Political Economy Analysis and Private Sector Engagement

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Tools for Sustainable Management of Transboundary Aquifers

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Presentation outline

- **Political Economy Analysis (PEA)**
- **Private Sector Engagement**
  - **What is the interest ?**
  - **Types and examples of engagement: when and how the private sector gets involved**
  - **Reflections for the Stampriet**

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Political Economy Analysis (PEA)

- Increasing recognition that understanding power and politics is critical for effectiveness of development interventions
- For development initiatives to succeed they must not only be viable economically, technically, socially and environmentally – they must also be viable politically
- This has led to the development of Political Economy Analysis

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SIWI PEA Project

- SIWI Project: Framework for Political Economy Analysis of Transboundary Basins in Africa
- Client: Cooperation in International Waters in Africa (CIWA), financed through a Multi-Donor Trust Fund; World Bank

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SIWI PEA Project Objectives

- Formulate a method of analysis for understanding the political economy drivers and constraints that influence cooperation and develop scenarios that can inform the overall strategic thinking and decisions related to CIWA engagement in different international waters contexts in Africa

- To develop comprehensive Political Economy Analyses of selected cases of Transboundary Basins in Africa.

SIWI PEA Project Results

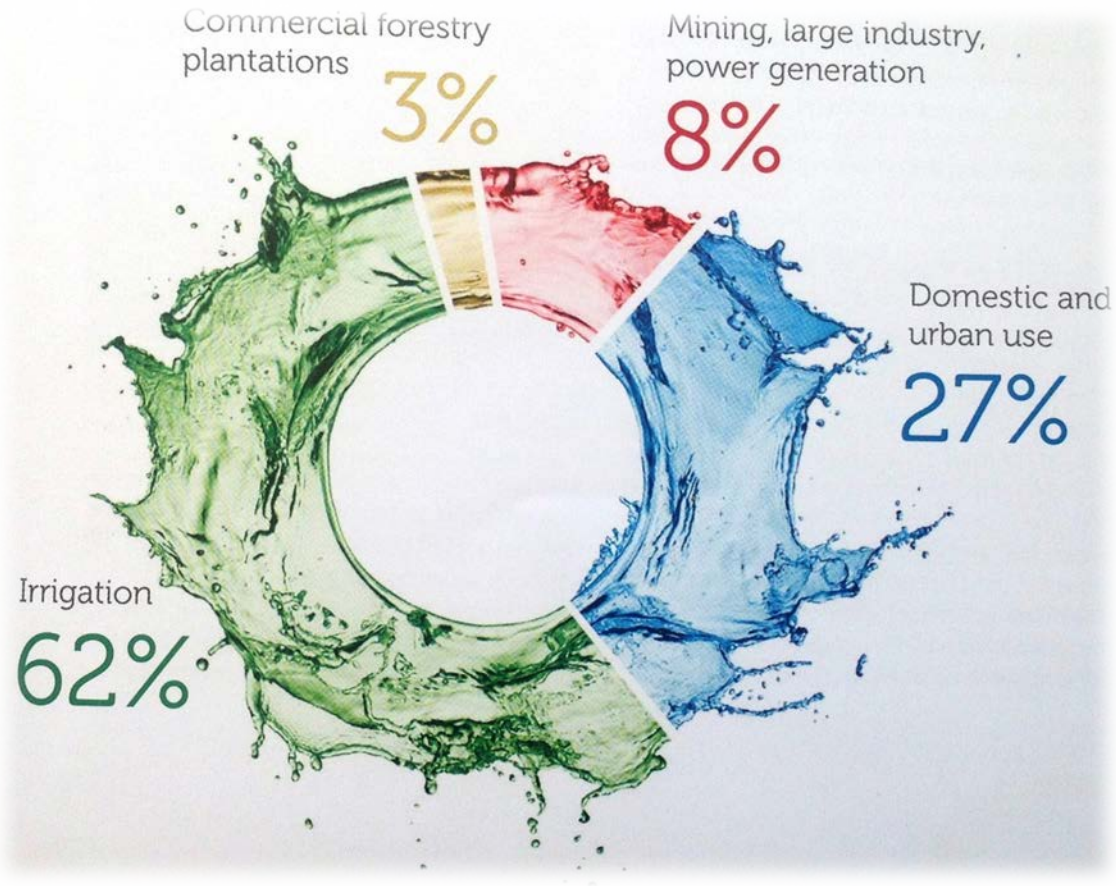
- Draft framework has been developed
- Framework integrates economic and human behaviour factors
- Framework provides practical tool for:

1. Analysing:
   - Structural and technical elements
   - The players – institutions and agents
   - Power and influence

2. Using the above analysis to provide PEA advice on cooperation over shared waters

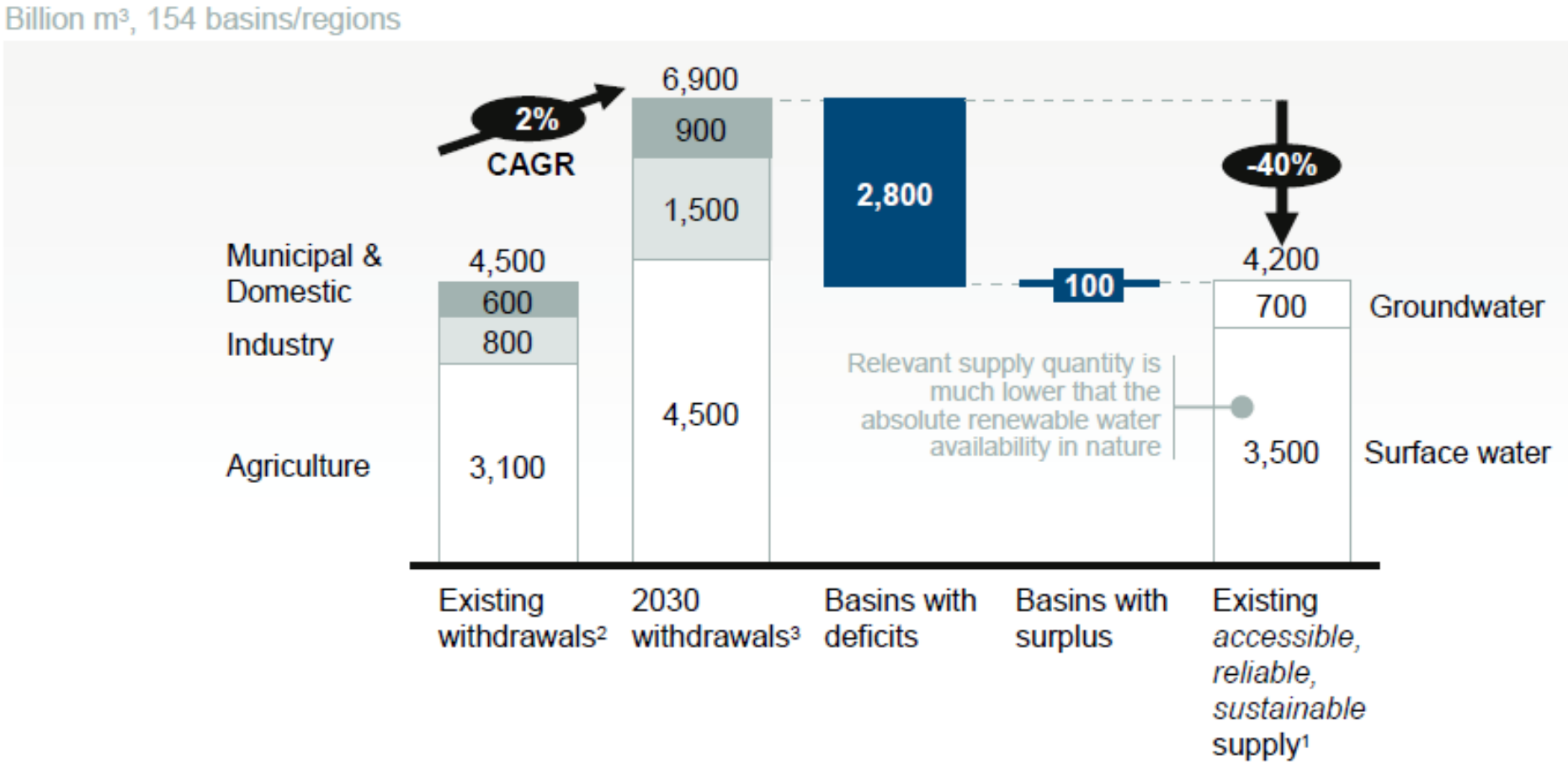
- Case studies

Is the private sector the largest water user ?

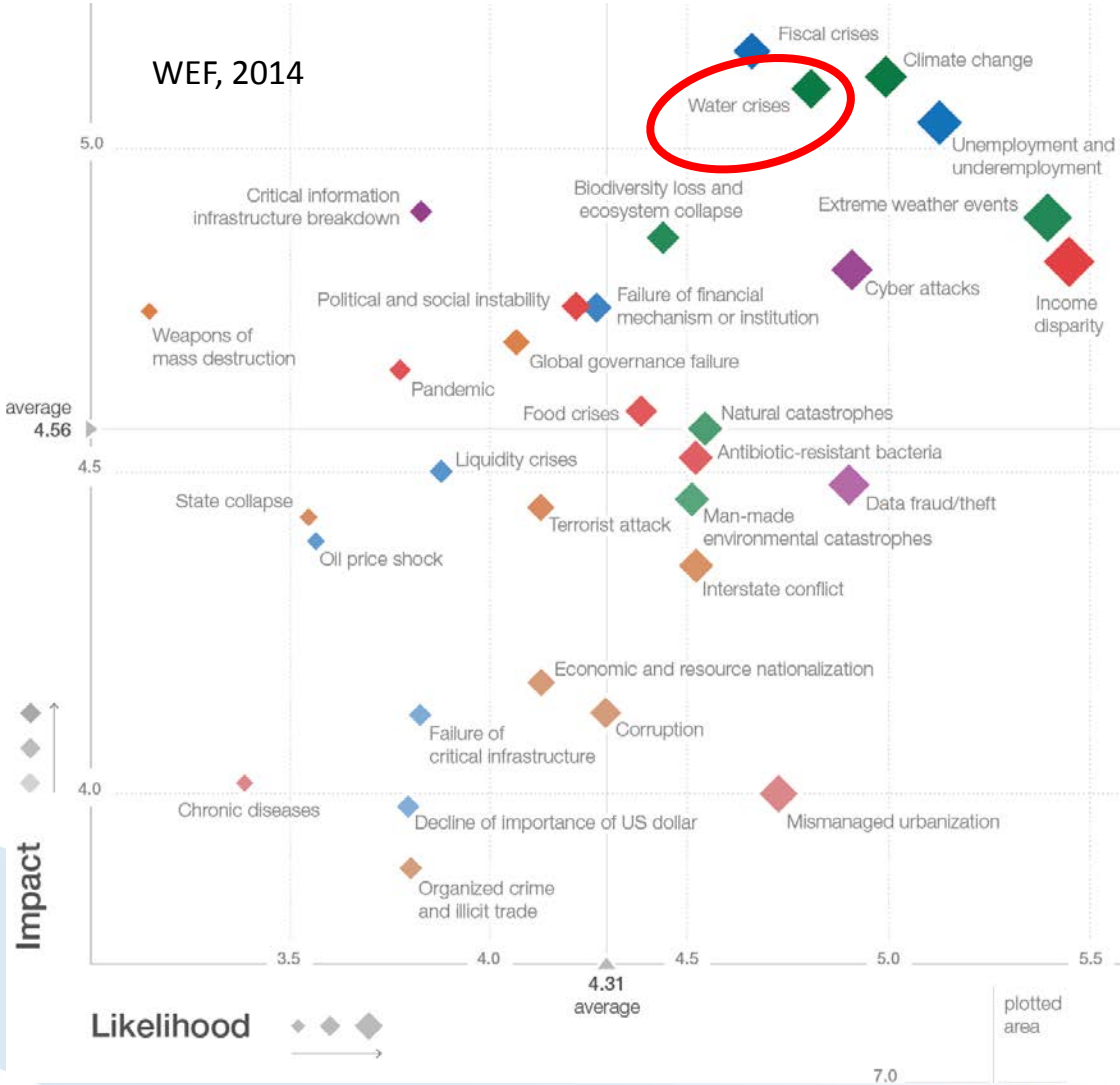


WRC,2011

The global water risk: ”Charting our Water Future” 2009



What are the most important global risks of concern for society and business ?



Examples of water risk.
CDP Water Report, South Africa 2013

- 86% of respondents reported exposure to substantive water-related risks
- 72% already experienced water-related impacts past five years
- Water stress most anticipated risk, followed by water quality, flooding and price
- Flooding most commonly reported actual impact (48% of companies)
- Illovo Sugar reported R3 million worth of damage due to floods Dec 2012
- Water stress reported by 34% of companies
- Mediclinic no water for over a week at three different sites
- Half of companies have almost all of their operations in water-stressed areas

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Types of water risks faced by the private sector

1. Physical risk: Scarcity, flooding and quality impacts on operations, supply chains and investments
2. Reputational risk : How brand is affected by water management.
3. Regulatory risk. Compliance to changing regulations (quantity, quality, price)

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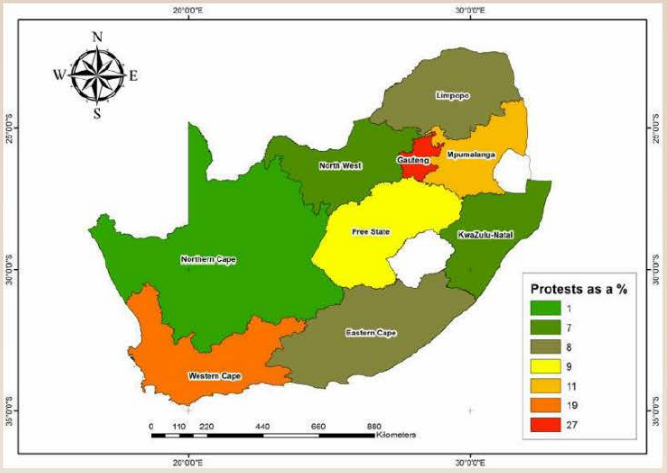
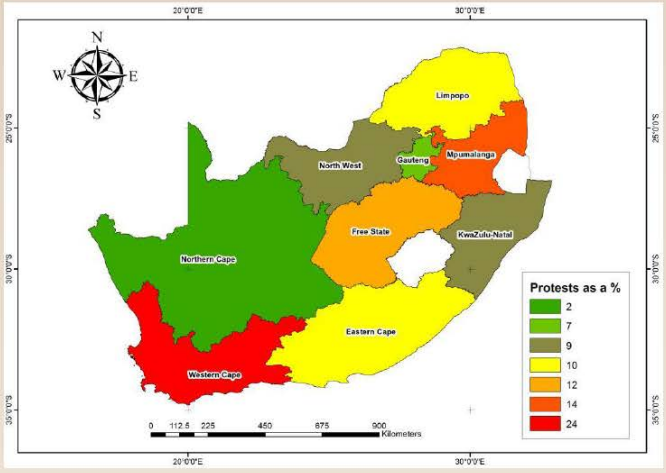
Reputational risks

Water related protests in relation to protest events in SA. Tapela, 2013

2005 to July 2013



2011 to July 2013

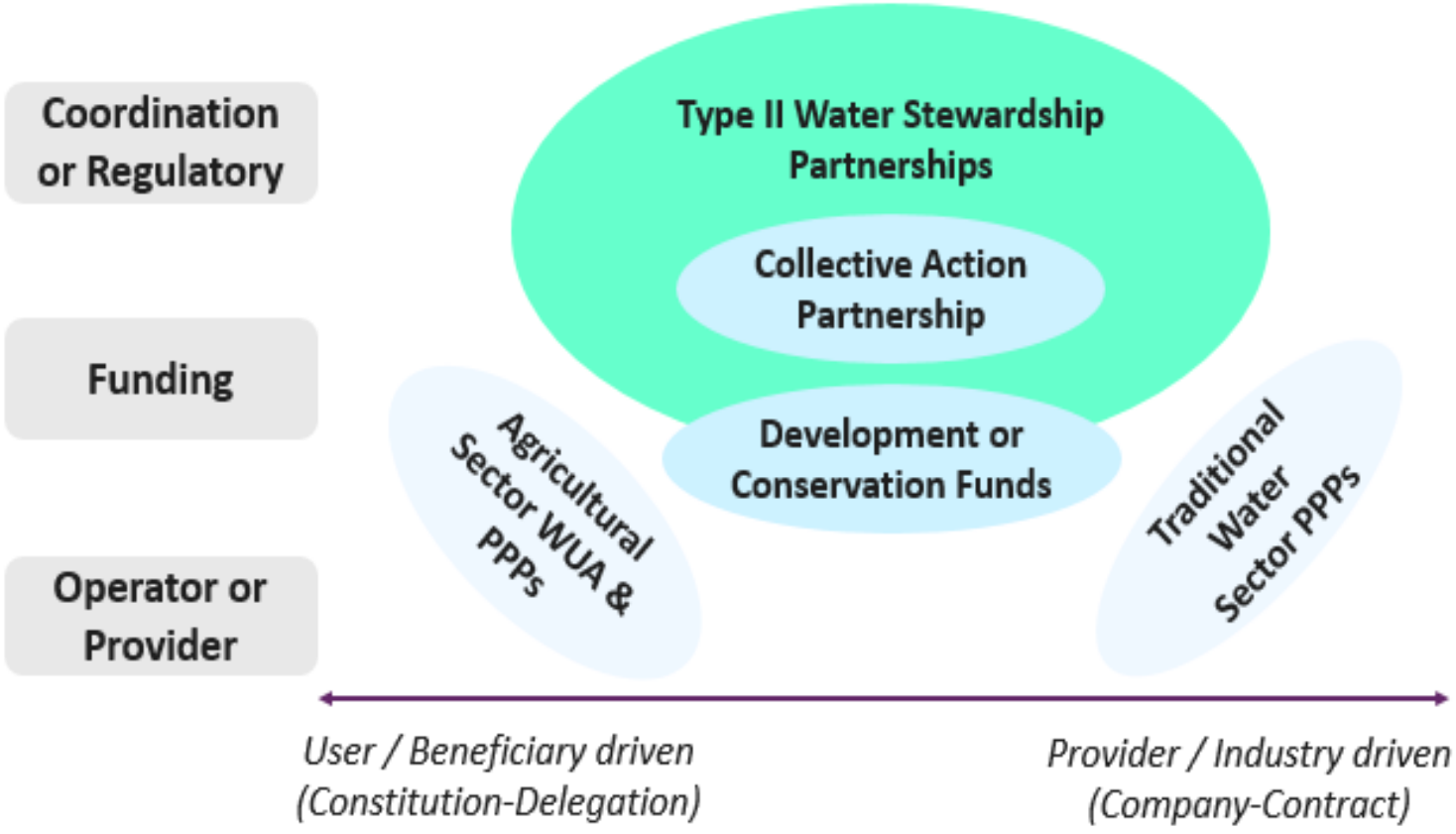


"Water scarcity, could adversely affect the ratings of global mining companies if they fail to proactively manage the accompanying operational and political risks to their businesses". Moody's, Feb 2013

The range of private stakeholders (and interests)

- Water financing
- Water using
- Water management
- Financial services providers with clients exposed to water risk
- Industry with agricultural supply chains

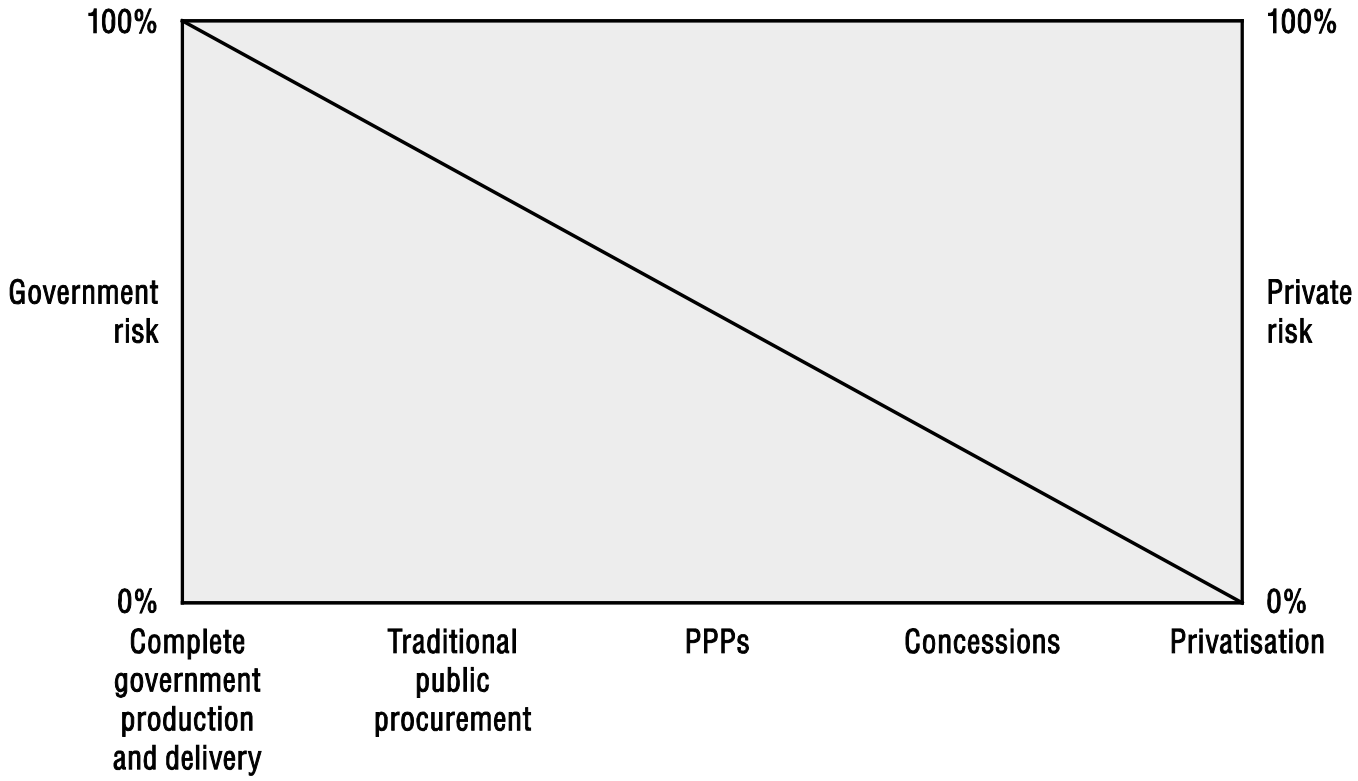
Examples of partnership types



Source: SWPN and Pegasys. On going work

PPPs

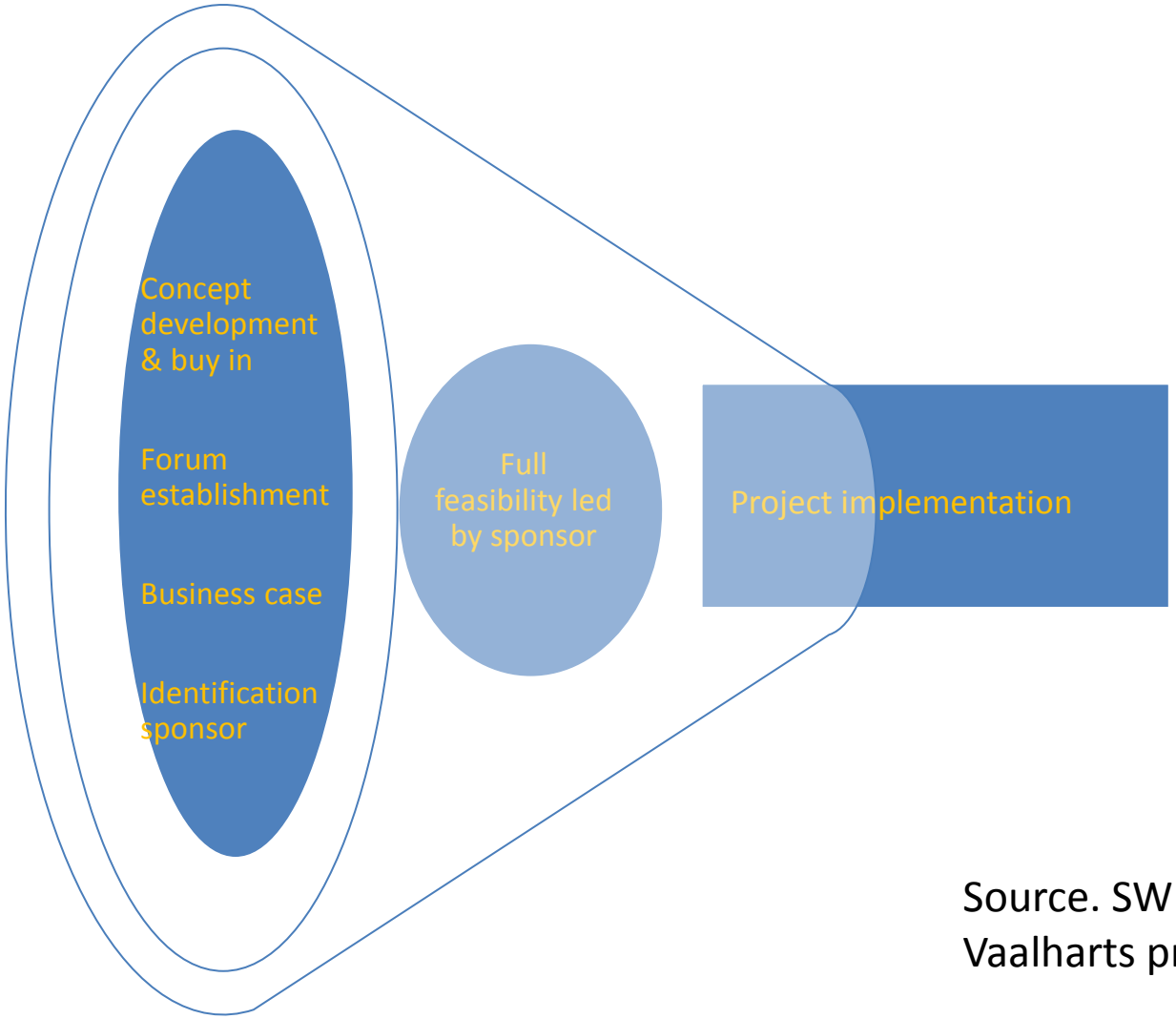
Figure 1.1. The spectrum of combinations of public and private participation, classified according to risk and mode of delivery



Burger, 2008

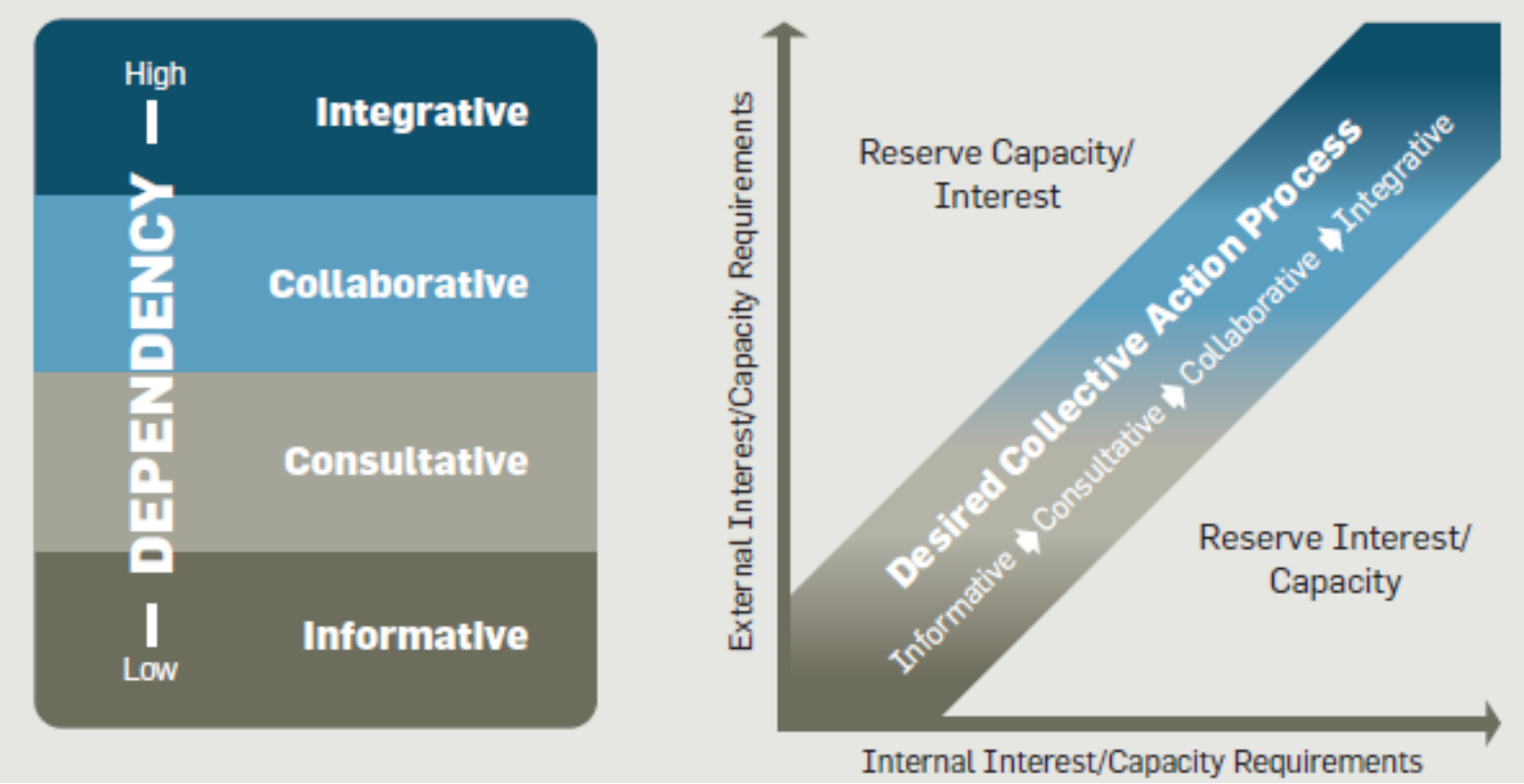
Water Stewardship Partnership example: SWPN

Example of project development process diagram



Source. SWPN.
Vaalharts project

Mapping Dependency, Interest and Capacity



Source: CEO Water Mandate, 2013

Levels of collaboration

Level	Description
Informative	• Coordinated information sharing. • Interest is expanding knowledge, increasing transparency, familiarity and trust
Consultative	• Convening for the exchange ideas and expertise • Shared understanding of interests and challenges enables informed independent decision making
Collaborative	• Seeks to move interested parties closer together • Establishing a case for joint action
Integrative	• Emerges when there is alignment of interests and resources • Joint actions are pursued to address challenges or opportunities • Formalisation of joint structure

Source: CEO Water Mandate,

Mapping partnership requirements

Collective Action Process	Resource Requirements	Desire/Need for Common Purpose and Consensus	Expectation for Coordinated Action	Expectations for Company Responsiveness
Informative	Low	Not Needed	Not Expected	Low
Consultative	Moderate	Low	Low or Not Expected	Low
Collaborative	Moderate to High	Moderate to High	Moderate to High	Moderate to High
Integrative	High	High	High	High

Partnership challenges and risks

- Building trust and developing collective action momentum
- Balancing partnership development and results on the ground
- Managing the potential for policy or process capture
- Demonstration projects “never fail and never scale”
- Moral hazard

Key success factors of the SWPN

- Political leadership at ministerial level
- Strong support from the national water authorities
- Business leadership
- A shared and detailed analysis of the water situation, risks and trends
- A focus must on action and implementation but maintaining policy coherence
- A secretariat and project management system
- An inclusive approach towards stakeholders
- An operating model and funding framework must be evolved over time but in line with the maturity of the institution and the projects

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Thank you

Wastewater treatment. Rustenburg example

In the early 2000s, Rustenburg Local Municipality (RLM) faced the following problems:

- A 50 yr old Bospoort Water Purification plant that could no longer purify the polluted water from the Bospoort Dam.
- Dam received effluent from Rustenburg and Boitekong Sewerage Treatment Works; the former being an overloaded works with poor effluent quality

The technical solution implemented from 2004 -6 consisted of:

- Refurbishment and extension of the existing Rustenburg Sewerage Treatment Works to increase the treatment capacity from 22 Ml/d to 42 Ml/d
- Refurbishment of the Bospoort Water Purification Works to enable it to cope with the highly eutrophic water from the Bospoort Dam and still produce 12 Ml/d of potable water.

Wastewater treatment. Rustenburg example

- But RLM did not have the estimated R 150 Million required at the time
- The Rustenburg Water Services Trust was created with the legal status of a municipal entity under the Municipal Services Act
- The refurbishment project is ring-fenced under the Trust and financed by Absa
- The Trust services the debt in the following ways:
  - Selling treated effluent to the mines for use as process water
  - Selling portable water to RLM from Bospoort Water Purification at Randwater rates
  - Charging RLM a tariff for sewerage treatment

Wastewater treatment. Rustenburg example

- The above income streams service the debt and cover the Trust´s operation and maintenance costs
- Any surplus generated by the trust will be allocated to RLM to expand their water services
- The tariff charged to RLM was forecasted to be substantially lower than what the municipality had planned for operation and maintenance of its sewerage treatment works
- Project partners. RLM, Bigen Africa, Absa, Magalies Water