Innovative Financing Approaches for Green Innovations

Dr. Johannes Heeb

Co-Director cewas
The world’s first Water & Resources Start-Up Centre since 2010
cewas today - a global network of Start Up initiatives, innovators & incubators

cewas middle east
2019 programme - Lebanon

Module 1
21-24 March
Solutions, Business Idea & Strategy

Module 2
24-27 April
Market Research, Testing & Sales

Module 3
7-10 June
Marketing & Finance

Module 4
21-23 June
Sell your Idea: Networking and Pitch Event

Networking/Coaching/SSWM Training/Competitions/RoadShow

LAUNCH YOUR BUSINESS
What was mentioned yesterday

We have a problem with funding!
The United Nations Conference on Trade and Development (UNCTAD) says achieving the Sustainable Development Goals (SDGs) will take between US$5 to $7 trillion, with an investment gap in developing countries of about $2.5 trillion. At the same time, the most recent OECD DAC report shows that in 2016 the total official development assistance reached a peak of $142.6 billion, which is one order of magnitude smaller than the needs.
## Global Wealth is Growing

### Table 1: Change in household wealth 2017–18, by region

<table>
<thead>
<tr>
<th>Region</th>
<th>Total wealth 2018</th>
<th>Change in total wealth 2017–18</th>
<th>Wealth per adult 2018</th>
<th>Change in wealth per adult 2017–18</th>
<th>Change in financial assets 2017–18</th>
<th>Change in non-financial assets 2017–18</th>
<th>Change in debts 2017–18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>2,553</td>
<td>108</td>
<td>4,138</td>
<td>1.5</td>
<td>37</td>
<td>2.8</td>
<td>-4</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>56,715</td>
<td>929</td>
<td>48,110</td>
<td>0.0</td>
<td>675</td>
<td>2.1</td>
<td>-833</td>
</tr>
<tr>
<td>China</td>
<td>51,874</td>
<td>2,266</td>
<td>47,810</td>
<td>4.0</td>
<td>422</td>
<td>2.0</td>
<td>2,786</td>
</tr>
<tr>
<td>Europe</td>
<td>85,402</td>
<td>4,432</td>
<td>144,003</td>
<td>5.4</td>
<td>1,167</td>
<td>2.7</td>
<td>-127</td>
</tr>
<tr>
<td><strong>World</strong></td>
<td><strong>317,084</strong></td>
<td><strong>13,958</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: James Davies, Rodrigo Lluberas and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2018
Where the money goes ...

© Universität Zürich, Center for Sustainable Finance and Private Wealth (CSP)

Sources:
Global Wealth is on Risk

The Global Risks Report 2019
14th Edition
Sustainable Financing as a Re-Insurance Approach to protect Global Wealth
The Returns Continuum Framework

For all of its investments, Omidyar Network has the same high expectation for direct (firm-level) impact. But expected market impact and expected financial return vary by type of investment.

**EXPECTED MARKET IMPACT**

<table>
<thead>
<tr>
<th>A</th>
<th>Commercial</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>Market-validated</td>
</tr>
<tr>
<td>A2</td>
<td>Not market-validated</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>B</th>
<th>Subcommercial</th>
</tr>
</thead>
<tbody>
<tr>
<td>B1</td>
<td>Positive absolute returns</td>
</tr>
<tr>
<td>B2</td>
<td>Capital preservation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>C</th>
<th>Grant</th>
</tr>
</thead>
<tbody>
<tr>
<td>C1</td>
<td>80%-100% cost coverage</td>
</tr>
<tr>
<td>C2</td>
<td>20%-80% cost coverage</td>
</tr>
<tr>
<td>C3</td>
<td>0%-20% cost coverage</td>
</tr>
</tbody>
</table>

**EXPECTED DIRECT IMPACT**

Across the Returns Continuum

For many, if all of impact investing meant that good deals but modest returns, then the idea would seem reasonable. But it is probably a reason that markets often underperform and meaningful impact and social good happen because of new business models, innovative financing, and creative risk-sharing and reward-sharing arrangements. For example, the U.S. capital markets are, in many ways, finding it difficult to take financial and social commitments through impacts single signals in action, while in emerging front fields of exploration.

Grace Dietrich has built a framework to emphasize opportunities. The table is an exciting vector for impact investments. But take one especially creative one that we support that impact.

*By Heather Brueck, Tanya Sjovold, Michael Laitman, & Naomi Klein - Media 101*

People in the impact investment community who may read this are to encourage small, innovative, and financial wins to scale economic and social impact. Advocating the public-asset-taking attitude into a company to move into an area makes the difference in the business. Offer them that the impact is not there and make them understand the importance of their work. This may not mean the eventual impact is more financially significant, but they may more quickly be moving towards the scale-up impact. It shows that the work serves great impact, which will enable it to scale up quickly.
Impact Investment 3.0 - Ecosystem Approach

Figure 1: Barriers to scaling MBS across the sanitation market system

- Unsupportive social norms
- Long history of subsidies reducing demand
- Poor transport infrastructure—roads etc.
- Challenging geographical context—population dispersion, terrain, etc.

- Lack of public goods (e.g., customer insights, product designs)
- Poorly penetrated associated supply chains (e.g., cement)
- Lack of credit for customers or entrepreneurs
- Inhibitory market rules (e.g., policy)

- Lack of awareness
- Lower priority accorded to sanitation
  - Lack of variable/seasonal incomes limiting upfront payments
  - Some to afford available

- Lack of "critical mass" of customers to serve profitably
- Lack of product systems that are acceptable to customers and suppliers
- Lack of cost-effective mechanisms to activate demand
- Lack of efficient mechanisms to fulfill orders

- Low profitability—at unit/ business level and/or absolute amount
- High opportunity cost in selling toilets
- Limited availability of entrepreneurs, especially in rural contexts
- Lack of affordable capital to invest in sanitation enterprise
The Holistic Picture of Funding / Investing
Impact Investment 4.0 – The Role of Externalities

Tripple Balance

- Economical Balance
- Ecological Balance
- Social Balance
Impact Investment - Systemic Matchmaking

Funding / Investment needs

Funding / Investment models

Success and Impact

Funding / Investment Options
Why Integrity Matters

Loss due to integrity risks (e.g. corruption)

Financial Projection
Develop and establish an enabling financial ecosystem to support water and sanitation entrepreneurs in the Middle East in the start-up, acceleration and scaling phase.
cewas Approach

- Development of portfolio of funding / investment needs of SSWM entrepreneurs
- Mapping existing funding / investment options
- Development of matchmaking tool
- Development of matchmaking service (Help-Desk) for SSWM businesses and funders / investors
- Development of lean “Triple Bottom Line” based Due Diligence Tool for businesses and funders / investors
cewas Approach

- **SSWM-Cluster Fund** (e.g. combining loan guaranty funds, diaspora crowed funding, environmental impact compensation fund, concessionary impact fund)
- Identification of **needed ecosystem funding / investment**
- **Monitoring** funding / investments
- **SSWM Financing Perspective**
What cewas is looking for

- Sparring Partners
- Supportive Funding / Investment Models
- Funders / Investors along the returns continuum
- Cluster Basket Fund (e.g. combining loan guaranty funds, diaspora crowed funding, environmental impact compensation fund, concessionary impact fund)
- Ecosystem Funders / Investors
- Further
We know a lot … but we have to make things happen …
What we need is not a tech oriented funding / investment approach for green technologies.

We have to address the issue of externalities.