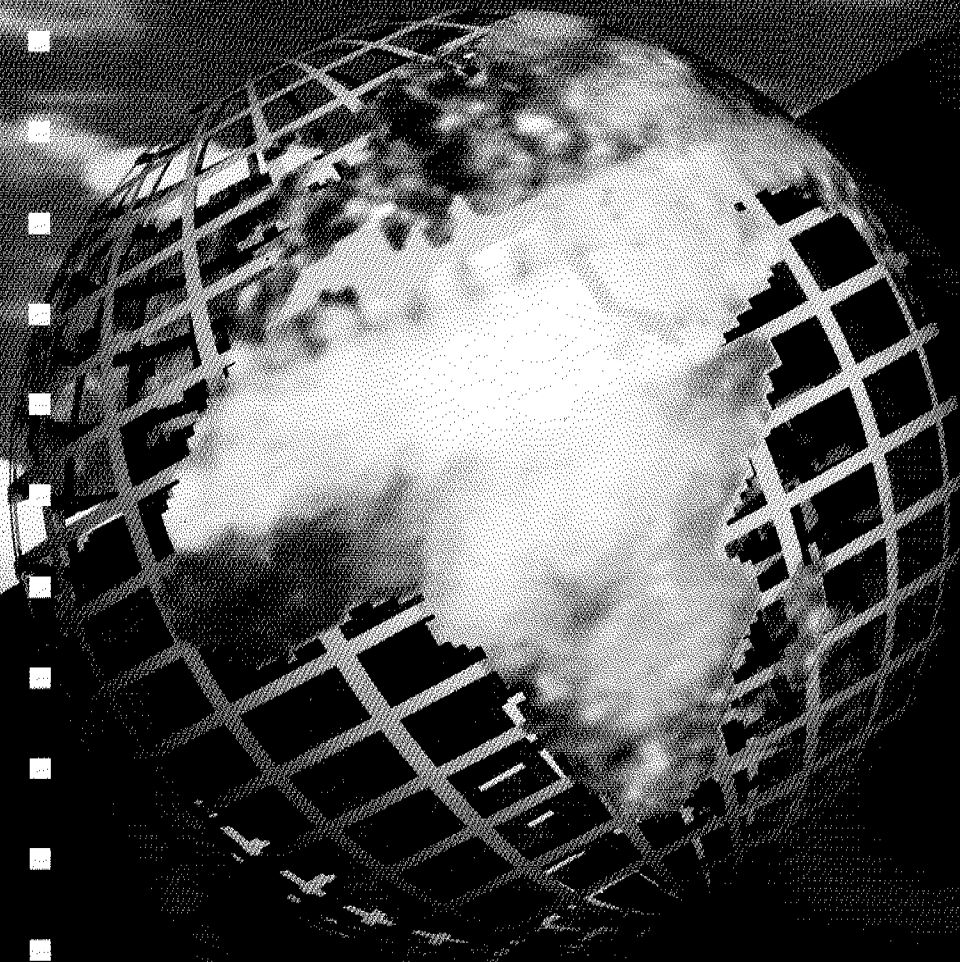


824 ZM98

M B I A

# WATER

International Water  
and Sanitation Centre  
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# INTO THE YEAR 2000



824-ZM98-15429

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## GEORGE COMPOUND

Telia Phiri & Cathrine Mbewe

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*The two ladies pay K2500 per month for drawing water from the taps. This water is drawn for household use only. Water taps are open from 8:00am -10:00am and reopened at 16:00pm to 17:00pm They would like more water so that their lives could be a lot easier, although it is very difficult for them to carry a lot of water in the small space of time they are glad to have access to these facilities because the water is clear and clean.*



## WATER INTO THE YEAR 2000

■ *The Government of the Republic of Zambia has, through the Programme Co-ordinating Unit (PCU), embarked on a reform process aimed at reorganizing the sector to enable it better meet its obligations.*

■ *Under the reforms, responsibility for water supply and sanitation has been placed under Local Authorities and private enterprises.*

For a long time the Water and Sanitation sector in Zambia has not been performing to expectation. In almost every community, the sector has failed to meet the people's water and sanitation needs. This has largely been due to a history of neglect of the sector characterised by under-funding and poor staffing.

In an effort to redress this situation, the Government of the Republic of Zambia has through the Programme Co-ordinating Unit (PCU), embarked on a reform process aimed at reorganising the sector to enable it better meet its obligations.

The reorganisation is based on seven sector principles adopted by Cabinet. These principles represent the changes needed to be implemented to bring about effectiveness in service delivery and financial viability of the sector.

A lot of ground has been covered in implementing the reforms. A landmark event in this regard was the passing of the Water Supply and Sanitation Act No. 28 of 1997. The Act provides the legal framework within which the reorganisation of the sector is undertaken.

Provision of Water Supply and Sanitation services is recognised to be a local issue. Hence the Act gives responsibility for provision of the service to Local Authorities. In achieving this obligation, Local Authorities can use various options available.

An important feature of the Act is that it empowers Local Authorities. The Act further provides for the participation of private enterprise either alongside the Local Authorities in the provision of these services, or through contractual arrangements. A Local Authority could enter into contract (management, lease or concession) with a private company for provision of Water Supply and Sanitation Services.

Under the principles adopted by Government it is expected that in the long run Water Supply and Sanitation services will be provided on full cost recovery basis.

Already, significant preparatory work has gone into the formation of commercial utilities in some provinces and it is expected that the Copperbelt Province will have three utilities while the Southern Province will have one operating by the beginning of 1999.

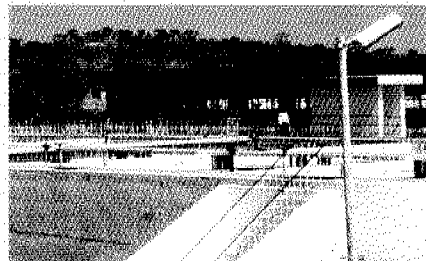
The Act also provides for the establishment of a regulatory body, the National Water and Sanitation Council (NWASCO). The regulatory functions of NWASCO will consist of advising Government on sector policy and developing standards and guidelines.

In implementing the reforms Government has had to realign responsibilities among institutions working in the sector. The purpose is to avoid duplication of activities and wastage of resources.



**MR ROMANCE SAMPA**

PERMANENT SECRETARY  
MINISTRY OF ENERGY AND WATER  
DEVELOPMENT,  
AND  
CHAIRMAN OF THE PROGRAMME  
CO-ORDINATION UNIT (PCU)



**KAFUE WATER WORKS  
INTAKE PONDS**

Past experience has shown that lack of clear allocation of responsibilities in the sector has created a number of problems. Under the reforms, responsibility for water supply and sanitation has been placed under Local Authorities and private enterprise. This in effect gives meaning to the Government's policy of decentralisation.

Zambia has recently articulated a sanitation strategy with an accompanying action plan.

This is a road map for stakeholders working in the sanitation sub-sector. In the strategy emphasis is on behavioural change at the household and community levels as the main thrust of improving the nation's sanitation status. The strategy covers rural and peri-urban areas.

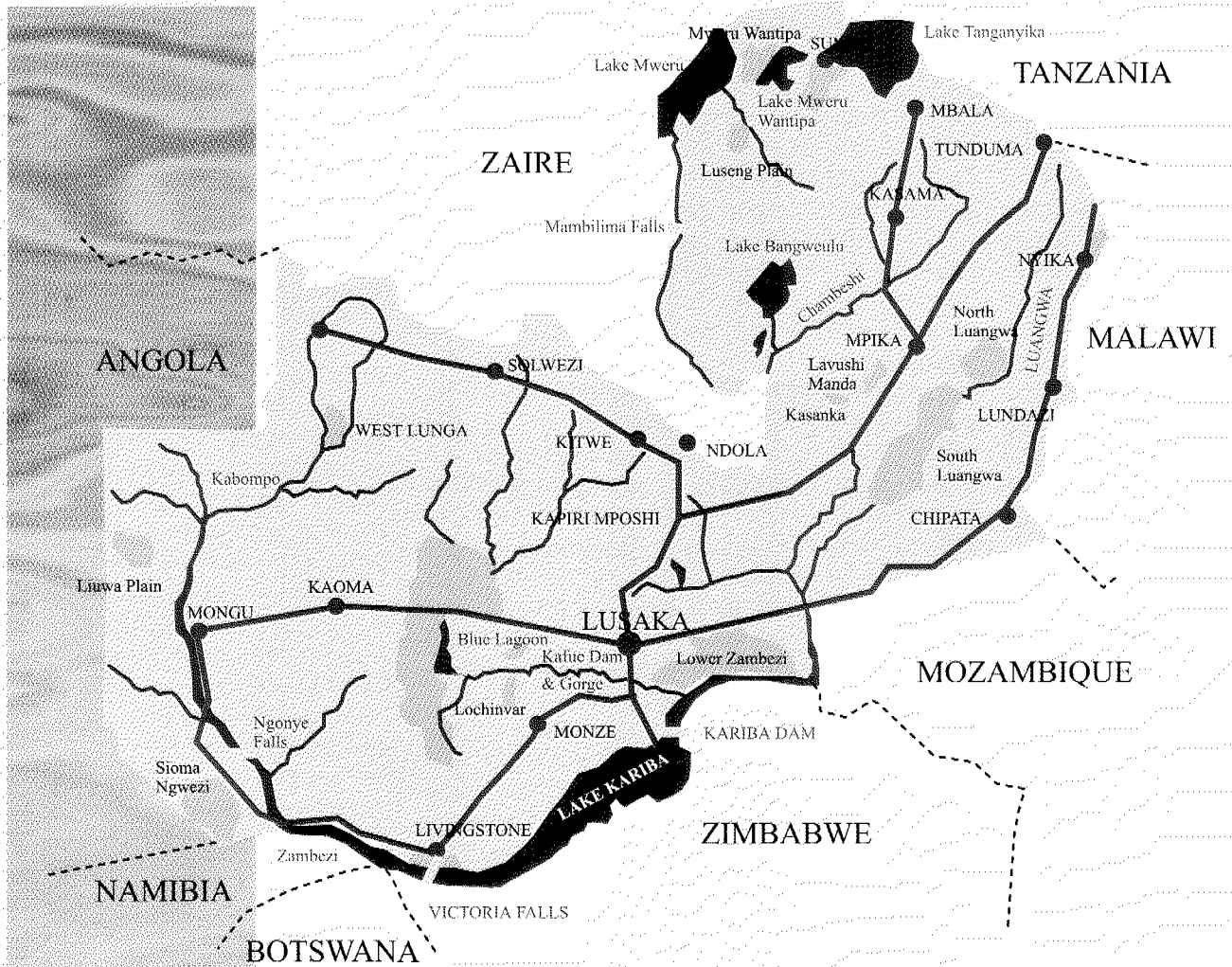
The decisions taken and institutions created clearly demonstrate the Government's commitment to provide a clear direction to the Sector and facilitate its sustainability. But to succeed the Government's programme needs to be complimented by the support of the general public and creative partnerships between public and private enterprises.







# ZAMBIA - THE FACTS



## POPULATION

Approximately 8.9 million. 1.2 million live in the city of Lusaka. Urbanisation is at 50% making Zambia one of Africa's most urbanised countries. Population growth rate is 3.6%.

## CLIMATE

Zambia boasts a fantastic climate. Rains are reliable and the mild season make for very comfortable living.

## MAJOR EXPORTS

Primary: copper, cobalt, lead and zinc.  
Secondary: Agricultural and horticultural products, gemstones, timber and cement.

## IMMEDIATE NEIGHBOURS

Angola, Botswana, Tanzania, Malawi, Zimbabwe, Mozambique, Namibia and Zaire.

## WATER DISTRIBUTION

By the size of population served:  
17 Large urban towns serve more than 50,000, 13 Small urban town serve more than 20,000<50,000, 53 Rural towns serve less than 20,000

## GEOGRAPHY

Zambia covers an area of 752,614 square kilometers It is twice the size of neighbouring Zimbabwe and equal to Spain

and the UK put together. Zambia is mostly fertile land made up of woodland and savannah and is part of the great Central African Plateau.

## RELIGION

Christians make up most of the population at approximately 80% there are also significant Muslim and Hindu populations.

## MAJOR IMPORTS:

Primary: Oil, chemicals and machinery.  
Secondary: iron and steel, textiles, vehicles and manufactured goods.

## MAJOR NATURAL RESOURCES

Land mass; minerals; vast hydro potential for the power sector and huge unspoilt tourism potential.

## WATER SUPPLY & SANITATION INVESTMENT REQUIREMENTS

To attain 86% to 100% coverage by the year 2015.

Urban : 683.2 million US\$

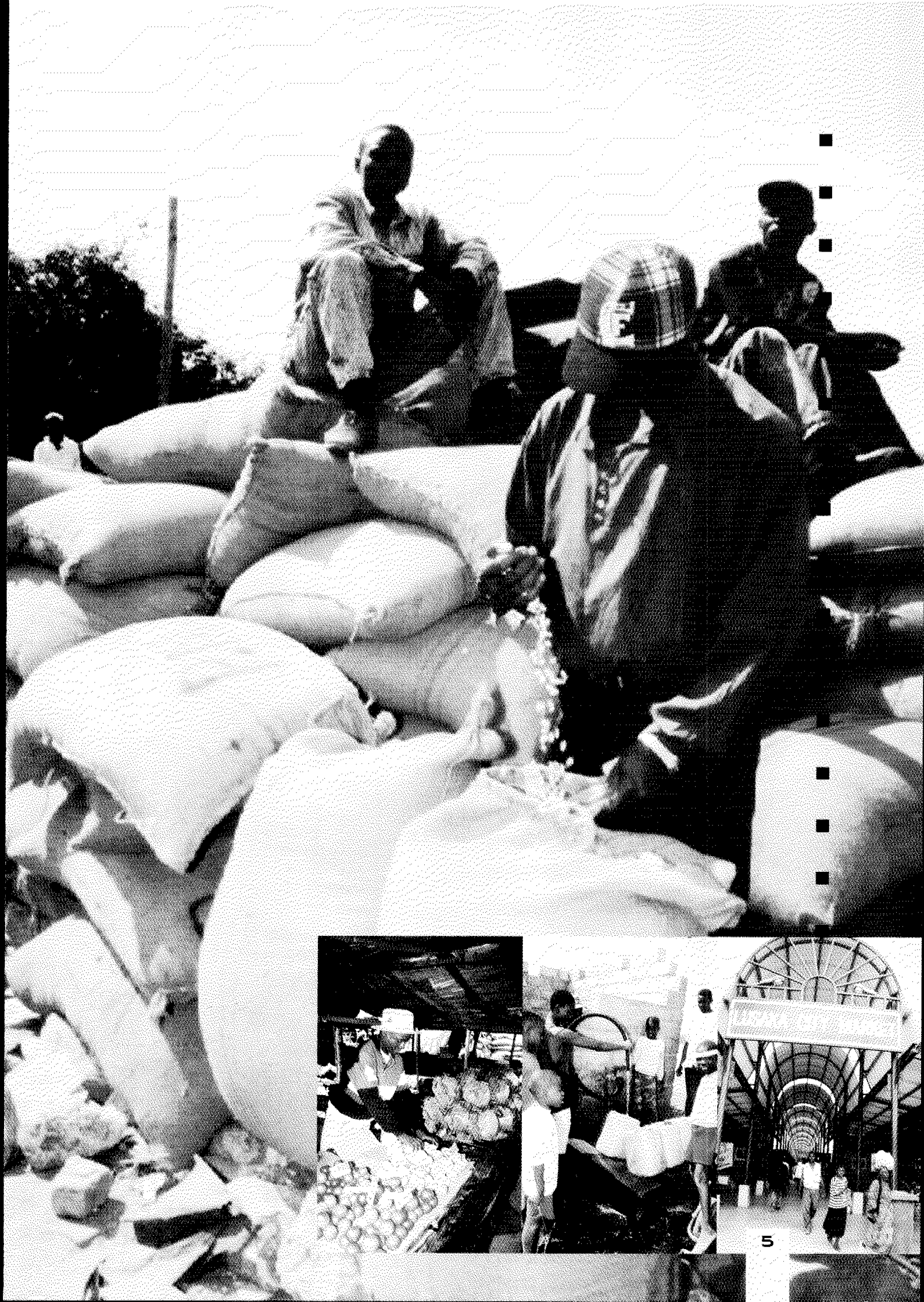
Rural : 246.8 million US\$

Price of water per cubic metre ranges from:

ZMK150 To ZMK1,200

(US\$1.00=ZMK1975)

Coverage: water 68% Sewerage 52%



## GOVERNMENT'S COMMITMENT TO PRIVATE SECTOR PARTICIPATION IN THE WATER & SANITATION SECTOR.

■ *My Government encourages the building of beneficial partnerships between the public sector and private enterprises in mobilising resources for water and sanitation programmes*



Fredrick T. J. Chiluba  
PRESIDENT  
OF THE REPUBLIC OF ZAMBIA

**STATE HOUSE**  
September, 1998.

*My government has since 1991 made every effort to improve the standard of living of the people of Zambia. In all our policies the central focus has been to do those things that would shift the leverage in favor of the private citizen.*

*The water and sanitation policy of my government is designed to give effect to the policy of decentralisation by locating responsibility for Water Supply and Sanitation with Local Authorities. and through the Water and Sanitation act of 1997, the*

*framework has been laid for transforming the water and sanitation sector into an effective and sustainable sector.*

*My government is keenly aware of the importance of reliable and safe water supply and adequate sanitation facilities to the people. Without these core elements we cannot begin to build a healthy and productive nation.*

*It is for this reason that the government encourages the building of beneficial partnerships between the public sector and private enterprises in mobilising resources for water and sanitation programmes.*

*Our record in support of private sector enterprise has few equals in Africa. We believe the private sector is the engine that will drive our nation to prosperity. For our part, we will give full support to efforts intended at promoting private sector participation in the Water and Sanitation Sector.*







# IMPLICATIONS OF THE WATER SUPPLY & SANITATION ACT



PARLIAMENT

*The institutional reform for the Water Supply and Sanitation Sector in Zambia implied providing Water Supply and Sanitation Services in a commercially viable and sustainable manner. In order to achieve the above, Government put in place the legislative framework, which defines the institutional framework for the sector.*

The WSS Act gives responsibility for the provision of Water Supply and Sanitation to the Local Authorities. Previously, the Local Government Act gave an option to a Local Authority whether to provide the service or not.

Understanding that responsibility does not mean physically providing the service, the following institutional arrangements in the sector in Zambia are supported by the Act.

1. A Local Authority may through its own department (either Water or Sewerage department or the department of engineering) provide the service. In this particular case the employees are all Council employees and are bound by the Local Authority employment conditions of service.

2. A Local Authority may either on its own or with a number of other Local Authorities form a Water and Sewerage Company. These are what have been termed as Commercially Viable Water Supply and Sanitation Utilities (CUs). The Local Authorities would own the (CUs) (jointly) however; and would run on a commercial basis.

3. A Local Authority (ies) may on the one side enter into partnership with a private company. The partnership in this case refers to ownership of assets. Since Government policy is not to divest from the Water Sector (privatising the Water Sector) the private company can own shares in the asset side of up to 49%.

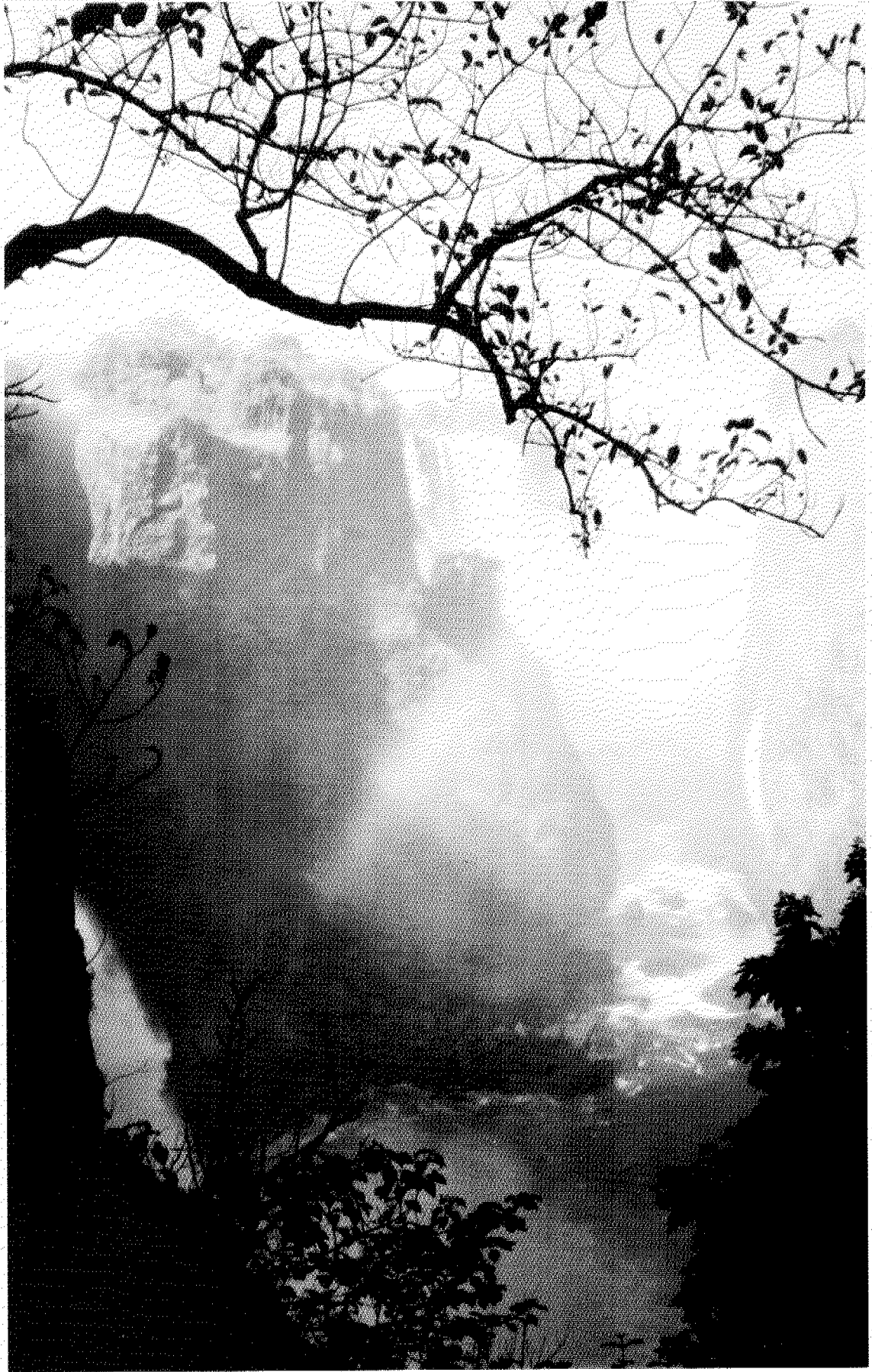
4. A Local Authority (ies) may enter into contract with any private company for provision of the Water Supply and Sanitation Services. The contract may take any form including management, lease, concession, BOOT e.t.c

It is necessary to recognise the presence of the regulator to be known as the National Water Supply and Sanitation Council (NWASCO). The regulator will license any body that is providing Water Supply and Sanitation Services. NWASCO will also develop guide lines for the provision of Water Supply and Sanitation Services, the establishment of Water Supply and Sanitation Utilities, setting up of tariffs for the provision of Water Supply and Sanitation Services.

With the regulator in place, nobody will be allowed to continue providing Water Supply and Sanitation Services without a licence.

*Tariffs and Social equity have a link with commercial viability. Social equity demands that everybody must pay something for the services they receive.*





PHILIPPA MARETT (PHOTOGRAPHER)

VICTORIA FALLS (1992)

## ADAPTING TO THE TIMES



**DENNIS MWANZA**  
**PROJECT MANAGER**  
**WATER SECTOR REFORM**  
**SUPPORT UNIT**

*The Water Supply and Sanitation Sector in Zambia is being reorganised to meet the challenge of providing quality service to over 51% of the Zambian population that do not have access to safe and adequate water supply and another 65% that do not have access to adequate sanitation.*

To develop the necessary institutional and legal framework the Programme Co-ordination Unit (PCU) established a Secretariat - The Water Sector Development Group (WSDG). The PCU was established by Government in March, 1993. The WSDG in consultation with stakeholders, defined the institutional framework. The framework was based on seven sector principles which include full cost recovery in the long run, establishment of a regulator and devolution of control to Local Authorities. The PCU through WSDG went further and defined and developed the requisite legislative framework. With support from the legislators in the country the Water Supply and Sanitation Act is now in the land. WSDG was established specifically to develop the above. In order to facilitate the implementation of the above the PCU decided to dissolve the WSDG and established the Water Sector Reform Support Unit (RSU). The RSU is responsible for facilitating the implementation of the reforms in the rural, peri-urban and urban areas. The RSU is a much smaller unit than the WSDG was. The RSU started operations on 1 April, 1998 and has faced no problems in transiting from the WSDG to the RSU.

Based on principles mentioned above, Government through the PCU undertook commercial viability studies in four

provinces viz Copperbelt, Southern, North-Western and Western. Further based on the results of these studies and with consultations with stakeholders in the respective areas the Local Authorities made decisions on the institutional framework for the Water Supply and Sanitation Sector.

### COPPERBELT PROVINCE

Local Authorities in the Copperbelt Province have passed resolutions to establish three CU's as stated below:-

- Ndola City, Luanshya Municipal and Masaiti District Councils have decided to form one Commercial Utility and have decided to name it the Kafubu Water and Sewerage Company. The headquarters will be in Ndola with its branches in the other two towns
- Kitwe City and Kalulushi Municipal Councils have joined hands to form one CU to be known as Nkana Water and Sewerage Company. The two councils settled for this name because both councils are within Chief Nkana's area. The headquarters for this CU will be in Kitwe with a branch in Kalulushi and a sub-branch in Chambeshi
- Mufulira, Chingola and Chililabombwe Municipal Councils have also joined hands to form one CU to be known as Mulonga Water and Sewerage Company with its headquarters based in Chingola. The company will also have branches in Chingola and Mufulira

### SOUTHERN PROVINCE

The Local Authorities in Southern Province have resolved to establish one CU to be located in Choma as its headquarters. However, this CU will have operational centres in Livingstone and Mazabuka.

The appointment of the Managing Director and the rest of the staff for the CU's is the responsibility of the Board of Directors of each respective CU and will be on open labour market through advertisement in the Local media.

### WESTERN PROVINCE

A Commercial Viability Study has already been made for the establishment of the CU in Western Province. The Councils have since resolved to establish only one CU in the whole province. This is in accordance with the recommendations of the viability study.

The Water Sector Reforms also entail establishment of a regulator to be known as the National Water Supply and Sanitation Council (NWASCO). This will regulate the provision of Water Supply and Sanitation Services including issuing of licences to utilities.

*The water supply and sanitation sector in Zambia is being re-organised to meet the challenges of providing the service to the over 51% of the Zambia population that do not have access to safe and adequate water supply and another 65% that do not have access to adequate sanitation.*

## AN OVERVIEW

■ *An enabling environment has been created to suit all forms of investment in the Zambian economy. But little is understood about private sector participation in the Water Supply and Sanitation Sector of the country.*

This publicity brochure gives you a guideline on the current status of the water reform program as a follow up to the successful Private Sector Participation seminar that was held in October 1997 and the passing of the Water Supply and Sanitation Act shortly thereafter. This brochure is the Water Sector Reform Support Unit's effort to enhance investment in the Water Supply and Sanitation sector and sensitise the public on pertinent issues involved.

The aim is to promote and encourage private sector participation which will:

### WHAT INVESTMENT IS REQUIRED?

US\$683.2m URBAN  
US\$246.8m RURAL

### WHAT IS THE TARGET?

TO MEET THE DEMANDS OF THE POPULATION BY THE YEAR 2015



- Improve service delivery
- Increase investment
- Result in efficient management and operations

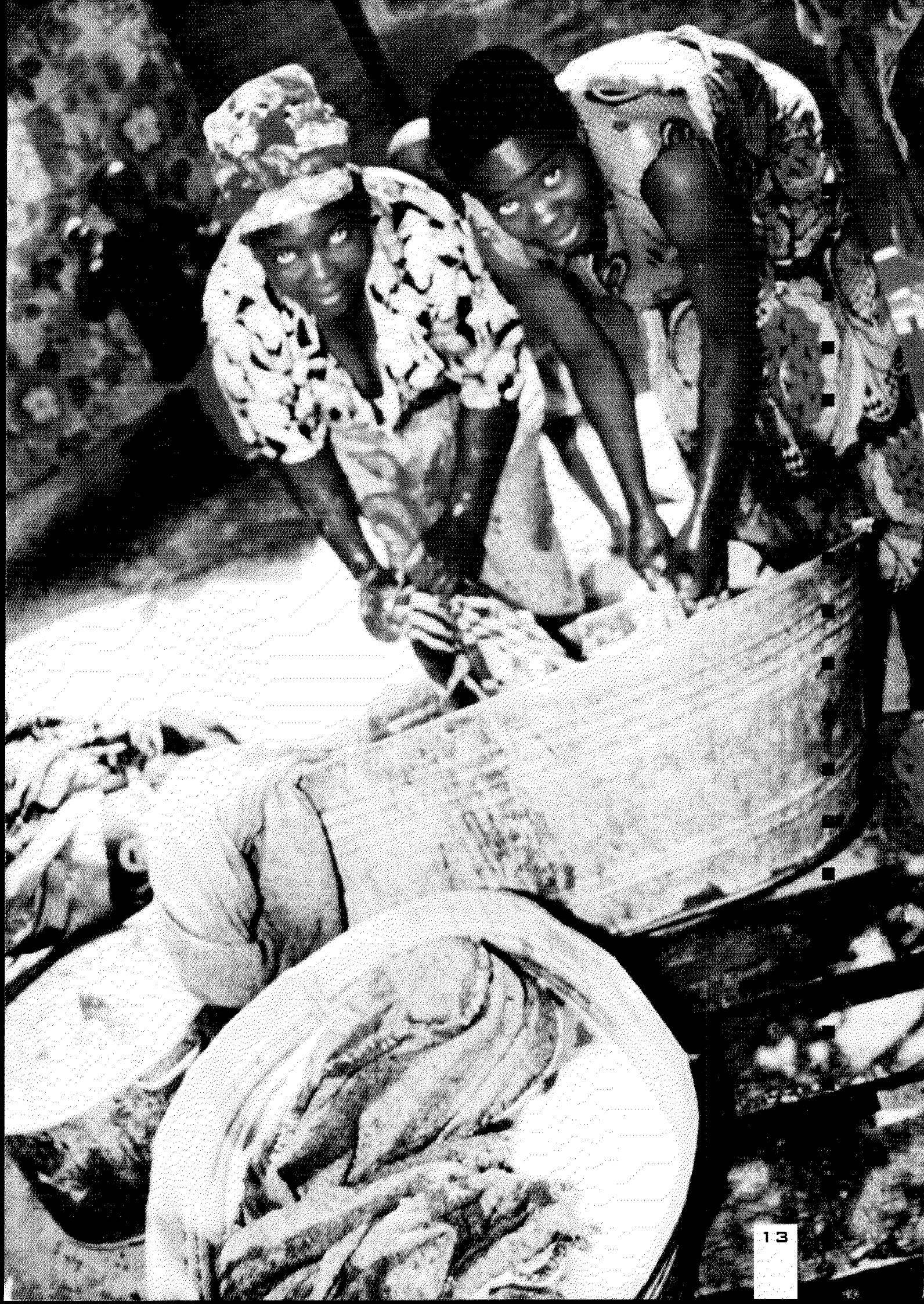
The provision of Water and Sanitation Services in Zambia :

- will remain the responsibility of the Local Authority
- means the establishment of commercial utilities (as per the Water Supply and Sanitation Act No.28 of 1997)

1. Local Authorities can run partnerships with a private company for the provision of services (the Local Authority being the major shareholder)
2. Local Authorities can contract out the services (utilising the many models of private sector participation i.e. Management contract, concession, lease e.t.c.)
3. Establishment of the Water Companies is part of the on-going reform process aimed at improving service delivery in the Water Supply and Sanitation Sector in the country.

Strategic plans are constantly being reviewed and updated to improve service delivery in the water and sanitation sector in the country.





## SNAP SURVEY - PUBLIC OPINION



### GEORGE COMPOUND

*Telia Phiri & Cathrine Mbewe*

*The two ladies pay K2500 per month for drawing water from the taps. This water is drawn for household use only. Water taps are open from 08:00hrs - 10:00hrs and reopened at 16:00hrs to 17:00hrs*

*Continued supply of water would make life easier and enable them to carry more water to their homes, however they are glad to have this limited access to water. The water provided is treated, clear and clean.*

### Ken McDonald

Joint Managing Director : Clearwater (Africa) Chemicals (Pty) Limited  
Westville, South Africa

The private sector to a significant extent, both directly and indirectly is participating in the water and sanitation sector in South Africa. This has resulted in the unit costs of services decreasing significantly while the extent and range of communities serviced has expanded enormously.

Transformation in this sector has occurred within the last 4 - 5 years. The resistance even to commercialisation as practiced and promoted by Umgeni Water was there from both government as well as other water authorities.

Some of the larger organisations (e.g Rand Water, Umhlatuze Water and some others) began to change about the mid 1980's, but it was only the change in government in 1994 that saw the more ready acceptance on a country wide basis of the principles exposed by Umgeni Water.

Schemes to supply such "Safe Water and Sanitation" need to be appropriate, affordable and sustainable to the environment and economic factors specifically or in particular to the family or community concerned.



### Mildred Ngoma

Media Buyer: D&C Advertising  
Lusaka Zambia

Sanitation and water services are poorly serviced. Government's efforts to involve the private sector will therefore allow for proper management and efficiency. We need to make more information available to get more people aware of the opportunities in the business in water and sanitation. If given the chance I would definitely get involved.



### Shemu Nyirenda

Projects Manager/Quantity Surveyor : P.J.P Associates, Lusaka Zambia

My main concerns about water and sanitation services in the country are the

- *High levels of waste*
- *The lack of maintenance and back up services*
- *Poor capital input*
- *Undesigned growth of consumers*

We would like to get involved in this business as we feel we are well placed to get involved. We would welcome the opportunity to have access to this business and get details on the procedures required of us.

### Joe A Akabondo

Paragon, Gaborone, Botswana

- *The private sector in Botswana is 2 involved in Consultancy*
- *Supply of water works equipment*
- *Maintenance of water works equipment*
- *Installation of the same*

This sector has always been run in conjunction with the private sector. The parastatal water bodies have their role as managers and supervisors of the schemes. I believe this is the right path to take and would not hesitate to recommend an RSU visit to see how Botswana, a desert land, has managed to provide an efficient service.



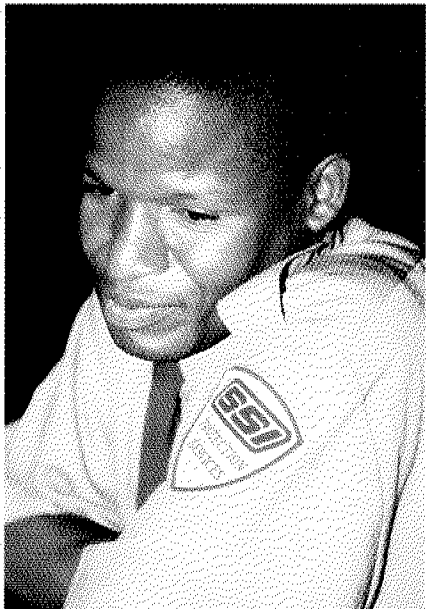
**Mark Pearson** Advisor - COMESA Secretariat, Somerset England

Of the UK system privatisation of water companies has resulted in a proper service provision but at an increased cost to the consumer. The service is a monopoly, so unless there is a strong watchdog in place privatisation will not be beneficial to the consumer. It is one possible way of improving services and make them more efficient but this can also be achieved by reorganising the industry and maintaining public sector ownership.

### **Sipho Phiri**

Manager: Corporate and Merchant Banking, Barclays Bank, Lusaka Zambia

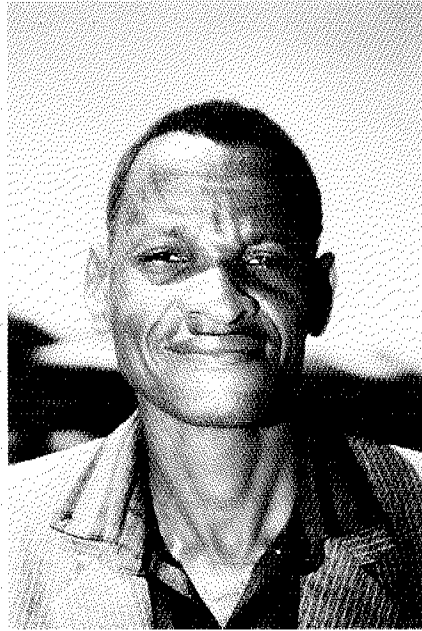
As financiers, we are interested in financing the business of water. However, not enough information is being made available. The sector of water and sanitation affects everybody across the board and has to be planned carefully to effect rehabilitation and expansion.



### **Biton Phiri**

Security Officer: Safetec, Lusaka Zambia

In the compounds there is little access to clean water. For me safe water supply and sanitation means longer, healthier lives.



### **Christopher Mubiana**

Assistant Building Superintendent: City Planning Department City Council, George Complex, Lusaka Zambia.

I don't think people in the Peri urban areas know what is going on. Information needs to be made more available. The little I know of the problem is that the council has to provide better water services. This move by our government will help us provide more adequate water services.

### **Humphrey Mwaba**

Specialist - Biosecurity Public Health Macmed - Zambia

I believe government's efforts in this area are good. Safe water and sanitation concern primary health

- *It means the control of major water borne diseases*
- *Improved health and productivity and consequently, improved economic performance.*

More information should be made available to the public.



## **BELOW**

*People from the George Compound waiting for the water to be turned on.*

*It is only opened at specific times*







**ELIAS C. CHIPIMO JR**  
CORPUS GLOBE ADVOCATES  
LUSAKA, ZAMBIA.

*Utilities the world over tend to be favoured by financiers obvious reasons: their sheer size and natural monopoly status, if managed correctly, can turn a tidy profit for any investor. Whether and how that financing will be made available, can often depend on factors other than untapped monopoly potential.*

***These factors may include :***

- *quality of management*
- *levels of debt*
- *quality of debtors and creditors*
- *The regulatory framework*

Unfortunately, unlike service provision in the telecommunications industry, water cannot be beamed to target recipients via satellite and while changes in technology tend to reduce costs to the telecoms consumer over time, the water sector, with its dependence on huge physical infrastructure and diminishing water resources, can only delay its investment in infrastructure at a cost to future clients.

The challenge then is how to raise the relevant finance in an environment of seemingly limited resources, poor infrastructure, lack of access to water by a majority of the population and poor collection rates.

Zambia can at least boast of the opportunity. Endowed with over (40) per cent of the water resources in the region and the private sector

set for re-energisation through a comprehensive privatisation programme that will lead to significant investment particularly in the mining sector; the country's prospects for investments could hardly be better.

Given the scale of the task, the financing initiatives can only work effectively if they are based on a careful co-ordination of lenders and investors.

Multilateral lenders, international development finance institutions and local and foreign finance house need cultivating on the infrastructure development level while the procurement of finance for working capital purposes and non-infrastructure projects should see greater involvement of local financiers

Donor nations can be co-opted to supporting relevant studies and investigations which are critical in the planing process and in laying the right foundation for the raising of finance.

Key targets for the local financing will be the untapped sources such as pension and insurance funds that have traditionally relied on bank interest and rental income as a source of revenue.

The wide spread use of corporate notes, bonds and other non-tradition financing instruments is yet to occur in Zambia. The challenge of innovation will lie with institutional investors such as pension funds, corporate treasurers and fund managers as well as merchant banks and other financial advisers.

It is also important to consider the local stock exchange as a medium for the raising of finance. Recent initiatives towards harmonisation of listing rules within the region should widen the market for raising finance and should also help in enhancing the liquidity of instruments traded on the exchange.

With commitment and innovation, success in financing the water sector should be assured.



**THE RESERVE BANK OF ZAMBIA**



**MR. P. TIMBA**  
 ASSISTANT GENERAL MANAGER  
 CORPORATE FINANCE  
 NATIONAL MERCHANT BANK OF  
 ZIMBABWE LIMITED

**STRUCTURED FINANCE FOR  
 WATER & SEWAGE PROJECTS**

**INTRODUCTION**

The most common basis of developing infrastructure is for the Government to grant long term concessions to consortiums of private sector players under the Build, Operate and Transfer (BOT) and/or Build, Own Operate and Transfer (BOOT) systems. Funding for infrastructural projects normally takes the form of:

**Sponsor Equity**

The consortium granted the concession injects equity usually coming close to or in excess of 20% of the value of the project. (There is no rule of thumb, only that the equity contribution should be seen to reflect commitment to the project by the sponsor(s).

**Multilateral and Bilateral Institutions**

- *International Finance Corporation (IFC)*
- *World Bank (WB), etc*
- *Multilateral and Bilateral Institutions usually provide subordinated debt though in some instances take up equity.*

**Developmental Finance Institutions**

- *Commonwealth Development Corporation (CDC)*
- *The Netherlands Development Bank (FMO)*
- *Zimbabwe Development Bank (ZDB), etc.*

Development Finance Institutions normally fund infrastructural projects through:

- *Equity*
- *Quasi-Equity (Preference Shares)*
- *Mezzanine debt (A variant between subordinated and senior debt)*
- *Senior debt.*

The use of different financing instruments is in response to the size and timing of the project's cash flows with a view to giving the project breathing space in times of low cash inflows and honouring financing obligations when cash inflows peak. Because the financing instruments are priced differently, ultimately the project's cost of capital is significantly reduced. Senior debt is more commercial than subordinated debt. Subordinated debt meanwhile carries certain characteristics like deferred interest and/or capital repayments, which characteristics are not normally associated with senior debt.

**The Zimbabwean Experience**

Private sector initiated infrastructural development is still an emerging market. The Pungwe Water Project stands out notwithstanding. The project was funded through a combination of subordinated debt (provided by multilateral and bilateral institutions) and senior debt (sourced from the local market).

**Joint ventures with foreign investors**

By forming a partnership with foreign investors, the following benefits are inevitable:

*Inflows of equity capital goes a long way towards alleviating external debt constraints*

- *Access to state of the art technology*
- *Access to world markets.*

**Contracting Out**

- *Awarding a contract(s) to a private sector operator or consortium of private sector operators to construct, fund and run an infrastructural project such as a toll road or a power station.*

**Preference Shares**

Essentially preference shares are shares which have a priority over ordinary shares. This priority extends to dividends and repayment of capital in the event of liquidation: typically preference shares offer the owner the right to a fixed dividend, higher priority than ordinary shareholders on winding up but restricted voting rights.

*Infrastructural developments (toll roads, airports, telecoms, water systems etc) require huge financial outlays making this a challenge to the private sector.*

Variations on the basic theme are also feasible. Thus cumulative preference shares ensure that in the event of a company not paying a dividend in any one year the holder has the right to receive arrears of dividends form profits in the future before payment is declared for ordinary shares.

It is fairly common for preference shares to be designated as 'redeemable' and redemption can be undertaken out of profits or from the money raised by a fresh issue.

#### **Debt - Debentures and Unsecured Loan Stock**

##### **Debentures**

Debentures are securities issued by a company using assets of the company as collateral. This can take the form of a fixed charge against specific assets (such as a property) or a floating charge or both. A floating charge simply relates to all present and prospective assets of a company without specifying particular assets. This allows the company to use the assets freely without having to refer back to the debenture holders or the mortgage deed to secure permission. However, in the event of a default on the interest payable or the company being wound up the debenture holder can exercise the right to intervene, in which case the floating charge becomes a fixed charge on the assets of the company at that date. Debentures carry the highest priority in terms of payment of interest and repayment of capital on liquidation.

This type of debt implies no specific charge against the company's assets and therefore ranks below debentures in terms of priority. As a consequence of the lower degree of income and capital security the interest rate (the coupon) offered by such debt is normally higher than for debentures issued by the same organization.

In a similar manner to debenture holders, those holding unsecured loan stock have a trustee whose duty it is to see that the issuer fulfills the conditions of the trust deed. In this case however the deed or covenant does not specify charges on the assets of the company but identifies the amounts and types of their debt the company can issue. For example there will be concern to ensure that the rights of present holders of unsecured stock will not be infringed by the issue of new debt with a higher or equal priority. This may be done by the use of a 'negative pledge' which prevents the issue of more secure debt without giving present holders equal rights. Alternatively it is possible that the company could impose a maximum limit on the ratio of debt to net assets.

Despite the higher degree of security attaching to bonds compared with equity there is nonetheless always the possibility of a default on the interest and/or the repayment of capital.

##### **Convertible bonds**

Convertible bonds are issued in a number of forms: for example they can be issued as convertible unsecured loan stock or as convertible preference shares. These are similar to conventional loan stock and preference shares in the holder is entitled to a fixed coupon until such time as the conversion option is exercised but they also carry the right to convert into ordinary shares at some defined ratio. This right is usually exercisable on a given date over a number of years.

Convertibles are a hybrid security combining characteristics of equity and debt and to that extent can be perceived as a form deferred equity: on conversion the holder relinquishes the right to a fixed coupon and takes on the rights of the ordinary shareholder.

Companies will raise new equity capital by selling shares to existing members or perhaps to employees or possibly to third parties with sufficient financial competence. Obviously the placement of shares to securities house and other such institutions comes into the latter category.

It is possible therefore for both private to use a private placement by circulating an offer through a merchant bank or a broker who may have a list of potential subscribers.

Private placements are not necessarily welcomed by the end investor unless the company in question is looking for a market quotation in the reasonably near future. This is because institutions and other clients are being sold shares which may be illiquid in the sense that ready buyers are not available and therefore there is no immediate market price. Private placements nevertheless carry a number of major advantages:

The fact the a well know broker arranges the issued gives investors confidence that there has been 'due diligence' in investigating the company; The securities house managing the placement has its won established list of clients - generally comprising major financial institutions which have a huge cash flow and a considerable appetite for new investment outlets;

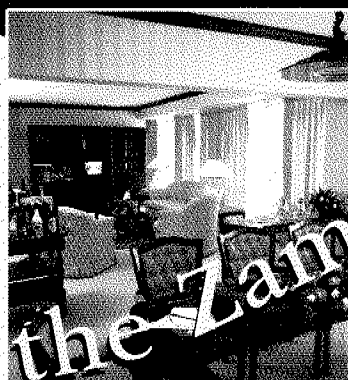
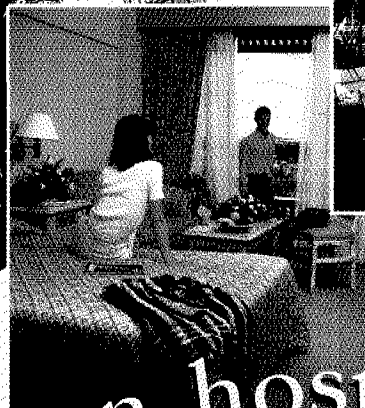
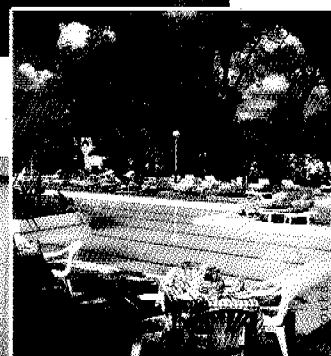
##### **Syndicated Note Structure - Non recourse**

- *Cash flows of the project are analysed in relation to the capital amount involved in the project.*
- *Financial institutions are then invited to invest in the project.*
- *Promissory notes are sold to financing institutions.*
- *The notes will not be guaranteed.*
- *All cashflows for the project are tax deductible.*
- *Investor in the project is taxed on a receipt basis.*
- *The after-tax cost of funding is reduced.*
- *Allows investors to vary returns they expect from an investment.*





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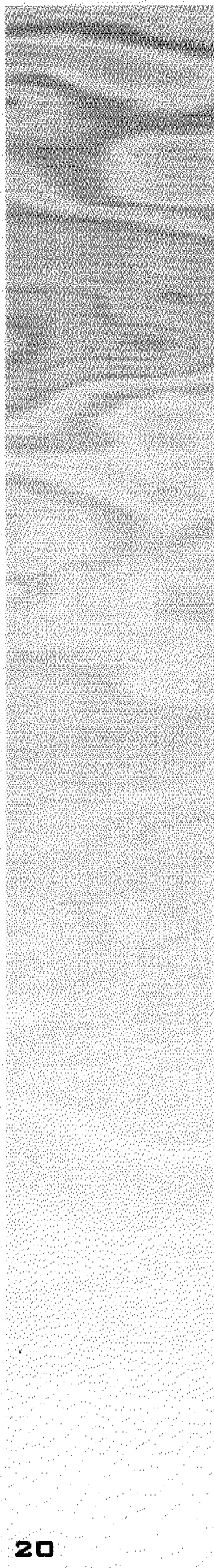
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ADDRESSING DELEGATES AT THE  
PRIVATE SECTOR PARTICIPATION  
SEMINAR IN LUSAKA

### WATER AND SANITATION AS A VIABLE BUSINESS

*By Victor Mweene of Grant Thornton*

#### Financial and Fiscal Parameters

Water is essential. It is a basic need. All living things cannot do without it. The implication of these statements therefore makes provision of water and sanitation a potentially viable business.

A definition of some of the terms used in this article is appropriate at this stage. We define sanitation as disposal of sewage and refuse. Sanitation largely depends on water. We define a viable business as one that has ability to cover its total costs, finance and expansion services from charging sufficient user charges (tariffs).

Some of the key issues that need to be addressed when considering viability are culture, tariffs, population size and the existing water infrastructure or the lack of it.

The rest of this brief article is covered under the following headings:

(A) financial parameters:

(b) fiscal parameters; and

(c) conclusion.

#### Financial Parameters

For a business to be viable, it must at least cover its total costs. For a water company, its total costs will include operations and maintenance (O&M) costs such as labour chemical costs and power (such as electricity). These could be termed as marginal or variable costs. Other costs include interest on working capital, debt services charges on loans and capital replacement charges (depreciation).

To cover these costs the business must therefore charge a sufficient price (tariff). The tariff, in addition to covering these costs, must also provide for a sufficient return on investment.

Tariff setting is a wide and complex subject in its own right and no attempt is made in an article of this length to develop into it. Suffice though to state that tariffs and social equity have a link with commercial viability. Social equity demands that everybody must pay something for the services they receive. To safeguard the poor, a lifeline level of service must be provided to them however it is calculated (often based on marginal cost of service).

A brief comment on key issues mentioned in the introduction of this article. In Africa in general, and Zambia in particular, water has culturally been regarded as a free commodity. It is therefore important to embark on consumer information, education and communication as part of the move to an acceptable tariff charging system.

In Zambia, population size a community where water and sanitation service is to provide will determine the financial viability. For instance, a typical rural

community in Zambia will have such a small size population as to render providing water and sanitation services on a commercial basis non sustainable in most cases. Mainly an urban area will make economic sense to provide viable business through charging sufficient tariffs.

Most of the existing water infrastructure in Zambia are either too old or of inappropriate technology. To make the water and sanitation provision a viable business, it is critical to undertake adequate capital investment in the infrastructure.

### **Fiscal Parameters**

The current corporate tax on most commercial business in Zambia including water companies is 35%. An exception is the agricultural sector whose corporate taxes is 15%.

Some fiscal measure or incentives that could encourage investment in the water sector could include :

- (a) offering tax rates rebates on capital expenditure (CAPEX) or complete tax exemption on importation of water equipment by qualifying water companies;
- and
- (b) enacting enabling legislation and continuous revision to current legislation such as the Water Supply and Sanitation Act (WSS Act) 1997.

Related to fiscal parameters are other issues non government interference in the operations and management of water companies and title to land associated assets.

Commercial viability implies having power and obligations clearly defined by legislation. There should be no interference from government in operations. Government should only provide a clear enforceable regulatory framework to safeguard the customers. For example, water companies

should be able to charge and collect tariffs from government related institutions without hindrance.

For commercial viability to be a reality, title to land and other assets of the business should be invested in the business. The water company should have the right to use the assets needed to deliver the services.

### **Conclusion**

Is provision of water and sanitation a viable business? Under conducive financial and fiscal policies, this business has the potential to be viable. The financial and fiscal policies, however merely provide the framework. Other critical issues to consider include the culture of the people towards paying for water and sanitation services, the population size to be served and the capital investment required to make the business viable. All these issues have to be embodied in the tariff structure in order to make the water supply sanitation business viable.

*Is provision of water and sanitation a viable business?*

*Under conducive financial and fiscal policies, this business has the potential to be viable.*





# Don't be left out!



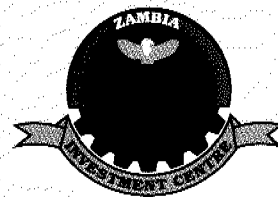
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## STEERING YOUR INVESTMENT



**MRS M.D. MWANAKATWE**  
ACTING DIRECTOR GENERAL  
ZAMBIA INVESTMENT CENTRE

### ZAMBIA - AN EXCELLENT INVESTMENT CLIMATE

A Statement by Mrs MD. Mwanakatwe, the Acting Director-General, Zambia Investment Centre

The vast natural resources from mineral deposits and rich wildlife to an abundance of water and the more liberal trade and economic policies being pursued by the democratically elected government of president Chiluba, offer Zambia an excellent investment climate and, thus, a safe and lucrative destination for investors.

The privatization of state - owned enterprises, operating in fields ranging from agriculture manufacturing, transport, and tourism to services is perhaps one of the most exciting recent developments in the country. The privatization program in Zambia has succeeded in bringing about a whole new culture, changing the business climate and seeing the beginning of an opportunity for investment in the country. The privatization program is now in high gear and is looking at major assets such as those in the mining sector.

The other investment opportunities center around Zambia's greatest resource, water. The vast water resources and coal reserves offer abundant investment opportunities for hydroelectric and power-generation, transmission and distribution. There is great scope for the development of the Kafue Gorge Lower Hydro Electric Plant, for example.

Land, Zambia's other valuable asset is still

largely unexploited. Out of 60 million hectares of arable land, only 9 million hectares are under crop cultivation. There are two major farming areas open to interested investors. One is the Mkushi Farming Block, covering over 200,000 hectares of which 110,000 are arable and 50,000 suitable for irrigation. The area is mainly occupied by large-scale farmers with an average farm of about 1,000 hectares each, growing mostly maize and soyabeans and some irrigated wheat and barley. The other area is the Tazara Corridor stretching for 810 km from Mkushi to Nakonde, 30 - 40 km on either side of the Tazara railway line. About 1 million hectares of land is arable. Potential farm blocks have been identified along the corridor which will be demarcated into farm units of 20-300 hectares.

It is worth noting that after 34 years of independence Zambia still has immense investment opportunities in the service sector, particularly in health and education. With only 84 hospitals and 1,037 health centres to cater for a population of about 10 million, huge potential exists in construction of clinics and hospitals. Increased demand for school places offers great potential for private investment in education at primary, secondary, and even tertiary levels.

The work of the Water Sector Reform Support Unit in Zambia represents yet another major stride in reforming the investment regime in this country, particularly, in allowing private participation in the water sector.

The Zambia Investment Centre, established in 1991, has been mandated by an act of parliament to attract both domestic and international investments and to facilitate entrepreneurs in taking advantage of Zambia's vast business opportunities in all sectors of the economy. The Zambia Investment Centre is currently actively promoting investment into infrastructure development in Zambia, in particular private sector involvement in the water sector. We are therefore keen to support the Water Sector Reform Unit in bringing Government's private sector reform program to the firm and into fruition.

*The Zambia Investment Centre, established in 1991, has been mandated by an act of parliament to attract both domestic and international investments and to facilitate entrepreneurs in taking advantage of Zambia's vast business opportunities in all sectors of the economy.*



## R.S.U. TEAM

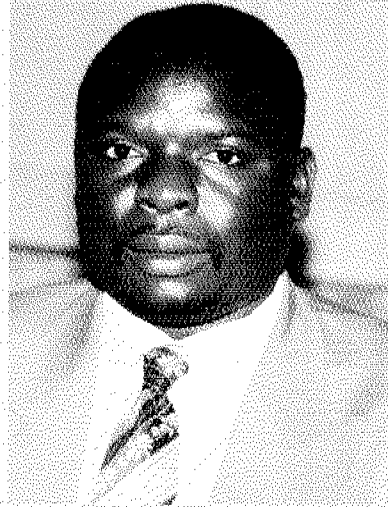
■ *How much do you know about the commercialization of the water sector?*

■ *Are you well informed?*

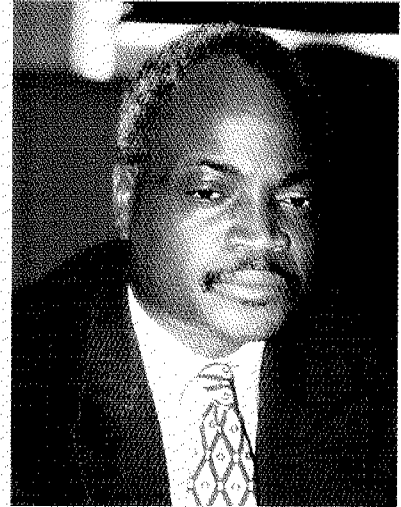
■ *Do you feel this sector is out of your depth?*

■ *Your opinion matters and we invite you you keep in touch with our team at the Water Sector Reform Support Unit to keep yourself up to date with business opportunities in this sector.*

■ *Our support team is readily available to give you the necessary information & procedures for your entry into the business of water.*



**MR D. MWANZA**  
W.S.R.S.U.  
PROJECT MANAGER



**MR S. NGOMA**  
COMMUNICATIONS &  
ADVOCACY



**MR O. CHANDA**



**MS MUSONDA KALUBA**  
RURAL WATER SUPPLY &  
SANITATION SPECIALIST



**MS ESTHER MBAWO**  
HRD & GENDOR SPECIALIST



**MR VALENTINE CHISULO**  
SPECIALIST FINANCE &  
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## GERMAN DEVELOPMENT CORPORATION PARTNERS IN DEVELOPMENT

(Continued support in improving the delivery  
of water supply and sanitation )

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- More than 20 years experience in development and reform process world-wide
- Over 2,500 projects in around 140 countries
- More than 1,500 field staff and over 5,400 locally contracted staff
- Turnover in excess of US\$1 billion

GTZ has been active in Zambia for many years and has been a strong supporter of the government of the republic of Zambia's initiative to reform the water supply and sanitation sector through commercialisation and private sector participation. GTZ is also supporting; "The reform policies of the Zambian Government mainly in the following areas: Private Sector participation / privatisation; natural resources / environment; and Southern Province development."

In water supply and sanitation GTZ has supported:

- institutional development of the Lusaka Water and Sewerage Company Limited from its beginnings as a department of the the Lusaka Urban District Council, until today.
- reorganization of the Water Supply and Sanitation Sector for the past ten years and, particularly since 1993, the activities of the- ministerial Programme Co-ordination Unit and its secretariat, the Water Sector Development Group, in developing the future strategy for the sector.
- development of the rural water supply facilities in the North Western Province

GTZ is committed to continuing its support to the Water Supply and Sanitation Sector in Zambia and to assisting in the establishment of the new Commercial Water Supply and Sanitation utilities.



## NORWAY'S SUPPORT TO ZAMBIA IN THE WATER SUPPLY AND SANITATION SECTOR

Norway through the Norwegian Agency for Development Co-operation (NORAD), is the major co-operating partner with Zambia in the water and sanitation sector. At present three different programmes are operational.

1. **Support to Western Province and Mongu Municipality-** a programme designed for the phasing out Norwegian assistance after 20 years of co-operation within the water and sanitation sector.
2. **Support to the Reorganisation of the Water and Sanitation Sector-** Financial support to the Programme Co-ordinating Unit (PCU) and the project organisation established, in order to spearhead the reform process.
3. **Support to rehabilitation of Water and Sewerage systems in 9 towns-** URWSP NORAD is funding all design, supervision and training of Zambian staff in regard to this rehabilitation programme.
4. **Support to Water Supply and Sanitation in Rural Areas-** Implementation of the WASHE - concept at district and village level. A programme is under preparation.

It is important to emphasize that all Norwegian support to these three programmes are concentrating on measures enabling the water and sanitation services to be run on a commercial basis in the future.

- Securing the necessary legislation in order to implement the reforms.
- Securing the necessary commitment in the key ministries to implement the reforms.
- Training of staff of all professions enabling the District Councils and the Commercial Utilities to run the water and sewerage systems in a professional, cost effective manner, providing the customers with clean water And good sanitation services.

Norway's support to the water and sanitation sector in Zambia has a total annual budget of approximately US\$ 8million.