

Water Reform Programme Support to South Africa

- Key results:**
- 6 of South Africa's eight metros have met and maintained the MTSP's Minimum Commitments for turnaround of their water trading services, including a service compact between the service authority (metro) and the water and sanitation trading service
 - 60% of municipal water services authorities and 50% of water services providers account separately for their roles
 - Performance-based contracts processes are initiated in 10 urban municipalities making use of WPO NRW tools and 70% of the prepared non-revenue water projects are implemented with private sector

Justification for support:

- South Africa's municipal water services are in a reinforcing negative loop, with average national non-revenue water at 47% and spiking municipal debts to water boards. Inaction risks leading to increasingly chronic failures in the water supply system
- Strong comprehensive national structural water reform effort engaging National Treasury and Department of Water and Sanitation under the leadership of Operation Vulindlela, directly under the President's Office
- Denmark's support can contribute to unlocking a total amount of USD 3 billion for investment in metro trading services of which approx. USD 1.2 billion for water and sanitation services
- WRPS closely aligned with DK development policy and Africa strategy

Major risks and challenges:

- Political economy at municipal level with unstable coalition governments
- Capacity restrictions at national level and absorption capacity limitations at municipal level slowing down progress
- Insufficient budget allocation from National Treasury for the MTSP performance incentive to metros
- Municipalities and private sector reluctant to engage in non-revenue water reduction through performance based contracting

File No.	24-26145							
Country	South Africa							
Responsible Unit	Pretoria							
Sector	Water Reform							
	<i>DKK million</i>	2025	2026	2027	2028	2029	2030	Total
Commitment	50	100	100	50	-	-	-	300
Projected Disbursement	30	50	60	60	60	40	-	300
Duration	01 December 2025- 31 December 2030							
Finance Act code.	06.32.01.31							
Head of unit	Karin Poulsen							
Desk officer	Tine Anbæk							
Reviewed by CFO	YES: Simon Kristian Schjøtz							
Relevant SDGs [<i>Maximum 5 – highlight with grey</i>]								
								
								
								

Objectives for stand-alone programme:

The overall purpose of the Water Reform Programme Support (WRPS) is to improve South Africans' access to sustainable and reliable urban water supply that is more resilient to climate change. The programme will contribute to change through four mutually reinforcing projects that all support the implementation of South Africa's comprehensive reform programme addressing the crisis of municipal water services provision.

Environment and climate targeting - Principal objective (100%); Significant objective (50%)

	Climate adaptation	Climate mitigation	Biodiversity	Other green/environment
Project 1	50%	0	0	50%
Project 2	50%	0	0	50%
Project 3	50%	0	0	50%
Project 4	50%	0	0	50%
Total green budget (DKK)	150.000.000	0	0	150.000.000

Project 1 (engagement as defined in FMI):	Partner	Total thematic budget: [million]
Engagement 1 - the development project	CSP/MTSP	85
Engagement 2 - auxiliary activities: advisors, M&E.,	CSP/MTSP	23
Total		108
Project 2 (engagement as defined in FMI):		
Engagement 1 - the development project	DWS/tbc	41
Engagement 2 - auxiliary activities: advisors, M&E, etc.	DWS/tbc	11.2
Total		52.2
Project 3 (engagement as defined in FMI):		
Engagement 1 - the development project	WPO/DBSA	50
Engagement 2 - auxiliary activities: advisors, M&E, etc.	WPO/DBSA	12
Total		62
Project 4 (engagement as defined in PMI)		
Engagement 1 – the development project	tbc	32
Engagement 2 – auxiliary activities: advisors, M&E, etc.	tbc	3
Total		35
Unallocated fund (36,3) & MEAL programme (6.5)		36.3 (+6.5)

Programme support (sum engagements 1+unalloc)	244.3
Total	300

Programme Document

Denmark's

**Water Reform Programme Support for
Sustainable and Reliable Urban Water Supply**

in

South Africa

October 2025

Abbreviations

AMDTF	Associated Multi Donor Trust Fund (World Bank)
AMG	Aid Management Guidelines of Danish Ministry of Foreign Affairs (Danida)
CSP	Cities Support Programme Phase 3
DBSA	Development Bank of Southern Africa
DFC	Danida Fellowship Centre
DKK	Danish Kroner (exchange rate to Rand; 1DKK =)
DSIF	Danida Sustainable Infrastructure Finance
DWS	Department of Water and Sanitation
IBRD	International Bank for Reconstruction and Development
IU-NRW	Improve Urban Non Revenue Water with Private Sector Engagement
LNOB	Leave No-one Behind
MFA	Ministry of Foreign Affairs
MTSP	Metro Trading Services Programme
NRW	Non-revenue water
PBC	Performance based contract
PIF	Public Infrastructure Finance (former DSIF)
SALGA	South African Local Government Association
SDG	Sustainable Development Goals
SECO	Swiss Economic Cooperation and Development
SSC	Strategic Sector Cooperation
TA	Technical Assistance
TF	Trust Fund
UPR	Denmark's Council for Development Policy
WCDM	Water Conservation and Demand Management
WB	World Bank
WPO	Water Partnership Office
WRPS	Water Reform Programme Support

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1. Introduction

The present programme document outlines the background, rationale and justification, objectives and management arrangement for development cooperation concerning Denmark's Water Reform Programme Support for Sustainable and Reliable Urban Water Supply in South Africa, as agreed between the parties: the National Treasury, the Department of Water and Sanitation, the National Water Partnership Office and Development Bank of Southern Africa, WWF South Africa, and the Embassy of Denmark in South Africa. The programme document is underpinned by the overarching Framework Agreement between the Government of Denmark and the Government of the Republic of South Africa on Development Cooperation. The four projects under the present programme are sustained by individual agreements.

The overall purpose of the Water Reform Programme Support (WRPS) is to improve South Africans' access to sustainable and reliable urban water supply that is more resilient to climate change. A total budget of DKK 300 million is set aside for the period 2025-2030¹. The programme will contribute to change through four mutually reinforcing projects that all support the implementation of South Africa's comprehensive structural reform programme with a focus on addressing the crisis of municipal water services provision in South Africa in a context of climate impacted water scarcity. The projects are designed to support four key reform priorities:

- *Turnaround of metro water services provision for financial and operational sustainability*
A project with the Cities Support Programme under National Treasury will focus on building institutional capabilities and turnaround of water services in South Africa's eight metros with a view to building professional, effective and efficient trading services in metros, home to more than one third of South Africans. The project will contribute to unlocking a total amount of USD 3 billion in performance grants transfers to metros, including a World Bank performance for results loan of close to USD 1 billion.
- *Compulsory licencing system of water services providers - manage and separately account for municipal water roles*
A project with the Department of Water and Sanitation will support the roll out of a Water Services Amendment Bill introducing the separation of water services provision from municipal administration as a means to ensure compliant and sustainable urban water management and services delivery. The project will focus on reform-minded urban municipalities.
- *Advance private sector engagement in water sector and reduce non-revenue water*
A project with the National Water Partnership Office will on a demand basis improve the efficiency and sustainability of urban water supply by reducing non-revenue water, including water losses, with private sector participation through performance-based contracts.
- *Enhance consumer awareness to improve short- and long-term water security*
A project with WWF South Africa will address water insecurity in targeted municipalities by enhancing citizen engagement and improving protection of strategic water source areas.

The present Water Reform Programme Support is one of the specific initiatives included in the strategy for Denmark's strengthened engagement with African countries, "Africa's Century"². The Programme is aligned with the Danish government's emphasis on equal partnerships and on connecting development cooperation and economic diplomacy as expressed in "A Changing World - Partnerships in Development". This is in tune with the South African government's explicit aim to increase private sector involvement in the water services sector as a means to addressing the crisis and accelerating progress.

¹ Annual appropriations are subject to Danish Parliamentary approval.

² [Africas century](#) and [Denmark's Strategy for Development Cooperation](#)

1.1. Context

Water resources and demand

South Africa counts a population of 64 million (2024) with an expected increase to 79 million in 2050. Close to 67% of South Africans live in urban areas. The eight metros represent a total population of 22 million, or more than one third of South Africa's population³. Approximately 25% of the country's population, and nearly half of the urban population, reside in the Gauteng Province which contributes to one-third of national GDP. Urban population is expected to increase to 77% by 2050.

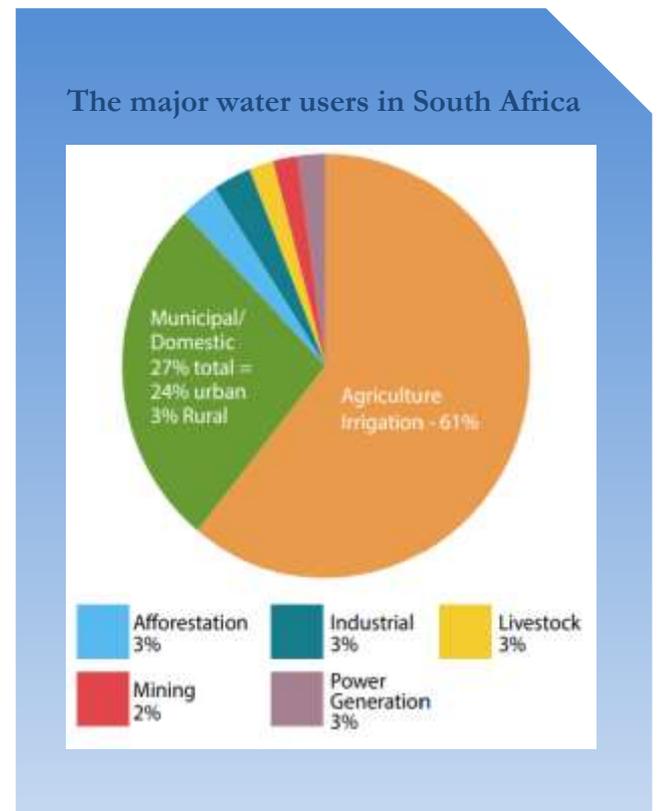
The political economy in the water sector in South Africa is shaped by historical and persistent inequalities, governance challenges, and resource scarcity⁴. Recognising past injustices, the Constitution of 1996 sets a strong foundation of citizen rights. Section 27 stipulates that "everyone has the right to have access to sufficient water" and requires the State to take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of the right.

Significant progress has been achieved since the mid-1990's. 77% of South African households have access to at least a basic level of drinking water (approx. 45% piped water and 30% water on-site). But the last 10-15 years have been characterised by a steep decline in the reliability of the service in terms of quality and continuity of water services.

The combination of population growth, fast urbanisation, aging infrastructure and insufficient investments put a strain on water availability. Based on current usage trends it is estimated that South Africa will face a water deficit between 2,700 and 3,800 million m³ by 2030 - a gap of around 17% of available surface and groundwater⁵. Future growth in water requirements is expected to be largely in the main metropolitan areas (based on demographic projections).

While heavy rains in 2022 and 2023 improved water availability temporarily, they also exposed infrastructure vulnerabilities and water quality issues. The combined effect of these realities poses a genuine challenge for South Africa as a water scarce country (with large arid and semi-arid regions), heavily reliant on surface water resources (of which 75% are already captured in dams) and groundwater of difficult access due to geological limitations and low recharge of aquifers due to low average rainfalls⁶.

Additionally, the effects of climate change will increasingly affect national water systems. According to the Country Climate and Development Report (CCDR) for South Africa, ten aridity and drought risks are expected to continue to increase this century, with most models pointing to the likelihood of severe annual droughts increasing by 39% by the 2050s, as well as greater probability of extreme storms and other climate-related hazards near the Indian Ocean. These



³ Metros: Buffalo City, Cape Town, Johannesburg, Ekurhuleni, eThekweni, Mangaung, Nelson Mandela Bay, Tshwane.

⁴ South Africa ranks as one of the 30 driest countries in the world.

⁵ The deficit of 3.800 m³ includes plausible climate scenarii.

⁶ Groundwater resources currently account for less than 10% of water usage in South Africa.

risks are already a reality. South Africa has been hit by several climate catastrophes in recent years, including the Cape Town water crisis (2015-2020) unprecedented floods in eThekweni (2022 and 2025) and increasingly cyclic drought episodes in Gauteng province.

Water and inequality

Poverty in South Africa remains multidimensional, deeply entrenched, and shaped by the legacy of apartheid with spatially segregated cities and underdeveloped rural areas. The country has one of the highest Gini coefficients in the world, estimated at 0.63, signalling extreme income inequality. Despite being one of Africa's most industrialised economies, more than 55% of South Africans, approximately 30 million people, live below the upper-bound poverty line of R1,634/month per person⁷. Structural unemployment particularly among youth remains widespread with a national average of 46.1% of youth being unemployed. Access to quality education and healthcare remains uneven, especially in rural and historically disadvantaged communities. Poor municipal capacity and underinvestment in basic infrastructure such as water, sanitation, electricity, and housing persist today. Women face additional burdens through limited asset ownership, insecure tenure, and unpaid domestic labour.

To cushion poverty and support vulnerable populations the South African Government has introduced a series of social grants. The Social Security Agency (SASSA) provides various monthly grants. As of 2025, these include: Old Age Grant, Disability Grant, War Veterans Grant, Care Dependency Grant, Foster Child Grant, Child Support Grant, Grant-in-Aid, Social Relief of Distress (SRD).

In addition to SASSA grants, the Free Basic Services (FBS) programme offers state subsidised municipal support for indigent households. The most frequently used definition for indigent households qualifying for FBS is households earning under R4,000–R5,000 per month, or receiving grants, and with documented ownership of property.

Monthly services for an indigent household typically include:

- 50–100 kWh of electricity
- 6,000 litres of water
- Basic sanitation and refuse removal
- Property rates exemptions or rebates

While the FBS Water policy promotes equitable access, it has also led to unintended consequences. The policy's design does not account for rapid urbanisation, aging infrastructure, or high water losses, making sustained delivery challenging for most urban municipalities. The FBS is managed at municipal level and costs are in principle recovered through equitable grant transfers from National Treasury to municipalities. The city keeps a register of indigent households, these registers are however not always accurate and it is not uncommon that non-qualifying households benefit from free water. Further, in some municipalities political decisions result in higher monthly services level than the 6,000 litres set in the FBS. Moreover, the perception of water as “free” reduces incentives to conserve water and limit consumption. In unmetered households or where enforcement is weak, water is often used inefficiently. Leak negligence is widespread: households are less likely to repair leaking taps or burst pipes when not directly paying for water. Studies from the Department of Water and Sanitation (DWS) highlight that a significant portion of non-revenue water stems from household-level leaks.

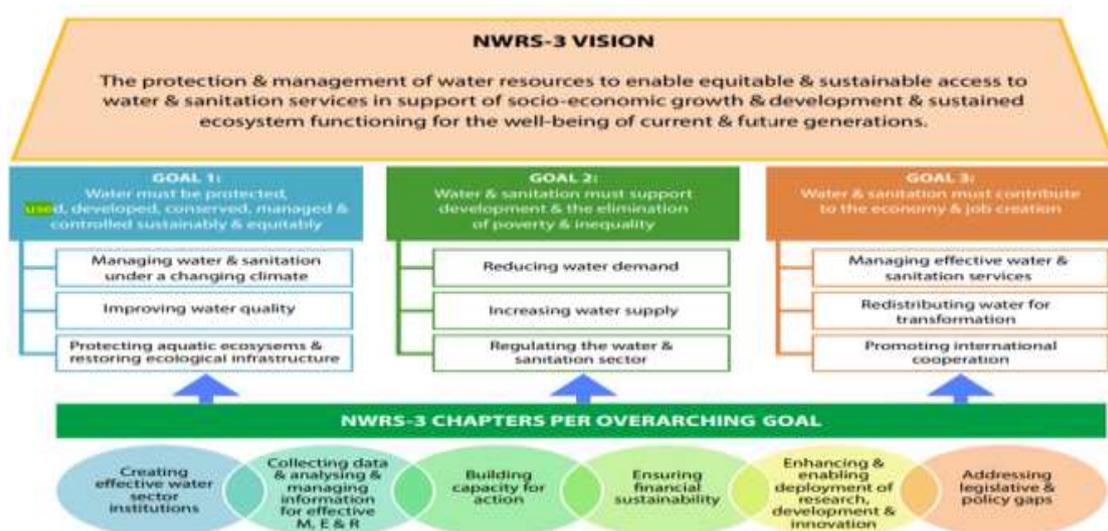
Although formal access to water has expanded, not least in urban settings, service reliability remains precarious, especially for disadvantaged communities. Well established urban areas typically enjoy piped water and only short periods of interruption of service. Areas with high concentration of impoverished households are often outside of the urban centre. Many households

⁷ Minimum amount needed for basic nutrition plus average non-food household items, 2024 prices.

in these areas benefit from piped water but suffer from more frequent service interruptions and poorer water quality. Households in fast growing informal settlements in peri-urban areas often rely on communal taps or lack access to sources altogether making them dependent on water trucks or informal vendors, leading to higher per-litre costs. On this backdrop, water crises evidently affect different urban areas and communities disproportionately. For example, during Cape Town’s “Day Zero” in 2017–2018, affluent suburbs mitigated the crisis through private wells and water tanks, while townships like Khayelitsha faced severe hardship. Unreliable water access increases vulnerability to waterborne diseases, negatively affecting health and productivity. Schools in underserved areas often lack proper water and sanitation facilities, contributing to absenteeism and limiting educational opportunities especially for girls.

A complex sector, a failing model

In light of the precarity of water systems and raising demand, South Africa needs a robust water sector guided by clear strategic vision, strong policies and high performing institutions. The National Water Resources Strategy III (2023) charts the overall vision for the sector combining protection of water resources with access to water and sanitation services across three overarching goals:

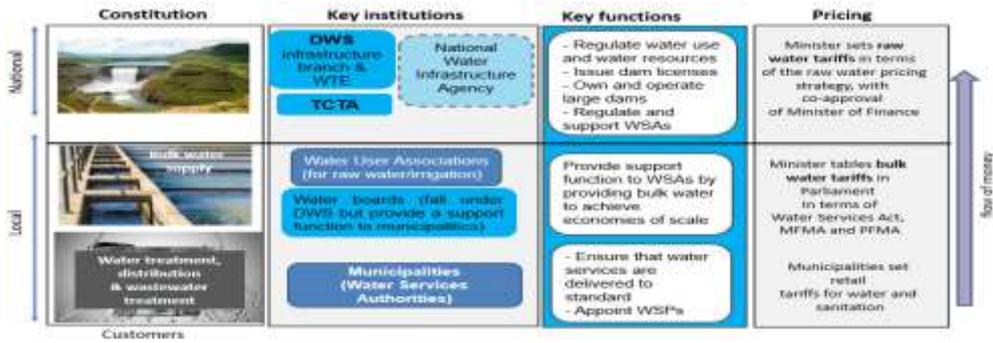


The institutional environment in place to execute the vision is complex. It is structured into two primary sub-sectors: water resources management, governed by the National Water Act (Act 36 of 1998), and water services provisioning, regulated by the Water Services Act, (Act 108 of 1997).

Guided by the National Water Act, the Department of Water and Sanitation plays a critical role as the custodian of water in the country and exercise an ownership (of national water resources and infrastructure) and regulatory function. Local government is constitutionally mandated to oversee and ensure provision of basic services including the delivery of water and sanitation services. 144 out of 254 municipalities are appointed as Water Services Authorities.

Water Sector Mandates⁸:

⁸ Source: DWS, June 2025. TCTA (in second column) is short for Trans-Caledon Tunnel Authority charged with financing and implementing bulk raw water infrastructure projects.



The Water Services Act distinguishes between the functions of Water Services Authority and Water Services Provider. The key role of the Water Services Authority is to ensure that the Water Services Provider provides a service that meet minimum norms and standards. The role of the Water Services Provider is to deliver the actual service. In practice however, the two functions are rarely separated at municipal level with water services provision embedded in the municipal administration, resulting in a lack of oversight and an amalgamation of human as well as financial resources.

In 2023, the Department of Water and Sanitation reinstated the Drop Programme measuring the quality of water supply (Blue Drop), the state of wastewater management (Green Drop), and of water-use efficiency (No Drop). After ten years with no reporting, the Drop reports (based on a thorough audit exercise) indicated a steep decline across municipalities. Nearly 30% of water services systems were identified to be in a critical state of performance (compared with less than 20% in 2014). 24% of the systems had unacceptable chemical water quality compliance (against 15% in 2014). 102 out of the 144 mandated municipalities showed poor or critical non-revenue water performance with a national average estimated at 47% of which physical loss reached about 30%. It is estimated that municipalities are losing about 1660 million m³ per year through non-revenue water - at a unit cost of R6/m³ this amounts to R9.9 billion each year (2018 numbers)⁹. On top, the outstanding debt from municipalities to water boards (responsible of delivery of bulk water) surged by 151% from 2019 to 2024.

An extraordinary reform agenda

The publication of the Drop Reports in 2023 was a wake-up call that contributed to the general recognition of a deepening water supply and ultimately water security crisis in South Africa. On this backdrop the Government of South African has launched a unique and comprehensive structural reform programme. The key reform priorities are reflected in the overall Government reform programme conducted by Operation Vulindlela, which is the key mechanism to fast-track structural reform and operates directly under the President of South Africa. Under the leadership of the President, key government institutions – in particular Operation Vulindlela, National Treasury and Department of Water and Sanitation – are moving decisively in the same direction.

Operation Vulindlela Phase II, (OVII) highlights the structural reform agenda in the water sector as follows ¹⁰:

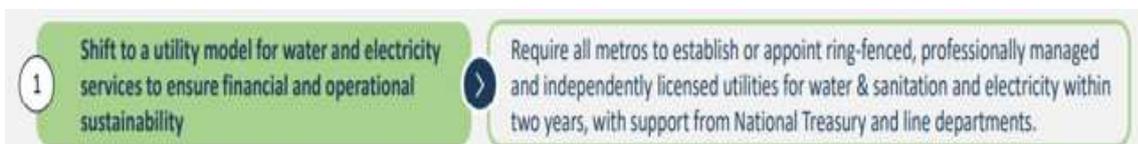
⁹ National Water Resources Strategy III, DWS 2023

¹⁰ Operation Vulindlela Phase II approved in March 2025.

https://www.treasury.gov.za/comm_media/speeches/2025/2025050701%20Overview%20of%20Operation%20Vulindlela%20Phase%20II%20.pdf



Priority actions for the Water Sector are strongly backed by priority actions for Local Government with a focus on metros, notably:



South Africa’s water governance and poverty alleviation efforts in 2025 reflect a growing recognition that access to water is both a human right and a developmental necessity. While policies like Free Basic Water and social grants have expanded access and reduced extreme poverty, structural challenges such as spatial inequality, non-revenue water, poor infrastructure, and financial mismanagement continue to impede equitable service delivery. The country’s new water reforms present a significant opportunity to correct these systemic issues. Priority action include i) transformation of the current defaulting municipal water supply model, ii) radical reduction of non-revenue water, including physical loss, iii) engagement of private sector, and iv) significant reduction of water consumption. With sustained implementation, strengthened institutions, and active community engagement, these initiatives could over time transform South Africa’s water sector into a driver of inclusion and resilience.

1.2. Strategic considerations and rationale

The overall rationale of the Water Reform Programme Support for Sustainable and Reliable Urban Water Supply in South Africa (WRPS) is to contribute to addressing the crisis of water services provision in South Africa in a context of climate impacted water scarcity. The municipal water services are in a reinforcing negative loop, with average national non-revenue water at 47% and spiking municipal debts to water boards. Inaction risks leading to increasingly chronic failures in the water supply system. This is particularly critical in a context where extreme weather events and broader water scarcity have already caused significant damage, and where the intensity of these event is expected to worsen.

The comprehensive water supply reform is pivotal in South Africa’s structural reform programme led by Operation Vulindlela, directly under the President’s Office. Several government departments are engaged in the implementation of priority reform actions, with National Treasury and Department of Water and Sanitation pushing performance requirements into national grant transfers to municipalities in tandem with a suite of regulations aimed at enforcing compliance and oversight. In a context where local government is constitutionally mandated to oversee and ensure provision of basic water services, and a tradition of municipal unification of resources, the mandatory separation of mandates and ring-fencing of resources introduced with the institutional

reform must be expected to come with some tensions. It is generally recognised in South Africa that failure is not an option given the challenged water resources.

Denmark's support to implementation of prioritised reform actions through WRPS is designed to contribute to making a positive change in critical areas at a decisive point in time. Among other, Denmark will contribute to unlocking performance grants to South Africa's eight metros to the equivalent of USD 3 billion, including an IBRD Performance-for-Results loan close to USD 1 billion. The Danish grant to technical assistance to metros substitutes loan financing thus reducing South Africa's need for loans to support the implementation of structural water reforms. Executive mayors of the eight metros gave their full backing to the performance reform in a recent meeting with Minister of Finance and Deputy Minister of Water and Sanitation¹¹.

WRPS has been developed in close collaboration with key national partners including essential government and municipal actors. In the process, Denmark has reached out to bilateral partners and multilateral development banks present in South Africa and established close collaboration with key reform partners. Alignment and harmonised approaches have been developed with the World Bank and the Swiss State Department of Economic Affairs (SECO).

The WRPS is in tune with South Africa's National Development Plan 2023. The water reform programme as well as the Plan align with SDG 6 – Ensure availability and sustainable management of water and sanitation for all. The WRPS aligns well with the priorities of Denmark's development cooperation based on equal partnerships. Increasing Denmark's engagement in climate adaptation, including through promotion of sustainable drinking and wastewater management, is also part of Denmark's priorities as expressed in "A Changing World - Partnerships in Development". Further, the WRPS is one of the concrete initiatives included in the strategy for Denmark's strengthened engagement with African countries, "Africa's Century"¹². Across these policies, Denmark puts emphasis on engaging in concrete action and strategic alliances with an aim to contribute to lasting change through effective results.

The principles of equity, sustainability and environmental protection underpin all national water and sanitation legislation and policies in South Africa. Working to redress the collapsing water services through support to prioritised reform action will over time have positive effects for the environment as sustainable management and delivery of water services will reduce pressure on available water resources.

Professional management and ring-fencing of resources are preconditions for improving operational and financial sustainability of urban water services provision. Efficient services providers will reduce non-revenue water, including water loss putting almost 30% of water resources back into the system. More capable and financially stable municipal water services providers that make use of all allocated drinking water resources will become able to ensure continuous supply of water without having to sacrifice reliability of services to poor households out of budget constraints. Continued reform efforts will open opportunities for investments necessary to markedly improve access to reliable water services for urban customers living in the historically disadvantaged communities and in informal settlements. This is further supported by a specific National Treasury grant incentivising and supporting the upgrading of services in informal settlements.

In addition, WRPS will support the development of methodologies for ensuring that diverse voices are heard and supporting cities to promote inclusion and the principle of leaving no one behind. This will be ensured through integrating community-based monitoring in partnership with established initiatives to generate real-time, disaggregated data to inform metro-level reforms,

¹¹ Meeting held 29 September 2025

¹² [Denmark's Strategy for Development Cooperation](#) and [Africas century](#)

enhance accountability, and demonstrate the impact of trading service improvements in underserved areas and marginalised communities over time.

These combined approaches are in accordance with national policy of water equity and the constitutional right to access to water¹³. It is also aligned with Denmark's development cooperation goals of combatting poverty, reducing inequality, and leaving no-one behind.

The South African government's explicit aim of increasing private sector involvement in the water services sector carries the potential to unpack opportunities to realise the trade and investment potential in the sector. Danish companies have solutions and technologies that already contribute to sustainable social and economic development. Some of the leading Danish water companies are established in South Africa and are already providing important contributions to the water sector in the country. Their investments and trade create job opportunities and private-sector development in South Africa. Through the existing "Water Tech Group", and combining with new Danish financing instruments, the Embassy will seek to further engage Danish water expertise and solutions in implementing the reform in water utilities in metros and secondary cities.

1.3. Approach to aid effectiveness

The design of WRPS and the underlying projects has taken place conjointly with the development of national reform priority actions by national partners. WRPS is therefore the fruit of an extensive consultative process including frequent exchange with national partners and regular direct consultations with municipalities and other relevant stakeholders. Evidently this has resulted in strong alignment with national policies and priorities.

Further, close collaboration in the process with the Swiss State Secretariat for Economic Affairs (SECO) and the World Bank for several projects has contributed to clear coherence across results frameworks. Joint approaches are agreed between the parties. Denmark and SECO will channel contributions to the Metro Trading Services Programme Technical Assistance component through an associated multi-donor trust fund executed by the World Bank. Denmark is joining SECO in support to the Non-Revenue Water Programme implemented by the Water Partnership Office, hosted in the Development Bank of Southern Africa, and the existing bilateral Steering Committee will be enlarged with Denmark. Denmark and the World Bank are collaborating on National Water Competence Development with the World Bank engaged in preparatory analysis. This collaborative approach provides for a more strategic and cohesive engagement with South African partners, duplication of efforts is avoided, knowledge and lessons learned are shared. Efficiency will continuously be promoted throughout implementation by applying joint processes for monitoring, reporting and transfer of funds.

The project's implementation approach is effective by mainly targeting metros and secondary cities thereby reaching a vast number of beneficiaries at low unit costs. By supporting key national reform actions focused on professionalising water services provision with the aim of turning them into sustainable utilities, WRPS will contribute to long-term benefits. The cities' ability to manage drinking water more efficiently will contribute to reducing loss of water. Along with financial sustainability of water trading services, over time, this will contribute to increased climate resilience and reduced vulnerability for historically disadvantaged communities.

According to the OECD DAC Rio Markers, WRPS is classified with climate adaptation as a significant policy objective (Score 1). South Africa's water crisis is caused by the combined effect of climate impacted scarce water resources and a failing water services model with highly inefficient use of water resources. If current usage trends are not curbed, South Africa may face a water deficit of 17% by 2030. Increasing unpredictability of rainfall results in an increased frequency of localised droughts and floods. These climate impacts have severe effects on exploitation of surface water

¹³ Chapter 2 of the Constitution of South Africa provides that: "*Everyone has the right to have access to sufficient food and water.*"

resources as well as on groundwater replenishment. In light of the limited opportunities for increasing availability of national water resources, water conservation and water demand management is a national priority with reduction of water losses in municipal water supply systems as a top priority. The comprehensive water reform is designed to address these challenges and WRPS is designed to accelerate the process in South Africa's urban municipalities with a fast growing population.

1.4. Key beneficiaries

The direct beneficiaries of Denmark's support through WRPS are South African authorities at national and municipal level. Relevant DWS staff at national and provincial level will benefit from competence development targeting their capabilities to support and promote the implementation of the Water Services Amendment Bill aimed at professionalising municipal water services provision. At municipal level, the WRPS projects target metros and secondary cities to with a view to facilitating the process of separation of mandates and ring-fencing of resources. Capacity building will target i) municipal management and relevant council members, and ii) management level in water services delivery mechanism. The capacity building will include leadership, change management, institutional strengthening and other technical support towards operational and financial improvements, programme planning and project preparation of infrastructure projects, including the development of smaller infrastructure rehabilitation, refurbishment or/and renewal projects, including NRW projects, to improve water supply services. In metros, the combined technical assistance and capacity building is designed to support metros in delivering the performance indicator targets agreed in the Performance Improvement Action Plan and thereby qualify for the MTSP performance incentive grant.

The ultimate beneficiaries of the WRPS are the households and businesses in the metros and secondary cities who will benefit from improved services. Professional management and ring-fencing of resources are preconditions for improving operational and financial sustainability of urban water services provision. Efficient services providers will reduce non-revenue water, including water loss putting almost 30% of water resources back into the system. More capable and financially stable municipal water services providers that make use of all allocated drinking water resources will become able to ensure continuous supply of water without having to sacrifice reliability of services to poor households out of budget constraints. Continued reform efforts will open opportunities for investments necessary to markedly improve access to reliable water services for urban customers living in the historically disadvantaged communities and in informal settlements.

2. Outline of the Programme

2.1. Programme Objective

The overall programme objective is to **South Africans' access to sustainable and reliable urban water supply that is more resilient to climate change is improved.**

2.2. Theory of change

The overall theory of change of the WRPS is:

IF the eight metros improve their capacity to implement their water services turnaround agenda and gain access to performance-based grants to deliver sustainable and reliable water services,
AND

IF the Department of Water and Sanitation has the capacity to effectively oversee (regulate, license) municipal water management and services delivery, and management in targeted urban municipalities have capacity to competently oversee and deliver sustainable and reliable water services, **AND**

IF municipalities reduce their Non-Revenue Water by engaging with the private sector through tested and robust Performance-Based Contracts, **AND**

IF water end consumers better understand why they need to conserve water and can demonstrate shared long- and accountability for water resources as responsible water consumers, **THEN**

South Africans' access to sustainable and reliable urban water supply that is more resilient to climate change will be improved

2.3. Key Assumptions

The intervention assumes:

- Political commitment to water reform remains high, especially under Operation Vulindlela.
- Metros are willing and able to undertake institutional change and adopt performance-based approaches
- Authorised secondary cities municipalities are ready improve their capacity to meet the Water Services Act requirements
- Coordination between national, provincial and local actors is sustained and functional
- Private sector partners have interest and capability to engage in performance-based contracts with municipalities and are trusted by public institutions
- Citizens respond positively to awareness campaigns and are motivated to change water use behaviours

2.4. Key Partners

The four WRPS projects will be implemented by partners that play a critical role in driving and implementing priority water reform action.

Cities Support Programme Unit (CSP Unit) in National Treasury is responsible for the **Metro Trading Services Programme (MTSP)** and the supporting technical assistance and capacity building component. Under the authority of National Treasury, CSP Unit is instrumental in driving the turnaround of water services in the 8 metros. CSP Unit works closely with Treasury to restructure national grant transfers to metros into performance driven grants.

Department of Water and Sanitation (DWS) plays a pivotal role and bears the responsibility for the core of the water services reform translated into a comprehensive Action Plan. An essential DWS result is the amendment of the Water Services Act introducing a suite of measure to effectively separate the mandates of municipalities and utilities with ring-fencing of resources and compulsory licencing of water utilities. DWS will drive a focused competence development effort to support effective implementation of the reform. The Water Services Amendment Act

Water Partnership Office (WPO), operating in the Development Bank of Southern Africa (DBSA), holds the mandate to facilitate public-private partnerships in the water and sanitation sector. Engaging private sector in addressing challenges in the declining municipal water services model is a priority action in the water reform. To make it easier to engage private sector, WPO pilots standardised tools and supports urban municipalities in project preparation and finance structuration.

World Wide Fund for Nature South Africa (WWF SA) is recognised for its strong network across South Africa and for its track record in mobilisation of citizens and business during the Cape Town Day Zero water crisis. WWF SA is working closely with mobilisation of a broad range of actors to protect strategic water source areas, including through awareness of the true cost of water.

2.5. Summary of the results framework

The results framework for Denmark's WSRP support is based on the partners' own results framework. As the programme has been prepared in parallel with the development of national reform priority actions, Denmark has contributed through extensive dialogue with national partners and with relevant donor partners. This has resulted in strong alignment and coherence in most of the projects as well as across WRPS¹⁴.

Programme	Water Reform Programme Support for Sustainable and Reliable Urban Water Supply in South Africa
Programme Objective	South Africans have improved access to sustainable and reliable urban water supply that is more resilient to climate change
Impact Indicator	SDG 6: Ensure availability and sustainable management of water and sanitation for all

Project 1		Metro Trading Services Technical Assistance under Cities Support Programme	
Objective		Metro Water Trading Services are accountable and have the needed financial and operational capacities to access performance-based grants and other finance sources and deliver sustainable and reliable water services	
Impact indicator		Reduced metro NRW (commercial and physical losses) (MTSP A3 PIAP Indicator W10) Improved metro Drinking Water Systems Blue Drop (MTSP A3 PIAP Indicator W2) (Note #1) Percentage of metro households with access to basic water supply (Circular 88 indicator WS2.1) (Note #2) # of metros that have met and maintained the MTSP's Minimum Commitments (MTSP WB PDO indicator) (Note #3)	
Baseline	Year	2025	aggregate metro baseline to be populated aggregate metro baseline to be populated aggregate metro baseline to be populated 0 metros
Target	Year	2030	28% - aggregate metro target to be confirmed ≥95% - aggregate metro target to be confirmed Xx% - aggregate metro target to be populated ≥6 metros

Project 2		National Water Reform Competence Development	
Objective		Climate resilient water management and inclusive services are professionally operated and delivered with competent staff	
Impact indicator		# of authorised municipalities meeting the Water Services Act requirements and manage and account for their WSA and WSP roles separately # of urban municipal water supply providers operating with a license issued by DWS	
Baseline	Year	2025	Few of the 144 municipalities authorised to provide water supply meet the Water Services Act requirements to manage and account for their WSA and WSP roles separately No WSPs are licensed in terms of the Water Services Amendment Bill
Target	Year	2030	60% of WSAs and 50% of WSPs account separately for their roles

Project 3		Improved Urban Non-Revenue Water through Private Sector Engagement	
Objective		Municipalities reducing Non-Revenue Water through application of Performance-Based Contracts with the private sector and the PBC approach is ready to upscale for broader application	
Impact indicator		# of municipalities where NRW is reduced by 15% in a Project Area by 2030	

¹⁴ Results framework with outcomes included in Annex 3

Baseline	Year	2025	National average NRW is 47% in 2025
Target	Year	2030	Tbd

Project 4		Citizen driven water Security in Gauteng and eThekweni	
Objective		Enhanced water security in Gauteng and eThekweni through short-term water demand and long-term water supply interventions	
Impact indicator		Reduced water loss Water source areas replenished	
Baseline	Year	2025	-
Target	Year	2030	700 ML replenished in water source areas

It should be noted that Project 2, National Water Reform Competence Development, and Project 4, Citizen driven Water Security in Gauteng and eThekweni, are still under preparation by the partners. Adjustments to the indicators and targets may therefore occur.

2.6. Synergies and linkages

The four WRPS projects are mutually reinforcing. Together, they aim at ensuring South African's access to sustainable and reliable urban water supply that is more resilient to climate change. Professionalisation and efficient management of drinking water, including non-revenue water reduction, are pre-conditions for sustainability of urban water services and supply. This cuts across all four projects in the WRPS. Synergies will be built under implementation by i) ensuring information across projects during annual planning exercises; ii) as part of the tasks of the long-term advisors, allocated to the team in three out of the four projects, to contribute to ensuring that relevant linkages are built and that relevant knowledge is exchanged across the WRSP projects. Further, the MEAL consultant built into the programme will assess and advise on the quality and relevancy of unpacked cross projects synergies and linkages.

WRPS builds on Denmark's ongoing engagements in the water sector, leveraging experience from partnerships in national and urban water sectors through the ongoing Strategic Sector Cooperation (SSC) in South Africa. In the context of the National Water SSC with the Department of Water and Sanitation and the Danish Environmental Protection Agency, ongoing collaboration on water reform has provided substantial background for understanding the composition of the water services reform complex, its critical elements and their background. Focus has been on the drinking water reform, including the introduction of compulsory licencing of water services providers, and on a model for economic regulation in the sector. The exceptional continuation of this collaboration into a phase 4 aims to build important bridges and cross-learnings between this national work and the WRPS contributing to supporting the important existing reform collaboration between Department of Water and Sanitation and National Treasury.

The ongoing SSC programmes with two metros – City of Tshwane/City of Aarhus respectively City of Johannesburg/City of Copenhagen – bring a solid foundation for understanding the municipal water services challenges and valuable insights into the realities from a more hands on city perspective, including how reform is perceived by cities. Danish utility companies involved in the two urban water SSC programmes work closely with their counterparts in the two cities and share tools, mechanisms, and case studies that highlight Danish expertise and promote competitive Danish solutions¹⁵. Introducing the collaboration with Metro Trading Services Programme -TA will further expand the knowledge sharing as the City Councils in City of Tshwane and in City of Johannesburg have taken the necessary steps to qualify for participation in the MTSP. There will thus be valuable and very tight synergies across these engagements on turnaround strategies and improved infrastructure performance with the potential of sharing learnings from the hands-on city-to-city collaboration with the MTSP team and with other metros.

¹⁵ The two utilities are Aarhus Vand and HOFOR

Reduction of non-revenue water cuts across all WRPS projects and even the three SSC projects. Links to work carried out through the Water Partnership Office in the context of Non-Revenue Water Programme, supported through the Improved Urban Non-Revenue Water project, will increase opportunities to achieve stronger results with direct investments in innovative and responsive approaches on performance-based contracts for non-revenue water reduction as a concrete response to existing challenges. In the context of the ongoing SSC project with City of Tshwane, Water Partnership Office is piloting the preparation of a non-revenue water project designed and structured to be delivered in collaboration with private sector through a performance based contract.

Close collaboration between the MTSP-TA and the National Water Competence Development project will build pathways for cross-learnings from experience at metro level into secondary cities. In metros, the negotiation of elements of professionalisation was started under phase II of the Cities Support Programme (CSP II) as part of the preparation of the MTSP. In secondary municipalities this process will be initiated in the first half of 2026, with support from the National Water Competence Development project in WRPS.

Impact Fund Denmark/Public Infrastructure Finance is preparing to launch a loan package of €100 million for municipal water and energy projects. The package will be managed by the Development Bank of Southern Africa (DBSA) and will be part of the opportunities for metros engaged in the MTSP. Moreover, Impact Fund Denmark is in the final stages of negotiations with the Water Partnership Office (WPO) on a first contribution to a non-revenue water guarantee instrument that WPO is establishing to provide cover to lenders on the municipal credit risk in the context of non-revenue water projects delivered through performance-based contracts. A first contribution of DKK 37 million is expected to test the approach before scaling to a broader portfolio of public/private non-revenue water projects. This engagement links directly to the WRSP project support to WPO's Non-Revenue Water Programme that metros will also benefit from.

Across the three ongoing SSC programmes with a focus on water a constructive collaboration is engaged with the Danish water companies established in South Africa. The Danish private sector is interested in expanding its commercial footprint in South Africa. The MTSP aim to redress defaulting metro water services provisions. The combination of comprehensive technical assistance and competence building delivered through MTSP-TA and the incentive grants offered by National Treasury through the MTSP is expected to lead to a substantial increase in municipal water investments. This represents an opportunity for Danish companies in South Africa. In order to promote a fruitful exchange between the metros engaged in MTSP- and Danish interests, the Embassy will build on the “Danish Water Tech Group” organising the Danish water companies in South Africa. Currently the Group promotes three concepts: i) creating demonstration projects in the South African water sector/industry, ii) consortium approaches to larger water projects, and iii) a combined Danish technical training program on Danish best practices within water management (“the Danish Water Academy”). Mobilising this group, the Embassy trade department will for example offer visits to municipalities and water utilities interested in an introduction to Danish water tech solutions tailored to the needs and priorities of each city. By showcasing their expertise in high-quality and energy-efficient technologies and competitive, sustainable products, Danish businesses will have the opportunity to strengthen their position in the market. Through knowledge sharing and tender processes they can contribute to more efficient and sustainable water management and supply. Further, through this approach to positioning Danish solutions towards South African water utilities, and in combination with new Danish financing instruments, companies will create a base for enhancing the interest of Danish exporters to do business on the South African market.

2.7. Short summary of projects

Metro Trading Services Programme -TA

The Metro Trading Services Programme (MTSP), will be implemented by Cities Support Programme Unit (CSP) in National Treasury. The MTSP is designed to promote a turnaround of trading services in South Africa's eight metros with a view to building professional, effective and efficient trading services. The MTSP comprises two interdependent components – a financial incentive and technical assistance.

The turnaround is incentivised by performance based grant transfers from National Treasury to metros amounting to a total of USD 3 billion, including a World Bank performance-for-results loan of close to USD 1 billion. The performance grants are conditioned by delivery on individual metro council approved Performance Improvement Action Plans (PIAP) with a set of cross-cutting minimum commitments supplemented by tangible operational performance indicators for each trading service.

The accompanying MTSP Technical Assistance and Capacity Building component (MTSP-TA) is designed to support metros in delivering on the performance indicators unlocking the performance grants. In WRPS, Denmark has set aside a total budget of DKK 107 million¹⁶ to MTSP-TA. The grant is focused on the water sector and will contribute to delivering targeted technical assistance and capacity building on leadership, change management, institutional strengthening and other technical support towards operational and financial improvements, programme planning and project preparation of infrastructure projects, including the development of smaller infrastructure rehabilitation, refurbishment or/and renewal projects.

The direct beneficiaries of Denmark's support to the MTSP-TA are South African metro authorities and water services mechanisms, while the ultimate beneficiaries are metro households and businesses, who will benefit from improved quality, reliability and sustainability of water services. This will also improve the livelihoods of households in disadvantaged and informal areas, who are disproportionately affected by the current state of water service delivery.

Objective

Metro Water Trading Services are accountable and have the needed financial and operational capacities to access performance-based grants and other finance sources and deliver sustainable and reliable water services.

Theory of Change

IF the metros receive change management capacity support for restructuring of water and sanitation provision as a modern water utility, **AND**

IF the metros receive leadership and management training specific to water utilities, **AND**

IF the metros receive support for implementing management contracts to turnaround water utility performance, **AND**

IF the metros receive support for developing and implementing business plans to turnaround water utility performance, **AND**

IF metros receive investment planning and project preparation support for investments in reliable and sustainable water and sanitation services, **AND**

IF metros receive assistance in putting in place and maintaining their minimum commitments and improving water accountability monitoring in informal settlements, **THEN**

Metro water trading services are accountable and have the needed financial and operational capacities to access performance-based grants and other finance sources and deliver sustainable and reliable water services.

¹⁶ Annual allocations are subject to Danish Parliamentary approval.

Outcome based budget

Metro Trading Services Programme - TA		Budget (Total DKK million)
Outcome 1	Cities have the institutional capabilities to advance a complex city transformation agenda on sustainable and reliable water supply	25.3
Outcome 1 indicator	# of metros with a service compact (Note #4) between the service authority (metro) and the water and sanitation trading service (MTSP A3 PIAP Indicator M1) # of metros that have appointed a single point of management accountability (Note #5) (SPoMA) for the water and sanitation trading service (MTSP A3 PIAP Indicator M2) # of metros with change and delivery management capacity (Note #6) (MTSP A3 PIAP Indicator M8)	
Outcome 2	Cities plan, implement and manage for sustainable and reliable delivery in water supply	36.7
Outcome 2 indicator	# of metros implementing a Financial Model and Business & Investment Plan for the Water and Sanitation Service (MTSP A3 PIAP Indicator M5)	
Outcome 3	Cities leveraging sustainable investments for improving and scaling of sustainable and reliable water supply	23
Outcome 3 indicator	# of metros with improved infrastructure capex on PPE (MTSP A3 PIAP Indicator F5) by a minimum of 50% over baseline (Note #7) # of metros with improved self-financing ratio (MTSP A3 PIAP Indicator F6) by a minimum of 20%	
Administration and monitoring		15.3
Long term advisor		7.7
Grand total		108

Implementation of MTSP-TA

MTSP is anchored within National Treasury and forms part of the key water sector reform initiatives.

MTSP-TA will be implemented through a World Bank-executed associated multi-donor trust fund (AMDTF) under SURGE¹⁷. A National Steering Committee will be chaired by National Treasury, with the Danish Embassy, SECO and the World Bank as members. The committee will approve annual workplans and budgets, guide implementation, and will review progress and finances annually. A Danish long term senior advisor will be seconded to the CSP Unit in National Treasury.

Summary of programmatic and institutional risks

Risks such as limited capacity and absorption constraints at metro level are mitigated through a strong CSP/MTSP support structure that ensures technical assistance responding to metro needs. Risks of declining political support due to resistance to reforms are addressed through incentive-

¹⁷ Sustainable Urban and Regional Development. Denmark is already a partner to the SURGE umbrella trust fund through a project in Rwanda.

based design requiring metros to maintain agreed commitments, complemented by an adaptive management approach that enables swift adjustments if political backing weakens. Institutional risks include decreasing commitment and capacity from National Treasury which is detrimental for the MTSP's success. This risk is considered low given Treasury's proven track record and the programme's integration into the Medium-Term Development Plan and Operation Vulindlela II. Strong monitoring, evaluation, learning, and adaptive management systems, supported by adequate resources and seconded personnel, will further mitigate risks and ensure effective implementation.

National Water Reform Competence Development

The National Water Reform Competence Development Project (NWRCD) is still in preparation by the partners. The project will support the roll out of a new Water Services Amendment Bill, approved by Cabinet in August 2025 with expected Parliamentary approval around April 2026. The Amendment Bill is the key institutional reform and will strengthen DWS' mandate vis-à-vis defaulting municipalities and their water services providers. To push for professionalisation and more efficient water services provision, the Bill introduces a suite of measures to effectively separate the mandates of municipalities (local water authorities) and water services providers including enforcement of the required separate management and accountability. This entails ring-fencing of resources, compulsory licencing of water services providers, and binding contracts between municipality and a licenced water services provider.

DWS is responsible for implementing the reform and will hold the licensing authority. DWS will oversee the design and roll out of a focused competence development effort underpinning the effective implementation of the reform. The competence development will be two fold. One block will aim at the internal DWS competence to oversee and roll out the reform, including the licensing system. Another block will equip municipal stakeholders (Council, WSA and WSP) with the managerial and regulatory skills required to fulfil their redefined mandates.



The detailed design of the training offer to municipalities will be determined by a thorough capacity and needs assessment involving various types and sizes of municipalities and services providers. The assessment is coordinated in a group composed of key national actors under the leadership of Operation Vulindlela and DWS. Denmark and the World Bank are active members.

Expected implementation

Under WRPS, Denmark has set aside a total budget of DKK 52 million for training focused on critical reform training in DWS, including provincial offices, and Council, WSA and WSP management level in reform-minded urban municipalities. Denmark's contribution comprises a senior long term advisor to the Chief Directorate of Regulation, Compliance and Enforcement in DWS. A lumpsum of DKK 8 million is reserved for training activities in Denmark organised by DFC.

When the competence development needs are identified, the project will engage with a South African certified institution, which will be responsible for the planning and implementation of training in close collaboration with DWS (and other stakeholders as relevant). Responsibilities of the implementing institution are expected to include e.g. coordinating curricula development, certification of individual courses and modules, identification of best suited certified training institutions, planning and sequencing of training based on priorities defined by DWS.

A project Theory of Change, results framework and detailed budget will be developed in close collaboration with DWS and in consultation with relevant stakeholders over the coming months.

Improved Urban Non-Revenue Water through Increased Private Sector Participation

The Improved Urban Non-Revenue Water through Increased Private Sector Participation project (IU-NRW) is developed and led by the National Water Partnership Office (WPO) of the Department of Water and Sanitation in collaboration with the Development Bank of Southern Africa (DBSA) as implementing partner. The project is part of the National Water Partnership Programme, which is implemented by WPO and developed with the aim of engaging private sector in addressing challenges in South Africa’s water sector.

With a total budget of DKK 62 million¹⁸ Denmark will support WPO in their aim to reduce NRW by supporting municipalities in facilitating private sector participation to collaborate and drive investment in NRW reduction in urban municipalities. The project will contribute to testing and refining tools for non-revenue water reduction projects delivered with private sector participation as part of testing approaches to accelerating reduction of NRW. Based on demand from urban municipalities, WPO will lead the identification, preparation, and structuring of municipal NRW reduction projects using performance based contract with private sector actors. Activities will be rolled out from 2026 to 2030, with a focus on metros and secondary cities demonstrating readiness and political will to engage with private sector. The WPO will provide municipalities with technical assistance, standardised tools, and access to blended finance solutions to enable them to implement climate-resilient, inclusive water supply projects.

The direct beneficiaries of Denmark’s support to IU-NRW are urban municipalities (in their role as Water Services Authorities and/or Water Services Providers) and in some cases water boards (where water boards are mandated by municipalities to serve as water services provider). Ultimately, the beneficiaries are communities and residents (served by these municipalities and water boards), who will benefit from improved service delivery, as will businesses and the private sector, within an environment of increased water scarcity. Increased private sector participation in water services will contribute to improving economic and social conditions, job creation, and living conditions for employees and work force employed by the private sector.

Objective

The development objective of the cooperation among the parties to the present project is that Municipalities reducing Non-Revenue Water through application of Performance-Based Contracts with the private sector and the PBC approach can be upscaled for broader application.

Theory of Change

IF WPO in collaboration with municipalities develops a pipeline of bankable NRW reduction projects based on robust feasibility studies, **AND**

IF the set of standardised tools for private sector engagement in NRW reduction (guidelines, frameworks and contracts) developed are then tested, refined and improved based on initial experiences in municipalities with private sector involvement, **AND**

IF PBCs for NRW reduction are then implemented by the municipalities, **AND**

IF the municipalities are supported to monitor the performance of these PBCs, **THEN**

Municipalities will be able to reduce their NRW through private sector involvement and **THEN** PBC contracts can be upscaled to other municipalities for broader application

Outcome based budget

Improved Urban Non-Revenue Water through Increased Private Sector Participation	Budget in DKK (million)
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¹⁸ Annual allocations are subject to Danish Parliamentary approval.

Outcome 1	Standardised tools for NRW reduction with private sector involvement are tested and refined and available, for municipalities to widely roll out	5
Outcome 1 indicator	# of municipalities where performance-based contracts processes are initiated making use of WPO NRW tools	
Outcome 2	NRW reduction projects are developed, procured and implemented through PBCs	45
Outcome 2 indicator	% of prepared and procured NRW projects implemented	
	DBSA management fee (6% of total)	3
	DBSA hosting arrangement	0.3
	Annual external audit	1.0
	Long term advisor	7.7
GRAND TOTAL		62

Implementation of IU-NRW

Under the political leadership of DWS, WPO is anchored in DBSA who will act as legal and financial implementing partner to the project. Progress will be guided by annual work plans and budgets, jointly approved by a Development Partners Management Committee with participation of Denmark and SECO in a joint approach. As part of Denmark’s support to IU-NRW project, a senior technical advisor will be hosted by WPO in DBSA. The Danish support will be disbursed into a dedicated account administered by the DBSA. Disbursements are contingent upon satisfactory submission of progress reports, financial reports and audited statements.

Summary of programmatic and institutional risks

Risks such as underperformance by PBC contractors, reluctance to pay for services by the municipalities, and capacity gaps in managing PBCs are addressed through a strong support architecture as PBCs are incentivised to meet specific targets and help municipalities achieve broader water management goals. This includes technical assistance for robust baselining, training in contract management, independent performance verification for cost savings and additional revenue generated, and phased implementation based on municipal readiness. In areas where consumption data integrity (e.g., SIVs or meter coverage) is lacking, the model may allow for a hybrid baseline strategy—either municipality- or contractor-led, based on feasibility. Main programmatic risks arise if the assumptions underlying the objective of IU-NRW will not be realised (i.e. the creation of an enabling environment for PBCs). Challenges such as corruption, misuse of funds, political resistance to private sector involvement could slow down implementation. To manage and mitigate these risks IU-NRW will continuously focus to ensure responsiveness to evolving challenges throughout the project and only work with municipalities where partnerships have been established.

Citizen driven water security in Gauteng and eThekweni

The Citizen driven water security project is still in preparation by the partners. The project is complementary to the other WRPS projects as it will engage a community approach to address water conservation and water demand management (WC/WDM). These are key priorities in South Africa’s water security strategy and both contribute to tackle the current water crisis. The project recognises that achieving water security in South Africa requires both emergency interventions to reduce demand and prevent crises and long-term water conservation to restore ecosystems and build systemic resilience. On this backdrop, the project will propose a dual-track strategy that blends technical, social, ecological, and financial approaches. The short-term intervention strategy

will focus on making existing water data accessible to citizens as a means to reducing consumption and increasing leak reporting (and repair) in target areas in the Province of Gauteng and the City of eThekweni. The long-term intervention strategy will focus on protecting and restoring targeted Strategic Water Source Areas (SWSAs) that supply water to the to the target areas in Gauteng and eThekweni.

South Africa is under immense hydrological stress. The annual mean rainfall of just 465 mm is half the global average and surface water fully allocated in many catchments. This is particularly evident in high-density urban areas such as Gauteng and eThekweni, where rapid urbanisation and infrastructure failures are compounding demand-supply imbalances. Addressing this crisis demands both immediate action to “buy time” and long-term systemic interventions to ensure sustainable water security.

The project is expected to be implemented by WWF South Africa, which has a strong track record from interventions in and around Cape Town when the metro was facing an extensive water crisis. WWF will collaborate closely with DWS and Water Resource Group 2030 (WRG2030, under the World Bank), hosting respectively sourcing the existing Water Security Dashboard and partnership platforms with private sector.

Expected implementation

A total budget of DKK 35 million has been reserved for this project¹⁹. Targeting the dense high-consumption areas of Gauteng and eThekweni, the project will roll out participatory interventions that aim to shift water use habits, reduce losses, and build local accountability. Demand management campaigns supported by mobile dashboards to provide residents, businesses, and industries with clear information on water usage and availability. These interventions are designed not only to reduce immediate pressure on water systems but also to catalyse behaviour. The long-term track will aim at systemic transformation through nature based solutions, policy alignment, and inclusive governance. This will be reinforced by blended finance mobilisation from public, private, and philanthropic sources to fund ecological infrastructure as a cost-effective and sustainable water solution.

A project Theory of Change, results framework and detailed budget will be developed in close collaboration with WWF and in consultation with relevant stakeholders over the coming months.

3. Budget and Management

The below outcome level budget will be applied at the on-set of WRPS and be refined on an annual basis during implementation after approval by the Embassy of Denmark. Annual allocations are subject to Danish Parliamentary approval.

Metro Trading Services Programme - TA	Total (DKK)	2026	2027	2028	2029	2030
Partner: Cities Support Programme, National Treasury						
Project contribution	85	<i>21.4</i>	<i>22.2</i>	<i>16.9</i>	<i>12.4</i>	<i>12.1</i>
Administration and monitoring	15.3	<i>3.9</i>	<i>4</i>	<i>3</i>	<i>2.2</i>	<i>2.2</i>
Long term advisor	7.7	<i>1.3</i>	<i>1.6</i>	<i>1.6</i>	<i>1.6</i>	<i>1.6</i>
Total	108	<i>26.6</i>	<i>27.8</i>	<i>21.5</i>	<i>16.2</i>	<i>15.9</i>

¹⁹ Annual appropriations are subject to Danish Parliamentary approval.

National Water Reform Competence Development	Total (DKK)	2026	2027	2028	2029	2030
Partner: Department of Water and Sanitation						
Project contribution	41	6.2	10.4	10.2	10.2	4
Administration and monitoring	3.5	0.4	0.7	0.8	0.7	0.9
Long term advisor	7.7	1.3	1.6	1.6	1.6	1.6
Total	52.2	7.9	12.7	12.6	12.5	6.5
Improved Urban NRW through Private Sector Engagement						
Improved Urban NRW through Private Sector Engagement	Total (DKK)	2026	2027	2028	2029	2030
Partner: Water Partnership Office/DBSA						
Project contribution	50	14.5	14.5	10	5.5	5.5
Administration and monitoring	4.3	0.9	0.8	0.9	0.8	0.9
Long term advisor	7.7	1.3	1.6	1.6	1.6	1.6
Total	62	16.7	16.9	12.5	7.9	8
Citizen driven water security in Gauteng and eThekweni						
Citizen driven water security in Gauteng and eThekweni	Total (DKK)	2026	2027	2028	2029	2030
Partner: Department of Water and Sanitation						
Project contribution	32	4.8	6.4	8	8	4.8
Administration and monitoring	3	0.45	0.6	0.75	0.75	0.45
Total	35	5.25	7	8.75	8.75	5.25
Water Reform Programme Support for Sustainable and Reliable Urban Water Supply in South Africa						
Water Reform Programme Support for Sustainable and Reliable Urban Water Supply in South Africa	Total (DKK)	2026	2027	2028	2029	2030
Contribution (total programme)	208	46.9	53.5	45.1	36.1	26.4
Reviews, monitoring (project level)	26.1	5.6	6.1	5.5	4.5	4.4
Communication & advocacy	0.5					
MEAL (programme level)	6	0.5	1	1.5	1.5	1.5
Long term advisors	23.1	3.9	4.8	4.8	4.8	4.8
Unallocated funds	36.3					
Grand total	300					

It should be noted that Project 2, National Water Competence Development, and Project 4, Citizen driven Water Security in Gauteng and eThekweni, are still under preparation by the partners. Adjustment to the yearly budget distribution should therefore be expected.

3.1. Institutional and Management arrangement

WRPS will have annual high level policy conference (oversight committee) chaired by the Director General of the Department for Water and Sanitation and co-chaired with the Ambassador of Denmark. Directors of each of the WRSP projects will participate in the conference. The conference will discuss progress of the programme and provide general policy directions to WRSP in response to the water reform process in South Africa.

The institutional and management structure of the projects within WRPS shall be lean and aligned with the following existing structures:

Metro Trading Services Reform – TA (MTSP-TA): The implementation of the MTSP is anchored in National Treasury (NT), specifically within the Cities Support Programme Unit in the Intergovernmental Relations (IGR) division. The Danish support to MTSP-TA will be channelled through a World Bank executed associated multi-donor trust fund (AMDTF). A National Coordination Committee will meet bi-annually.

National Water Reform Competence Development: Under consideration as part of the ongoing project design process. The aim is to establish a steering mechanism that can encompass other relevant partners for bi-annual meeting.

Improved Urban NRW through Private Sector Engagement (IU-NRW): The WPO is established as an independently managed entity under DWS and is located within the Development Bank of Southern Africa with separate budget using DBSA corporate infrastructure to deliver on its mandate. The Embassy of Denmark will join a Development Partner Management Committee initially established for the SECO support and consisting of representatives of SECO, and management of WPO and DWS. The committee meets bi-annually.

Citizen driven water security in Gauteng and eThekweni: Under consideration as part of the ongoing project design process. A project steering committee meeting bi-annually will most likely be established.

3.2. Organisational set-up

The programme will be managed by Royal Danish Embassy in Pretoria (RDE) with the Embassy being responsible for engaging grant agreements with implementing partners, regular dialogue, monitoring and reporting, as well as dialogue with government representatives and other development partners. The RDE Pretoria's engagement on the WRSP and other aid funded activities managed by the Embassy are integral to its overall operations. The Head of Mission will lead strategic dialogue with programme partners, including in key governing and steering committees.

The day-to-day management is carried out by the RDE cross-cutting Water team composed of a four staff from the development team two staff from the trade team, in total four posted staff and three local staff. Subsequent to the Danish government strategy "Africa's Century", in August 2026, RDE Pretoria will be reinforced with a full-time expatriate development specialist who will head-up the sector-development team and also take an active role in management of the WRPS.

Most implementing partners have robust implementation, monitoring, financial management, and reporting systems in place. However, partners are also key players in a critical reform process and will have a crucial role in managing change with the need to dynamically adapt to major context alterations. On this backdrop, a long term senior advisor will be attached to the three projects with key government partners.

The RDE is represented in steering and technical committees that typically meet on a biannual basis. It will also continue the close and frequent dialogue with programme partners and co-donors on both policy, strategy and operational issues, also with a view to ensuring adaptive management. Each year the RDE will undertake an annual stocktaking review of the WRPS in accordance with the Aid Management Guidelines. This will lead to the production of a short Annual Stocktaking Report.

3.3. Financial management

Denmark will strive for full alignment of the Danish support to the implementing partner rules and procedures, while respecting sound international principles for financial management and reporting and the requirements of the Ministry of Foreign Affairs Financial Management Guidelines²⁰. The minimum requirement for reporting frequency on Denmark’s financial contributions is an audited annual financial statement and a budget monitoring report. The audit shall comprise of a financial audit, including elements of compliance and performance audits.

3.4. Approach to adaptive management

WRPS will operate within a complex reform environment with a charged political economy. The reform is the fruit of a long inclusive process, it is driven at highest level of government with key government departments involved. The roll-out of the reform involves accompanying measures and build-in incentives. However, WRPS progress against the objectives will be conditioned by multiple, sometimes conflicting, demands, interests and capacities. This can mean that projects proceed at different speeds. An adaptive approach will enable the RDE to turn up Danish support for projects that are progressing well, and even above expectations, and reallocate funding in case of stalling of a project. The primary mechanism for achieving this flexibility will be through reallocation between budget lines within projects or between projects.

In addition, unallocated funds have been included in the budget to ensure that WRPS has the agility that is needed when supporting comprehensive reform initiatives. The unallocated funds are included for WRSP to be able to respond to priority engagements when demand exceeds provisions, or to emerging opportunities as indicated in the below table:

Possible response
a. Municipal demand for engaging private sector in NRW reduction through PBC exceeds provisions
b. TA and CB for effective metro water delivery mechanism turnaround exceeds anticipated need
c. Emerging opportunities

Adaptive management requires robust monitoring and decision-making fora. The WRPS partners generally have well established systems for decision-making, strategic planning, and management that present opportunities for Denmark bilaterally as well as in partnership with other donor partners. The findings from these monitoring processes will feed into adaptive management considerations, including the scope for adjustment of results expectations, theory of change (incl. assumptions), updating of risks, use of unallocated funds, reallocations between budget lines etc., leading to a number of possible actions. These will be undertaken in accordance with the relevant Aid Management Guidelines (AMG) and in accordance with the legal basis provided by the Danish Finance Act.

3.5. Monitoring, evaluation, accountability and learning

The WRSP will be closely monitored to ensure that relevant information is fed back into the programme management to facilitate reporting and decision-making relating to any adaptation needed. The basis for programme monitoring is provided by the theories of change (and

²⁰ [General Guidelines for Financial management](#)

assumptions), results frameworks and their indicators, and risk assessments for each of the four projects supported as well as for the programme as a whole.

Three levels of standard monitoring will be applied: 1) regular assessment of changes in contextual factors that influence the implementation environment for each of the projects; 2) programme and project implementation monitoring processes, drawing from reporting from implementing partners; and 3) risk monitoring, including of emerging risks. Additionally, output-based budgets for projects will allow for ongoing follow up on spending and financial management. Each of the implementing partners will report against changes in theory of change assumptions, expected results and possible risks. This will occur through their annual consolidated progress reports as well as the regular updates provided to the Embassy. For three out of four projects, reporting will be joint (the INGO project is the exception). The reporting will be used to monitor overall progress at the overall fund level.

Monitoring will guide the continuous assessment of assumptions, theory of change and risks and feed into reporting and discussions with partners. These discussions will occur regularly and be structured so that they allow consideration of emerging results, any barriers, lessons learned and possible adaptation and use of the unallocated budget. RDE will also participate in site-visits where this is feasible. A Mid Term Review (MTR), ideally with field-based data collection, will be undertaken in 2028.

Given the WRPS focus on critical structural reform in a complex political economy setting, a more comprehensive MEAL effort is indicated. The detailed configuration is under consideration by the national project partners and the donor partners with a view to ensuring an efficient model avoiding duplications. Depending on the level of detail of joint arrangements, Denmark may see the need for a bilateral MEAL set-up. Important elements could include, without being exclusive: monitoring and analysis of data not emanating from projects or partners but relate to evolution in context, annual programme level progress and risk analysis, cross-project comparisons, lessons learned studies, thematic studies, including with regards to WRSP effects on marginalised communities, regular case stories, outcome harvesting.

3.6. Communication of results

The WRSP will programme will utilise the partners' communications set-ups, which are generally strong and provide regular updates regarding the intervention areas and results being achieved. All partners will provide updates on project progress through their websites and social media. The RDE will likewise publicise key events when appropriate.

3.7. Risk Assessment and Risk Management

The risk management framework has been prepared in consultation with key partners, stakeholders and experts. Assessment of risks and assumptions will be included as a regular part of the project's monitoring processes.

The major **contextual risks** are related to the political economy at municipal level. Coalition governments at local level are common in South Africa and have proven to be unstable. Further, local elections are to be held between November 2026 and end January 2027. The key mitigation of these risks resides in the design of the WRSP projects, in particular the MTSP focused on South Africa's eight metros. Councils have approved the Performance Improvement Action Plans. In case of change of leadership, due to elections or other factors, the incoming Council will have to recommit to the plan. As MTSP grant transfers to municipalities are performance based, a Council that does not commit, or does not deliver, will have no access to grant transfers from National Treasury. Thus, the stakes are high if a metro Council should decide to opt out of MTSP. In light of the current crisis of water services provision, it is unlikely that a Council should decide to fully opt out, albeit delays are likely to occur. In case of political turmoil pressure from citizens and industry towards Councils can be expected.

Programmatic risks are mainly linked to capacity restrictions at national level and absorption capacity limitations at municipal level slowing down progress. An adaptive management approach across the programme and in partners' interactions with municipalities will facilitate quick adjustments in case of fading capacity. Absorption capacity at metro level is addressed through a strong support structure within CSP/MTSP communicating effectively with metros ensuring that the technical assistance offer responds to the needs. At another level, risks such as underperformance by PBC contractors, reluctance to pay for services by the municipalities, and capacity gaps in managing PBCs are addressed through a strong support architecture as PBCs are incentivised to meet specific targets and help municipalities achieve broader water management goals. This includes technical assistance for robust baselining, training in contract management, independent performance verification for cost savings and additional revenue generated, and phased implementation based on municipal readiness

The main **institutional risks** relate to failure to deliver WRSP outcomes, which will reflect negatively on Denmark. The risk of project partners engaging in fraud, corruption or human rights violations under activities funded or facilitated by the project is reduced by the choice of partners and close collaboration with donor partners that have been engaged with the national partners over a period of time already. Regarding the two projects that are still under preparation, the choice of implementing partners will be backed by thorough assessment of implementation capacity as well financial management capacity assessment.

Strong monitoring, evaluation, learning and adaptive management systems will be established to support the success of the WRPS. Adequate resourcing, including the secondment of personnel to support these functions, will mitigate risks.

4. Closure

WRSP is focused on a limited number of partnerships with mainly national public partners and one INGO (local chapter). Logically, the public partners mainly rely on national funding but have reached out for donor funding to accelerate the implementation of critical reform initiatives in a context of crisis.

The overarching aim of the national water reform is to ensure a secure and reliable supply of water. WRPS is directed towards key reform actions that are devised to contribute to enhancing sustainability of currently defaulting municipal water services provision, thereby reducing the reliance upon external support. For maximum effect, Denmark's support through WRPS is designed in close collaboration with national partners and jointly with other donor partners resulting in a considerable effort. WSPS's exit strategy is that there will be a gradual movement towards sustainability in municipal services provision. At the end of the programme, the following steps will be taken: i) implementing partners' final reports; ii) responsible unit's final results report (FRR); iii) closure of accounts: final audit, return of unspent funds and accrued interest and administrative closure by reversing remaining provision.

Annexes

Annex 1: Context Analysis

1. Overview

South Africa is a water-stressed, semi-arid country that routinely experiences extreme weather events such as droughts and floods. Rainfall distribution is highly uneven, with approximately 43% of the country's total rainfall concentrated over just 13% of its land area. Overall, rainfall is both insufficient and unreliable, with an average annual precipitation of about 450 mm, well below the global average of around 860 mm. This scarcity and variability pose ongoing challenges for securing reliable water supply across the country.

Water availability is critical to nearly every aspect of South Africa's development and is closely linked to almost all of the 17 Sustainable Development Goals (SDGs). Ensuring equitable and sustainable water provision requires coordinated efforts across different levels of government and sectors, emphasizing integrated and systemic approaches. Municipalities face significant infrastructure challenges which range from water supply and sanitation to roads, rail, ports, and logistics that hamper their ability to deliver basic services as mandated by the constitution. These infrastructure deficits, combined with rapid urbanisation and population growth, place immense pressure on water provision systems. Addressing these issues is essential for improving service delivery and promoting social equity.

South Africa's constrained fiscal environment further complicates efforts to expand and maintain water infrastructure and services. Urgent investment and support are needed to overcome these limitations and tackle the persistent social challenges rooted in poverty, inequality, and unemployment. Poor social inclusion remains a key barrier to sustainable development and must be addressed through comprehensive, inclusive policies.

This context document provides a detailed situation analysis which is the problem that the WRPS programme seeks to address by contributing to solutions focused on water provision and social inclusion. It includes a poverty and inequality analysis, political economy and stakeholder assessment, and adopts a human rights-based approach. Additionally, it considers migration patterns relevant to South Africa and identifies key challenges to social inclusion, sustainable growth, development, and environmental sustainability in the context of water resource management.

2. Poverty and Inequality Analysis

Apartheid-era policies entrenched spatial and social segregation, systematically denying poor South Africans access to essential services, including water. This legacy persists today, with many urban poor residing in informal settlements that lack basic infrastructure. These areas often face overcrowding, inadequate sanitation, and limited access to clean water, perpetuating cycles of poverty and poor health outcomes. Income levels significantly influence access to water services. High-income households are more likely to have reliable in-house water connections, while low-income households often rely on communal taps or informal sources. This disparity is evident in large cities, where migrants in higher income brackets have a 96.5% chance of accessing in-house water, compared to just 8.4% for those with no income or in the low-income bracket. Urban areas, particularly informal settlements, face significant infrastructure deficits. Many communities lack access to basic water supply services, and existing infrastructure is often poorly maintained. This situation is compounded by rapid urbanisation, which increases demand for water services, and climate change, which affects water availability. Inadequate infrastructure and service delivery failures disproportionately impact the urban poor, exacerbating their vulnerability to water-related challenges. Poor governance and corruption have hindered effective water service delivery. In some cases, residents of informal settlements face water shortages due to mismanagement and corruption, leading to health crises and social unrest. For instance, in Hammanskraal, a cholera outbreak resulted from inadequate water treatment, highlighting the severe consequences of

governance failures. Whilst all of Gauteng is currently in a water crisis, with most households experiencing intermittently interrupted water services, two issues differentiate vulnerable communities: i) relatively poor access to basic services and a low standard of living; and ii) lack of financial resources to adapt. Non-revenue water (NRW) therefore impacts these communities the most, resulting in negative social and environmental outcomes.

Addressing the complex relationship between water services provision and poverty in South Africa's urban settlements requires a multifaceted approach that considers historical injustices, socioeconomic disparities, infrastructure deficits, governance challenges, and the active involvement of affected communities.

3. Political Economy and Stakeholder Analysis

South Africa is a constitutional democracy with a multiparty-political system. Since the end of apartheid in 1994, the country has made significant strides toward democratic governance. However, political stability in South Africa faces challenges, including intra-party factionalism, periodic social unrest, and contestation over service delivery. Water services, being a vital public good, often become a flashpoint for protests in urban and rural areas, particularly in marginalized communities where access is limited or unreliable. Political stability is crucial for sustained investment and reform in the water sector. Instability and governance disruptions can delay infrastructure projects, discourage private sector engagement, and reduce overall confidence in the government's ability to manage water resources equitably and efficiently.

3.1. Social, Political, Economic and Institutional Factors

Social Factors: South Africa's society is deeply marked by socioeconomic inequalities. Poverty, unemployment and spatial segregation continue to affect access to water services, especially in informal settlements and rural areas. Social cohesion can be strained by unequal access to water, leading to conflicts and demands for equitable service provision.

Political Factors: The African National Congress (ANC) dominates the political landscape, but growing dissatisfaction among citizens over service delivery and corruption poses risks to political legitimacy. Opposition parties and civil society actively engage in water governance debates, advocating for transparency, improved access and sustainable management.

Economic Factors: South Africa's economy is characterised by significant disparities in wealth and income. Water infrastructure investments compete with other pressing development priorities. Economic slowdowns and budget constraints impact funding availability for water projects, especially in underdeveloped urban areas.

Institutional Factors: The water sector involves multiple institutions, including the Department of Water and Sanitation (DWS), local municipalities, water boards, and regulatory bodies. Fragmentation and overlaps in institutional mandates sometimes cause inefficiencies, confusion over responsibilities, and delays in policy implementation.

3.2. Rent Extraction and Sustainable Development

In the context of South Africa's water sector, rent extraction refers to the appropriation of economic benefits by certain actors, often through corrupt or non-transparent practices. This includes siphoning funds meant for infrastructure development or exploiting regulatory loopholes to gain financial advantages. Rent-seeking behaviours undermine sustainable development by diverting resources away from essential investments in water infrastructure and services. They also erode public trust in institutions and weaken the government's ability to deliver equitable and reliable water access. To counter rent extraction, robust governance frameworks, transparent procurement processes, and vigilant civil society monitoring are essential. Sustainable development in water services requires balancing economic growth, social equity, and environmental stewardship.

3.3. Legitimacy of the Political Process and Barriers to Participation

The legitimacy of South Africa's political process is generally accepted domestically and internationally, given its democratic framework and regular elections. However, legitimacy is challenged by perceptions of corruption, inefficiency and exclusion from decision-making. Barriers to participation exist, especially for marginalised groups such as residents of informal settlements, women and rural communities. These groups often lack adequate platforms to influence water governance decisions that directly affect their lives. Language, literacy, and socio-economic status further compound their exclusion. Improving participatory governance requires inclusive mechanisms such as community water committees, public consultations and capacity-building programs that empower citizens to engage effectively in policy and service delivery discussions.

3.4. Public Sector Capacity for Policy Implementation

South Africa's public sector demonstrates a mixed capacity in implementing water policies. While there are experienced professionals and established institutions many municipalities and local government bodies struggle with limited technical skills, inadequate financial management and poor coordination. Capacity constraints affect service delivery quality and hinder the scaling up of infrastructure projects. Additionally, challenges in data management and monitoring weaken the government's ability to track progress and respond to emerging issues effectively. Strengthening public sector capacity involves investing in human resources development, improving inter-institutional coordination, and adopting innovative technologies for water management and service delivery.

3.5. Issues of Corruption and Accountability

Corruption remains a significant challenge in South Africa's water sector. It manifests in the misappropriation of funds, irregular contracts and bribery related to water services procurement and infrastructure projects. Corruption disrupts service delivery, inflates costs and undermines public confidence. Accountability mechanisms are in place, including oversight by parliamentary committees, the Auditor-General and anti-corruption agencies like the Public Protector. However, enforcement is sometimes weak, and prosecutions are limited. Enhancing accountability requires strengthening institutional checks and balances, fostering transparency through open data initiatives and empowering civil society and media to hold officials accountable.

3.6. Stakeholders in South Africa's Water Sector

Government Bodies: Department of Water and Sanitation (DWS), local municipalities, water boards, regulators.

Political Entities: Political parties (ANC, DA, EFF, etc.), parliamentary committees, local government councils.

Civil Society: NGOs, community-based organizations, advocacy groups focusing on water rights and environmental sustainability.

Private Sector: Construction firms, water service providers, consultants, technology vendors.

International Donors and Partners: Multilateral agencies (World Bank, African Development Bank), bilateral donors, technical assistance providers.

Communities and Water Users: Urban and rural residents, informal settlement dwellers, farmers, industries.

The political economy of South Africa's water sector reveals complex interdependencies between democratic governance, socio-economic inequalities, institutional capacity and corruption. Sustainable and equitable water services require addressing these systemic challenges through inclusive participation, strong governance, transparency and investments in capacity building.

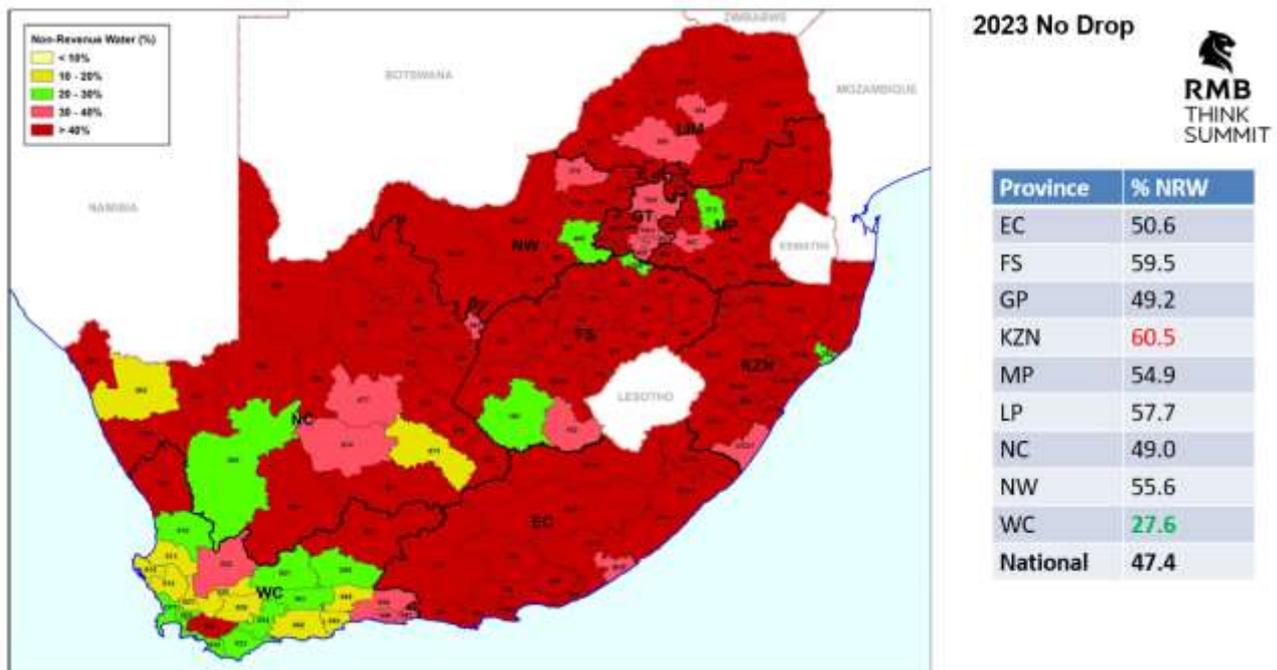
4. The pivotal role of municipalities

In South Africa, municipalities are designated as Water Services Authorities (WSAs), responsible for ensuring access to water and sanitation services. This includes infrastructure development,

maintenance and service delivery to households. However, many municipalities struggle with aging infrastructure, financial constraints and governance issues leading to service delivery failures.

Recent assessments, such as the Blue Drop, Green Drop and No Drop reports, have highlighted a decline in water and sanitation services across various municipalities. The Department of Water and Sanitation (DWS) has identified 105 municipalities in critical and poor-performing categories. Factors contributing to this decline include inadequate investment in infrastructure, poor maintenance, and increasing demand in urban areas.

Figure 1: Non-revenue water percentages in South Africa



Recent Findings (2023 No Drop Report) indicate:

- High level of non-revenue water (NRW): The national average NRW in 2023 is estimated at about 47%, up from around 37% in 2014.
- Certification results: Only 4 WSAs (municipal water authorities) scored over 90% and qualified for No Drop Certification in 2023. This is a steep drop from 2014, when 44 municipalities achieved that level.
- Distribution of scores: Many WSAs performed poorly. For example, 65 WSAs scored below 50%. Some scored between 80–90%, but very few hit the top bracket.
- Regional/high-profile cases: Gauteng, despite being relatively well-resourced, has very high NRW of approximately 49.5%. Other provinces such as KwaZulu-Natal, Free State, and Limpopo are also among those with elevated NRW.
- Water usage per person: Average per capita water consumption is quite high, approximately 216-218 litres per person per day, compared to an international average closer to approximately 170l/c/d. For a water-scarce country, this is an anomaly.

4.1. Key Trends and Challenges

- Worsening NRW over time: Significant increase in water lost or not billed over the past decade.
- Low performance by many municipalities: Many WSAs are scoring poorly, often below 50%.
- Infrastructure problems: Leaks, old or deteriorating pipe networks and insufficient maintenance.

- Metering, billing, revenue collection issues: Faulty or missing water meters, unbilled consumption, illegal connections and poor debtor management.
- Data and reporting gaps: Some WSAs failed to submit data in the assessment.
- Mismatch between policy and execution: While the legal or regulatory framework and strategies for water demand management exist, execution (maintenance, repairs, financial management) is often weak.

4.2. Implications for Water Service Provision

- High NRW undermines municipal finances: treating and distributing water that cannot be billed or collected is wasteful, reducing revenue needed for operation, maintenance and expansion.
- Reduced water security: with nearly half of treated water lost, less water is reliably available for users, increasing the risks of shortages and supply interruptions.
- Equity and affordability concerns: poor communities often suffer more when supply is unreliable or when municipalities respond with measures that may raise costs.
- Service reliability: leaks and system inefficiencies undermine service quality and access, especially in informal settlements or under-resourced municipalities.
- Urgency for investment: upgrading infrastructure, improving metering and billing systems and strengthening municipal capacity become essential.

4.3. Transitioning to a New Delivery Model

To address these challenges, the South African government is implementing reforms aimed at restructuring water service delivery. The Water Services Amendment Bill proposes:

- Separation of Functions: Distinct roles for Water Services Authorities and Water Service Providers to enhance accountability.
- Ringfencing Revenues: Ensuring that funds generated from water sales are exclusively used for water-related services.
- Operating Licenses: Introducing a licensing system for Water Service Providers to ensure compliance with national standards.

Additionally, the Treasury's Metro Trading Services Reform Programme (MTRSP) combines financial incentives with institutional reforms to improve municipal water and electricity services. Additionally, recognising the need for collaboration, the DWS is engaging in public-private partnerships, particularly with industries like mining, to jointly fund infrastructure projects. These partnerships aim to provide bulk water to industries while also serving community needs. Furthermore, the New Development Bank has approved a loan of up to USD 1 billion to support water and sanitation projects targeting poorer communities in South Africa. This funding will be allocated under the country's Municipal Infrastructure Grant (MIG) to reduce service backlogs and enhance basic service provision in underprivileged areas.

4.4. Challenges and Considerations

Despite these efforts, the transition to a new water service delivery model faces several challenges:

- Resistance to Change: Municipalities may resist reforms due to constitutional protections and vested interests.
- Accountability Issues: Ensuring effective oversight and accountability remains a concern, especially in underperforming municipalities.
- Infrastructure Limitations: Addressing aging infrastructure and meeting increasing demand requires substantial investment and planning.

South Africa’s move towards a new model of water service delivery reflects a comprehensive approach to addressing longstanding challenges in the sector. While reforms are underway, their success will depend on effective implementation, collaboration among stakeholders, and sustained investment in infrastructure.

Figure 2: Current situation in Water Services Authorities

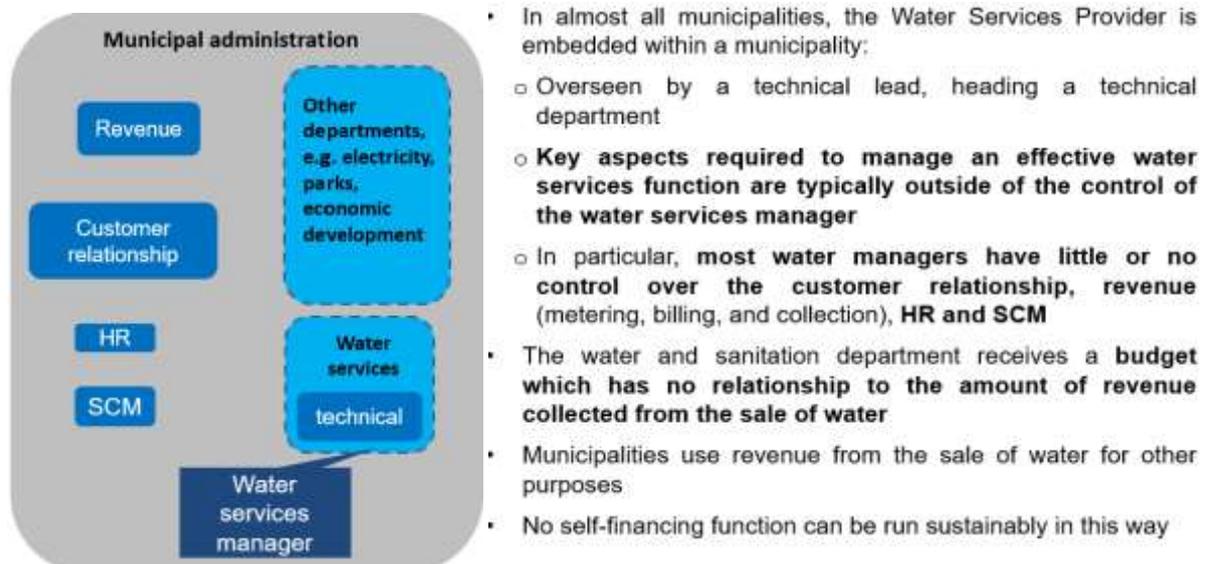
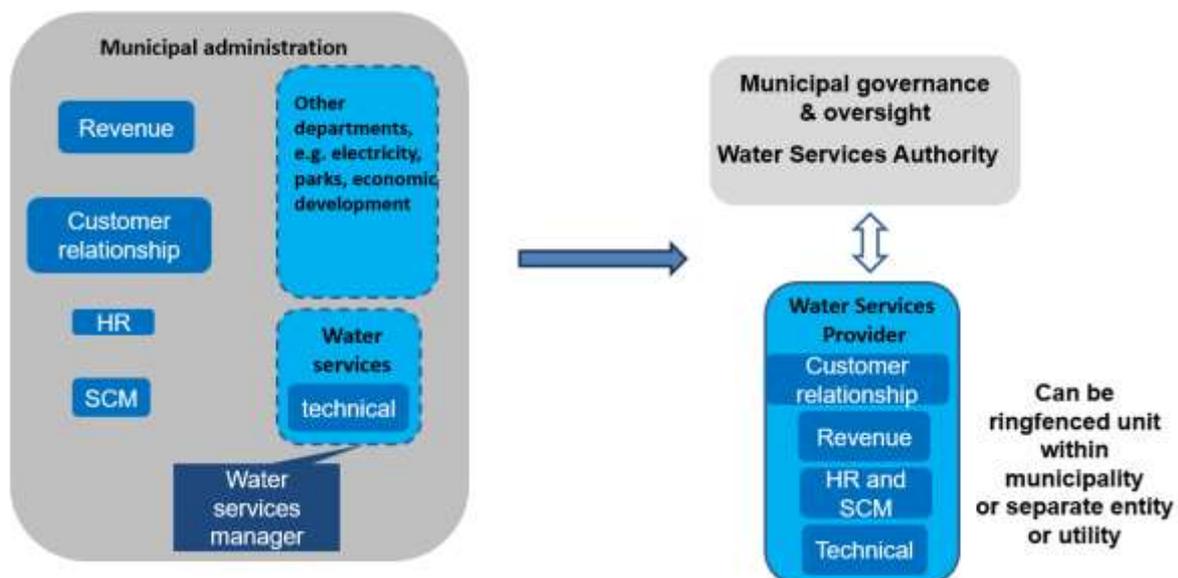


Figure 3: Shift towards a utility model



5. A Human Rights-Based Perspective

Access to safe, reliable and affordable water is a fundamental human right. However, in South Africa, millions of poor residents living in urban informal settlements continue to face significant barriers to accessing this essential service. These communities often experience inadequate water

infrastructure, inconsistent supply, and poor water quality conditions that undermine health, safety and dignity.

5.1. Water Access Challenges in Urban Informal Settlements

Urban informal settlements are characterised by overcrowding, lack of formal infrastructure and socio-economic marginalisation. Water provision in these areas is frequently irregular or informal, with many households relying on communal taps, water vendors or unsafe water sources. This precarious access not only threatens public health but also exposes residents especially women and children to safety risks as they spend considerable time and effort securing water.

Municipalities tasked with water service delivery face significant challenges in these settings, including:

- Aging and inadequate infrastructure that struggles to meet the growing demand from rapidly expanding settlements
- High levels of Non-Revenue Water (NRW) due to leakages, illegal connections, and poor maintenance, which reduce available water for households
- Financial constraints and capacity shortages, limiting municipalities' ability to extend services or maintain existing systems
- Governance and corruption issues that divert resources away from marginalized communities

5.2. The Gendered Impact of Water Service Deficits

Women and girls in informal settlements disproportionately bear the burden of water scarcity. They often travel long distances to collect water, sacrificing education, work and safety. The lack of nearby, reliable water sources increases their vulnerability to gender-based violence and health issues. Despite their central role in water management at the household level, women's needs and voices are frequently overlooked in water planning and delivery. A gender-responsive approach to urban water service provision is crucial. It must recognise and address these inequalities by involving women and youth in decision-making, designing safe water points and tailoring services to their specific needs.

5.3. Legal and Policy Framework Supporting Water Rights for the Urban Poor

South Africa's Constitution guarantees the right to sufficient water for all, including those in informal settlements. The Free Basic Water (FBW) Policy aims to provide at least 6,000 litres of free water per month to low-income households, supporting basic health and hygiene. However, this policy often does not reach many urban informal settlements due to lack of formal service connections.

The National Water Act (1998) and other legal instruments provide a framework for equitable water management but face significant challenges in implementation at the municipal level especially in poor urban areas where infrastructure and governance constraints are most acute.

5.4. Barriers to Effective Water Service Delivery in Poor Urban Areas

- **Inadequate Infrastructure and Maintenance:** Informal settlements frequently lack formal piped water connections, relying on communal taps or unsafe sources. Maintenance is often neglected due to resource limitations.
- **High Non-Revenue Water (NRW):** Water losses from leaks and illegal connections reduce the volume of water available for distribution, disproportionately affecting low-income households.
- **Poor Governance and Corruption:** Mismanagement of funds and weak oversight hinder investment in water infrastructure upgrades necessary for informal settlements.
- **Social and Economic Inequality:** Poverty, marginalisation and social exclusion restrict residents' ability to advocate for improved services and pay for water when available.

- **Discrimination and Exclusion:** Gender biases and social inequalities often exclude women, youth and persons with disabilities from decision-making processes regarding water services.

For millions of poor South Africans living in urban informal settlements, access to safe, affordable, and reliable water services remains an unmet promise. A human rights-based approach that centres on the needs of the poor and marginalised especially women and youth is critical to closing these gaps. Strengthening municipal water service provision through infrastructure investment, reducing NRW, enhancing governance and promoting inclusive participation will be essential steps toward realising the constitutional right to water. Only through these efforts can South Africa move closer to ensuring that all urban residents, regardless of their socio-economic status enjoy equitable and dignified access to this vital resource.

6. Migration

Migration, both internal (i.e., rural-to-urban) and cross-border, has had a profound and growing impact on urban water service provision in South Africa. Internal migration is driven by persistent inequalities between rural and urban areas in terms of employment opportunities, access to services and quality of life. According to Statistics South Africa, the country's urban population increased from around 52% in 1990 to over 67% by 2021, largely due to rural-to-urban migration. At the same time, South Africa has become a major migration hub in the region, receiving an estimated 2.9 million documented international migrants as of 2020. This influx, combined with natural population growth, has accelerated urbanisation in major metros like Johannesburg, Cape Town, Tshwane and Durban, placing significant pressure on water infrastructure that is already ageing, unevenly distributed and underfunded.

South Africa has a relatively open legal framework for asylum seekers and it is a signatory to the 1951 UN Refugee Convention and the 1969 OAU Refugee Convention, which obligates it to provide protection to those fleeing persecution or conflict. However, the legal immigration process can be slow, under-resourced and bureaucratic, which discourages or delays access to legal status for many. This results in illegal migrants who settle in informal settlements.

Many urban centres have experienced the rapid expansion of informal settlements, which often lack access to piped water, proper sanitation and stormwater management systems. In Johannesburg alone, it is estimated that over 20% of the population lives in informal dwellings. These areas are typically characterised by high population densities, limited municipal oversight and inadequate infrastructure planning. The pace of migration frequently outstrips the ability of local governments to provide sufficient water services, resulting in unequal access, intermittent supply and poor water quality especially in low-income and peri-urban communities. Furthermore, migration introduces complexities in municipal water planning. The unpredictable nature of migration flows, particularly cross-border migration, makes it difficult to forecast future water demand accurately. Municipalities often face significant financial, technical and institutional capacity constraints, limiting their ability to expand or upgrade water infrastructure. Additionally, social and political tensions can emerge when local populations perceive migrants as competing for already scarce resources, sometimes fuelling xenophobia and resistance to inclusive service provision.

While migration contributes positively to economic dynamism and cultural diversity in urban areas, it also underscores the urgent need for integrated urban planning, targeted infrastructure investment and inclusive policies to ensure equitable and sustainable access to water in South Africa's cities. Without proactive planning and adequate funding, urban water systems will continue to face mounting pressure, with serious consequences for public health, environmental sustainability and social cohesion.

7. Inclusive sustainable growth, climate change and environment

South Africa faces significant challenges related to climate change, biodiversity loss, and environmental degradation, all of which threaten poverty eradication and the achievement of SDGs and national development objectives. The implications are widespread, affecting economies, communities, and the environment.

7.1. Climate change, biodiversity loss, environmental degradation, and poverty

Climate change is one of the most pressing threats to South Africa's urban water service provision, directly affecting water availability, infrastructure, and equity in access. South Africa is expected to warm at approximately twice the global average, making it highly vulnerable to the impacts of climate change. These include more frequent and intense droughts, heatwaves, and flooding events all of which impact the quantity and quality of water resources. According to the Department of Water and Sanitation (DWS, 2023), the country's water security is increasingly at risk, with the phrase "water security is climate security" reflecting the centrality of water in South Africa's climate adaptation agenda. Climate impacts manifest across the entire water value chain from abstraction, storage, treatment, distribution and sanitation, disrupting not only water supply but also food systems, energy production, public health and overall urban resilience.

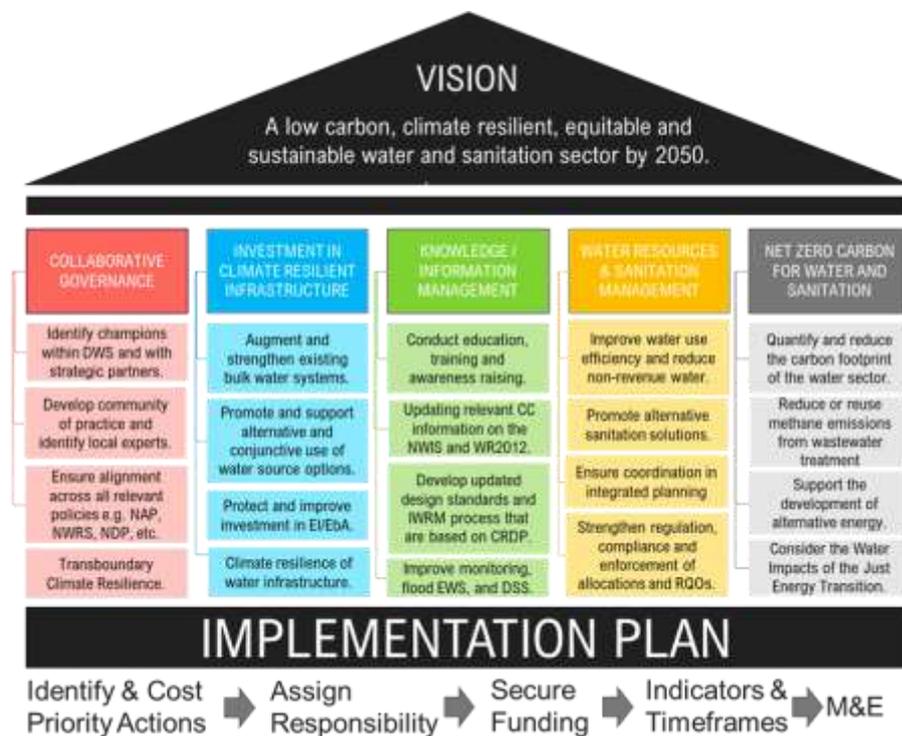
Urban centres like Johannesburg, Cape Town, Tshwane and Durban are already facing significant water stress, driven by the combined effects of climate change, population growth, rural-to-urban migration, and inadequate infrastructure investment. The 2018 Day Zero crisis in Cape Town highlighted the acute vulnerability of South African cities to climate-induced water shortages. Prolonged droughts reduce reservoir levels and groundwater recharge, while floods and extreme rainfall events damage water infrastructure and pollute freshwater sources, particularly in informal settlements where sanitation systems are weak or non-existent. According to the Intergovernmental Panel on Climate Change (IPCC) Sixth Assessment Report, such risks are intensified in developing countries like South Africa where socio-economic conditions such as poverty, inequality, and poor governance limit adaptive capacity.

South Africa's limited dam capacity per capita, despite its extensive dam infrastructure, further exacerbates the issue. The Notre Dame Global Adaptation Initiative (ND-GAIN) ranks South Africa 96th out of 182 countries in terms of climate vulnerability and adaptation readiness, with particularly poor scores for projected changes in agricultural yields and dam storage capacity. The country's upstream Strategic Water Source Areas (SWSAs), such as the Lesotho Highlands and the Drakensberg region, are critical for supplying urban and industrial users, especially in Gauteng, South Africa's economic hub. However, these high-value water sources are highly sensitive to climate variability. The Lesotho Highlands Water Project, which provides both hydropower and bulk water transfers to South Africa, is at growing risk from reduced rainfall and shifting snowpack patterns. The security of these systems is not only a domestic concern but also a transboundary issue, with South Africa sharing river basins like the Limpopo and Orange with neighbouring countries. Effective climate-adaptive governance and regional cooperation are therefore essential for long-term water security.

In response to these challenges, the South African government has introduced several policies and strategies to build climate resilience in the water sector. The DWS Climate Change Response Strategy (2023) outlines a national framework for integrating climate change into water planning, infrastructure development, and service delivery. It emphasises capacity-building at municipal levels, improved data for vulnerability assessments and increased access to climate finance for infrastructure upgrades. Water adaptation measures are being prioritised in water-stressed systems such as the Vaal-Orange and Limpopo-Olifants, with a focus on reducing non-revenue water, improving catchment management and enhancing intergovernmental coordination. These measures are aligned with South Africa's international climate commitments, including its

Nationally Determined Contribution (NDC) under the Paris Agreement, which identifies water as a priority adaptation sector.

Figure 4: The DWS Climate Change Response Strategy



Climate change is not only an environmental issue but a systemic development challenge that threatens South Africa’s urban water security, economic stability and social equity. Ensuring reliable and equitable urban water provision in the face of increasing climate risk will require coordinated action across all levels of government, strengthened infrastructure investment, inclusive governance and robust transboundary cooperation. Climate adaptation in the water sector must be central to South Africa’s Just Transition, balancing ecological sustainability, economic efficiency and social justice to protect the most vulnerable and ensure long-term urban resilience.

8. Green Transformation and water security in South Africa

An effective and inclusive green transformation is essential to improving the security and sustainability of urban water supplies in South Africa, particularly in addressing the critical issue of Non-Revenue Water (NRW). Such a transformation supports the country’s goals of sustainable water management and enhances service delivery to vulnerable populations who are most affected by water shortages and unreliable supply. Despite having a relatively advanced set of water and environmental policies, South Africa faces challenges in integrating local water management efforts with broader sustainable development objectives. This fragmentation often results in uncoordinated responses to water losses and inefficient water use, which are especially problematic in rapidly growing urban areas like Gauteng metros.

A green transformation in South Africa’s water sector must prioritise investments aimed at upgrading and maintaining water infrastructure to significantly reduce NRW. Key measures include:

- **Modernising Water Supply Systems:** Incorporating smart water management technologies such as advanced leak detection, pressure management and automated metering to improve efficiency and reduce losses.

- **Regular Infrastructure Maintenance:** Establishing proactive maintenance programs to prevent infrastructure deterioration and water leakages that contribute to NRW
- **Strengthening Regulatory Frameworks:** Enhancing regulations to improve accountability and transparency in municipal water management. Setting clear, performance-based metrics for water utilities will promote operational efficiencies and incentivise NRW reduction
- **Incentivising Best Practices:** Introducing targeted incentives and support programs for municipalities that demonstrate measurable progress in reducing NRW, encouraging innovation and the adoption of effective water management practices.

Building the technical capacity of municipalities is equally important. Many local governments currently lack the necessary resources and expertise to implement and sustain advanced water management practices. Capacity-building initiatives, including training programs and knowledge sharing, are vital to empower municipal staff to manage water services efficiently and to respond effectively to water supply challenges. Furthermore, an inclusive approach that engages communities in water conservation and management will help ensure that water provision strategies meet the needs of all residents, particularly those in underserved and vulnerable urban areas.

Advancing a green transformation focused on water provision is critical to addressing NRW and strengthening South Africa's urban water security. This requires coordinated policy integration, targeted investments in infrastructure and technology, strengthened regulatory oversight, and enhanced municipal capacity. By doing so, South Africa can improve water service reliability, reduce wastage and support equitable access to water laying the foundation for more sustainable and resilient urban water systems.

Metro Trading Services Programme in City Support Program (CSP)

To address the declining service delivery level in South Africa's eight metros, National Treasury established the Cities Support Program (CSP) working with relevant Departments and the metropolitan municipalities. CSP has entered its third phase and is introducing the Metro Trading Services Programme (MTSP) to implement the trading services reform agenda for water, electricity and solid waste. This initiative is among the priority actions in Operation Vulindlela II. The reform is driven by a need to introduce a performance-based approach to support the turnaround in the financial, operational, and corporate performance of the trading services.

Summary of CSP capacity assessment

CSP is housed in the National Treasury (NT) within the intergovernmental relations division (IGR) for more than a decade. CSP has 12 number of professional staff, with women in all leading positions. MTSP is part of CSP and staff will augment to 20 with the additional eight staff dedicated to MTSP. MTSP is supported through a World Bank-executed associate multi-donor trust fund under the SURGE, to contract highly qualified national and international consultants to assist in technical issues. SECO has supported CSP over the past 10 years and will continue their support for a coming 5-year period supporting both CPSIII and MTSP work programme.

Being housed at National Treasury and aimed at supporting spheres of government, CSP is a strong partner. They have the ear of government partners. MTSP aims to support metros in leadership coaching and sustainable, climate resilient infrastructure planning, budgeting and financing, amongst other activities. These activities contribute towards strengthened urban water and sanitation management and more efficient (and financially sustainable) water supply services. CSP/MTSP approach is closely coordinated with Department of Water and Sanitation, it is effective and has the capacity and links to National Treasury in achieving the intended results related to the support from WRPS, noting the existing legal framework and structural reform programme, which promotes collaboration amongst spheres of government.

MTSP's objectives remain pertinent, given the ongoing challenges of declining municipal trading services halting sustainable urban development. The CSP has been instrumental in driving fiscal and policy reforms, as well as promoting cooperative governance by aligning the mandates of various national and local entities. With the addition of the performance driven MTSP, and incentive grants amounting to USD 3 billion over 6 years, the reform has gained momentum.

CSP, under National Treasury, aligns with South African Labour Law under Employment Equity Act (EEA) and its code of good practice. This includes handling of sexual harassment cases in the workplace. This code provides guidelines for employers and employees on preventing and eliminating sexual harassment and ensuring a safe and respectful work environment. National Treasury also has policies in place on prevention, elimination and management of sexual harassment in the workplace.

Summary of CSP/MTSP features

Name of Partner	Core business What is the main business, interest and goal of the partner?	Importance How important is the project/programme for the partner's activity-level (Low, medium; high)?	Influence How much influence does the partner have over the project/programme (low, medium, high)?	Contribution What will be the partner's main contribution?	Capacity What are the main issues emerging from the assessment of the partner's capacity?	Exit strategy What is the strategy for exiting the partnership?
City Support Programme	Creating capable, well-performing and sustainable service utilities providing reliable and affordable services to citizens and businesses in support on government's top priority, inclusive economic growth.	High: With MTSP, CSP is expanding its activities, investing USD 3 billion in turnaround of metro trading services, which will require additional funding to capacitate metro municipalities and trading services.	High: The Results framework sets the overall direction. Implementation will be delivered according to demand from metros.	The partner will continue to champion the reform agenda and leverage USD 1 to 3 billion for investments in the metro trading services, of which an estimated 40% for water and sanitation services.	Strength: Strategic focus: the CSP/MTAPS has clear strategic framework aimed at improvement of capacity of cities and it fosters collaboration Weakness Effective implementation challenges across different municipalities Opportunities: CSP/MTSP can contribute to economic growth and over time enhance equality and climate resilience. Threats: Changes in political leadership and priorities in continuity of the program and economic downturns which may impact on funding.	After end of support, it is anticipated that National Treasury together with Department of Water and Sanitation take over full responsibility for continued financial support to municipalities and it is assumed that metros and water trading services will have the capacity to develop and finance their own investment programmes.

National Water Partnership Office (WPO)

The National Water Partnership Office (WPO) is mandated to implement the National Water Partnerships Programme (NWPP), a programme for accelerated development of water and sanitation infrastructure through increased private sector participation. The WPO is initiated by the Department of Water and Sanitation (DWS) and functions as a ring-fenced national implementing office in the Development Bank of Southern Africa (DBSA), which serves as the mandated implementing partner. Additionally, the WPO collaborates with the South African Local Government Association (SALGA) to assist municipalities in creating bankable projects. These projects focus on key areas such as reducing non-revenue water and promoting water reuse, ultimately enhancing water service delivery at the municipal level.

The primary objective of the WPO is to facilitate public-private partnerships, thereby enhancing investment in water and sanitation projects. This is done by assisting municipalities to prepare, structure, design, finance and implement water services projects and improve service delivery, within each of the standardised programmes adopted and implemented under the NWPP.

Summary of partner capacity assessment:

The WPO, as part of the DWS, holds the power to drive change and create meaningful impact, as it supports urban municipalities by developing bankable projects aimed at reducing non-revenue water and promoting water reuse, ultimately improving water service delivery at the local level.

The WPO currently operates with a manager overseeing six programs, each led by a program lead, supported by an administrator and technical specialists. WPO is only in its 2nd year of operation and still building up staff capacity and still in the process of developing proof of concept on PBCs in the water sector building on robust experience in the energy sector.

The only programme within WPO fully staffed is that of NRW. WPO has established agreements with six metros for the NRW Program and has requests for non-revenue water projects from an additional eight urban municipalities. WPO has secured funding from SECO and the Green Climate Fund (GCF), demonstrating the partner's financial credibility.

WPO aligns with national and regional gender equality frameworks (i.e., Employment Equity Act). One of the WPO key performance indicators is: increased participation of women, youth and marginalised groups in water and sanitation provision.

The WPO operates as a ring-fenced unit within the DBSA, utilizing the bank's corporate infrastructure, including human capital, procurement, and financial management. As a result, it adheres to the policies, systems, and procedures established by the DBSA for these support functions. However, the WPO independently develops its own technical content, for which the DBSA does not assume responsibility.

WPO operates within the framework of South Africa's public service policies. As a result, it is required to comply with national guidelines and regulations governing Sexual Exploitation, Abuse, and Harassment (SEAH).

Development Bank of Southern Africa

DBSA has a notable track-record in financing sustainable infrastructure. Water investment projects represent the largest single sector in DBSA's portfolio. DBSA has more than 600 permanent staff and is engaged in long-term collaborations with a large number of partners, including EIB, KfW and AFD. Impact Fund Denmark is soon to launch a concessional loan of €100 million to be managed by DBSA (see below).

DBSA's arrangements regarding financial management and other safeguards are satisfactory. DBSA has a robust financial management set-up that is in accordance with the requirements for the financial management of Danish development assistance. Budgeting procedures are sound and

budgets are prepared in accordance with the structure of project/programme results framework. DBSA applies a solid accounting system that delivers relevant data for reporting purposes and has a reliable and regular back-up system. There is no cash environment. Finance and procurement are headed by the CFO and supervised by a DBSA supply chain committee.

Funds are ring-fenced in dedicated accounts and DBSA is audited annually by both private auditors and the Auditor General of South Africa. DBSA further has an internal audit function supported by probity audits and an audit committee. The compliance department issues and monitors policies against fraud, theft, system integrity issues and conflict of interest. Training in these areas is mandatory for staff. Further, DBSA has a whistle blower arrangement. DBSA uses the anti-terror Dow Jones instrument and National Treasury also has instruments where vendors are vetted against tax omission etc. Safeguards against misuse of children and sexual harassment are part of compulsory training.

EU Pillar assessment of DBSA has been carried out starting with a positive grants and procurement assessment in 2021. The remaining pillars have undergone assessment, the official response from EU Commission is pending²¹.

Impact Fund Denmark/Public Infrastructure Finance is preparing to launch a loan package of €100 million for municipal water and energy projects. The package will be managed by the Development Bank of Southern Africa (DBSA) and will be part of the opportunities for metros engaged in the MTSP. Moreover, Impact Fund Denmark is in the final stages of negotiations with the Water Partnership Office (WPO) on a first contribution to a non-revenue water guarantee instrument that WPO is establishing to provide cover to lenders on the municipal credit risk in the context of non-revenue water projects delivered through performance-based contracts. A first contribution of DKK 37 million is expected to test the approach before scaling to a broader portfolio of public/private non-revenue water projects.

²¹ Depending on the nature of the official response, there might be a need to reconsider specific elements of the financial management of the IU-NRW project.

Name of Partner	Core business	Importance	Influence	Contribution	Capacity	Exit strategy
	What is the main business, interest and goal of the partner?	How important is the project/programme for the partner's activity-level (Low, medium high)?	How much influence does the partner have over the project (low, medium, high)?	What will be the partner's main contribution?	What are the main issues emerging from the assessment of the partner's capacity?	What is the strategy for exiting the partnership?
WPO	WPO offers a comprehensive range of services to municipalities and water boards, supporting them in the preparation, structuring, design, financing, procurement, and implementation of water service projects. Through these efforts, WPO aims to enhance service delivery within each of its standardized programs.	Medium to high: The programme will support partners in establishing a proof of concept and replication to facilitate public-private partnerships (PPPs), including through Performance-based Contracts in the water sector	High While the program has a logical framework outlining all activities, the specific outputs to be delivered by WPO will be elaborated responding to demands from municipalities. Guidance from WPO will influence the implementation of the project.	The partner has successfully secured the participation of six metros in the NRW programme and requests from eight urban municipalities. WPO has access to project preparation funding, which will be utilized to create investment opportunities for lenders, funders, and investors.	Strength: WPO has the capacity to assist municipalities in developing bankable projects, particularly in key areas such as reducing NRW. These efforts contribute to improved water service delivery at the local level. Weakness: A major challenge for the organization is that WPO is newly established with limited track record and a lack of a proven proof of concept for implementing PBCs, which reduces its ability to attract private investment. Opportunities: Expanding private sector engagement and public-private partnerships (PPPs) to secure funding and technical expertise for water projects. Additionally, WPO can adopt innovative water technologies, and scale up efforts Threats: Political economy in general and specifically the influence of municipal councillors in overriding Performance-Based Contracts (PBCs) poses a significant risk to the effectiveness and implementation of structured water service improvement initiatives.	At the end of the support period, WPO is expected to replicate proof of concept in PBCs in NRW, enhancing its credibility and enabling it to operate independently. There may be need for additional support after the first programme period.

Department of Water and Sanitation

The Department of Water and Sanitation (DWS) is responsible for formulating and implementing policies that govern South Africa's water sector. Beyond its policy-making role, DWS also acts as the regulator, overseeing both the technical and economic aspects of water management.

The performance of municipal water services provision is in sharp decline. In response, DWS is implementing water management and services reforms through the Water Services Amendment Bill, which has been submitted to Parliament with expected approval around April 2026. currently under review. This bill will introduce a compulsory licensing system for water services providers (WSPs), allowing DWS to revoke licenses if providers fail to meet quality standards. Additionally, Water Service Authorities (WSAs) will be required to establish formal contracting with WSPs to enhance accountability and service delivery.

Preliminary partner capacity assessment

The Chief Directorate: Water Use Compliance Monitoring and Enforcement at DWS comprises 105 staff members, including both national and provincial personnel. This unit consists of several directorates: Drinking Water Regulation, Wastewater Service Regulation, Water Resource Regulation, Compliance Monitoring, and Enforcement. Together, these directorates are responsible for establishing regulations, norms, and standards, as well as monitoring compliance with the Water Services Act (and in future, the Water Services Amendment Bill). Their oversight ensures that municipal wastewater service institutions and drinking water service providers adhere to regulatory requirements.

DWS employs innovative regulatory tools, including the Blue Drop, Green Drop, and No Drop certification programs. These initiatives provide valuable insights that help identify and prioritize key interventions in the water and sanitation sector based on their findings. They also evaluate municipal performance in delivering water services by assessing infrastructure conditions, adherence to proper treatment processes, staff competency, and financial management.

DWS and municipalities, as government entities, adhere to national and regional gender equality frameworks, such as the Employment Equity Act. This legislation promotes equal workplace opportunities while explicitly prohibiting sexual harassment. In line with this commitment, these entities have implemented policies to prevent, eliminate, and manage workplace harassment, fostering a fair and inclusive work environment. Furthermore, DWS aligns its planning with the National Development Plan, which aims to eliminate poverty and reduce inequality by 2030. A key component of this plan is gender equality, with a strong emphasis on gender-responsive budgeting. This approach ensures that public resources are allocated strategically to advance gender equality

WWF South Africa

WWF South Africa is an environmental non-profit organization committed to promoting the sustainable management and conservation of the country's natural resources. Its work focuses on protecting critical ecological areas such as strategic water source areas, encouraging the responsible use of natural resources, and restoring degraded ecosystems. These efforts aim to strengthen climate resilience and support sustainable livelihoods, particularly for vulnerable communities.

In line with its commitment to public education and environmental stewardship, WWF South Africa was engaged in broad mobilisation and public awareness campaigns when Cape Town confronted a massive water crisis some years back. WWF is also broadly known and recognised in South Africa for its Journey of Water engagement (JoW) in 2013. This public engagement initiative was created to raise awareness about where water comes from and to highlight the vital role natural ecosystems play in securing and sustaining water supplies.

Preliminary partner capacity assessment

WWF South Africa's close alignment with national policy frameworks, particularly those of the Department of Water and Sanitation (DWS), enhances its ability to contribute meaningfully to sector reform. The organization maintains active engagement with municipalities, local communities, and other stakeholders, enabling multi-level impact. Its ability to convene cross-sectoral actors and influence public and institutional attitudes has been proven, adding to its strategic credibility.

WWF South Africa has a number of policies that guide their conduct such as code of ethics; conflict of interest policy; sexual harassment policy; and employment equity. Environmental and Social Safeguards Framework (ESSF) also provide guidelines for gender equity and social inclusion. In addition, WWF South Africa follows the guiding principles of respecting human rights, promoting human rights within conservation programs, protecting the vulnerable, and encouraging good governance.

The Journey of Water (JoW) has been housed within WWF South Africa for over a decade and is implemented by a team of ten technical staff, eight of whom are women. This team is further supported by communications unit with a broader staff complement, enabling effective outreach, media coordination, and public engagement.

Although WWF South Africa is capable of managing large-scale, multi-stakeholder projects, an area for further assessment is the degree of outsourcing of tasks to service providers for the delivery of certain project components. While this approach allows the organization to access specialized expertise and scale operations efficiently, it can introduce risks and challenges.

Annex 3: Programme level results framework

Programme		Water Reform Programme Support for Sustainable and Reliable Urban Water Supply in South Africa	
Programme Objective		South Africans have improved access to sustainable and reliable urban water supply that is more resilient to climate change	
Impact Indicator		SDG 6: Ensure availability and sustainable management of water and sanitation for all	
Project 1		Metro Trading Services Technical Assistance under Cities Support Programme	
Objective		Metro Water Trading Services are accountable and have the needed financial and operational capacities to access performance-based grants and other finance sources and deliver sustainable and reliable water services	
Impact indicator		Reduced metro NRW (commercial and physical losses) (MTSP A3 PIAP Indicator W10) Improved metro Drinking Water Systems Blue Drop (MTSP A3 PIAP Indicator W2) (Note #1) Percentage of metro households with access to basic water supply (Circular 88 indicator WS2.1) (Note #2) # of metros that have met and maintained the MTSP's Minimum Commitments (MTSP WB PDO indicator) (Note #3)	
Baseline	Year	2025	aggregate metro baseline to be populated aggregate metro baseline to be populated aggregate metro baseline to be populated 0 metros
Target	Year	2031	28% - aggregate metro target to be confirmed ≥95% - aggregate metro target to be confirmed Xx% - aggregate metro target to be populated ≥6 metros
Outcome 1		Cities have the institutional capabilities to advance a complex city transformation agenda on sustainable and reliable water supply	
Outcome 1 indicator		# of metros with a service compact (Note #4) between the service authority (metro) and the water and sanitation trading service (MTSP A3 PIAP Indicator M1) # of metros that have appointed a single point of management accountability (Note #5) (SPoMA) for the water and sanitation trading service (MTSP A3 PIAP Indicator M2) # of metros with change and delivery management capacity (Note #6) (MTSP A3 PIAP Indicator M8)	
Baseline	Year	2025	0 metros 0 metros 0 metros
Target	Year	2027	≥ 6 metros ≥ 6 metros ≥ 6 metros
Outcome 2		Cities plan, implement and manage for sustainable and reliable delivery in water supply	
Outcome 2 indicator		# of metros implementing a Financial Model and Business & Investment Plan for the Water and Sanitation Service (MTSP A3 PIAP Indicator M5)	
Baseline	Year	2025	0 metros
Target	Year	2031	≥ 6 metros
Outcome 3		Cities leveraging sustainable investments for improving and scaling of sustainable and reliable water supply	

Outcome 3 indicator	# of metros with improved infrastructure capex on PPE (MTSP A3 PIAP Indicator F5) by a minimum of 50% over baseline (Note #7) # of metros with improved self-financing ratio (MTSP A3 PIAP Indicator F6) by a minimum of 20%		
Baseline	Year	2025	0 metros 0metros
Target	Year	2031	≥ 6 metros ≥ 6 metros

Project 2	National Water Reform Competence Development		
Objective	Climate resilient water management and inclusive services are professionally operated and delivered with competent staff		
Impact indicator	# of authorised municipalities meeting the Water Services Act requirements and manage and account for their WSA and WSP roles separately # of urban municipal water supply providers operating with a license issued by DWS		
Baseline	Year	2025	Few of the 144 municipalities authorised to provide water supply meet the Water Services Act requirements to manage and account for their WSA and WSP roles separately No WSPs are licensed in terms of the Water Services Amendment Bill
Target	Year	2030	60% of WSAs and 50% of WSPs account separately for their roles
Outcome 1	Performance of municipalities in terms of the Water Services Amendment Act is regulated and monitored by DWS directorates and regional offices		
Outcome 1 indicator	# DWS directorates and regional offices regulate and monitor accountable climate resilient and inclusive urban water management in term of the Water Services Amendment Bill		
Baseline	Year	2025	Compulsory standards for water services in terms of section 9 of the Water Services Act reviewed and on-route to Minster for Publication Regulation 3630 for the compulsory classification and registration of water works and process controllers published in July 2023 Framework for Water Services Provider Licenses in place
Target	Year	2030	5 DWS directorates within the Regulation and Support Branch and 9 regional offices
Outcome 2	Management in targeted municipalities competently oversee and deliver climate resilient water management and inclusive services		
Outcome 2 indicator	% of capacitated WSAs account for their WSA and WSP roles separately % of capacitated WSPs obtain/maintain license		
Baseline	Year	2025	Few municipalities manage and account for their WSA and WSP roles separately in accordance with the Water Services Act
Target	Year	2030	60% of WSAs 50% of WSPs
Project 3	Improved Urban Non-Revenue Water through Private Sector Engagement		
Objective	Municipalities reducing Non-Revenue Water through application of Performance-Based Contracts with the private sector and the PBC approach is ready to upscale for broader application		
Impact indicator	# of municipalities where NRW is reduced by 15% in a Project Area by 2030		
Baseline	Year	2025	National average NRW is 47% in 2025
Target	Year	2030	Tbd
Outcome 1	Standardised tools for NRW reduction with private sector involvement are tested and refined and available, for municipalities to widely roll out		
Outcome 1 indicator	# of municipalities where performance-based contracts processes are initiated making use of WPO NRW tools		
Baseline	Year	2025	0
Target	Year	2030	10

Outcome 2				NRW reduction projects are developed, procured and implemented through PBCs
Outcome 2 indicator				% of prepared and procured NRW projects implemented
Baseline	Year	2025	0	
Target	Year	2030	70	

Project 4		Citizen driven water Security in Gauteng and eThekweni		
Objective		Enhanced water security in Gauteng and eThekweni through short-term water demand and long-term water supply interventions		
Impact indicator		Reduced water loss Water source areas replenished		
Baseline	Year	2025	-	
Target	Year	2030	700 ML replenished in water source areas	

Outcome 1		Improved citizen responsibility through increased awareness and engagement		
Outcome 1 indicator		Frequency of publication of reports mapping leaks reported and leaks repaired per targeted municipality		
Baseline	Year	2025	Dashboard usage (to be determined in Q1 after project start)	
Target	Year	2030	Monthly reports made available to the public	

Outcome 2		Increased water supply and security of targeted priority Strategic Water Source Area as a long-term response to water security in Gauteng and eThekweni		
Outcome 2 indicator		% increase in the protection of priority SWSAs		
Baseline	Year	2025	8% Upper Vaal, 10% Northern Drakensberg, 10% Southern Drakensberg SWSAs	
Target	Year	2030	10% increase in protection as compared to baseline	

It should be noted that Project 2, National Water Reform Competence Development, and Project 4, Citizen driven Water Security in Gauteng and eThekweni, are still under preparation by the partners. Adjustments to the indicators and targets may therefore occur.

Annex 4: Risk Management Matrix

Contextual risk

Risk Factor	Likelihood	Impact	Risk response	Residual risk	Background to assessment
Local government elections result in changes in political leadership	Almost certain	Major	<ul style="list-style-type: none"> - The MTSP requires metro Councils to approve the reform strategies and performance improvement action plans as part of metro eligibility for the reform. - Renegotiate with metro/secondary cities the technical assistance/capacity building package taking into consideration concerns of new political leadership 	Minor	<ul style="list-style-type: none"> - Likely changes in political configurations after the local government elections mean that political support for the programme must be renewed after the elections.
Unstable coalition governments at metro level	Almost certain	Major	<ul style="list-style-type: none"> - This means that obtaining and retaining political support for the programme is an ongoing process. See above. 	Major	<ul style="list-style-type: none"> - Coalition governments at local government level in South Africa have proven to be unstable. - Continued instability will slow down progress.
Low national economic growth and constrained fiscal space	Likely	Minor	<ul style="list-style-type: none"> - The WRPS is expected to contribute to the country's fiscal effort by supporting key reforms in the water sector that will improve the delivery of infrastructure services by municipalities. - Improved service delivery will encourage business development, contributing to higher public revenues and reduced fiscal risks 	Minor	<ul style="list-style-type: none"> - A low gross domestic product growth rate is projected for South Africa's economy and fiscal consolidation is required to control the public debt trajectory, which is expected to peak in 2027/28.
Droughts and/or floods	Likely	Major	<ul style="list-style-type: none"> - These are likely to be site specific and unlikely to have a major impact on the programme as a whole. 	Minor	<ul style="list-style-type: none"> - Droughts and floods have occurred and have resulted in major impacts on water services

			- WRSP will contribute to improved climate resilience through more efficient and sustainable water services provision.		leading to restrictions in water supply.
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Programmatic risks

Risk Factor	Likelihood	Impact	Risk response	Residual risk	Background to assessment
Capacity and coordination challenges slow down delivery of capacity building and technical assistance	Unlikely	Major	<ul style="list-style-type: none"> - DWS and CSP/MTSP communicates effectively with metros and is responsive to the TA needs. - Incentives for municipalities to engage are high and costs of non-engagement are considerable - CSP/MTSP has the necessary capacity to manage sequencing of procurement and oversight of technical assistance. - DWS engages with a robust implementing partner to deliver competence development at municipal level 	Minor	The institutional reform and the turnaround of metro water trading services will put a strain on already challenged municipal partners.
Insufficient budget allocation for the performance incentive	Unlikely	Major	<ul style="list-style-type: none"> - Programme is included in national medium term budget - Programme is part of government's Medium Term Development Plan 2024 -2029 and in Operation Vulindlela II - Minister of Finance has publicly supported the programme. 	Minor	<p>The annual budget process determines the allocation for the performance based incentive.</p> <p>The incentive programme has a value of R54 billion over 6 years.</p>
Challenges in preparation and implementation of municipal non-revenue water	Likely	Major	<ul style="list-style-type: none"> - Strong support architecture as PBCs are incentivised to meet specific targets and help municipalities achieve broader water management goals 	Minor	There is not a tradition of engaging private sector in municipal water services provision. Risk of reluctance

projects with private sector contractors			- WPO to accompany municipalities throughout the process building capacity and making tools available		to engage from municipal as well as private sector actors.
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Institutional risks

Risk Factor	Likelihood	Impact	Risk response	Residual risk	Background to assessment
Failure to deliver WRSP outcomes	Unlikely	Major	<ul style="list-style-type: none"> - The reform initiatives supported are included in the government's Medium Term Development Plan 2024 -2029 and in Operation Vulindlela II - Establish regular dialogue on reform progress with Operation Vulindlela 	Minor	Programme will require renewed commitment by a new administration starting in 2029.
Misappropriation of funds by project partners	Unlikely	Major	<ul style="list-style-type: none"> - WRSP is implemented in close collaboration with other donor partners who have well established partnerships with selected implementing partners - Joint donor partner approaches will enhance risk for project partners engaging in any form of misuse of funds - Implementing partners for the two projects under preparation will be thoroughly assessed and, if possible, joint processes will be established 	Minor	Various forms of misuse of public funds are frequent in South Africa.

Annex 5: Plan for Communication of Results

The message	The timing	The mechanism	The audience(s)	The responsible
Findings and lessons learned with focus on sustainable and reliable urban water supply	Whenever an opportunity arises and knowledge for sharing is available. This could be through special, targeted initiatives and water events at level	The National Treasury and CSP websites, newsletters, national and potential international publications; national and when an opportunity arises in international; events	A wide audience from municipal decision makers through water practitioners to private sector actors; utility companies and the general public. In addition to development partners and IFIs	CPS/MTPS
Findings and lessons learned with focus on NRW with private sector involvement (incl. PBCs); sharing of best practices.	Whenever an opportunity arises and knowledge for sharing is available. This could be through special, targeted initiatives and water events at level	DWS and WPO websites, newsletters, national and potential international publications; national and when an opportunity arises in international events	A wide audience from municipal decision makers through water practitioners to private sector actors; utility companies, national investors and the general public. In addition to development partners and IFIs	NWPO and DWS
Findings and lessons learned with focus on implementing South Africa’s water sector reform in municipalities; sharing of best practices.	Whenever an opportunity arises and knowledge for sharing is available. This could be through special, targeted initiatives and water events at municipal level	The DWS websites, newsletters, national and potential international publications; national and when an opportunity arises in international events	A wide audience from municipal decision makers through water practitioners to private sector actors; utility companies, national investors and the general public. In addition to development partners and IFIs	DWS

<p>Announcement of Citizen driven water security awareness campaigns and success stories emerging from the campaigns in municipalities with a broader interest for Denmark</p>	<p>As an integral part of the Citizen driven water security project implementation. At the on-set and with regular intervals and whenever an opportunity arises and knowledge for sharing is available</p>	<p>Traditional media coverage: Coverage secured / earned. This is usually measured as an Advertising Value Equivalent, but we can also count clippings and mentions in mainstream and niche media.</p> <p>Digital coverage: Reach or engagement achieved across our social media platforms will also be measured. These include Facebook, Instagram, X and LinkedIn. Visits to the Journey of Water website and downloads of any blogs, research or publication which is available digitally will be counted.</p>	<p>Participation and attendance: Citizen and customer participation is a key measure such as which stakeholders have attended or have been involved in contributing to change. These include politicians, businesses in the catchment, communities in the catchment etc. We can also look at attendance / participation of influencers and media who will be key amplifiers of the journey. Attendance of technical experts being brought on board to support / communicate our key messages is also an important metric.</p>	<p>WWF SA</p>
<p>Development of key strategic messages to promote sustainable and reliable urban water supply in South Africa</p>	<p>At approval of Denmark's support to WRPS and every time a significant achievement is made within WRPS on positive reform effects</p>	<p>Embassy of Denmark webpage, and Danish MFA communication channels including “Verdens Bedste Nyheder” and to municipalities in South Africa and in African countries where Denmark have SSC in water and urban development</p>	<p>Danish taxpayers; other development partners; cooperation partners and decision makers in South Africa and in other African countries with SSC cooperation.</p>	<p>Embassy of Denmark and the Danish MFA and the programme partners webpage.</p>

<p>Success stories emerging from involvement of private sector in reducing NRW of interest for Denmark</p>	<p>Whenever an opportunity arises and through participation in national seminars on water and in representation in international bodies</p>	<p>In social media, on Embassy web-page and through participation in SSC partner meetings. In addition, in meetings with the Danish resource base</p>	<p>Other development partners both in South Africa and beyond; The Danish MFA; other Danish embassies with SSC water programmes; the private sector, Danish utility companies and the Danish resource based, international and national investors and the general public and academia</p>	<p>Embassy of Denmark in Pretoria</p>
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Annex 6: Process Action Plan

PROCESS ACTION PLAN		
Activity	Timing/deadline	Responsible
Presentation for the Council for Development Policy (UPR)	30 October 2025	Embassy
Approval by the Minister	November 2025	LEARNING
Signing of agreements	December 2025	Embassy and Partners
Recruitment of long term senior advisors	November 2025-March 2026	Embassy and partners
Programme start-up phase	January 2026 – May 2026	Embassy and Partners
Desk Appraisal National Water Reform Competence Development project and Citizen Driven Water Security	March 2026	LEARNING
Reporting start-up phase and submission annual workplans and budgets	May 2026	Partners
Steering Committee meeting approving annual workplans and budgets	June 2026	Embassy and Partners
Annual WRPS Steering Committee	tbd	Embassy and Partners
Annual audit reports	tbd	Partners
Annual Stocktake report	tbd	Embassy
Ongoing monitoring and analytical studies	tbc	Embassy and partners
Mid-term review	2028	LEARNING, Embassy and Partners
WRPS draft completion report	2030	Embassy and Partners
WRPS final completion report	2031	Embassy