India Strategy

Charting a path for breakthrough impact

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India Strategy Framework

—Draft—

In 2012, the Water.org - McKinsey engagement established what has been considered a 'North Star' for Water.org—the potential by 2020 to reach 100 million people with water and sanitation through WaterCredit.[1] It provided a framework and supporting analyses of the broad requirements for scale. It did not provide (nor was it intended to provide) an exact roadmap of how to execute against this audacious goal. There exists a chasm between what we know well—our current programs which are estimated to reach a cumulative four million people through 2015—and the untested strategies that will bring us closer to our 100 million person 'North Star'.

The McKinsey engagement clearly identified India as a critical means to achieving the 100 million-person goal. The study recommended that Water.org maximize scale up in that country. Now is the time to build the bridge to this goal. Several factors have converged over the past several years and over the very recent months that have led us to this conclusion. Over the next eight weeks, Water.org will identify and engage select strategic resources to help us develop an integrated approach to impact in India.

The opportunity at hand is to deliver an integrated, overarching 3-5 year strategic and operational plan for India that will enable us to reach 50-100 million people[2] in that country alone by 2020. It must integrate and build upon existing work streams and inform our work going forward. The deliverable must incorporate a thorough understanding of the policy and regulatory environment, identify barriers to expansion, and recommended leverage points and solutions. It must verify the quantitative market opportunity for WaterCredit (confirming and building off of the initial McKinsey work), verify and quantify priority channels and service models, prioritize potential governmental, business and funding partners, and recommend the required strategies and structure required for success. We aim to complete the strategic analysis work by February 15, 2015 and the business/operating plan by April 15, 2015.

Efforts to Date

Since 2003, we have focused our efforts in India on the execution and expansion of our MFI-led WaterCredit initiatives. These programs have enabled access to water and sanitation for nearly 1.5 million men, women and children in India alone. Several key donors have supported these initiatives through multi-million dollar, multi-year grants; they are executed in conjunction with our network of twenty-two certified NGO and MFI partners in India. In August 2014, we launched our first WaterCredit Advisory Services agreement in India with Equitas. We are in discussions with additional funders about deep impact in India, which potentially could lead to a relatively quick mobilization of funds to support our strategic plan.

Over the past several months, Water.org has undertaken several initiatives related to accelerating impact in India. These include:

- Internal programmatic country strategy development.

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[1] The final tally delineated the potential to reach 89 million, but most conversations have 'rounded up' to 100 million, which was the original target of the McKinsey study.

[2] As a working team, we need to agree upon the value of setting a target and if we set one, to hone in on an audacious but credible goal.

- Completed the foundational work for a concessionary lending fund (WaterCredit Investment Fund - WCIF). Work to date includes a draft Private Placement Memorandum and the related legal and regulatory work. This fund is intended to be introduced to potential investors in October, 2014 with a target raise of $12M by May, 2015.
- Landscaping and policy engagement with ASG. Initial meetings conducted week of November 10, 2014.
- Initiated conversations with RBI representatives regarding RBI policy and regulatory restrictions related to Microfinance and Priority Sector Lending.
- Cultivation of strategic influencers, advisors, and potential donors with the support of Mr. Dilip Shangvhi of Sun Pharmaceuticals.

Supporting Efforts to Date

Since 2012, Water.org has pursued several strategies that emerged from or extended out of the McKinsey engagement that are not specific to India. These include:

- Geographic expansion: the Water.org MFI-led programs have extended to new geographies including Indonesia, the Philippines, Peru and Bangladesh and soon will extend to Cambodia and Ethiopia.
- Expanded Funding: The model has attracted more than $20 million in new funding commitments largely from corporate foundations who value the scalability and sustainability of the model and who are attracted to the model's ability to leverage philanthropic funds to attract commercial and social capital.
- Profitability Review: through an engagement with Deloitte, Water.org has completed a profitability assessment of the WaterCredit model and is in the process of identifying next steps to enhance profitability and sustainability of the model.
- Introduction of WaterCredit Advisory Services (WCAS) team and model. WCAS aims to improve the ROI of the WaterCredit model, as measured by philanthropic dollars invested per person reached. This approach, which largely provides technical assistance to establish a water and sanitation portfolio within partner organizations, has launched in several markets. In India, the partnership with Equitas is intended to establish a 30,000 person loan portfolio in three years with no subsidy provided by Water.org.
- Completed "Enabler Research" to assess awareness of and opinions about Water.org and the WaterCredit model among influential organizations that could enhance and accelerate the expansion of affordable finance for WASH and the WaterCredit approach. Examples of prioritized organizations include World Bank/WSP, Citi Microfinance, BRAC, and the Bill and Melinda Gates Foundation.

What we know

We have learned a great deal through our many years of operating in India, the experience and relationships of our US-based staff and board and of our India-based staff, ongoing research, in-country engagements, and the McKinsey analysis. In August 2014, the Water.org programs team initiated a workplan to identify and prioritize a set of programmatic options for India that will capture and expand upon our knowledge and serve as a foundation for an operational plan. See attached India Program Strategy Executive Summary.

A key part of scoping this work must focus on integrating and building upon what we know. We must frame the analysis, identify key questions, required data and insight, and what is accessible in-house versus through external input or outreach.

We must validate and quantify the analyses and opportunity as defined in the McKinsey engagement. That study identified and prioritized high potential geographies that met robust criteria; primary among these criteria were density of WASH need and attractiveness of the local microfinance environment. It further concluded that in order to approach the 100 million-person goal by 2020, we would need to modify the structure of our current subsidy to MFI partners and to extend our approach beyond microfinance to broad WASH finance. The engagement prioritized alternative financial channels and attempted to quantify them globally and by market. Further, the McKinsey analysis concluded that Water.org must invest in global advocacy to encourage others to take up and extend the WaterCredit model, rapidly expanding access to affordable credit to address WASH needs by leveraging others.

Framing the Analysis

—Draft—

	Relevant Information available	***Gaps that exist***
WASH Need-WASH Finance Intersection		
What is the total need / demand for water and sanitation in India?	Deliverable 1B, Appendix B and Appendix G; http://www.bbc.com/news/world-asia-india-29502603; http://www.unicef.org/india/wes.html UN/WHO Joint Monitoring Programme and GOI data/reports outline WASH coverage. Monitor/Deloitte report identifies potential demand for rural sanitation, including financing	Country-level demand for piped water and other forms of improved sanitation (may be difficult to find reports quantifying this).
Need/demand for water access and water quality	Deliverable 1B, Appendix E and H (water access) GOI probably has produced aggregate report on drinking water quality across country	Demand for water quality – likely confined to localized studies at best.
What is the total opportunity for financing the demand for water and sanitation?	Deliverable 1A Spreadsheet contains basic projections, most likely more predictive of WaterCredit scaling potential but less predictive for other channels and service models. Rural sanitation – Monitor Deloitte report	Improved water and other forms of sanitation. Likely best case would be to highlight % people by income level w/o WASH access, not by stated/revealed demand at country level
How does this need / demand split out by water versus sanitation?	This is currently not represented in our data. World Bank report "Tapping the Markets: Opportunities for Domestic Investments in Water and Sanitation for the Poor" contains some analysis of demand/need for water services but not specific to India.	Can use existing data on UNICEF site and apply proportionately to "Total Opportunity", but see water complications note to the left.
How does this need/demand break down by channel?	Deliverable 1A Spreadsheet contains basic projections for some channels	Deliverable 1A does not comprehensively offer all possible channels or provide full analytics for projected demand. Channels need to be decided upon/confirmed and research conducted
Water.org Work to date		
What is the total number of people served to date by Water.org?	Water Portal (advanced search for India)	--
2003 forward to estimate 2020 / based on current grants	Water Portal	--

	Relevant Information available	*Gaps that exist*
Water versus sanitation	Water Portal	TBD based on quantification of need
How does this compare to the total need?	WP data / total need	
How does this break down geographically (need/served	Deliverable 1B, Appendix D (shows that the vast bulk of our work is in the South)	This data (map in Appendix D) could be layered on top of a “need” map in GIS
Water and sanitation	Water Portal	Same as above
MFI Channel Analysis:		
How many people can be reached through MFI-led approach?	Estimates provided in Deliverable 1A Spreadsheet but the estimates need to be validated MixMarket – estimates of MFI client size. Also reports in India estimating NBFC market (85% of total market)	Assumptions need to be made re: distribution of WASH coverage among MFIs. Also note that NBFC MFIs limited under current rules (30% of all non-IGA loans), so assumptions required to curtail projections.
Breakdown of MFI market by # institutions and $/capital- total, those capable, those we’ve worked with as % of total (can analyze based on current certification criteria AND also must look at wider set)	Deliverable 1A Spreadsheet “Tables” tab; Deliverable 2B; M-CRIL MixMarket and India-specific reports for market size. Can compare to present partners. Certification criteria not quantifiable under these terms	Understanding which of the MFIs that we don’t currently work with are “Capable” in terms of technical service delivery and meeting our reporting requirements
Analysis of MFI/NBFC + Other MFIs	Same as above	Same as above
Model Analysis		
What is working with WaterCredit model?	Profitability analysis, impact assessments (PEPSI 1); end-line surveys (Swiss Re 1)	Qualitative measures of the success of the model could be covered in a survey of WO and its partners.
What changes can we/should we make to improve?	Same as above; Deliverable 1B sections “Current Partner Network” and “Partnerships”; Deliverable 2C	Interviews with current partners would be valuable, as would focused research investigating who we reach and who we don’t (and why)
Graduation scenario/process	Deliverable 2A partially covers this	Actual guidelines as to how/when to conclude a partnership
Alternative Channel Analysis		
What is total opportunity by channel?	Deliverable 2C; Deliverable 1A	More in-depth research required
Who are key partners within each channel (need to apply key criteria)	Deliverable 2B	More in-depth research required; criteria need to be established/defined
What barriers to adoption exist?	Deliverable 1B sections “Government Policy” and “The Case for New Channels”	More in-depth research required
What is their willingness/interest to adopt WC?	NA	Requires stakeholder interviews
Alternative service model approach		

	Relevant Information available	*Gaps that exist*
What is opportunity by service model?	Deliverable 1A partially addresses this – needs to be validated.	More in-depth research required Can estimate # MFIs can potentially reach via WCAS, investment fund, learning, etc.
What are the barriers to access to water and sanitation?		
Financial, Cultural, regulatory, political, other	Deliverable 1B – most sections and also the Appendices but not comprehensively	Stakeholder analysis and additional research is needed
By state	Appendices	Stakeholder analysis and additional research is needed
How do we break these down?	NA	More in-depth research required; need to have firm grounding on National-level regulations and then drill down within identified states of focus
Partnership Analysis (broadly defined)		
Who is operating in these spaces (Water/Sanitation/Finance)?	Deliverable 1B “Partnerships” section	More in-depth research required
Who can help us?	See above	See above
What is the unique role Water.org can play? What is our value add?	We know how to train people on WASH lending	We lack good training materials that can easily be shared with new partners
What complementary skills/assets do we need?	Organizations that have the technical expertise to disseminate proper technique, especially in regard to sanitation structures	To date the focus is more on MFIs that can lend at scale; the technical importance of building GOOD structures is secondary
Contextual Environment		
What is the enabling environment within the Modi government?	Deliverable 1B, “Government Policy” section ASG engagement	
Policy and Regulatory Barriers and opportunities	Deliverable 1B, “Government Policy” and “The Case for New Channels” sections ASG Engagement	More in-depth research needed
Leverage points and individuals – national, state, local	ASG study; Deliverable 1B “Government Policy” section also talks about certain state-level actions (Karnataka) ASG Engagement	Need to prioritize states of interest and invest in drilling down from there.
Policy Assessment – what are barriers?		
RBI (Priority Sector Lending, MFI restrictions re. income-generating loans as % portfolio)	Deliverable 1B “The Case for New Channels” section	Investigate interpretations of RBI regulations. Gain perspective from banks re: WASH lending under these regulations
Funding Analysis		
What is required to establish an entity to accept philanthropic funds?	Not explored by Working Group but could use FCRA rules/guidelines as a starting point	In-depth research needed; RBI

	Relevant Information available	***Gaps that exist***
What is impact/opportunity of 2% CSR requirement?	Not explored by Working Group	Need to quantify estimated impact based on 2% requirement
Who are key targets?	Not explored by Working Group	Stakeholder analysis
Legal Assessment		
Optimal status/structure in India (to enable all work streams)?	Previous legal research and internal analysis of issue.	Need to define what WO wants to accomplish, what it is willing to invest in terms of time and resources. May require expert in structuring for-profit and non-profit institutions in India
How accept philanthropic funds?	Some legal research already done via the WCIF research processs	In-depth research needed
Who else is doing this?	Not explored by Working Group	Stakeholder interviews
What is their experience/what can we learn?	Not explored by Working Group	Stakeholder interviews
Priority Funders		
Individual, corporate, foundation, institutional	Not explored by Working Group	Funder analysis not complete
Enablers/Influencers to help us		
What expertise do we need based on strategy and prioritization (individuals/private and public institutions)?	Should be coming from ASG. The Working Group also thought that aligning with well-regarded research institutions for developing more of the theory behind our continuous refinement of WSS finance would be incredibly valuable.	Strategy has to be finalized before we can really assess this.
Target individuals and institutions to engage	ASG	See above.
Priority Actions/Next steps		
Top five (important + urgent)	Deliverable 3 begins to articulate some of the programmatic options but lacks validation and support from further research	TBD
Business and Operating plan – 2015-2020		
Prioritized channels/models/actions/anticipated impact based upon outcome of analysis above	TBD	
Timing, resources required ($, skill sets/knowledge base, people)	TBD	

India Program Strategy Executive Summary

In August 2014, Water.org International Programs launched an India Program Strategy Formation process. The working group was comprised primarily of members from US and field operational units. The objectives of this 1.5-month process were twofold: i) utilize the 2012 McKinsey strategy framework to define and direct resources towards areas of greatest potential impact and ii) to identify high potential programmatic options for focused growth and expansion. The resulting framework and options focused on achieving the following outcomes:

- Identify and prioritize opportunities for growth and scale of Water Supply and Sanitation (WSS) Finance through the following core areas of effort:
  - Increased client reach and geographic coverage
  - Research and development of new channels and models
  - Diversification of WSS finance products and channels
- Enhance program depth and quality to support increased responsiveness to innovation and sustainability of impact through the following core areas of effort:
  - Broadening and deepening capacity of partner network
  - Galvanizing support and visibility with local and national stakeholders for WSS finance
  - Ensuring vibrancy and credibility of technical and operational approaches

Approach and Conclusions

The high levels conclusions are articulated below, captured in two key areas:

- Potential reach through MFIs and identified priority alternative channels
- WaterCredit program model and evolution of partner network

Potential Reach and Priority Channels

In India, Water.org has seen success in proving the case for WaterCredit by addressing one of the key market failures for access to safe water and improved sanitation: affordable financing of safe water and improved sanitation assets. That being said, the current WaterCredit model is led by MFIs who are concentrated in only a few states, predominately in South India. While MFI-led WaterCredit addresses individual household access to water and sanitation, with microfinance in general reaching about 70 million people in India, opening more channels could also address supply-side barriers to providing affordable WSS finance within manufacturing, utilities and other non-financial institutions.

The roadmap for expansion during the next 3-5 years includes:

- Moving away from grant-based and revolving loan fund NGO programs primarily due to lack of scalability and financial efficiency as measured by cost per person reached. Focus will remain on providing business development support for NGOs who want to transition their microcredit programs into formal for-profit or not-for-profit MFIs.
- Scaling WaterCredit and WaterCredit Advisory services first within the current partner network, focusing primarily on large, high-capacity MFIs, and reaching new clients and new geographies in India. Of particular interest is expansion into areas where sanitation subsidies are a strong financial incentive to attract clients and where there is significant unmet demand for WSS finance.

- Launching research and development for up to 3 alternate channel pilots, focusing on product manufacturers, microhousing finance corporations, microinsurance and/or remittances.

Using the 2012 McKinsey strategy framework for India growth and expansion, the working group was able to revise assumptions about that analytical model, focusing only on financial and non-financial institutions (and therefore did not include Global Advocacy and Global Learning, which are being addressed through adjacent strategy formation processes), arriving at a conservative growth projection of over seven million people reached by 2020 through MFIs and other financial institutions, such as commercial banks and housing finance corporations. Growth projections of approximately 15% per year were modeled on the current WaterCredit partners, most of which are still in the scale-up phase of their program lifecycles.

Growth analysis also explored financing strategies that could potentially support growth with new channels and provide much-needed affordable capital for MFIs, such as the WaterCredit Investment Fund and banking correspondence models.

Under the lens of reviewing a broader definition of partnership models and growth projections, the working group also examined the current partner network along with prospective partners to support growth through all channels and service models (with the exception of the WaterCredit Investment Fund). It was determined, however, that a rigorous ranking/categorization and exploration process for new partners would yield less value without addressing the challenge of refining a broader partnership models for implementation and technical service support.

To deliver on its mission and vision, growth for Water.org must both address market failures to which WSS finance is one remedy but also to reach into the bottom of the economic pyramid where unmet demand for water and sanitation is most prevalent. Under current WaterCredit programs in India, 75% of clients are living on less than $2/day, and 33% are living on less than $1.50/day. The preponderance of WaterCredit clients live in rural areas, and of these, 92% are women. Growth and expansion will continue to be driven by metrics around reach into the bottom of the economic pyramid and marginalized populations.

WaterCredit Model and Partner Evolution

To support rapid growth and expansion and to address market failures relative to supply-side finance for water and sanitation, Water.org may need to rely on a wider and more diverse array of partners which could be achieved through bifurcation of the WaterCredit program model to include both implementation and technical service partners. Implementing partners would include those that execute programs to provide WSS financial services and products directly to clients. Technical service partners would include those who can provide penetration into non-financial sectors and/or technical support for social mobilization approaches, appropriate technology scaled and aimed at WSS financial services, and research and development of new business models for alternate channels. The bifurcation of program models is currently being tested under the first WaterCredit Advisory Services engagement with Equitas and Catalyst Trust.

Additional: External Environment: Regulatory and Political

Without going too far into the remit of the ASG engagement, the working group also examined programmatic implications of changes within the external environment, namely regulatory and political challenges. The recommendations largely called for further research and insight into state and local level engagement strategies to assist partners and clients in unlocking government, CSR, and other financial support for access to safe water and improved sanitation.