

KOPANO YA METSI

# UNLOCKING WATER INVESTMENT IN SOUTH AFRICA



SUPPORTED BY



**MINISTRY OF  
FOREIGN AFFAIRS  
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IN PARTNERSHIP WITH



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# KOPANO YA METSI

“THE WATER AND SANITATION SECTOR IS CURRENTLY NOT FINANCIALLY SUSTAINABLE”  
National Water and Sanitation Master Plan, 2018<sup>1</sup>

## WATER MANAGEMENT IN SOUTH AFRICA REQUIRES URGENT ACTION

Drought and poor water service delivery is already constraining economic growth and hampering livelihoods. The water sector funding gap is R330 billion over the next ten years, with major infrastructure refurbishment and improved maintenance required. At least a third of the municipalities delivering water services are considered to be dysfunctional. Many water institutions are not credit-worthy and accumulated municipal water debt is now over R13 billion.

The National Water and Sanitation Master Plan states that a ‘turn-around towards financial sustainability is not optional’ and calls for enhanced revenues, cost reductions, an analysis of alternative service delivery models and increased private sector investment.

Kopano ya Metsi (‘meeting for water’ in Sesotho) was initiated in 2017 by the National Business Initiative (NBI) in partnership with the Confederation of Danish Industry (DI) and Voluntas Advisory, to understand how water investment can be unlocked in South Africa.

Kopano ya Metsi speaks directly to the need to investigate alternative delivery models and ways to improve the sector’s financial viability, as outlined in the National Water and Sanitation Master Plan.

## THROUGHOUT ITS DURATION KOPANO YA METSI HAS SOUGHT TO UNDERSTAND 4 ISSUES:

- **How can water finance be unlocked?**
- **What is the potential role of formal Public Private Partnerships?**
- **How can municipal water management be strengthened?**
- **How can we solve for a specific challenge, wastewater treatment?**

Over a period of 18 months, Kopano ya Metsi has engaged with hundreds of water experts in South Africa through 8 major roundtables, conferences and workshops held across 4 cities (Durban, Pretoria, Johannesburg and Cape Town), as well as a series of individual meetings. Participants have included civil society partners, national government, local government, industry bodies, local government associations, researchers, private sector implementers, development banks, commercial banks and investors. The findings of Kopano ya Metsi are a reflection of this consultation process.

[www.yametsi.co.za](http://www.yametsi.co.za)

[www.nbi.org.za](http://www.nbi.org.za)

<sup>1</sup> DWS (2018) *National Water and Sanitation Master Plan, Volume I: Call to Action*. Version 10.1, October 2018, p48

# KOPANO YA METSI REPORT SERIES

01

## **UNLOCKING WATER INVESTMENT IN SOUTH AFRICA**

Paper 1 summarises the main challenges to be addressed in the water sector from a financing and investment perspective, outlines key solutions and charts a course for the future.

02

## **STRENGTHENING SOUTH AFRICA'S WATER SERVICES AUTHORITIES**

Paper 2 provides recommendations on how municipal water management can be improved over time, with an emphasis on revenues, finance and institutional capacity.

03

## **AN INTRODUCTION TO PPPs IN SOUTH AFRICA**

Paper 3 provides a primer on formal PPPs, introducing their main characteristics, potential benefits, key success factors and governing legal framework.

04

## **WATER PPP OPPORTUNITIES IN SOUTH AFRICA**

Paper 4 assesses where the main opportunities for formal water PPPs are likely to be located at both a geographic and value chain level.

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## **PUBLIC PERCEPTION OF WATER PROVISION THROUGH PPPs**

Paper 5 considers the findings of a public perception survey conducted among urban households in 2017, including the implications for a PPP approach to water provision.

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## **BARRIERS AND SOLUTIONS TO IMPLEMENTING MUNICIPAL WATER PPPs**

Paper 6 identifies the key barriers to implementing water PPPs within local government and outlines relevant solutions to address these challenges.

07

## **SOLVING FOR MUNICIPAL WASTEWATER TREATMENT**

The final paper applies the findings of Kopano ya Metsi to improving the state of municipal wastewater treatment in South Africa.



## EXECUTIVE SUMMARY

This paper outlines a number of the interventions required to strengthen the financial viability of the water sector and promote much-needed investment.

Themes discussed include municipal revenues and water management, the role of the private sector in financing and managing water infrastructure, as well as the economic opportunity presented by addressing wastewater treatment. These themes are explored in greater depth in the remaining Kopano ya Metsi papers.

The report concludes by emphasising the need for partnership to address the significant obstacles facing the sector, as well as by charting a course for future action.

# THE SOUTH AFRICAN WATER SECTOR IS AT A CROSSROADS

**Reliable water access is just 64% nationally.** Our key challenges relating to deteriorating infrastructure, high levels of Non-Revenue Water and declining water quality are well documented. In addition, much of our water infrastructure was designed to support a considerably smaller population than it currently serves.

**Water is essential for economic development, job creation and livelihoods.** As a country we must find ways to improve the water sector's viability and reverse current negative trends. The good news is that we know what many of the solutions are.

**Working collectively, we need to improve the revenue flows of the municipalities that deliver water services.** Much of this can be done through ensuring accurate metering and billing of customers. We can also combine a targeted subsidy for the poor with more cost-reflective tariffs for other users. The result of these measures will be to improve municipal income, encourage investment and support indigent households. As the National Water and Sanitation Master Plan makes clear: "everyone - except the indigent - must pay for water and sanitation services"<sup>2</sup>.

**A municipality that doesn't improve its revenue collection is likely to become increasingly indebted and unable to service its customers.** We see this in both the electricity and water sectors in South Africa, where billions are owed by municipalities to Eskom and the Department of Water and Sanitation respectively. This situation can and must be turned around, in the same way that an individual with a poor credit rating strives to address their personal debt problems through prudent management.

**Many municipalities sell water well below what it costs them to provide it.** As a result, they do not have sufficient funds to invest in necessary infrastructure, such as the replacement of old pipes. But as capital replacement slows due to insufficient funds, more burst pipes occur.

More burst pipes means more outages, more repair trucks on the road and higher operating expenses. A shortfall in capital expenditure simply results in higher operational expenditure for the municipality, and less satisfied customers. Thus, even as we attempt to save money in one area, we are forced to pay more in another.

**Every day that we underinvest, we penalise ourselves tomorrow.** Working in partnership, we must engage with all levels of leadership within municipalities (Mayors, Municipal Managers, CFOs and Councillors) to communicate the pitfalls of our current approach and the opportunity presented by a sustainable water sector.

**In some cases the money that a municipality needs is already there, it just needs to be reassigned.** For example, a municipality may only need to shift its spending focus from capital expenditure to operational expenditure. Government grants could play a greater role in improving the operations and maintenance of existing infrastructure, rather than investing in new projects that municipalities are unable to maintain.

The domestic investor community wants to invest in water in South Africa, including by using long-term savings to finance water infrastructure. This is a win-win for our country because it improves water access while financing pensions. However, this opportunity is unlikely to be realised while water is not priced correctly and water revenue collections are too low.

The water market is too risky at present, especially for prudent long-term investors like pension and provident funds.

<sup>2</sup> DWS (2018) *National Water and Sanitation Master Plan, Volume I: Call to Action*. Version 10.1, October 2018, p8

**The private sector can be a powerful partner in development.** The social democracies of Scandinavia have excellent social support systems in place, underpinned by a capable state working in tandem with a vibrant private sector. Strong governments working in partnership with the private sector can support improved social equity.

**The private sector is already playing a key role in the national water sector.** This includes helping to finance projects implemented by the Trans-Caledon Tunnel Authority, Water Boards and a number of municipalities, serving as the implementer of the two water concessions (located in Mbombela and iLembe respectively) and as a private operator of a number of municipal water assets.

**Individual Corporate Social Investment (CSI) contributions are not the answer to our water supply problems.** CSI spend will never close the water sector funding gap. CSI spend must rather be catalytic in supporting vulnerable municipalities to strengthen their water supply models, where they make wise use of government grants, and over time, where they have access to reliable cash flows and well managed debt.

Major current challenges such as high levels of Non-Revenue Water (NRW)<sup>3</sup> and failing wastewater treatment works represent enormous opportunities.

Tackling non-revenue water can start with what are called 'apparent losses', by addressing areas such as faulty meters, unmetered customers and illegal connections, before going on to address actual water losses through leak detection and repair.

**The potential revenue that can be generated in tackling NRW is R9.9 billion at latest estimates. Investments in this area could pay for themselves in months, not years.** Some municipalities are implementing projects that allow them to enter indigent homes and fix water leaks, leaks which these residents currently have no incentive

to address. Revenue sharing models are also being used where both host municipalities and project implementers benefit financially from the water savings achieved in pressure management and leak reduction.

**Run correctly, wastewater is a business that has a number of revenue streams.** Revenue options include treatment charges, the use of nutrients in fertilisers, the generation of biogas and opportunities for water reuse. This is a key untapped opportunity for economic development and enhanced water security.

**There are alternative delivery options where a municipality is struggling to fulfil its obligations.**

The establishment of a municipally owned water company, where the municipality is the sole shareholder, can be combined with the implementation of a performance-based management contract for a private sector operator. The Joburg Water Management Contract, implemented between 2001 and 2006, provides a good example of this combined approach and resulted in a financial turnaround at Joburg Water that was regarded as 'extremely successful'<sup>4</sup>.

Under a performance-based management contract, the onus is on the service provider to meet its contractual obligations, while the key responsibility of the municipality is to ensure that the private party is on track. The performance of the private operator can be measured in relation to areas such as enhanced customer service, ensuring the provision of free basic water to indigent households, improved working conditions for municipal employees and implementing accessible customer payment methods.

**We can turn the tide by working with municipalities to improve collections, address water losses and enhance customer service.** Once a municipality is considered credit worthy, key partners can assist further by helping municipalities to borrow money effectively, conduct project preparation and maximise on wastewater treatment as a business opportunity.

<sup>3</sup> Non-revenue water includes all water supplied that is not paid for. This includes physical water losses through leaks in the distribution system, as well as apparent losses through illegal connections, billed but unpaid for water use and unbilled use (after DWS, 2018. *National Water and Sanitation Master Plan, Volume I: Call to Action*. Version 10.1)

<sup>4</sup> SALGA (2011) *Water Services Local Regulation Case Study Report for the City of Joburg*, p3

# A CALL FOR PARTNERSHIP IN IMPLEMENTATION

In a decade from now sustainable water provision has the potential to be viewed in the same light as the renewable energy programme, as a strong example of effective collaboration between the public and private sectors to achieve a common goal.

**The collaborative work of key public, private and civil society actors will achieve South Africa's desired water future. Indeed, this is the only approach that can. Fortunately, much of our effort simply requires us to use solutions and institutions that already exist. Let's build on what we already have in place, recognising that the perfect is the enemy of the good.**

Over the next five years, the National Business Initiative (NBI) will work with key partners to help achieve the following objectives, in support of a resilient and socially responsible water future:



Establishing a **close collaboration with local government organisations and municipal leadership** to demonstrate the importance of water, including how current approaches often undermine **service delivery** and increase municipal costs, and how this situation can be addressed



Realising the opportunity presented by **wastewater treatment**, by partnering with different institutions to provide a solution that addresses **procurement, financing, technology and operations and maintenance**



Strengthening the NBI's existing **local water partnerships**, as examples of effective collaboration, and **extending these partnerships into other areas** where possible



Implementing new and **innovative financing solutions** to support national water security

The NBI invites all our social partners in business, government and civil society to join us in this programme of action.





The National Business Initiative (NBI) is an independent and voluntary coalition of South African and multinational businesses launched in 1995 by former President Nelson Mandela. Today we have over 100 member companies that work together towards sustainable growth and development in South Africa.

## FOR MORE INFORMATION ON KOPANO YA METSI

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