

KOPANO YA METSI

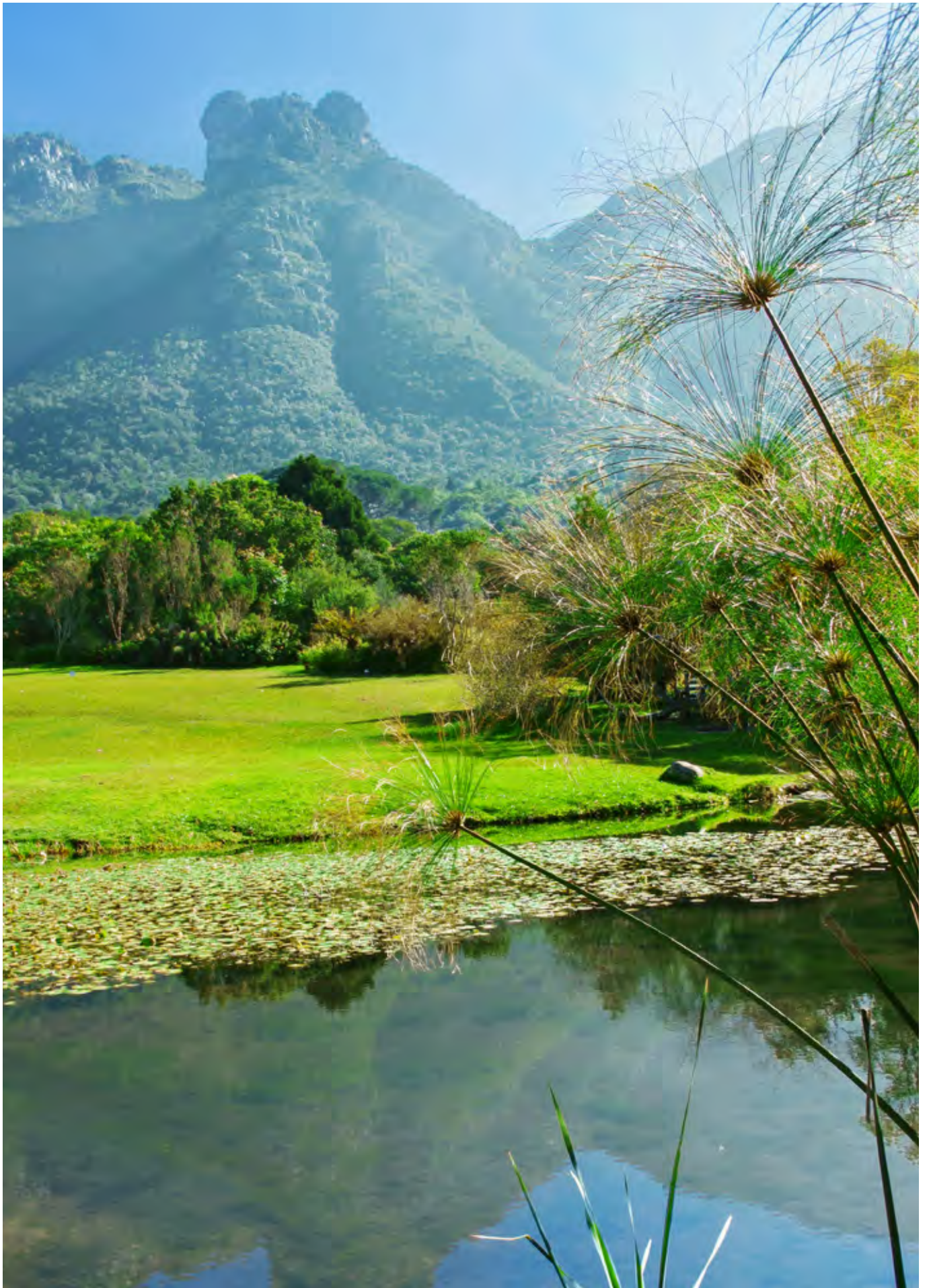
STRENGTHENING SOUTH AFRICA'S WATER SERVICES AUTHORITIES

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KOPANO YA METSI

“THE WATER AND SANITATION SECTOR IS CURRENTLY NOT FINANCIALLY SUSTAINABLE”
National Water and Sanitation Master Plan, 2018¹

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

www.nbi.org.za

¹ 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.

05 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.

06 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

Water Services Authorities (WSAs) are key to the provision of water and sanitation in South Africa. However, at present 47% of our WSAs are in a critical state, with a further 31% regarded as highly vulnerable. As such, almost 80% of South Africa's WSAs are severely constrained and their ability to provide reliable service is under threat.

It is critical that we understand and strengthen the municipal component of the water value chain, as it is often at the WSA level that the major challenges and opportunities lie. The issues that WSAs face can be broadly classified as relating to their physical infrastructure, governance and institutional capacity, as well as financial health. Most WSAs face a mixture of these challenges.

The scope and nature of WSAs varies greatly. Some are large Metropolitan Municipalities ('Metros') with a strong revenue base, while others are small municipalities that have very limited resources. **This paper argues that a differentiated approach is needed, depending on the WSA in question.**

We propose differentiating WSAs into 3 categories, as follows:

- **CATEGORY 1:** WSAs that are in crisis mode and require external assistance to function
- **CATEGORY 2:** WSAs that have limited capacity but can stand on their own feet
- **CATEGORY 3:** WSAs that are performing well

Key recommendations are provided for each WSA category. The recommendations are split between those that focus on 'governance and institutional capacity' and those that focus on 'revenues and finance'.

The strengthening of WSAs is integral to reducing poverty, inequality and unemployment in South Africa. The investment of time and energy into the successful development of WSAs will help reduce the water sector funding gap, play a meaningful role in poverty alleviation and ensure that water is available for social and economic development for decades to come.

Given the poor state of most WSAs we cannot afford not to act, if we are to achieve the goals and vision of the National Development Plan, and the Sustainable Development Goals (SDGs) more broadly.

THE ROLE OF WATER SERVICES AUTHORITIES

A Water Services Authority (WSA) is any District, Metropolitan or Local Municipality that is responsible for providing water services to end users². There are 144 WSAs in South Africa.

The scope of WSAs varies greatly, from Capricorn District Municipality in rural Limpopo to the urban metropolis of Johannesburg and everything in between. A differentiated approach is therefore needed when thinking about and dealing with WSAs.

WSAs are key to service delivery in South Africa. **Without effective water and sanitation provision, life as most of us are fortunate enough to know it would grind to a halt.** The role of WSAs in South Africa is also unlikely to change fundamentally in the foreseeable future³. It is therefore important that we understand and support this key area of the water value chain.

² Under South African law the provision of water services (including the management of potable water and domestic wastewater and sewage systems) falls under the mandate of local government.

³ The National Water and Sanitation Master Plan does however propose to “develop regulations in terms of Section 139 (8) of the Constitution, which allows for a national entity to take over the water service functions, including revenue and billing, in a municipality if service delivery criteria are not met” (DWS, 2018. *National Water and Sanitation Master Plan, Volume I: Call to Action*. Version 10.1, p18).



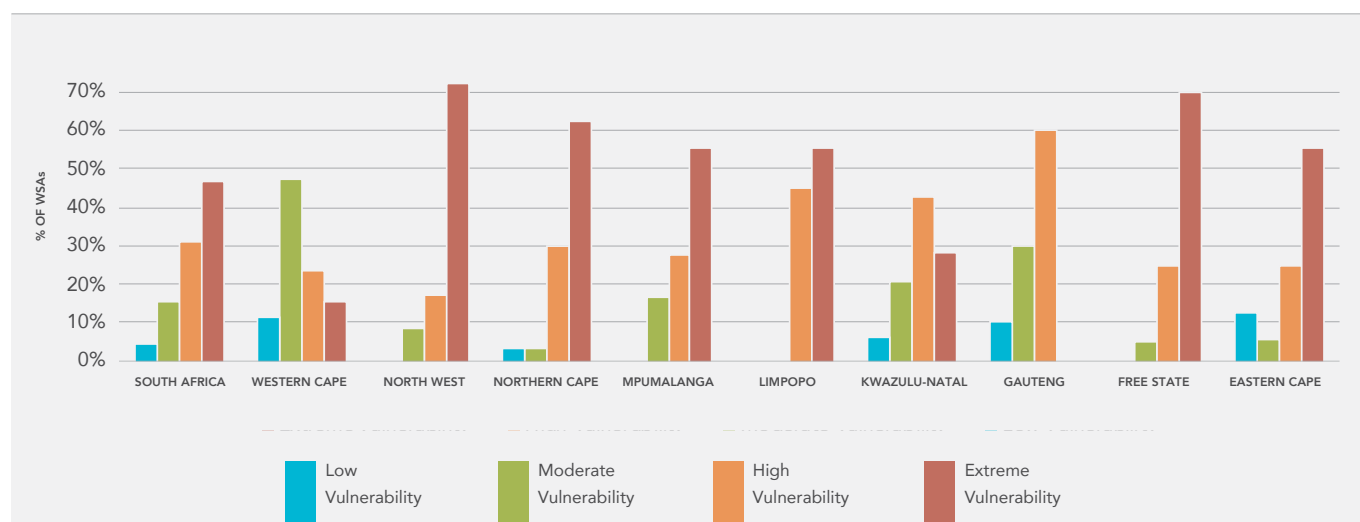
THE STATE OF MUNICIPAL WATER MANAGEMENT

In 2013 all WSAs in South Africa were asked to assess their overall business health. This process of self-assessment, known as the Municipal Services Strategic Assessment (MuSSA), provides us with a clear picture of how they are faring.

According to the MuSSA, 47% of WSAs are considered to be extremely vulnerable (i.e. in a critical state), while 31% of WSAs are highly vulnerable⁴. In other words, almost 80% of South Africa's WSAs are severely constrained and their ability to provide water services is under threat. Only 5% of WSAs are classified as having a low vulnerability and an acceptable level of risk.

The high-level outcome of the MuSSA vulnerability assessment is illustrated in Figure 1 below. Further detail on how this vulnerability index is calculated, based on 16 business health attributes, can be accessed [here](#).

FIGURE 1: THE MUSSA MUNICIPAL VULNERABILITY INDEX: NATIONAL AND PROVINCIAL PERFORMANCE



SOURCE: DWS (2014) Municipal Services Strategic Assessment (MuSSA) for South Africa: 2013/14

In the North West Province, for example, 73% of WSAs report that they are in a critical state, followed by 70% in the Free State; these are very worrying figures. Only Gauteng registers none of its WSAs as being extremely vulnerable in 2013.

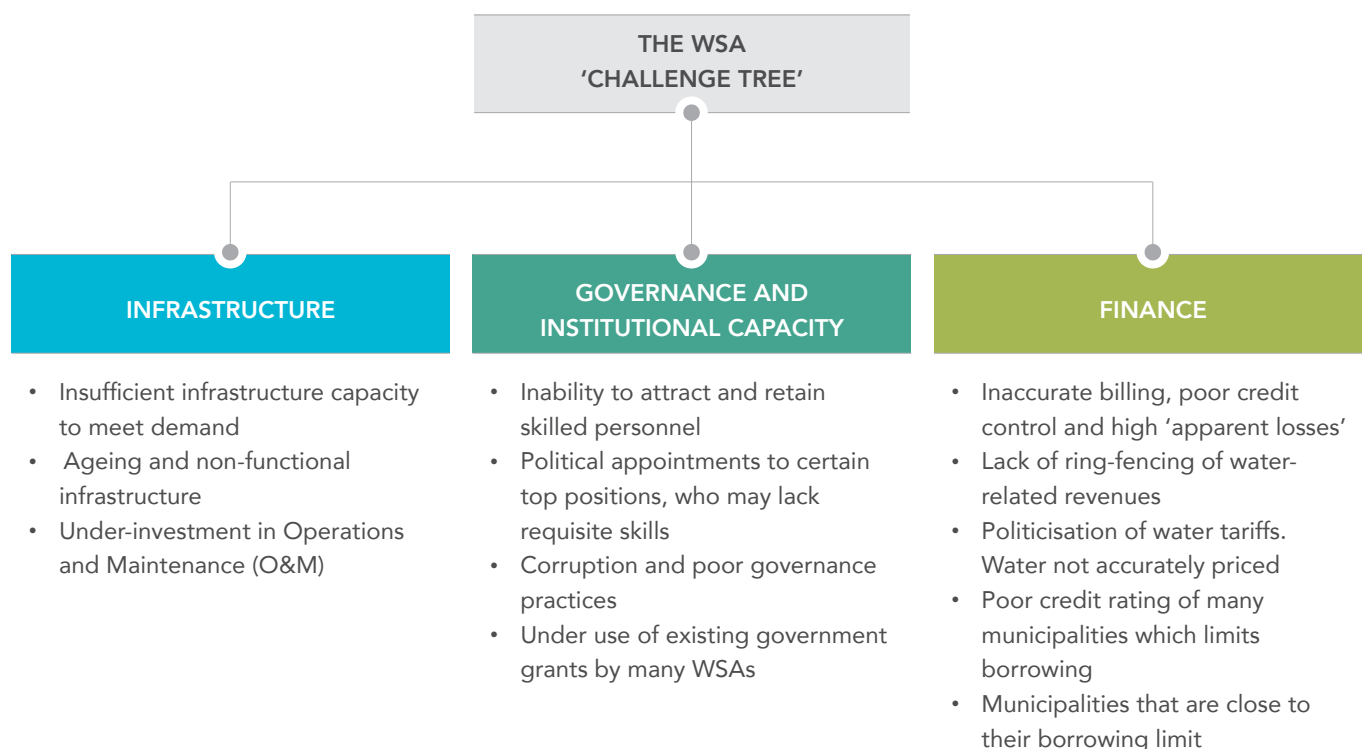
It is clear from this self-assessment process that the majority of WSAs are struggling to meet their water services mandate. The key question then becomes: what are the main challenges they face, and how can these be addressed over time?

⁴ DWS (2014) *Municipal Services Strategic Assessment (MuSSA) for South Africa: 2013/14*. Please note that when the MuSSA was completed there were 152 WSAs in South Africa.

THE KEY CHALLENGES FACING WATER SERVICES AUTHORITIES

Figure 2 attempts to summarise the key challenges that WSAs face, before going on to consider how these issues can be tackled. While this summary is based on the extensive consultations held under *Kopano ya Metsi*, it aims to be a starting point for discussion rather than a conclusion.

FIGURE 2: THE WSA 'CHALLENGE TREE'



SOURCE: NBI analysis (2018)

As illustrated in Figure 2, the issues that WSAs face can be broadly classified as relating to their current physical infrastructure, their governance practices/institutional capacity, as well as their financial health. Most WSAs face a mixture of the above challenges.

The above obstacles are also interlinked. For example, effective governance can help solve for financial constraints and lead to improved infrastructure over time. On the other hand, if the revenue base and budget of a WSA remains very low, it may be unable to attract sufficient human capacity to function effectively.

WHAT CAN BE DONE TO STRENGTHEN OUR WSAs?

AN EMPHASIS ON FINANCE, REVENUES AND INVESTMENT

This paper emphasises areas that are perhaps sometimes overlooked, including issues related to tariffs, financial management, revenue collection and borrowing. For many people these are not particularly captivating subjects, however, we would argue that they underpin (and are a key enabler of) what makes a WSA effective.

Figure 3 below demonstrates that if a municipality can get its tariffs and revenue right it can solve for many things, including better skills retention and improved customer service. In this way a virtuous cycle of improvement within a WSA can be set in motion.

FIGURE 3: ACHIEVING A VIRTUOUS CYCLE IN MUNICIPAL WATER MANAGEMENT



SOURCE: NBI analysis (2018)

It is important to note that a targeted subsidy for indigent households can be implemented *in tandem* with more cost-reflective tariffs for those that can afford to pay. This allows a municipality to raise its water revenues without impacting the poor or neglecting any constitutional obligations.

The remainder of this paper provides recommendations on how the virtuous cycle above can be generated. In instances where the achievement of such an outcome remains unlikely at present, recommendations on how this situation might be addressed are also provided.

TOWARDS A DIFFERENTIATED APPROACH

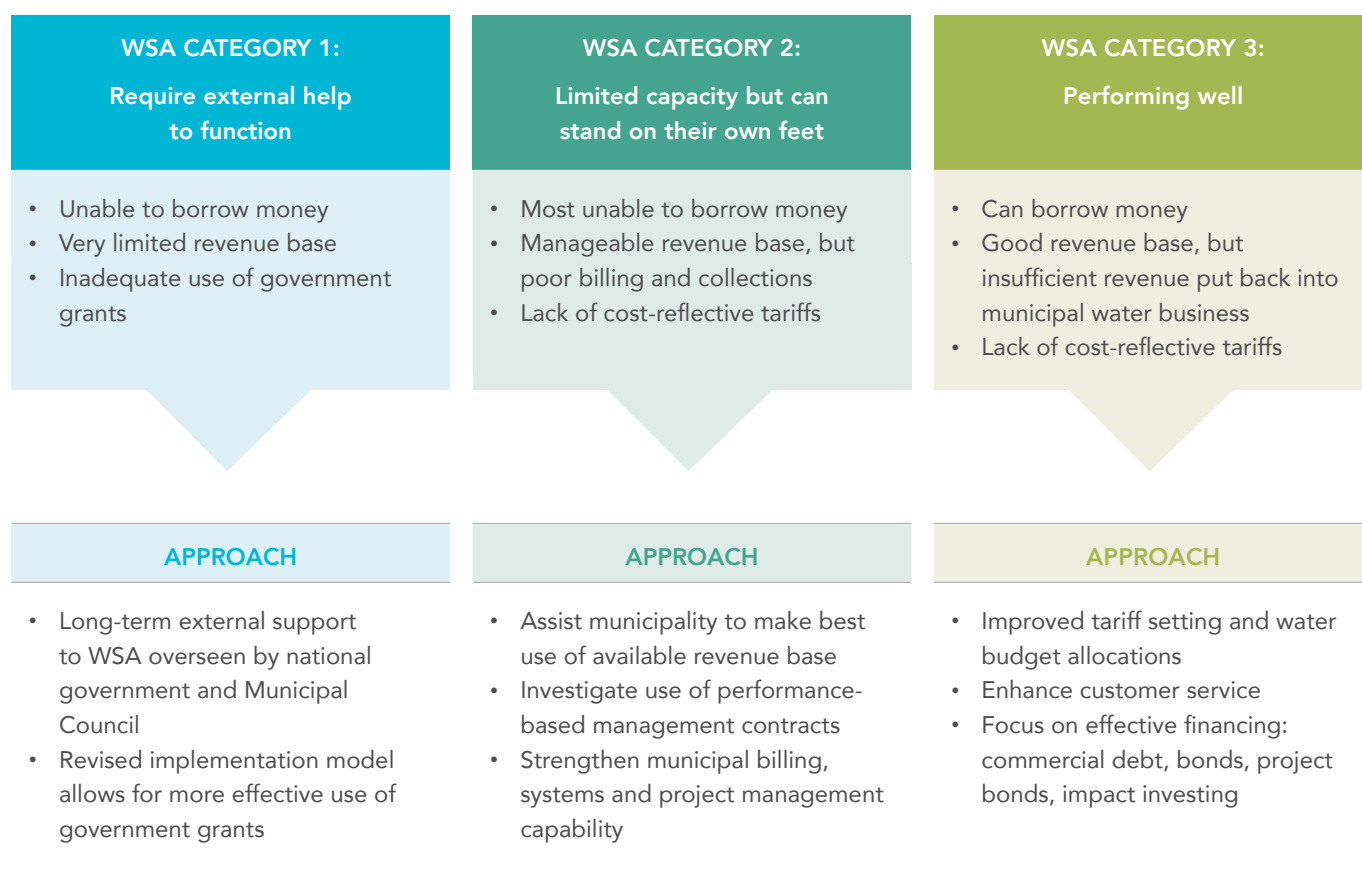
A differentiated approach is needed to support and improve municipal water management. This approach recognises that many WSAs are at very different stages – some are large Metros with a strong revenue base, while others are struggling and have limited resources.

We propose differentiating WSAs into 3 categories and addressing each category in turn:

- **CATEGORY 1: WSAs that are in crisis mode and require external assistance to function.** These WSAs lack the resources to sustainably manage their water services or to make effective use of government grants. These WSAs require critical intervention and will not be able to solve their challenges without long-term assistance
- **CATEGORY 2: WSAs that have limited capacity but can stand on their own feet.** These WSAs need to strengthen in a number of areas, but they, at least on paper, have a reasonable revenue base and can ultimately deliver services effectively
- **CATEGORY 3: WSAs that are performing well.** These WSAs have their own difficulties, but they provide a reliable service and are striving for excellence

The types of support and intervention required differ depending on the category in question, as summarised in Figure 4 below:

FIGURE 4: A DIFFERENTIATED APPROACH TO SUPPORTING WSAs



SOURCE: NBI analysis (2018)

RECOMMENDATIONS FOR STRENGTHENING MUNICIPAL WATER MANAGEMENT

Key recommendations are provided below for each WSA category. The recommendations are split between those that focus on 'governance and institutional capacity' and those that focus on 'revenues and finance'.

CATEGORY 1: RECOMMENDATIONS FOR WSAs THAT REQUIRE EXTERNAL ASSISTANCE TO FUNCTION

Governance and institutional capacity:

- Develop an implementation model whereby unspent or poorly spent government grants can be managed on behalf of the WSA, working through key entities such as the Department of Cooperative Governance and Traditional Affairs (COGTA), Municipal Infrastructure Support Agent (MISA) and National Treasury
- Implement third party monitoring and evaluation of all external implementers
- Provide anti-corruption/anti-bribery training
- In rural districts, simultaneously trial the development of community-based approaches to water provision, based on a financially sustainable model. Place emphasis on rural areas where groundwater is available and of sufficient quality, reliable water access is currently poor and communities are having to purchase water from other sources (often at high cost)

Revenues and finance:

- Water-related government grants due to the WSA to be managed and implemented on behalf of the WSA by another organ of state. Use these allocated water grants to leverage additional funding sources (a 'blended finance' approach)
- Investigate the feasibility and usefulness of dividing government grant spending more equally between capital expenditure (capex) and operational expenditure (opex). This applies most readily in cases where new water infrastructure is currently built at the expense of maintaining existing water assets or reducing non-revenue water

CATEGORY 2: RECOMMENDATIONS FOR WSAs WITH LIMITED CAPACITY

Governance and institutional capacity:

- Train councillors and technical experts in water financing and investment
- Support the development of protocols, standard procedures and project management systems to strengthen municipal capacity
- Provide anti-corruption/anti-bribery training
- Address political interference in technical decision making and procurement
- Resource supply chain management departments
- Support prioritised procurement (e.g. streamlined procurement of low-cost spare parts) to avoid unnecessary delays in routine maintenance
- Investigate the use of private sector management contracts (based on 5 year pay on delivery contracts)

Revenues and finance:

- Improve billing systems and customer payment options
- Improve collections and reduce non-revenue water to increase cash flows without raising tariffs
- Implement a targeted subsidy for indigent households in tandem with more cost-reflective tariffs for other users
- Identify and track indigent households in a manner that does not place undue burden on poor households
- Focus on viewing residents as 'customers' not 'consumers' to improve service
- Make more effective use of government grants for infrastructure development and asset refurbishment
- Draw in soft loans, guarantees and credit enhancement where possible (as part of a 'blended finance' approach)
- Make use of well-managed debt, once credit worthy

In addition to the recommendations above for category 2 (which are also relevant to varying degrees for WSAs that are performing well) the following **additional** recommendations apply to category 3:

CATEGORY 3: ADDITIONAL RECOMMENDATIONS FOR WSAs THAT ARE PERFORMING WELL

Governance and institutional capacity:

- Support the development of internal contract management and project preparation capability
- Push for excellence in energy efficiency and energy production at water and wastewater facilities, as well as within the reticulation network

Revenues and finance:

- Engage with potential funders (banks, institutional investors and development finance institutions)
- Access project preparation money and commercial loans
- Issue bonds, green bonds and water bonds, where appropriate
- Explore the use of off-take agreements
- Facilitate PPPs where appropriate (with the option for profit sharing amongst key roleplayers)
- Investigate the use of project bonds and impact investing in wastewater treatment/ water reuse
- Explore the use of performance-based contracts for water conservation and demand management

CONCLUSION

The strengthening of Water Services Authorities is integral to reducing poverty, inequality and unemployment in South Africa.

Municipal water management faces a mixture of institutional, infrastructure and finance related challenges, with almost 80% of WSAs classified as highly vulnerable.

This paper argues that a differentiated approach is needed, depending on the WSA in question. In some cases, WSAs are performing well, but they still require improvements. In the most extreme case, it is necessary to adopt a more innovative approach whereby the water-related grants allocated to a WSA are effectively implemented on their behalf, with oversight provided by the municipality itself and various national government agencies.

The achievement of a virtuous cycle in water services delivery is attainable in South Africa.

The realisation of this goal will be far from easy, especially as much of our water infrastructure is underground or out of sight (and therefore 'invisible') and thus does not attract the same attention as housing, public transport or roads, for example.

However, it is also true that water is essential for life and any form of economic activity. **The investment of time and energy into the successful development of our WSAs will help reduce the water sector funding gap, make a significant contribution to poverty alleviation and ensure that water is available for social and economic development for decades to come.**

Given the poor state of most WSAs in South Africa we cannot afford not to act, if we are to achieve the goals and vision of the National Development Plan, and the SDGs more broadly.



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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