



KOPANO YA METSI
UNLOCKING WATER INVESTMENT IN SOUTH AFRICA

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#KopanoYaMetsi

Summary of Kopano ya Metsi learnings thus far

Johannesburg, 21 May 2018

Alex McNamara, NBI

Project roadmap

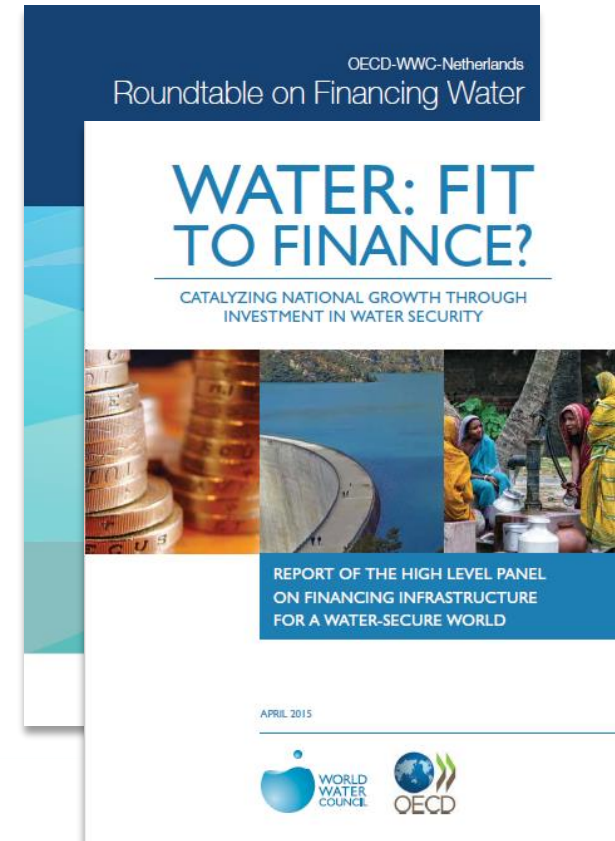
2017

2018



The world is grappling with the challenge of how to finance water

- South Africa's issues are not particularly unique
- Under-investment globally, in comparison to transport and energy
- Various recent global roundtables and publications



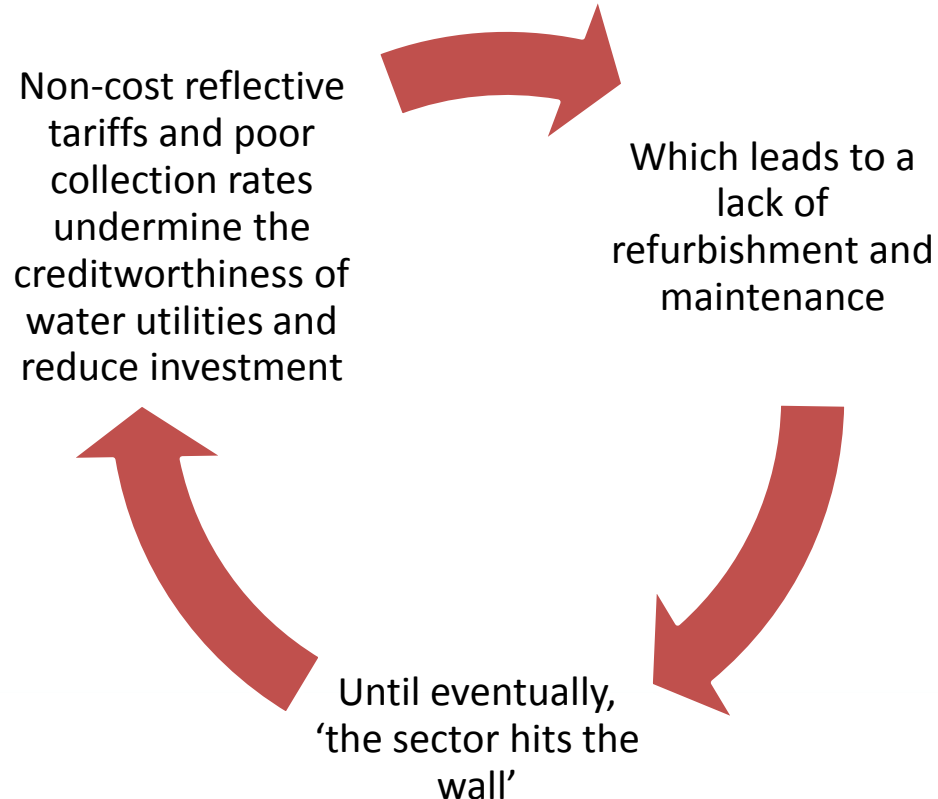
The *financing* of water is closely linked to the *pricing* of water

**A lack of cost-recovery
can lead to a vicious cycle
of indebtedness and poor
service delivery:**

Non-cost reflective
tariffs and poor
collection rates
undermine the
creditworthiness of
water utilities and
reduce investment

Which leads to a
lack of
refurbishment and
maintenance

Until eventually,
'the sector hits the
wall'



Globally, the political aspects of water are considered to have the greatest role in deterring investment

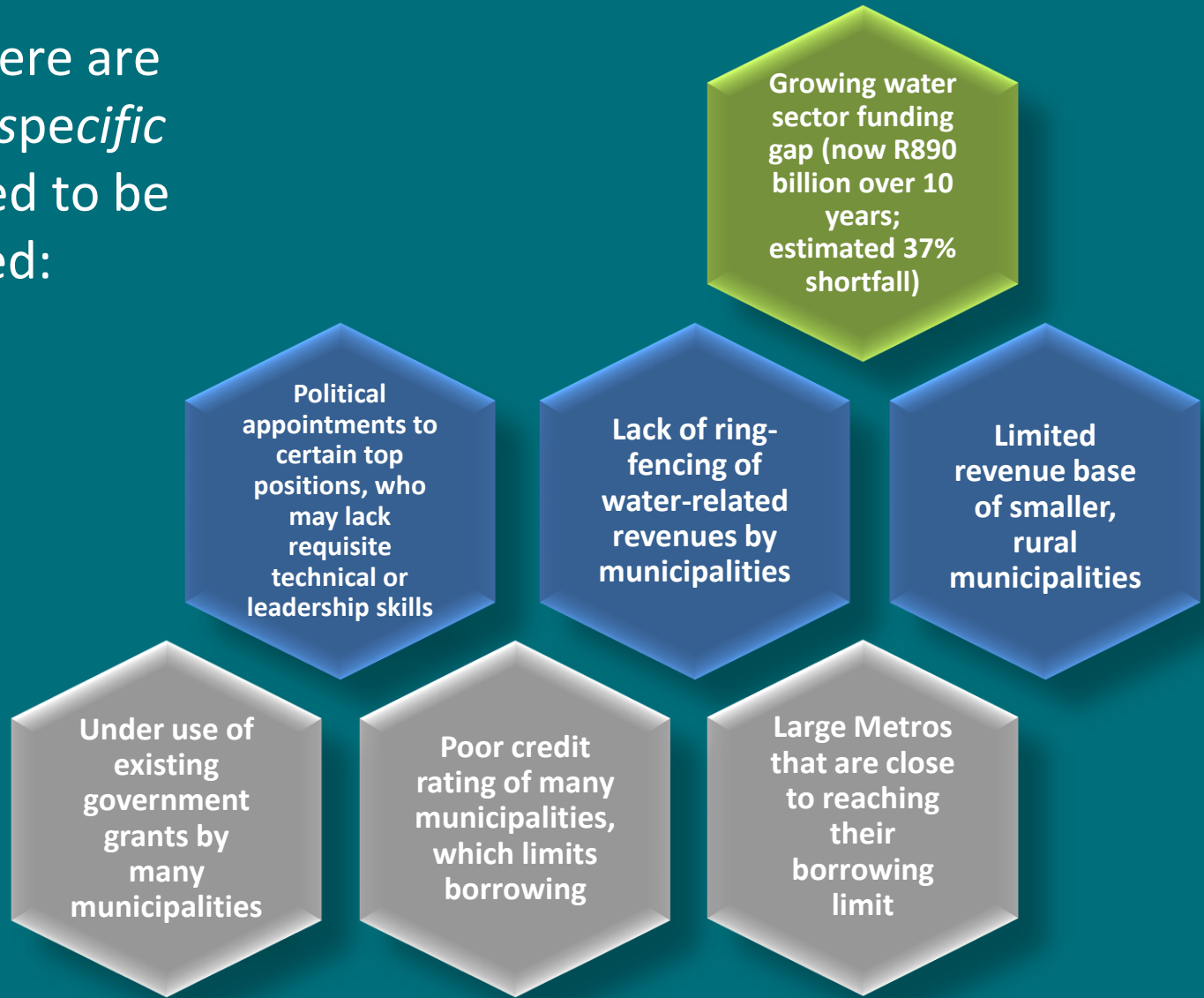
- ‘Political and governance risk is the key risk that investors look at’
- ‘It is the socio-political aspects of water that deter investment, along with low tariffs’

Project preparation and bankability is in turn reduced because of low tariffs, poor collection and political interference...

South Africa experiences many of these global challenges:

1. Water is not accurately priced, and is not viewed as a strategic asset
2. Political interference occurs in both tariff setting and procurement
3. There are concerns regarding municipal collection rates

In addition, there are some *country specific* issues that need to be considered:



‘If you have good cash flows, you
can raise money’

‘Good governance and full cost
recovery is key to attracting
finance’

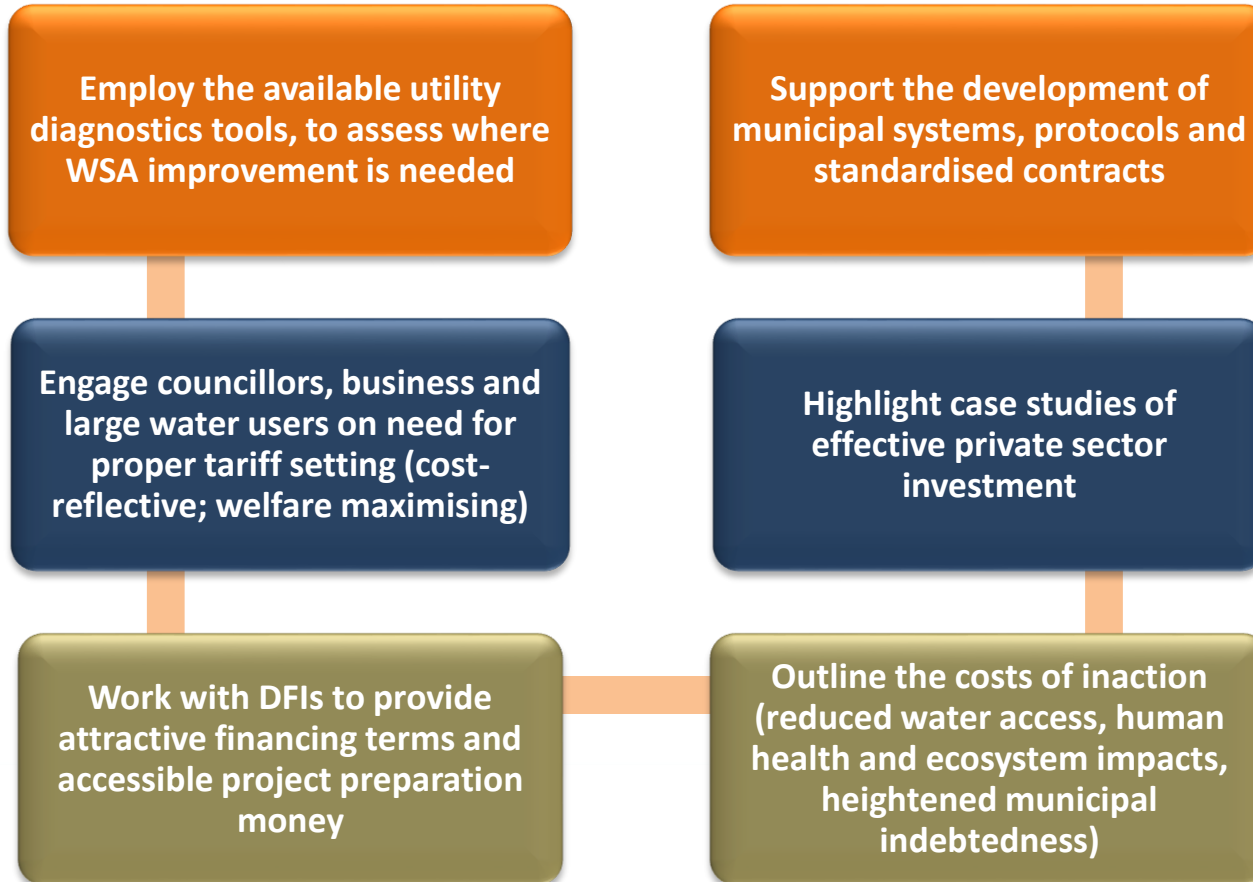
A hybrid approach to water pricing can also help move investment in the right direction

- ‘You can separate pricing from subsidy’
- In other words, you can implement cost-reflective tariffs to stimulate investment *and* provide a targeted subsidy to the poor



Image Credit: SIWI

Areas that we can all support include the following:



Our specific findings on water PPPs

Formal water PPPs are currently considered difficult to implement and are underrepresented

- The key barriers to implementing PPPs include:
 - The capacity to develop and manage long-term PPP contracts
 - Concerns over non-payment by water users
 - The legal framework outlined within the Municipal Systems Act and Municipal PPP Regulations
 - Scepticism from trade unions
- 2 of our successful water PPPs (in iLembe and Mbombela) were established *prior* to the introduction of the PPP legal framework

Solutions do exist to implement effective water PPPs in South Africa:

Key Barrier	Main Solutions
1. Lack of municipal capacity and political support	<ul style="list-style-type: none"> • Demonstrate how private sector participation can increase customer service levels and improve revenue collection • Demonstrate how private operators can address water challenges on a municipality's behalf where the municipality has limited capacity • Make use of the government supported (GTAC) or NBF supported PPP training courses
2. Lengthy PPP process	<ul style="list-style-type: none"> • Undertake the requisite Municipal Systems Act and Municipal Finance Management Act consultations simultaneously • Consider a legislative amendment to encourage the public sector to go the PPP route
3. Scepticism from trade unions	<ul style="list-style-type: none"> • Consult with labour unions from the outset • Highlight opportunities for employee ownership • Include private party performance metrics linked to improved working conditions
4. Risk of non-payment	<ul style="list-style-type: none"> • Place customers at the heart of municipal water management • Implement welfare maximising tariffs • Consider the use of performance-based private sector utility management contracts • Evaluate the use of water bonds or an escrow account to better ring-fence water revenues
5. High initial transaction costs	<ul style="list-style-type: none"> • Make use of the project preparation grants provided by the DBSA, IFC and National Treasury • Incorporate transaction advisor costs into the project financial model • Consider bundling a number of PPP projects into one • Develop standardised PPP procurement documents

There is a recognised need to attract private sector investment in the water sector

- Overcoming the barriers to water PPPs has the potential to:
 - Unlock private investment
 - Address the current sector funding gap
 - Support the improved functioning of municipal infrastructure
 - Enhance water security

In certain instances a formal PPP is not a suitable mechanism

- Such as in smaller municipalities that have limited institutional capacity
- Private sector management contracts and informal PPP approaches can provide a valuable first step and are less onerous to establish

Questions?

Recommendations: functional WSAs with the ability to borrow money

Institutional development:

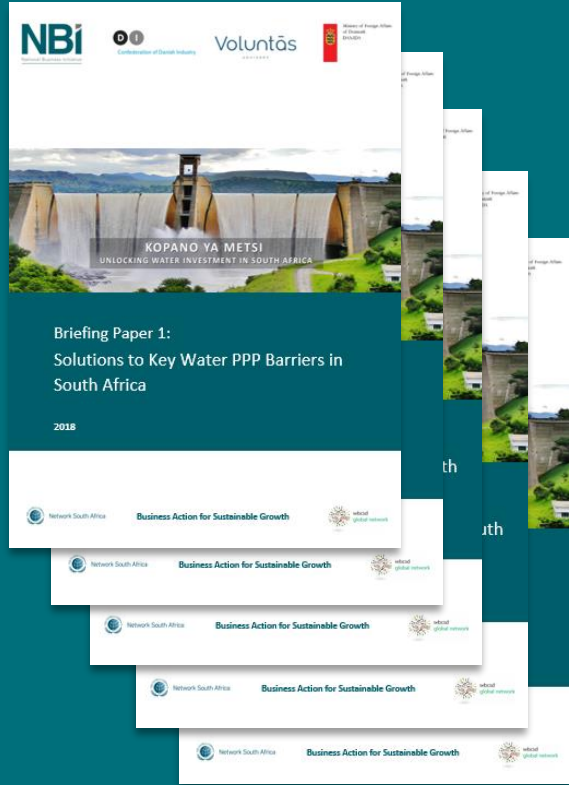
- Look at use of WSA management contract (5 year pay on delivery contract)
- Train councillors and technical experts in water financing and investment
- Develop management training programme
- Support development of contract management and project preparation capability
- Provide anti-corruption/anti-bribery training
- Resource supply chain management departments
- Prioritise critical procurement areas to reduce procurement delays
- Explore employee/customer ownership schemes for overall WSA and SPVs
- Push for excellence – in relation to energy use, energy production, collections etc.

Revenues and finances:

- Improve billing systems and credit control
- Address key inefficiencies (increase collection rates, reduce NRW, reduce non-labour cost) to increase cash flows without raising tariffs
- Implement welfare maximising tariffs
- Engage with potential funders (banks, institutional investors, DFIs and ECAs)
- Access project preparation money and commercial loans
- Draw in grants, soft loans, guarantees and credit enhancement where possible (blended finance)
- Issue bonds, green bonds and water bonds
- Explore use of off-take agreements
- Facilitate PPPs where appropriate (with the option for profit sharing amongst key roleplayers)
- Use of SPVs to bundle similar projects and create economies of scale
- Explore performance contracts & leasing models
- Emphasise that 'wastewater is a business' with multiple revenue streams

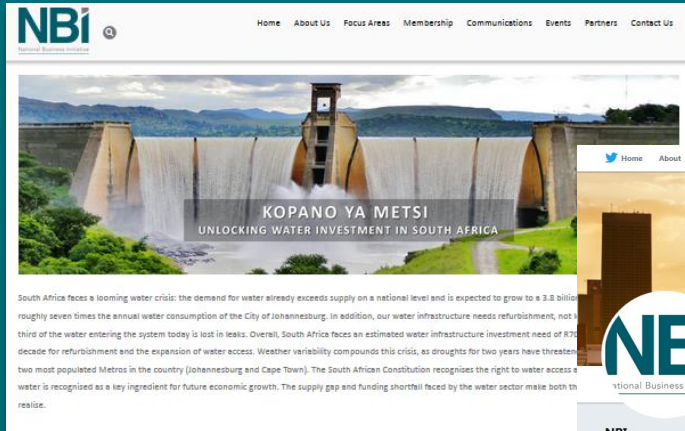
Forthcoming Project Outputs:

5 Topical Briefing Papers and a Business Case

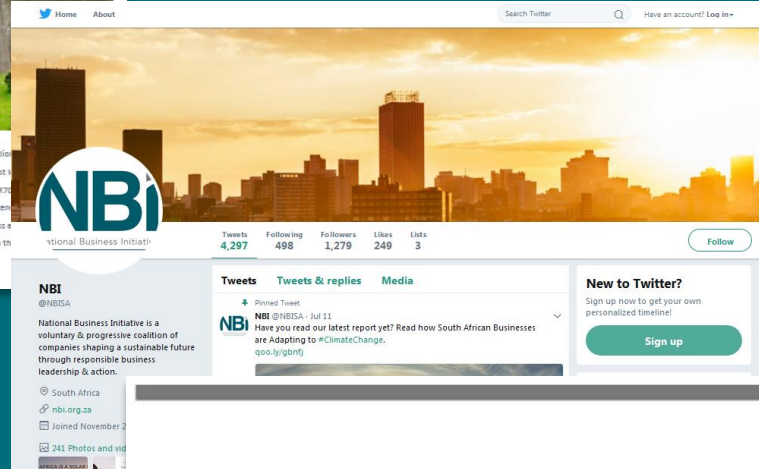


1. Water Infrastructure Finance and Investment in South Africa
2. Barriers and Solutions to Water PPPs in South Africa
3. The South African Water PPP ‘Opportunity Map’
4. Consumer Readiness: Analysis of IPSOS Survey Responses
5. Case Study: Partnering for Improved Waste Water Treatment Works
6. South African Water PPP Business Case

Engaging further...



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NBI Quick Briefs



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The National Business Initiative is a voluntary coalition of South African and multinational companies, working towards sustainable growth and development in South Africa and the shaping of a sustainable future through responsible business action. Since our inception in 1995, the NBI has made a distinct impact in the spheres of housing delivery, crime prevention, local economic development, public sector capacity building, Further Education and Training, schooling, public private partnerships, energy efficiency and climate change.

The NBI is a global network partner of the World Business Council for Sustainable Development (WBCSD) and an implementation partner of the CEO Water Mandate, We Mean Business and the CDP.

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