



## **Water: an essential element of investment portfolios**

What if you are one of the 700 million low income people on this world for whom social distancing is virtually impossible, you cannot afford to miss a day at work or you do not have access to abundant (clean) water or soap to limit the spread of the COVID-19 virus?

## WASH AT THE CORE OF HUMAN CAPITAL

Although the planet has an abundance of water, less than 1% of the world's fresh water resources are readily available for human consumption. This supply is still sufficient but threatened by pollution, climate change and increasing demand from an ever growing global population. Today, 2.2 billion people still lack access to safely managed drinking water services and 4.2 billion people lack safely managed sanitation services (UNWater.org). Due to poor infrastructure, investment and planning, every year millions of people – most of them children – die from diseases associated with inadequate water supply, sanitation and hygiene (UN, 2018). It is therefore not without reason that water crises hit the Economic Forum top 5 global risks in terms of impact year-on-year.

Insufficient WASH resources impose a wide variety of risks, ranging from diseases to hindering school attendance and from violence to impacting lives of those with a disability. On the other hand, positive WASH outcomes also spill over to many other development issues such as health, environment, education, gender equality, disability, tourism and economic growth.

## A CRYSTAL CLEAR BUSINESS CASE

The business opportunities in WASH are very diverse due to the locality of the availability, affordability and quality of water and on the level of access to products and services. Even though the context is diverse, the business case is straightforward. The monetary cost of a lack of access to WASH is estimated to be rising and to have cost the global economy in excess of US\$229.9 billion in 2015 (Water Action Hub, 2016). The World Bank (2016) says promoting good hygiene is one of the most cost-effective health interventions that exists. A study by the World Health Organisation (WHO, 2018) found that the global economic return on sanitation spending is US \$5.5 per US Dollar invested. And from another WHO (2018) study we found that WASH is the most effective investment strategy in health (based on available data sources per category in this study) with six lives saved per US \$100 invested. Besides the direct effects, water related companies play an important role in providing solutions that will contribute to both mitigating and adapting to the climate crisis by providing clean water and addressing resource scarcity.

## Water, Sanitation & Hygiene: A context

Safe water, sanitation and hygiene (collectively known as WASH) is crucial for human health and well-being, declared a human right in 2010 and a facilitator of access to other rights and development goals. WASH is therefore both an end in itself - reflected in four out of seventeen SDGs - as well as a driver of broader SDG progress.

### Human right to water

Obliges governments to ensure that people can enjoy clean, available, acceptable, accessible, and affordable water and sanitation. It is inextricably related to the right to the highest attainable standard of physical and mental health, as well as the right to life and human dignity (Human Rights Council).

### SDGs directly related to WASH



Universal adequate & equitable access



Provide safe learning environments for all



Equal rights to basic services



Access to quality essential health care services

## FINANCING OPPORTUNITIES FOR SAFE WATER, SANITATION AND HYGIENE

The global water market is projected to reach a total value of US \$914.9 billion in 2023, according to the latest 2018-2023 forecasts published by Global Water Intelligence (GWI, 2018). A 2016 analysis by the World Bank estimates that US \$114 billion per year of capital investments will be required to meet universal access to safely managed water and sanitation services by 2030. The capital required can be deployed by companies working in various solution areas to tackle the water crises and guarantee future availability, quality and affordability. Such companies have the ability to provide significant financial returns as well sustainable impact through a variety of financing instruments and can be scaled with the right form of additional supporting mechanisms. In essence, investments in WASH comprise a very heterogeneous range of activities, therefore, the WASH sector financing needs can be structured in variety of financial instruments ranging from project finance, fixed income to equity related.

Bankable companies		
Water	Sanitation	Hygiene
Water and Waste Water Utilities - Companies managing infrastructure and delivery of water and/or treating waste water for reuse or safe remediation back into the environment.	Sanitation facilities - Companies engaged in the construction of safe sanitation facilities and in the education of construction workers.	Hygiene products - Companies locally producing or selling hygiene products for personal care and professional hygiene.
Water Infrastructure - Companies providing pipes, pumps, seals and valves as well as design, engineering and construction services.	Solid waste - Companies involved in the safe collection, transportation, segregation and treatment of solid waste or in its related supply chain management.	
Water Technology - Companies providing filtration, disinfection, test and measurement products and metering.	Recycling & upcycling - Companies developing opportunities linked to the WASH sector such as toilet-linked biogas units and non-chemical fertilizer producers.	

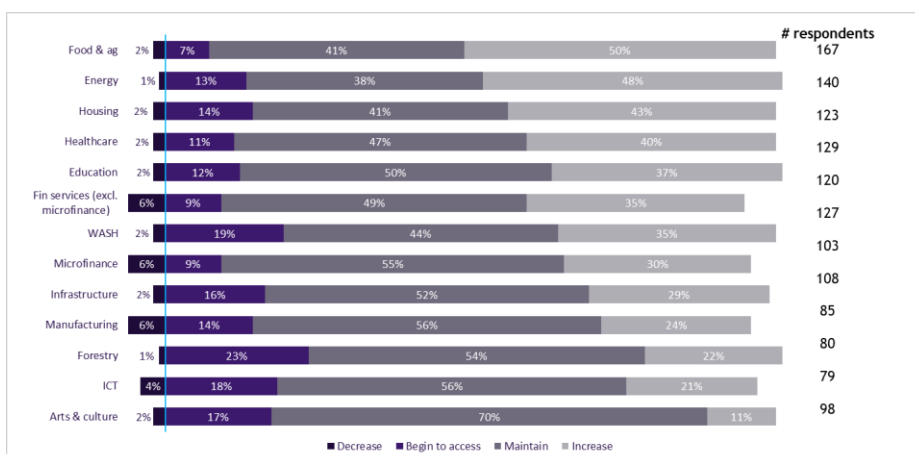
Financing instruments	
Financing vehicles for private investors	Supportive measures available/under development
Project finance	Technical assistance, enterprise development support & awareness raising (e.g. by WASTE & Finish Society)
Sanitation Impact Bond (see highlight on FINISH Mondial)	Performance based interest discount on loans (see highlight on FINISH Mondial)
Financing through MFI activities	Risk sharing (e.g. IFC and Central Bank of India)
Dedicated WASH private (secured and unsecured) debt fund	First loss facilities (e.g. by Aqua for all)
Cooperative financing	Credit enhancement facilities (e.g. by Water.org)
Equity investments	Market-building facilities to attract private investors (such as the Dutch Fund for Climate and Development (DFCD))
Blended finance (development finance blended with commercial finance)	Grants (such as Systems Change Grants by Co-Impact)
	Blended Finance (platform such as Convergence to raise finance for a particular project)
	Studies on financing opportunities (for example by Aqua for All into carbon financing for the WASH sector)
	Local government subsidies (programme in India)

Source: GIIN

## UNEXPLOITED INVESTMENT OPPORTUNITY GAINING MOMENTUM

It may be clear that given the challenges we face and the financing need in the area of WASH, there is an enormous pressure for attracting investments in this theme. Water for that reason is attracting the attention of impact investors around the globe. As impact investing continues to grow, WASH is one of the fastest growing sectors with 43% per annum. Other fast-growing sectors were infrastructure with 61% and ICT also with 43% per annum. Additionally, nearly one in five respondents in the GIIN survey plan to begin to assess WASH.

### Planned sector allocation changes for 2019



Source: GIIN



Private and professional investors are increasingly willing to allocate their capital to impact investing and to contributing to achieving the SDGs. While at the same time, they often argue that there is a lack of sound and sizeable investment solutions in the market that fit their requirements i.e market-based return, significant size and measurable impact.

For WASH, the impact and economic reasoning is crystal clear. It is however a sector that still requires market-building efforts in emerging markets as today, it has a challenging risk return profile and a location-specific nature. Some of the identified risks include:

- Readily available WASH services are often under-priced
- Investing in WASH is rather risk sensitive as it relates to basic human needs
- Lack of track record of such investments can deter investors
- Lack of investment structure accessible for professional investors is still underdeveloped
- WASH projects are often too small and country, context specific

These challenges provide a barrier to assess and integrate the sector into the investment process of professional investors. The sector's status quo in terms of mobilizing private equity and debt investment can be compared to the financial inclusion sector over a decade ago. A theme that with the right support has made giant leaps in terms of professionalization and is now generally accepted in the investment portfolio of various types of investors.

Focusing on attracting capital to achieve the SDGs, which is crucial to capitalize to achieve them by 2030, there is a role to play for all stakeholders in the impact investing space varying from NGOs, DFIs up to institutional investors with fiduciary duty. Asset managers for example can and should take their responsibility by identifying investable themes and investment opportunities, i.e. WASH, and turning those into sound investment solutions, addressing both investee and investor needs. Especially given the in-depth knowledge and experience needed, the asset manager can play a crucial role by providing research, education and creating awareness. By bringing together strategic, implementation, government and funding partners, the sector has the potential to attract increasing private debt and private equity investment flows.

## INNOVATIVE PARTNERSHIPS TO MAXIMISE FINANCIAL AND SOCIETAL RETURN

Besides the current financing gaps the WASH sector is facing, other challenges are present as mentioned in the previous section. As described in the WASH strategy 2016-2030 of the Dutch Ministry of Foreign Affairs, sustainability of WASH services continues to be a key issue as inequitable service remains in certain locations and sector finance has not been mobilized and maximized. In order to achieve the ambitious targets of SDG and be able to finance sanitation sustainably, we need to work together, build innovative partnerships and share knowledge. The two innovative financing highlights below demonstrate the need of aligning interests to generate bankable businesses and projects, overcome some of the identified investment risks and realise long-lasting positive outcomes.

### Examples form practice

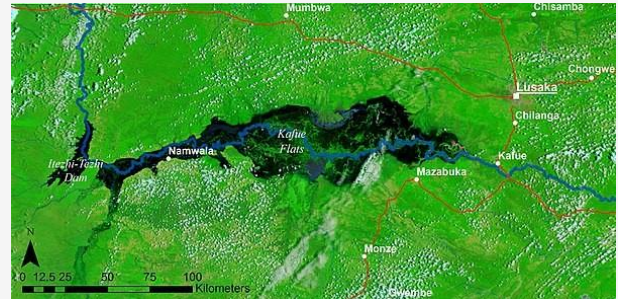
#### Highlight: Safe sanitation through microfinance investments



Finish Mondial developed The Sanitation Impact Bond (SIB) in 2019. The scheme is now piloted through a US \$3 million loan provided by partner ACTIAM, to Cashpor Microcredit in India, a microfinance institution (MFI). The pilot aims to test the working of the bond structure, the capacity development measures, the measurement of the impact linked to loan conversion and toilet use.

The SIB pilot programme with Cashpor is being implemented in four states of India, with an objective to add 35,000 toilets, and set out and test the contractual arrangements. Similar partnerships with other MFIs and impact investors are underway and the full SIB will aim to mobilize € 100 million from institutional investors and high net worth individuals. The intended impact is an additional 500,000 safe household sanitation systems built in 2 years, benefitting approximately 2.5 million more people.

#### Highlight: WWF bankable projects supporting various stakeholders along the Kafue flats



Part of the Zambezi basin, the Kafue Flats provide renewable energy and are home to many farmers, businesses and tourists. As more people and companies move into the area, while climate change is making water levels less predictable. This endangers the biodiversity and the future of the more than 900,000 people who derive their income from this area.

WWF is working with AB InBev, the parent company of Zambian Breweries, to study the feasibility of creating a pipeline of sustainable bankable water projects in the Kafue Flats on the entire Landscape Finance Plan, which would be a win-win for communities, businesses and nature. In which innovative financial solutions will play a key role to improve the health of the lower Kafue flats river system and enabling sustainable development.

Source: [https://wwf.panda.org/our\\_work/water/freshwater\\_news/?337831/Worsening-water-risks-on-Kafue-river-could-undermine-Zambias-development](https://wwf.panda.org/our_work/water/freshwater_news/?337831/Worsening-water-risks-on-Kafue-river-could-undermine-Zambias-development)

## WASH: A MULTI-IMPACT INVESTMENT OPPORTUNITY FOR YOUR INVESTMENT PORTFOLIO

Today, the world's water crises remain an existential threat and an urgent crisis. Due to the economic fallout from the Covid-19 pandemic, Oxfam estimates that more than half a billion more people could be pushed into poverty unless urgent action is taken to bail out poor countries. This action is needed from local, national and international governing bodies to support the enabling environment and pave the way for private actors. Companies can take a close look at their own impact on the quality and availability of local water sources. In this phase of market building, the role of a qualified asset manager is crucial to connect investee needs and investor needs by creating awareness, sharing knowledge and develop and market investable solutions. The financial and societal evidence of WASH investments are present, will investment flows follow suit?

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