



Business Opportunities in Zambia's Water Sector

The compact between the Millennium Challenge Corporation and the Government of Zambia was signed in May 2012, and entered into force¹ in November 2013. The compact focuses on water supply, sanitation and drainage infrastructure, institutional strengthening and innovation in water supply and sanitation. The in-country implementing entity is the Millennium Challenge Account–Zambia (MCA-Zambia).

Companies can explore opportunities presented by the Zambia compact through:

- ★ Complementary investments in infrastructure, sanitation services and solid waste management and recycling;
- ★ The Zambia Innovation Grant Program for innovations and partnerships in water, sanitation and drainage; and
- ★ Compact procurement opportunities.

Why Invest in Zambia

Zambia is a regional success in sub-Saharan Africa and a committed MCC partner. Since gaining independence from the United Kingdom in 1964, Zambia has held five peaceful democratic presidential elections and oversees a booming copper industry. In addition, Zambia offers:

- ★ Sustained positive economic growth over the last 12 years. With GDP expected to reach 7 percent in 2014, Zambia is one of the fastest growing economies in the world.
- ★ Liberalized prices, no restrictions on currency conversion and favorable interest and foreign exchange rates led the World Bank to rank Zambia seventh in Sub-Saharan Africa on Doing Business rankings.
- ★ Increasing demand for water, sanitation and drainage, along with MCC's investments in infrastructure and sector institutions, create private sector investment opportunities both within the water supply and sanitation sector as well as in complementary areas in the rapidly urbanizing capital.
- ★ Zambia is a member of the Southern African Development Community and the Common Market for Eastern and Southern Africa, providing opportunities for expansion within these regions.

Zambia's Infrastructure Must Keep Pace with its Booming Urban Population

Lusaka has continued to grow as Zambians flock to the capital to find work in an increasingly open and sophisticated marketplace. In 20 years, the population of Lusaka more than doubled from less than 1 million in 1990 to over 2 million in 2010. With this increase in the urban population, the water supply,

Zambia at a Glance



Population: 14.54 million
GDP Annual Growth: 6%
GNI per Capita, PPP: \$3,070
Net FDI Inflows: \$1.8 billion
Population Growth Rate: 3.2%
Population Below \$1.25/day: 74%
Source: World Bank 2013

¹ Compact signing commits funds to a country for purposes outlined in the compact; entry into force starts a five-year implementation period for the compact.

sanitation and drainage infrastructure has lagged in many areas and constrained growth. Demand for water supply, for example, is growing rapidly, as demonstrated in the following chart. Production in 2010 was about 225,000 m³/day.

Greater Lusaka	Water Demand (m ³ /day)					
	2010	2015	2020	2025	2030	2035
Water Demand	260,252	405,412	461,784	528,015	600,577	687,378
Non-Revenue Water (NRW)	48%	25%	20%	20%	20%	15%
Total (incl. NRW)	500,485	540,549	577,230	660,019	750,751	808,691*

*Water Supply Investment Master Plan, Lusaka Zambia – Gauff, 2011

Investment Opportunities

MCC and the Zambian government are creating avenues for investment and partnership in the **water supply, sanitation and drainage sector**. Building on more than 15 years of valuable water-sector reform, during which Zambia developed a healthy commercial utility, an independent regulator and a sound regulatory structure, MCC is investing **\$354.8 million to continue to develop this sector**. Zambia's MCC compact has two primary components designed to provide a platform for follow-on or co-investments:

1. Water Supply, Sanitation and Drainage Infrastructure Project (\$283.2 million)

This project will:

- ★ Provide hard and soft investments for the Lusaka Water and Sewerage Company and the Lusaka City Council, the capital's primary water utility and local governance body, respectively.
- ★ Rehabilitate and expand Lusaka's core water supply network, including components designed to reduce the loss of non-revenue water, rehabilitate and enlarge select sewer networks, improve select drainage infrastructure, and provide engineering and resettlement services.

2. Institutional Strengthening and Innovation Fund (\$26.9 million)

This project will:

- ★ Support sector and institutional strengthening of the Lusaka Water and Sewerage Company and the Lusaka City Council in ongoing reforms to improve sector management and sustainability.
- ★ Support improved asset and environmental management by the Lusaka Water and Sewerage Company and provide technical assistance for the Lusaka City Council to enhance strategic planning, improve maintenance and environmental management of the city's drainage network, improve service delivery, and implement education and communication campaigns.
- ★ Utilize an *Innovation Grant Program* to improve delivery of water supply, sanitation and solid waste services to the poor through grants to community-based organizations, civil society and private sector entities for innovative approaches to providing these services.

Support for Public-Private Partnerships: To enable public-private partnerships and to complement MCC's investment, the Public-Private Infrastructure Advisory Facility (PPIAF) is funding a multi-year technical assistance program that will support additional investment in the water supply and sanitation sector. This work will:

- ★ Improve the commercial viability of the Lusaka Water and Sewerage Company by strengthening its finances, operations and governance as well as raise capital for infrastructure investments by analyzing financing options, such as public-private partnerships, and obtaining a credit rating.

- ★ Strengthen Zambia’s institutional capacity in public-private partnerships in order to bridge the funding gap in this sector. This activity also includes capacity building for the Development Bank of Zambia to obtain a credit rating to facilitate its access to local capital markets and to strengthen its ability to provide infrastructure financing.

Technical Assistance for Lusaka Water and Sewerage Company: Water and Sanitation for the Urban Poor, MCA-Zambia and the Lusaka Water and Sewerage Company signed an agreement to provide technical and consulting services support to the compact and pursue complementary interventions.

Complementary Investments: MCC’s work in the water supply and sanitation sector is complemented by a number of other significant investments in the sector, including:

- ★ Valued at an estimated \$287 million, the Lusaka Sanitation Project (July 2015–December 2020) is supported by the World Bank, African Development Bank, European Investment Bank, and Kreditanstalt für Wiederaufbau (KfW). This project will focus on rehabilitating the Manchinchi and Chunga wastewater treatment plants, plus their associated main collectors, pumping stations and sludge treatment, and developing a comprehensive approach to sanitation in Lusaka, including on-site and off-site sanitation, health and hygiene promotion and technical assistance.
- ★ Valued at about \$352 million, the Japan International Cooperation Agency and the African Development Bank are in initial discussions with the Lusaka Water and Sewerage Company to support a “New Lusaka Bulk Water Supply” project to construct a new water intake and treatment plant at Kafue, a distribution main, and reservoirs. The treatment plant is anticipated to be operational by 2020.
- ★ Valued at about \$150 million, the Government of Zambia signed a loan agreement with the People’s Republic of China to finance the construction of a new water intake and treatment plant at Kafue, lift station and booster station. The works are scheduled to be finished by 2017.

Gaps and Opportunities to Enter the Market

In addition to compact projects, MCC and the Zambian government have identified a number of gaps and opportunities related to the compact that may be of interest to private partners, including:

Public-private partnerships: Zambia has an annual funding gap for infrastructure of approximately \$500 million, primarily in the power and water sectors². This presents a number of public-private partnership opportunities, such as:

- ★ *Maintenance and Leak Detection:* Lusaka Water and Sewerage Company has expressed an interest in pursuing private sector partners in the maintenance of its water networks to improve efficiency. This may be implemented in the form of subcontracts to small- and medium-enterprises that specialize in network repairs and leak detection.
- ★ *Solid Waste:* The Public-Private Infrastructure Advisory Facility has developed a support framework for the Ministry of Local Government and Housing aimed at improving solid waste management through increased private-sector participation³.

Innovation Grant Program: MCA-Zambia’s Innovation Grant Program is a competitive grant initiative that will invest in innovative approaches, technologies and techniques to improve Lusaka’s water supply, sanitation and drainage systems. The program accepts applications from organizations offering services aimed at improving drainage capacity, service delivery, sanitation services, and other areas in an effort to improve access for Lusaka’s poorest and disadvantaged citizens. It also encourages partnerships between organizations to strengthen the link between innovative ideas and sustainable business plans. Grants

² http://siteresources.worldbank.org/INTAFRICA/Resources/Zambia-Country_Report_03.2011.pdf

³ http://www.ppiaf.org/sites/ppiaf.org/files/documents/PPIAF_Assistance_in_Zambia.pdf

range from \$30,000 to \$100,000 for smaller innovators and organizations and from \$100,000 to \$2 million for larger innovations and organizations.

Opportunities for complementary investments: As part of its private sector engagement strategy, MCA-Zambia has mapped out a number of opportunities for partner organizations to consider as part of the Innovation Grant Program or as a complementary investment. These include:

Private Sector	Partnership Sector	Opportunity
Banking/microfinance	Water supply, sanitation and hygiene	Innovative sanitation connection loans in Mtendere and other peri-urban areas of Lusaka; leveraging resources.
Civil society organizations		Social and sanitation marketing; behavior change communications for hygiene and solid waste disposal.
Education		Leverage resources for the entire project, including sanitation connection, hygiene and water supply.
Corporate social responsibility		
Philanthropic institutions		
Wastewater industry	Water recycling	Supply water to peri-urban areas and for other economic uses.
Solid waste recycling	Solid waste management	Solid waste management chain
Community-based enterprises	Sanitation, solid waste, drainage, water recycling	Solid waste and fecal sludge management chain; drainage maintenance; recycling value chain.
Universities and training institutions	Sanitation, wastewater, solid waste processing	Innovations in effluent, sewage and water treatment as well as solid waste management chain; training small- and medium-enterprises in business management related to solid waste, water and sanitation; research and monitoring.

Investment master plan: To support more strategic planning and investment in the sector, MCC funded the development of Water Supply, Sanitation and Drainage Investment Master Plans, which may be helpful to companies looking to invest in these sectors. The master plans outline a comprehensive multi-year investment program through 2035, providing a systematic approach to infrastructure development in water supply, sanitation and drainage. These plans offer short-, medium- and long-term investment guidance in priority areas covering a 25-year period and identify areas for coordination and partnership with others in the public and private sectors.

Procurements: During the period of compact implementation from November 2013 to 2018, MCA-Zambia will release construction packages and other procurements to support the infrastructure activity. Companies may explore opportunities in the form of works packages or by managing the environmental and social risks associated with the project. All procurement notices are publicly available on MCA-Zambia's website at <http://www.mcaz.gov.zm/>. As a preview, procurement packages may include:

1. *Central Systems:* Structural development, equipment, repairs, and modifications to facilitate the supply of water to areas surrounding Lusaka. This will include 10 distribution centers with operational and structural repairs required at a number of sites.
2. *Pipelines:* 16 kilometers of new steel pipelines with works involved including excavation, road cutting, pressure tests, and backfilling.

3. *Water Distribution Networks*: Seven new distribution networks to facilitate water supply and sanitation services for densely populated areas.
4. *Water Distribution*: Water supply for planned networks of additional piping, water tanks and reservoirs to supply both initially informal and planned settlements in Lusaka.
5. *Sanitation*: Rehabilitation and upgrades to the existing Kaunda Square waste stabilization pond. This treatment pond is currently overwhelmed; plans for it include rehabilitation work, construction of new units and inlets, sludge drying beds, and other sanitation needs for the area.
6. *Bombay Drains*: Improvements to 14.1 kilometers of the northern part of the Bombay Drainage System, which stretches from southern Lusaka through the central business district to the north.
7. *Bombay Drains*: Improvements to the southern section of the Bombay Drainage System encompassing 20.3 kilometers.
8. *Non-Revenue Water*: Reduction of non-revenue water loss through rehabilitation of the distribution network in Lusaka.

For additional information:

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Procurement information

MCC procurement: <http://www.mcc.gov/pages/business/compactprocurements>

MCA-Zambia procurement: http://www.mcaz.gov.zm/?page_id=254

Zambia's MCC Compact

MCC compact page: <http://www.mcc.gov/pages/countries/program/zambia-compact>

MCA-Zambia website: <http://www.mcaz.gov.zm/>

Annex 1: Zambia FY15 Scorecard

Zambia FY15

Population: 14,539,000

GNI/Cap: \$1,480 (LIC)

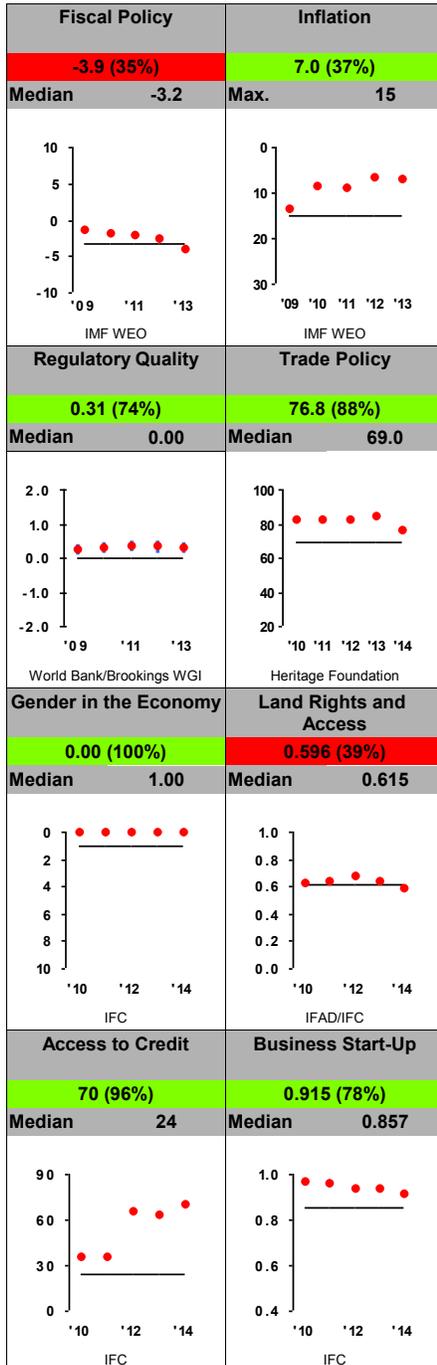
Control of Corruption

Democratic Rights

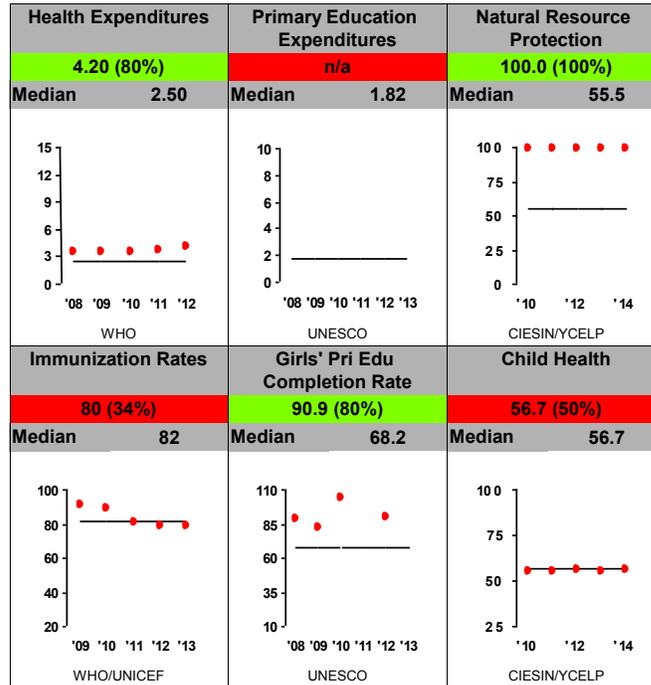
Pass Half Overall



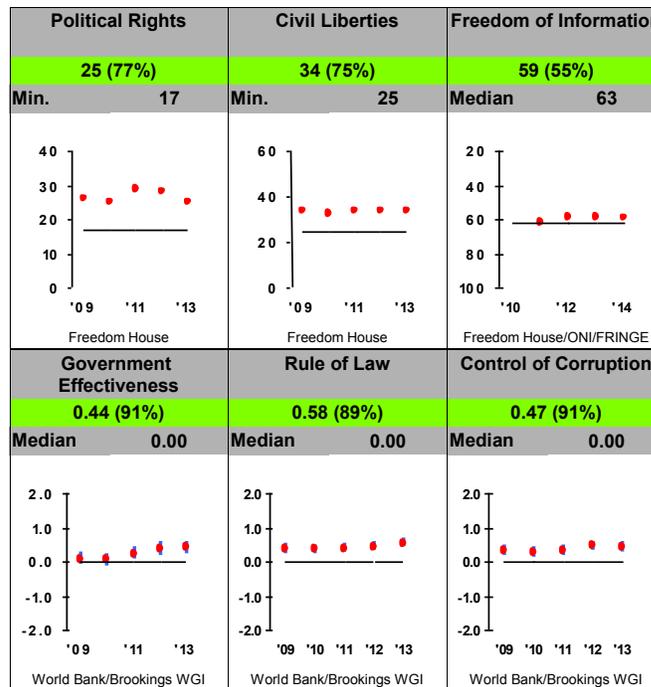
Economic Freedom



Investing in People



Ruling Justly



For more information regarding the Millennium Challenge Account Selection Process and these indicators, please consult MCC's website: www.mcc.gov/selection