

# Investing in SA's water risks: City of Cape Town

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**Isabel Nel**  
ESG Analyst

*With the City of Cape Town's water and effluent challenges featuring in the press, and ongoing water issues in other cities, some of South Africa's largest asset managers collaborated to engage the City on its water plans and processes. What M&G found was a City with a clear strategy that made us confident potential investors in its risk-mitigation plans.*

For most asset managers and industry experts, the country's just energy transition has been seen as being at the forefront of ESG discussions and initiatives. However, in addition to the looming energy crisis, many South Africans have simultaneously been dealing with water shortages, more recently seen in Johannesburg. These water issues are not-too-distant reminders of the severe water restrictions the Western Cape experienced throughout the 2015-2018 drought. While the City of Cape Town is making strong progress, South Africa is nevertheless facing a significant water crisis in its levels of provision in the next ten years.

## Facing severe water risks

The availability of water, its sustainable management and sanitation for all, is one of the Sustainable Development Goals (SDGs) M&G Investments Southern Africa (M&G SA) continues to focus on through our role as an active asset manager. This has been a particular focus for us since the 2015-2019 drought in the Western Cape, and a key theme in our 2021 Stewardship report. As we continue to face water risks throughout the country, we remain committed to monitor and engage with companies on water-related issues.

As part of our active ownership strategies and stewardship of our clients' assets, we continue to gain insight into, engage with, and form ongoing relationships with entities to mitigate water risks. The first of these pro-active initiatives for us this year was understanding the water landscape in South Africa with one of the country's leading water experts, Helen Huhlett, in April. We invited Helen to speak to us and the broader asset management industry about the risks South Africa faces in the water arena. A significant -- yet surprising -- conclusion from her findings and experience she shared was that South Africa faces some of the most severe water supply risks in the world, which has resulted in South African businesses becoming some of the leading global innovators in water reuse technology to adapt to these quality and supply risks. We too have seen this first-hand with numerous entities with whom we engage. However, the question remains: to what extent are South Africa's metropolises and municipalities adapting to these same risks today? Is this adaption trajectory the same?

## Engaging with the City of Cape Town

This question and its answer are why we at M&G SA have planned a series of engagements throughout 2024 in collaboration with other asset managers in order to establish better relationships with the leaders of municipalities and metropolises responsible for managing water risks in South Africa. The first of these engagements was launched with the City of Cape Town in April, who shared that the city already has thorough water plans and strategies in place, thus enabling a constructive start to these collaborations. Another significant discussion centered around performance of sewerage plants at significant wastewater treatment works (WWTW) within the Cape Town Metropol, such as the Cape Flats WWTW, which releases effluent into the bay at [Sonwabe Beach](#). This, in conjunction with high levels of microbiological levels, such as enterococci, were reported by news publications.

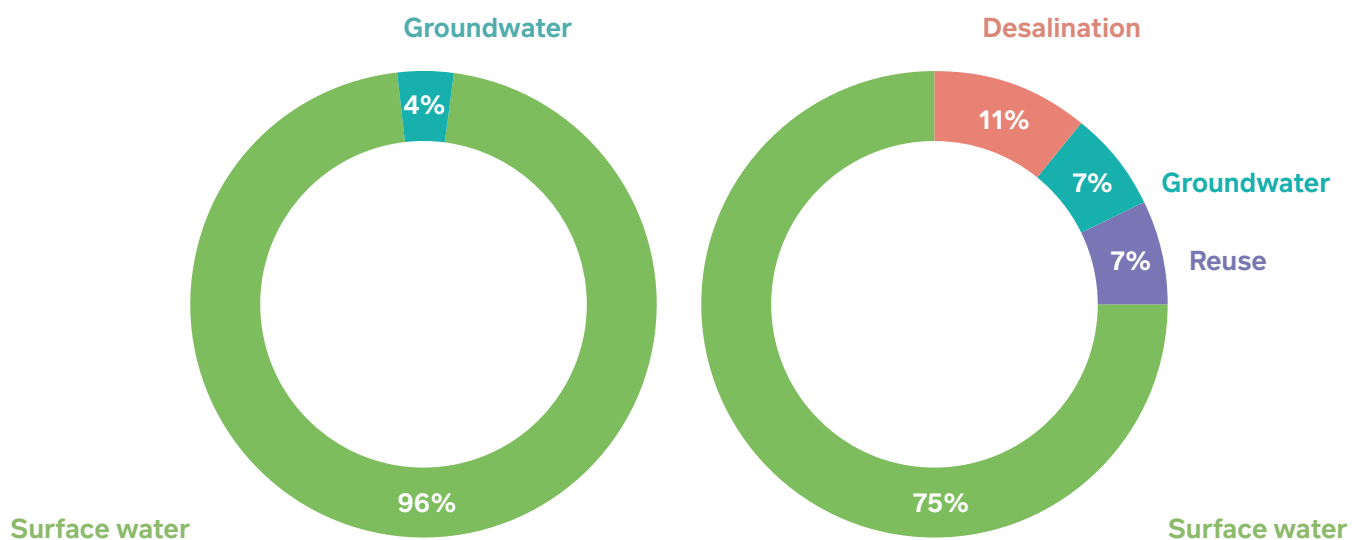
The objectives of this engagement were to better understand the City's water strategy and future plans, gain greater understanding around the performance of various WWTW sites included in the Green Drop Report and lastly, but most importantly, understand the funding opportunities available and the role asset managers can play in supporting these initiatives that address water risks in South Africa's public domain.

## A realistic water strategy

The City of Cape Town has adopted its 2019 Water Strategy: "Our shared water Future" that addresses the City's commitments to ensuring that Cape Town will be: "a water-sensitive city that optimises and integrates the management of water resources to improve resilience, competitiveness and livability for the prosperity of its people" by 2040. This includes various commitments, including safe access to water and sanitation, ensuring diverse, sufficient and reliable water supply and promotion of water-wise conservation, amongst others. The plan acknowledges that the current Western Cape Water Supply System (WCWSS), which comprises several large dams owned by the government, is insufficient to meet the region's growing water demand. The City of Cape Town uses models, among them studies undertaken by the University of Cape Town, to understand how water demand increases due the effects of climate change, and the rise in water consumption associated with a growing population.

The New Water Programme, outlined in the City's 2019 strategy, has been established to meet these growing demands, with a goal of supplying the city with up to 300 ML of water per day by 2030. This will be done largely by diversifying the current water supply split (96% surface water and 4% ground water) to a more varied supply by 2040 to meet the City's water demand levels. This includes implementing water augmentation infrastructure while taking into consideration a set of probable assumptions, such as climate change, water use and management of the WCWSS, amongst others, that will prove robust and agile enough to deal with various scenarios.

## City of Cape Town diversifying water supply resources



Source: *Our Shared Future: Cape Town's Water Strategy 2019*

These projects include various interventions to meet these needs, such as the clearing away of alien vegetation to ensure that run-off water and catchment dams are not affected by these plants. More significant projects include Table Mountain Group Intervention, the Cape Flats Aquifer Intervention, as well as the Faure new water scheme that aims to meet a target of supplying up to 70ML per day. Furthermore, desalination feasibility studies are underway with full environmental impact assessments to be undertaken.

## Attention to wastewater treatment

While new projects are being developed, the city simultaneously needs to ensure that existing wastewater treatment areas are functioning at their most efficient. If wastewater treatment plants are not continuously upgraded and the infrastructure is ineffective, potential environmental impacts are more probable and also cause hinderances to development projects, such as those discussed above.

The Green Drop Progress Report discloses the performance of each wastewater treatment area across various criteria such as operational capacity performance, effluence compliance and technical skills compliance, amongst other criteria. The report also outlines which of these areas have been allocated capital and refurbishment projects and descriptions of these. While these performance scores vary across the city, sites that are prioritized by the city are allocated capital for repair and expansion to maintain their permit from the Department of Water and Sanitation. In addition, certain areas are earmarked as important sites needed for the feasibility of projects part of the Water Program, as discussed above. For these reasons, projects around Macassar, Zandvliet and Potsdam have been key areas for the city of late.

As for the increased microbiological levels prevalent across marine testing sites, these have been reported to be due to a combination of factors, including the sporadic results derived from using chlorine tablets as a disinfectant and storm water entering catchments.

## Confident as debtholders and potential investors in City water projects

After engaging with the city, it is evident that the City of Cape Town is not isolated from facing water risks in South Africa; however, it continues to address these through its various projects outlined in its Water Strategy. An updated water strategy report is expected to be released later this year.

Key learnings from the engagement:

- The City of Cape Town has been willing to engage and bring diverse and deep experience and information to meetings with asset managers. This has not always been our experience with local government and shows a cultural maturity. As a debtholder, this brings us some confidence in the culture and accountability within the entity at an operational level.
- We have confidence that the city is exploring a variety of different solutions and is pragmatic in its approach. As is the case across many South African metropolises, the city has a very large, impoverished population, and is attempting to balance several complex goals, all competing for budget. That water and sanitation is one of the keystones is encouraging. Investors want to ensure that social contracts are being met, even under trying conditions.
- The city was open to further engagement and discussion and was generous with its time and staff. While we must be cautious to not take away key resources from their responsibilities, the city shows recognition of key stakeholders.

As of yet, strong market signals for funding, such as bonds or other financial instruments, to specifically address these water risks with the city have not been identified. However, M&G SA will continue to engage with the City of Cape Town and its commendable projects and initiatives.

This engagement was a significant first step to holding further large collaborations with other asset managers around key environmental risks as part of our ESG work here at M&G SA. The extensive plans and strategies the City of Cape Town have implemented thus far demonstrates the proactive initiatives needed to address the water risks South Africa is facing. ESG risks and opportunities across regions vary, and this engagement was a reminder of the unique challenges businesses and civil society face across South Africa. While the Just Transition remains a prevalent theme across ESG considerations within the financial industry, water transition must equally remain at the forefront of broader environmental objectives in preparation for the adverse effects of climate change we continuously see play out.

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