Pooled Funds: Innovations to Improve WASH Financing

WATER, SANITATION & HYGIENE FINANCE (WASH-FIN)

Closing financing gaps to achieve universal access to water and sanitation services
WASH-FIN: A SUMMARY

WASH-FIN aims to close financing gaps to achieve universal access to water and sanitation services

Massive financing gap for WASH

- An estimated $114 billion per year (*three times current investment rates*) will be required to achieve universal access to water and sanitation
- Bridging the financing gap requires public investment and utilization of private capital markets

**USAID’s WASH-FIN provides technical assistance and services to help municipalities and utilities track and mobilize greater financial resources for improved service delivery.**
What is WASH-FIN?

- 5-years: 2016 – 2021
- $40.2 million budget ceiling
- To work in at least 8 countries in Africa and Asia
- Current countries: South Africa, Senegal, Kenya, Cambodia, Nepal
- **APPROACH:** USAID’s WASH-FIN provides technical assistance and services to help municipalities and utilities track and mobilize greater financial resources for improved service delivery.
- **GOAL:** Close financing gaps to achieve universal access to safe and reliable water and adequate sanitation services.
Sample Pooled Fund Structure

Municipal Loan Portfolio

<table>
<thead>
<tr>
<th>Muni 1</th>
<th>Muni 2</th>
<th>Muni 3</th>
<th>Muni 4</th>
<th>Muni 5</th>
<th>Muni 6</th>
<th>Muni 7</th>
<th>Muni 8</th>
</tr>
</thead>
</table>

Credit Rating of Municipalities

Bundled Debt

Security Issued

$ for Capital Investments

Optional Loan Guarantee Coordinated with Fund

Capital Markets/Private Investors

1 Entities participating in a pooled instrument must be rated to ensure that investors have confidence in the overall risk profile of the instrument. The overall instrument also receives a rating.
Pooled Funds: Innovations to Improve WASH Financing

WATER, SANITATION & HYGIENE FINANCE (WASH-FIN)

Closing financing gaps to achieve universal access to water and sanitation services
**WASH-FIN: A SUMMARY**

WASH-FIN aims to close financing gaps to achieve universal access to water and sanitation services

**Massive financing gap for WASH**

- An estimated $114 billion per year (*three times current investment rates*) will be required to achieve universal access to water and sanitation
- Bridging the financing gap requires public investment and utilization of private capital markets

**USAID’s WASH-FIN provides technical assistance and services to help municipalities and utilities track and mobilize greater financial resources for improved service delivery.**
What is WASH-FIN?

- 5-years: 2016 – 2021
- $40.2 million budget ceiling
- To work in at least 8 countries in Africa and Asia
- Current countries: South Africa, Senegal, Kenya, Cambodia, Nepal
- **APPROACH**: USAID’s WASH-FIN provides technical assistance and services to help municipalities and utilities track and mobilize greater financial resources for improved service delivery.
- **GOAL**: Close financing gaps to achieve universal access to safe and reliable water and adequate sanitation services.
### WASH-FIN Approach to supporting SDG 6 is focused on:

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PRIVATE CAPITAL MARKETS</strong></td>
<td>WASH-FIN’s range of services and tools to help reduce risk and build creditworthiness for access to private capital for utilities and municipal governments.</td>
</tr>
<tr>
<td><strong>SUSTAINABLE BUSINESS MODELS</strong></td>
<td>WASH-FIN supports reliable and resilient WASH services through promotion of financially viable and sustainable business models critical for increased public and private investment.</td>
</tr>
<tr>
<td><strong>DOMESTIC RESOURCE MOBILIZATION</strong></td>
<td>WASH-FIN supports domestic resource mobilization by building local capacity to track investment and by helping urban areas better leverage local resources.</td>
</tr>
<tr>
<td><strong>REPLICATING SUCCESS</strong></td>
<td>WASH-FIN strengthens the capacity of authorities, service providers and local financial institutions through a collaborative learning process for knowledge dissemination, replication and uptake.</td>
</tr>
</tbody>
</table>
Why is there a need for pooled funds?

- Need for WASH services is continuing to grow
- Sub-national governments struggle to generate sufficient revenue for capital investments
  - National government transfers are insufficient
  - Tariffs or other user fees are used for ongoing maintenance, not infrastructure
Why is it difficult for municipalities to seek outside financing individually?

• Many municipalities or utilities have borrowing needs that are relatively small, but many investors are only interested in large-scale investments based on fixed cost of due diligence

• The cost for initiating transactions can be prohibitively high relative to the amount of money being raised

• Municipal borrowing needs can be complex, and many investors consider them to be too risky

• Municipalities may not have the credit ratings or other financial documentation needed to attract private sector investors
How can a pooled instrument solve this problem?

- A pooled fund enables municipalities (or other entities) to aggregate their borrowing needs, creating a larger debt instrument that is attractive to investors.

- When debt is aggregated, the risk to investors is lowered, thus attracting investment.

- Entities that participate in pooled instruments must be rated, but potential participation in a pooled instrument can provide the impetus for municipalities to pursue a rating, thus unlocking financing potential even beyond the pooled instrument.
Sample Pooled Fund Structure

Municipal Loan Portfolio

<table>
<thead>
<tr>
<th>Muni 1</th>
<th>Muni 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Muni 2</td>
<td>Muni 6</td>
</tr>
<tr>
<td>Muni 3</td>
<td>Muni 7</td>
</tr>
<tr>
<td>Muni 4</td>
<td>Muni 8</td>
</tr>
</tbody>
</table>

1 Entities participating in a pooled instrument must be rated to ensure that investors have confidence in the overall risk profile of the instrument. The overall instrument also receives a rating.
Sample Fund Management Structure

- National Government Entity/Board of Directors
  - Oversight
- Fund Sub-Borrowers: Muni 1, Muni 2, Muni 3, Muni 4
- Loans packaged and offered to investors
- Capital Markets/Private Investors
  - Capital Market Funds Flow to Pooled Fund through managing entity
**Fund Structure**

**Legal Structure**
- En-Commandite Partnership
  - General Partner: The Infrastructure Debt Fund GP (Pty) Ltd
  - Advisory Board and Investment Committee
  - Limited Partners: Investors / Lenders

**Portfolio of Infrastructure Projects**
- Capital + Return
- Capital
- Providing a first loss facility
- Capital
- First Loss Facility Agreement
- Advisory Fee
- Creating and managing asset portfolio
- Advisory Agreement

- INCA Portfolio Managers (Pty) Ltd
  - “Fund Advisor”
- SANNE Fund Services
  - “Financial Administration and Valuations”

### The Infrastructure Partnership Debt Fund

- Capital + Return
- Capital
- “First Loss Facility Provider”

### Investors / Lenders
- “Limited Partners”

### Non Decision Making Advisory Board

### Investment Committee

### Size of Fund
- ZAR 3 billion (first close ZAR 1.5 billion)

### General Partner Contribution
- ZAR 30 million

**Superior to the old INCA**
Other Features/ Functions of a Pooled Fund

• Pooled funds allow participating entities to take advantage of lower transaction costs and interest rates relative to the costs of financing on an individual basis

• Pooled funds can partner with other organizations to offer a credit guarantee (e.g., USAID DCA Guarantee) or other credit enhancement mechanisms

• Participating entities still have the option of blending their own financing options from the pooled fund as well as from other sources
### The Pooled Fund: A Unique and Important Option

<table>
<thead>
<tr>
<th>BORROWING TYPES</th>
<th>Transaction Size</th>
<th>Transaction Cost</th>
<th>Interest Rates</th>
<th>Tenor</th>
</tr>
</thead>
<tbody>
<tr>
<td>DFI (IFC, AFD, KfW, etc.)</td>
<td>Large</td>
<td>High (but often covered through grants)</td>
<td>Medium</td>
<td>Average 3-12 years, but some up to 25 years (e.g., EIB)</td>
</tr>
<tr>
<td>Commercial Bank</td>
<td>Large</td>
<td>High</td>
<td>High</td>
<td>5 years for short-term debt</td>
</tr>
<tr>
<td>Municipal Bond Issuance</td>
<td>Medium</td>
<td>High</td>
<td>Low</td>
<td>15-20 years</td>
</tr>
<tr>
<td>Pooled Fund</td>
<td>Large, but aggregation of many small transactions</td>
<td>Low</td>
<td>Low</td>
<td>15-20 years</td>
</tr>
</tbody>
</table>

* All numbers are illustrative only.
Sample of Pooled Funds Around the World

<table>
<thead>
<tr>
<th>NORTH AMERICA</th>
<th>EUROPE</th>
<th>AFRICA AND MIDDLE EAST</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States - numerous state bond banks</td>
<td>Finland - Municipality Finance</td>
<td>Kenya - LGLA</td>
</tr>
<tr>
<td>LATIN AMERICA</td>
<td>France - Agence France Locale</td>
<td>Jordan - CVDB</td>
</tr>
<tr>
<td>Brazil - State of Rio Grande do Sol</td>
<td>Georgia - Municipal Development Fund</td>
<td>Morocco - FEC</td>
</tr>
<tr>
<td>Brazil - State of Paraná</td>
<td>Netherlands - Bank Nederlandse Gemeenten</td>
<td>Nigeria - Infrastructure Development Fund</td>
</tr>
<tr>
<td>Brazil - State of Santa Catarina</td>
<td>Netherlands - Nederlandse Waterschapsbank</td>
<td>South Africa - MDF</td>
</tr>
<tr>
<td>Canada - Municipal Authority of British Columbia</td>
<td>Norway - Kommunalbanken</td>
<td>Zimbabwe - GDLF</td>
</tr>
<tr>
<td>Colombia - FINDETER</td>
<td>Poland - Environmental Bank</td>
<td></td>
</tr>
<tr>
<td>Mexico - BANOB她们</td>
<td>Poland - Metropolitan Development Authority</td>
<td></td>
</tr>
<tr>
<td>Czech Republic - MUFIS</td>
<td>Romania - Municipal Credit Facility</td>
<td></td>
</tr>
<tr>
<td>Czech Republic - State Environmental Fund</td>
<td>Sweden - Kommuninvest</td>
<td></td>
</tr>
<tr>
<td>Denmark - KommuneKredit</td>
<td>ASIA</td>
<td></td>
</tr>
<tr>
<td>Ecuador - BEDE</td>
<td>Thailand - Municipal Guaranty Facility</td>
<td></td>
</tr>
<tr>
<td>Guatemala - INFORM</td>
<td>Turkey - Iller Bank</td>
<td></td>
</tr>
<tr>
<td>Honduras - BANMA</td>
<td>India - State of West Bengal</td>
<td></td>
</tr>
<tr>
<td></td>
<td>India - State of Tamil Nadu</td>
<td></td>
</tr>
<tr>
<td></td>
<td>India - Mumbai</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Indonesia - RDA</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Japan - JFM</td>
<td></td>
</tr>
</tbody>
</table>
CONTACT INFORMATION

Jeremy Gorelick
jeremy.gorelick@washfin.org