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# A private sector answer to SA's water woes

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The Johannesburg water crisis should serve as a wake-up call to the whole country. South Africa ranks among the top 25 water-stressed countries in the world but is wasting nearly half of its treated water.

The situation in Johannesburg is not an isolated incident; it reflects a bigger problem. The city is losing a third of its water to leaks in its decaying network, mirroring the situation in the country where just under half of potable water systems are in a "poor or critical state". This figure jumps to 64% for wastewater systems.

This systemic failure has created a financial doom loop. Operational decay - driven by a lack of investment, maintenance and skills - leads to staggering physical losses. SA's non-revenue water (water which is produced at cost but lost before reaching customers, mainly due to leaks) has climbed steadily over the past 10 years from 36.5% of total available potable water in June 2013 to 47.4% in June 2023 (see graph). This translates directly into financial losses.

Municipalities, unable to collect all the revenue due to them, have amassed a R24.5bn debt to the water boards, strangling the financial viability of the entire value chain. These boards, in turn, cannot invest in bulk infrastructure, while municipalities lack the funds to fix the leaks that caused the problem in the first place. There is also chronic under expenditure of the Municipal Infrastructure Grant (MIG).

The R33bn that the City of Johannesburg needs to address its water infrastructure backlog is a bill that has come due after decades of neglect. Fortunately, there is a private sector solution that could inject efficiency and skills into the system.

For more than 20 years, two 30-year concessions, Siza Water in KwaZulu-Natal (KZN) and Silulumanzi in Mpumalanga, have been managed by private operators. Recent research by the Bureau for Economic Research (BER) into these private concessions reveals a tale of two systems. Whereas public providers lose 47% of their water on average, these two private concessions lose just 8%-20%. And whereas municipal revenue collection often struggles to reach 50%, these concessions reliably collect over 95% of what they bill.

At these levels of efficiency, concessions can operate sustainably and, crucially, also reinvest in maintenance and additional water infrastructure.

Earlier this year, Tshwane residents reportedly complained that they were “drinking mud”, because the quality of the water had become so poor. In contrast, our research into the two concessions found that they are not just highly efficient, they also maintain the highest standards of water quality.

The Department of Water and Sanitation’s Blue Drop certification programs are a mark of national excellence for potable water systems. In 2023, only 26 (or 2.7%) of the 958 audited potable water systems in the country were awarded Blue Drop status.

Of these 26 systems, four are in Mpumalanga and all four are managed by Silulumanzi. A further three are situated in KZN, and the system that Siza Water manages is one of these. Indeed, Siza Water’s Dolphin Coast system has established itself as a national leader, achieving Blue Drop status in every audit conducted since 2011.

Arguments opposing private sector concessions are often based on the assumption that the private provision of a public service such as water would be unaffordable. However, our research debunks this notion.

Our two case studies show that the operational efficiencies achieved, particularly the reduction of water losses and high revenue collection rates, create sufficient financial headroom to allow for both profitability *and* competitive pricing.

It is even possible, as demonstrated in the case of Siza Water, to design a concession in such a way that enables profit sharing with the relevant local authority.

However, these case studies also highlight a critical risk: SA’s general lack of public-sector project management capacity. Our research found that the greatest risk in these partnerships often stems from the lack of technical, financial, and legal expertise within municipalities to monitor contracts and plan for the long term. For private capital to flow into this sector at scale, investors need assurance of a capable and reliable public partner.

It is also important to acknowledge that these types of concessions do have limitations. By design, they are not equipped to finance broad expansion into low-income, underserved communities where service costs cannot be fully recovered. That obligation remains with the state, which should fund it through fiscal transfers (like the MIG), executed in partnership with the private sector. Thus, awarding a concession changes the government’s role - from direct provider to regulator and strategic funder - rather than eliminates it.

The path forward is clear. Rather than pursuing wholesale privatisation, SA should implement a pragmatic, hybrid approach that leverages both public and private sector strengths.

To attract the necessary investment, SA must also fix its governance deficit. This requires, for example, the creation of contract-monitoring units within municipalities and the development of smarter, more dynamic contracts that link tariff adjustments to measurable performance outcomes.

The Johannesburg crisis does not mean that SA has run out of solutions. The country has proven, localised models of how to deliver water to its citizens successfully. The challenge is to create a municipal environment where these models can be replicated, unlocking the private capital required to avert a full-blown economic and social crisis.

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