to financial institutions and enterprises serving the water and sanitation needs of families living in poverty in Asia. WCIF3 was launched by WaterEquity, an impact investment manager established by Water.org cofounders Gary White and Matt Damon. WaterEquity is the first impact investment manager dedicated to ending the global water crisis. WCIF3 is WaterEquity’s first fund to use blended finance and is comprised of tiers of equity, catalytic debt facilities including multiple zero- and low-interest loans, and a first-loss guarantee.

Establishment of the Watercredit Investment Fund 3 (WCIF3), which invests in financial institutions and enterprises that expand access to safe water and sanitation products. WCIF3 reached first close and began disbursing capital in October 2018; as of March 2019, the Fund has provided eight loans to investees, including seven financial institutions and one water and sanitation enterprise, across the four priority countries.

Water.org assisted the Fund in identifying a scalable pipeline with sustainable impact outcomes – WaterEquity selected its pipeline for WCIF3 primarily from top-performing Water.org microfinance partners.

Socioeconomic impacts of the Fund include economic and social benefits from improved water and sanitation services, such as increased overall health and monetary savings from improved water infrastructure. Additionally, WCIF3 has supported approximately 60,000 microloans to individuals/families within the target countries to assist them in meeting their water and sanitation needs; 93% of borrowers are women.

Environmental impacts of the Fund include providing improved water and sanitation services to families living in poverty in Asia. As of July 2019, Implementation of WCIF3 has resulted in the following:

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- 39,700 people with access to water
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**Analysis**

WHAT MADE THIS PROJECT SUCCESSFUL?


Global partnerships: WCIF3 is an example of a Fund that benefitted from having a close NGO partner, Water.org, to identify a scalable pipeline with sustainable impact outcomes. As demonstrated by WCIF3, NGOs can serve as valuable partners when leveraged for core strengths such as strong local reach and, where appropriate, the ability to translate client knowledge to a market context.

Iterative blended-finance process: WCIF3 is the third blended finance platform supported by WaterEquity, with the two previous fund iterations providing valuable lessons on how to meet the goals and objectives of a particular investment structure.

Number of individuals with improved water access/quality: Previous project estimates (as of 2019) indicate that the implementation of the WCIF3 has resulted in 224,100 people with access to sanitation, 39,700 people with access to water, and 9,373 people with access to water and sanitation

TO WHAT EXTENT IS THIS MODEL SCALABLE?

Given the previous WCIF iterations, the fund/project type is likely moderately to very scalable and can be utilized within varying geographic and development contexts.



<b>WHAT ARE THE NECESSARY CONDITIONS TO MAKE IT REPLICABLE IN OTHER COUNTRIES/REGIONS?</b>	Sufficient investments from interested impact investors in similar blended finance structures.
<b>CONSTRAINTS/DRAWBACKS OF FINANCING MODEL</b>	Potential constraints in securing sufficient guarantee coverage to meet capital cushion requirements, as was the case for WCIF3.
<b>LESSONS LEARNT</b>	<ul style="list-style-type: none"><li>• Blended finance offers a successful format for funding water security measures for impoverished families in Asia.</li><li>• Blended finance is an iterative process, and blended finance structures/funds can be tweaked depending on contextual constraints.</li><li>• NGOs can provide much needed, on the ground support with pipeline origination.</li></ul>