# A WATER TYPE "REIPPP" programme - why not think bigger?

**By: Mark van Wyk,**
Head of Unlisted Investments
Mergence Investment Managers

On June 22, 2017, South African Minister of Water and Sanitation Nomvula Mokonyane delivered her National Council of Provinces budget review in parliament.

The budget was presented against the backdrop of a devastating drought that has plagued South Africa over the last three years. Currently, the Western Cape is the worst hit with dam levels at a low of 22,7%.

The Minister undertook to intensifying work to review water sector institutions as directed by the National Development Plan and announced inter alia:

- The establishment of a National Water and Sanitation Infrastructure Agency.
- The realignment of Water Boards in the various provinces to expand the skills base and hasten delivery.
- The transformation of irrigation boards and introduction of transformed and representative water user associations.

Ms Mokonyane stated: "As a department, we are responsible for the delivery of bulk water services to municipalities who in turn have been mandated by legislation to reticulate and deliver the basic services to communities."

She further remarked that in view of experience, where they have delivered bulk services, **"municipalities have either failed to invest adequately in reticulation infrastructure and/or failed to operate and maintain such infrastructure,** where it exists, optimally." [My emphasis]

In response to this state of affairs, the Minister noted that "we have begun a process together with the department of Cooperative Governance and Traditional Affairs, the Municipal Infrastructure Support Agent, the Development Bank of Southern Africa and the National Treasury to seek means that will regularise our collective interventions in support of municipalities that are unable to deliver

as per the legislative mandate."

In an earlier speech, in May 2017, the Minister also referred to South Africa's Strategic Water Partnership Network (SWPN), which is a working model of a public private partnership (PPP) which has been implemented in partnership with the global agency, 2030 Water Resource Group (WRG).

In light of the various initiatives as outlined above, Mergence Investment Managers would like to entreat the Minister to consider the possible **establishment of a national programme for the securing, provision and management of water and related infrastructure along the lines of the very successful and internationally acclaimed South African renewable energy independent power producers procurement (REIPPP) programme.**

While the REIPPP programme is unfortunately currently stalled and caught up in the debate around the Integrated Resource Plan, it is held up as a beacon of how the public and private sectors can join forces for the common good of our country.

> *"The results of mismanagement are reflected in current outstanding municipal water debts of approximately R2.7bn*
>
> - Mark van Wyk

### IT SHOULD BE POSSIBLE

All parties involved have built up considerable experience and expertise and the blueprint is there for the same to be done for water. What is more, the challenges encountered and confronted, and the mistakes made and lessons learnt in the REIPPP programme, could offer valuable insights and guidelines that could be applied to a national water programme. Support of local content and small business development could be properly planned for and measured; so too positive social impact for communities. In time, as more players entered the space, competition would increase and tariffs could potentially come down.

We acknowledge that water is a complex area – but so too is energy.

In South Africa, municipalities are responsible for local water infrastructure. The number of service delivery protests across the country highlights an alarming call for action.

The results of mismanagement are reflected in current outstanding municipal water debts of approximately R2.7bn. Adding further to costs is leakage of municipal supplied water amounting to 25% to 40% across different municipalities as a result of crumbling and neglected infrastructure.

The time could be opportune for more concessions to be opened up to the private sector – and preferably within a "REIPPP" type programme. The state will continue to regulate water but could leverage off private sector expertise and investment capital to build, install, refurbish, operate and/or maintain the reticulation systems, thereby improving service delivery. Furthermore, public private partnerships in the development of South Africa's water resources could play a vital part in ensuring future water security.

Globally, especially in the West, it is the norm for private water companies or concessionaires to manage and maintain water infrastructure in cities. In the United Kingdom alone there are about 25 such companies. In South Africa, out of the 270 municipalities, only three have outsourced the provision and maintenance of water services to private entities.

We believe a large-scale and well-coordinated national programme for the supply, development and management of water along the lines of a REIPPP programme could be an answer. The consequences of not taking decisive and concerted action on a meaningful scale are incisively stated by 2030 WRG: "If countries maintain a business-as-usual approach to managing water, we can expect a 40 percent gap between fresh water supply and demand by 2030."

The benefits in contrast are great, subject to appropriate regulatory oversight:

- the state shares risk and responsibility with private firms but ultimately retains control of assets
- service will improve, while avoiding some of the concerns around privatisation: unemployment, higher prices and little or no socio-economic (community) development
- PPPs potentially bring the efficiency and capital of business to public service delivery and avoid the politically contentious aspects of full privatisation. Both sides stand to benefit from a well-designed programme.

*On behalf of its institutional clients, which include large pension funds, Mergence Investment Managers has recently invested by way of infrastructure equity into one of the few water concessions in South Africa run via a PPP. The investment is housed in the Mergence Infrastructure and Development Equity Fund.*

### WATER FACTS

The South African water utility sector is economically regulated and requires significant capital to maintain effective and efficient services. It is estimated that more than R700bn is needed for infrastructure over the next 10 years.

There is a need to improve revenue collection both at the national and municipal level. The sector is also characterised by being dominated by municipalities, fragmented and facing water availability challenges.

These challenges in South Africa are threefold:

- Spatial and seasonal - 43% of rain falls on 13% of the land
- The lack of reliability of stream flow into rivers
- Major urban areas and industrial development are situated far from watercourses

What is more, South African rainfall of 450 mm is below the world average of 850 mm per annum and water demand is expected to outstrip supply between 2025 and 2030.

Municipal water use per capita rose by 38% from 1995 to 2005 or a 3.3% compound annual growth rate.

The total natural runoff flowing along the country's rivers towards the sea amounts to some 50 billion m3. Under half this is tapped for consumption. Of the total available water, 8% is from ground water and 79% from surface water.