No Money, No Service

South Africa's poorest citizens lose out under attempts to recover service costs for water and power.

David A. McDonald

In early 2000, the Department of Water Affairs and Forestry in the province of KwaZulu Natal, South Africa, introduced cost recovery on water. Rural households that were accustomed to free potable water at communal standpipes were charged a registration fee for a yard tap and/or a monthly rate for water usage. The registration fee and volumetric charges proved too expensive, however, for thousands of low-income households struggling to survive on unpredictable incomes and meager state pensions. Paying for water would mean giving up other essential goods and services.

As a result, households were forced to use nearby rivers and stagnant ponds for drinking water, cleaning and bathing. Within weeks a cholera epidemic had broken out, and by mid-August of 2001, 105,297 people had contracted the infection and 224 people had died, with new reports of illnesses and deaths being reported on a daily basis.[1]

> For thousands of low-income households struggling to survive on unpredictable incomes, paying for water would mean giving up other essential goods and services.

This is not the first time that South Africa has experienced cholera outbreaks. There were several epidemics in the 1970s and 1980s. But this time the reasons for the outbreak are very different and can be linked directly to policies of cost recovery – characterized here by efforts to recoup the full or partial costs of service delivery from end users. In other words, services that used to be provided for free or at a highly subsidized price are now charged according to the full (or near full) costs of delivering them, and in this case have contributed directly to the cholera crisis.

This is not to suggest that methods of cost recovery should never be employed. In highly inequitable and resource-scarce countries like South Africa, there are good financial and ecological reasons for introducing some forms of cost recovery on services. If used simultaneously with progressive block tariffs – a pricing system whereby the per-unit price of a service increases when more of that service is consumed – then cost recovery can actually help pay for the services of the poor by charging wealthy people more than the actual costs of delivery. This subsidy can then be used to provide free or very cheap "lifeline" supplies to the poor.

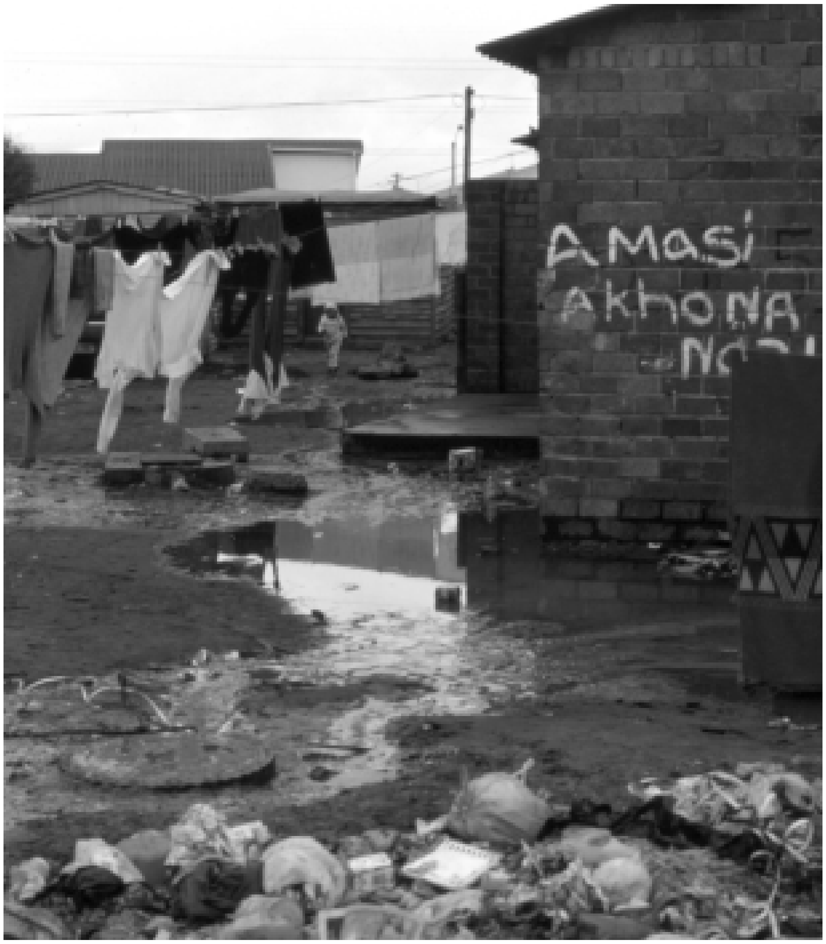
The problem in South Africa is the manner in which cost recovery has been implemented and the double standards that are employed – particularly with respect to water and electricity. From the historical injustices of who receives subsidies to unfair tariff structures, cost recovery on basic services in South Africa has largely been counter-productive to the goals of equity and environmental sustainability and threatens to undermine post-apartheid reconstruction and development efforts in the country.

FROM SUBSIDIES TO COST RECOVERY

Cost recovery has not always been the *modus operandi* of the South African government. During apartheid, many South Africans received subsidized services and infrastructure. White suburbanites and white-owned industry benefited the most from these subsidies, with service levels and subsidies in white areas that equaled, and often surpassed, European and North American standards.[2] Much of this subsidization came at the expense of black workers and consumers who generated the economic surplus and paid the taxes necessary for lavish state spending in white areas, but even black South Africans – to the extent that services were delivered to the townships and rural "homelands" – received some subsidized service delivery.[3]

These racially biased service subsidies were one of the key targets of the anti-apartheid lobby, and the African National Congress (ANC) promised to create a single municipal tax base and more redistributive rate structures once they were in power. Indeed, the ANC's first major policy paper – the *Reconstruction and Development Programme* (RDP) of 1994 – made the redistribution of municipal resources and the provision of basic municipal services to black South Africans a major policy focus.

The RDP was quickly superseded, however, by the much more fiscally conservative Growth, Employment and Redistribution (GEAR) policy framework in 1996, which put the emphasis on economic growth rather than redistribution or government subsidies.[4]



DAVID A. MCDONALD

Backed-up sewerage and uncollected refuse still blot the lanscape of most township areas in South Africa, including Langa in Cape Town which is pictured here.

The government also introduced caps on tax increases that local governments could impose on wealthy neighbourhoods, limiting the potential for cross-subsidies at the local level. At the same time, intergovernmental transfers from national to local government were cut by 85 percent in real terms from 1991 to 1998, with additional cuts of up to 55 percent between 1997-2000, further squeezing the ability of local governments to provide subsidized services to the poor.[5]

These fiscal pressures, combined with a broad ideological shift to the right in South Africa (a shift reinforced in no small measure by teams of World Bank advisors that inundated the country in the mid-1990s), contributed to the widespread embrace of cost recovery as a fundamental policy tool in local government policy-making circles.[6]

This is not to suggest that the South African government has abandoned its development role altogether. There is, to be sure, some cross-subsidization taking place in South Africa, and there has been a concerted effort to provide services to the urban and rural poor. The government claims, for example, to have provided three million additional people with access to potable water, connected two and half million households to the national electricity grid, and built homes for another three million people in its first five years of office.[7]

What these otherwise impressive statistics hide, however, is that hundreds of thousands of low-income households are unable to afford the prices being charged for these services – due in part to policies of increased cost recovery – and are unable to benefit from the infrastructure being provided. In some cases poor families cannot afford the connection fees or pre-paid amounts of a service (as in the case of the cholera outbreak in KwaZulu-Natal), but there has also been widespread use of cut-offs as a punishment for non-payment of services. In some cases people have had their electricity and water infrastructure torn out of the ground by the service provider for repeated non-payment, and in a growing number of cases people are being evicted from council-owned houses for non-payment of services (with stories of residents coming home at the end of the day to find their belongings on the street and a new tenant in their home).

To give some sense of the scale of this crisis, in early 2001 up to 20,000 homes a month in the township of Soweto, in Johannesburg, were having their electricity cut off for non-payment of bills. The government-owned electricity provider – Eskom – even threatened at one point to cut off a total of 131,000 households in the township (despite the fact that only 126,000 consumers existed in the area!).[8] In Cape Town, more than 83,000 households had their water cut off between 1999 and 2001, and armed guards are now being used to keep protestors at bay while disconnections take place.[9]

BLAMING THE POOR

Why has this crisis of non-payment and cut-offs occurred? The mainstream media and many policy makers in the country put the blame on a "culture of non-payment" stemming from the boycott era of the 1970s and 1980s, when township residents refused to pay their service bills as a form of protest against the apartheid state. The ANC response was to launch a well-publicized campaign called *Masakhane* (working together) to persuade people to pay for their services – the underlying argument being that people have a civic responsibility to pay and that most people are in fact "willing to pay" but blocked from doing so by a deep-seated "culture of non-payment."

The evidence, however, suggests that "ability to pay" is the real problem. With unemployment rates in the country at 35-40 percent (as high as 90 percent in some rural areas), and with average household incomes in black rural and township areas below $140 per month, many households are simply unable to pay the costs of the services they use. In a recent survey of 200 homes with electricity service in Soweto, for example, the overwhelming majority of households simply could not afford to pay for the electricity they used, despite the fact that most stated they are continuously trying to reduce their electricity consumption by cooking less, using coal to heat, using paraffin and candles for light, etc.[10] And, despite the fact that most households regularly paid a portion of their bills, 61 percent of these households had experienced at least one cut-off of electricity supply in the past year, some for up to nine months at a time.

This inability to pay is exacerbated by the fact that many households now have significant payment arrears, making for a vicious debt trap, with some of these arrears dating back to the apartheid era despite promises to have these debts written off after 1994. In the Soweto survey, 80 percent of respondents had arrears, with 30 percent of households having arrears in excess of $4180 – an amount that is effectively unpayable given incomes in the area.[11]

As a result of unaffordable cost recovery on water, households were forced to use nearby rivers and stagnant ponds for drinking water and cleaning.

DOUBLE STANDARDS

What makes this situation all the more troubling is that double standards are applied to cost recovery and subsidies. I have already made reference to the grossly unfair nature of subsidization in South Africa in historical terms. It is also true that apartheid-era municipal dynamics continue to benefit middle-class suburbs to this day. There has, for example, been remarkably little redistribution of municipal resources (human, capital and financial) in South African municipalities since the end of apartheid, with disparities of per capita spending on services like refuse collection still as high as 100:1 when comparing white suburbs to black townships.[12]

Another problem is that tariff rates on water and electricity tend to work in favour of the wealthy suburbs, not the poor townships. While most municipalities have some form of block tariffs in place, prices tend to rise quickly in the second and third blocks of consumption and then taper off at the top end of consumption. These early price increases tend to negate the effects of the first (cheap or free) block of consumption and fail, at the same time, to produce significant conservation results at the upper end.[13]

In some cases, middle-class suburbanites are paying even *less* than low-income township dwellers for the same (or better quality) service. For example, rate payers in Sandton, a wealthy suburb of northern Johannesburg pay 30 percent less on average per kilowatt hour of electricity than residents of Soweto, despite the fact that both areas are serviced by the same state-owned provider. Low-income rural households are even worse off, paying an average of 6.7 cents per kilowatt hour compared to the national average for domestic consumers of 3.6 cents per kilowatt hour.

But it is with industry that the double standards of cost recovery are most glaring. Once again, electricity provides a good example. Electricity prices to industry are amongst the most heavily subsidized in the world, with average manufacturing prices of about 1.7 cents per kilowatt hour and off-peak prices for large consumers (like the large aluminum company Alusaf) as low as 0.5 cents per kilowatt hour. In fact, electricity prices to industry in South Africa are the lowest in the world, and government has made it clear that it intends to keep it that way, stating in a 1998 policy paper on energy that electricity prices to industry must not be affected by a household electrification programme: "Cross-subsidies should have minimal impact on the price of electricity to consumers in the productive sectors of the economy."[14]

Water pricing is also reflective of the regressive nature of manufacturing subsidies in the country, with tariff rates for industry in the dry but thirsty industrial heartland of the country actually *decreasing* at the upper end of consumption.[15] Not only does this work against the potential for cross-subsidies, it actually promotes wasteful consumption of a scarce resource.

FREE SERVICES?

One response to this question of affordability came in the form of promises by the ANC (in the lead-up to local government elections in December 2000) to provide "free water and electricity" to everyone in the country. Although a potentially important way of ensuring access for poor households, the current ANC plan looks unlikely to resolve the underlying crisis of cost recovery.

Part of the problem here is the quantity of free services being offered. On the electricity side, 50 free kilowatt hours per household per month will provide some financial relief, but it is less than ten percent of the average electricity consumption of low-income households in South Africa and is barely enough to run a light bulb and a few small appliances.[16] And with over 50 percent of rural families not yet on the electricity grid, there are many poor households that will not benefit at all.

For water, the promise of 6000 free litres per household per month also offers little financial respite due to the fact most poor households need much more than this amount of water (partly because of the larger number of people per household but also because old and poorly constructed apartheid-era infrastructure means that up to 40 percent of water going into townships is lost to leaks). Rapid tariff increases after this free block can then mean that poor families are paying more, not less, for water. It is also true that many households still have payment arrears for water and are having their water supplies cut off for nonpayment of these arrears.

Most importantly, the 6000-litre figure is based on an average household size of eight people and works out to 25 litres per person per day – half of the World Health Organization's recommended minimum of 50 litres per person per day for basic needs and a healthy

IDRC's Municipal Services Project

The Municipal Services Project (MSP) is a multi-year research, policy and educational initiative examining the restructuring of municipal services in South(ern) Africa. The project's central research interests are the impacts of decentralization, privatization, cost recovery and community participation on the delivery of basic services to the rural and urban poor.

The research has a participatory and capacity building focus in that it involves graduate students, labour groups, NGOs and community organizations in data gathering and analysis. The research also introduces critical methodologies such as "public goods" assessments into more conventional cost-benefit analyses.

Research results are disseminated in the form of an occasional papers series, a project newsletter, academic articles/books, popular media, television documentaries and the Internet <www.queensu.ca/msp>. Research partners are the University of the Witwatersrand (Johannesburg), Queen's University (Canada), the International Labour Resource and Information Group (Cape Town), the South African Municipal Workers Union, and the Canadian Union of Public Employees.

The project is funded by the partner institutions and the International Development Research Centre (IDRC) of Canada.

– DM

PETER BENNETT – WWW.BENNETT-PHOTO.COM/IDRC

One person's story: unable to afford reconnection services, this pensioner must carry water from a neighbouring settlement.

existence. (To put this in perspective the average bathtub takes 200 litres to fill while the average toilet uses 10 to 15 litres per flush – a situation made worse by the fact that water (and energy) saving devices have never been a serious part of service delivery strategies in South Africa).

The fact that these free services are calculated on a per household basis – regardless of the actual number of occupants, and regardless of household income – biases yet again against poor South African households. To illustrate, a young couple with two incomes and no dependents living in a home in the suburbs receives the same subsidy as a single mother with seven dependents living in a run-down council house or shack in the townships. Households are not means-tested to see if they qualify for the free services (it is too expensive to do so), with the result that some middle-class South African households are now paying less for water and electricity than the poor because of "free" services.

CONCLUSION

In the end, cost recovery in South Africa has undermined even its own economic rationale, with the cholera outbreak in KwaZulu-Natal, for example, costing the state dozens of times more in medical bills and emergency water supplies than it would have cost to provide water for free. And the cholera epidemic is only the tip of the iceberg.

It has been estimated that the costs of dealing with all diarrhea-related illnesses in South Africa (much of which is a direct result of poor water and sanitation services and no doubt exacerbated by widespread water cut-offs) is in the order of $0.5 billion per year in direct medical costs and $3.6 billion per year in lost economic production – more than the total amount that would be needed to provide water infrastructure to everyone in the country.[17]

And what of the estimated 43,000 people, mostly poor black children under the age of five, who die each year from diarrhoeal diseases in South Africa?[18] What kind of value is placed on their lives and the lives of those left behind to deal with the tragedy? This most intangible of costs may prove to be the rock upon which the ship of cost recovery eventually runs aground. For with the acceptance of water as a commodity comes the dilemma of what to do with the idea of water as a basic human right.

In other words, if we are willing to use monetary value as our sole guiding principle for water extraction, treatment and distribution, on what grounds do we make moral decisions about how much water is enough and who is consuming too much? Just because someone can afford to pay the cost of filling their swimming pool or washing their cars every day, should they have the right to do so when others are struggling to survive with no water at all? And with most regions of South Africa facing severe water shortages if current consumption patterns continue, the question of "who gets how much" becomes all the more important.[19]

In the end, it may require a much more radical decommodification of resources like water and energy to ensure a fairer distribution of these public goods and to build a policy framework on something other than the principle of "you get what you can pay for."

David A. McDonald is the director of the Development Studies program at Queen's University, co-director of the Municipal Services Project <www.queensu.ca/msp> and editor of Environmental Justice in South Africa *(Ohio University Press, 2002).*

NOTES

1 "Cholera update in KZN," South African Press Agency (Sapa) press release (August 13, 2001). It is also very likely that many more deaths have occurred with migrant workers from surrounding countries who may have contracted the disease while working in South Africa, and then died in their home country and were therefore not captured in South African record keeping. A detailed report on the cholera epidemic will be published in a collection of research papers by the Municipal Services Project in 2002 and will be available on-line at <www.queensu.ca/msp>.

2 Junaid Ahmad, "Funding the Metropolitan Areas of South Africa," *Finance and Development*, (September 1995).

3 Mark Swilling, William Cobbett and Roland Hunter, "Finance, Electricity Costs, and the Rent Boycott," *Apartheid City in Transition*, Richard Humphries, Khehla Shubane and Mark Swilling, eds. (Cape Town: Oxford University Press, 1991).

4 For a more detailed discussion of GEAR and the politics around this ideological shift in the ANC see Hein Marais, *South Africa Limits to Change: The Political Economy of Transition* (London: Zed Press, 2001).

5 Financial and Fiscal Commission, "Local Government in a System of Intergovernmental Fiscal Relations in South Africa: A Discussion Document" (Midrand: 1997, mimeo); and Unicity Commission, "Discussion Document: Developing the Future City of Cape Town," (August 2000, mimeo).

6 For a detailed discussion see Patrick Bond, *Elite Transition: From Apartheid to Neoliberalism in South Africa* (London: Pluto Press, 1999).

7 Eskom, *Annual Report 2000: African and Globally Competitive* (Johannesburg: Kagiso BM Printing, 2000), p. 39; and Meshack Khosa, "'Facts, Fiction or Fabrication?' Service Delivery, 1994-1999," *Empowerment Through Service Delivery* (Pretoria: Human Sciences

Pollution

- Contaminated water and poor sanitation cause 30,000 deaths around the world daily.
- Every eight seconds a child dies from a water-related disease.
- Safe drinking water and proper sanitation can reduce child mortality by as much as 60 percent in some countries.
- Every year about five million people in developing countries die from water-borne diseases and polluted air.

Source: IDRC report available at <www.idrc.ca/books/reports/2000/26-02e.html> and <www.worldbank.org/data/wdi/environment.htm>.

RÉSUMÉ

LA DISTRIBUTION DE SERVICES municipaux, tels l'eau et l'électricité, dans les secteurs urbains et ruraux pauvres fut l'une des principales promesses du programme de reconstruction et de développement de l'Afrique du Sud. Le gouvernement a déclaré avoir fourni de l'eau potable à trois millions de personnes et branché deux millions et demi de foyers au réseau national d'électricité dans les cinq premières années de son mandat. Ces statistiques impressionnantes cachent toutefois le fait que des millions de foyers pauvres ne peuvent se payer ces services à cause de la mise en place de mesures de recouvrement des coûts, c'est-à-dire l'impositions de frais pour recouvrer la totalité (ou presque totalité) des coûts engagés pour fournir ces services, au nom de la responsabilité financière. Le résultat? Des dizaines de foyers sont incapables de payer pour ces services ou voient les services interrompus pour non-paiement des frais, ce qui contredit les prétentions du gouvernement et provoque de nouvelles vagues de violence et de protestation contre les réformes « néolibérales ».

Research Council, 2000).

[8] Maj Fiil-Flynn, *The Electricity Crisis in Soweto, Occasional Paper No.4* (Cape Town: Municipal Services Project, 2001); and Eskom, "Eskom Targets Defaulters," Eskom press statement, 2001. In the Johannesburg Metro, the municipality was cutting off water supplies as well in an effort to force people to pay their electricity bills (*Saturday Star*, March 10, 2001).

[9] David McDonald and Laila Smith, *Privatizing Cape Town: Service Delivery and Policy Reforms Since 1996, Occasional Paper No. 7* (Cape Town: Municipal Services Project, 2002).

[10] Maj Fiil-Flynn, *The Electricity Crisis in Soweto, Occasional Paper No.4* (Cape Town: Municipal Services Project, 2001), pp. 12-17.

[11] It is important to note that Eskom has since placed a moratorium on electricity cut-offs in Soweto and has introduced a plan to write off some debts, due in large part to pressure from community protests.

[12] Franco Barchiesi, "Fiscal Discipline and Worker Response: The Restructuring of Johannesburg's Solid Waste Management," *Commercializing Solid Waste Management in South Africa, Occasional Papers Series No. 3*, David A. McDonald and Patrick Bond, eds. (Cape Town: Municipal Services Project, 2001); and McDonald and Smith, *Privatizing* [note 9].

[13] For a detailed critique of the most comprehensive programme to conserve water while at the same time cross subsidizing the poor, see Hameda Deedat, John Pape and Msokoli Qotole, *Block Tariffs or Blocked Access? The Greater Hermanus Water Conservation Programme, Occasional Papers Series No. 5* (Cape Town: Municipal Services Project, 2001).

[14] *Business Day* (April 25, 2001); and Department of Minerals and Energy (DME), *White Paper on the Energy Policy of the Republic of South Africa* (Pretoria: Government Printer, 1998).

[15] Kobie Maré, *Free Basic Water: Actual Tariff Structures in Rand Water Area of Supply* (paper presented to Water Services Forum, Johannesburg, July 18, 2001).

[16] Eskom, *An Analysis of the Implications of Supply Capacity Limitations in Low Income Residential Areas* (1996, mimeo).

[17] Shomenthree Moodley, *Investigating Total Economic Burden: South Africa's Diarrhoeal Disease Burden in 1995* (Johannesburg: Group for Environmental Monitoring, 2000).

[18] *Ibid.*

[19] Bryan Davies and Jenny Day, *Vanishing Waters* (Cape Town: University of Cape Town Press, 1998).

Follow Up

www.aidc.org.za/ilrig/ The International Labour Resource and Information Group is a non-profit labour service organization based at the University of Cape Town, South Africa.

www.worldbank.org/html/fpd/water/ The site of the World Bank Group features a water help desk and a global water and sanitation advisory service.

www.thewaterpage.com/south_africa.htm A page by Water Policy International, providing links and resources about South African water sector reform.

www.queensu.ca/msp Site of the Municipal Services Project.