

**SPEECH DELIVERED BY THE HONOURABLE MINISTER OF WATER AFFAIRS AND FORESTRY, MR RONNIE KASRILS AT THE OPENING OF THE STANDARD CORPORATE AND MERCHANT BANK WATER CONCESSION SEMINAR ON 6 OCTOBER 1999**

When I was thinking about what it is that I want to say to you today, it occurred to me that we – government and the banking sector – have one very important thing in common. We are in charge of resources on which people depend, absolutely, for life. We cannot survive without money and we cannot live without water. We are thus guardians of resources that are both precious and vital in a modern economy.

There are other similarities too. We both know that economic growth must depend on greater equity in our society. Without the participation of the majority of our people in the mainstream, and without some kind of social springboard from which they can make the giant leap into the twenty-first century, we will continue – all of us – to struggle for the transformation of our economy.

This is why the message the Thabo Mbeki government, and indeed of the former government of Nelson Mandela, is one of co-operation, of partnership between all those who, in their various ways, seek to influence and change our society for the better.

One of the most encouraging things about post-1994 South Africa has been the degree to which the private sector has shown itself to be prepared to join hands in partnership with government. There have been setbacks, certainly. There has been frustration on both sides. But I believe that the journey on which we have all embarked has begun. We are on our way.

The social springboard I have referred to must be fundamental to all our efforts. Our electorate has charged this government with the responsibility of building a better life for all. And I am sure we are all

today agreed that a better life for all means a better life for each and every one of us. It cannot mean a better life for some at the expense of others. Because, ultimately, that road leads to a better life for nobody.

If we are to build this better life, if our economy is to grow and our democracy to survive, we must all work together to make it happen. We cannot hope to achieve peace, security, stability and economic growth if we do not approach our problems in a holistic and universal manner.

This is why the concept of partnership is so important. Partnership between private and public sector, partnership between NGOs and communities. It is from this concept that we must draw our strength as a nation.

I would like to start by drawing attention to some statistics about the resource over which I have been appointed to act as curator and guardian. Today in South Africa, there are some seven and a half million people who have no access to running water and another 21 million who have no sanitation.

What this means in human terms is probably almost unimaginable to those of us who have always been able to turn on a tap or flush a lavatory; to those of us who have never had to walk miles to collect water for our children or think too hard about how to wash our clothes or ourselves.

What it means in social and economic terms, of course, is that we face a gargantuan problem that must by some means be solved; and that we, as government, the private sector and communities need to put our heads together and find ways to solve it.

There are two areas I would like to highlight today. The first relates to current private public sector partnerships, both in water resource development and the water services business. The second relates to inequities in supply and how we address the problems of supplying water and sanitation to the many South Africans who presently have limited or no access these basic resources.

## **public private partnerships in water services**

I should perhaps start by saying that there is nothing new about the involvement of the private sector in the water business. Indeed, my Department is frequently criticised for the amount it spends on what the budget bureaucrats call "professional and special services". These are not, as some suggest, wasteful payments on overpaid consultants, but mainly expenditures on services that range from the design of water works, their construction through to their operation by private sector service providers.

Normally when we talk about private partnerships in water services, we think about the cherries, the big cities. But, as I have indicated, we need to begin to think holistically about delivery. And holistic thinking means considering the underprivileged as well as the privileged, the rural as well as the urban, the poor as well as the rich.

Because if our partnerships do not address the needs of those who are underprivileged, rural and poor, they will fail because they will not be addressing the central need we face ... the need to bring social and economic health and wealth to our nation.

We still struggle with the legacy of the past. My Department inherited many water supply and sanitation schemes from the ex-homelands. These are currently not viable because of poor financial management and lack of investment both in infrastructure and people. They are also not viable because their customers are poor people who cannot afford to pay for their services. Some private water companies claim that they can introduce greater efficiency and make these schemes more viable. What they do not always explain, however, is how they plan to overcome the fundamental problem – affordability. No scheme can truly be described as viable unless it allows poor people to access basic water supply and sanitation services.

And that, ultimately, is what we must do; whether by implementing social tariffs through the promotion of organisations large enough to achieve cross-subsidisation – like the proposed regional electricity distributors –

or by ensuring that the equitable share of revenue for local government reaches the people it is intended for.

At present, because of the perceived risk of the ex-homeland schemes, we can only attract the private sector for management contracts funded by government. Perhaps once these projects are on a sound footing, with assured income, full concessions may follow. At present, however, government must clearly continue to take the lead.

It is for this reason that, in 1994, the Department embarked on the Community Water Supply and Sanitation (CWSS) Programme, whose aim is to give all South Africans access to at least basic levels of service. As you know, substantial progress has been made and nearly five million people received, at the very least, a basic water supply.

However, it soon became clear that the implementation of RDP projects was being delayed by a severe lack of capacity at local level to implement and operate them. It was at this stage that we began to look to the private sector to play a more systematic role.

Various options for private sector participation were considered before a modified Build, Operate, Train and Transfer (BoTT) approach was decided upon. This approach differs from the usual BOT. The former is financed by government and puts an emphasis on the operation training and hand-over aspects. The idea is that, after construction, the contractor conducts the operation on a short term basis. During this period, the appropriate training and capacity building is done at local level to enable local agents – communities, local government, NGOs or whoever is appropriate – to take transfer of the works.

It remains to be seen whether, in the longer term, the private contractors will be more successful in achieving sustainability than we have been as government. We are, however, willing to try and have recently extended – and amended – the BoTT contracts for a further two years.

As I said, I deliberately started by highlighting an area in which we are using public-private partnerships to address the needs of the poor of

South Africa. But I do recognise that what brings you here today is more likely to be your interest in the other side of the business, the cherries. You will hear a great deal today about the details of different approaches to the provision of water supply and sanitation services to urban communities. I am not here to trespass on the ground of the technical experts. What I would like to do is to outline, from national government's perspective, is the framework we are putting in place.

I must stress, in this regard, that water services is an area in which an overall national framework is essential. The first reason for this is that we are a water- stressed country and the management of the resource must take account of its limited and vulnerable nature. Second, because water is so essential to life, it cannot be treated as just one more service. Third, we must recognise that, although water services are provided at local government level they are, in many cases, optimally provided in areas which do not reflect the local boundaries. Gauteng is a case in point.

This does not mean that we do not acknowledge and recognise the essential role of local government. Our Water Services Act defines a Water Services Authority as "any municipality, including a district or rural council, responsible for ensuring access to water services. Every Water Services Authority has a duty to all consumers in its area of jurisdiction to progressively ensure efficient, affordable, economical and sustainable access to water services". But the Act further defines the Water Services Provider as "any person who provides water services to consumers or to another water services institution". It goes without saying that the appointment of any organisation to operate as service-provider should be by means of a formal agreement with the relevant local government having jurisdiction in the area in question.

This allows for a flexibility of approach when meeting local needs. A later contributor will outline the detailed legislative framework. I will limit myself to a few points.

One is that of regulation. There is an obvious need to establish norms and standards both for technical purposes and in order to promote equity

through instruments such as stepped tariffs. This we are in the process of doing.

But, because water services are a natural monopoly, their regulation from an economic perspective is essential if private providers are to be part of service provision. Quite what form regulation will take is still a matter for debate. Many people believe that an independent regulator is essential to achieve a balance between consumers, government and the private sector.

We are, in this respect, very willing to learn from what has happened outside our borders. In England, OFWAT has demonstrated an interesting and successful decade of performance in a very tough arena. In developing countries like Argentina, experiences are less encouraging. You may like to examine these examples in detail yourselves.

The final choice of regulator and the process of establish such a regulator is a complex issue that can only be resolved through dialogue. For this reason, I have asked my Department to speed up the production of draft regulations on private participation, which I can then promulgate in terms of the Water Services Act. Once there is a draft on the table, we can begin the debate. We are very conscious of the need to ensure the long-term viability and affordability of water services as well as the need to protect the interests of workers and consumers. As the private sector, I fully realise your urgent need for assurances about the investment climate.

I should also mention the situation in Nelspruit where I understand that the implementation of the concession depends on financing arrangements and clarity on a range of issues. These range from the transfer of our infrastructure assets to the Council and agreement about a bulk water tariff to the legislation providing for cost recovery by private operators. Again, you will hear more detail later, but I want to give you my assurance that the Department will not delay our part of the process. As I said, when I opened the extension to Matsulu purification works just last month, we will watch with great interest to see whether the approach taken achieves the results we all hope for.

Finally, I should mention the importance of public - public partnerships. As you probably know, Parliament insisted that, where water supply was to be contracted out, first consideration should be given to the possibility of such partnerships. It is important to respect this requirement. It will ensure, firstly, that the good faith of local government is demonstrated to that important constituency, their own workers, as well as to the broader community it serves. Further, where successful public partnerships are established, they will provide us with relevant and usable models. Rand, for example, has just established such a partnership with Garunkuwa through its Odi-retail operation, with the strong support of SAMWU.

### **Future trends and your involvement**

I have tried to show that public – private partnerships in the water sector can take a range of forms. It is important not to get trapped into believing that only one set of instruments may be appropriate. It is even more important not to get trapped into applying instruments that end up failing to address the key social and economic problems that we face.

Part of the danger of too rigid an approach is that it could lead to the missing of business opportunities. Thus, within existing urban areas, there is substantial scope for improving existing infrastructure by identifying and remedying shortcomings (such as wastage and leakage) in order to postpone new water supply infrastructure investment and keep costs down. This requires a great deal of effort, including metering, leak repair, customer education and cost recovery. Pay back can be very quick – a matter of a couple of years – but local authorities and private contractors need financing mechanisms to implement these measures.

Here there is truly scope for innovative partnerships to maintain affordable and sustainable water supplies.

On the other hand, some of the traditional instruments may not be entirely appropriate to local conditions in South Africa. My Director General has just come back from Buenos Aires, one of the flagships of water privatisation. He reports that, in some areas, there has been a two year stand-still while regulatory problems are ironed out; and that in others,

the concessionaires have admitted that they cannot achieve cost recovery and government levies have, once again, been applied to fund infrastructure expansion – just as in the past. This tells us that we cannot simply accept conventional wisdom. We must interrogate it and apply it to our own situation.

Thus, although we need to draw on the wisdom of those who have trodden the same path, we need to find South African solutions to South African problems. Sometimes the very opportunities we are looking for can be found on our own doorstep. I hope that what I have been able to tell you this morning has helped to illustrate that point.

But I would like to end on the point I have stressed throughout this address. No sector, public or private, national, provincial or local, can meet the challenges we face on its own. What we need to do is to find ways of working together as partners. There are many ways we can do this and there are many different combinations we can consider.

We must make the best use of our money resources, our people resources and our natural resources. And we must draw on that most important resource of all ... our shared resolve to build a stronger economy, a well-functioning society and a better life for all the people of South Africa.