

A “WATER REIPPPP?”: WHY OPERATIONS MATTER MORE THAN WE THINK



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President Cyril Ramaphosa’s renewed focus on fixing South Africa’s water sector signals an important shift in thinking. Through initiatives such as Operation Vulindlela Phase II, the establishment of a National Water Resource Infrastructure Agency, and reforms to enable greater private sector participation, government is acknowledging that public balance sheets alone cannot solve the crisis. Private capita, skills and operational expertise will be essential.

As an investment framework, a programme similar to South Africa’s Renewable Energy Independent Power Producers Procurement Programme (REIPPPP) is one option to consider, where public-private partnerships (PPPs) can form the basis.

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The REIPPPP is rightly regarded as one of the most successful infrastructure programmes in the country's democratic era. It demonstrated that if you design procurement properly - with competitive bidding, standardised contracts, and credible offtake arrangements - private capital will show up. Billions flowed into renewable energy because investors had certainty over long-term revenue through Power Purchase Agreements (PPAs) with Eskom. These PPAs were typically 20-year, inflation-linked contracts backed by government support, providing predictable cash flows and bankable projects that institutional investors could finance.

What about a framework for the water sector?

The obvious question is whether a similar model can work for water. The answer is yes, but not in the same way.

This is largely because water infrastructure behaves very differently from energy infrastructure once built. While renewable energy projects are capital-intensive but operationally relatively stable, water and wastewater treatment plants are operationally intensive systems requiring constant skilled management. Failure rarely stems from poor design, but rather from operational breakdown, weak governance, and inadequate maintenance.

This is where municipalities sit at the centre of the solution.

For private investment to scale, municipalities must strengthen their role as credible counterparties. This means ring-fencing water revenues, ensuring tariffs reflect the cost of supply, maintaining transparent financial management, and prioritising professional technical operations. Investors need confidence that payment streams will be reliable and insulated from broader municipal financial distress. Without this, even the best procurement frameworks will struggle to attract long-term capital.

Ramaphosa's proposed National Water Resource Infrastructure Agency is particularly important in this regard. By centralising large-scale bulk water infrastructure under a professionally managed national entity, government can create a more creditworthy offtaker - similar in concept to Eskom's role under the REIPPPP - thereby providing the revenue certainty investors require.

The role of institutional investors

Institutional investors, including pension funds, are well positioned to play a major role. Water infrastructure offers exactly the characteristics they seek: essential service provision, inelastic demand, inflation-linked revenue streams, and long asset lives. At a time when retirement funds are increasing allocations to infrastructure under Regulation 28, water presents a compelling opportunity to deploy capital in a way that delivers both financial returns and national impact.



However, investors must also recognise that water is not simply a financing opportunity - it is fundamentally an operational one.

A successful "Water REIPPPP" will need to go beyond construction and embed long-term operational accountability into its contracts. Payment mechanisms should be linked to performance outcomes such as water quality, treatment volumes and plant uptime, not merely asset completion. Operators must remain responsible for maintaining assets over 20 years or more, ensuring that infrastructure continues to deliver reliable service.

In the renewable energy programme, the primary goal was to lower the cost of capital. In water, the priority must be to lower the cost of failure.

The consequences of failure are immediate and severe: polluted rivers, health risks, industrial disruption and community instability.

A proven model

Our own experience at Mergence Investment Manager reinforces this point. Through our ownership of the Siza Water and Silulumanzi concessions, in which we have been invested since 2018 via a special purpose vehicle (SPV) in a PPP - serving more than 500,000 people, we have seen firsthand that operational capability is not an add-on to water investment. Rather, it is the investment thesis. Long-term success depends on skilled operators, disciplined maintenance, and governance structures that protect service delivery.

President Ramaphosa's reforms have opened the door to a new era of private participation in water. But success will depend on whether South Africa can combine strong procurement design with operational excellence.

The REIPPPP proved that capital will come when the rules are right. In water, the lesson is even simpler. Capital can flow but only strong operations can keep them running.

A public-private partnership in the water sector has many parties with interconnected relationships. The below diagram sets out the challenge.

Conclusion

Trustees and government now face a shared responsibility to turn this opportunity into reality. For government and municipalities, the priority must be to create credible, ring-fenced, and professionally managed water institutions that can stand as reliable partners to private capital. At the same time, trustees of retirement funds cannot afford to remain passive observers. They must actively support well-structured water infrastructure investments and appoint specialist managers with demonstrable operational expertise, recognising that their capital can either enable or delay progress. South Africa has already proven through the REIPPPP that the right policy framework can unlock billions. The same urgency and discipline must now be applied to water. Failure to act will not only deter investment - it will prolong a crisis that threatens economic stability, public health, and the retirement security of millions. 