This note describes our continued work to develop a Ghana Water Enterprise Trust (the “Trust”) to address the need for long term sustainability and scale of small water enterprises in Ghana.

8.3 million people lack safe water access, 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.

Ghana provides an exceptional opportunity—with great interest and support from the Government and development agencies—in promoting public-private partnerships and a transition from philanthropy/aid-dependency toward investments and private sector participation.

Our Stations in Ghana are essentially micro-utilities set up with the capacity for expansion to cover multiple communities with:

- centralized water treatment at the main Station where water is sold to consumers
- piped water from the Station to Sub-Stations and in some cases to homes
- service support to address technical, maintenance, and part replacement needs.

This structure is attractive to the Government, District Assemblies, and communities.
The Trust enables the expansion of small water enterprises that meet safe, affordable, and reliable access standards, and also enables the necessary monitoring and controls to achieve it. This furthers the UN's Sustainability Development Goal (SDG 6.1) to provide safe water access to all.

The Trust addresses a critical barrier to scale by providing a means for investment by a diverse group of funders, including donors, government, development agencies, and the private sector, to meet the capital requirements (estimated to be ~$60 million1) to provide safe water access to 1,000 communities, serving 3.2 million people in peri-urban and small towns in Ghana.

In addition, the Trust provides the governance structure necessary to support sustainability of Stations. The critical functions for operational success and sustainability of Safe Water Stations fall into four broad categories:

- operation
- management
- technical servicing
- oversight

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 Safe Water Stations 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 (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.

Since then, large funders such as the Ghana Infrastructure Investment Fund, the World Bank (PPIAF), and the Dutch Government have expressed interest and support for a Trust to address the gap in financing and governance of Safe Water Stations. In various stages of discussion, they have expressed their interest in supporting and funding the development of the Trust.

The Trust is being incubated by Safe Water Network during the proof-of-concept phase (2016-2019) which includes feasibility, design, creation, and early stage operation (currently underway), as seen in Exhibit 2. During the next phase, the Trust will be launched and will manage funds and governance independent from Safe Water Network.

Today, Safe Water Network operates 60 Safe Water Stations under the H2OME brand in 90 communities, providing access to 300,000 people in 5 regions in Ghana. Eventually, these will be transferred to the Trust.

The following table (see Ghana Water Enterprise Trust - Structure) reflects our current best thinking on the structure of the Trust. It will be further refined during the Trust development phase (currently underway). Exhibit 3 illustrates preliminary thinking on the transition from the current structure to the Trust structure. Exhibit 4 puts forward a proposed structure for the Trust as a strawman for discussion. In the Development Phase (2016-2019), we will refine our thinking on the structure and transition of roles, with input from the Finance 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.

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1 3,200,000 people/ (5,000 people with access per station) * USD 100,000 per station = 64M USD
Ghana Water Enterprises Trust – Structure

| Board Composition | The Board will be composed of select representatives with top credentials who share our vision and possess deep expertise in relevant disciplines including technical and financial experts, investors and philanthropists, and other stakeholders from the water and infrastructure sectors, including Safe Water Network. We anticipate participation from regulatory agencies with potentially 1-2 positions appointed by government. |
| Ownership | Ownership of the assets would be as follows (Note: Column 1 in Exhibit 3 illustrates preliminary thinking on transition of ownership with the Trust: |
| Contractual Agreements | Build Operate Transfer (BOT) agreements (currently in place between Safe Water Network and the District Assemblies on behalf of the Communities) would be revised to reflect new terms of agreement between Trust, District Assemblies and Private Partners. New terms to include: |
| Sources of Funding | In the current incubation phase, capital funding for Stations and support programs will come from donor grants. Our current primary funding is from the Conrad N. Hilton Foundation, the Stone Family Foundation, and the Vitol Foundation, as well as from the Dutch government. In addition, a capital reserve account will be funded by pooled capital recovery payments from the Stations. Long-term, the Trust will seek hybrid funding (investment and donor funding) from a mix of sources. Potential investors include venture philanthropists, impact investors, the private sector, and the Ghana Infrastructure Investment Fund (GIIF). Donors include: USAID, Dutch Government, World Bank, and GIIF. |
| Uses of Funding | Funding from investors/donors will fund capital and start-up costs for construction of Stations. The maintenance and capital reserve accounts, generated over time through Station revenues, will be respectively used to fund major repairs/replacements and capital expansions (e.g., substations and household connections). Expansions that have the potential to provide a financial return may be funded by lenders and investors. Grant funding from donors will fund capital and start-up costs and support programs. There will also be a Trust fee funded by initial funders and, potentially, by Station revenues. |
| Roles and Responsibilities | Primary Roles are as follows: |

**Trust:** Raise capital; receive and manage donor and investor funds, including delivering on obligations to funders; own and oversee the Field Services Entity (FSE); oversee/stewardship of accounts (Field Services Entity, maintenance reserve and capital reserve); own and oversee brand to ensure standards are met, including system design, pricing, and water quality (within government guidelines and standards); oversight of all accounts; contract with independent private sector entities/individuals to build, operate, and manage Stations and provide technical services.

**District Assemblies/Community:** operate the Stations (or contract with a private partner or the Field Services Entity to do so); day-to-day management of working capital and community dividend accounts; oversight of land and water source.

**Field Services Entity (owned by Trust or Private Partner):** Constructs Stations, maintains, repairs, replaces parts.

**Field Services Entity (owned by Trust):** manages the H2OME! Water brand.

**Safe Water Network:** will play 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 an independent Board.
Risks

During the first phase of incubating the Trust, we will develop mitigation strategies to address the following key risks:

Legal/Regulatory: Regulatory changes with respect to small water enterprise ownership, land and source water, pricing caps, water quality standards, regulatory reporting and compliance, etc.

Financial Viability: Stations underperform, don’t meet demand projections, or have unexpected increases in costs due to currency exchange rate fluctuations

Funding: Difficulty attracting sufficient diversity of funders, especially social impact investors and/or private sector participants.

Local Capacity: Insufficient technical expertise and capability to operate, manage, and provide technical services for expansion and manage assets.

Competitive: Government or private sector provides free safe water in expansion communities.

Climate: Extreme sustained drought reduces availability of source water or extreme sustained rainfall reduces demand for water.

Next Steps

We are targeting to complete feasibility and design of the Trust by early 2018 and anticipate the following work through the course of 2017:

- Discovery Interviews (Q1 & 2 2017): Conducting desk research and key informant interviews with global sector stakeholders. Gathering insights and lessons learned for creating water funds/trusts to inform development of Terms of Reference (TOR) for Trust Design.

- Accounting and Financial Controls (Q1-3 2017): Engage Deloitte to review financial controls and reporting structures and develop an appropriate framework for financial reporting under the Trust.

- Legal Landscape Assessment (Q1 & 2 2017): Engage a consulting resource to assess the legal environment and requirements for operating a trust in Ghana.

- Ownership/Management/Oversight (Q1-4 2017): Explore and define desired ownership, management, and oversight structure as it relates to the Trust and all relevant counterparties (including the FSE, District Assemblies, community water boards, and private partners)

- TOR for Trust Design (Q2 & 3 2017): Issue a TOR and select a partner to perform feasibility, design, and creation of the Trust. The scope will include vetting overall financial sustainability of the Trust, defining the legal, governance, organizational structures, preparing sample agreements and due diligence processes for new projects.

- Structuring Investment Products (2017-2018): Design and create investment products and incentives to meet the needs of the spectrum of funders. For example: concessional loans from government or private sector; microfinance for direct loans to customers; market incentives to manage risks and improve transaction costs in order to attract private sector investors.

- Funding Pipeline (2017-2019): Cultivate relationships with funders and disseminate progress on Trust development to increase awareness of opportunities for private-public collaborations in the small water enterprise sector.

Currently, Safe Water Network:

(i) Finances and ‘owns’ the water stations and the financial assets. We execute a Build Operate Transfer (BOT) agreement that we sign with District Assemblies indicating an intention to transfer ownership to the Assemblies on behalf of the communities after full repayment of capital and start-up costs which are currently expected over a 15 year period.

(ii) Stations are community run with operators, trained by Safe Water Network, producing, distributing, and monitoring the quality of water, and collecting payments for sales.

(iii) Safe Water Network manages the Stations providing technical service through a Field Services Entity (FSE), including supply and replacement of parts and program support, measurement, and reporting on performance.

(iv) Safe Water Network oversees performance.
Exhibit 1 | Finance Working Group Representation/Members

- **Ekow Coleman**, Senior Investment Officer, Ghana Infrastructure Investment Fund
- **Fred Smiet**, First Secretary, Water and Climate Ghana Netherlands WASH Programme (GNWP), Netherlands Embassy Ghana
- **Kwasi Osei**, Managing Director, Prism Capital
- **Michael Ayesu**, Head of External Resources Mobilisation, Ministry of Finance
- **Natasha Lamptey**, Legal Practitioner, Tasha Lamptey@Law
- **Seth Asante**, Financial Consultant

Exhibit 2 | Development of the Ghana Water Enterprise Trust

<table>
<thead>
<tr>
<th>Incubation Phase</th>
<th>Launch Phase</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2015</strong></td>
<td><strong>TBD</strong></td>
</tr>
<tr>
<td>Developed Trust Concept</td>
<td>Launch Trust; Establish Board of Trustees; Run pilot projects</td>
</tr>
<tr>
<td><strong>2016</strong></td>
<td><strong>2018-2019</strong></td>
</tr>
<tr>
<td>Presented Trust at Forum; Formed Financial Working Group</td>
<td>Design Trust governance &amp; legal structure; Audit Station financials and related accounts; Engage potential trustees</td>
</tr>
<tr>
<td><strong>2017</strong></td>
<td><strong>2019</strong></td>
</tr>
<tr>
<td>Engaged Deloitte to establish Accounting &amp; Control System</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Communities Served</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>65</td>
</tr>
<tr>
<td>2016</td>
<td>92</td>
</tr>
<tr>
<td>2017</td>
<td>122</td>
</tr>
<tr>
<td>2018</td>
<td>152</td>
</tr>
<tr>
<td>2019</td>
<td>187</td>
</tr>
<tr>
<td>2020+</td>
<td>200+</td>
</tr>
</tbody>
</table>

**H2OME! Station Implementation**

A mother and child fetch water from a Safe Water Station in Amanfro.
**Exhibit 3** | This table catalogs the key assets required to launch and sustain Safe Water Stations and compares who currently owns and manages these assets today with how they would be owned and managed under the jurisdiction of the Trust.

<table>
<thead>
<tr>
<th><strong>TANGIBLE ASSETS</strong></th>
<th><strong>DESCRIPTION</strong></th>
<th><strong>1) OWN</strong></th>
<th><strong>Incubation Period</strong></th>
<th><strong>Trust Launched</strong></th>
<th><strong>2) OPERATE</strong></th>
<th><strong>Incubation Period</strong></th>
<th><strong>Trust Launched</strong></th>
<th><strong>3) MANAGE</strong></th>
<th><strong>Incubation Period</strong></th>
<th><strong>Trust Launched</strong></th>
<th><strong>4) OVERSIGHT</strong></th>
<th><strong>Incubation Period</strong></th>
<th><strong>Trust Launched</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Facility &amp; Treatment System</td>
<td>Building, Technology, Piping, Standpipes, Household Connections</td>
<td>SWN</td>
<td>Community</td>
<td>SWN</td>
<td>Community</td>
<td>Community</td>
<td>Community</td>
<td>SWN (FSE)</td>
<td>Trust (FSE)</td>
<td>SWN</td>
<td>Trust</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Working Capital Account</td>
<td>Station Bank Account</td>
<td>SWN</td>
<td>Community</td>
<td>SWN (FSE)</td>
<td>Community</td>
<td>SWN (FSE)</td>
<td>Community</td>
<td>SWN (FSE)</td>
<td>Trust (FSE)</td>
<td>SWN</td>
<td>Trust</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FSE Account</td>
<td>Account for sustaining the FSE</td>
<td>SWN (FSE)</td>
<td>Trust (FSE)</td>
<td>SWN (FSE)</td>
<td>Trust (FSE)</td>
<td>SWN (FSE)</td>
<td>Trust (FSE)</td>
<td>SWN (FSE)</td>
<td>Trust (FSE)</td>
<td>SWN</td>
<td>Trust</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintenance Reserve Account</td>
<td>Pooled Reserve to fund long term maintenance requirements</td>
<td>SWN</td>
<td>Trust</td>
<td>SWN</td>
<td>Trust</td>
<td>SWN</td>
<td>Trust</td>
<td>SWN</td>
<td>Trust</td>
<td>SWN</td>
<td>Trust</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Reserve Account</td>
<td>Pooled Reserve to fund capital expansions and HH connections</td>
<td>SWN</td>
<td>Trust</td>
<td>SWN</td>
<td>Trust</td>
<td>SWN</td>
<td>Trust</td>
<td>SWN</td>
<td>Trust</td>
<td>SWN</td>
<td>Trust</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Community Dividend Account</td>
<td>Community profit-sharing account</td>
<td>Community</td>
<td>Community</td>
<td>Community</td>
<td>Community</td>
<td>Community</td>
<td>Community</td>
<td>SWN</td>
<td>Trust</td>
<td>SWN</td>
<td>Trust</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**INTANGIBLE ASSETS**

| **H2Ome Brand** | Brand certifying “SWN” water quality and pricing standards | SWN | Trust | Community | Community | SWN (FSE) | Trust (FSE) | Community | Community |
| **Access to Land** | Right to access land on which station is built | Community | Community | SWN (FSE) | Trust (FSE) | Community | Community |
| **Access to Water Source** | Right to access and draw from water source that supplies the station | Community | Community | SWN (FSE) | Trust (FSE) | Community | Community |

Beatrice Forkuo, business owner, washes vegetables with water from a Safe Water Station near her stall in Pokuase.
Exhibit 4 | The Proposed Structure for the Trust, Including Roles and Responsibilities

- **Donors/Investors**
- **$ Trust Fund $**
- **Board**
- **Trust Managers**
- **District Assembly**
- **Community Water Board**
- **Community Operators/Vendors**
- **Field Service Entity**

**Trust Managers** raise funds and structure investment products and manage deliverables to Donors/Investors

**Board** oversees Trust operations and strategy

**Trust Managers** approve all disbursements from Trust and oversee FSE to ensure delivery of Brand and other requirements (e.g. station performance)

**Trust signs BOT Agreement with District Assembly**

All parties are contractually obligated through BOT to comply with FSE management

**Trust signs management contract with FSE**

**District Assembly**
- Owns Station Assets, Working Capital, Community Dividend Accounts, and license for H2OME brand
- Oversees Community Water Board
- Accountable for maintaining terms of agreement with Trust

**Community Water Board**
- Oversees operators and vendors

**Community Operators/Vendors**
- Engaged by Community to manage day-to-day Station operations

**Field Service Entity**
- Maintains Brand (water quality, station performance, etc.)
- Makes recommendations for Trust disbursements (e.g. maintenance reserve)
- Oversees construction: new stations, expansions, major repairs
- Provides Training and holds Communities accountable for obligations to the Trust
- Maintains operations and financial records

*Indicates potential to replace with Private Partner*
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