

SPOTLIGHT: GHANA WATER ENTERPRISE TRUST

MARCH 2016



i) Selasse Agbati (3) is bathed by his mother, Cassandra Agbati, using purified water purchased from a Safe Water Station. ii) A mother and child fetch water from a Safe Water Station in Amanfro. iii) Beatrice Forkuo, 42, washes vegetables with water from a Safe Water Station near her stall in Pokuase. iv) Children at school in Dzemeni, Volta Region, drink water from the town's Safe Water Station.

Rationale

The total underserved population in Ghana lacking access to safe water is estimated at 10 million people,¹ 3 million of which we project can be served by small water enterprises. To meet this need significant capital will be required, as will oversight mechanisms to ensure financial and operational sustainability, good governance and that quality standards are met.

A Trust that serves these functions can attract capital to enable expansion of Stations to address the gap of underserved in peri-urban and small towns in Ghana (generally communities between 1,500-10,000 people), not reached by urban infrastructure (the focus of government and development agencies) or by rural handpump schemes (the focus of not-for-profits).

Long Term Goal

Safe Water Network is developing a Water Enterprise Trust to attract capital to support future expansion of off-grid Small Water Stations² in Ghana and their financial stewardship. The potential size of this Trust at scale would be ~ \$60 million,³ providing funding for safe water access to 1,000 communities (3+ million people).

The Trust will be a receptacle to receive donor funds and manage maintenance reserve and capital recovery accounts from the Stations. It will be responsible for investor/donor relationships; reporting and funding decisions for viable projects; and ensuring that qualified organizations provide supporting management and operational support to the Trust.

Two Phased Approach

The Trust is being developed using a two-phased approach, initially managed internally by Safe Water Network as a proof of concept. During the initial *Development Phase* (duration TBD), Safe Water Network will seek input from current and prospective scale funders to establish clear objectives for the Trust and determine how it should be structured to meet those objectives. It is currently anticipated that the Trust will be domiciled in Ghana as an independent entity. In Phase 2, we expect the Trust will be launched.

The Trust will be developed to serve as a model for replication in other countries.

¹ Based on Safe Water Network analysis of data on underserved populations provided by the Ghana Water Company Limited and Community Water and Sanitation Agency.

² Refers to water systems serving communities outside the municipal supply network.

³ Capital costs are conservatively estimated to allow for potential need to cover a larger number of smaller communities.



<p>Development Phase Objective</p>	<p>The objective of the <i>Development Phase</i> is to improve financial stewardship and operational oversight of the water Stations. This will include the existing 35 Stations and 30 subStations serving 65 communities which cost ~\$3 million (see Figure 1) and any additional Stations installed during this period (2016-TBD).</p> <p>During the <i>Development Phase</i>, Safe Water Network will continue to own and operate the Stations as defined in the Build-Operate-Transfer (B.O.T.) agreements⁴ and manage them as a portfolio. With guidance from the Finance Working Group,⁵ Safe Water Network will specify the structure of the legal Trust entity, including related contracts for management and operating services as a step toward the anticipated eventual handoff to a Ghana domiciled entity. Safe Water Network will maintain control of financial arrangements, management and operations during this phase.</p> <p>Additional work during this phase will include:</p> <ul style="list-style-type: none"> • Establishing Accounting & Control System Structure and related reporting that tracks financial and operational performance of the Stations. (These will be completed in a satisfactory way to be audited.) • Assessing feasibility of securing more conventional forms of finance for Station expansions, improvements and household connections. • Updating B.O.T. agreements to reflect current financial arrangements and practices.⁶ <p>Sources of funding for this phase are expected to continue to be philanthropic, from individuals and foundations.</p>
<p>Long Term (Phase 2) Objective</p>	<p>The long term objective is to launch the Trust as a Ghana-based, independent entity that serves as a vehicle for financial stewardship of Stations and a mechanism to secure significant amounts of additional capital. We anticipate a structure that enables blended sources of financing, potentially including loans for expansions, improvements and household connections.</p> <p>The Trust framework will be developed to fund Stations implemented by Safe Water Network and, in time, enable funding of other implementing organizations. In the long term it is anticipated the Trust will be capitalized through a mix of grants and debt with varying repayment obligations, providing a mix of social and financial returns. Sources of funding are expected to include government agencies in Ghana, foundations, multilateral and bilateral organizations and donor agencies.</p>
<p>Key Issues to Be Addressed</p>	<p>During the <i>Development Phase</i>, Safe Water Network is working with key stakeholders and experts to resolve several issues for the anticipated launch of the Trust. Guidance is being sought in the following areas:</p> <ul style="list-style-type: none"> • Development of accounting systems and controls to ensure financial stewardship of the assets including maintenance and capital recovery reserve accounts. • Management of the H2OME brand to ensure pricing, quality and reliability standards are maintained. • Updating B.O.T. agreements with District Assemblies on behalf of communities. • Assess impact of the Trust and cross-collateralization of assets on both legal community/local ownership and on sense of ownership by participating communities. • Composition of a governing board. • Structure of contractual agreements between the Trust and outside organization(s) for financial, operational and management responsibilities.

Figure 1

ASSETS	END OF 2015	END OF 2020
# of Communities (Stations and SubStations)	65 Communities, (35 Stations and 30 SubStations)	200 Communities (~150 Stations and 50 SubStations)
Capital Invested	\$3.0 million	\$10.5 million
Gross Margin	24%	35%

⁴ For each Station and SubStation Safe Water Network has executed a B.O.T. agreement with the District Assembly that represents the interests of participating communities.

⁵ Members include Africa Development Bank, Ministry of Finance and World Bank.

⁶ We have introduced a maintenance reserve account and brand standards (for the H2OME brand) since forming the B.O.T. agreements.

Examples of Pooled Funds

Trust structures and pooled funds have been used to attract large scale capital to fund scale interventions in the developing world, notably for energy, health, education and municipal water. The examples provided below serve as models for funding decentralized water systems using a trust structure.

HEALTH SECTOR POOL FUND, LIBERIA

LAUNCH DATE: 2009 | **CAPITAL RAISED:** \$13.5 million

Each contributing donor (DFID, UNICEF and Irish Aid) enters into a Joint Financing Agreement (JFA) with the government, which governs the use of the funds, the review of fund performance and audit provisions.

WATERCREDIT INVESTMENT FUND

LAUNCH DATE: 2014 | **CAPITAL RAISED:** ~\$10 million

Fund to provide concessionary debt capital to water.org's Indian MFI partners and increase their WASH portfolio. Foundations and other accredited investors can invest in the Fund through the Program Related Investment (PRI) route. Water.org takes a 3% management fee on total capital invested net of startup costs and expenses.

WATER IS LIFE (MAJI NI MAISHA), KENYA

LAUNCH DATE: 2006 | **CAPITAL RAISED:** \$1.15 million during pilot; \$4.3 million (for water and sanitation) in 2014

The community makes an upfront equity investment of 20% of the project cost and K-Rep provides a loan for the remaining 80%. GPOBA subsidies⁷ pay back half the loan amount which makes monthly repayments affordable for the community. K-Rep purchased a partial credit guarantee from USAID's Development Credit Authority which covers 50% of the loan principal. The Public-Private Infrastructure Advisory Facility (PPIAF) provides initial feasibility studies and provides on-going technical support.

PHILIPPINES WATER REVOLVING FUND

LAUNCH DATE: 2008, ended 2011 | **CAPITAL RAISED:** \$2.6 million from commercial private sector; \$10 million from public sources

JBIC extends highly concessional loans to DBP with maturity of 30-40 years and at least 10 years grace. PFIs or commercial banks then provide co-financing for projects backed by a partial credit guarantee by USAID. DBP, as the administrator, acts as the main loan originator and lead arranger and the co-lending is carried out on a transaction by transaction basis. The blending of funding from DBP and PFIs means that the water and sewer service providers are able to obtain loans with 7 to 15 year tenors (up to two years grace period) at interest rates of 9% to 11%.

TAMIL NADU WATER AND SANITATION POOLED FUND, INDIA

LAUNCH DATE: 2002 | **CAPITAL RAISED:** \$6.4 million

Projects implemented by Urban Local Bodies (ULBs) across the state of Tamil Nadu are pooled into a trust, named the Water and Sanitation Pooled Fund, managed by the Tamil Nadu Municipal Urban Development Fund (TNMUDF). TNMUDF issues bonds in the local capital market to attract financing from banks and other private financial institutions. Credit enhancement is provided by an escrow account created by ULBs (using revenues) for repayments, and a debt service reserve account set up by the State Government. If this account is drawn on to make bond repayments, the State Government is responsible for replenishment. USAID guarantees 50% of the repayments if the debt service reserve is exhausted and the government does not replenish it in 90 days.



Site operator, Humphery Aryee, repairs a leaky seal at a Safe Water Station in Pokuase.

⁷Subsidy payments are only made upon successful delivery of outputs which are measured by change in service coverage and change in revenues collected, as a result of increased service and improved payment collection.



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