Strategic Investment Pathways: The Zambezi Basin case study

Water resources and the enabling environment for investment that drives sustainable development
This short summary summarizes key messages from the OECD report – Strategic Investment Pathways: The Zambezi Basin case study – which is available (citation) & (URL)
Rationale

Ensuring that water resources continue to contribute to Zambia’s economic, environmental and social development will require significant investment. How these investments are designed, sequenced and financed will influence their capacity to deliver on Zambia’s development objectives in a sustainable manner over the long-term. This report summarises the main messages from an analysis by OECD of the key barriers as well as opportunities to strengthen the enabling environment for investments that contribute to water security and sustainable growth in the country.

Scaling up financing for investment will require a pipeline of bankable projects. The analysis argues that such a pipeline of projects should be situated within a strategic investment pathway, which takes a long-term and basin-wide approach in order to ensure that investments deliver benefits for the environment, the economy and society over the long-term.

Valuing Water in Zambia

Zambia is one of the fastest growing economies in Sub-Saharan Africa. The country is endowed with rich natural resources: minerals, forests, agricultural land and water resources. The potential of this natural capital contributes positively to Zambia’s quest to reach middle-income status by 2030. In 2014, natural capital represented 40 per cent of Zambia’s total wealth, with renewable resources constituting 73 per cent of this natural capital, valued at US$644 billion. However, only with improved strategic management of these resources, can Zambia realize positive economic growth and sustainable development over the long-term.

In the Zambezi River Basin, the Kafue Flats, situated between the Kafue Gorge and Itezhi-tezhi dam, provides a source of food for local communities, water for agriculture, industry and 52 per cent of the Zambian population, including residents of the capital, Lusaka, and 50 per cent of the country’s total hydropower. The Kafue Flats is also home to rich biodiversity, including over 470 species of birds.

As one of the fastest growing cities in the Southern African Development Community (SADC), Lusaka requires a sustainable and consistent supply of water to support livelihoods and economic growth over the long-term – as do Zambia’s critical fishery, agricultural and industrial sectors. However, there is ever-increasing pressure on Zambia’s freshwater resources due to additional demands from its growing population and developing economy as well as increasing seasonal and inter annual freshwater variability – all of which are exacerbated by the impacts of climate change.

Why consider strategic investment pathways?

Water is generally an under-valued and under-priced resource. That situation contributes to a persistent financing gap for water-related investments globally, and this is no different in Zambia. Better valuing water requires recognizing the full range of direct and indirect benefits and risks associated with water, which may be cultural, spiritual, economic, environmental or social. By doing so, valuing water can promote efficiency, innovation, and better policies by exposing the short- and long-term costs of pollution, waste and misallocation of the resource, thereby facilitating investments that contribute to water development and mitigation of water-related risks, at the local, landscape or global levels.

Financiers typically focus on the availability of a pipeline of bankable projects. But government authorities and project developers should be taking a longer-term strategic outlook when it comes to water resources and water related investments – bringing in a more strategic vision than a series of individual projects can deliver. One way to do this is to situate the pipelines of bankable projects within
broader strategic investment pathways to ensure they are resilient and contribute to water security and sustainable growth over the long term. A strategic investment pathway approach considers multiple projects, their interconnections, and opportunities to sequence them in a way that contributes to long-term resilience. A long-term strategic approach can ensure that assets deliver anticipated benefits over their operational lifetime and avoid premature obsolescence or costly retrofitting in the future. Such an approach would also help to secure a stable flow of returns for investors. It can also identify opportunities to bundle projects to reach a scale more attractive to investors.

These strategic investment pathways should be designed with a basin-wide perspective. Individual water projects may be bankable but could still contribute to the deterioration of shared water resources. For example, a narrow focus on investments in water use efficiency for particular users may or may not improve the overall sustainable management of the resource, potentially affecting other benefits. A basin-wide perspective recognizes the positive or negative impacts that investments can have on other users of a shared resource. It can also open up the potential to take advantage of interdependencies among related investments.

**Key findings related to the enabling environment for investment**

The report provides an analysis of the key barriers and opportunities to strengthen the enabling environment for investments that contribute to water security and sustainable growth in the country. It then provides a framework for considering water-related investments in the context of strategic investment pathways.

1. **Strong legal and policy frameworks exist but implementation remains a challenge**

The study found that there is a well-developed legislative basis and policy framework for the management of water resources in Zambia. However, in practice, there are limitations on the practical implementation of this framework. Notably, the lack of adequate resources (constrained government budgets and capacity) limits the extent of monitoring and enforcement of existing laws and regulations.

2. **Improved coordination ultimately improves water management**

Fragmentation of roles and responsibilities related to water management across government ministries and levels of government (national, regional, local) generates challenges for co-ordination and effective implementation. In some instances, unclear mandates and roles contribute to weak implementation. The clusters established to promote co-ordination among government actors and stakeholders under the National Development Plan 7 could provide an opportunity for more effective co-operation.

3. **Constrained resources make enforcement difficult**

Enforcement of key water regulations, notably related to abstraction, is often the responsibility of local officials with insufficient resources to carry out their required tasks. In some cases, funds are budgeted but not dispersed at anticipated levels. Authorities face political pressure to weaken enforcement.

In practice, incentives for compliance with existing laws and regulations are weak. For examples, there are no sanctions for illegal wells. Where sanctions exist, monetary fines are often very low, undermining incentives to comply. There are significant gaps in data and information systems, with a lack of hydrological mapping.
What needs to be done?

1. **Sequence bankable projects in a strategic investment pathway and link to the National Development Plan**

To contribute to long-term viability of water-related investments as well as identify opportunities for scaling up investments, funding for individual projects should be sequenced along a strategic investment pathway and be combined with efforts to strengthen the enabling environment for investment. These complementary investments are essential to ensure that larger capital-intensive investments deliver expected benefits over their operational lifetimes and reduce the risk of premature obsolescence. Criteria for prioritizing projects to be considered are detailed in the full report.

Strategic investment pathways should be explicitly linked to and coordinated with programmes and investments under the National Development Plan. In particular, the clusters established to engage stakeholders and implement projects can provide a platform for coordination among public and private actors.

2. **Build on existing policy framework to strengthen enabling environment for investment**

Strengthening the enabling environment for investment is needed in order to provide incentives for the sustainable management of water resources, minimize overall investment needs and reduce the risk of investments failing to deliver expected benefits. Investments in infrastructure should be combined with investments in strengthening the enabling environment (policy framework and institutional arrangements) as well as information systems (monitoring and data for water abstractions, pollution, ambient quality, etc.).

The range of options considered in the National Development Plan 7 to improve the sustainable management of water resources could be expanded to place emphasis on demand-management approaches, with a key focus on robust and flexible water allocation arrangements and more efficient use of resources.

3. **Capture sources of funding and explore innovative financing for water-related investment**

For the range of investments that contribute to water security, sources of funding can come from three broad categories:

- Development/ benevolent sources, including grants and funding from philanthropies;
- Public budgets; and
- Beneficiaries via a range of channels (e.g. water tariffs, abstraction charges, public good charges, value capture schemes, payment for ecosystem services, self-financing, etc.). In addition, these sources of funding can be used to mobilize repayable finance at concessional or commercial rates. Repayable sources of finance require a creditworthy borrower, which can provide a financial return.

Zambia’s existing legislative framework recognizes the Polluter Pays Principle, which gives scope to authorities to apply policy instruments (such as pollution taxes and charges) to provide incentives for reducing pollution as well as a source of funding to contribute to the costs of water management. In the case of abstraction charges and water supply and sanitation tariffs, these instruments reflect a Beneficiary Pays Principle, providing incentives for rational water use as well as a source of funding to recover costs (within limits of affordability) of water management and water services provision.
4. Engage the private sector as a contributing partner at local and global scales

The role of private sector is crucial, as major beneficiaries of, and potential contributors to, sustainable water management and as stakeholders potentially exposed to risks of water shortage, pollution and overall water insecurity. Corporates with operations and supply chains in the region should have a clear stake in the effective management of the water resources. Further, as beneficiaries of water resources, corporate actors could potentially be a source of capital for future investments.

There are a number of corporate actors with direct operations in the Kafue Flats and those with their supply chains located there. In turn, a number of local subsidiaries with operations or supply chains in the Kafue are owned by foreign multinationals, many of which have major water stewardship initiatives. A stronger alignment between global strategic activities and local subsidiaries’ engagement could provide a basis for more substantial contributions to the development of water-related investments in the area. Enhanced water security in the Kafue Flats can mitigate the risk of water-dependent investments in the region (agricultural production, industry and tourism). Contributing to improved water security would align with water stewardship principles as well as provide benefits for corporates operating in the region.

Zambian Breweries Ltd, the local subsidiary of Anheuser-Busch InBev (AB InBev), is working with WWF and the Kafue Flats Joint Action Group to deliver projects that address the current pressures on the landscape, which include over-exploitation and water pollution.

**Implementing strategic investment pathways**

WWF is working with the Ministry of Water Development, Sanitation and Environmental Protection on developing the Landscape Finance Plan (LFP) for the lower Kafue. This document will look to implement some of the key findings from the full report by creating a clear vision on the finance needed to ensure that the Kafue is developed sustainably. The LFP will outline both bankable and non-bankable projects and is being developed with the support of AB InBev and the Zambian government.

To further support the rationale of the LFP, WWF will be piloting a number of bankable projects through the Dutch Fund for Climate and Development (DFCD) that will be integrated into the overall vision for the Kafue.

Through the LFP and bankable projects we will create an enabling environment to ensure that the Zambian people and economy are better adapted to the threat of climate change, which ultimately impacts Zambia’s water security.