

20 Year GALA Dinner of the Trans-Caledon Tunnel Authority
Speech by Mrs LB Hendricks, Minister of Water Affairs and Forestry
The Hilton Hotel, Sandton, Gauteng
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Minister Moleleki
Chairperson of TCTA
Members of Parliament
Programme Director
Honoured Guests
Ladies and Gentlemen

1. Introduction

It is indeed an honour for me to join you here this evening to celebrate the twentieth year of the birth of the Trans-Caledon Tunnel Authority (TCTA). I am pleased to welcome the Minister from Lesotho to this event and to recognise the importance of co-operation between our two countries, particularly in the water sector.

Currently visiting South Africa is the internationally renowned economist and Nobel Laureate for Economics, Professor Amartya Sen. This distinguished Professor is in our country delivering a series of lectures. His thinking and the contribution he has made towards shaping the role of the developmental state has been acknowledged by President Mbeki during his budget vote speech last year. The President quoting from Prof. Sen's book 'Development as Freedom' notes the link between development, freedom and the removal of poverty, expanding economic opportunity as well as fighting social depravation. Professor Sen's early work in understanding the role of inequality and other social and economic factors in causing famine has contributed to our thinking; and this work has helped to shape our understanding of the critical importance of access to basic resources in contributing to sustainable livelihoods.

With access to water being a key measure of poverty reduction, and the importance that our government has placed on access to this critical resource we need to acknowledge the role of institutions that are active in this sector, and thereby contribute to our development.

The scarcity of water in South Africa is something that everyone here this evening should be acutely aware of. It has therefore been necessary that our country develop infrastructure and capabilities as a response to this challenge. In recognising the role of water not only in poverty alleviation but also in contributing towards economic growth and development, our need for water and water infrastructure will only expand.

Tonight I would like to take stock of the role that TCTA has played in water resources management and development of our water resource infrastructure over the past two decades, and what the future now holds for this organisation. The history of TCTA can be divided into two distinct phases of almost a decade each in length.

2. TCTA Phase one

The first phase of TCTA's existence commenced in October 1986 with the signing of the Treaty between Lesotho and South Africa, on the Lesotho Highlands Water Project. The function of Trans-Caledon Tunnel Authority was described in the Treaty and it was allocated the responsibility for the implementation, operation and maintenance of that part of the project in the Republic of South Africa. Other functions included the raising of funds and servicing of Project debt. In Lesotho, the Lesotho Highlands Development Authority (LHDA) was also established through the Treaty to plan, design, construct, operate and maintain the components of the project on the Lesotho side.

In my speech at the Stockholm Water Symposium on 21 August 2006, I referred to the Lesotho Highlands Water Project, pointing to the many benefits of sharing trans-boundary water resources between South Africa and Lesotho. Such benefits I believe were critical to the success of the co-operation and formed a cornerstone of the project, and they were important drivers in making such an ambitious project possible.

I said on that occasion: "The benefits to South Africa include the increased security of water supply to Johannesburg and the Gauteng Province. The benefits to Lesotho include major infrastructure development in the country such as roads, power lines, communication lines, schools and clinics; a hydropower scheme

supplying electricity needs of the whole of Lesotho; and a constant income from the selling of water to South Africa". It is these social and economic benefits to the two developmental states that make the Lesotho Highlands Water Project a flagship project, not only for the two countries, but also for the SADC region as whole.

The initial focus of the TCTA in this project was on technical issues related to the implementation of the 22 kilometre long Delivery Tunnel North. The appointment of engineering consultants in 1989 and the award of the tunnel contract in 1991 were important developments in this regard.

Funding and financial issues then became the greater focus. By 1995 it was realised that it would be advantageous to have an in-house financial team as this would be the primary focus of TCTA over the longer term.

During the earlier years, consideration was given as to how the total debt and commitments such as royalty payments to Lesotho would affect the water tariffs for the end user. It was found that a major increase in tariffs would occur if debt recovery only commenced upon water delivery. A novel approach was accordingly instituted whereby a modest levy on all domestic and industrial water sold in the Vaal River System would be applied. This levy was increased annually. The levy was used for partial funding of costs and interest during construction and was highly effective in eliminating a sudden rise in water tariffs and it also dramatically reduced the debt peak. This innovative approach has subsequently been applied to other water projects with great success thus benefiting the water user.

By 1995, the debt book of the TCTA had risen to R3,8 billion and the first TCTA Bonds were issued via market makers. All loans for the Lesotho Highlands Water Project were backed by Government Guarantees and this approach would change in subsequent projects. Increased use was made of offshore loans and appropriate foreign exchange management systems had to be developed and applied. I believe that the TCTA Board was subject to a steep learning curve of financial jargon and funding strategies! The necessity of financial expertise on the Board resulted in a change of its composition to incorporate independent members with such a background.

This first phase of the life of TCTA culminated with the successful completion of the Delivery Tunnel North within time and budget with water delivery starting in January 1998.

3. TCTA Phase Two

Ladies and Gentlemen, the start of the second decade of TCTA was a period of organisational uncertainty. The implementation of the Lesotho Highlands Water Project was complete and only the debt servicing for the Project and the operation of the Delivery Tunnel North remained as TCTA responsibilities. Questions arose whether this would be sufficient a challenge to retain a viable and vibrant organisation?

These considerations led to a strategic realignment process to determine the future of TCTA in 1999. Participation of the Board, staff and stakeholders was a feature of this process. With the promulgation of the National Water Act in 1998, TCTA was legislatively incorporated into the Act as a body established to implement international agreements and to which the Minister of Water Affairs and Forestry could allocate additional functions insofar as these would not compromise its ability to discharge its primary functions. Such additional functions could include, but are not limited to, management services, financial services; training and other support services.

During March 2000 a significant event occurred which widened the scope of TCTA and together with the strategic assessment has broadened TCTA's potential role within the broader Water Sector in South Africa. A Revised Establishment Notice was published in the Government Gazette wherein TCTA's mandate was no longer linked only to the Lesotho Highlands Water Project, but was of a far broader nature.

Government policy with respect to the State funding of so-called economic water projects changed during this period. Such projects were required to raise funding from commercial sources without the provision of a Government guarantee. In essence this means that the water users would ultimately have to bear the full cost of the project. A suitable organisation was, therefore, needed to give effect to this new policy as Government Departments are not empowered to raise funds. The TCTA was fortunately positioned with a broad mandate and the necessary expertise. Several major projects have been initiated in terms of this revised mandate, which I will highlight.

In view of its experience, expertise and capacity in funding and treasury activities, the TCTA was directed in 2001 to perform the Treasury management functions for one of our water boards and to develop treasury

management capacity within that organisation. A task that did successfully undertake and laid the foundation for the continued successful operation of that water board.

The TCTA was further directed to implement and fund the Berg Water Project in 2002. This Project is an integral part of the Western Cape Water System supplying the Greater Cape Town Metropolitan area with water. The Project consists of a large dam near Franschhoek, also including major pipelines and pumping stations. The total capital cost will be about R1,5 billion. The Dam should start storing water by mid 2007. As no Government guarantees would be provided for the loans, reliance had to be placed on agreements between the Department of Water Affairs and Forestry, the City of Cape Town and TCTA in respect of use of water and the payment therefore. Both local and offshore loans have been raised at favourable interest rates as a result of the excellent independent rating which TCTA received from an international ratings agency. The principle of pre-funding of the Project prior to water delivery was applied to this Project with good effect.

The implementation of the Project has incorporated an immense amount of attention being paid to social and environmental issues. The various contractors have for instance had a compliance of about 99,5 percent with the Environmental Management Plan, which was approved by the Department of Environmental Affairs and Tourism. Recruitment of local labour, training, housing and black economic empowerment provisions are important aspects of the Project implementation.

During late 2004 my predecessor, Minister Sonjica, directed TCTA to fund and implement the Vaal Pipeline Project to meet the rising water demands of Eskom and Sasol in the Mpumalanga Highveld Region. The Project consists of the pumped transfer of water via a 120 kilometre pipeline from the Vaal Dam to discharge points near Secunda. Water delivery is scheduled for May 2008. The estimated capital cost of the Project is R2,5 billion. The TCTA has been faced with new challenges in this Project in that it was to be implemented within a very short time due to the existing drought conditions. The current general shortage of skilled personnel has placed extra demands on TCTA, consultants and contractors. As no Government guarantees have been provided, a similar funding arrangement to that for the Berg Water Project with suitable agreements between the project partners has been instituted.

4. TCTA – the next phase

Programme director, during its twenty year period of existence, TCTA has grown from a very small organisation (of only one secretary!) to one of modest proportions with a staff complement of 115. It has developed the characteristics of a dynamic and highly focussed organisation in the Water Sector with specific expertise in financing and project implementation.

The future of TCTA is tied into the restructuring that my Department has been undergoing since the promulgation of the 1998 National Water Act. This restructuring is in part necessary in order to accommodate new functional mandates under this Act. As part of this restructuring process Cabinet approved (in August 2005) the creation of an agency for the management and development of national water resource infrastructure; and we expect that a new institutional arrangement will be created by April 2008. This will see the incorporation of TCTA's activities into the new agency.

The agency will be expected to address the various social and economic needs of Government. Furthermore it will also address the issue of transformation which is one of the key objectives of my Department and Government in general. As economic growth of South Africa relies heavily on adequate and dependable supplies of water, we do need sound institutional capacity to maintain our present water resource infrastructure and to build new augmentation projects. South Africa and indeed Southern Africa have a great skills shortage and we must ensure that optimal use is made of such expertise.

5. Conclusion

To conclude, ladies and gentlemen, TCTA needs to be commended for the work done over the past 20 years; work that in many developing countries would have been done by international institutions. We are fortunate that through the TCTA we have been able to develop local capabilities in this area; and in looking to the future, I am confident that with a new water resources institution emerging in its next decade, albeit in a somewhat new form, we will be able to draw on this vitality and dedicated focus to meet our economic and social needs as a developmental state. Organisational change offers many challenges but holds many opportunities as we have seen from the past experience of TCTA.

I thank you.