



# SADC PPP CASE STUDIES

Public Private Partnerships (PPP) can be accompanied by difficulties, particularly in the context of developing countries. Given that PPP can be an instrument for financing infrastructure development in the Southern African Development Community (SADC) region, these systemic weaknesses need to be addressed at both national and regional level. To assist in this regard, the SADC Secretariat and the SADC Development Finance Resource Centre (DFRC), in collaboration with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) has commissioned a series of case studies examining private sector experiences of Public Private Partnerships (PPP).



## A CASE STUDY ON ILEMBE – SIZA WATER CONCESSION

NOVEMBER 2012

### FIRM OVERVIEW

<b>Title</b>	Ilembe – Siza Water Concession
<b>Name of private sector partner</b>	Siza Water Company, now trading as Sembcorp Siza water
<b>Nationality</b>	Singapore
<b>Sector</b>	Water
<b>Countries where doing business</b>	South Africa
<b>PPP Type</b>	Concession
<b>Partners</b>	Ilembe District Municipality (formerly Dolphin Coast) Siza Water Company

### BACKGROUND

Siza Water Company (Pty) Ltd. provides water and wastewater services to residents in the Dolphin Coast region of South Africa. It was founded in 1999 with a French company, SAUR, and is based in Ballito, South Africa. Since then Siza water has changed hands twice: In May 2007, it became a subsidiary of Cascal N.V. In October 2012 it became part of the Sembcorp group.

In 1999, the Borough of Dolphin Coast (BODC), in the Ilembe District of KwaZulu-Natal, entered into a PPP arrangement via the management vehicle of a 30-year concession arrangement with Siza Water company to “oversee manage and implement the provision of water and sanitation services within the theMunicipal boundary”.

The concession area covers 12,5km<sup>2</sup> and encompasses some 55,000 – 60,000 users, who vary greatly, from the poorest to the wealthiest, from urban to rural, from residential to commercial and light industrial. The model

used by the Siza Water PPP is that in the early years, they invested in water and sanitation infrastructure and maintained this; they do not own water supplies, but buy in bulk from Umgeni Water. In recent years, with the new developments that have been built in the area, the property developers have built their own infrastructure, thus reducing the obligation on the PPP to invest in infrastructure expansion.

Until 2005/6, the performance of the concession was mixed, with performance in the wealthier areas far outweighing those in the poorer areas. Different models were used in different areas. Significant water charge increases have challenged Siza Water to deliver on contract at various times, but there is a general consensus that it has more or less achieved its obligations over the years, and that the overall impact has resulted in improvements in levels of water loss, water quality, faults and maintenance.

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## **BARRIERS ENCOUNTERED BY PRIVATE SECTOR PARTNERS**

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The first barrier identified is a historical legacy of underinvestment. The poor condition of existing infrastructure and the need to invest in new and expanded infrastructure placed massive pressure on the PPP in the early days, resulting in a situation where Siza Water declared no profits until about 2004/5. At the time of entering into the arrangement, the local government structures were deemed unable to fund the requirements of the borough's water and sanitation needs, and in fact had not invested in water & sanitation infrastructure for about several years prior to the signing of the PPP.

Somewhat linked to the first barrier is the issue of profitability. The PPP is now in its 13th year, and has gone from a difficult and non-profitable start, to one that is working well and turning a profit for the private sector partner and delivering a reasonably good service on behalf of the public sector partner. The boom period of the 2005-2008 saw a marked change, with a significant influx of both residential and business into the area, increasing the demand for services from the Siza Water PPP. This has dropped to a degree since then in the context of the worldwide recession, but not to the point where the PPP is non-profitable. The relocation of the Durban international airport has further sparked interest in the Ilembe area, and prospects are seen as positive for the Siza Water PPP.

Over and above legacy issues and profitability, the barriers identified by the private sector partner in this PPP have declined in magnitude as the partners negotiated a working relationship with a win-win outcome. In the early years the following challenges were commonly raised:

1. Capacity constraints within the public sector partner, resulting from lack of administrative and technical know-how, compounded by high staff turnover. Frequently staff at municipal and national level had had no training in PPPs and the concept was actually new to them. They had to learn "in the job", and this caused serious frustration;
2. Poor data collection and storage in relation to all aspects of utility provision and management. This included databases of residents in all areas, but in particular poor records were in place for poorer communities;
3. Lack of consistent policy in regard to water concessions, and areas of water concession, and this included an unprofitably small concession area. Often there was no understanding that a sustainable business needed a minimum number of consumers;
4. Insufficient and ineffective communication structures with consumers of the services. The agreement was that the municipality would play a key role in communication with consumers, but this sometimes did not take place effectively, resulting in consumer dissatisfaction.

Since about 2006 the early barriers are somewhat managed to the point where the private sector is optimistic, and indeed, shareholders are much satisfied. The following residual barriers have been identified:

1. The fact that they are bound to purchase water from Umgeni Water (a State owned Entity) and therefore are beholden to them for reliability of supply;
2. A remaining and seemingly systemic problem is that of high staff turnover in the public sector department responsible for contract management;
3. The turnaround time on permit authorization by public sector partner;
4. Economic climate factors, which affect expansion prospects.

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## IMPACT OF BARRIERS

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The early barriers led to unpredictable, and often poor, service delivery, and much frustration on the part of the private sector partner. This frustration was also felt by communities who were not receiving improved basic services. Recent barriers are not seen as prohibitive of business, but rather require ongoing and proactive management.

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## FIRM RESPONSE TO BARRIERS, INCLUDING INTERACTION WITH POLICYMAKERS

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Siza Water has systematically worked out an approach to manage the major impacts relating to capacity and cooperation with their public sector partner, through building a close relationship with Ilembe District Municipality. The relationship management is premised on leveraging the strengths of both parties to the good of the outcome, and is carried out on the basis of a long term association. The private partner has accepted that high staff turnover in the public service is systemic, and they now are prepared to spend time building capacity and widening the catchment of institutional memory by working with a wider spread of employees.

Extensive planning sessions are held with partners that ensure that Siza takes responsibility where possible for aspects of delivery that are likely to result in delays if it was to be done by Ilembe, that meticulous records are kept, that contractual obligations are met, and that financial planning is conducted with a long term view.

Siza has also acceded that it is beneficial to the relationship to accord the good publicity that flows from efficient service delivery to their public sector partners.

The company embarked on a negotiated expansion strategy to ensure a sustainable business with an optimal number of consumers. The target has now been reached and is still growing.

The company is also taking more responsibility for communication with consumers and is supporting the municipality in its communication efforts.

All interaction with the policy body, the Department of Water Affairs, is mediated through the local public partner, Ilembe District Council. This was not the case at the outset when there was little or no precedent for water concessioning.

Interactions with the public partner is extensive, particularly as much of the service delivery hinges on acquiring permits that need to be authorized, on good communication between consumers and local government (who is still seen as the provider of water), and on access to reliable delivery of bulk water.

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## OUTCOME FROM REACTION TO BARRIER

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The net result of the way in which Siza Water has managed the relationship with their public sector partner, is the turnaround of the PPP from one that was battling to deliver and to make profits into one that is both profitable and effective.