# CITY OF VICTORIA FALLS (CoVF)

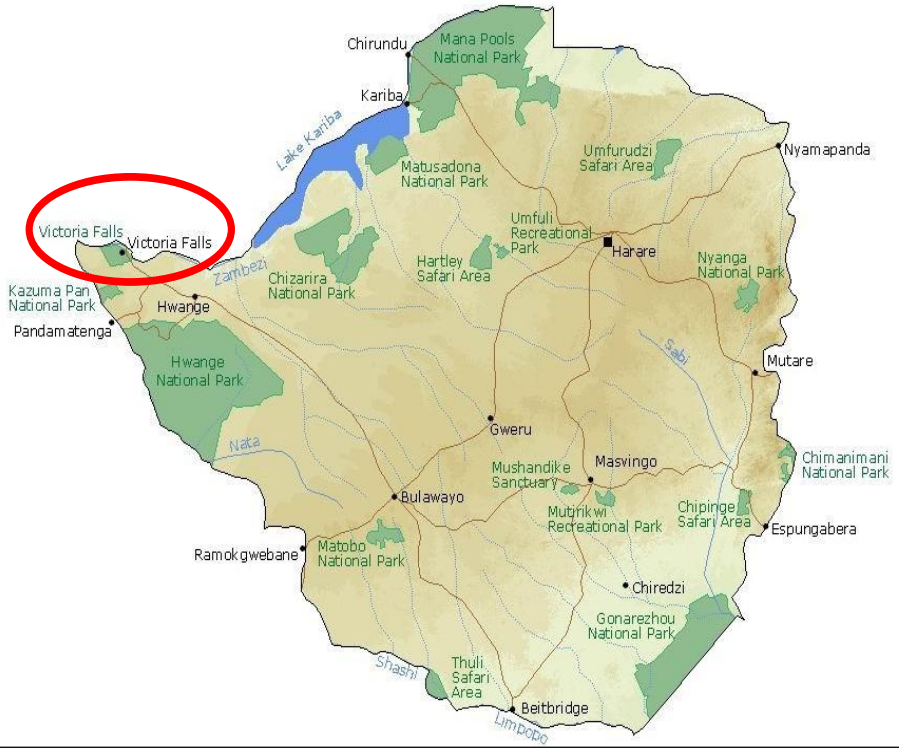
# WATER AND SANITATION AUGMENTATION PROJECT (WASAP)

**Pre-feasibility Study Project Investment Opportunity**

***Note: Detailed feasibility study required.***

# Project Location

**LOCATION OF VICTORIA FALLS ON ZIMBABWE MAP**




Victoria Falls (geographic reference 17° 56'S 25° 50'E ) is a resort town situated in the north-west corner of Zimbabwe and rests comfortably in the Zambezi Valley just a few hundred meters from the south bank of one of Southern Africa's great rivers, the Zambezi which meanders through Mozambique right into the Indian Ocean upstream from Angola, DRC and Zambia.

# Project Dashboard

## Required Capital

**US$15.73 m**

| Project Component | Cost US$m |
|---|---|
| Bulk water abstraction | 948,750 |
| Water supply Infrastructure including pre-paid water metering | 7,623,711 |
| Wastewater infrastructure | 5,060,598 |
| Engineering and Design fees | 1,363,306 |
| Disbursements & Professional fees | 735,490 |
| **Total** | **15,731,855** |

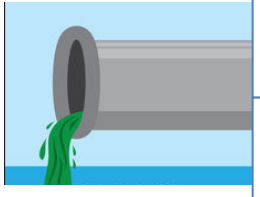
| | |
|---|---|
| **Project Implementation Period** | **36 months** |
| **Pre-paid metres installation period** | **13 Months** |

| | |
|---|---|
| **Forex Requirements (60%)** | **9,439,113** |
| **Local Currency (40%)** | **6,292,742** |

## Needs Assessment

**VFM non-revenue water is high at 35%; low revenue collection rate of 40%; Sewage effluent discharge quality in the red zone as per EMA standards; Increase in demand for basic services due to SEZ status & City Status; 1,000 households with no sewer connections; 500,000 p.a. tourist arrivals.**

## Expected Outputs



**10.61km** sewer reticulation network

**5,042** households with new sewer connections

**12.58km** of water supply reticulation network

**4,248** new Households water connections

**4,400** pre-paid water meters with focus on commercial and industrial Users

**3** water reservoirs (total additional storage capacity of 10,750cubic m)

**1** sewer treatment plant (Expansion of sewer ponds capacity by 3500m^3/day)

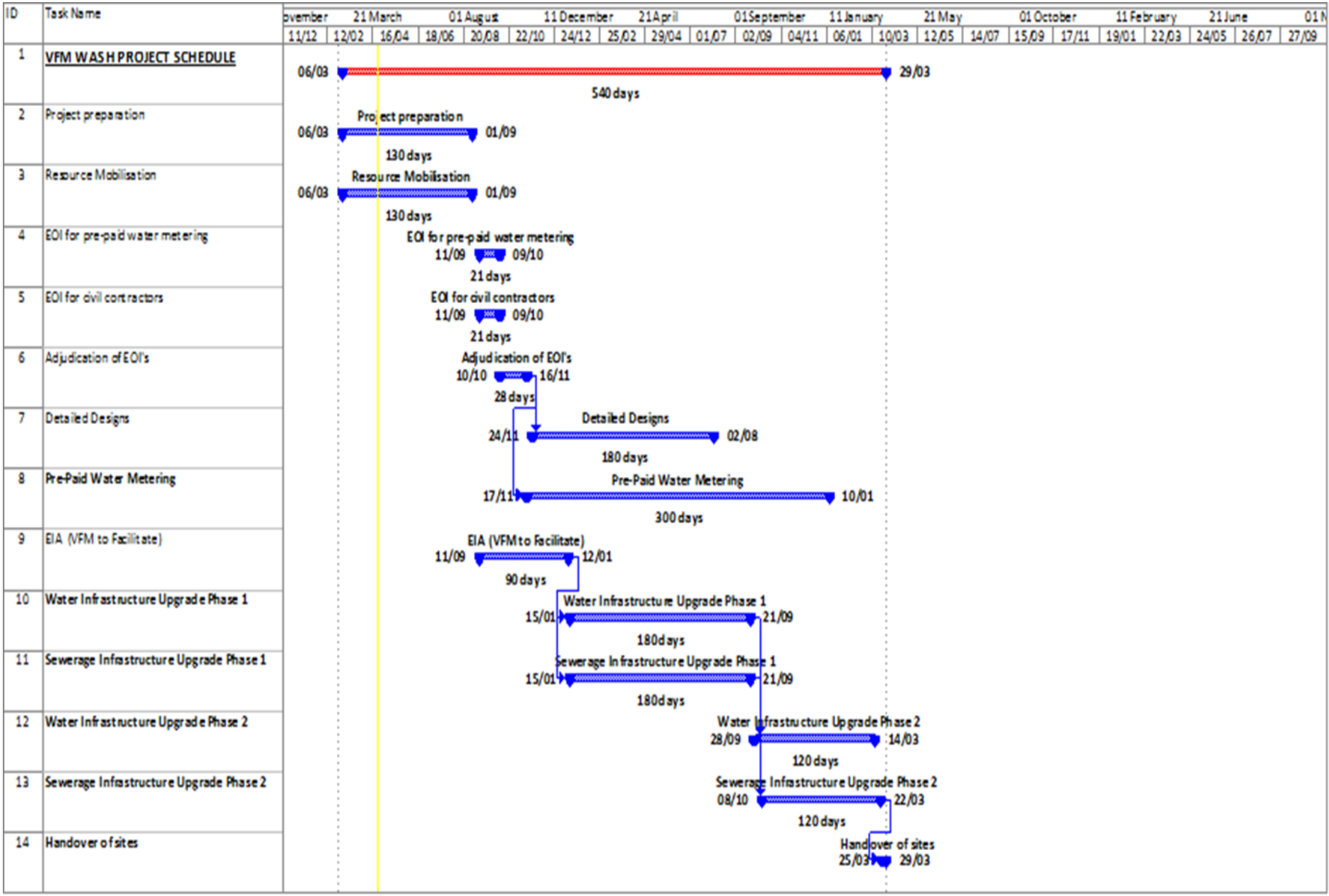
# PROJECT SUMMARY

| Element | Description |
|---|---|
| **Project Scope:** | Construction, expansion and rehabilitation of offsite and onsite water & sanitation infrastructure and installation of pre-paid water meters for CoVF |
| **Project Goal:** | ✓ To improve municipal water supply and sanitation services.<br>✓ Contributes to the improvement of the health & social wellbeing of the population.<br>✓ Financial sustainability of CoVF. |
| **Needs Assessment/ Problem Statement:** | ✓ VFM non-revenue water is high at 35%<br>✓ Low revenue collection rate of 40%<br>✓ Sewage effluent discharge quality which is in the red zone according to EMA standards<br>✓ Improve capacity to service Special Economic Zone (SEZ)<br>✓ 1,000 households with no sewer connections |
| **Project Status:** | Planning Phase |
| **Beneficiaries:** | ✓ Over 33,600 existing VFM population<br>✓ Over 500,000 tourist arrivals p.a.<br>✓ 5,042 new residential properties |
| **Funding Required:** | $15,731,855 |
| **Instrument:** | Bond or other appropriate financing instrument |
| **Overall Risk Class:** | Moderate |

# PROJECT SCOPE

| Component | Description | Cost (US$) |
|---|---|---|
| Bulk Water Abstraction | Bulk water abstraction facility channel and canal deepening by 1m and concreting. Deepening the pump well by 1.5m. Installation of a new raw water pipeline to replace the old 2km pipeline. | 948,750 |
| Water Supply System and pre-paid water metering | Targeted expansion and rehabilitation of water supply system that includes pipework, replacement of pumps, construction of 3 reservoirs at Mkhosana (2x5,000m3 reservoir and 750m3 elevated tank) and rehabilitation of Masue & MaPeters reservoirs. Rehabilitation of water treatment works. Installation of 4,400 pre-paid water meters. | 7,623,711 |
| Sewer Reticulation System | Targeted expansion and rehabilitation of sewage system that includes sewage pump stations, pipework (Medium density, Chinotimba main & trunk sewers and Mkhosana sewer reticulation). Upgrading of sewage treatment works from 4,500m3/day to 8,000m3/day. Installation of Mfelandawonye extension sewer reticulation and connection. Construction of sludge separation system. | 5,060,598 |
| Engineering Designs & Professional Services | Detailed engineering designs and professional service (IDBZ and Bond raising fees) | 2,098,796 |
| **Total** | | **$15,731,855** |

# Project Gantt Chart



# Project Financing Components

**Project Cost**

| | US$ |
|---|---|
| **Total Project Cost** | **15,731,855** |
| VFM contribution | 0 |
| **Funding Gap (at current prices)** | **15,731,855** |

**Financing Structure**

| | | |
|---|---|---|
| VFM | 0% | 0 |
| Other Investors | 100.00% | 15.731,855 |
| **Total** | **100.00%** | **15,731,855** |

**Currency Funding Components**

| | %age | USD Equivalent |
|---|---|---|
| Foreign Currency (USD)-Imports | 60% | 9,439,113 |
| Local Currency (ZWL) | 40% | 6,292,742 |
| **Total** | **100.00%** | **15,731,855** |

# Project Returns

**LOAN OPTION**

| | With Project | Incremental | Economic |
|---|---|---|---|
| **NPV** | 29,190,904 | 31,701,810 | 104,281,467 |
| **Payback Period** | 1.5 years | | |

**PPP/BOT OPTION**

| | With Project | Incremental | Economic |
|---|---|---|---|
| **NPV** | To calculate | To calculate | To Calculate |
| **Payback Period** | | | |

*Disclaimer*: subject to a detailed feasibility study

# Sensitivity Analysis

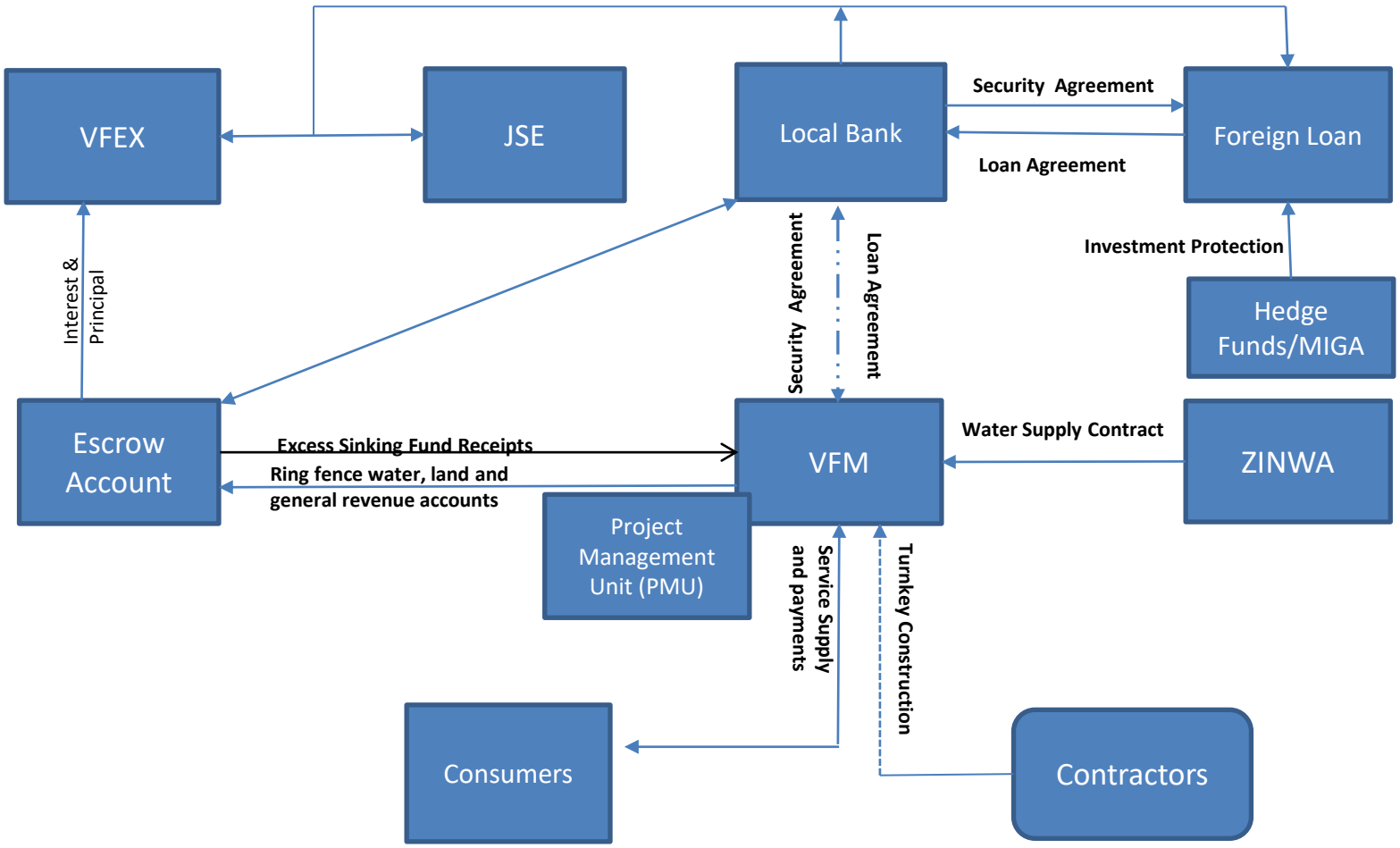
## LOAN OPTION

| | Base Case | Break-even (Zero) NPV |
|---|---|---|
| Investment Cost overrun | 0% | 142% |
| Inflation rate | 2% | 26.3% |
| Loan Interest Rate | 11% | 103% |
| Debtors Collection Rate | 60% | 43% |

## BOT/PPP OPTION

| | Base Case | Break-even (Zero) NPV |
|---|---|---|
| Investment Cost overrun | To Calculate | To Calculate |
| Inflation rate | To Calculate | To Calculate |
| Loan Interest Rate | To Calculate | To Calculate |
| Debtors Collection Rate | To Calculate | To Calculate |

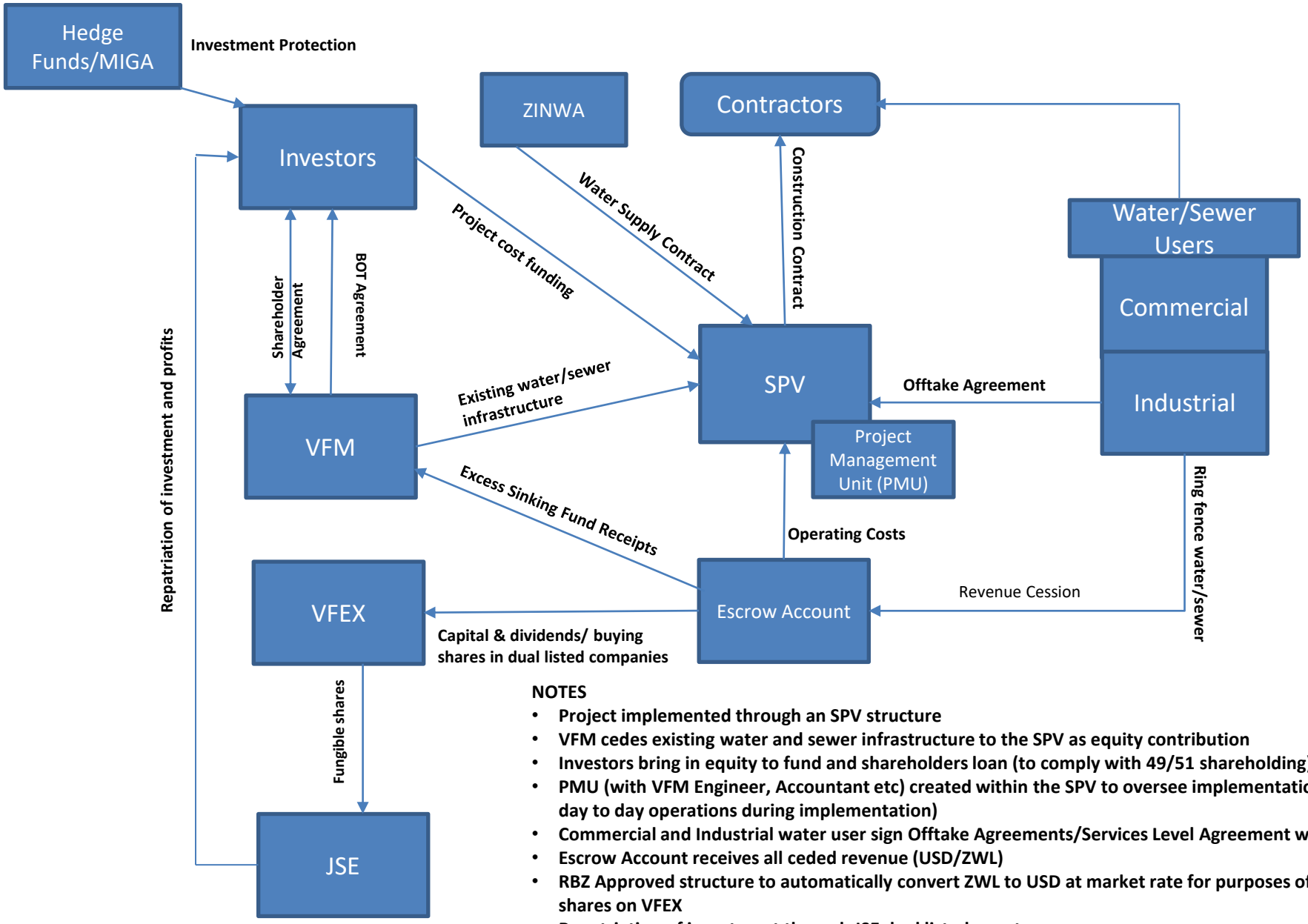
# Project Implementation Structure - Loan Option




**NOTES**

- **Foreign investors loans VFM through a local Bank on agreed terms and conditions**
- **Local Bank onlends to VFM on agreed terms**
- **VFM enters into a Turnkey Contract for project works and services**
- **VFM sets up a PMU to facilitate implementation and management/maintenance of facility and accounting**
- **VFM opens and Escrow/Sinking Account domiciled with the local Bank to receive all VFM revenue accounts**
- **Loan and interest payments, recouped through a share purchases in VFEX/JSE listed counters of Foreign lenders choice, from Escrow Account**
- **Excess funds returned to VFM general account**

# Project Implementation Structure - BOT/PPP Option




**NOTES**

- **Project implemented through an SPV structure**
- **VFM cedes existing water and sewer infrastructure to the SPV as equity contribution**
- **Investors bring in equity to fund and shareholders loan (to comply with 49/51 shareholding)**
- **PMU (with VFM Engineer, Accountant etc) created within the SPV to oversee implementation and day to day operations during implementation)**
- **Commercial and Industrial water user sign Offtake Agreements/Services Level Agreement with SPV**
- **Escrow Account receives all ceded revenue (USD/ZWL)**
- **RBZ Approved structure to automatically convert ZWL to USD at market rate for purposes of buying shares on VFEX**
- **Repatriation of investment through JSE dual listed counters**
- **Investor protect investment from "nationalisation" through MIGA and/or Hedge Funds**

# Main Risk Factors and Mitigation Measures

| Risk Description | Risk Assessment | Mitigation Strategy or Plan |
|---|---|---|
| **Upsurge in scope of work** | ▪ Cost escalations at detailed design | ▪ Provision made for extra contingency sums |
| **Variations in project cost due to inflation push factors and foreign currency shortages** | ▪ Project has a high import content (80%) and there is a likelihood of a premium when accessing the foreign currency<br>▪ Dual pricing of materials due to foreign currency shortages. | ▪ Funding in forex through foreign investors<br>▪ Purchase through forex |
| **Borrowing Certificate** | ▪ Delays in approval of Borrowing Certificate | ▪ Engagement of MoFEP for speedy issuance of Borrowing Certificate<br>▪ Use of PPP/BOT structure |
| **Poor cash inflows to meet Loan Repayments /Dividends/Capital repatriation** | • Failure by VFM to meet repayments due to poor debtors performance | ▪ Ring-fence high networth industrial and commercial customers such (Airport, Hotels, Lodges, Supermarkets etc)<br>▪ Pre-paid water meter installation (for industrial and commercial properties) prioritised for Phase 1 of the project. |
| Uncertainty of repartriation of repayments/dividends | ▪ Loss of confidence by foreign investors. | ▪ The VFEX/JSE structure to assure investors returns in South Africa<br>▪ CoVF is Zimbabwe financial services centre |
| Threat of Nationalisation | ▪ Loss of foreign lenders investment | • Existence of BIPAs with South Africa<br>• Use of hedge funds outside Zimbabwe to protect investments<br>• Use of MIGA to protect investment |

# APPROVALS AND SUPPORT REQUIREMENTS

- Signed Mandate Letter for fundraising
- Council Resolution approving facility in place
- Signed Indicative Term Sheet
- Letters of Support from the Ministry of Local Government in place
- Borrowing Certificate for Loans approved Ministry of Finance and Economic Development (Direct Loan to Council)
- ZIDA Approval for Joint Venture (JV) for PPP structure
- Registered SPV structure
- VFM contributes/cedes existing infrastructure to SPV
- Water Supply contract with ZINWA
- Offtake Agreements with Industrial and Commercial entities
- In-principle RBZ approval of repatriation of investment through the VFM Stock Exchange
- Project Technical Feasibility Studies done-needs updating

# WHY INVEST IN CoVF AND ZIMBABWE

**City of Victoria Falls**

- Special Economic Zone (SEZ) status with attractive conditions for foreign investors
- Financial Services centre of Zimbabwe
- State of the art facilities including airport with capacity for 500,000 tourist arrivals annually
- Home to mighty Victoria Falls one of the seven wonders of the world

**Zimbabwe**

- New government dispensation focussed on attracting foreign investment
- Supportive government institutions (MoFED, RBZ, ZIDA)
- Peaceful
- Bilateral investment agreements with South Africa