The Presidential eThekwini Working Group

Private Sector Participation in Water Provision

Selected South African Case Studies

THE PRESIDENCY
REPUBLIC OF SOUTH AFRICA

Exploring Private Sector Models for Water Services

- Access to clean and reliable water supply remains a critical challenge in South Africa
- Rapid urbanization, aging infrastructure, financial constraints, and governance issues have placed significant pressure on municipal water service provision
- Various models of private-sector participation have been explored to enhance water service delivery, efficiency, and sustainability
- However, the involvement of the private sector in water provision remains a contentious issue if we unable to resolve issues relating to cost, equity, service quality, and regulatory oversight

PPP’s

- In South Africa the term “PPP” is technically used to refer to two very narrow concepts –
  - One is a PPP in terms of Regulation 16 of the Public Finance Management Act,
  - The other is Municipal PPP Regulation 309 under the Municipal Finance Management Act (MFMA) which governs PPPs in municipalities - Ordinary contracting (e.g., the contracting of a caterer to provide food, or even the renting of a building) is not a PPP

International Experience

The international experience of private sector provision of water is mixed

Continent	Country	Project	Summary
Latin America	Argentina	Buenos Aires Water Company Privatisation	Increased efficiency, productivity, and investment. Over two million gained access, reducing water-borne diseases. However, poorest areas still faced issues, leading to renationalisation in 2006.
	Brazil	Public Private Partnerships (PPPs)	Performed well in urban areas by expanding access to piped water supply.
	Bolivia	Water Privatisation	Increased access for low-income households, but tariff increases led to public outrage and renationalisation.
	Chile	30-Year Concessions	Early adopter of long-term water utility concessions.
	Colombia	Public Private Partnerships (PPPs)	Performed well in urban areas by expanding access to piped water supply. Targeted public grants improved service delivery to the poor.
	Guayaquil	Concessions with Public Grants	Successful in improving service delivery to the poor.
	Guyana	Privately Run Management Contracts	Improved collection rates in urban areas.
	Honduras	30-Year Concessions	Part of the broader Latin American privatisation experience.
	Mexico	30-Year Concessions	Part of the broader Latin American privatisation experience.
	Trinidad and Tobago	Privately Run Management Contracts	Improved collection rates in urban areas.

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Continent	Country	Project	Summary
Africa	Ivory Coast	Public Private Partnerships (PPPs)	Piped water connections doubled within a decade under private operation.
	Morocco	Private Investment in Four Large Cities	Improved water quality and quantity; reduced water losses faster than public municipalities.
	Senegal	Public Private Partnerships (PPPs)	Given a positive report card for urban water utility performance.
	Guinea	Privatisation	Improved water services and quality, modest coverage improvement. High connection costs limited access for low-income users.
	Zambia	Management Contracts	Improved collection rates.
	Johannesburg	Management Contracts	Improved collection rates.
	Mali	Water Privatisation	Negative outcomes led to concession cancellation and return to public management.
	Chad	Water Privatisation	Negative outcomes led to concession cancellation and return to public management.
	Tanzania	Water Privatisation	Negative outcomes led to concession cancellation and return to public management.
	Uganda	Water Privatisation	Negative outcomes led to concession cancellation and return to public management.
	Ghana, Tanzania, Zambia, Namibia	Water Privatisation	Private investors unwilling to take long-term risks, making privatisation unsuitable in Southern Africa.

Ring Fencing – Utility Model

- Ring-fencing of municipal services is the first step to improving service delivery - it doesn't mean that no cross-subsidization is not allowed - one of the key structural reforms that South Africa is implementing
- Important to distinguish the water function into two distinct components - Water Services Authority and a Water Services Provider
- This division allows for specialisation where WSAs focus on regulation, planning, and policy, while WSPs handle the operational aspects, ensuring that the infrastructure and services are effectively maintained and operated.
- Four models for water service delivery
  - Model 1 is the original approach that is common in many municipalities, where water is a department of the municipality
  - Model 2 is the simplest reform. This is to have a water (and/or sanitation) operation as a business unit
  - Model 3, there is a municipal-owned water and sanitation company. This can be a stand-alone entity that operates its own profit and loss statement.
  - Model 4, the relationship between the municipality and the water services provider is a contracting one – that is that the municipality contracts in the service from an external, private party.

Case Study One: Ilembe district municipality/siza water concession

Overview

- The Siza Water concession provides water and wastewater services to residents in the iLembe District, situated on the North Coast of the KwaZulu-Natal province
- The concession area covers 12.5km² and serves 55 000 to 60 000 users with
- Siza Water is a subsidiary of South African Water Works, and manages three water systems/plants, namely Frasers, Shakaskraal, and Sheffield, and purchase bulk water from Umgeni Water
- The concession is a 30-year concession and commenced in 1999 and will expire in 2029

Concession

- The concession originates from a decision made by the Borough of Dolphin Coast in 1996
- The Borough considered what the best options would be to meet its obligations with respect to Water and Sanitation Services (WSS) in the context of having a restricted budget, lack of creditworthiness, and a lack of capacity in terms of technical and managerial skills
- In this context the borough decided to pursue a Public Private Partnership (PPP) option, and after a three-year process, and in collaboration with various government agencies and departments such as Development Bank of Southern Africa (DBSA), the borough entered a concession with Siza Water on a 30-year concession contract
- As the concessionaire, Siza Water was granted the right to 'process, use, operate, manage, maintain, rehabilitate, redesign, remove, improve and expand' the existing water works at its own risk and cost
- In terms of section 40 of the concession agreement, the determination, amendment and approval of all tariffs shall be undertaken by the council in accordance with all prevailing Regulatory Provisions and the provisions of the contract
    - In practice this means that Siza Water would apply for tariff approvals from the council, and the council can also request changes to the proposed tariff
    - The council pays for Basic Free Water for registered indigent households and as such this is not a direct expense for Siza Water
- The Concession went through 2 amendments to tighten oversight of council

Performance and financial sustainability

- Since 1999, Siza Water has reduced water losses from 33% to 8%-15% in 2021 - whereas water losses for the district as a whole amounted to 39% in 2023/24 (iLembe District Municipality, 2025)
- In terms Green Drop status, from the 2021 assessment 850 systems were audited across South Africa, and only 22 (2.5%) received Green Drop Status, and only three of these systems were located in KwaZulu-Natal, two of which is managed by Siza Water.
    - Both systems that Siza Water manage that provides wastewater services, namely Frasers and Shakaskraal, received Green Drop status in the two most recent assessments, which took place in 2013 and 2021.
- In terms of the Blue Drop status in the 2023 Blue Drop audit, 958 systems were audited, and only 26 (2.7%) received Blue Drop Status. Of the 26 blue drop certified systems across South Africa, three were situated in Kwa-ZuluNatal, and the system that Siza Water manages was one of these
    - Dolphin Coast system, managed by Siza Water and supplied by Umgeni Water achieved blue drop status, having score 98.63% (DWS, 2023a)
    - The Dolphin Coast system has received Blue Drop certification every audit since 2011.
- From the concession review reports it is clear that Siza Water has been making a net profit since at least 2010 onwards - the company has invested about R500 million in water infrastructure which includes upgrading seven reservoirs, six sewer pumpstations and two sewer treatment works

Tariffs

- A critical point to note is that tariffs are not directly set by Siza water - instead, Siza Water would apply for tariff increases from the council, which the council approves
- In the concession agreement there is a tariff formula, and it is important to note that the tariff that Umgeni Water charges have a significant role in the final tariff - see court case

Access to Water and Affordability

- Indigent households have complained that the concession fails to implement the National Government’s free water policy, and those with connections have raised concerns over the affordability of tariffs and standards charges
- There are also three townships serviced by the concession, namely, Shakashead, Nkobongo and Etete, with a population of 2 000, 3 000, and 7 000 respectively - extreme poverty in these townships means that people cannot necessarily afford the house connections resulting in disconnections
- Where concessions are given, its is important to consider infrastructure expansion into areas that are predominantly made up of indigent households that is not necessarily commercially viable
  - Responsibilities should be made clear if it’s the concessioner's responsibility or the Council
  - Many households with connections reverted back to using standpipes because they cannot afford their bills, beyond the basic free water provision

Case study Two: Mbombela (Silulumanzi)

Overview

- The Silulumanzi concession provides water services to
  - City of Mbombela City, and the main Nsikazi townships of Karino, KaNyamazane, Tekwane, Msogwaba and Matsulu
  - The concession area covers a total population of approximately 400,000 people
- Simulumanzi concession's origin can be traced to 1999 when the Nelspruit Transitional Council tendered to have city's water services as part of a Public Private Partnership (PPP), and Simulumanzi was originally a special delivery vehicle after BiWater as the successful bidder and is now a subsidiary of South African Water Works

Review in 2010

- The water services provider, Silulumanzi, had good control of the management and operation of the systems.
- Between 1999 and 2010, access to water increased from 45% to 94% of households, while the number of households rose from 45,000 to 74,000. At the time 94% of households had access to the formal water system and 88% receive water on a daily basis, though far too many households still did not have a 24-hour supply as explained under the remaining challenges.
- Water and effluent quality was judged to be excellent in the systems operated by the concessionaire. These systems all achieved DWEA's Blue and Green Drop awards – only 22 of the over 400 water systems in South Africa achieved the Blue drop status for water quality.
- The review noted that there was "good" investment in extending and upgrading existing infrastructure and the concessionaire has a strong maintenance programme.
- Infrastructure operated by the concessionaire was also rated as being in a "good" condition.
- Capital grant funding was nearly fully spent which led to the extending and upgrading of infrastructure
- The review noted "very good" employee training and development programmes, and staff were rated "well qualified and competent".
- Finally, tariffs levels in the concession area were found similar or lower than for comparable municipalities.

Risk and Challenges

A number of risk and challenges were highlighted by the review

- **24- Hour Water Supply:** At the time 68% of households did not have access to 24-hour water supply, which was a key contract expectation and a motivating factor for entering a concession
  - The main challenges in this regard were that the Kanyamazane Water Treatment Plant did not have sufficient capacity to supply the demand.
  - Secondly, illegal connections on supply lines that prevent reservoirs from being filled.
- **Contract Monitoring:** Contracting monitoring was highlighted as a significant issue, and contract management has regressed since the start of the concession.
  - A lack of skills within the municipality was flagged, as opposed to not allocating resources to this function.
- **Risk Allocation:** In response to the policy to provide minimum basic free water, the concession agreement was amendment/renegotiated, under which it:
  - (i) the concessionaire did not commit further investment of its own funds;
  - (ii) began to receive operating subsidies as partial payment for unpaid billings as well as capital subsidies for infrastructure investment in previously underserved areas; and
  - (iii) eliminated two large annual payments to the Municipality.
  - Overall, this caused an increased dependency on the public funds for subsidies and capital grants to serve poorer areas under the concession.

Performance and financial sustainability

- Silulumanzi's water losses range between 15% and 20% against the national average of 47%
- Out of the 850 water systems that were audited in the 2021 Green Drop assessment, none of the 22 that received Green Drop certification is situated in the Mpumalanga province –
  - All three systems that are managed by Silulumanzi were regarded as "good" in the 2021 audit, and all three systems have received Green Drop certification in the past
- In the 2023 Blue Drop audit 958 systems were audited, and only 26 (2.7%) received Blue Drop Status - off the 26 blue drop certified systems across South Africa, four is situated in Mpumalanga, and all four are managed by Silulumanzi
- Based on the concession contract, the concessionaire determines the funding that it requires to be sustainable, and the municipality then determines the tariffs to be charged by the concessionaire
  - the concessionaire contract provides for the concessionaire to receive part of the local government equitable share (LGES) funding received by the municipality from the national fiscus

Lessons learnt: Continued Risk in the 20-year review

- The concessionaire has substantially under-invested in infrastructure when compared to requirements;
- Previous supplementary agreements have been lenient and did not require significant capital investment;
- The primary purpose of the concession contract was to provide capital to expand and renew the water services infrastructure in the concession area (otherwise a lease contract would have been used, presumably); and
- The review also undertook a financial viability assessment and found the concessionaire was well able to take on debt over the past ten years.

Summary of case studies

- Improved Service Quality and Infrastructure Maintenance
- Financial Sustainability and Investment (although under investment in the Mbombela Concession)
- Efficiency Gains and Reduced Water Losses
- Challenges in Expanding Access to Underserved Areas
- Tariff and Affordability Considerations
- Regulatory and Oversight Risks


Thank You
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