

IFC Eyes Larger Backing For WaterHealth As It Targets Developing World

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12/1/2009 – The International Finance Corp. is considering increasing its equity investment in WaterHealth International Inc., just as the provider of distributed water services to under-served communities in the developing world is seeking a second close of its Series D round of financing, Clean Technology Insight has learned.

The IFC, the World Bank Group's investment arm, is encouraged by its involvement so far in WaterHealth, which includes an equity investment in 2004 and a \$15 million debt financing for the company's India subsidiary in February 2009, said Alice Lin Demas, an IFC investment officer, in an interview. The IFC owns approximately 5% of WaterHealth's shares, including warrant options attached to the loan.

"There's scope for the IFC to make a further equity investment in WaterHealth [at the parent level], but we haven't made a decision yet," said Demas.

In January 2009, WaterHealth held a first close on approximately \$9 million of a Series D round of financing to invest in building facilities, the supply chain, personnel, distribution and quality assurance laboratories for its expansion in India.

According to a Securities and Exchange Commission filing, the Series D total offering was for \$31.6 million, and the company is currently working on a second closing, and it's likely that new equity investors will come aboard.

"WaterHealth has a pretty sustainable business model, it's not just the utilization of the purification technology but how to incorporate that in a business model that's unique," said Demas. "This is the first investment the IFC has made in water that looks at distributed water, off-the-network water."

Founded in 1996, WaterHealth developed purification water systems that use ultraviolet light technology that inactivates microorganisms. The technology, called UV Waterworks, was developed by Dr. Ashok Gadgil at the Lawrence Berkeley National Laboratory.

But tackling the issue of providing clean, affordable water to the nearly 1 billion people that cannot access it requires more than just having the appropriate technology; it's also about distribution and affordability. That's where the WaterHealth model comes in.

The company deploys its purifying equipment at villages and helps finance the construction of a facility to house the equipment. One system can provide a community of 3,000 residents with up to 20 liters of clean water per person per day, but it is a modular system than can be adapted to different village sizes.

WaterHealth remains involved with the users of its systems through maintenance of the equipment and education of local people to preserve the quality of the water. As it uses existing sources of above-ground water, no traditional infrastructure investment is required, helping keep costs down.

WaterHealth makes money primarily from supplying the systems. The for-profit model means that villagers pay for using the service, but the payment is very small in U.S.-terms, about half-a-penny per liter, said Demas.

The model has been applied to about 300 site installations in villages in India so far, providing clean water for 2 million people. Because of its distributed model, it reaches a lot more people for a relatively small amount of money, she said.

"The investment is relatively small, but it provides water access to larger populations, so there's a higher developmental impact than previous water investments," said Demas.

The spreading of the WaterHealth systems is what will bring investors their returns. Under the terms of the \$15 million, 10-year IFC loan, the company had projected an addition of 800 installations in 2010, on top of the 175 at the start of 2009. The company has a presence in the Philippines and also in Ghana, among other locations.

"One of the challenges historically has been that models aren't sustainable, they don't deliver quality water 100% of the time," said Hank Habicht, WaterHealth's chairman and managing partner at Sail Venture Partners, another investor in the company.

"The success here [at WaterHealth] is really about superb execution, in that sense it's breaking new ground," because the model is to provide an entire clean and affordable water delivery system, said Habicht.

The largest investor in the company is The Dow Chemical Co.'s venture investing arm, followed by Sail, and Plebys International, a venture funding company focused on development issues.

Demas and Habicht declined to discuss specifics of WaterHealth's fund raising. Executives at Dow Chemical venture investing arm didn't respond to requests for comment. Plebys International's Tralance Addy, one of the first backers of WaterHealth, wasn't immediately available for comment.

"We'd like to see the company expand," said Demas. "The IFC will continue to remain involved at the corporate level to see its expansion in other parts in South Asia and West Africa."

<http://www.dow.com>

<http://www.ifc.org>

<http://www.sailvc.com>

<http://www.waterhealth.com>