

# GHANA WATER ENTERPRISE TRUST STRUCTURING FOR GROWTH AND SUSTAINABILITY



This note describes our continued work to develop a Ghana Water Enterprise Trust (the “Trust”). The Trust will address the need for long-term sustainability and scale of small water enterprises<sup>1</sup> in Ghana by (i) providing financial stewardship and oversight of a portfolio of small water enterprises and (ii) attracting and aggregating funding for an increasing number of small water enterprise implementers. The Trust is being developed in consultation with Lion’s Head Global Partners and with guidance from partners such as WASH-FIN, Deloitte Ghana, and our Small Water Enterprise Working Group (see Exhibit 1).

**8.3 million people<sup>2</sup> in Ghana lack safe water access (based on MDG<sup>3</sup> targets), with 3.2 million living in small towns and peri-urban areas.** The government and development agencies direct most funding to urban utilities, while NGOs and other small-scale implementers focus on rural hand-pump schemes. This leaves a significant investment gap for water supply in small towns and peri-urban areas. Traditional donor funding is insufficient for scale of small water enterprises.

**Small Water Enterprises (SWEs) are micro water utilities, comprised of:**

- a centralized main station with water treatment and water access points
- piped water from the station to additional access points in neighboring villages and households
- water sold at an affordable<sup>4</sup> price to the bottom of the pyramid
- service support to address technical, maintenance, and part replacement needs

As of August 2017, Safe Water Network is operating 65 SWEs in Ghana serving 300,000 people living in 100 communities. Our experience has shown that SWEs are well-suited to support small towns and peri-urban areas due to their focus on financial sustainability, affordability, and ability to expand to meet growing demand over time.

**The Trust is being developed to address three critical barriers to scale:**

**1. Blended Financing:** By combining grants with loans and other forms of investment from public and private financiers, the Trust will seek to mobilize the capital required (estimated to be ~\$112 million<sup>5</sup>) to provide safe water access to 1,000 communities, serving 3.2 million people in peri-urban and small towns in Ghana.

<sup>1</sup> Small Water Enterprises are off-grid community water systems, stations or kiosks, operated as local water businesses that provide consumers with a reliable source of safe, affordable water.

<sup>2</sup> Data on water coverage data provided by Community Water and Sanitation Agency and Ghana Water Company Limited for 2015.

<sup>3</sup> The number of people is substantially higher (actual number TBD) when measured against SDG targets.

<sup>4</sup> UNDP suggests that household costs for the estimated minimum amount to meet all water needs (suggested to be 20 L per capita per day) should not exceed 3% of household income to qualify as “affordable.”

<sup>5</sup> 3,200,000 people \* USD 35 per person = USD 112M

**2. Financial Stewardship:** The Trust will provide financial oversight, reporting, and controls to ensure investors/funders have full visibility of the long-term performance and sustainability of their investment.

- **Governance** through a Ghana-based, independent Board to ensure compliance with the foundational SWE principles of water quality, reliability, affordability, and sustainability.
- **Transparency** to investors and funders through regular financial and operational reporting on SWE performance.
- **Accountability** to ensure underperforming stations are evaluated and appropriately remedied.

**3. Risk Diversification** by pooling SWE assets to allow cross-subsidization or working capital and financial reserves across the portfolio.

**We first developed the idea of a Trust in 2015**, recognizing the need for an independent Ghanaian entity that could attract capital from diverse funders and provide governance and financial stewardship to small water enterprises in perpetuity. The concept was presented at our 2016 “Beyond the Pipe” Forum, where we discussed the need and objectives of the Trust and the key issues that would need to be addressed. Coming out of the Forum, a Finance Working Group, now expanded to a Small Water Enterprise Working Group (see Exhibit 1) was formed, composed of representatives and thought leaders from the sector to provide advice and a sounding board to help develop the concept.

**In June 2017, the Public-Private Infrastructure Advisory Facility (PPIAF) of the World Bank Group awarded funding to Safe Water Network** for the feasibility assessment and scope development for a Water Trust in Ghana. Safe Water Network has engaged Lion’s Head Global Partners (LHGP) to design the Ghana Water Enterprise Trust.

**The Trust is being incubated by Safe Water Network during the development phase (2016-2019).** During the first phase, Safe Water Network will conduct feasibility analysis, design, creation, and raise a first round of financing to fund the early stage operations (currently underway, see timeline in Exhibit 2). During the next phase, the Trust will be launched to manage funds and transition governance so that, in time, it operates independently from Safe Water Network. In the launched phase, funding will be available to all implementers who are able to meet required Trust deliverables.

**The following table reflects our current best thinking on the structure of the Trust.** It is being further refined during the Trust development phase (currently underway). Exhibit 3 illustrates preliminary thinking on asset ownership under the Trust. Exhibit 4 puts forward a proposed launch-phase operating structure for the Trust as a wireframe for discussion. In the Development Phase (2016-2020), we are refining our thinking on the structure and transition of roles, with input from the Small Water Enterprise Working Group, along with legal and fund structure experts. A key issue to be considered is the optimal governance structure to ensure long-term compliance with standards around such areas as water quality, pricing, and efficient operations.



**A mother and child  
fetch water from a Safe Water  
Station in Amanfro.**

## Ghana Water Enterprises Trust – Proposed Structure

<p><b>Governance Structure</b></p>	<p><b>The Trust will be governed through the following key roles:</b></p> <ul style="list-style-type: none"> <li>• <b>Board</b> – Leads stewardship over Trust mission and long-term strategy. Holds final approval rights to release funding for projects. The Board will be composed of representatives who share Safe Water Network's vision and may include technical and financial experts, investors and philanthropists, government, and other stakeholders from the water and infrastructure sectors.</li> <li>• <b>Investment Committee</b> – Evaluates project proposals based on Trust criteria for long-term viability and technical feasibility and recommends to the Board for funding approval.</li> <li>• <b>Fund Manager</b> – Ensures funded projects are meeting Trust requirements and manages necessary deliverables to Trust funders/investors.</li> <li>• <b>Internal Auditors</b> – Maintains <b>H<sub>2</sub>OME!</b> brand by auditing funded projects for compliance with branding requirements, including: affordability, reliability, water quality, financial and environmental sustainability.</li> <li>• <b>Safe Water Network</b> – Plays significant role in ensuring success of the Trust through sponsorship of the Trust (providing investment capital and appointing the Board) and/or participating as a Board member.</li> </ul>
<p><b>Contractual Agreements</b></p>	<p><b>The Trust will engage in the following agreements to manage funded projects:</b></p> <ul style="list-style-type: none"> <li>• <b>Build Own Operate and Transfer (BOOT)</b> – 20 to 25-year agreement with the District Assembly (DA) wherein the DA grants the Trust the right to build, own, and operate a water station on community land. Ownership transfer to the DA is contingent upon assurance that the station can maintain long-term sustainability.<sup>6</sup></li> <li>• <b>The Trust</b> will share any profits net of full costs and sustainability requirements with the DA by paying a community dividend.</li> <li>• <b>Operations &amp; Maintenance (O&amp;M) Agreement</b> – Contract with a third party for operating and maintaining station to ensure performance in accordance with <b>H<sub>2</sub>OME!</b> brand requirements. The third party must be a Trust-approved service provider that is capable of meeting O&amp;M needs.</li> </ul>
<p><b>Roles and Responsibilities</b></p>	<p><b>Primary Roles are as follows:</b></p> <ul style="list-style-type: none"> <li>• <b>Trust:</b> Raises capital; issues calls for proposals and awards funding to eligible SWE projects; manages Trust funds' deliverables to funders, investors and auditors; owns and oversees compliance with <b>H<sub>2</sub>OME!</b> brand; oversight of all accounts generated by Trust assets (e.g. pooled reserves); contracts with Trust-approved third party service providers to build, operate, and manage stations and provide technical services.</li> <li>• <b>District Assemblies:</b> Receive community dividend through profit-sharing agreement with Trust; provide local oversight support through Water and Sanitation Management Team (WSMT); approve water pricing.</li> <li>• <b>O&amp;M Contractor:</b> Constructs stations; maintains, repairs, replaces parts; contractually bound to manage stations, working capital accounts, and maintain record-keeping to meet the <b>H<sub>2</sub>OME!</b> brand standards. This role can be filled by Safe Water Network's Field Service Entity during the incubation phase of the Trust and can eventually include private partners or other NGOs.</li> <li>• <b>Safe Water Network:</b> Plays a controlling role in the incubation phase, with its role transitioning to the Trust in the launch phase, at which point the Trust will be overseen by a dedicated Board. Safe Water Network will remain involved either as the Sponsor or part of the Board.</li> </ul>

<sup>6</sup>Safe Water Network is currently in the process of evaluating SWE assets. The operating and transfer agreements with the District Assemblies will be defined accordingly, and may ultimately take the form of BOT, BOOT, Lease Agreements, etc.

<p><b>Asset Ownership</b></p>	<p><b>Ownership of the assets would be as follows (Note: Column 1 in Exhibit 3 illustrates preliminary thinking on asset ownership under the Trust) :</b></p> <ul style="list-style-type: none"> <li>• The Trust would own the facility and treatment system, as well as pooled reserve accounts generated by the stations, and the <b>H<sub>2</sub>OME!</b> brand.</li> <li>• District Assemblies would own the right to receive community dividend through profit-sharing agreement with the Trust. Ownership would eventually transfer to the DA if the station achieves the ability to maintain long term sustainability (i.e. capital recovery)</li> </ul>
<p><b>Use of Funds</b></p>	<ul style="list-style-type: none"> <li>• Funding from investors/donors will fund capital and start-up costs for construction of stations and potentially expansions and major improvements.</li> <li>• The O&amp;M contractor will collect revenues for stations under the contractor's management. Revenues will be used to pay for operating expenses, O&amp;M contractor fees, and maintain a shared working capital account.</li> <li>• Revenues will also contribute to pooled reserve accounts, managed by the Trust, which will be used to fund major repairs/replacements and capital expansions (e.g., substations and household connections) and pay community dividends to the DA.</li> <li>• Station start-up subsidies required to cover necessary costs and reserve contributions during station ramp-up<sup>7</sup> will be capitalized as part of station start-up costs.</li> <li>• There will also be a Trust management and branding fee funded by both initial funders and potentially station revenues.</li> </ul>
<p><b>Capitalization Strategy</b></p>	<p>In the incubation phase, capital funding for stations and support programs will come from grants from donors into Safe Water Network and channeled into the Trust. Our goal is to further capitalize the Trust with the assets associated with existing stations. We are now studying the legal, financial, and tax implications of transferring these assets (fixed assets, intangible assets, and pooled working capital and maintenance reserves). Our current funding is primarily from the Hilton, Stone, and Vitol foundations, as well as the Dutch government.</p> <p>Long-term, the Trust will seek hybrid funding (equity, debt, grant, or output-based funding) from a mix of sources. Potential investors include venture philanthropists, multilateral or bilateral aid, governments, impact investors; donors include: development agencies and foundations, etc.</p>
<p><b>Risks</b></p>	<p><b>During the first phase of incubating the Trust, we will develop mitigation strategies to address the following key risks:</b></p> <p><b>Legal/Regulatory:</b> Regulatory changes with respect to small water enterprise ownership, land and source water, pricing caps, water quality standards, regulatory reporting and compliance, etc.</p> <p><b>Financial Viability:</b> Stations underperform, don't meet demand projections, or have unexpected increases in costs due to currency exchange rate fluctuations</p> <p><b>Funding:</b> Difficulty attracting sufficient diversity of funders, especially social impact investors and/or private sector participants</p> <p><b>Local Capacity:</b> Insufficient technical expertise and capability to operate, manage, and provide technical services for expansion and manage assets</p> <p><b>Competitive:</b> Government or Private Sector provides free safe water in expansion communities</p> <p><b>Climate:</b> Extreme sustained drought reduces availability of source water or extreme sustained rainfall reduces demand for water</p>
<p><b>Next Steps</b></p>	<p><b>We are targeting to complete feasibility and design of the Trust by early 2018 and anticipate the following schedule of work:</b></p> <p><b>Accounting and Financial Controls (Q1-3 2017):</b> Engaged Deloitte to review financial controls and reporting structures and develop appropriate framework for financial reporting under the Trust.</p>

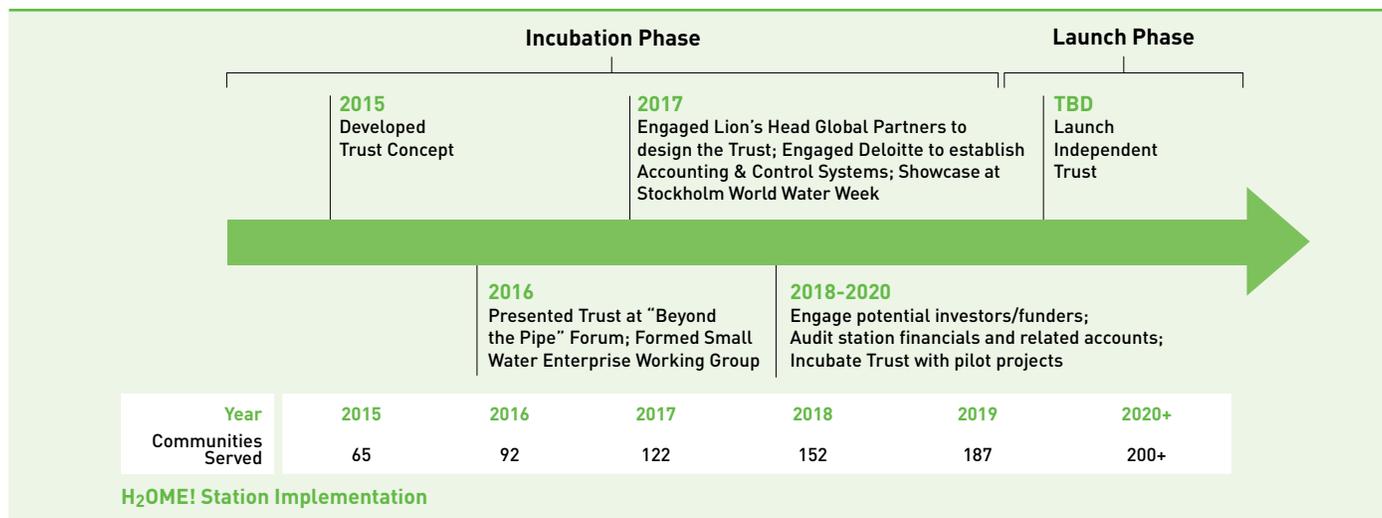
<sup>7</sup>Ramp-up period is under review and currently projected to be between 5-10 years.

<p><b>Next Steps (Continued)</b></p>	<p><b>Discovery Interviews (Q1-4 2017):</b> Conducting desk research and key informant interviews with global sector stakeholders. Gathering insight and lessons learned for creating water funds/trusts to inform development of TOR for Trust Design.</p> <p><b>Ownership/Management/Oversight (Q1-4 2017):</b> Define ownership, management, and oversight structure as it relates to the Trust and all relevant counterparties (including the FSE, District Assemblies, and Private Partners). Assess potential to transfer Safe Water Network’s existing station assets to the Trust.</p> <p><b>Legal Landscape Assessment (Q3&amp;4 2017):</b> Engaging a resource to assess the legal environment and requirements for operating a trust in Ghana.</p> <p><b>Trust Design (Q3 2017 – Q1 2018):</b> In partnership with Lion’s Head Global Partners, complete a feasibility assessment and design of the Trust. The work will include: evaluating funding and project pipeline; assessing financial performance and sustainability of projects; structuring investment/funding products; defining the legal, governance, organizational structures; preparing sample agreements and due diligence processes for new projects.</p> <p><b>Develop Funding Pipeline (2017-2019):</b> Cultivate relationships with funders and disseminate progress on Trust development to generate potential sources for capitalizing the Ghana Water Enterprise Trust.</p> <p><b>Build Project Pipeline Capacity (2018-2020):</b> Cultivate relationships with implementers to develop capacity for project siting, selection, construction, and technical and management services to enable wide-scale SWE replication.</p>
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**Exhibit 1 | Small Water Enterprise Working Group Representatives/Members**

1. **Kwasi Osei**, MD Prizm Capital and Former Director General, SSNIT (**Chair**)
2. **Joseph Ampadu-Boakye**, Program Manager, Market Development and Partnerships, Safe Water Network (**Coordinator**)
3. **Minta Aboagye**, Private Consultant and Former Director of Water, Ministry of Water Resources, Works and Housing
4. **Magdalene Apenteng (Mrs)**, Former Director, Financial Service, Ministry of Finance
5. **Samuel Apenteng**, Managing Director, JOISSAM Ghana Ltd.
6. **Janet Arthur**, Policy Officer on WASH, Embassy of the Kingdom of the Netherlands
7. **Seth Asante**, Private Consultant
8. **Michael Ayesu**, Director, External Resource Mobilisation (Multilateral), Ministry of Finance
9. **Ekow Coleman**, PPP & infrastructure Advisory Expert
10. **Martin Dery**, Executive Secretary, Coalition of NGOs in Water and Sanitation
11. **Benedict Kubabom**, Head of Planning & Investment, Community Water and Sanitation Agency
12. **Natasha Lamptey**, Legal Practitioner
13. **Emmanuel Nkrumah**, WASH Specialist, World Bank
14. **Donald Tay**, Director of Water, Ministry of Water Resources, Works and Housing

**Exhibit 2 | Development of the Ghana Water Enterprise Trust**



### Exhibit 3 | Asset Ownership

This table catalogs the key assets required to build and sustain Safe Water Stations and illustrates our current best thinking about asset ownership.

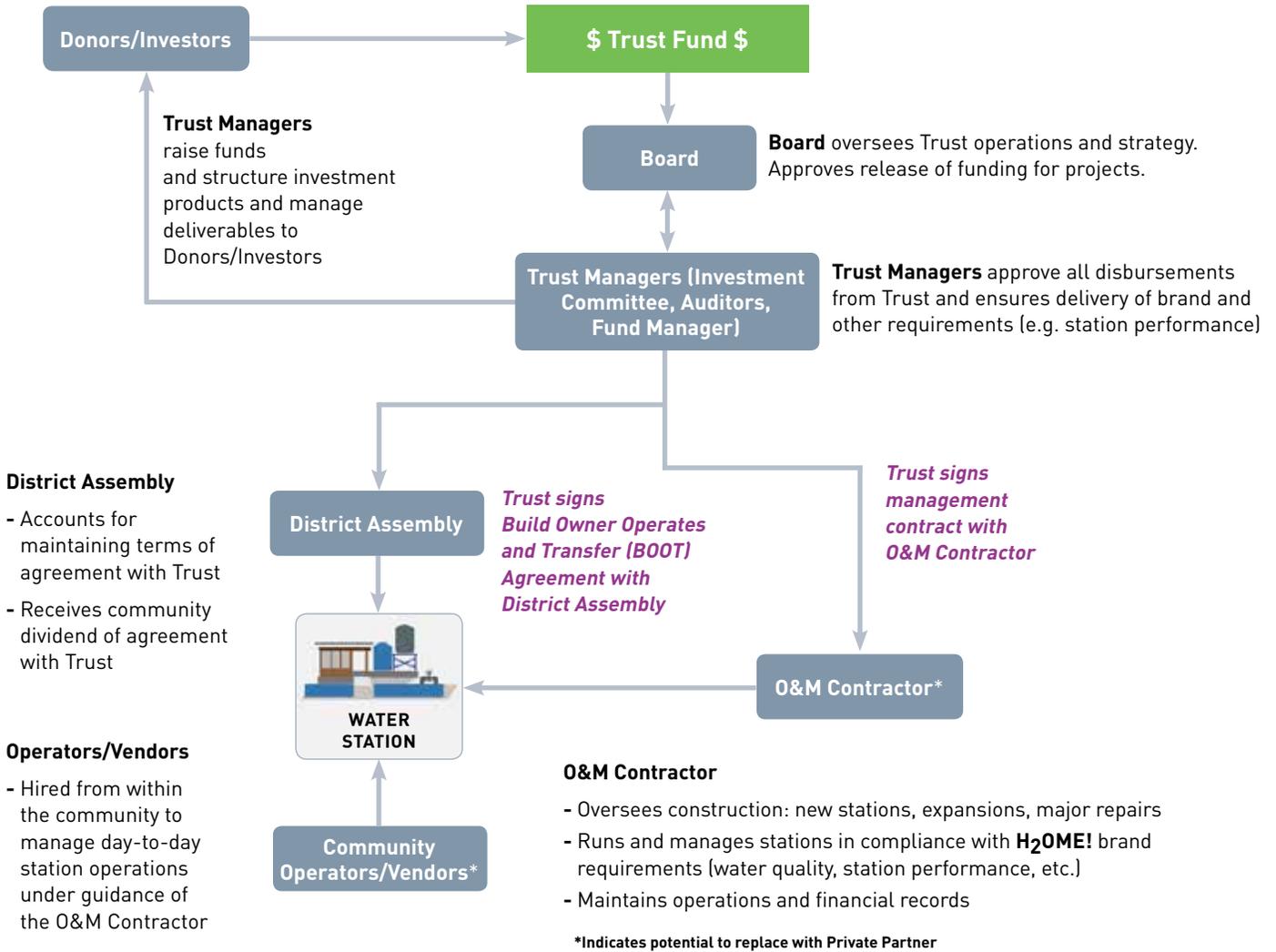
ASSET OWNER	ASSETS	DETAILS
DISTRICT ASSEMBLY	Facility & Treatment System	Per the terms of the agreement, ownership of the physical station assets (building, technology, piping, standpipes, household connections) will transfer to the DA after the station demonstrates ability to maintain long term financial and operational sustainability. Agreement terms are typically 20-25 years.
	Community Dividend Account	The DA is eligible to receive a community dividend through profit-sharing agreement with Trust. As part of the agreement, DAs commit to reinvesting the dividend for initiatives that benefit the community and must be approved by the local Water and Sanitation Management Team.
O&M CONTRACTOR	Working Capital Account	The O&M contractor collects and manages water sales revenues which are used to pay for operating expenses, O&M contractor fees, and maintain a shared working capital account.
TRUST	Facility & Treatment System	Per the terms of the Build-Own-Operate-Transfer (BOOT) agreement, the Trust owns the physical station assets (building, technology, piping, standpipes, household connections) through the duration of the BOOT.
	Maintenance Reserve Account	The Trust manages a pooled Reserve to fund significant repair and capital equipment replacement requirements. The Maintenance Reserve is funded through allocations from station gross profits.
	Capital Reserve Account	Pooled Reserve to fund capital expansions and household connections. The Capital Reserve is funded with profits (if any) after covering all operating expenses and Maintenance Reserve contribution requirements.
	H2OME! Brand	Brand certifying Safe Water Network standards (affordability, accessibility, reliability, water quality, sustainability) are met.



Beatrice Forkuo, business owner, washes vegetables with water from a Safe Water Station near her stall in Pokuase.

**Exhibit 4 | Ghana Water Trust Launch-Phase Operating Structure**

(In Development - For Discussion Only)





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