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Capital Investment Impact Guidelines

Table of Contents

Purpose	1
Capital investment efforts at Water.org.....	1
Design, our role, and evidence	3
Documenting impact and evidence	5
Resources & FAQs	5

Purpose

This document provides guidance on measuring and reporting the impact of Water.org's capital investment work. Guidelines ensure that capital investment is uniformly counted and aligned with Water.org's mandate to address the tremendous financing gap that is preventing us from accomplishing our vision of safe water and sanitation for all.

We are in the early days of working with capital providers and these guidelines will continue to be refined as we learn and advance our capital investment work.

Capital investment efforts at Water.org

In our push to take on an investor mindset to address the water supply and sanitation (WSS) financing gap, we have identified several ways that Water.org engages in capital investment, including:

- We engage impact investors directly to encourage capital investment in financial institutions for on-lending or in service providers for infrastructure projects
 - This includes WaterEquity and non-WaterEquity capital providers
- We connect financial institutions to capital providers for on-lending to households or enterprises
- We connect service providers (networked and non-networked) to capital providers for infrastructure improvement or expansion investment

Capital investments are financial assets made by capital providers.

In order to count the capital investment, the following criteria must be met:

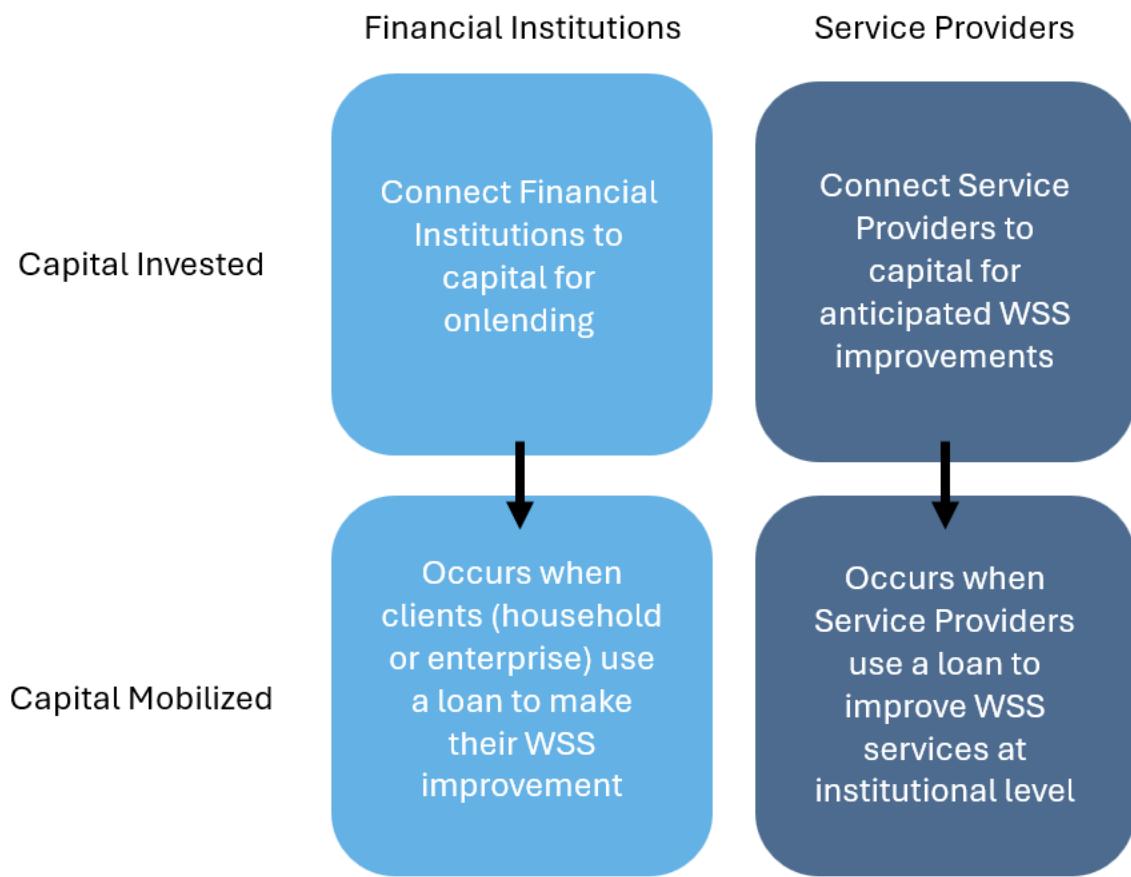
- Have the primary objective of enhancing access to water or sanitation services
- Are repayable or made with the expectation of a financial return
- Have the intention of benefiting people living at the base of the economic pyramid
- Exceed a minimum threshold of \$50,000
- May be utilized by one of the following:
 - financial institution investees to extend loans for water or sanitation
 - enterprises to improve water or sanitation services and/or quality for customers
- Finally, Water.org must have played a facilitating role in securing investment(s).

If the capital investment does not meet the above criteria, it must be approved by the Chief Impact Officer.

For investments that meet the above criteria, we track the following two key indicators for capital investment:

- **Capital Invested** – the amount of the investment disbursed by capital providers for WSS purposes
- **Potential People Reached** – the estimated number of people anticipated to benefit from the capital invested. Similar to the potential people reached through systems level change, we will not always know when this impact will occur or who benefits. We will apply our People Reached guidelines when projecting and messaging this potential impact.

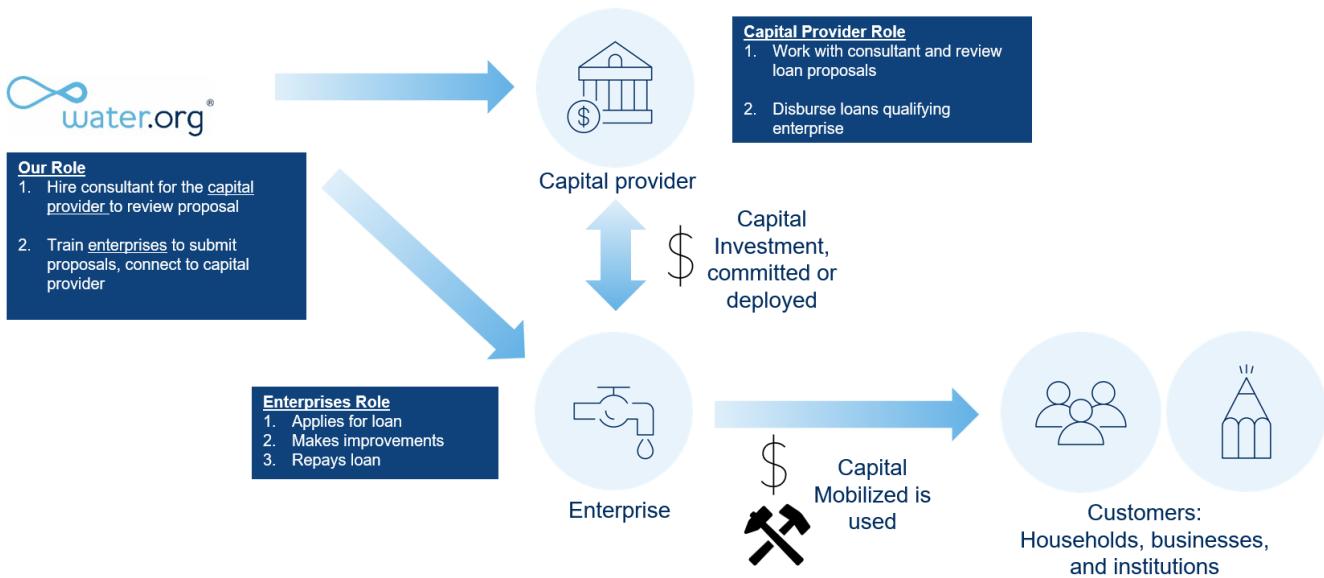
The following chart shows the distinction between Water.org's capital invested, and capital mobilized efforts. Impact guidelines for capital mobilized are found in the [WaterCredit impact guidelines](#) and the Service providers/ infrastructure guidelines that are coming soon.



Examples of Capital Investments include:

- Connecting WaterEquity to a Water.org financial institution partner so that they have additional capital for WSS loans to clients.
- Connecting a capital provider to a Water.org service provider so that they have additional capital to expand or improve their services. The minimum threshold for capital investments is over \$50,000 USD equivalent.
- Connecting a capital provider to a Water.org financial institution so that they have additional capital for WSS lending to households or enterprises. The minimum threshold for capital investments is over \$50,000 USD equivalent.

- Jointly pitching with WaterEquity to a new financial institution with a combined technical assistance and capital package. The financial institution likes the combined package and starts lending or increases lending for WSS.
- Working directly with capital investors to increase the flow of capital into water and sanitation investments. In cases where the investee is not a Water.org partner we may not have insight into how the capital is used by the investee and may not be able to count the resulting capital mobilized or people reached that benefited from the WSS improvement



- The above diagram depicts a scenario where Water.org works with both a capital provider and an enterprise to help facilitate a capital investment. We count the capital investment once the capital provider has committed to or disbursed the loan to the enterprise. Later, we count the capital mobilized once the enterprise uses the capital to expand or improve water or sanitation service to customers. We will never add capital invested and capital mobilized together in a single metric because it would be double counting.

Design, our role, and evidence

Pipeline Development

Please keep in mind that WaterEquity has the right of first refusal for capital investment opportunities. Global Business Development is working on guidance for pipeline development which will be linked here once it is available.

Investment design

At the design phase of Water.org influencing a capital provider to invest in WSS, the Global Impact (GI) lead needs to ensure that the investment strategy aligns with Water.org's strategy and that the investment can be measured and verified after it occurs.

- The GI lead consults with the following about the capital provider and the investment goal + strategy:
 - Their supervisor
 - The Regional Insights Lead (who will consult with Global Insights)
 - Global Business Development
- Once the design is greenlighted by the supervisor to move forward, [forecasts](#) are entered into the WaterPortal. Forecast data will be accessed in [WaterPortal capital investment dashboards](#) and will be used to inform our fiscal year targets.

See the [Capital Invested FY 24 Process](#) for more details on roles and responsibilities.

Water.org must have a significant role in the investment to count the investment

When counting capital investment, Water.org must play a specific and significant role in facilitating or influencing the investment for it to count. Water.org's role can take many forms and last from short opportunistic time periods to longer and more intensive collaboration. Engagements with capital providers may be formally documented via a signed partnership agreement or they may be informal.

Water.org must play a credible role that influences a capital provider to invest in WSS lending. The criteria to determine if Water.org played a significant role in the investment must include at least one of the following:

- **Interaction and alignment** with the capital provider led to convincing the institution to invest in the WSS market. Interactions may include (but are not limited to),
 - Providing evidence and education around the importance and viability of investing in water and sanitation (convince / demonstrate the viability of WSS wholesale lending).
 - Providing technical assistance on the operations and best practices of water and sanitation wholesale lending for the entire lifecycle.
 - Aligning with capital provider on their commitment and dedicating funding to invest in WSS.
- **Connect** the capital provider with financial institutions or service providers to invest in.

Water.org must have evidence of our role influencing the capital investment

Water.org must provide evidence that our actions influenced the capital provider to invest in WSS lending BEFORE we can count the investment. Evidence is subject to auditing; therefore, staff should document all relevant evidence as described below.

Capital Investment Internal report – evidence of our role:

- Before counting the investment, the GI lead must complete the Capital Investment Internal Report found here: [Capital Investment Internal Reporting Template.xlsx](#). This report includes the types of Water.org activities and technical assistance provided, including a list of what was provided, to whom, when, and why it was meaningful and lead to the investment. (This report template will be built into the Capital Investment page in the WaterPortal by the end of calendar year 2024.)
- In addition to the report, GI staff should document and save supporting evidence of our role (see the documenting impact and evidence guidelines below). Evidence types include:
 - Signed agreements between Water.org and the capital provider
 - Informal agreements between Water.org and the capital provider
 - Key communication between Water.org and the capital provider. Particularly communication that signals how we have influenced the capital provider or when critical decisions are made. This includes emails and screenshots of text messages.

Water.org must have evidence that the investment took place

The GI lead is responsible for securing and saving documentation that the capital provider committed or made the investment (see the documenting impact and evidence guidelines below). Evidence types include:

- Contracts and legal agreements outlining the terms of investment
- Investment reporting that provides evidence of how investments are tracked against their objectives, including returns and impact measurement
- Public announcement confirming the investment
- Informal communication from the capital provider can be used in cases where confidential or legal documents are unavailable
- Other evidence as applicable.

In cases where the GI and Insights staff leads are in disagreement regarding whether Water.org contributed in a significant manner to the investment and cannot reach agreement on, or have questions about an investment, the decision to count will be escalated as following:

1. GI Regional Director and Global Director, Insights
2. Chief Global Impact Officer and Chief Insights Officer
3. Chief Operating Officer²

Documenting impact and evidence

The WaterPortal and SharePoint are the two places in which investment information is stored.

WaterPortal: Investment information must be in WaterPortal for the impact to be counted.

In the WaterPortal, the GI lead updates capital provider information and investments in the WaterPortal throughout the month, as changes occur. It is in everyone's best interest to update changes to investments as they take place to avoid last-minute requests to review or change investment details. The following outlines the types of required WaterPortal information:

- Information about the capital provider and investee
- The investment details, including the forecasted and actual amount
- The anticipated impact including the WSS improvement and potential people reached

The information in the WaterPortal is reviewed, approved, and subject to impact auditing.

Please refer to the [Capital Invested FY24 reporting process.pdf](#) for FY24 reporting process and requirements.

SharePoint and WaterPortal file links: Documentation that supports our role in the investment and that the investment took place is saved within the respective country team's folder on SharePoint. The files should be accessible to all Water.org GI and Insights staff, unless there is confidential information, which should then be stored in a password protected folder limited only to 1-2 staff that need to obtain the information.

- Links to access the documentation are stored in the capital investment pages on the WaterPortal, including a link to the Capital Investment Internal report that documents our role in the investment.

Resources & FAQs

This section provides WaterPortal training resources and FAQs. This section will continue to be refined as Water.org evolves our capital investment efforts.

WaterPortal Resources

WaterPortal is the one and only source of truth for capital invested. If the information is not in the WaterPortal, it will not be counted.

- A [training course](#) is available in Sage outlining the process of entering capital investments in the WaterPortal.
- We also created [guidance on entering forecasts](#).

If you have questions on the mechanics of tracking capital investments in the WaterPortal. Please reach out to your Regional Insights Lead.

FAQs

How are AOA investments tracked?

If the capital provider is WaterEquity, the investments will be counted towards Water.org's tier 1 goal. If the capital provider is not WaterEquity, then AOA should adhere to the same standards of evidence as GI.

How do we count impact if the capital provider invests in a financial institution or service provider with which Water.org does NOT have a partnership?

In this case, we can count and communicate the capital investment amount. After the investment is made, we *cannot* count and communicate it as capital mobilized. Any estimated impact should be tracked and communicated as people reached indirectly. This is because we do not have evidence to support that the final use of the capital was to improve water and sanitation access for domestic purposes.

How is capital invested communicated externally?

When communicating capital investment externally, it is important that staff are consistent in our messaging. To external audiences, our primary impact metrics will continue to be People Reached and Capital Mobilized. We do not anticipate reporting on Capital Invested or Potential People Reached to external audiences to avoid confusion.

Do Capital Providers need a separate intervention or MEL Action Plan?

No, in general, the evidence provided in each Capital Investment should be sufficient to show Water.org's role in facilitating the investment and document how we know the amount that was invested. If the capital investment is not in a direct partner, we may not have visibility into the results of the investment (people reached, capital mobilized, WSS improvements). If the investment is in a Water.org partner, then the standard monitoring activities will apply.

If there is a case where Water.org provides a grant directly to the capital provider please contact Insights Team Lead, Measurement and Impact (mgoble@water.org) to review if the capital provider needs to be entered into the WaterPortal as a Partner with a separate Intervention, and in those cases a MEL Action Plan may be needed.

Should expenses towards capital investment work appear in grant proposals or donor reports?

Yes, there are several expenses that can be part of a grant proposal or report including, staff time, fees to consultants and arrangers, for specific services availed including workshops, forums, and investment structuring. However, there should be no disbursements from a restricted grant or unrestricted funding that flows from Water.org to a Capital Provider.

Why is there a \$50,000 threshold for capital investments?

In some countries, loans to small service providers are common. These loans can range from a few thousand dollars to \$50,000 or more. It would be challenging for staff to enter many small investments to service providers, so we set a threshold at \$50,000 to help focus our efforts on the larger capital investments. These smaller investments will continue to be tracked using WaterCredit upload reports and manual impact reporting. This threshold was previously set at \$100,000 and may change over time.

Can multiple smaller investments be grouped together to meet the \$50,000 threshold?

We cannot group smaller investments together and count it as capital invested. If there are multiple loans under \$50,000, whether from a single source or multiple sources to an enterprise or other entity, it should be counted later as capital mobilized once the financing is used to make the improvements and not counted as capital invested. Remember that our capital investment efforts should focus on large scale opportunities and closing the financing gap for financial institutions and service provider partners. Each

investment must clearly name the entity that is receiving the investment so that we can identify repeated investments in the same financial institution, service provider, or enterprise over time.

When does a capital investment in a service provider get tracked as capital mobilized?

Investments in infrastructure take many months or years to realize their impact. Once an investment (greater than \$50,000) occurs, Water.org staff should enter the details in the WaterPortal along with an anticipated impact date. Once the project is complete and the service provider has used the capital to improve their services and this information is reported and verifiable, then the partner account manager should track the details on the relevant Intervention Page to ensure that we are counting the capital mobilized along with people reached and any other relevant KPIs or Outcomes.

For capital investments in Financial Institutions, the capital mobilized will be reported through the partner's WaterCredit reports directly. If the investment is made in a non-Water.org investee, we will not be able to verify the impact or count the capital mobilized. In the event that Water.org is able to receive detailed reporting on the WSS use the capital from the non-Water.org investee, please contact the Insights Team Lead, Impact and Measurement.

Why can't we add Capital Invested and Capital Mobilized together?

Capital investments in financial institutions are then lent to households and enterprises (including service providers). As those loans are repaid, the capital is reissued sometimes multiple times. So a capital investment of \$1M in a financial institution may result in capital mobilized of \$3M after several years. If we were to add the \$1M capital investment + \$3M capital mobilized and report that overall we mobilized \$4M in capital, it would be inaccurate due to double counting.

Likewise, investments in infrastructure projects will be counted as capital invested. Once those funds result in improved WSS services, they will be counted as capital mobilized. Adding these two amounts together would be double counting the capital.

What is the difference between Capital Mobilized and Capital Invested?

We include the definition and examples of capital mobilized in the capital investment impact guidelines to help differentiate these important concepts. Capital mobilized is the amount of financing used to make water supply and sanitation improvements. Examples include when:

- Households, or small / medium WSS enterprises, take out a loan from a WaterCredit partnership and use that loan for a water and sanitation purpose
- Service provider partners use financing to expand or improve water and sanitation services to customers

Capital mobilized includes financing that resulted from our capital invested efforts AND other capital sources that WaterCredit and infrastructure partners organize on their own.

The following indicators are tracked and reported separately for capital mobilized:

- **Capital Mobilized** – the amount of capital used for the water and sanitation improvement. This is the principal in WaterCredit loans plus the capital from service provider investments that result in improved water or sanitation services; this is the \$4.8 billion mobilized to date.
- **People Reached** – the number of people who benefit from the water and sanitation improvement, this is the 60 million people that we have served to date.

Our work entails both facilitating capital investments and supporting capital mobilization. These two components will always be tracked, counted, and reported separately.

- We count the capital invested when we have evidence that we facilitated financing to a financial institution or service provider institution for WSS.

- We count capital mobilized when repayable finance is used to make a water and/or sanitation improvement. The way we count capital mobilization has not changed. It is counted when:
 - WaterCredit partners report WSS loans to Water.org. We use program monitoring visits to verify if the loans resulted in WSS improvements.
 - Service provider partners report that water and sanitation improvements have been made with the financing. Water.org uses program monitoring visits to verify that the loan resulted in WSS improvements.

How do we count investments that lead to refinancing of previous debt?

Water.org should only count capital investments that directly result in water or sanitation service improvements. Paying off old debt via refinancing should not be counted within the capital invested amount unless the refinancing enables capital for new improvements. This is because restructuring debt does not meet the criteria of capital being invested for water or sanitation improvements.

For example, a private water operator takes out a \$1M loan using \$300,000 to expand their pipe network, while the other \$700,000 was to refinance previously held debt. Only the \$300,000 should be counted as the capital investment. If by reducing the refinancing portion, the loan accounts to less than \$50,000, the loan is therefore not reported as a capital investment.

How do we count guarantees?

Guarantees can be tracked using the Capital Investment feature within the WaterPortal. Rather than entering the guarantee amount in the Loan Amount fields, be sure to set the investment instrument to “guarantee”. Then enter the full guarantee amount in USD in the “guarantee amount” field. Guarantees and capital invested are not added together because guarantees do not go directly to the investee. This same principle applies to capital mobilized. The guarantee does not go to the borrower but protects the lender from loss if the borrower defaults on the loan.

Can Public Private Partnerships be counted as capital invested?

Yes, in a public private partnership (PPP), even if the project is financed independently by the contractor or through in-kind services, the private partner has an expectation of financial return. If Water.org plays a role in facilitating the PPP, then the deal can be counted as capital invested. An example of this is Grenex's work with PDAM Bekasi in Indonesia. It is important that the value of the in-kind services is mutually agreed upon and documented.

Can concessionary loans (or 0% interest loans) be counted as capital invested?

Yes, while there is no financial return on the investment, the capital is repaid. For example, a local or national government might provide concessionary loans to utilities to upgrade or expand service to customers.

Can equity investments be counted as capital invested?

Yes, because the investor has an expectation of financial return through their equity, these arrangements can be counted as capital invested. It is important that the value of the equity investment is mutually agreed upon and documented.

Can charitable donations be counted as capital invested?

No, because the donation is not repaid and there is no expectation of a financial return, charitable donations do not count as capital invested.