**Water.org meeting**

December 2, 2014

Participants

Water.org (WO):

* Gary White
* Jennifer Schorsch
* Chevenee Reavis
* Rachel Brumbaugh
* Rich Thorsten

ASG-DC:

* Wyatt King
* Greg McGowan
* Shruti Jagirdar

ASG-India:

* Pramath Sinha
* Anuradah Das Mathur
* Bipul Singh
* Sabarathinam Selvaraj
* Malini Bose

***Overview***

The objective of this meeting was to review the progress of the India-specific component of ASG’s engagement with WO and set the direction for next steps in India. To this end, the conversation consisted of four parts:

1. ASG Delhi provided updated findings and assessments for enhancing WO’s impact in India through advocacy (guided by the attached PPT). This relates to Phase I of the ASG-WO engagement.
2. WO presented to ASG its draft programmatic plan for India, which lays out the organization’s progress to date and some early assessments of how it can scale operationally in India over the next 3-5 years.
3. ASG and WO discussed the potential of an additional scope of work, which would run in parallel with advocacy efforts but would be more operationally focused. Both groups decided that internal conversations would be necessary first, but that they should revisit the idea in the short-term.
4. ASG and WO decided on immediate next steps.

***Part 1: Phase I (India Advocacy Strategy) Progress Update***

Prioritizing objectives – 4 possible areas of focus for advocacy moving forward:

* **Priority Sector Lending:** Inclusion of WASH as a “priority sector” could significantly increase the volume of WASH loans.
  + This strategy could be a “trim-tab,” removing a major regulatory hurdle to Water Credit and opening up the possibility for WO to reach tens of millions more over the next 5 years.
* **Corporate Social Responsibility rules:** In the near term, WO has the potential to leverage existing networks, experience, and convening power to play an advisory role linking CSR funds to WASH partners. In the medium term, WO would aim to have Water Credit be classified as an eligible area for CSR donations. In the long term, WO could position itself as a deployer of CSR funds for Water Credit.
  + Efforts are contingent on WO getting registered as an accredited entity for accepting CSR funds in India. According to the Delhi team, establishing such an entity would be rather simple, not time consuming. But it will require further discussion between WO, ASG-Delhi, and the law firm that WO has retained to look into establishing a CSR entity.
* **State governments:** Responsibility and decision-making power for WASH projects ultimately lie with each state. After assessing which states offer the best opportunity for WO impact, WO could work with those states to create focused pilot programs for Water Credit that help those states hit their WASH targets.
  + This strategy would likely be pursued within the terms of an additional scope of work.
* **Microfinance institutions:** MFIs are the main channel for disbursal of Water Credit, and the space is in a state of regulatory upheaval. Should we be focusing on advocating for changes in the “70/30 rule” which requires that 70% of microfinance loans be for “income-generating” activities? (Investments in WASH are not considered an income-generating activity.)
  + This question was left largely unresolved, and will require deeper discussion with WO about their operational objectives as well as further clarity about the status of WASH loans in the MFI bill.

**Priority Sector Lending –** one lever that could actually release a very big opportunity in India for WO to explore.

* Objective to influence RBI and Ministry of Finance to include WASH as a priority sector.
* India office has to start writing letters to government officials explaining why WASH should be included in PSL. But must gain clarity on objectives with WO first.
* RBI is ultimately responsible for setting and changing PSL norms, but they are heavily influenced by priorities of broader government. So stakeholders go beyond RBI and MoF and extend to broader government (Ministry of Finance, Ministry of Drinking Water and Sanitation, Ministry of Urban Development, Prime Minister’s Office)
* Sense is that we have a decent chance of being able to impact PSL norms.
* WASH already meets the definition of priority sector as defined by the government, but it does not qualify as a PSL category today. WASH investments also address the government’s priority to make India Open Defecation Free (ODF)
* Right now, it is unclear whether WASH loans can be considered as falling under ‘housing loans’, so there is an open question of whether to push for WASH as its own PSL category: is it worth the extra effort? For instance a WO partner, CitiMicrofinance, is looking at increasing PSL lending as WASH under housing loans.
* Anuradha believes WASH should be its own clear-cut, independent category, so there is no room for confusion. Under the housing loan category would not only create extra layer of confusion but would moderate the impact of getting WASH into PSL.
* At the moment, there is a lot of thinking going on in the RBI now about changing definition of what constitutes ‘priority sector’ (which haven’t been changed in over 30 years) especially given PM Modi’s Swachh Bharat initiative.
* There is a massive shortfall of capital in terms of what is required for GoI to reach 2019 goals. Our first message is that WaterCredit can stretch a rupee further, which is a compelling message.
  + But we have to overcome an emerging sentiment in India that the problem is not funds.
* Second aim is to demonstrate the impact of PSL norms on positive social change in India, making the argument that PSL change is essential to achieving the country’s WASH objectives.
* Third piece is to demonstrate how making WASH a priority sector would help GoI achieve its objectives.
* *Numbers: Just looking at the # of loans that are given out annually under PSL sector lending from commercial banks. Applying PSL growth rates and assuming that of entire PS loans, WASH got 1% of market by end of 2016, cumulatively we could reach 49-66.5 million people in terms of indirect impact by 2020. (Slide 7)*

**CSR Rules –** Under the new **Companies Act**, passed into law on April 1 of 2014, firms operating in India have to donate 2% of their net profits to social development efforts; influencing this policy to include water credit would open WO up to new sources of finance.

* Objectives are in 3 phases
  + Short-term: opportunity for WO to be advisor linking large companies with accredited partners in WASH sector
  + Medium-term: ensuring that WaterCredit gets included as eligible under CSR guidelines
  + Long-term: establish WO as a deployer of CSR funds
* Plans are contingent on WO setting up a legal entity in India that is capable of receiving these funds. This moves the CSR initiative out of the advocacy-only category.
* Must understand current CSR guidelines for water and sanitation and then advocate with Ministry of Corporate Affairs (see “next steps”)
* Under CSR rules, the monies have to be directed to a non-profit, but it appears now that the issue of what sector comes second.
* The idea of being a deployer or aggregator, insofar as it will support compliance and reporting norms, may be very attractive to the GoI.
* Pramath: Most compelling to corporations would be the model of being able to stretch the money and create a multiplier. Making a dollar go further will be very compelling—along with expertise, relationship with NGOs and MFIs—to CSR foundations of corporations. The credibility that WO could bring to the table would be huge. Also, WO’s laser focus on WASH is another value add.
* Rich: In the short term, given that WO cannot accept philanthropic funding in India, WO would be more along the lines of a credible advisor and facilitator.
* Gary: How long might it take for WO to establish an entity able to become receiver or deployer of philanthropic funds?
  + Pramath: Within India, wouldn’t take long (3-6 months)
  + Ability to accept philanthropic funds from overseas would require a minimum of 3 year operating history; this requirement was established due to concerns over terrorist organizations.
* Social impact investing would not be allowed under the CSR rubric. Would we want to think about establishing an entity that can receive not only philanthropic support but social impact investing as well? Do we want to parallel path that and pursue norms around social impact investing in India as well?
  + Pramath: That’s a more strategic level question, so let’s come back to that at the end of our discussion.

**State Govts –** Influencing state policies to institutionalize WaterCredit; opportunities for dedicated, focused efforts in a few states to help them achieve their water targets.

* Responsibility of WASH implementation lies with states
* 2 ways to look at it:
  + Program focus: Explore opportunities to work with states to pilot WaterCredit
  + Policy focus: Advocate for policy change at state level
* State level, especially in the programmatic sense, is something to be explored in the broader strategy conversation. For example, segmenting states, understanding where to start, what are the filters (i.e. political dynamics, geography and resources), what possible approaches, what resources needed, and potential impact.

**MFI Lending Norms –** MFIs are the main disbursement channel for WaterCredit, and the space is in a state of regulatory upheaval

* Should we be focusing on advocating for changes in Non-Banking Financial Company (NBFC) lending rules, which currently require that 70% of microfinance loans be for “income generating” activities? (Investments in WASH are not considered an income-generating activity.)
* Would we have more impact if we instead worked with a larger number of NBFC MFIs? (Currently, WO works with 6 out of 45 NBFC MFIs.)
* Still seeking clarification from RBI about income-generating vs. non-income-generating loans.
* Currently, WO’s MFI partners offer between 1-10% of their loans as WASH loans...well short of the 30% constraint.
* Part of our challenge is that the main method by which we are engaging with our partners, “smart subsidies” is limited because many financial institutions can’t accept foreign funds.
* Solution would require creating legal entity in India that has the ability to serve as a conduit for those funds.
* 2 options:
  + increase the allowable percentage of an MFI loan portfolio that can be “non-income generating” (higher likelihood of success), or
  + include WASH as an “income-generating” (lower likelihood of success).
* Anuradha: Demonstrating similarities between WASH loans and housing loans is probably the most persuasive argument when approaching MFIs.

**How to increase visibility and awareness?**

Depends on what we want to accomplish in the short-term. 3 pieces:

* Demand generation
* Advocacy
* CSR

How might WO leverage its international and reputational assets in India? What does “visibility” look like?

**Conclusions**

Chevenee: Marrying Rachel’s programmatic strategy with ASG’s advocacy strategy will be the key next step moving forward.

***Part 2: Water.org India Programmatic Presentation***

**What has been done on the programmatic side?**

* Rachel: Our intention was to look at the current models by which WO operates. What are the different channels through which WO is attempting to make WASH capital available at the retail level?
* Rachel: We know that the MFI channel cannot expand sufficiently to meet WO’s growth targets for WaterCredit. With that in mind, how do we look at growth and expansion? How do we move into new channels beyond MFIs?
  + Starting to put decisions that have been made into writing
    - For example – moving away from direct impact, grant-led models to financing mechanisms. Interest in scale means that WO is going to focus on new groups of partners like NBFCs, housing corporations, and other areas.
    - Alternate channels – Currently, anything that’s not an MFI or nonprofit (incl. commercial banks and other financial institutions, product manufacturers, remittance/insurance service institutions, utilities).
* WO started researching what alternate channels would look like and what the most promising channels were. Want to achieve within the next 3-5 years.
* Most likely candidates:
  + housing finance corporations
  + regional rural banks, and
  + product manufacturers (in order).

There is a lot of interest from these organizations.

* Should we be led by on-the-ground, quick-win strategy or broader framework and strategy? How should we think about the linkage between the two?
* How do we work with new partners considering that we don’t have a smart subsidy to offer? Linking the technical support value chain to financial institutions represent addressing a market failure? Technical service partnerships offer an interesting opportunity for future alternative growth.
* Obviously going to continue to do water credit and scale that over the next three years as well. But we surely cannot reach 100 million people through current channels.
* India is largest microfinance market in the world, but microfinance itself is not large enough. So how do you reach the 100 million with the markets that exist? How to bridge demand and financing?
* JENNIFER: Water.org NEEDS ASSISTANCE ON THE PROGRAMMATIC SIDE IN TERMS OF A) QUANTIFYING THE POTENTIAL IMPACT OF THE DIFFERENT OPPORTUNITIES/CHANNELS BEFORE US, AND B) PRIORITIZING THEM FOR EXECUTION
* Assumption: expansion will come through optimizing the MFI-led model and expanding to other channels where the financing mechanisms are already in place.

***Part 3: India Team Presentation on Scope II – More Grist for the Mill***

* SHGs
  + SHGs could be a very interesting way of spreading the message to millions of households.
  + SHGs could be a natural extension and the market is quite large – larger than the MFI space.
* Rural and Urban Bank Cooperatives
* Small banks
  + Will be a big part of India’s future, as MFIs convert to small banks
* Major question: Should we go deep or wide?
  + Deep: choose a few states or just focus on one segment like urban slums
  + Wide: high-traffic areas like railway stations, schools, institutions, etc.
* Bridge financing
  + People often don’t get government subsidy until toilet is built, and don’t have access to up-front funding. Bridge financing is a way to mitigate this and allow people to build the toilet and get the subsidy.

**Questions:**

* Jennifer: Struggling to put the idea of a high-impact area into WO’s model. Who pays for it? How do we measure it?
* Gary: What do we bring to the equation of a high-traffic area? What is that unique thing that WO brings that allows people better access?
  + Pramath: haven’t yet done the analysis on who is in charge of those toilets and think of ways to partner with those players to bring some sort of financing or expertise to the equation. We need to get to that level of detail if you want to use that to build up the numbers.
* Wyatt: What is WO’s level of comfort moving away from its traditional focus on facilitating WASH financing specifically to households? Potentially exploring new business models?
* Gary: we have a lot of comfort with straying from microfinance, and from household-level finance. But we see WO’s unique value offering in terms of making finance available and ubiquitous at the base of the pyramid. Finance is the most significant obstacle, so we’re going to look at the chokepoints around that and focus on removing the barriers.
* Wyatt: what are our next steps?
* Jennifer: Feels that we don’t have sufficient insight to quantify the opportunity, and we should be driven by the size of the opportunity. It’s a matter of quantifying the opportunities at a level of much greater detail and test their credibility. It’s a matter of quantifying the potential opportunities, assessing how they fit with the value that WO adds, and then thinking about what resources to put behind it.
  + Also don’t want to be stuck in the analysis/paralysis period. Want to move forward and grab at the low hanging fruit.
* Pramath: the train has already left the station. Even as we continue to analyze the issues and questions around strategy, it is important that we get moving. Because we have such good relationships in India, we can do that without overcommitting, and without significant financial outlay. Let’s approach it as an exploration with trusted partners (e.g. build on strong ASG relationships with Chief Ministers in several states).
* Gary: Is there one state where all the stars are aligning? (Politics, population, demand, strong WO partner, etc.)
* Chevenee: We have identified highest potential impact mix of 4 objectives with regards to CSR.
* Jennifer: We have a lot of detail to provide around the conversation of what geographies to begin.
* Gary: 2 conditions that are necessary but not sufficient
  + For state governments: that there is political support for working with WO
  + For WO: that we have some operating history in the state, so that we can hit the ground running and have increased credibility with the state government.
* Generally we discussed different ideas and criteria for identifying different states
* Jennifer: 2 questions for near term next steps
  + With regard to the challenge of sizing the opportunity – Pramath, is that something that you could help us do? Pramath: yes
  + With regard to the CSR component, we should have a workstream for what it would take to establish a legal entity capable of accepting philanthropic funds in India.
* Pramath: Are we discussing this as an additional piece, part of the advocacy piece? My confusion is that in some ways the pieces are not independent. Separating them is a good idea from a work stream perspective but ultimately we are going to need to solve for all of these.
* Jennifer: Want to be clear on where the current scope stops and where a new one would begin. WO will have a conversation on their own, offline, and come back to us. And ASG should have our own internal conversations, especially given that a lot of the expanded work will fall on the Delhi team.

***Part 4: Determining Next steps***

* Offline conversations about separate scopes of work
* Delhi to begin looking at establishing entity in India
* Chevenee to have follow on conversation with India team synthesizing lessons learned
* Chevenee to have follow on conversation with Wyatt establishing international piece
* Water credit forum last week of February in India
* WO to get back to us with criteria about different variables in each state and some sort of framework for weighing most attractive starting points