

Water sector finance

Framing presentation
for National Water Summit

18 February 2022

Main sector entities (mandate, scope, goals)

National government
NT CogTA DWS

- Policy, regulation, shareholding/ownership
- Budget/grant allocations

Water Trading
Entity (WTE)

- **Mandate:** Development, operation and maintenance of specific water resources infrastructure
- **Goals:** achieve financial sustainability & independence to reduce reliance on the fiscus

TCTA

- **Mandate:** Financing and implementing bulk raw water infrastructure projects
- **Scope:** designs bankable projects & raises funding on capital markets
- **Goals:** creditworthy & low cost of debt

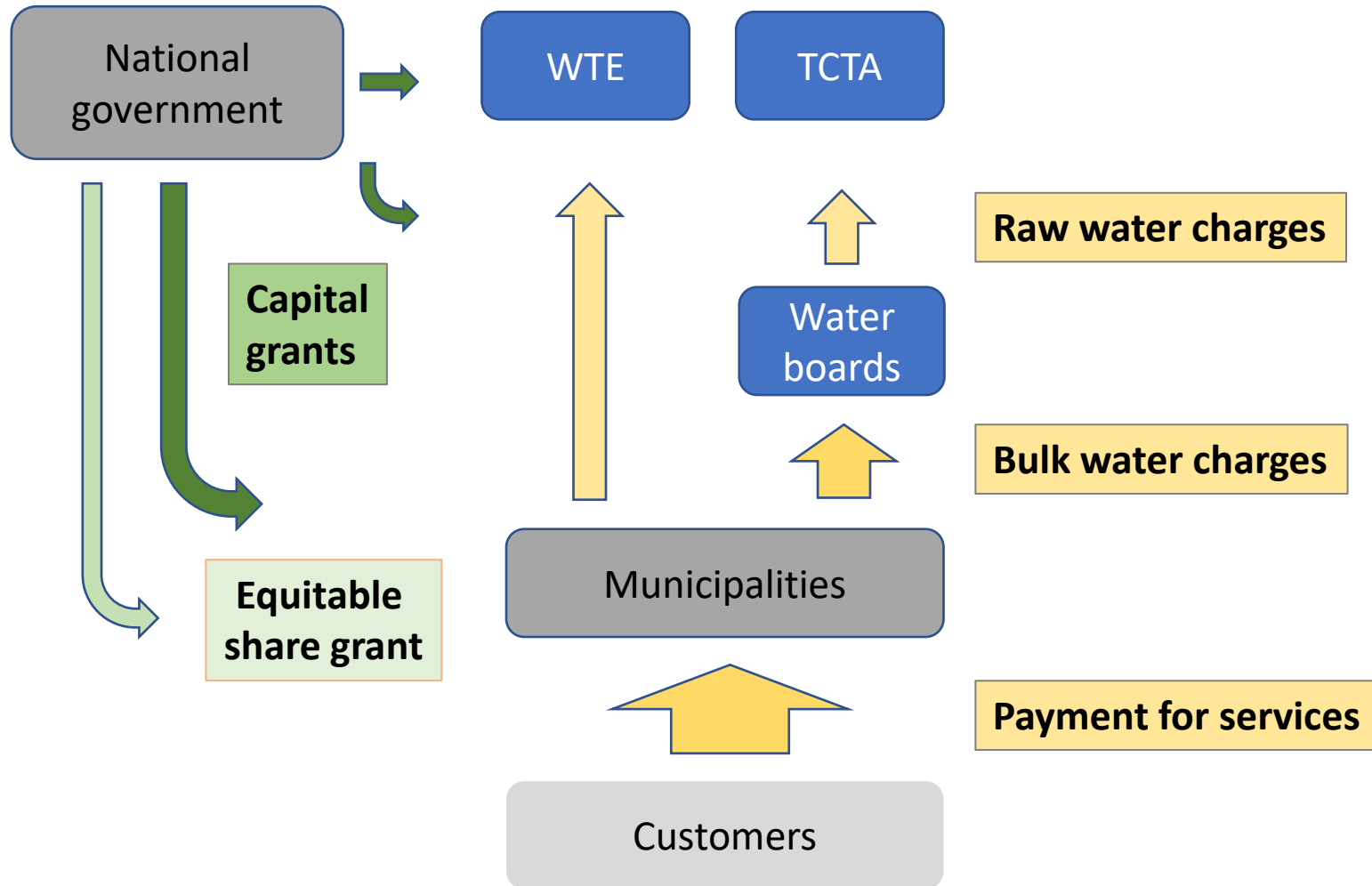
Water
boards

- **Mandate:** provide bulk industrial and potable water services to municipalities and industries
- **Scope:** operate within gazetted area. (Also implement grant-funded social mandate.)
- **Goals:** creditworthy & ability to raise low-cost debt finance for investment in infrastructure

Municipalities

- **Constitutional mandate:** provide water and sanitation services
- **Scope:** retail services & network management, water treatment, wastewater treatment.
- **Goals:** Balanced budget; sufficient resources to meet service obligations & pay creditors

Money flows



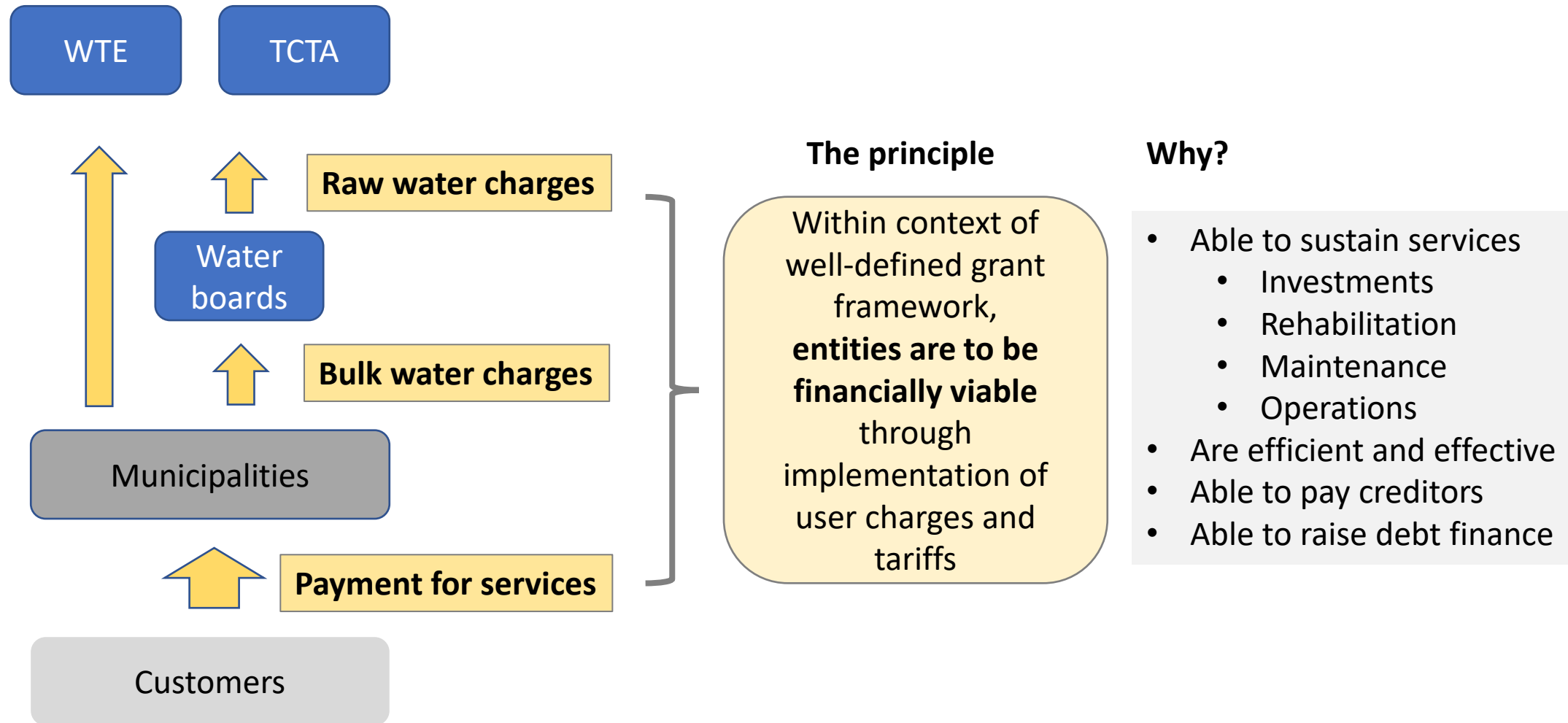
Sector financing principles: grants

Grant	Purpose	Features
Capital grants	Support social component of capital cost of water service	<ul style="list-style-type: none">• Conditional grants;• Limited in quantity:<ul style="list-style-type: none">○ competing needs at national level○ national government budget constraints
Equitable share grant	Support social component of operating cost of water service	<ul style="list-style-type: none">• Unconditional grant within control of municipality;• Limited in quantity<ul style="list-style-type: none">○ competing needs at municipal level,○ national government budget constraints

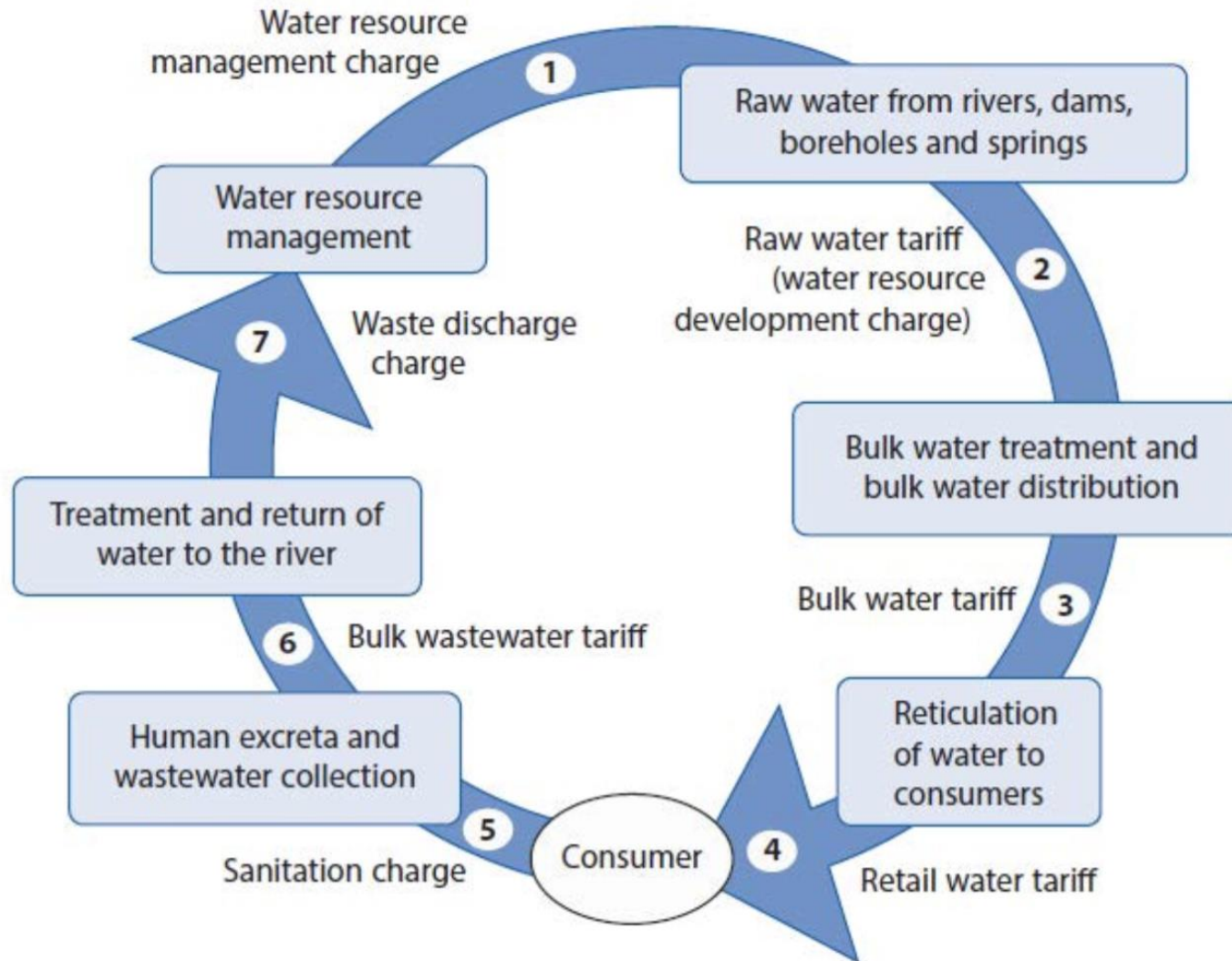
Capital grants:

- **Regional Bulk Infrastructure Grant:** development of new infrastructure, and the refurbishment, upgrading and replacement of ageing infrastructure that services extensive areas **across municipal boundaries.**
- **Water Services Infrastructure Grant:** provide for construction of new and rehabilitation of existing water and sanitation infrastructure.
- **Municipal Infrastructure Grant:** eradicate infrastructure backlogs in poor communities to ensure basic services
- **Urban Settlement Development Grant (USDG):**

Sector financing principles: viable entities



Pricing value chain (it is all connected)



Problem statement: a vicious cycle

Reduced ability to spend capital budget effectively

Entities not financially viable

- Increasing levels of debt
- Inability to pay creditors
- Reduced levels of investment (expansion, rehabilitation)
- Reduced levels of maintenance
- Loss of skills
- Inability to raise loans / costly loans

+ inefficient capital spend

Deteriorating services

- **Lower availability of water and increasing water insecurity** (greater impacts from low rainfall events)
- **Lower reliability** and loss of 24/7 supply (hard to recover from this)
- **Increasing losses & higher costs**
- Poor wastewater treatment performance leading to **polluted rivers & higher costs** of water treatment

+ poor governance

Constrained grants

+ tariffs kept low

Reducing willingness to pay

- Lower cash collections

Weak economic conditions make it much harder

The evidence

The evidence (financial viability)

Growing entity debt: R37 billion owed to WTE and water boards

Growing municipal debt: R230 billion (all services)

Municipalities in financial distress: 163 municipalities (2 out of 3)

Non-revenue water about 41% (compared to best-practice of 15%)

Municipal financial governance: 125 municipalities with qualified or adverse audit opinion/finding.

Deteriorating cash collections: rapid deterioration in cash collection in water business in metros (cash collections lower elsewhere)

Status of infrastructure 2006-17

Note: conditions have deteriorated since 2017

- A: World-class
- B: Fit for the future
- C: Satisfactory for now
- D: At risk of failure
- E: Unfit for purpose



Table 1 Trend in gradings from 2006 to 2017

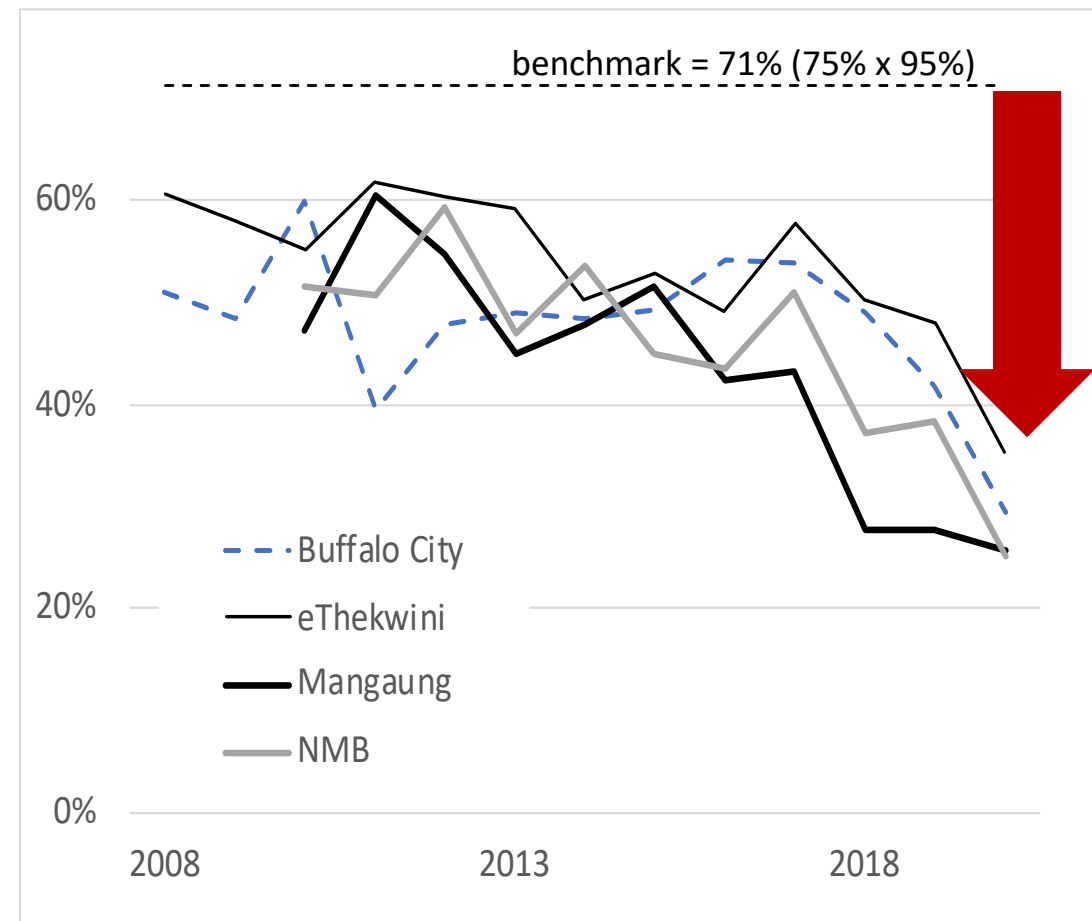
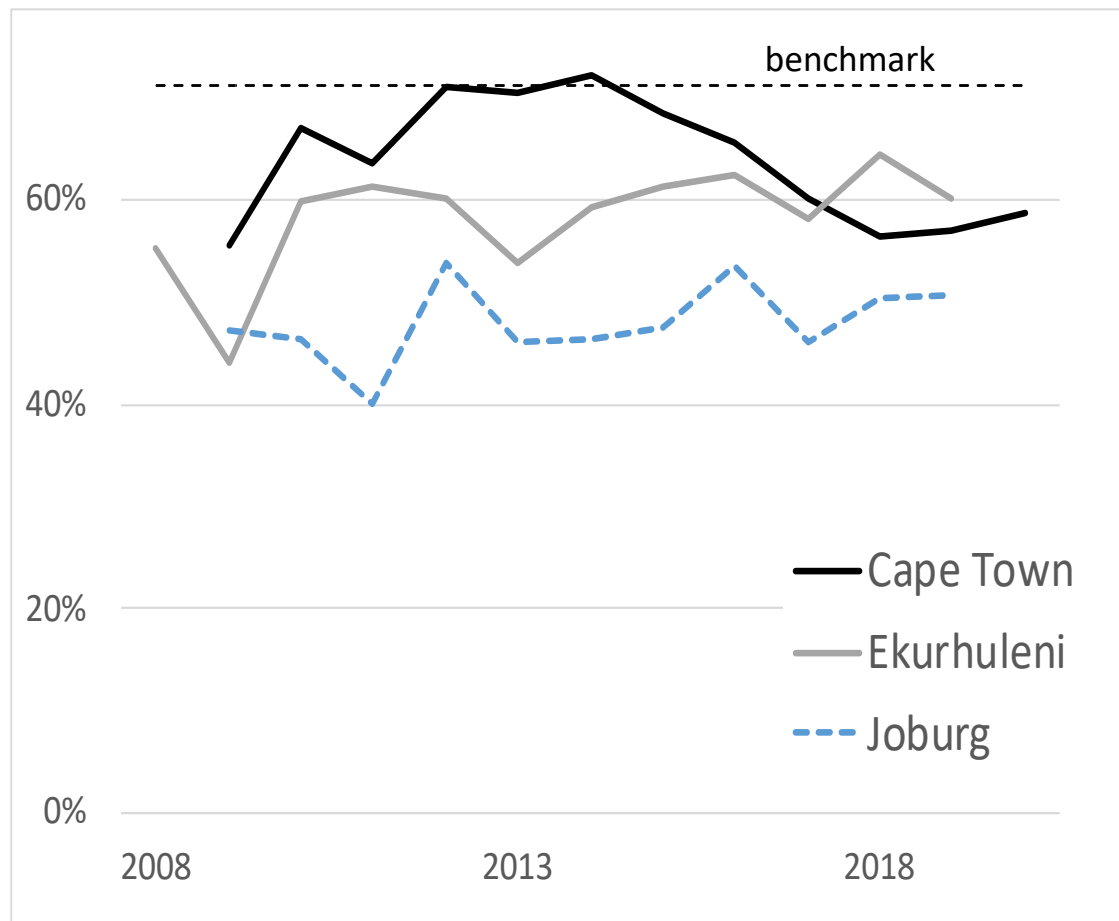
SAICE Report Cards

Sector	Subsector	2006	2011	2017	Trend
Water	Bulk water resources	D+	D-	D-	↓
	Supply in major urban areas	C+	C+	C+	→
	Supply all other areas	D-	D-	D-	→
Sanitation	Major urban areas	C-	C-	C-	→
	All other areas	E	E-	E	→
Solid waste	Collection major urban areas	C-	C	C	↑
	Collection other areas	D	D	D	→
	Disposal in metros	C	C+	C+	↑
	Disposal in other areas	D-	D	D-	→
Electricity	Eskom generation	C+	C+	C+	→
	Eskom transmission	C+	B-	B-	↑
	Local distribution	C-	D	D	↓

4 metro water businesses are in serious trouble:

NMB, Mangaung, Buffalo City, eThekweni

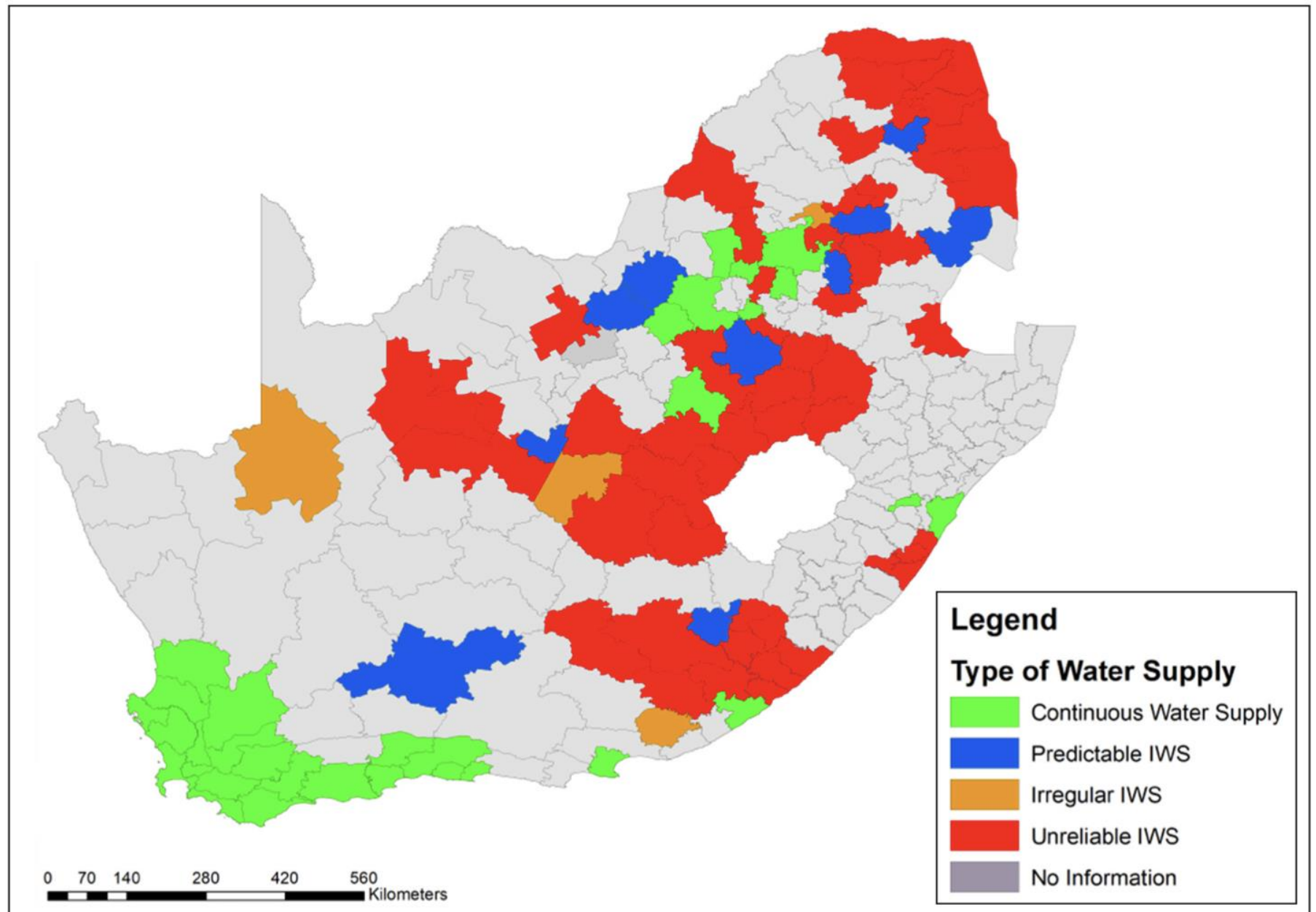
Overall efficiency* of water businesses in South Africa's metros (2008 to 2020)



* multiple of percentage revenue water and cash collection efficiency

Unreliable water supply is a reality in many parts of South Africa

Figure 14: Intermittent water supply in South African municipalities

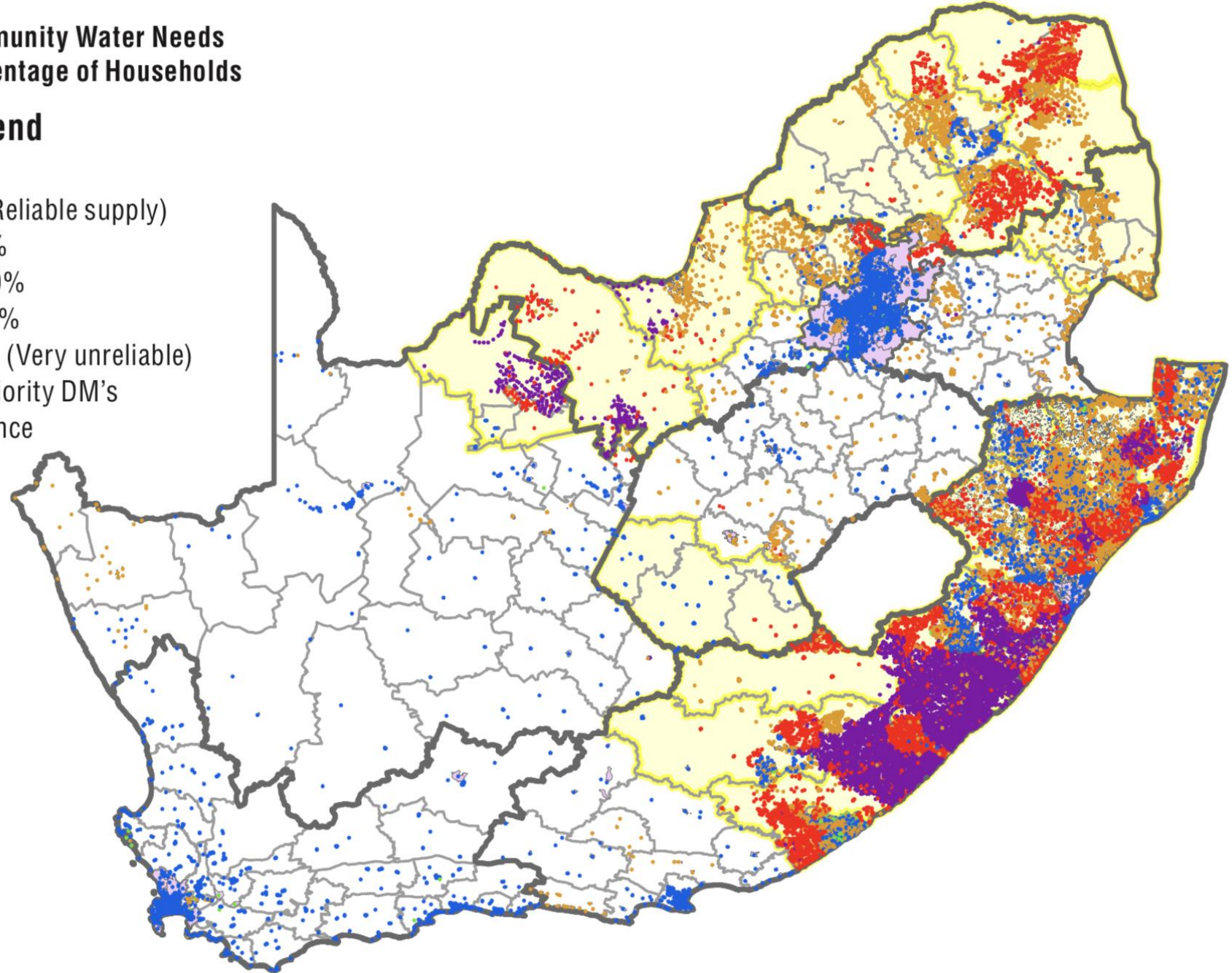


2019 Community Water Needs: Access to Reliable Water Infrastructure (Households)

Community Water Needs
Percentage of Households

Legend

- 0% (Reliable supply)
- 1-25%
- 26-50%
- 51-75%
- >75% (Very unreliable)
- 27 Priority DM's
- Province



Large #
of communities
with unreliable
water supply
(red and purple)

What failure looks like ...

Drought calamity: Nelson Mandela Bay's largest dam sinks to lowest level yet

By Estelle Ellis • 8 March 2021



Waiting for water: Joburg hospital patients and communities bear the brunt of taps running dry

By Shiraz Mohamed • 1 June 2021



Mangaung Metro Municipality loses billion in water wastage

15 January 2019, 9:01 PM | Aphumelele Mdlalane | @SABCNews



08 Jun

Clover closes SA's biggest cheese factory due to municipal woes in the North West

fin24 Penelope Mashego

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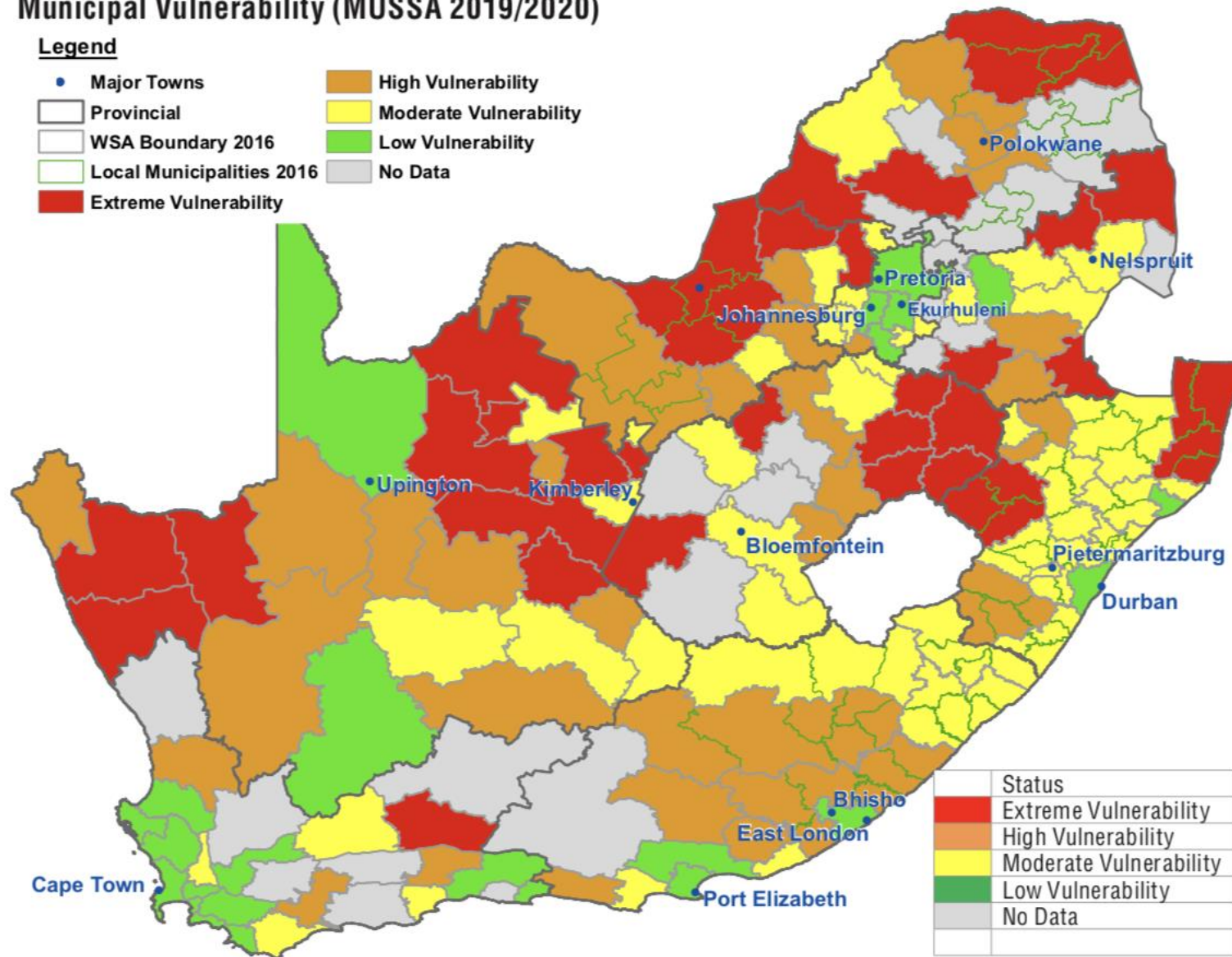


Nearly half of all municipalities assess their water service as highly or extremely vulnerable

Municipal Vulnerability (MUSSA 2019/2020)

Legend

- Major Towns
- Provincial
- WSA Boundary 2016
- Local Municipalities 2016
- Extreme Vulnerability
- High Vulnerability
- Moderate Vulnerability
- Low Vulnerability
- No Data



Framework for Solutions

Financial viability of entities (WTE, TCTA, Water Boards)

DWS

Policies

- Importance of commercial finance to support economic goals
- The need for a clear distinction between economic and social goals to support the above

Institutional design

- Role clarity
- Stability and certainty
- Principle of financial viability
- Addressing policy – regulator – owner – operator conflicts of interest.

Public entities

(WTE, TCTA, Water Boards)

Governance

Management effectiveness

- Sound financial management
- Sound asset management
- Efficient capital spent
- Efficient operations

Empowered to collect customer debt

National Treasury

Grant design

- Performance incentives
- Targeting social objectives

Guarantees

Fiduciary framework

How to ensure any proposed changes to institutions do not undermine ability of sector to raise commercial debt finance?

Municipal performance

Poor municipal performance is the most significant threat to water resilience in South Africa

Municipalities

Governance

- Prioritizing water resilience (a mayoral water pledge?)

Effective management

- Billing and cash collection
- Tariffs
- NRW and water losses
- Water demand management
- Wastewater treatment etc.

Effective use of grants

- Use of equitable share
- Use of capital grants

Leveraging commercial finance

CogTA, DWS and National Treasury

Timely and effective interventions in cases of:

- failing services
- financial distress
- failure to pay creditors

National Treasury

Grant design

- Performance incentives:
 - financial performance,
 - Efficiencies (NRW, losses)
 - WDM
 - governance
- Leveraging commercial finance
- Reviewing equitable share formula

Direct municipal water delivery model is failing in South Africa and is an exception internationally. Is it time to explore alternatives?

Discussion

Main themes

Entity
viability
Ability to raise debt finance

Grant
design
Better use of grants

Municipal
performance
Ability to pay creditors

Specific
interventions
Collecting debt

Role players

CogTa

DWS

NT

WTE

TCTA

Water
boards

Municipalities

Other

Type of intervention

Policy

Institutional
design

budget

license

contract

partnership

End

Scale of money flows (work in progress)

