

WATER RESOURCES

An 'REIPPPP' for water?

In this opinion piece, Mark van Wyk, head of unlisted investments at Mergence Investment Managers, argues that a large-scale and well-coordinated national programme for the supply, development and management of water along the lines of the Renewable Energy Independent Power Producer Procurement Programme could be an answer to South Africa's water woes

On June 22, Water and Sanitation Minister **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 intensify work to review water-sector institutions, as directed by the National Development Plan, and announced, among others:

- 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; and
- the transformation of irrigation boards and the introduction of transformed and representative water-user associations.

Mokonyane stated: "As a department, we are responsible for the delivery of bulk water services to municipalities, which, 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".

Indeed, the results of mismanagement are reflected in current outstanding municipal water debts of about R2.7-billion.

Further adding to costs is the leakage of municipality-supplied water amounting to between 25% and 40% across different municipalities as a result of crumbling and neglected infrastructure.

The number of service delivery protests across the country highlights an alarming call for action.

In an earlier speech, in May, the Minister also referred to South Africa's

Strategic Water Partnership Network (SWPN), a working model of a public-private partnership (PPP) that has been implemented in partnership with the global agency, 2030 Water Resource Group (WRG).

In view of the progress made by the SWPN to date, 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 Producer Procurement Programme (REIPPPP).

While the REIPPPP is, unfortunately, currently stalled and caught up in the debate concerning 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.

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 the lessons learnt in the REIPPPP, 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 and measured; so too positive social impact for communities.

In time, as more players enter the space, competition will increase and tariffs could potentially come down.

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

The time could be opportune for more concessions to be opened up to the private sector – and preferably within a REIPPPP-type programme.

The State will continue to regulate water but could leverage off



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private-sector expertise and investment capital to build, install, refurbish, operate and/or maintain the reticulation systems, thereby improving service delivery.

Further,

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 UK 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 the REIPPPP 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% gap between freshwater 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 over assets;
- service will improve, while avoiding some of the concerns associated with privatisation, such as unemployment, higher prices and little or no socioeconomic (community) development; and
- 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 recently invested by way of infrastructure equity into one of the few water concessions in South Africa run through a PPP. The investment is housed in the Mergence Infrastructure and Development Equity Fund.