PUBLIC IS AS PRIVATE DOES:
THE CONFUSED CASE OF RAND WATER IN SOUTH AFRICA

Municipal Services Project

Occasional Papers No.15

Municipal Services Project

Occasional Papers Series

Number 15

AUGUST 2007

PUBLIC IS AS PRIVATE DOES: THE CONFUSED CASE OF RAND WATER IN SOUTH AFRICA

By
Carina van Rooyen and David Hall

Series Editors
David A. McDonald and Greg Ruiters

ABOUT THE PROJECT

The Municipal Services Project (MSP) is a multi-partner 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 decentralisation, privatisation, cost recovery and community participation on the delivery of basic services to the rural and urban poor, and how these reforms impact on public, industrial and mental health.

The research has a participatory and capacity building focus in that it involves graduate students, labour groups, NGOs and community organisations 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.

Research partners are the International Labour Research and Information Group (Cape Town), Queen's University (Canada), Rhodes University (South Africa), the Human Sciences Research Council (Durban), EQUINET (Harare), the South African Municipal Workers' Union, and the Canadian Union of Public Employees.The Project is funded by the International Development Research Centre (IDRC) of Canada. For more information visit www.queensu.ca/msp.

ISBN 9780868104447

Design and layout: Joe Goosen

Printed and bound by Logo Printers

Acknowledgements

Carina van Rooyen (cvanrooyen@uj.ac.za) is a lecturer in Development Studies at the University of Johannesburg and is completing a PhD at the School of Oriental and African Studies, University of London on public sector reform, with Rand Water as a case study.

David Hall (d.j.hall@gre.ac.uk) is Director of the Public Services International Research Unit (PSIRU) at the University of Greenwich.

PSIRU's research is centred on the maintenance of an extensive database on the economic, political, social and technical experience with privatisation and restructuring of public services worldwide, on the multinational companies involved, and on the impact of the policies of international financial institutions and the European Union, especially in water, energy and health care. This core database is financed by Public Services International (www.world-psi.org), the worldwide confederation of public service trade unions. PSIRU is the coordinator of the Watertime project (www.watertime.org), funded by the European Commission research directorate.

Additional funding for the production and dissemination of this report was provided by the Canadian Unions of Public Employees (CUPE).

LIST OF ACRONYMS

ASSEMAE	Brazilian Association of Public Municipal Water and Sanitation Service Organisations
BBW	Bushbuckridge Water Board
BOT	build-operate-transfer
CBPD	community-based projects department
CE	chief executive
Cosatu	Congress of South African Trade Unions
CSI	corporate social investment
DEAT	Department of Environmental Affairs and Toursim (KwaZulu-Natal)
DG	director-general
DPLG	Department of Provincial and Local Government
DRC	Democratic Republic of Congo
DWAF	Department of Water Affairs and Forestry
EdF	Electricité de France
GEAR	Growth, Employment and Redistribution Programme
GM	general manager
GWC	Ghana Water Company
LHWP	Lesotho Highlands Water Project
MIIU	Municipal Infrastructure Investment Unit
Ml/d	megalitres per day
NCAP	Ghana National Coalition Against Water Privatisation
NEPAD	New Partnership for Africa's Development
NGOs	nongovernmental organisations
NPM	New Public Management
NWRIA	National Water Resources Infrastructure Agency
NWSC	National Water and Sewerage Corporation (of Uganda)
O&M	operations and maintenance
PPP	public-private partnership
PUP	public-public partnership

RED	regional electricity distributor
RSA	Republic of South Africa
RW	Rand Water
RWS	Rand Water Services (Pty) Ltd
SAAWU	South African Association of Water Utilities
Samwu	South African Municipal Workers' Union
SFWS	Strategic Framework for Water Services
SOEs	state-owned enterprises
TNC	transnational corporation
UK	United Kingdom
UW	Umgeni Water
WDM	water demand management
WSA	water services authority
WSP	water services provider
WSSD	World Summit on Sustainable Development

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INTRODUCTION

1

Perceptions of state failures and fiscal deficits have led to dramatic changes, under the rubric of neoliberalism, in the role of the state in many societies since the 1980s. Both the welfare state and the traditional Weberian model of bureaucracy have been the focus of such change (Batley and Larbi 2004:31). The initial phase, or first-generation reforms, included liberalisation, deregulation and privatisation. The current phase involves the introduction of private sector management approaches in the public sector, such as cost recovery and public-private partnerships (Batley and Larbi 2004:xi,1,7).

Smith (2005:168) indicates how this second wave of neoliberalism is aptly summarised by the process of 'corporatisation', while Nickson (2006:82) has described second-generation state reforms as focused on the 'four Es': effectiveness, economic efficiency, equity and an 'enabling environment' for private sector development. The solution to problems around delivery and service provision has been prescribed as the introduction of competition or market dynamics in managing public services. This does not mean a diminished role for the state but rather a new role – what Bakker (2000; 2003; 2005) has called re-regulation, and what market proponents call governance (see Ahlers 2005:18 for a discussion of this).

The increased use of private sector principles, and the actual participation of the private sector in what is 'public', has meant that the boundaries between private sector domain and public sector domain have been blurred, although distinctions remain (Larbi 2006:31; Mogale 2003:218). The new benchmarks set for how public utilities are expected to operate is not that dissimilar from private sector management. Various structural, organisational and managerial changes in the public sector, with national and sectoral differences, have become 'necessary', including the separation of policy and management functions, corporatisation of public utilities, distinction between core and non-core activities, the ringfencing of non-core activities, outsourcing of non-core services, introducing an 'entrepreneurial ethos' (Hassen 2004:4). The notion of New Public Management (NPM) has come to capture much of this shift from government to governance, in which – to use the language of the post-Washington Consensus – 'getting institutions right' is necessary.

This redefinition of public sector management has meant that what is 'public' has also been re-interpreted. One area where this has played out intensely is in the provision of water. Privatisation, concessions, build-operate-transfer (BOT) agreements and public-private partnerships (PPPs) with global multilocational and multi-utility companies has increased rapidly since the 1990s in developing countries (Swyngedouw 2006:50). Such private sector activity in the water sector peaked in the late 1990s, however, and reached its lowest point by 2003 in developing countries, mainly due to the high financial and political risk and lower-than-expected financial returns to private companies (Coffey 2006; Johnson 2004:96-7; Morgan 2006:390).

After the initial enthusiasm, then steep fall, water transnational corporations (TNCs) now seem to prefer shorter-term management contracts involving operations and maintenance (O&M) which, compared to concessions and lease agreements, hold little or no risks and guarantee income. Kemeny – a manager with RWE Thames – acknowledged in 2004 that the future for private companies in the water sector in developing countries was in providing skills and expertise (thereby building capacity in her view) rather than bringing finance. What is thus happening is that through PPPs the public sector takes responsibility for long-term fixed capital investment, while the private sector focuses on improving efficiencies and earning operating profits (Marin & Izaguirre 2006:3; Swyngedouw 2006:51).

Further, water TNCs now appear to focus their expansion plans on fewer countries, namely "on the potentially most profitable markets" in Europe, the United States, Canada, Japan and China (Johnson 2004:97; Marin & Izaguirre 2006:3; Brennan et al. 2004:4). In the last few years this has provided room for new players to enter the market in developing countries. The latter have mostly been national and regional firms from, amongst others, Argentina, Brazil, China and Russia (Coffey 2006; Marin & Izaguirre 2006:4).

At the same time, critique and protests against private sector involvement in public water services have led to calls by groupings on the left for the creation of 'public-public partnerships' (PUPs) as a mechanism for improving public services and negating private sector involvement. The assumption is that PUPs will protect the public nature of water services much better than PPPs and will be better at ensuring access to water for the poor and marginalised, particularly in countries in the South.

It is in this context of changes in public sector management and in the water sector that we see Rand Water (RW), the biggest public water utility in Africa, entering the market on the continent, as well as engaging in other activities that are beyond its core function of providing bulk potable water to local government in the industrial heartland of South Africa. This report examines the expansion of RW into non-core activities in the period 1994-2006. The report covers RW's expansion within South Africa and outside of it, considers the rationales offered by RW for that expansion, and deliberates on this expansion in the context of similar activities by other public sector operations both in South Africa and in other countries.

The study aims to address a series of broad questions, though the lens of Rand Water:

- What factors explain the expansion of public utilities beyond their original public service responsibility, both within their home country and beyond?

- What is the relationship between commercial activities and public service provision, and the unresolved tensions created by these seemingly contradictory activities as a result of the underlying processes of corporatisation, commercialisation and marketisation?

- How and when do PUPs differ from PPPs?

The research methods used to gather information for this study involved the analysis of various documents, including legislation and policies related to water provision, water boards and public sector reform in South Africa, minutes of RW board meetings, reports and papers written and presented by RW management and the in-house newsletter of RW. In-depth formal interviews were conducted with senior managers of RW on changes in the organisation since 1994. Formal interviews were also conducted with local government officials with responsibility for water services who regularly interact with RW. Various informal discussions took place with other local government officials and councillors at the monthly Water Services Forum arranged by RW. All these interviews and discussions were conducted on condition of anonymity and thus no names of interviewees are used in the report.

This report begins with a theoretical framework for the commodification and commercialisation taking place in the water sector before sketching the legislative background in South Africa that legally enables water utilities such as RW to enter into non-core activities. Background information on RW and its operations give another frame within which to discuss and analyse RW's expansion beyond its non-core activities. Except for providing RW's rationales and its policy on engagement in non-core activities, various examples of its engagement in such activities both within South Africa and outside of it are provided. These are analysed by also considering what some other public utilities in South Africa and in other parts of the world are doing with regards to non-core activities. The report concludes by identifying factors encouraging engagement in non-core activities and by highlighting the tensions created when public utilities engage in activities as commercial operators, leading to concluding remarks on the nature of 'publicness'.

4 UNDERSTANDING COMMODIFICATION AND COMMERCIALISATION OF WATER PROVISION

David Harvey (2004), using a historical-geographical materialist approach, has theorised about how capitalism has been able to deal with its inherent tendency to crises of over-accumulation and uneven development. For Harvey (2004:2), over-accumulation in a specific territorial system refers to "surpluses of labour (rising unemployment) and surpluses of capital (registered as a glut of commodities on the market that cannot be disposed of without a loss, as idle productive capacity, and/or as surpluses of money capital lacking outlets for productive and profitable investment)".

To avoid such surpluses being devalued ways must be found to use it. Harvey argues that capitalism makes use of spatio-temporal fixes, or what Bond (2004) has called "shifting and stalling". This entails that "such surpluses may be absorbed by (a) temporal displacement through investment in long-term capital projects or social expenditures (such as education and research) that defer the re-entry of current excess capital values into circulation well into the future, (b) spatial displacements through opening up new markets, new production capacities and new resource, social and labour possibilities elsewhere, or (c) some combination of (a) and (b)" (Harvey 2004:2). This leads to areas/sectors not previously exploited by capital and marketisation now being actively used to extend the reach of markets to prevent a crisis of over-accumulation. The neoliberal project is an example of this attempt to deal with over-accumulation since the 1970s.

Broadening Marx's notion of primitive accumulation (i.e. dispossession/separation of labour from the means of production in a specific pre-capitalist context), and drawing on the work of Rosa Luxemburg, Harvey calls these new fixes 'accumulation by dispossession'. It involves the accumulation of wealth based on changing property rights and relations, which is different from accumulation through labour processes/expanded reproduction. Through privatisation, for example, low-cost public assets are released which can absorb surplus capital (Harvey 2003:184-5). Utility services – since the turn of the 20th century provided mostly by the public sector – and nature, including water, have become part of the new frontiers exploited by investors in their search for new opportunities for profitable capital investment (Swyngedouw 2006:49). Public services and nature are thus being commodified; such commodification and privatisation of environmental commons has been referred to as the new 'enclosure of the commons'.

Castree (2003:275) argues that the process of capitalist commodification (and its effects) is different for the particular natures that are being commodified. In such a particular nature, the water sector, Swyngedouw (2005) applies Harvey's framework. For one, there has been a shift from water as a common pool resource to private economic good and commodity (Mehta 2003:561; Swyngedouw 2006:61). But as Swyngedouw (2006:64) rightly indicates, water commodification "has been part and parcel of modern development, of modern irrigation, and of the urbanisation of water" and is thus not a uniquely recent phenomenon. And Sayer (quoted in Bakker 2005:545) reminds us that commodification "is not so much a durable state as a series of passing moments, and is continually being negated in consumption or use", while Castree (2003:277) makes clear that commodification indicates that "the commodity status of a thing, object, idea, creature, person or what-have-you is not intrinsic to it but, rather, assigned".

Commodification cannot then be understood as a linear process but should be seen as an ongoing process which is contested, and therefore uneven, partial, transient and not inevitable (Bakker 2005:545; McDonald & Ruiters 2006:15). Furthermore, water is not a resource that makes it easy to commodify; it is characterised by two major market failures, namely natural monopoly and externalities (see Bond 2001). This leads Bakker (2004; 2005:544-6) to refer to water as an "uncooperative commodity". Despite this, what we are seeing currently is an intensification of the process of water commodification and "debates over the form that the commodification process" take (Swyngedouw 2006:58), as part of capitalism's attempt to deal with its crisis of over-accumulation.

We should conceptually differentiate such a commodification process from ownership issues and privatisation. Swyngedouw (2006:64) highlights the common fault to equate public ownership with a non-commodified form of service delivery, which is of crucial importance for this report. McDonald & Ruiters (2005a:3) describe commodification as the "transformation of all social relations to economic relations, subsumed by the logic of the market". It involves "any act, practice or policy that promotes or treats a good or service as an article of commerce to be brought, sold, or traded through market transactions." (McDonald & Ruiters 2005b:20). Bakker (2005:545) indicates how commodification entails socioeconomic, discursive and material transformations in goods to make them marketable, while Castree (2003:279-82) identifies various principal elements of commodification as including privatisation.

In water supply, commodification is then the process of how water services become a commodity, how the market as a social institution influences access to water and encourages consumerism and individualism. Competition and efficiency become key aspects influencing allocation. In the process the exchange value of water dominates over its use value (Marx 2001:18).

Further, a shift occurs from the state hydraulic paradigm with its state ownership, subsidisation, and universal access for citizens to supply-led water services, to private control of utility networks that sells a commodity to consumers leading to selective access (Bakker 2002; 2005:546).

Privatisation, on the other hand, indicates a process of increased involvement of non-state actors – mostly the private sector, but also nongovernmental organisations (NGOs) and community organisations – in the delivery of a service. It ranges from service contracts, management contracts, lease agreements, BOT-arrangements and concessions to outright sale of state assets (divesture). Private sector participation in water supply (PPPs) is about the participation of private companies and private capital through a variety of contractual arrangements in building, managing and maintaining water infrastructure on behalf of the public sector, leading to a continuum of public and private mixes in water provision.

A further distinction should be made between privatisation and commercialisation of water supply. Bakker (2005:544) describes privatisation as a process of organisational change where there is a shift in ownership and in management from the public to the private sector, while commercialisation is a process of institutional change where the management institutions (the rules, norms and customs) change to allow for the introduction of commercial principles (like full cost recovery and competition), commercial methods (like cost-benefit analysis, ringfencing and performance contracts) and commercial objectives (like short-term financial bottom-line and profit-making). It is about running a public service like a business, without necessarily any direct private sector actor involvement. It is thus a process of reforming state practices by introducing private sector practices and values to the public sector, thereby blurring the distinction between state and market (Kihato & Schmitz 2002:11).

This is in line with what New Public Management (NPM) approaches advocate. Such commercialisation fundamentally alters the underlying managerial ethos of public services provision and this influences issues and practices on equity, social justice, subsidisation, integrated and long-term planning, how water is priced and valued, accountability and citizenship. The debate should therefore not focus on public versus private ownership, but the principles underlying the delivery of public services like water supply. This does not mean that ownership of assets does not matter, however; it does, especially in terms of potential public influence and control over the service.

Public sector organisations are supposed to serve a certain interest, as do private sector organisations. In the case of the public sector it is meant to serve the public common interest: society as a whole and in its plurality (Ranson & Stewart 1994:60). Hoedeman (2006:4) defines publicness "as commitment to the public interest and accountability to the public". Ranson & Stewart (1994:27) further identify public purpose as "distinguished by a concern to identify needs rather than demand, and to serve rather than accumulate profit". Certain criteria for practices are also very particular to the public domain, with equity being the most important, according to Ranson & Stewart (1994:97), and universal provision, accountability, transparency and democracy being others. The equity principle finds flesh in practices such as cross-subsidisation across classes, genders, areas/regions, sectors, etc. Furthermore, while competition is sought in markets, cooperation is meant to be the basis for interaction in the public sector (Ranson & Stewart 1994:138). The argument is thus that the unique qualities of the public sector require unique patterns of organisation and management (Ranson & Stewart 1994:29), meaning private sector principles and practices cannot necessarily be applied in the public sector. But instead of allowing management approaches to reflect the particular organisational purposes and conditions (Ranson & Stewart 1994:36), NPM-approaches have come to promote the application of private sector principles and practices in the public sector.

NPM came to the fore in the 1980s to early 1990s, especially in the United Kingdom (UK), United States, New Zealand and Australia, as an approach to public sector reform and it has attained hegemonic status in many countries (Osborne & Gaebler 1992; Pollitt & Bouckaert 2000). NPM should be placed in the context of neoliberalism and the shift to governance, which is part of a wider shift from Fordist regulation to post-Fordist, flexible accumulation.

NPM approaches advocate a vartiety of structural, organisational and managerial reforms in the public sector. Kaul (quoted in Batley & Larbi 2004:15) argues that underlying such changes is a shift from government concerned with doing, towards government simply ensuring "that things are done"; or what Denhardt & Denhardt (2003:16) call "steering rather than rowing". It leads to a separation between actual delivery and management/policymaking in services (Batley & Larbi 2004:36). Clear distinctions are also made between ownership and management, purchaser and provider, and core and non-core activities (Hassen 2004:4). NPM thus provides room for actors other than government to provide public services (Batley & Larbi 2004:15; Mackintosh 1997:4). When other actors become involved, partnerships and relational contracting are expected. Government's indirect roles become policymaking, enforcing the law, 'enabling' providers and regulating. This is what the re-organisation from government to governance involves.

Corporatisation is one organisational form that the new managerialism promotes (Batley & Larbi 2004:44-5). Through corporatisation public entities mimic business discourses and entrepreneurial practices. Variations on the corporatisation model include a business unit within a government department or a corporatised utility. What the various corporatisation models have in common "is a particular approach to accountability: government becomes the single client for a publicly-owned, yet institutionally separate service provider" (Smith 2006:2).

For corporatisation to happen two organisational shifts must occur, namely financial ringfencing and managerial ringfencing (McDonald & Ruiters 2006:12, 18). Financial ringfencing involves a process of "all resources directly involved in the delivery of a service [being] separated from all other service functions"; and "where resources are shared by more than one department (e.g. information technology, vehicles) the ringfenced entity pays the other unit a full-cost fee for the use of those resources." The aim of such financial ringfencing is to clearly identify all costs and revenues related to the delivery of a specific service to allow managers to identify areas of financial loss/gains.

Furthermore, financial ringfencing makes it possible for financially driven performance targets for managers to be introduced. This encourages managers to narrowly focus on the financial bottom-line of making surplus, as this will increase their remuneration. These narrow accounting methods allow managers to give less or no consideration to 'political' issues such as race, class and gender equity, health considerations, economic multipliers and the environment – also known in orthodox economics as externalities, and to be understood as a practice of cost-shifting (Martinez-Alier 2002:271).

Managerial ringfencing, on the other hand, ensures that these separate business units and entities are managed by appointed officials at arm's length from the public authority. While elected officials still set service delivery goals and standards, and monitor and evaluate them, the day-to-day management and long-term planning is left to the management of the ringfenced entity. But such managerial ringfencing leads to "inefficient, near-sighted planning and operational patterns whereby water managers are unaware of planning and operations in related services such as waste management, storm-water drainage or health services, leading to potentially serious health concerns" (McDonald & Ruiters 2005a:8).

Furthermore, in the process of corporatisation separation of elements of service provision may occur, called unbundling. The aim of vertical and horizontal unbundling is to increase competition and to have multiple service providers compete with each other. Vertical unbundling, as happened in electricity industries in various countries, involves the separation of production/generation (which can be competitive) from distribution (which tends to be monopolistic). Horizontal unbundling, on the other hand, means that a service is broken up geographically or by category of service (Batley & Larbi 2004:33).

But due to the nature of water supply a natural monopoly occurs, making direct competition nearly impossible and unfeasible in most cases. We are rather seeing "various forms of competition for, rather than in, the market" and simulated competition being introduced by the state in the water sector (Bakker 2003:331, own emphasis). One way of simulating competition is to remove state subsidies and force state-owned entities to compete for finance with private firms. The phasing out of subsidies to water boards is an example of this being applied in South Africa. All of these indicate the active role played by the state through selective deregulation and re-regulation to create a 'competitive' environment.

While corporatisation does not have to mean an eroding of the public service ethos, Smith (2006:2) indicates how in the South this is often the case due to lack of human resources and capacity, insufficient financial resources, sometimes lack of political will and many low-income users of a public service. Efficiency imperatives then tend to dominate over equity concerns. When economic maximisation becomes the goal, social and political values such as equity, social justice, universal access and democracy tend to be ignored as the service is removed from its historical, spatial and sociopolitical contexts. A further worrying element, highlighted by Swyngedouw (2006:58), is "the changing character of knowledge within the water sector. Information that was once in the public domain becomes commodified, takes on commercial significance and is often treated as confidential". This radically changes the nature of participation, democracy and accountability.

These processes of commercialisation and corporatisation of water services as part of the intensification of a process of commodification of water are being playing out in the South African water sector in contradictory ways, as will be discussed next.

10

WATER PROVISION IN SOUTH AFRICA: REALITIES AND TENSIONS

The intensification of water commodification globally coincided with the end of apartheid in the 1990s and has led to contradictions and tensions in the policies and realities of water provision in South Africa. The challenge is not just to maintain the existing system and expand the water supply system to the unconnected (thus addressing unequal access), but also to reduce water demand due to biophysical water scarcity.

Some – including government – believe that water should be valued as an economic good to promote its wise use (Earle 2005:3) and ensure that all have access to some water, instead of some having access to all water. But in its efforts to ensure this, government is implementing schizophrenic policies. While Muller & Uys (2004:19) claim that government is attempting to balance the commercialisation of the water sector and the constitutional right to access water, the complexity of such a task makes it nearly impossible, and leads rather to the contradictions, tensions and injustices we see in the reality of water provision in South Africa.

While in 1994 fourteen million people lacked access to water, by 2003 this was reduced to five million South Africans (11 percent of the population) not having access to clean water within 200 meters of their home (DWAF 2003). Government's objective was to clear the backlog by 2008. The idea is that once the backlog is met, people should move up the 'water ladder' over the next ten years. But the increased provision of water infrastructure and the introduction of 'free basic water' in June 2001 do not mean that water supply is spread across the country evenly – race, gender, class and space remain markers of inequality in access to water, as does the amount of water used by agriculture and industry.

Neither does increased water infrastructure provision mean affordability, sustainability, reliability and continued access to such infrastructure and services. And it also does not mean that good quality of drinking water is provided.

One of the key influences on RW's engagement in non-core activities has been the institutional reform within the South African water supply sector since 1994. Apartheid water provision in urban areas happened through a three-tier system: the national Department of Water Affairs and Forestry (DWAF) was responsible for raw water supply via management of river basins, and building and maintaining impoundments and dams; water boards (like RW) were statutory bodies acting as regional public water utilities responsible for supplying potable bulk water to local government and large industrial users; and local government distributed retail water to households and businesses. But a new institutional set-up means that the new water supply chain is from the still-to-be-formed National Water Resources Infrastructure Agency (NWRIA), to regional water utilities (i.e. water boards), to water services providers (WSPs) who have been contracted by a water services authority (WSA) (i.e. local government) to provide water in its area of jurisdiction directly to households and other users. With local government given the constitutional responsibility to ensure access to water, there has been a shift in the role of DWAF from being a provider and directly involved in operations to being sectoral leader with policymaking and regulation functions. Further, the new institutional set-up requires that where a WSA provides water itself, it has to do so through a separate entity, called an internal WSP. The functions of WSA and WSP are thus to be clearly separated, with WSAs having political responsibility for water provision but WSPs doing the actual delivery of water and being accountable to WSAs through contracts in the form of service delivery agreements. A WSA can also contract an external WSP (either private or public). These remind of NPM-practices; it is not surprising that such practices as ringfencing and corporatisation are being implemented in the South African water sector as DWAF turns to Australia, the Netherlands, the UK, France, Japan and the United States to learn lessons about institutional reform in the water sector (Langford 2004:4; Nokeri 2006:8)

One aspect of the new institutional set-up has been that the private sector has become increasingly directly involved in water provision. Except for the twelve presidential lead projects and BOT-schemes of DWAF, the Department of Provincial and Local Government (DPLG) and the National Treasury have been promoting the use of PPPs at local government level (Johnson 2004:1), with local government's role to create an enabling environment for service providers to operate in.

But despite much being made of PPPs by both government and its critics, in general the water provision sector is heavily dominated by government and parastatals (Jones & Williamson 2005:29); only five lease contracts have been entered into with private companies, and three of these contracts (all with Suez) pre-date 1995. This low number of contracts was due in part to strong resistance from civil society to direct involvement by the private sector in water supply. Although protestors have been vilified by government as 'counterrevolutionaries' and 'ultra-leftist', their resistance has led to a shift. Although in the mid- to late-1990s there was a penchant in PPPs for long-term contracts (Bond 2003:12; Bond & Ruiters 2001:363), the trend is now towards management contracts of a short-term nature. While water supply in South Africa is still state-centred, and will seemingly remain so for a while, it is not state-exclusive.

More significant has been the spread of private sector management principles in the public provision of water services. While principles like equity, the right to access water and community participation featured prominently in the mid-1990s, these have over time become replaced in prominence and effects by practices of ringfencing, full cost recovery and efficiency. One example of such dominance of market language and practices is the contractualisation of the water supply chain. Other market practices that have become standard in South Africa are the implementation of full cost recovery and congruent credit control practices like water disconnections, reducing water supply through flow limiting devices and prepaid water meters for poor households. Further, since the early 2000s municipalities and other water institutions follow the central state in referring to water users and consumers as customers and have adapted 'customer charters' and created 'customer service centres' (Ruiters 2005). Such market language and the general trend of treating water provision as a business rather than as a public service (Cosatu & Samwu 2003:19), undermine social justice language and have very worrying implications for the still-unserved and poor people's realisation of their right to water.

Where do water boards such as RW, as 'public utilities', fit into this restructuring of the water sector in South Africa? There is much uncertainty about the answer to this question, as water boards are "somewhat of an anomaly within the institutional framework" of water supply (Eberhard 2002:9). Although water boards existed before the 1997 water legislation, this legislation changed the nature of their relations with local government and DWAF, and generated uncertainties about their future roles and continued existence.

Firstly, the nature of the relationships between water boards and municipalities has been fundamentally altered. Whereas before, especially in the case of the bigger water boards, water boards held sway and set the terms of a relationship, local government is now the authority. Mike Muller, former director general (DG) of DWAF, explained that water boards had to prove their value to local government if they wanted to survive (Business Day 22 November 2000), while then-Minister of Water Affairs, Ronnie Kasrils, also urged water boards to reposition themselves to be more efficient and customer-orientated, rather than using their monopoly position to dictate terms to municipalities (in Wijesekera 2003:33). A proposed National Water Services (revision) Bill (DWAF 2006) holds even further drastic changes for the relationship between water boards and local government, with the proposal being to give more power to WSAs vis-à-vis water boards.

The 2003 White Paper, Strategic Framework for Water Servcies (SFWS), indicated that "the existing role and institutional structure of water boards may change during the broader process of the institutional reform of water services provision" (DWAF 2003:18). This paper held as options that some water boards could remain as primarily bulk water suppliers (i.e. status quo), others could be transformed into municipal-owned utilities and others (probably the big water boards like RW and Umgeni Water) could be transformed into source-to-tap public utilities (both bulk and retail WSPs or vertically integrated water utilities) or multi-jurisdictional water service providers (Muller 2003:4). The expectation was that the role of water boards was to be clarified in the Institutional Reform of Water Services Provision Strategy (DWAF 2005a), but when a draft of this strategy was released in October 2005 it still had no clear decision about the future of water boards.

DWAF would appear to be leaning towards regional vertically integrated water utilities, especially in cases of poor performance where regulation and support to local government have not improved performance (Nokeri 2006:7). In this regard two senior DWAF officials – Mike Muller and Marie Brisley (2005) – acknowledged that DWAF was looking to learn lessons from the restructuring process ongoing in the South African electricity industry, especially the creation of regional electricity distributors (REDs). What this model implies for the water supply sector is that the newly announced NWRIA would act as the wholesale supplier of raw water – "de facto, an Eskom [the state-owned electricity provider] of the water industry" (Financial Mail 12 August 2005). Water boards could possibly play the role of transmission companies who would take raw water from the NWRIA, treat it and supply it to water REDs. Wall-to-wall water REDs (see National Treasury 2006:864) – co-owned by local and national government – would buy the raw water from the NWRIA, treat it, distribute potable water directly to households, collect waste water and treat it again before discharging or recycling it.

Acceptance of the RED-model in the water supply sector has not yet been achieved, however, and is proving very complicated. One reason is that the political and legal obstacles and lessons from the electricity sector concerning its reforms are not all that encouraging (see Thelani Consulting quoted in Wijesekera 2003:57).

Despite – or because of – all the uncertainty, water boards have been repositioning themselves to act as regional water utilities offering a full range of water services. In 2001, the South African Association of Water Utilities (SAAWU), to which most water boards belong, adopted such a strategy (Connolly 2001). This strategy is based on continuing with their primary activity of bulk water provision, but expanding into non-core activities. The Water Services Act of 1997 in section 29 (RSA 1997:31) indicates that water boards' primary activity remains "provid[ing] water services to other water services institutions within its service area". This involves bulk potable water provision and bulk sanitation services.

The Act also allows water boards to engage in what it calls 'other activities'. Such other activities may include acting as a local WSP contracted by a WSA to provide water directly to households, supplying untreated or non-potable water to end users who do not use the water for household purposes, wastewater treatment, catchment management services, performing water conservation services, providing management services, and training and other support services to other water services institutions (RSA 1997:32). Section 30(1) of the Act specifies that a water board may only engage in an activity other than its primary activity if: "(a) it is not likely to limit the water board's capacity to perform its primary activity; (b) it is not likely to be to the financial prejudice of itself, any water services institution, existing consumers and other users serviced by it within its service area; (c) it is in accordance with the board's policy statement; and (d) it is provided for in a business plan" (RSA 1997:32). The assumption is that water boards will provide these activities at a profit, and through this surplus fund their primary activity, as the priority of water boards must remain its primary activity. In light of DWAF's decision that water boards are expected to be self-financed, and that subsidies to water boards would be phased out and ceased after 2005/6 (DWAF 2004a:i), engaging in such profit-making and income-generating activities is seen as crucial for their continued existence.

Except for a profit-motive in other activities, the Water Services Act in section 41(1) states that the Minister may direct a water board: "to undertake a specific activity (i) at its own cost where the activity is financially viable; or (ii) against full or partial payment, as directed by the Minister" (RSA 1997:40). The Minister may also direct a water board to desist from a specific activity (RSA 1997:40). For all primary and other activities water boards have to enter into a written agreement, according to section 32(b) of the Water Services Act (RSA 1997:33). Furthermore, primary and other activities have to be managed as separate units (RSA 1997:40), though the act does not stipulate how such ringfencing of other activities must happen.

Except for engaging in other activities in South Africa, an amendment to the Water Services Act in October 2004 enables water boards to engage in activities outside of the borders of South Africa. This was introduced despite strong opposition from local government. The motivation for the amendment was to legalise Umgeni Water's extraterritorial operations (see below) and enable RW to bid for a project in Jordan (RSA 2004:3; RW Board June 2003:584). The amendment stipulates that the Minister of Water Affairs and Forestry, in consultation with the Minister of Finance, must authorise an activity by a water board outside of South Africa. This can only happen after the Minister, in consultation with the Ministers of Finance, Trade and Industry, and Public Enterprises, and by notice in the Government Gazette, has determined the nature of the activities, the countries in which such activities may be performed and the maximum amount of capital a water board may take out of South Africa (RSA 2004:2).

Fawcett Ngoatje, then-director for international relations at DWAF, acknowledged in an interview in late 2005 that, except for the initial approval, there was no regulation of water boards when they go into Africa. A draft of the proposed National Water Services (revision) Bill, however, holds the potential to curtail these engagements outside of South Africa. If the 2006 draft is accepted, water boards will have to get consent from the Ministers of Finance, and Water Affairs and Forestry, as well as the consent of all WSAs to whom it provides water services, for any extraterritorial activities. Furthermore, for all other activities within South Africa water boards will have to get approval from each WSA to whom it provides water services. But this bill still has some way to go before it is accepted as an act, though.

All these factors have influenced water boards to become commercially focused, directing them to commercialisation and to engaging in other activities. But before looking at how RW has given flesh to its statutory right to engage in other activities both within and outside of South Africa, it is useful to sketch a brief picture of RW's primary operation – the provision of bulk water in the Gauteng province and surrounding areas – and how this impacts on its engagement in other activities.

ABOUT RAND WATER

Rand Water – originally named the Rand Water Services Board – was formed in 1903 under its own statute as the first bulk supplier of potable water in South Africa, with responsibility for providing water to the gold mining industry and towns on the Witwatersrand. Over the years RW has grown and remained the biggest water board in South Africa – 15 times larger than its nearest equivalent, Umgeni Water (Tempelhoff 2003) and the largest public water utility in Africa (RW 2006:4; Umsebenzi May 2003:7; Verschoor 2006:1). RW has expanded its area of supply to cover Gauteng and parts of the Free State, Mpumalanga and the Northwest province, giving it a supply area of 18 000km^2.

The primary function of RW is the abstraction, purification and distribution of bulk potable water. For abstraction RW draws 99 percent of the raw water it uses from the Vaal dam, which is fed by the Vaal and Wilge rivers (RW 2005a:15). Since there are not sufficient water resources in Gauteng, a series of water transfer schemes (from the Katse, Mohale, Sterkfontein, Grootdraai and Woodstock dams) have been necessary. These transfer schemes rank amongst the most sophisticated in the world (Ashton & Haasbroek 2002:188).

The water transfer from the Katse and Mohale dams in Lesotho, phase one of the Lesotho Highlands Water Project (LHWP) completed in 1998 and 2003 respectively, has been highly controversial. RW had argued against the start of phase 1b of the LHWP, and then was able, with others, to persuade DWAF's technical team to defer phase 2 (Cooks 2004:226; RW Board May 2001:425). RW's projections are that a new scheme to further augment water resources would be necessary around 2020 (Thomson 2005).

After abstraction from the Vaal Dam, RW has to lift the flow of water about 380 meters to purification and booster pumping stations. Its distribution system entails a network of 3 400km of pipelines of large diameter and 53 service reservoirs (Cooks 2004:150; Nkabinde 2006). Currently RW's capacity to supply bulk potable water is 5 500 megalitres per day (Ml/d), of which on average only about 3 500 is used, with the highest daily demand of 4 227 Ml/d experienced in December 2003 (RW 2004a:8). By 2006 only 59 percent of RW's raw water installed capacity was used, 70 percent of its treatment capacity, 66 percent of its primary pumping capacity and 64 percent of its booster pumping capacity (RW 2006:17). This means that infrastructure development by RW has kept well ahead of water consumption, leading to large surplus capacity in RW's bulk water supply system. Due to the age of the distribution system (some of the pipelines are over 50 years old and reaching the end of their design life), RW faces huge maintenance costs, with R1 billion set aside in 2005 to be spend over the next five years for replacement and refurbishment (Aquavita 9th issue 2005a:2; Business Report 28 September 2005). If one also considers that about 52 percent of the water that RW supplies everyday is either lost or wasted/used inefficiently by RW's customers and end users (Buckle 2004; Water Sewage & Effluent 2004a:38), then once leaks and wastages are addressed (a current priotity with RW's customers) – and in the light of slow growth in water demand – RW's overcapacity will be even higher.

RW distributes bulk water to three metropolitan municipalities, 13 local municipalities, 45 mines and 330 industries. It also provides potable water directly to 570 households. In 2005/6 about 91 percent of RW's water sales were to municipalities, 6.7 percent to mines and the rest to other water users (Nkabinde 2006). Altogether RW supplies 3.45 billion litres of water per day, and indirectly serves over 12 million people (RW 2005b:11), nearly a quarter of the South African population.

RW's water quality compares with the best in the world – in the 1990s the World Health Organisation rated RW's water quality as in the top three in the world (RW 2002a). Further, RW's own water quality standard is higher than the SABS 0241:2001, the national standard for drinking water quality (RW Board December 2004:701).

RW is a public utility with accountability to DWAF. In terms of the Public Finance Management Act it is classified as a schedule 3B national business enterprise (RW 2001a:8). RW defines itself as a not-for-profit public utility but runs on strict business lines (RW 1996:4). It has a non-executive board appointed by the Minister of Water Affairs and Forestry, with representatives from the major stakeholders of RW like municipalities, mines, commerce and provincial government (RW 2005a:3).

A portfolio integrating committee, comprised of the chief executive (CE) and five portfolio heads is delegated day-to-day management by the board. The managerial and organisational structure of RW is aligned into various portfolios, based on process integration and key organisational outputs, to supposedly ensure better organisational performance and facilitate growth in full water services provision (RW 2005b:32-3). In RW's view this will help it to achieve its vision: to be "the industry leader and partner of choice in sustainable water services" (RW 2005a:2; RW 2005b:28), which is to be achieved by 2011 (Nkabinde 2006).

The values underpinning RW's interactions with internal and external stakeholders are excellence, spirit of partnership, care, integrity and equity. Its key strategic objectives to guide its activities, budget and business focus, are "to ensure that RW continues to be a viable and sustainable full water services provider; to position RW as the partner of choice in water services, to satisfy all customers, to improve efficiencies and quality, to achieve transformation, [and] to create a dynamic learning organisation" (RW 2005b:11). Keith Naicker (2006), the chief operating officer of RW, summarised these objectives in a presentation to the provincial and local government parliamentary portfolio committee as "people, planet and profits", exactly how Umgeni Water states its "triple bottom line".

Table 1: Key performance indicators of RW since 1995

Financial year	Revenue for year (billion)	% growth in revenue year-on-year	Surplus (million)	% growth in surplus year-on-year	Total potable water sales (Ml/d)	% growth of potable water sales year-on-year	Number of employees at end of year
2005/6	R3.672	6.1	R593*	19.7	3457	0.9	3006
2004/5	R3.460	6.2	R502*	34	3452	1.1	3049
2003/4	R3.258	13	R375*	33.5	3414	2.2	3097
2002/3	R2.884	16.2	R281	45.1	3340	6.3	3108
2001/2	R2.481	13.8	R193	129.8	3143	4.6	3105
2000/1	R2.180	8.7	R84	-33	3005	2.2	3249
1999/02	R2.005	7.9	R135	0	2941	1.55	3339
1998/9	R1.859	-4.3	R135	-47	2896	3.4	3337
1997/8	R1.942	80.5	R258	36.5	2801	5.5	3258
1996/7	R1.076	13.4	R189	-22.5	2656	7.6	3082
1995/6	R0.948	1.8	R244	9.4	2469	-12.8	2824
1994/5	R0.932	16.2	R223		2832		2645

* Restated in 2006 as R494 and R392 respectively
(Source: Business Report 3 November 2006; Nkabinde 2006; RW 2006:103; RW 2005b:5; RW 2004a:1,28, 83,109; RW 2002b:39,46-7)

Different from other water boards in South Africa, RW has never received any subsidy from government for its core function (RW 2005a:3). Its revenue traditionally has come from the sale of bulk water and capital raised in financial markets through bonds and loans (none government-guaranteed). RW claims to have operated on a full cost-recovery basis throughout its history, as well as a not-for-profit basis as required by its statutes (RW 1978; RW 2005a:3). But throughout its existence cost recovery has been seen to include all working costs (including maintenance costs), management and repayment of loans and an appropriation to reserves (RW 1978). Built into the bulk water tariff is thus a portion for surplus, which in the mid-2000s is targeted at 15 percent (RW Board June 2003:580; personal interview). This, as well as various efficiency measures implemented by RW since the early 2000s and continuous growth in water sales, led RW to a net surplus of R593 million in 2005/6, a 20 percent increase from the R502 million surplus in 2004/5 (RW 2006:29,103). Revenue for 2005/6 was 6.1 percent higher at R3.672 billion (Business Report 3 November 2006; RW 2005b:5), as indicated in Table 1.

What is clear from Table 1 is that since 2001/2 RW has been experiencing commercial growth, with surplus growth per year for the majority of this period consistently over 30 percent. As RW is not supposed to make a profit, such surplus is justified and used as capital for new infrastructure works and to pay off RW's debt; RW refers to such surplus as "not profiteering but recovering cost of capital" (RW 2004c). In 2004/5, for example, the surplus of R502 million was mainly appropriated for debt service (30.3 percent of the total surplus), new capital works (33.6 percent) and provision for debt redemption (35.1 percent) (RW 2005b:39). By the end of the financial year of 2006, RW had accumulated reserves of R3.772 billion (RW 2006:103).

It is also clear from Table 1 that while profits have gone up, RW's number of employees has been decreasing slowly since 2000. In 2006 RW employed 3006 staff, down from 3339 in 2000 partly due to the decision in 2002 to close down the steamplant at Vereeniging in a phased manner. Perceptions within RW among managers and support staff are that staff turnover is high, especially amongst professionals who have scarce skills (Aquavita 3rd issue 2004:3). RW acknowledges that it has an increasing labour turnover among key long-serving staff and is losing skills due to older white men retiring or leaving RW and others (mainly young black professionals) being attracted by higher salaries elsewhere (Nkabinde 2006; Verschoor 2006:2, 7).

RW had been undergoing changes before 1994 but changes in policies and structures sped up with the appointment of Simo Lushaba as the first black CE of RW in 2002. He was brought to RW from Spoornet by the RW Board to drive business and social transformation within the organisation. Under him the key business drivers were identified as customer focused, maintaining high product and service quality, achieving business growth through partnerships, creating a high performance organisation and effective transformation (RW 2005c:1). He was to create a customer-driver organisation that could take advantage of new business opportunities in South Africa and Africa (Dube 2002:55).

For Lushaba the only way to grow the business was by being entrepreneurial (Financial Mail 3 October 2002). This meant increasing the speed of commercialisation and corporatisation of RW to change it from being primarily a public engineering organisation (how Laburn (1979:93) referred to RW) to a state enterprise in which financial sustainability and efficiencies have become paramount.

This focus on efficiencies under Lushaba was not linked to a financial crisis within RW (as was the case with Umgeni Water – see Loftus 2005), but was rather the result of policy directives from DWAF and the permeation of the South African macro-economic policy context and neoliberal hegemonic water discourse. Nevertheless, within RW there is much contestation about the intensification of its corporatisation. While at top management and board level there seems to be support for this drive, at lower levels much rumbling is heard.

Since the mid-1990s RW has slowly been expanding its activities beyond bulk potable water supply. With the acceptance of the Water Services Act in 1997, RW is now legally becoming involved in the full cycle of water services, including bulk water supply and retail water, bulk and retail sanitation, and resource protection (RW 2005a:2; 2005c:1). In pursuit of this strategy RW has expanded both the geographical area of its bulk water supply, and has expanded beyond bulk water supply into other activities in South Africa and in other countries.

WHY RAND WATER IS ENGAGING IN OTHER ACTIVITIES

The rationales provided by RW for engaging in activities beyond bulk water supply can be found in its corporate policy, its five-year business plans, and statements made by senior management of RW. The rationales vary depending on the type of activity engaged in, and whether the other activity is done within South Africa or outside its borders.

RW states that its intentions for engaging in other activities are defined in the Water Services Act of 1997. The criteria used by RW are that it must: support RW's strategic intent and objectives; be "related to the water services sector"; "support and enhance the performance of RW's primary activities for the benefit of stakeholders"; and "support and strengthen the capacity of water service authorities [i.e. local government] and institutions in providing effective, efficient, sustainable and cost-effective water services provision to customers in RW's service area" (RW 2005a:8; 2005c:2). We categorise the rationales provides by RW into three groups, namely: promoting public interest; supporting the New Partnership for Africa's Development (NEPAD) plan; and RW's own commercial interest.

Promoting Public Interest

For RW the rationale of acting in the public interest when engaging in other activities is about supporting local government as WSA, engaging in corporate social responsibility and about RW's role as a public utility.

RW aims to support local government both because it is a statutory requirement for water boards and because municipalities, as RW's main customers for bulk water supply, are facing various problems that might impact on the financial sustainability of RW if these are not addressed (RW Board May 1998). One of the constraints is the critical lack of appropriate skills municipalities are experiencing. RW sees itself being able to help in this regard (RW 2002a), describing itself as a multi-skilled organisation of financial, managerial, technical and operational skills (Duvel & Nel 1998:iv).

RW also feels that it can help with another constraint faced by municipalities: their difficulty in accessing adequate finances (RW Board May 2002a). In this regard RW states that its excellent financial rating enables it to access financial markets to generate funding for infrastructure development and other projects at local government level (Duvel & Nel 1998:14; RW 2002a). But any assistance to local government is only provided on a cost-recovery basis: "Rand Water can and will only perform this role if government provides the required subsidies" (RW Board May 2002a).

RW does engage in activities such as poverty relief, job creation and sustainable development, as part of what it calls its corporate social investment (CSI), which is supposedly beneficial to poor communities and in the interest of the public. Such activities involve community-based projects funded by both RW and external sources, and managed by the RW Foundation. But as will be shown below, RW's CSI activities highlight the tensions between the public nature of RW and its commercial drive where CSI is rather used as a marketing tool.

In terms of its role as a public utility, RW argues that it has a role in meeting the socioeconomic needs of South African society. This role RW sees as different to the one played by the private sector via CSI. In a position paper prepared by RW for the World Summit on Sustainable Development (WSSD) in 2002, RW said "it can be argued that although the private sector can bring efficiencies in certain areas, if equitable considerations are to be also served in a financially sustainable manner, then there should also be a role for public water providers – particularly in terms of improving access to basic water and sanitation services to the poor". (RW Board May 2002a; RW 2002a). This assumes that public providers automatically consider equity issues, which is not always the case.

In the position paper for the WSSD, RW (2002a) stated:

One way of looking at this subject area is to pose a continuum with 'access' issues on the one end and 'efficiency' issues on the other. On the 'access' end, water is considered as a public good, a human right where access for all citizens is imperative. At this end, access to and affordability of drinking water and sanitation are, above all, a political issue and not purely a commercial one... The 'efficiency' end symbolises a belief that services should operate mainly along commercial lines and focus on efficiency of serving those who can afford to pay. In this approach water is viewed as an economic good that should be charged at full economic cost. It is RW's position that neither of these should be sacrificed. A position of balance in the middle of the continuum is advocated – one which advocates the financial viability and institutional sustainability of the water provider.

In reality, RW's focus would appear to be more on efficiency, claiming that it has showed "that it is able to take bold steps with credit control in order to further the ends of financial sustainability" (RW 2002a). A commitment to equity does not feature nearly as prominantly in its policy documents or business plans.

Further, RW specifically proclaims its support of PUPs when engaging in other activities (Lushaba 2005) and describes its approach as "pro-public" (RW 2002a). There are tensions, however, between RW's actions and its proclaimed support for PUPs. For example, RW is involved in the Africa Business Alliance on Water, launched on 1 June 2005 with pilot projects in Uganda and Mozambique, to develop PPPs in water as a model for other African countries. RW has also been involved in the development of PPP courses at tertiary training institutions (RW 1998), but no similar courses for capacity-building on PUPs have been run by RW.

RW probably believes that there is no tension in supporting both PUPs and PPPs because, as its CE stated at a conference in Nairobi in 2004, the focus should be on service delivery improvements through efficiency improvements, and not on ownership of the utility (Lushaba 2004). What RW means by 'capacity-building' is promoting efficiency (RW 2005a:19) along the lines of corporatisation. RW is promoting a shift in water provision from municipal public to corporatised public (RW 2003a), with the seeming assumption that equity will remain part of service delivery rationales. Furthermore, RW expressed its hope to promote its role as public water provider "complementary to private sector providers" (RW 2002a). Should a public utility concerned with equity issues and having a pro-public approach not at least state it the other way around – i.e. that private sector providers are to complement public water providers?

Support for NEPAD

As part of its equity goal, RW engages in activities that support NEPAD and that are in line with the Millennium Development Goals (RW 2005d; 2004b). This position shores up the Amendment of the Water Services Act in 2004, which says that it is important "to enable parastatals to make their contribution to NEPAD in the form of expertise and capacity-building". (RSA 2004:3). Through its engagements in Africa RW believes that it will be "assisting the agenda for delivery of basic services, ensuring adequate infrastructure and promoting stability" (RW 2003a). RW's declared focus in Africa is on capacity-building and institutional development, especially of public utilities (Aquavita 9th issue 2005b:7; Myeza in Holtzhausen 2004:5; RW 2005b:44). To show its "commitment to NEPAD as a strategy for development" RW seconded its general manager (GM) for Corporate Services, Mandiza Mbekeni, to act as CE of the NEPAD Business Foundation South Africa for eighteen months (RW 2005a:44) while RW's CE acted as chair of the water sector in this foundation (Traders Africa 2004).

The kind of skills RW believes it can share with the rest of Africa include its "strong engineering and water quality management backbone, as well as its focus on customer service and efficiency" and water demand management practices (Myeza in Traders Africa 2004; RW 2004b). Significantly, however, it defines water demand management as "the potential to save and use water in a manner that acknowledges it as a scarce resource, and to increase the revenue potential from water sales by governments" (RW 2004b).

Clearly, corporatisation is another set of skills RW would like to impart. As Thabani Myeza, then the new business manager at RW and now at Rand Water Services (RWS), commented in reply to a question from a journalist at Traders Africa (2004):

> *It is… generally accepted that in order for a utility to run efficiently, it needs to privatise. Rand Water has proven that this is not the case. There is a role for private sector but we don't believe that it lies in improving efficiency. Utilities should work on increasing their own efficiencies and profitability prior to considering privatisation so as to raise their value to investors... There is no reason why a public sector entity cannot run on business principles and be efficient – this is the message we plan to take throughout the continent... We believe that we can help utilities from the point where they have identified a problem, to the point where they are able to make an informed decision about their future. This may well mean privatisation, but the decision to privatise must be one based on choice and sound business principles, and not one taken out of crisis. RW wants to assist utilities get to this point so that what is on offer to the private sector has value.*

To this end, RW is keen to "share what it has learnt" with other African utilities, including through the development of "public-public partnership models" (Myeza in Traders Africa 2004; RW 2005a:44). In practice, however, they have not been pushing PUPs outside of South Africa, and where they have it appears to have been little more than a smokescreen to hide RW's profit-making intentions. Such smokescreening is clear in RW's retail strategy; it defines as one of the characteristics of PUPs that "they allow for full cost-recovery (including a mark up) or in certain instances for a sharing of profit". (RW Retail Water Operations department 2000:5).

Nevertheless, RW is sensitive to how it is perceived outside of South Africa. Noting, on the one hand, that it is the "strongest water utility in Africa and has to be seen to be playing a central role in the development of Africa", RW is quick to note that "this role must not be seen as an attempt to re-colonise Africa", and rather wants to position itself "as an African company that understand the needs of our African neighbours, and have only their interest in mind." (RW 2004b; Water Sewage & Effluent 2003:6).

In support of NEPAD rhetoric, RW states that Africa's development should be led by Africans, with RW as an African utility in a good position to provide leadership: "We believe we should help to build efficient and effective utilities to promote service delivery for Africa and that such utilities should be owned in Africa" (Lushaba 2005; RW 2003a; 2004b). RW also raises the "fear" that "if RW is not allowed to pursue operational activity in support of the development of Africa, then private water companies from Europe and North America will undertake this work. The implication of this is that it will limit the development of African skills, it will limit the employment of African people, and will serve to repatriate profits out of Africa" (RW 2004b) (this though has not stopped RW from entering joint ventures with private firms from Europe and North America).

Unfortunately, RW does not indicate how its practice in Africa will be any different from private water companies. As highlighted in the introduction, water TNCs now aim for short-term management contracts and 'capacity-building' of public utilities, which is exactly what RW attempts to do in Africa. RW seems to imply that simply because it is a public utility it should be distinguished from private water companies, and thus cannot be accused of furthering water privatisation when it bids for contracts in Africa.

Lushaba (2005) attempts to clarify the debate: "The thing that clouds this discussion is that up to now getting assistance to improve efficiency of water systems has been equated to privatisation. …That argument does not apply in our case. We are a public entity." But Myeza (in Holtzhausen 2004:5) indicates the real reaons for RW to engage with NEPAD: "We also have to think about our future as a company". For RW "Africa presents a lucrative opportunity for developing infrastructure" (RW 2006:61). Except for the obvious profits to be made and to be applied to RW's primary activity, RW also proposed that going into Africa will help it to deal with its perceived overcapacity in terms of skills – with the added benefit that the skills are to be used for Africa's development (RW 2004b). RW thus wants to export its expertise (Lushaba 2005), exactly what DWAF, via its then-director for international relations, Fawcett Ngoatje (personal interview), believed water boards should do. But interviews with local authority officials in RW's area of supply indicated their unhappiness with RW going into Africa; they argued that if RW has such overcapacity of skills these should be used to strengthen the capacity of South African local authorities which face major problems due to the lack of technical skills. Why sign a twinning agreement with Lilongwe Water Board in Malawi while Delmas or Emfuleni local municipality in South Africa – RW's own customers – urgently need help?

Commercial Rationale

RW declares that it is also engaging in other activities to promote RW's own growth, especially in the light of profit limitation in primary activities (due to regulation by the South African government). Increased local and international competition by private sector operators in the water sector in South Africa have also led RW to feel that it has to fully develop commercially-oriented business practices (Duvel & Nel 1998:16). The CE of RW expresses it as follows: "We need to take what we have as our core competency and leverage that into an organisation that can offer diversified services so that we are able to extract more value out of it" (Aquavita 2002:2). The aim of other activities is then to raise profits and apply these to Rand Water "undertaking its primary activities or any other activity" (RW 2005c:30), such as funding capital investment in infrastructure development for bulk water supply. According to Thabani Myeza (in Holtzhausen 2004:5), new business ventures would help to ensure the future financial viability of RW.

A burning question though is what happens when losses are incurred from such other activities, instead of the desired profits? As the case of Umgeni Water has shown (Loftus 2006), despite ringfencing of other activities, if losses occur they are carried by the water board and are thus inevitably passed on to water users. A senior member of RW's staff indicated in an interview that before the launch of RWS other activities were "ringfenced on our financial statement, but they mostly run at a loss and it comes out of our reserves".

While in 2005/6 RWS – the company formed by RW for its engagement in commercial activities – had made revenue of R4.9 million – down from R9.1 million the previous year – it made a loss of R5.5 million and used R3.9 million out of the reserves (RW 2006:118, 134). But so far the value of other activities is comparatively small compared to RW's primary activity. And in its business plan RW stated that it did not expect other activities to have any significant impact on RW's financial viability (RW 2005c:48). Which begs the question, why then engage in for-profit non-core activities?

In summary, even when the rationale for non-core activities is 'public interest' or supporting NEPAD, ensuring cost recovery and efficiency appear to be the primary objective, feeding into the commercial rationale of sustaining RW and promoting private sector management principles in the water sector.

RAND WATER POLICY DEVELOPMENT ON OTHER ACTIVITIES

We turn now to a discussion of the mechanisms through which RW implements these stated objectives. As RW does not have a specific policy document dealing with non-core activities, policy development is gleaned from general corporate policy and five-year business plans, as well as the organisational restructuring that RW has undergone since the late 1990s.

Two organisational restructuring periods can be identified. The first, from 1994 until 2002, was characterised by a shotgun approach with various departments and divisions within RW engaging in other activities in an ad hoc manner. Because RW operates in a decentralised way, individual units – like sections, departments and divisions – could to a large extent plan and do as they wished with regards to other activities, as long as it was in their 'business plan' and budget which had to be approved by the management committee and the RW Board, and as long as they had set up a separate cost centre. Other activities engaged in during this period were mostly of a community-based and cost-recovery nature, with some small commercial contracts by individual sections.

The focal point of the second period is the launch of the Rand Water Foundation in 2004 and Rand Water Services (Pty) Ltd (RWS) in 2005 as ringfenced subsidiaries of RW. The RW Foundation has taken responsibility for some of RW's corporate social responsibility programmes, while commercial activities with a profit motive have become centralised in RWS. A more purposeful approach to other activities is now followed within RW.

Shotgun: An Unfocused Approach

RW's first engagement with other activities was in 1994 when DWAF approached RW to become involved in one of the presidential lead projects, in Winterveldt, north of Pretoria. This project brought RW, by default, into the retailing of water (Smith and Fakir 2003:1). For this engagement RW created a unit called the community-based projects department (CBPD) within the Corporate Services Division (Bonner & Lekgoathi 2004:167). The CBPD focused on the development of new water services in communities where it did not exist previously rather than taking over the supply of services where local authorities were struggling to improve current services (CBPD 1999:1). In this early period, engagement in community retail water and sanitation projects was seen as part of RW's commitment to addressing backlogs in South Africa and as part of RW's CSI commitment.

The growth in the work of the CBPD, and especially its increasing engagement in retail water, led to structural changes within RW in 1997. A Retail Water department, a Bulk Sanitation section and a new division, called Community Support Services, were formed (Segal 1998; Tempelhoff 2003:496). In 1999 the name of the division changed to Marketing and Communication. Indicative of the different role foreseen for community-support services, this division was to become a marketing tool.

Until 1998 most of RW's other activities were community-based, and mostly subsidised, or run at full cost recovery. But in its corporate policy of 1998, after the 1997 Water Services Act allowed water boards to engage in other activities, RW foresaw two broad types of other activities: those in which profits were made (which RW called 'new business activities') and those done on a cost-recovery basis and aimed at supporting WSAs in RW's area of supply (RW 1998).

RW indicated that it was prepared to get involved in other activities on its own "or in partnership, alliance, or in co-ownership of enterprises with other parties" (RW 1998). Its commitment to partnerships with all stakeholders was expressed in a new strategic direction since 2000, captured in the statement "izandla ziyagezana" (Zulu for "together we make water work") (RW 2005c:1). Since then RW has actively sought partnerships with local authorities and its representatives and with other water boards and water utilities.

Engagement in all these activities until the early 2000s had been decentralised, leading to problems of duplication and lack of coordination and strategy. In the words of one interviewee at RW:

> *The problem that we had in the past was that every Tom, Dick and Harry would come along… Unfortunately what you would get is these guys coming along, maybe having the right political connections and getting hold of the CE or somebody high up or DWAF, and the next thing is now suddenly 'why aren't we doing this? This is a fantastic thing'… In that sense we were getting bombarded from all sides.*

Another referred to "nothing [being] pulled together or glued together. It was each one going off on their own little things." One of the interviewees called this "a shotgun approach rather than letting us target some things that we're specifically good at and that will be easier for us to get." The establishment of the Rand Water Foundation and RWS were designed to change that unfocused approach.

Centralisation

In a new organisational structure that RW accepted in 2002 it made a separation between primary, other (not-for-profit) and other (for-profit) activities (RW 2005a:3). Over the next few years such a separation led to the formation of the Rand Water Foundation with responsibility for most not-for-profit other activities and the establishment of the Rand Water Services (Pty) Ltd focusing on for-profit other activities.

Rand Water Foundation

In 2005 RW described its CSI-programme as two-pronged: non-water related and water-related projects (RW 2005c:6). To fund community water and sanitation services RW formed the Rand Water Foundation, which was launched on 19 May 2004 (Aquavita 5th issue 2004:5) as a section 21-company. The initial idea of the Foundation was "to source funds to provide capital for infrastructure provision" to those who cannot afford the full economic cost of water services, so that only the operating and management costs of water are to be paid by the poor (RW Board July 2001:32). Another objective of the Foundation was the capacity-building of communities to manage their own water supply systems (RW Board July 2001:32).

Non-water related CSI activities within RW's area of supply – such as HIV/AIDS, disability awareness and bursaries – is handled by a separate CSI Committee (RW 2005c:6). Such organisational fragmentation of CSI has produced difficulties: staff in both the Foundation and the CBDP indicated in interviews how the Foundation and the CSI Committee, for example, see CSI quite differently, making working together nearly impossible. Reporting to different divisional heads – the Foundation manager reports to the GM Marketing and Community Services on operational items, while the CSI Committee was headed by the GM Corporate Services (RW Board April 2004:509) – does not help in any way. The RW Board acknowledged that such fragmentation was a weakness (RW Board December 2004:7-6) and one of the new portfolio coordinators appointed in later 2005 was tasked with ensuring better coordination between these three units.

Furthermore, funding is an issue. For water-related CSI-projects the RW Foundation has to source funding externally and in 2004/5 R41 million was received (Aquavita 9th issue 2005a:2; RW 2005c:9). Since 2003 RW provided its own Foundation with only R3 million per year for a five-year period (representing 0.092 percent of its 2003 turnover). But until 2006 the Foundation did not have access to this capital directly; the money was invested and the Foundation had to implement projects from the interest earned (RW Board December 2004:705).

In December 2004 the RW Board acknowledged that the Foundation's "current funding policy is not suitable and is hampering the development of the Foundation". (RW Board December 2004:708). In 2006 the Foundation thus got approval from the board to use the R3 million a year directly on projects. This remains a very small amount that RW is prepared to spend itself on its own CSI, while it expects other corporate donors to give money to the RW Foundation. A complaint from within RW, that RW wants CSI done but does not want to put money and support down for it (personal interview), seems valid.

Globally, CSI has been promoted in recent years for its business imperative (Gordon & Camay 2004). RW clearly sees the Foundation as an opportunity to enhance its marketing and build its image as well: "The Foundation is a very good vehicle to be used as a marketing tool... Investing in the Foundation will.... enhance the image of the organisation" (RW Board December 2004:708); "corporate social responsibility is the best marketing tool for every business" (RW Board December 2004:706).

Although RW is thus engaging in not-for-profit other activities, it does so largely through seeking funding elsewhere, including from government, corporates and donor organisations. These are then used to build RW's image.

Rand Water Services (Pty) Ltd

For-profit activities are centralised in RWS, launched in 2005 as a ringfenced subsidiary company of RW. The initiative came from the Engineering Division, which in the late 1990s had little in the way of major infrastructural projects, leaving it with underutilised personnel (Cooks 2004:251; personal interviews). Instead of laying off people the division wanted to turn to other activities to "keep people" for "capacity to do outside work" (personal interview). In February 2000 RWS was registered with the Registrar of Companies.

What seemed to have held up the full establishment of the Pty until 2005 was partly fear by RW management of the reaction of the unions to its formation, that they might see it as a form of privatisation (RW Board September 2000:136; RW Executive Committee February 2001:127). This was in the context of strikes in the early 2000s by the Congress of South African Trade Unions (Cosatu) against government's Growth, Employment and Redistribution programme (GEAR). In the water sector a number of protests occurred against the water concession granted in Nelspruit to a British water company and against the corporatisation of Johannesburg Water and the awarding of its management contract to Suez in 2000. The South African Municipal Workers' Union (Samwu), the biggest trade union at RW, was prominent in these protests. However, in January 2002 Samwu signed a memorandum of understanding with RW on the formation of the Pty (RW Board January 2002). Their view was similar to that of the reaction by unions to the formation of Eskom Enterprise – see later in this report – who felt that regulated business should not be privatised, while unregulated, non-core business can be (Sikwebu 2007).

In its annual report of 2006 RWS is described by RW as primarily a technology company involved in infrastructure asset management (RW 2006:60). Initially RWS was to focus on East and Southern Africa, although it was "to pursue commercial water-related projects in South Africa outside RW's area of service and in the broader African continent including the Indian Ocean islands and the Middle East" (RW 2005a:9; 2005c:31). But already by 2006 the strategy and business plan of RWS evolved to focus 60 percent of its activities within South Africa, according to a RWS senior manager who also viewed consolidation of its business as a challenge for RWS (personal interview). The assessment of Themba Nkabinda, the new CE of RW, was also that RWS "definitely need[s] to have a more focused approach in future" (quoted in Hill 2006a). The key focus areas for RWS, as defined by themselves, are local municipalities (providing advisory services and technology), the Ghana management contract, bottled water, setting up of a water infrastructure fund, strategic relations, management contracts, capacity-building mandates, consulting and advisory mandates, procurement contracts and development facilitation transactions in Africa (Aquavita 9th issue 2005b:7; Max 2006a). Because commercial activities are "unknown territories" (Lushaba in Aquavita 2002:4), RWS aims to engage via partnerships and joint ventures in these activities so as to obtain more expertise and to spread the risk in business initiatives (RW Board August 2005:58). In this regard RWS is to target municipalities RW serves through establishing PPPs (RW 2006:61).

By the end of 2005 the two main issues for RWS that had to be addressed were the capital and operational budget requirements of RWS and the transfer of non-core activities from RW to RWS. In terms of the first issue RW provided RWS with start-up and seed funding for its capital requirements and operational budget requirements. In 2006 RW provided RWS with a loan of R9.039 million (RW 2006:133). At the release of RW's 2006 annual report Reginald Max of RWS stressed that the intention was not to use RW's financial resources for projects in Africa, but rather the "provi[sion of] human resources and expertise to implement projects with funds that countries source elsewhere" (quoted in Hill 2006a).

While the initial idea was clearly that RWS would draw on the capacity and skills of staff within RW, and that RW and RWS would give each other preferential treatment, practical issues soon changed that idea:

I think initially it had started out like that, to say that maybe we have got engineers or scientists or other professionals who don't have a lot of work. But you are finding now that actually people are stretched because now there are maintenance of infrastructure and pipelines. The move is now to say RWS can employ whoever it wants to. If there are people in RW that are available, they would be the first choice or maybe they can be seconded or maybe they can apply for a position and get appointed if they are lucky or they could be used on an advisory basis... It seems with procurement… we are looking at a preferential procurement of RWS' service products; maybe they'll be our first choice. We would say to the markets, in this particular arena RW would be first choice... In terms of HR, legal services, we are looking at having a service level agreement where they [RWS] can then source from here [RW] but pay for that (personal interview).

On the issue of transfer of non-core activities from RW, RWS had nine staff members by the end of 2005 and the expectation was that this would grow as other activities within RW were transferred to RWS, which was to happen in 2006. Projects/departments that were identified in 2005 to be transferred to RWS were Emhlangeni Pipe, Zwartkopjes Farm and Retail Water (RW Board April 2005:772). But the transfer of staff from RW to RWS is proving difficult as there is not support throughout RW for the creation of the Pty, and many staff do not want to work and some do not want anything to do with RWS. Already in 1998, before the registration of the Pty, Duvel & Nel (1998:33) noted that few people in RW felt "that external work [i.e. other activities] must be undertaken". These sentiments have continued with indications during interviews with senior staff that some are not happy with the formation of RWS, and are not prepared to be transferred to it. One's view was that other activities dilute the skills of RW even more and that RW should rather refocus and "get back to basics". Another said, "I think we have lost the plot". They were part of a few voices that questioned not just RWS but RW's involvement in other activities in general, and especially for-profit activities. In the words of one manager:

> *Why do we need it [RWS]? Why do we need to earn profits?... for 95 years we supplied water and the money it cost us to supply that water is what we set our tariff at. Now why do we need to have ten million extra coming in?*

Another said about RW's involvement in Ghana:

> *Why do we need to go to Ghana? Just over the hill people are sitting without water. Bronkhorstspruit, Botshebelo Water is bankrupt – there is our opportunity, but we are not going in there; we are going to Ghana, we are busy in Kenya and another country, Malawi I think.... What are we doing there? We have people in South Africa that do not have water. So we go spend millions of rand there in hope of gaining an income, where we rather could have spent those millions on a pipeline to Rustenburg or to Bloemhof or to Parys.*

Some RW managers interviewed supported the idea of RWS, however. One of the managers said:

> *I think there is a need for us to redefine ourselves. To a large extent…we had these non-core activities… just latched on the side of RW. And very deliberately now they are being ringfenced and put into a certain box, which is appropriate. I agree entirely that RW needs to do what it does best, which is have a look at what we are supposed to be doing and not a million other things. And ringfence the rest, put it into a commercial environment, make it self-sustaining and it can look after itself.*

While others expressed reservations about RWS, it had to do with how to implement the ringfencing. One interviewee expressed it as follows:

I think it is necessary that there is this new company who can bring new opportunities to RW... The problem is whether the dog caught the bus or whether the bus stopped – what do you now make with that bus?... We are not geared up for this. We nearly can't handle the work we have to do for Gauteng, now we land in a big new Gauteng in Ghana. And now suddenly we have to say 'ok, we will sort it out'. Tell me, how are we going to sort it [Ghana] out? We are still struggling here. So that new company have to be very careful about what they do.

There was also concern by a number of interviewees about how involvement in other activities will impact of the quality of work done at RW:

Our core business is supplying potable water to twelve million people; that should be the focus. If we get that right, then by all means we can diversify in other areas so long as it doesn't hurt that core business... so we need to get back down to basics, we need to understand what our prime function is, and perform that function well … But unfortunately what we are going in trying to build elsewhere, we are taking the building blocks out of the foundation. And the foundation is crumbling... If one looks at our skills-base, for example. We are very light on skills, in fact we are in deep trouble, yet we are diluting those skills by going into places like Ghana... And at the minute, supply of water to 12 million people is probably third or fourth on our priority list as an organisation. And that's crazy; that's what pays the bill. That should be priority number one at all times.

One of the managers who has been involved in various other activities in Africa assessed his involvement as follows:

It [other activities] doesn't help us. In fact it has been a distraction. Again it has taken our focus off from what we are supposed to be doing... By the way, I was quite excited by it… I quite enjoyed it for a while and then I realised that I am not doing what I am supposed to be doing. And people reporting to me don't get enough guidance from me because I am away half the time… Even if I am not there, I am here doing work for there. It's not good for the organisation.

Unhappiness with the Ghanaian contract was particularly acute. As one interviewee indicated, "now that we won the contract we are actually in deep trouble". This "deep trouble" refers to the lack of skills that RW is experiencing itself: "[We] need to give [RWS] the technical support; [we] don't have it. That's why we are recruiting overseas. The people we're sending to Ghana at this stage are four people – all four that should have come from [RW]. We have managed to find one…The other three positions, all the technical positions, we're out trying to recruit. And it is costing us an arm-and-a-leg".

One of the most positive responses about RWS was that it would "raise the visibility of RW in the market and internationally with the World Bank and DfID, British government, European governments, Asian governments, African governments. So I think it will be – if it is successful – it will be really wonderful for RW that we've got the Pty that gives us that extra brand name".

While the responses to the formation of RWS vary tremendously across senior staff of RW, it is interesting that not a single person interviewed working for RW expressed interest in being transferred to RWS. This probably had much to do with the uncertainties at the time about the relation between RW and RWS. One of the interviewees summarised it as follows:

The response in RW to the formation of RWS was that initially the belief was that RW people would want to work for the Pty. The idea was that it would be easy to include such work in the KPIs [key performance indicators], but some senior managers were not supportive of this. It has been realised since that this working for both RW and RWS is problematic both personally and practically. The success of RWS cannot be dependent on RW. Some RW staff are positive about RWS, some sceptical and some jealous – why you and not me? For some it is a way out of the main RW but they still have a secure job. There is also a perception of better conditions at the Pty. But the question is whether the Pty will still be here in two years?

EXAMPLES OF RAND WATER'S OTHER ACTIVITIES

Activities within South Africa

Other activities that RW is engaging in within South Africa are identified as retail water services, sanitation services, capacity-building and institutional development, infrastructure development, water resource management, community-based projects and other commercial activities.

Retail water services

RW saw expanding into retail services as "the next logical step" due to its competencies in bulk water provision (RW Retail Water Operations department 2000:2). RW therefore embarked on a three-pronged strategy for this: working with DWAF; working directly with municipalities to improve water and sanitation services; and addressing backlogs in water and sanitation provision within its area of supply by itself (RW 2005d). According to RW's 2000 retail water strategy, its share of the market lay not only in cost recovery but also in profit-making contracts (RW Retail Water Operations department 2000; Tempelhoff 2003:586). RW had two retail water services provision contracts that ended in 2005: one with the City of Tshwane and Madibeng municipalities, and one with the Maluti-a-Phofung municipality. For each management contract a subsidiary of RW was created, namely Odi Retail Water and Amanziwethu Services respectively. The services provided by RW in these contracts were revenue management via credit control and cost recovery programmes, sanitation services, water services, institutional development and legal support (RW 2005c:23).

In Odi there were two aspects to RW's involvement: capital infrastructure development and retail water services provision. RW (via its CBPD) initially became involved in Odi in 1994 at the request of DWAF to be an implementing agent for the Winterveldt capital infrastructure project, one of twelve presidential lead projects in terms of the Reconstruction and Development Programme. Then in 1995 RW was appointed as the retail water services provider for Odi, again by DWAF. The aim was to establish a viable water provider for the area. DWAF agreed to subsidise this activity with R42 million on a reducing basis for three years, which proved to be not financially sustainable (Pape 2001; Smith & Fakir 2003:18).

RW began with the retail operations in Odi in April 1996 (Cooks 2004:243; RW Board October 1998) and in September 1999 signed a three-year WSP-agreement with the transitional local councils in the area (Van der Merwe 2003:37). Odi Retail Water came online in 2000 and was managed by the Retail Water department in RW. The contract was continued with the Tshwane metropolitan and Madibeng municipalities when they took over from the transitional councils in 2001 after the completion of the local government demarcation process. It involved a fixed-term contract which was reviewed every two years (RW 2005c:25) for which RW received a fixed management fee. This contract came to an end on 30 June 2005.

While some see Odi Retail Water as a showpiece (Cooks 2004:244), and as the first PUP in South Africa, concerns have been raised about it (Pape 2001), including the impact of stringent credit control on poor households, attempts to 'de-politicise' disconnections by contracting out credit management, the use of restriction devices and continued financial difficulties due to lack of financial support from central government.

RW 'learned' from this experience and when entering a three-year management contract with the Maluti-a-Phofung municipality in October 2000, it insisted on cost recovery (RW Committee of the whole board August 1999:183). While RW (2002b:16) describes it as the first public-public water services management contract in terms of section 19(2) of the Water Services Act, Cooks (2004:245) refers to it as a PPP. RW helped form a ringfenced company, Amanziwethu Services, to manage this contract. As with Odi Retail Water, Amanziwethu Services was managed by seconded staff from RW, and operated by seconded employees of the municipality (Smith & Fakir 2003:2; Van der Merwe & Ferreira 2001:2). In early 2004 the contract was extended for a year.

Different from Odi, about 95 percent of households in the area served by Amanziwethu Services had water and sewerage connections, though metering and billing had to be improved (WIN-SA 2005:2). The objectives of the contract were to render "water services and revenue services in an efficient, equitable, cost effective and sustainable manner; and the establishment of a sustainable ringfenced service delivery unit" (Van der Merwe & Ferreira 2001:1). Some money for the project was provided by the Municipal Infrastructure Investment Unit (MIIU), an advocate of PPPs. The key features of the agreement were local manpower utilisation, skills transfer, service improvements (leak controls in houses), and system upgrade (bucket system eradication) (Water Sewage & Effluent 2001:11).

Within sixteen months of the establishment of Amanziwethu Services it was operating at a profit of R1.6 million, followed by another R2 million profit in the next year, which was invested back into the infrastructure (Smith & Fakir 2003:12). RW received management fees on the basis of recovery only of cost actually incurred, which was limited to five percent of the billed income in terms of water services (Smith 2005:162; Van der Merwe & Ferreira 2001:2). RW paid R2.1 million to the municipality in the first year, and then R1.2 million in the last year, to be used in other sectors for other services (Smith & Fakir 2003:14).

Positive outcomes of this contract included improved water services, a better financial position, reduced unaccounted-for-water, new waterborne sewage connections and improved effluent standards, while it came at the cost of increased water cut-offs of poor households due to non-payment and with questions about capacity within the council remaining. Moreover, while in the Odi project some sense of building the capacity of the public sector through partnerships between RW, the trade unions and the community was present, the Maluti-a-Phofung contract was about building RW's retail business, though the rhetoric of capacity-building and solidarity continued. Further, RW's staff involved in this project stated their objective as the "introduc[tion of] efficiencies and commercial principles" (in Mvula Trust 2002). Not surprisingly, then, this PUP was followed up by a PPP between the municipality and a private sector operator when the initial contract with RW ended.

RW was also partnered with French water TNC Vivendi in a joint venture in 2000 in bid for the Johannesburg Water management contract – RW's first attempt at bidding for a management contract with a private sector partner. The contract was eventually awarded to the consortium of Suez, Northumbrian Water and Water and Sanitation Services SA. Bonner & Lekgoathi (2004:174) interpreted RW's failure to get the Johannesburg Water contract as the impetus for RW's refocus on small towns such as Maluti-a-Phofung.

Both retail water contracts in which RW has been involved showed the need for financial support from government to make them work. And in both cases the partnerships between RW and the municipalities were confusingly called both PPPs and PUPs. Also, in both cases RW promoted the corporatisation of municipal water services provision (RW 2003a). Although in 2004/5 the Retail Water department made a profit of R700 000 (RW 2005b:111), RW suffered financial losses over the years through its retail water function. This lack of financial viability was one of the reasons provided by RW's Board for the closure of the Retail Water department at the end of 2005. But the closure of the department should probably be seen in the light of RWS taking responsibility for retail water services from 2006.

Sanitation services

The Water Services Act (RSA 1997) describes bulk sanitation as one of the primary activities of water boards. While some water boards did previously provide bulk sanitation, RW had not been involved before 1997. To provide sanitation services is thus a new activity for RW. A Bulk Sanitation department was created in 1997, and was until the end of 2005 part of the Sales and Customer Services Division. In 2002, the new CE of RW described sanitation as "an important area for business growth over the next decade" (in Financial Mail 3 October 2002) and since RW was aware of its own lack of expertise in sanitation services it consciously looked for strategic partnerships to leverage its entry into this sector (RW Board January 2001:264).

In 2003 RW signed a memorandum of understanding with the East Rand Water Care Company to explore a joint venture between the two organisations to address the sanitation backlogs in RW's area of supply, and "then within the broader African context" (RW Board February 2003:371).

The kind of functions that RW says it will attempt to engage in with regards to sanitation services include: "collections of bulk waste water from water services institutions; treatment of wastewater; discharge of treated wastewater into the natural environment; …process monitoring; industrial effluent monitoring; and resale of treated wastewater/effluent to industry" (RW 2005a:7). RW states in its business plan that it will engage in short-term provision of technical, operational and managerial expertise; limited-term contracts to provide sanitation services on behalf of water services authorities; and long-term contracts to take responsibility for sanitation services for water services institutions (RW 2005a:7). RW has already entered short-term contracts with municipalities to provide managerial, operating and technical skills. Examples are the maintenance contract with Tshwane in Odi for retail sanitation that started in January 2002 (Aquavita May/June 2002:7); the operational and management support services to MidVaal and Meyerton Sebokeng wastewater treatment works since 2002 (RW Board November 2002:320); operational support to the Lekoa Water Company on the Sebokeng wastewater treatment works (Cooks 2004:246); assistance to the Dipaleseng municipality since August 2002, which was extended for another three years in 2003 (RW Board February 2003:371); and RW's biggest bulk sanitation project, a three-year contract from 2005 with a value of R2.6 million with the Randfontein council to manage the local waste water treatment plant and to monitor industrial effluent (Hill 2006b; Ntirisano 2005:8).

As part of its community-based projects, and seen as CSI, RW has been responsible for the Winterveldt sanitation presidential lead project that started in 2001 and that will run until 2007. The project was funded jointly by DWAF and the City of Tshwane municipality. Another sanitation project in which RW is involved, through its CBPD, as part of a consortium, is the Bekkersdal bucket eradication project funded by Gauteng DWAF with R1.3 million (Aquavita 8th issue 2004a:7; RW 2005b:75; RW 2005c:7). With Maluti-a-Phofung RW was also eradicating buckets in Intabazwe (RW 2005b:75).

A significant failed contract in terms of sanitation services was the attempted PUP with the Emfuleni municipality, Sedibeng District Council and Lekoa Water Company to form the Metsi-a-Lekoa company. This was to be the largest PUP ever formed in South Africa (Water Sewage & Effluent 2002:55) and was expected to entail a twenty-year services delivery agreement. While it was called a PUP it is noteworthy that RW intended to generate profit out of the contract in the long term; its financial model was based on breaking even after ten years and then having a "potential ten-year profit-making period" (Kriel et al. 2003:9). RW, the Sedibeng District Council and Emfuleni municipality were to be the shareholders of this company. RW was to fulfil a management role at Metsi-a-Lekoa, with Sam Shabalala of RW appointed as acting CE of the company.

After various delays in negotiations, lack of political and financial support from national government (RW 2005a:7) and resistance from National Treasury to the significant capital requirements of the project (Kriel et al. 2003:5), RW felt by October 2003 it had no choice but to withdraw. National Treasury's opposition to the deal was based on the belief that it constituted "fruitless and wasteful expenditure under the Public Finance Management Act" and that RW would be in violation of the Act if they pursued the deal (Kriel et al. 2003:6). National Treasury further indicated to RW that it "would be depriving Emfuleni of revenue through having a controlling capacity instead of assisting as a social responsibility" and that National Treasury expected RW "to be involved as a supplier not as a partner" (RW Board August 2004:582).

But what was really behind National Treasury's resistance to the project is to be found in a report by Kriel et al. (2003:6) hidden in a footnote: "In a telephone conversation, the opposition of National Treasury to the public-private partnership [sic – should read PUP as it refers to this project] was confirmed as a general resistance to these transactions". It is widely known that National Treasury and MIIU prefer PPPs, and their resistance to this PUP would thus make sense in that light. What is odd though, is why this resistance held up the project. In terms of section 54(2) of the Public Finance Management Act RW must get approval from DWAF (its executive authority) for any 'significant' business activity; National Treasury is only to be informed. Though the project was not yet formally sanctioned by DWAF when National Treasury raised its opposition, DWAF indicated its support in a letter to the minister of DPLG dated 31 May 2003 (Kriel et al. 2003:16-7), wherein financial support was requested from DPLG (RW Board June 2003:562).

By the time of its withdrawal RW had already invested R9 million in the project (Aquavita 6th issue 2004a:3) but it recouped the R1 million consultancy fee paid to PriceWaterhouseCoopers as facilitator of the negotiation process (RW Board July 2002) from Emfuleni municipality (Rudin 2005). Also, funding of R6 million allocated by the Swedish Water Development Fund for the Metsi-a-Lekoa project over a period of three years was still to be utilised (RW Board December 2003:422,443). Despite the failure to enter into a PUP, Metsi-a-Lekoa continues to exist but now under the ambit of the Emfuleni municipality. One of RW's key staff in the then-Retail Water department, Sam Shabalala, resigned from RW in the process to remain with Metsi-a-Lekoa.

The attempt to establish the PUP was a bruising encounter that led to much discussion in the RW Board (RW Board June 2004:550), left some RW managers bitter and might go some way in explaining reservations within RW about PUPs, despite its rhetorical support for them.

Capacity-building and institutional development

One of the main institutional development projects that RW has been involved with has been the formation of the Bushbuckridge Water Board

(BBW). RW's involvement in the area started in 1995 when it was appointed as implementing agent by DWAF on a presidential lead project on a cost-recovery basis. In 1997 DWAF appointed RW to help in the establishment of a water board to supply bulk potable water to the areas of Bushbuckridge, Hazyview and Nsikazi North. RW's functions in the project were clarifying the functions of a BBW, developing its capacity to manage bulk water supply, transferring infrastructure and other assets from DWAF to BBW, employing and training staff, establishing policies and systems, and developing a five-year business plan (RW Board October 1998; RW 1999:9). The project was to run from April 1997 to March 1999. On 5 December 1997 BBW was established with ten board members, two staff and five seconded RW staff (RW Board October 1998; RW 1999:9). But the continued need for support, advice and monitoring of BBW led DWAF to ask RW to continue institutional support and capacity-building to BBW. This second phase of the project focused on capacity-building and skills transfers in areas of operations, maintenance, water quality and finance (RW 2005c:6).

All these services were provided by RW on a cost-recovery basis. By November 2003 RW had invoiced DWAF for just under R1 million for capacity-building (RW Board February 2004:468) and in 2004 the institutional capacity enhancement agreement with BBW was extended to March 2005 with an allocated budget of R500 000 (RW 2005c:6). RW's own assessment of its experiences in this project has not been too rosy. In fact, RW's Board cautioned its management in 2005 "to avoid a repeat of RW's experiences with Emfuleni municipality, Bushbuckridge Water and Odi Retail projects" (RW Board April 2005:782).

Another institutional development project for RW was Ikangala Water Board. In December 2002 RW was approached the first time by Ikangala Water, established in February 1998, for technical assistance (RW Board February 2003:371). Since its inception this water board has operated at a deficit (in 2004/5 it had accumulated deficits of over R85 million while its annual revenue is only R1.3 million) and it relies solely on DWAF-subsidies and mostly on DWAF-seconded staff for its existence (DWAF 2005b). In April 2005 DWAF requested RW to assist Ikangala Water with management and technical support aimed at improving water service provision to the communities of the Western Highveld. RW's interest in this capacity-building project is partly explained by the fact that the Western Highveld Emergency Scheme managed by RW will have Ikangala Water as its primary customer. RW's involvement in Ikangala Water is on a cost-recovery basis with funding coming from DWAF (RW Board December 2004:731; RW Board June 2005:814).

Infrastructure development

As part of its other activities, RW has been involved in infrastructure development projects. Such activities involved projects in, for example, the Western Highveld region and Sasol (RW 2005b:77). The R110 million

Western Highveld Emergency Scheme, funded by DWAF and RW, involves the building of a 40km pipeline from Mamelodi to Cullinan and from there to Ekangala near Bronkhorstspruit to augment water supply to the Western Highveld region where 1.3 million people live (Aquavita 2nd issue 2004:7; Water Sewage & Effluent 2004b:30). RW was appointed as implementing agent by DWAF in February 2004 on this joint venture with Inkangala Water and Magalies Water, in whose supply areas the pipeline project fell (RW Board February 2004:448). Since then DWAF has extended RW's area of supply to include this area leading to an overlap of areas of supply between RW, Ikangala Water and Magalies Water (RW Board August 2004:636). DWAF contributed R70 million to the scheme (with R50 million of this money coming from National Treasury (RW Board February 2004:472)) and RW R42 million, on the understanding that RW will own the infrastructure (RW 2005c:8; RW Board August 2004:636). Ikangala Water will be the primary customer of the scheme (RW 2005c:8), with DWAF standing as guarantor of payments from Ikangala Water (RW Board August 2004:636). In this project RW is thus partly subsidising its other activity, but the benefit for RW in this case is that it will own the infrastructure despite most of the financial contributions coming from national government, and that it has secure income despite the deficit problems at Ikangala Water due to minimum average draw-off that will "enable RW to fully recover its capital contribution" (RW Board August 2004:637).

Sasol Synfuels awarded RW in June 2004 the R60 million contract to design and construct a 13km pipeline to deliver an additional 40-50Ml/day of water to its plant in Secunda (Creamer Media's Engineering News 17 October 2005; RW 2005b:77). RW transferred the contract from its Engineering division to RWS on its formation. The contract also included an annual R208 000 maintenance contract over five years (Creamer Media's Engineering News 17 October 2005; RW 2005b:36, 43).This is a commercial contract.

Water resource management

With it primary activity the supply of bulk potable water, RW has a significant interest in water resource management. The Water Services Act of 1997, the 2003 SFWS (DWAF 2003:65) and the Water conservation and water demand management strategy for the water services sector (DWAF 2004b) direct all water institutions, including RW, to implement water demand management (WDM) and make it part of their activities. For this purpose RW established a Water Cycle Management section responsible for implementing WDM. But as Cooks (2004:218) indicates its main challenge is funding – RW is not subsidising such activities after the exhaustion of its 'drought fund'. The main aim of WDM is to reduce water demand through reducing wastage and using water sparingly and efficiently.

With money from the drought fund RW, through its Community Support Services division, started various WDM-projects that included two main aspects, namely retrofitting houses in low-income areas and doing leak repairs, and raising awareness about water scarcity and the 'economic value' of water (Beukman 2002:13; Tempelhoff 2003:521). In terms of the first aspect, it was done "on an as-and-when needed basis" with municipalities putting forward proposals to RW (Buckle & Naicker 2006:3). These projects included water reticulation network loss repairs, retrofitting of schools, and retrofitting private houses. In all these projects the average water consumption was reduced, with temporary employment for local plumbers (Naicker 2006).

To raise awareness about the economic value of water, RW is engaged in education and communication through its sub-brands WaterWise and Clean Water Challenge. The WaterWise initiative, implemented through RW's Marketing department, delivers information, education and awareness about water waste minimisation and responsible water use via site visits to RW operations and to RW's catchment areas, interactive educational workshops for schools (the School Water Action Project), community theatre, talks at garden clubs and media advertisements (Cooks 2004:220; RW 2000:20; 2005a:16; 2005c:5; Taylor 2006). The Clean Water Challenge involves a taste test programme at selected gyms, exhibitions and major shopping malls in Gauteng to 'educate' people and change perceptions about tap water as unhealthy for human consumption – a strategy which conflicts with RW's stated intentions to enter the bottled water market (RW 2005b:59). All these 'educational' activities further the view of water as an 'economic good' and deepen the commodification of water in South Africa.

Except for WDM, RW is also involved in water resource protection (or water conservation). Catchment management forums, rehabilitation of wetlands and removal of invasive alien plants are part of RW's water conservation activities to secure its water supply (Buckle 1998:3, 6; Cooks 2004:223). RW takes part in various catchment forums, which it leads and funds at the request of DWAF. In these forums RW does a water quality auditing function and facilitates sharing of water quality information through an Internet website (RW 2005c:5). RW's engagement in these forums is at its own cost.

As part of its wetlands rehabilitation activities, RW established the Mnweni Trust in 1999 to promote the rehabilitation and conservation of the Mnweni catchment area in the Drakensberg region of KwaZulu-Natal. RW provided initial capital investment of R2 million. Two donga rehabilitation projects were implemented in 2004 in the Mweni area with R6.8 million, funded by the Department of Environmental Affairs and Tourism (DEAT), which created about 60 local jobs (RW 2005c:7). The trust was also appointed as implementing agent by DEAT to develop the Amangwane Mnweni Cultural Centre based in Bergville as a cultural and hiking centre (Aquavita 9th issue 2005c:12).

RW's alien vegetation eradication project has as its objectives securing water supply, the protection and restoration of biological diversity, and the maximisation of social and economic benefits by training and employing local communities on the project (RW website) – a mixture of own interest and CSI. Thus, initially, in 1996, RW invested R10 million to support DWAF's Working-for-Water programme (Tempelhoff 2003:527). Alien vegetation removal activities by RW, funded by DEAT and DWAF's Working-for-Water programme, occurred in the Upper Tugela catchment, the Mnweni catchment, the Northern Woodstock catchment, the Golden Gate area and the Perskeboomspruit catchment (RW 2005c:7). In 2000 the programme was also implemented in Krugersdorp and Elandsfontein at a cost of about R2.2 million per year, funded by DWAF and the Gauteng Department of Agriculture, Conservation, Environment and Land Affairs (RW 2005c:7; RW website). A number of RW's water conservation activities fall under the responsibility of the RW Foundation and are seen by RW as part of its CSI, despite most of the funds coming from external sources.

Community-based projects

Other recent CSI-related projects not yet mentioned include school garden projects, sport heroes walk against HIV/AIDS, Siluma wetlands rehabilitation project, and the Flora Farming project in Merafong. All these activities are done on a cost-recovery basis, which, for supposedly CSI activities, seems odd.

Other commercial activities

Two commercial activities RW has been involved in over the years that have not yet been mentioned are worth highlighting here: Zwartkopjes Farm and Emhlangeni Pipe. RW acquired Zwartkopjes Farm in 1905 and since 1917 has been conducting farming activities on this land (RW Board January 1991:384). Various problems, including recent corruption (RW Board August 2004:585) and poor management (personal interview), have meant that the farm activities have not been commercially viable. In 2004/5, for example, the farm made a loss of R13.6 million (RW 2005b:111) and in 2005/6 a loss of R6.7 million (RW 2006:119).

Emhlangeni Pipe first operated as the RW Pipe Plant from 1965 when it was established to do pipe reconditioning and the manufacturing of pipes and pipe specials for RW (Tempelhoff 2003:354). It was expanded in 1995 with the building of a new spiral mill pipe factory, at a cost of R32.25 million, to supply about half of RW's annual large diameter pipe requirements at less than market costs (Cooks 2004:157; RW n/a). As part of the efficiency drive within RW, pipe manufacturing was ringfenced and Emhlangeni Pipe was opened in 1997. Because of the drop in demand for water from the late 1990s, RW needed fewer pipes for new bulk water infrastructure. In 1999 the board therefore allowed Emhlangeni Pipe to submit tender prices to supply pipes to outside companies at a profit. But the wider pipe manufacturing industry was struggling at the time and the demand for large pipelines was down (Tempelhoff 2003:600). Eventually, on 15 June 2001 Emhlangeni Pipe ceased operations (RW 2001b:4) and in 2002 RW accepted an offer of $2.2 million for the plant and equipment of Emhlangeni Pipe from a company based in Saudi Arabia (RW Board May 2002b).

A new commercial activity to be undertaken by RWS via a black economic empowerment initiative is bottled water (Hill 2006a). Engaging in this has been described by RW as diversifying its income stream after marginal growth in bulk water sales in the last three years (Business Day 6 November 2006). The conflict of promoting the quality of RW's potable water but at the same time pushing bottled water has already been highlighted.

Activities outside South Africa

Other activities outside of South Africa's borders are also seen as a key growth point by RW. For purposes of discussion here, the three forms of activities allowed by water boards outside of South Africa (SAAWU 2004) are reviewed here, namely: commercial/business activities; support activities; and capacity-building. The basis for this distinction is whether activities are expected to be profitable or not-for-profit, and whether they are country-based or project-based.

Commercial activities

Commercial activities are intended to make a profit. The first and largest water services management contract won by RW outside of South Africa is the joint venture between Vitens International BV (51 percent) and RWS (49 percent) (Holland Water Aid 2006:28) to run about 80 of Ghana's urban water supply schemes. While it was originally conceived as a ten-year lease contract, in 2003 the Ghanaian government changed it to a five-year management contract due to pressures from civil society and because of lack of interest by the private sector (Amenga-Etego & Grusky 2005:286; Public Agenda 9 December 2005). The contract – valued at $120 million over five years, including a management fee of ten million Euros – was signed in November 2005 and became operational in June 2006. The contract is financed with $103 million from the World Bank, $5 million from the Nordic Development Fund and $12 million of Ghanaian taxpayers' money. The Vitens Rand Water Services BV consortium was awarded the contract ahead of Veolia Water and SAUR. In Ghana the operator of the project is known as AquaVitra.

Justification by the Ghanaian Minister of Water Resources, Works and Housing for awarding the management contract to foreign companies was that "[a]s a nation we cannot pride ourselves as good managers, Ghana Airways collapsed, Ghana Water Company was about to collapse and so government decided to take a hard look at the company and see how best we can improve on its efficiency" (Property Express 16 November 2005). This elicited strong responses from within Ghana where it was interpreted as hinting that "only a white man can manage our companies" (reported in News in Ghana online 25 November 2005). Yeboah (2006:50) argues that it is part of a "mindset of Eurocentrism associated with the elite and decision-makers of the country."

The controversy over the water sector restructuring complicated matters for the water operator. But the stipulations of the contract also make it an easy target for those who opposed it. For example, the huge disparity in pay between Ghanaian employees and the eight expatriate staff is seen as unacceptable (NCAP 2007; Public Agenda 9 December 2005; TUC 2005). Further, the contract states that "the operator, its sub-contractors and their foreign personnel shall be exempted from paying taxes" (GWC 2005:18). Another benefit for the private operator is non-liability for non-payment of electricity (GWC 2005:17,18). In contrast, about 1600 employees of Ghana Water Company (GWC) were laid off in 2005 before the awarding of the contract, in preparation of cutting costs, with further retrenchments expected (Holland Water Aid 2006:28; NCAP 2007). Another contentious aspect of the contract is section three that obliges AquaVitra to provide and maintain current services and has clear targets for the reduction of non-revenue water, but it is totally silent on any obligation to expand services and ensure access for the poor; any such expansion is the responsibility of and to the cost of GWC. The TUC (2005) correctly highlights "the irony that one of the ways to increase non-revenue water is to cut-off those who are too poor to pay for water", with the contract giving the operator the right to disconnect users for non-payment (GWC 2005:10). The contract also makes clear the intention of the government to move the management contract into a long-term lease contract (GWC 2005:2).

The operational practice of AquaVitra has irked many in Ghana. The 2007 wage dispute with workers is an example. Workers asked for an 80 percent wage increase but were offered 35 percent on condition that the government pay AquaVitra this cost and that workers achieve 18.7 percent increase in revenue collection while also accepting the introduction of performance-based pay. If these conditions were rejected, AquaVitra's offer was for only 20 percent wage increase (NCAP 2007). Further, the drive by AquaVitra for improved billing, cost recovery and efficiency follows the pattern of both Vitens and RW in their home countries.

AquaVitra, though a consortium of two public utilities, is acting like a private company and operating along the principles and practices of a private company. Hoedeman & Kishimoto (2006) state that the "Vitens management identifies strongly with the private sector and see no inherent value in maintaining a public sector water delivery capacity in Ghana." It also exposes the double standards of the Dutch in this case. While the Dutch passed a law in 2004 that prevent private companies from providing public water services in the Netherlands (Hall, Lobina & de la Motte

2004:3-4), AquaVitra acts like a private company when providing public water services in Ghana.

RW (2005d) claims that its motivation for its involvement in this contract is that it is supporting NEPAD and the Millennium Development Goals. But despite RW's statement that it is "important that Africans drive this initiative [i.e. NEPAD]" (RW 2004b), it has partnered with a non-African company in Ghana. This however does not stop Reginald Max (2006b) of RWS calling the Ghana-project a South-South partnership.

RW further defends its participation in Ghana by making much of itself and Vitens as public utilities (Lushaba 2005). Lushaba, the then-CE of RW, trying to defend RW's involvement during a radio debate on 8 July 2005, said that RW wants to help build capacity in Ghana; "[t]hat's why we call it public-public partnerships". The reaction of Al-Hassan Adam (2005), of the Ghanaian National Coalition Against Water Privatisation (NCAP), was to say that RW has come to Ghana in the "spirit of the private sector."

Commercially, it makes little sense for a city the size of Accra to give a management contract for water distribution to RW, which has very little experience in that type of work – none at all in fact, except for the Odi and Maluti-a-Phofung projects. Contrary to RW presenting itself as one of the largest utilities in the world, with respect to water distribution it has less experience than hundreds of much smaller municipal companies across Africa in this particular aspect of water services. The attraction of RW for the Ghanaian government must be largely due to the political credibility it brings in the context of NEPAD.

The Ghana project is also important for RW's reputation and future involvement in Africa, with RW eying a similar contract in Egypt (Business Day 6 November 2006) and in Mozambique – where Vitens does have the contract for the Four Cities Project (RW 2005c:34). Vitens and RW would appear to be compatible partners: RW's competency is in bulk water treatment and bulk distribution while Vitens' competency is in reticulation and management (Holland Water Aid 2006:28; Max 2006b); both are public utilities that operate on business principles; both are working to establish themselves as source-to-tap water companies; and in activities in Africa both prefer to focus on management contracts in urban areas and not to make financial investment themselves in projects/contracts (Vitens states this as one of its departure points for international activities, while it is more implicit in the case of RW).

A failed PPP concession in which RW was involved was the Disi Water Supply project in Jordan. This was a 40-year concession for the construction of a 350km pipeline from the Saudi Arabian border to Amman, and its O&M. Cost estimates for the project varied considerably, from US$500 to US$730 million (Business Report 29 October 2004; Platts Global Water Report July 2004). RW was involved in a consortium consisting of itself (as operator), Astro & Edgo, Joannou & Paraskevaides (J&P) (Overseas) Ltd from Cyprus and Group Five (as contractors), and the Arab Bank & Housing Bank from Jordan (as financiers).

In the end, the contract was awarded to another consortium, led by Saudi-Oger, even though RW's consortium had a lower bid. But in October 2004 the Jordanian government decided to terminate the procurement process. RWS now continues to work with the Ministry of Water and Irrigation in Jordan to study alternatives for the implementation of the Disi-Amman Water Scheme (Hill 2006a; Jordan Times 27 July 2005; RW Board December 2004:701). The failed bid though cost RW R1.3 million (RW Board August 2003:28), raising once again the issue of who pays for these failed out-of-country attempts (plus those in Tanzania, Nigeria, Rwanda and the Democratic Republic of the Congo (DRC), to name but a few).

Support activities

Support activities in Africa are done on a cost-recovery basis and are mostly project-based. RW has been involved in such activities with Swaziland, Mauritius and Zambia. These activities typically involve assistance with technical skills and are funded externally. For example, in 2004 the New Business Development department in collaboration with the Scientific Services division conducted training and a development needs analysis assessment at the Central Water Authority in Mauritius (Aquavita 6th issue 2004b:2). In 2002 RW was contracted by the International Water Association to hold two workshops with the Water and Sanitation Association of Zambia (RW Board January 2002) involving training aimed at the top management of newly established commercial water utilities. Topics covered included customer relations, billing system, reducing costs and regulation.

RW has also become involved with support in post-tsunami Sri Lanka. Relief and rehabilitation initiatives from the South African water sector were convened by the Minister of Water Affairs and Forestry in January 2005 (DWAF 2005c). After reconnaissance visits to Sri Lanka and the Maldives in April 2005 two national programmes in Sri Lanka and a sector-wide approach project in the Maldives were decided on (Malkiewicz & Mthembu 2006:2). RW was appointed as implementing agent by DWAF in Sri Lanka, with the value of the support programme set at (a paltry) R600 000 (Malkiewicz & Mthembu 2006:7). Assistance on integrated planning, institutional development, decentralised management practices, operations management practices and geographic information systems, amongst others, is now provided by a team of three experts in Sri Lanka (DWAF 2005c).

In early 2006 two RW experts that were to provide technical training on plant O&M analysed the level of expertise in this regard as "high" and identified "structural policy and management problems" as the key problem area, leading to a new focus on "good governance" (Malkiewicz & Mthembu 2006:5,6), with its inevitable principles of efficiency and cost recovery. Support activities thus seem to be a tool to export South African experiences of efficiency, cost recovery, corporatisation and commodification of water. Further, the minutes of a RW Board meeting indicate another motive for support activities: "It was resolved that there were no business opportunities for RW on the Maldives" (RW Board June 2005:809), hence RW's lack of involvement in the effort there?

Capacity-building

SAAWU (2004) explains capacity-building projects in Africa as typical twinning agreements between public sector bodies. The distinction made between support activities and capacity-building by RW and SAAWU is thus that the first is project-focused while the latter is country-based. By July 2005 five South African water utilities had already signed twinning agreements with countries in east and southern Africa (Aquavita 4th issue 2004:7; Civil Engineering 2005:23), with RW having two such contracts – in the DRC and Malawi – and discussions ongoing with Kenya. RW also signed an agreement with four other public utilities in 2002 to promote South-South PUPs. Nothing came of this, however, as discussed below.

The memorandum of understanding signed between RW and Regideso, the national water utility of the DRC, in February 2004 is seen by RW as the model for its country-based partnerships (Holtzhausen 2004:6). In terms of this agreement RW is to offer Regideso capacity development, operations management, technical assistance and rehabilitation of infrastructure (Aquavita 3rd issue 2004:10). RW has already provided capacity-building for a team of senior management from Regideso on water treatment process and technology (RW 2004a:56). Further specific projects have been identified (Holtzhausen 2004:6; RW 2004a:56) and RW and Regideso are attempting to get donor funding from the World Bank, EU, African Development Bank and the Development Bank of Southern Africa for these projects (RW 2005c:34; RW Board December 2003:421).

RW also signed a twinning agreement with Lilongwe Water Board in 2005 that in the short term enables both parties to share ideas and information, and transfer skills, while the medium- to long-term plan is for specific areas of cooperation to be project-driven, with a focus on issues of governance, water demand management, revenue management, policy issues and infrastructure development (Civil Engineering 2005:23; RW Board June 2005:811). RW sees more opportunities in Malawi in the future since "Malawi is also starting its institutional reforms for the water sector" (Aquavita 7th issue 2004:2).

The potential for a different kind of capacity-building was in the agreement in August 2002, at the World Summit on Sustainable Development, between RW and four other public water utilities, namely the Brazilian Association of Public Municipal Water and Sanitation Service Organisations (ASSEMAE), the Department of Water and Sanitation in Porto Alegre, the Water and Sanitation Municipality of Recife and Umgeni Water. This South-South partnership was to promote PUPs and the role of public water utilities in equitable service delivery to all. Piroshaw Camay, chairperson of RW's Board at the time, said that through this partnership RW was advocating "that the social value of water must be recognised and strengthened. Water is a common property, a public good, to be used for providing water security for people, local production needs and ecosystems" (quoted in Van der Merwe 2002:35). But the agreement also acknowledged that from time to time it may be necessary to enter into contracts with private sector companies on a temporary and short-term basis. Hoedeman (2006:13) reports that due to lack of funding and "a sudden turn by the two South African water companies towards commercial expansion strategies… this PUP failed before it really started". But as this current report illustrates, there was no 'sudden turn' in RW but rather a realisation and recognition of how RW uses its 'publicness' to promote its commercial interests. Hall, Lethbridge & Lobina (2005:10) rather aptly describe the rescindment of the agreement as "differences over objectives between the two sets of companies: the South African companies saw it as a vehicle for engaging in PPP-style ventures abroad, whereas the Brazilians saw it as a global vehicle for promoting public ownership and operation of water services".

In conclusion, many of RW's other activities in Africa – commercial, support and capacity-building – are based on political policies and finance from governments, aid agencies and donors, through conventional procurement. The objectives and economics of some of the commercial and support contracts – for example, constructing or advising on conventional engineering projects, or training – may not be more problematic than any other procurement contract. Some of the contracts, however, are highly problematic, in their political objectives, in their economic impact and in their commercial impact on RW. The Ghana-contract is a clear example of this, and the Disi water-project is an example of a BOT-model which has proved very damaging elsewhere in the world (Hall & Lobina 2006a). RW also seems to be following the trend of water TNCs in the developing world, namely to focus on providing skills rather than bringing capital. In these activities, how is RW acting as a public utility in the public interest?

Commercially, such contracts have serious political risks that RW does not appear to evaluate effectively. The absence of the major TNCs from the groups bidding for the Disi and Ghana contracts suggests that they had assessed it as too risky, and RW's participation may indicate that they were unaware of the economic problems of BOT-contracts elsewhere, or that they were relying on non-commercial factors to cover the risk. RW's commercial judgment may be doubted in general, since RW has been expanding at a time when private companies are withdrawing from the developing countries market. The weakness of the commercial case is a further reason why the international ventures of RW can be seen as a politically-driven response to the commercial opportunities created by global policies of privatisation of water and the specific opportunities of NEPAD. Furthermore, the hints of a condescending approach by RW in its capacity-building activities in Africa can in no way promote public sector capacity-building. If RW is serious about public sector capacity-building, it is going about it in the wrong manner.

OTHER CASES OF PUBLIC SECTOR BODIES EXPANDING BEYOND CORE ACTIVITIES

RW is not the only public sector utility in the world to have expanded its operations beyond its core remit. The following section briefly reviews the experiences of several other public utilities with clear similarities: Umgeni Water; Eskom (the South African electricity company); Uganda's National Water and Sewerage Corporation (NWSC); and Kowaco, the South Korean state-owned bulk water supply company. We also look at the contrasting activities of the Swedish public sector electricity company, Vattenfall, and the municipal water company of Stockholm, Stockholm Vatten. Finally, we briefly note expansion by other public utilities around the world.

Umgeni Water

Umgeni Water (UW) is a South African state-owned bulk water supplier to many parts of KwaZulu-Natal, serving about five million people with 894 employees. It was established in June 1974. As for RW, the 1997 Water Services Act has legally enabled UW to engage in non-core activities. The then-Minister of Water Affairs (quoted in Loftus 2005:85) complimented UW on being the leader amongst water boards when it came to engagement in commercial activities. UW was the first water board to establish a subsidiary in 1997, called UW Services (Pty) Ltd, for its engagement in other activities. UW was also the first South African water board to operate in Africa, already in 1998, long before the 2004 Water Services Amendment Act made it legal. Loftus (2004:73) therefore refers to UW Services as "an aggressive commercial subsidiary". UW offers the same kind of services as RW in its engagement in other activities.

Similar to RW, UW is a corporatised public utility which has as its bottom line 'people, planet, profit' (Loftus 2004:73) and which acts in many regards as if it is a private company (Loftus 2005:84). Like RW, UW has been successful at raising capital in the market via bonds, but according to Loftus (2004:73) it has been "singularly unsuccessful at finding profitable outlets for investing this capital". UW thus, in the mid-1990s, turned to two kinds of activities – commercial activities in Africa and rural water projects in South Africa – to invest its surplus capital. Like the case of RW, much of the funding for other activities in which UW became involved in South Africa came from government bodies: between 1996 and 2002 UW received R104 million from government for rural water projects in KwaZulu-Natal (UW quoted in Loftus 2005:86; 2006:181). Especially because rural projects were not made part of UW's subsidiary company but remained part of UW's primary activity (Loftus 2005:86), losses experienced in these rural projects led to massive bulk water tariff increases being imposed in the late 1990s.

In terms of Africa, in 2002 UW signed a three-year management contract with Port Harcourt in Nigeria, with its eye on the Lagos-contract (Loftus 2005:93). But the failure by Port Harcourt to make the quarterly payments led UW to pull out of the contract in 2003 and resulted in a R14 million loss (Loftus 2005:95). UW was also looking for opportunities in Algeria, Botswana, Ethiopia, Ghana, Lesotho, Malawi and Rwanda (Loftus 2006:184). It is interesting to note that in Rwanda, Umgeni Water, Eskom and RW were all to compete with one another for a management project, were it not for the withdrawal of RW's consortium. Loftus (2006:184) argues that UW's engagement in Africa is purely in search of profitability.

Eskom

Eskom is the state-owned electricity company of South Africa and one of the largest power companies in the world. When Eskom's status was changed in 2002 from a statutory body to a public company, regulated and non-regulated business were separated, with Eskom Holdings (Pty) Ltd housing non-regulated business (Hassen 2006:15). Eskom Enterprises (Pty) Ltd was set up in 1999 as a legally separate company, but fully owned by Eskom. It was seen as a way for Eskom to find new business to replace the expected loss of generation and distribution activities under the plans for the liberalisation of South Africa's electricity system, and also as a way of pursuing the objectives of NEPAD (Financial Mail 4 July 2003). At the height of its other activities it was involved in 30 countries. It bought power stations in Libya, Mali, Uganda and Zambia, became a partner in the distribution company of Uganda, invested in rehabilitation and management of a power station in Nigeria, and a gas-fired development in Mozambique, had a number of consultancy contracts, was anticipating buying Zesa, the Zimbabwean electricity company, and was getting "closer to achieving its goal of becoming Africa's dominant energy supplier" (Financial Mail 26 July 2002). It also diversified into telecoms ventures in South Africa and Lesotho (Africa Energy Intelligence 22 September 2004). Further diversification was into bulk water services, mainly repairs and maintenance, via Rotek Industries (Pty) Ltd, created in 1998 out of Eskom's Central Maintenance Services and part of Eskom Enterprises.

These other activities began to encounter a variety of problems with cash flow, re-specification of contracts and profitability. In 2003 Eskom Enterprises had to write off two of its major telecoms investments, resulting in losses of over R1 billion, and it closed the Nigerian operation (Liquid Africa 23 September 2004). The South African parliament discussed a cash injection to keep Eskom Enterprises viable, and in 2004 a 'revised business model' was imposed by government, 'non-core' activities were sold off, and Eskom Enterprises was reabsorbed into Eskom as a new Enterprises Division. It nevertheless planned to continue to develop its activities in Africa (Business Day 23 April 2004; Thomas 2006). But in April 2006 it was reported that Eskom had decided to end all investments outside the country, although it was later claimed that the company would continue with Umeme, its joint venture with Globaeleq running the distribution company in Uganda, and that Eskom "was still interested in several large-scale African projects such as the Capanda dam reserve in Angola, rehabilitation of the Inga 1 and 2 dams in Democratic Republic of Congo, extension of the coal-fired power plant at Morupule in Botswana, the Muela dam in Lesotho and extension of the Kapichira dam in Malawi" (African Energy Intelligence 24 May 2006).

Uganda's NWSC

The National Water and Sewerage Corporation (NWSC) of Uganda is a wholly state-owned utility established in 1972, and supplies water and sanitation services to 15 of the 41 large towns in the country, covering approximately 55 percent of the urban population. Since 1998 NWSC has reorganised itself on commercial principles, using internally delegated area management contracts to area teams, introducing benchmarking, changing to performance- and profit-related pay and reducing staff. The union sees this as part of a strategy to defeat consistent pressure from the IMF and World Bank to privatise NWSC (Werikhe 2006). But the reforms have been viewed sceptically by some Ugandan NGOs because of the commercialised, profit-driven approach (Wateraid 2003).

NWSC has had two management contracts with TNCs. The first was from 1997 to 2001 with Gauff, a German consulting firm. The second was with Suez from 2002 to 2004, which was not renewed for a third year (Ballance & Tremolet 2005). NWSC has remained a 100 percent state-owned company, though it has considered selling some shares to the public (The New Vision 10 May 2005). It presents itself locally and internationally as a model efficient public sector company (Muhairwe 2006).

NWSC has entered into consultancy contracts to help build capacity in neighbouring countries. It offers advisory services, under commercial contracts, in management, billing services, customer care, implementation of capital development projects and financial/tariff modelling services. Similar to RW, this is seen both as a commercial activity and as a support programme for other water services in Africa: "As a parastatal and public company, we offer public-to-public and public-to-private partnerships to customers within and outside Uganda" (The New Vision 12 May 2005) and "[w]e have reached a stage of sharing our knowledge with the outside world through our external services unit, which earns Uganda foreign exchange" (The New Vision 13 April 2005). In 2005 NWSC said it expected to have US$400 000 of consultancy projects by mid-2006 (The New Vision 31 August 2005). The contracts include: a consultancy worth US$10 000 000 for the Nairobi City Water Works; one with Dar-es-Salaam, Tanzania, to help build a public sector operation after the termination of a private concession in 2005 (The Sunrise 26 August – 2 September 2005); and one with the Nkana Water and Sewerage Corporation, Zambia, to provide support for change management, billing services and information technology development (Daily Monitor 1 August 2005). As already mentioned, NWSC has also been contracted on the Ghana-project.

Kowaco (South Korea)

The Korea Water Resources Corporation (Kowaco) is a state-owned corporation responsible for bulk water supplies. Municipalities, responsible for retail water distribution, have been encouraged to invite tenders to operate their water services, and Kowaco has expanded into water distribution by bidding for such consultancy and operating contracts. The motive is explicitly presented as a national defence against foreign companies: "Kowaco vigorously seeks out this type of business to provide evenly balanced water services for the entire nation and to defend the Korean water market against foreign multinational companies" (Kowaco 2005).

At the same time, Kowaco (on their website) has a stated ambition of expanding internationally:

> *Kowaco will utilise its overseas business as a pillar of future growth and develop into a global leader in the water services industry due to our diversified business portfolio… We plan to intensify our efforts by establishing overseas offices in major markets such as China, South East Asia and South America... The ultimate goal from international investment projects is to be one of the global top three water companies through developing high-return projects.*

It has won a number of overseas consultancy and reconstruction contracts, but nearly all are concerned with dams and reservoirs, Kowaco's main business. It has also won an 18-month water services rehabilitation contract in Erbil, northern Iraq.

Vattenfall and Stockholm Vatten (Sweden)

The Swedish state-owned electricity company, Vattenfall, embarked on a period of expansion in the late 1990s and early 2000s. Sweden formed a liberalised electricity market with Norway and Finland in 1996, which meant power producers could sell electricity anywhere in the region. The great majority of electricity companies in these countries were either state-owned or municipally-owned. Vattenfall bought distribution companies from municipalities within Sweden, to secure part of its own home market. This could be explained as defensive behaviour, but Vattenfall also bought both generating capacity and distribution companies from Finnish municipalities to enable it to operate in Finland (the Finnish state-owned company was behaving in a similar way). This can be treated as 'aggressive defence', since Sweden, Finland and Norway had become one market and with Vattenfall not retaining all its original activity in Sweden, it had to expand to stand still. However, when other European markets were liberalised from 1998, Vattenfall adopted an extended strategy of expanding into other countries, notably Germany, where it is now the third largest electricity company. Since Germany is a separate market, this is certainly not defensive (nor an act of solidarity).

A different kind of expansion was by Stockholm Vatten, created as a corporatised water company by the city of Stockholm in the 1980s, and 100 percent municipally-owned. In the 1980s and 1990s it entered a number of partnerships with municipal water operators in the Baltic states (Latvia, Lithuania and Estonia). These partnerships were part of an international programme to help clean up the Baltic Sea, and were specifically aimed at training the management in the Baltic states to deliver improved technical, financial and operational performance. Stockholm Vatten did not establish any subsidiaries for these partnerships, nor has it bought any companies, or entered into any concessions or management contracts.

The difference between the behaviour of these two Swedish public operators is significant. One is operating to pursue commercial objectives in an entirely liberalised market in its own country and abroad, in competition with other publicly- and privately-owned companies. Stockholm Vatten, by contrast, is not pursuing commercial objectives, but has engaged in time-limited international partnerships with other public operators with specific capacity-building objectives defined by public interests – in this case, the international public interest in cleaning the Baltic Sea (Hall & Lobina 2003).

Other Cases

Electricité de France (EdF) is one of the three largest electricity companies in Europe, and was 100 percent state-owned until 2006. EdF pursued active expansion in Europe and globally, and has major holdings in electricity companies in South America, Africa, and Asia. This expansion was pursued as a commercial exercise, with the expectation of significant and secure profits for EdF, and with the explicit and implicit support and encouragement of the government. Outside Europe, EdF experienced some serious losses, especially with its Latin American operations, and is now withdrawing from these activities.

The Spanish municipally-owned water companies from Madrid (Canal Isabel II) and Bilbao (Aguas de Bilbao) have both invested in privatised water operations in Colombia and Uruguay respectively. In both cases these were undertaken as commercial ventures, not solidarity actions. But a new law in Uruguay has outlawed the sale of water systems and management contracts to the private sector (Hall, Lobina & de la Motte 2004:1). In May 2005 the Uruguayan president decreed that private companies could continue to operate until the end of their contracts but the contract with Aguas de Bilbao has been cancelled due to non-compliance (Santos & Villareal 2006).

In Italy, Germany and Austria a number of municipal utilities have expanded internationally, and in nearly every case such expansion has been linked to a partial privatisation. This is also true of the Czech and Russian electricity and gas companies. In all cases, the expansions are treated as commercial activities. Significantly, the two private TNCs that now dominate the German (and European) electricity and gas markets, RWE and E.ON, both developed out of consolidation and privatisation of municipal utilities ("stadwerke") from the 1960s onwards.

A few cases of public sector expansion that are quite different eminate from Brazil, where public sector water operators have sought to offer support for the development of other public sector water operators within Brazil and beyond. The best known example is Porto Algre's Department of Water and Sanitation, but the association of Brazilian operators, ASSEMAE, has also taken a leading role in promoting these partnerships as non-commercial activities, including support for the Cochabamba municipal utility in Bolivia (which is being redeveloped to replace the failed privatisation). These Brazilian actors have also taken a lead in promoting this form of partnership internationally, as the case of the attempted PUP with RW and UW, discussed above, shows. In Honduras, SANAA, the state-owned water company supplying the capital Tegucigalpa, has been used as a capacity-building unit to train rural water operators. SANAA does not appear to have engaged in any commercial expansion of its activities.

Aguas do Portugal – owned by the Portuguese state – has some involvement in private concessions, notably in Aguas de Mozambique, a commercial operation in Mozambique. However, there was a contrast with the private partner in this venture, the French TNC SAUR. After the floods in 1999 required repairs that would have reduced the profitability of the concession, SAUR decided to withdraw; Aguas do Portugal, along with the Mozambiquan NGO, continued in the consortium. The difference may have been due to difference in commercial judgment, or to different weight being given to development objectives.

What all these cases show is that RW is not unique in expanding beyond core activities both within and outside of SA. But the cases also show that there are different motivations and different ways in which this can be done.

FACTORS INFLUENCING EXPANSION OF PUBLIC UTILITIES

In this next section, we consider the factors that influence the type of expansion activities in which public utilities might engage. The main apparent drivers of the various forms of expansion beyond core activities by public utilities fit into four categories, though more than one factor may apply to any given case of expansion by a public entity.

Defence Strategies

One recurrent factor that takes place when privatisation or liberalisation policies develop within a country is the possibility of foreign companies taking over operations that have been run by local public sector operators. Public utilities then 'need' to defend national interest by ensuring that such operations do not fall in foreign hands, especially water provision, which is generally seen as a strategic national resource. Such public sector operators may be seen as 'national champions', winning contracts within their own country, but outside their original remit, in order to prevent foreign takeovers. The case of Kowaco comes to mind, where the contradiction is that it expands into activities in other countries while at the same time not wanting foreign companies in Korea. NWSC in Uganda advances a somewhat different version of this argument by presenting commercialisation as a defence against the structural adjustment policies of the IMF.

The creation of liberalised markets, or the threat of privatisation as a result of opening of services to private bidders, make it far more likely that public sector operators will attempt to compete commercially due to the perceived threat that if they do not compete they will be taken over. Perceived competition due to private sector participation in water provision was regularly raised within RW as a factor in the intensification of their corporatisation process and their engagement in other activities. In such cases utilities engage in other activities out of self-defence. RW also used defence of the 'Africanness' of public utilities in justifying its engagement in Africa.

Opportunistic Strategies

Regional or global economic policies, such as the development of the internal market in Europe, NEPAD in Africa, or privatisation conditionalities of the World Bank, also create new business opportunities that encourage national and international commercial expansion. Liberalisation and privatisation in other countries provide an opportunity for a state to encourage expansion by key companies in that sector, whether private or public, as a way of developing national dominance in a regional or international market. This might be due to nationalism or due to a desire to support domestic capital in their expansion into the region.

In most cases World Bank funding and its conditionalities are critical in creating the conditions for neoliberal restructuring in the water sector. As water TNCs are withdrawing from developing countries, national public utilities and firms from developing countries seems to be filling the space.

Public Sector Structures and Operations

The existing structures of the public sector affect what is possible. Scale and size are clearly significant: larger city, regional and national entities are more able to expand commercially than municipal operators. If the water services of South Africa or Korea had the typical vertically integrated structures, with bulk supply as part of the municipal distributors, the large regional or national companies would not exist. While scale and size are influential, regional or national scale does not inevitably lead to commercial expansion.

In RW's case the institutional reform in the water sector in South Africa raised questions about the future of water boards, leaving water boards 'needing' to reposition themselves. By gaining experience in retail water contracts, for example, water boards can position themselves to become vertically integrated companies and act as regional water distributors, thus ensuring their continued existance.

What seems particularly significant in determining whether a public sector operator expands, either for commercial purposes or for developmental solidarity, is the senior management of the public sector operator. Both in Stockholm Vatten and in Brazil, for example, managers have been important in supporting solidarity action. The same is clearly true in commercially-minded entities. Further, the corporatisation of public utilities prepares them for application of principles and practices of private sector management, leading to a greater focus on financial sustainability and the tendency to want to engage in commercial activities. NPM-thinking means that public utilities see themselves as having to do something else than providing a public service. RW, for example, argues that it "is in a mature market in its bulk water business" (RW Retail Water Operations department 2000:3) and needs to look at expansion. NPM demands a different mindset from public officials, and this is incentivised via performance management contracts that reward managers who achieved mainly efficiency and financial goals. In RW's case, for example, the CE was a paid a performance incentive bonus of R798 000 in 2005/6, on top of a basic salary of R617 000, other cash benefits of R342 000 and contributions to retirement and medical aid of R52 000, leaving him with a total package of R1 809 000 (RW 2006:106).

While for other public utilities financial difficulties have led them to expand beyond core activities, in RW's case its corporatisation has seen it accumulate capital. To ensure that such overaccumulation and overcapacity do not led to 'idle surplus', RW has been expanding geographically and into other activities. Despite RW suffering losses of R9.9 million in 2005/6 in other activities, down from losses of R14.6 million in 2004/5 (RW 2006:119), it will continue in such activities as long as its core activities continue to generate the huge profits they have over the last few years.

There is further little evidence that expansion by public sector water bodies is driven by commercial market research. In the case of RW, for example, there appears to have been no attempt to reconsider the policy of international expansion in 2003 after the leading TNCs had announced their intention to withdraw from these markets as a result of inadequate returns on investment and high levels of political risk. The TNCs lost interest in the management contract in Ghana, but the public sector operators RW and Vitens appeared to be unconcerned by this negative market judgment by much larger, more commercial, and more experienced companies. Kowaco's expectations of the global water business appear similarly unconnected to reality.

Political and Economic Policies

The national government of the state-owned company is a key player, whether in support (or opposition) for expansion as a defence against foreign companies, as a commercial expansion into foreign markets with a simple profit motive, or as an instrument of public policy at home and abroad. The policies of municipalities or (in federal states) regional entities are also relevant where they are owners – some may seek commercial activity, some may avoid it, some may seek solidarity action. The reasons for these different approaches have much to do with ideology and with the economic system within which they operate.

For South African companies, NEPAD has been a significant factor, both as a regional economic policy creating new markets, and as a driver of the South African government's wish to see its own companies exploit the opportunities of those markets. Within South Africa, the macro-economic context of GEAR and the Accelerated Shared Growth Initiative of South Africa have also created a framework that encourages the restructuring of the public sector along the line of NPM-approaches, prompting public utlities to get involved in commercial activities.

Such policy framework (both macro- and micro-level), especially since the late 1990s, has actively pushed water boards such as RW into other activities. Not only does water legislation legally allow them to do so, DWAF's reduction and eventual end to subsidies to water boards means they feel compelled to implement full cost-recovery policies and diversify income streams. To be self-financed they look for profit-making opportunities, and with primary acitivities regulated, non-core activities seems to be the place for such profit-making. With money made available from DWAF and other national government bodies to municipalities to enable them to fund and contract for all sorts of activities, the road has been paved for public water utilities to engage in other activities for profit-making or at least on a cost-recovery basis.

There is a separate set of initiatives which developed not in response to liberalised markets at home or abroad, but as a way of developing public sector operators for public interest objectives – as with the support for the Baltic states by Stockholm Vatten, the Honduras capacity-building, and developments in Brazil. The public sector operator in these cases acts as a capacity-builder of other public sector operations, as a vehicle of solidarity and mutual public interest. If we consider the national context within which such public sector solidarity operates, it seems as if the presence of neoliberal policies, or the lack thereof, might play a role. In the Brazil case the government adopted a law in 2005 that encourages domestic PUPs (Hoedeman 2006:9).

The work of authors such as Bakker (2002, 2003), and Graham & Marvin (1994a; 1994b), who made use of the Régulation school to identify various phases in the development of utilities, could be insightful when considering such a context. What their work shows is that factors such as phases of industrialisation and economic structure of the economy (i.e. regimes of accumulation) and the mode of regulation (either competitive or monopolistic) impact on the manner in which the utility operates. Their argument is further that in the current context of post-Fordism public utilities are privatised (and corporatised) and increasingly globalised with international finances becoming sources of utility investment. The key question now is whether one can have public entities working for the public good if they are situated in a neoliberal context.

CONCLUSION: IMPLICATIONS FOR 'PUBLICNESS'

The case study of RW exemplifies not only the tensions between the various kinds of activities that public utilities engage in but also the mostly hidden processes of contestations and contradictions within public utilities such as RW around hegemony building for commodification and corporatisation. The RW case raises many questions about the nature of public utilities, what publicness is and what PUPs are. This last section considers what engagement in other activities, especially profit-making activities, means for 'publicness'.

Within its area of bulk water supply RW holds a natural and legislated monopoly. Now RW has become involved in various other activities outside of its primary role of bulk water provision. Except that RW legally has the right to engage in other activities both within and outside of SA, other rationales provided by RW for its other activities are public interest, support for NEPAD and its own commercial interest. RW has expanded its other activities from CSI (supposedly subsidised) to cost recovery to include profit-making. A further change has been that other activities are not only undertaken in South Africa but also in Africa and the Middle East. In South Africa RW seems to be heavily engaged in capacity-building activities on a cost-recovery basis, while in Africa it is engaged in commercial, support and capacity-building projects. Capacity-building in most cases meant expanding entrepreneurial practices in the public sector.

The Minister of Water Affairs and Forestry said in 1999 of RW that it is a model for other water boards (in Tempelhoff 2003:580). Kriel et al. (2003) went further to describe RW as South Africa's 'leading exponent' in PUPs in the water sector, while at the same time an annex to a report by the World Commission on Dams Secretariat (2000:A-39) gave credit especially to RW for contributing "substantially to the shift from subsidised water supply to cost-recovery approaches". This paper highlights that although all these statements are true, they are not to be seen as necessarily positive.

The purpose of this report is not to determine whether RW is 'good' or 'bad' but rather about how we ensure that public utilities like RW act in the 'interest of the public good'. There are tensions between RW being a public services provider and at the same time acting as a commercial operator. This is not a unique position: the NPM-model of corporatisation and commercialisation means that this is reality for many public services providers.

In its other activities RW – and other public utilities – seems to be schizophrenic; or, if we adopt Loftus' (2004:73) point when referring to UW, RW has "confused identity": is it a public utility that acts in the public good or is it a company out to make profit? Can it be both, as RW claims?

As Swyngedouw (2006:50) rightly indicates, when the profit-motive – whether in private or public companies – comes to be the benchmark for performance, decisions concerning price and supply-demand are radically altered and contradictions are created. Tensions are created between profit-motive and provision of public services. RW is structured like a company, operates on commercial principles and has created ringfenced companies for other activities. But at the same time RW regularly proclaims itself to be a public entity, at times (though not nearly enough) providing support to other public sector bodies for no more than cost recovery. Unfortunately, it appears that the reason for RW's assertion of its public entity status is its interest in accessing more easily the many opportunities for money making in capacity-building, support activities, management contracts, etc. It is a pro-market public sector entity.

In South Africa, due to national legislation, RW can enter service agreements with local authorities without having to follow an open tender process. To then push for full cost recovery, principles of competition and efficiencies – principles of the private sector – and ensuring that a corporatised model for local government is established, does not necessarily mean it is acting in the interest of public good. Although RW proclaims itself able to combine public interests and commercial rationales, the reality has been that efficiency goals have received priority above equity, accountability and democracy goals. Of course, efficiency goals can be in the interest of the public good, but if they are the only goals pursued they can be destructive to the public good. Simply because an entity is public-owned does not mean it will pursue equity goals actively.

Similarly, RW highlighting its public nature in activities in Africa does not make sense, as it is RWS – a stand-alone business company – that engages in activities on the continent. RW's assertion of itself as a public entity is thus seen as opportunism rather than any real commitment to the ethos and principles of the public sector. As Adam (2005) argues in the case of RW's involvement in Ghana, the company is running in the name of the public but acting in the interest of the private. It does so by contributing to the acceptance of the ethos and principles of the private sector in water provision, both in South Africa and Africa, with enormous consequences for access to water by the poor. In this way RW is contributing to 'accumulation by dispossession'.

Another way in which RW furthers the corporatised model, and spreads the commodification of water, is through many of its capacity-building projects. There is a need to unpack what kind of capacity is built (i.e. type of knowledge transferred) in what areas, and in whose interest. Unless capacity-building builds the capacity of the public sector to act in the interest of public good, fulfilling both equity and efficiency goals in a transparent and democratic manner, it is not public sector capacity-building but private sector promotion. This also means that simply because a public sector entity is engaged in building the capacity of another public sector entity, it is not necessesarily the kind of PUP progressive-minded people want to support. We need to ask, 'What is public about PUPs?'

There needs to be a clearing of the muddied waters of PUPs and an uncovering of the various guises of 'public'.

In this regard a typology of PUPs is helpful, such as that offered by Brennan et al. (2004): public-popular, public-community, public-workers, public-cooperatives and public-public. This typology identifies various kinds of partners (who are non-private sector) who can be involved in a PUP. The typology provided by Hall, Lethbridge & Lobina (2005:2) builds on Brennan et al.'s by identifying PUPs based on different types of partners, as well as the objectives of the partnership (such as building capacity, improved services, defence against privatisation, building stronger community support and accountability). They further indicate that PUPs have "a stronger commitment to capacity-building and skills development; increased participation of local communities; clearer systems of accountability; and commitment to keep public services in the public sector" (Hall, Lethbridge & Lobina 2005:10). All of this highlights aspects that PUPs should address in strengthening publicness.

Hoedeman (2006:8) indicates various kinds of activities that can be performed under PUPs, such as "reforming (and democratising) decision-making and planning; institutional and human capacity-building (including training of managers and workers to boost capacity and public sector ethos: including integrity, equity, clarity, accountability, transparency, openness, cooperation, and evaluation); managerial consulting, training and capacity-building; administrative support (including working conditions, salaries, benefits, and supervision of any outside contracting); financial planning, social tariff setting (differential for domestic, industrial, commercial, institutional, and agricultural uses), billing, and customer service and collection & assistance in locating available finance; maintenance (including repair and replacement of equipment); leakage control and other sustainability measures; advice and other assistance in operational infrastructure and/or project design assistance in service delivery; construction; operation; expansion of coverage; information technology". As Hall & Lobina (2006b:35) argue, PUPs should not be about managing large-scale infrastructure "nor agents implementing specific policies, e.g. cost-recovery mechanisms" but "should aim to provide local management and workers with the necessary skills to identify problems, choose solutions, and implement chosen strategies, including the ability to manage capital financing mechanisms".

All this means that 'publicness' is much more than just public ownership. It is about public sector entities acting in the interest of the majority of the public, performing activities for the benefit of public good in a transparent and democratic manner. Denhardt & Denhardt (2003:42-3) identified the values to underpin such new public service as serving citizens, not customers; seeking the public interest; valuing citizenship over entrepreneurship; thinking strategically and acting democratically; recognising that accountability is not simple; serving rather than steering; and valuing people, not just productivity.

What are the barriers preventing this from happening? Of course there are various financial, institutional and structural barriers in neoliberal contexts, but continued contestations and struggles will and are helping to constantly shift and move dominant processes and realities. And we should draw heart from realities within public sector entities, like RW, where buy-in from staff to the corporatised model and commodification is not complete. While it is true that some welcome the erosion of the 'publicness' of RW, others feel uncomfortable and contest it. Ultimately, as King and Stivers (1998) remind us in their book Government Is Us, government, including public utilities, belongs to its citizens.

ENDNOTES

[1] Barnett & Whiteside 2005.

[2] The FBW-policy promises 6 000 litres per household per month, amounting to 25 liters per person per day for an average household of eight people. For various critiques against the content of the policy, its very idea and problems with its implementation, see Bond (2005), Cosatu & Samwu (2003), Cottle (2004:23-7), McDonald (2002), McDonald & Pape (2002) and McDonald & Ruiters (2005b).

[3] For example, about 60 percent of water used is for agriculture (Eberhard & Pegram 2000:vi; Francis 2005; National Treasury 2003:218); mining and industries account for 16 percent of water use, households for 12 percent, with the rest being used to meet environmental needs (Cottle 2004:11; RDSN 2000). Of the 12 percent of water used for domestic purposes in South Africa, less than ten percent is consumed by all black households; only one percent by rural households (Bond & Hallowes 2002:36; Cottle & Deedat 2002; RDSN 2000).

[4] Interestingly Deloitte & Touche (1997:5) claim that in general the water industry tends to be a follower of the electricity, telecommunications and gas industries.

[5] Their criticisms included arguments that losses incurred from such activities would be passed on to municipalities via increased bulk water tariffs and that the accountability of water boards to WSAs are undermined (RSA 2004:4).

[6] This is part of the Auditor-general's (2004:27) classification of public entities. Such Schedule 3B public entities are public business enterprises generating income and being substantially self-funded. Such companies are run in accordance with business principles (Auditor-general 2004:27). In terms of assets RW is ranked fourth in a list of state-owned enterprises (SOEs), according to Sekgobela (2003:21), after Eskom, Transnet and Telkom, and before Denel, ACSA, the South African Post Office and the SABC.

[7] Lushaba resigned at the end of 2005, two years before his five-year contract expired, to take up a position as vice-president for shared business services with Lonmin mining group. This was amidst speculations amongst RW

staff that the board refused to increase the pay he demanded after another financial year of increased revenue and profit.

[8] In 2005 RW's foreign financial rating from Standard and Poor's was BBB+ (RW 2005b:97) and its long- and short-term domestic ZAR currency ratings in 2004 were AA and A1+ respectively (Joffe 2004:4).

[9] A section 21-company is established in terms of the Companies Act of 1973. It is an organisation that is set up as not-for-profit; if profits are made, these are not to be shared out to members of the company.

[10] This can be compared to the minimum of R50 million (about 0.15 percent of turnover) that is provided by Eskom to its foundation and the R200 million (0.49 percent of turnover) that Telkom set aside for its foundation (RW Board December 2004:708). In fact, for the SOEs for whom statistics were available between 1994 to 2003, Gordon & Camay (2004:32) found that RW spent the least on average per year.

[11] Over 90 percent of RW employees are unionised (Verschoor 2006:5); the three recognised unions are Samwu (representing just over 50 percent of all RW staff with the majority of its members support staff), the United Association of South Africa with 16 percent of union membership at RW and the RW Staff Association with 15 percent union membership (RW 2004a:51).

[12] "In this regard RWS will seek out relationships with banking institutions, development finance institutions, donor agencies, other water utilities, consulting engineers and other stakeholders". (Max 2006a).

[13] This area includes Winterveldt (a peri-urban and rural area), Ga-Rankuwa and Mabopane (both urban areas).

[14] It is interesting to note that the City of Tswane referred to its contract with RW as a PPP (City of Tshwane 2005:778).

[15] A further confusion is that RW in its 2003 annual report listed its involvement in Odi and Maluti-a-Phofung as social responsibility projects (RW 2003b:31).

[16] It is a section 21-company of the Ekurhuleni municipality formed after a corporatisation process of the wastewater treatment function of the Ekurhuleni municipality (Naidoo 2005:54).

[17] RW established this fund in 1995 in response to the drought experienced in SA (Bonner & Lekgoathi 2004; Tempelhoff 2003:594) – during this period the fund accumulated R70 million through penal tariffs charged

to customers who exceeded their quota during the water restrictions period (Bonner & Lekgoathi 2004:169; Buckle 1998:2; Tempelhoff 2003:520).

[18] Vitens is a public utility, owned by provincial and municipal authorities in the Netherlands, serving 23 percent of the Dutch market (four million customers), making it the largest water supplier in the Netherlands. Like RW, Vitens creates subsidiary companies for its commercial activities. Vitens International, its operating arm outside of the Netherlands, already has experience of O&M management contracts – it has a contract similar to a management contract in Mozambique and a twinning agreement with the Suriname Water Company, for which it gets paid a consultancy fee (Vitens website).

[19] Umgeni Water withdrew just before the second stage of the bidding, while Biwater and Suez withdrew early due to pressure by anti-privatisation groups in Ghana and the UK. Vitens/RWS stayed in possibly due to their perception that since they were public utilities, and in their belief/rhetoric then not promoting privatisation, such pressures would not be exerted on them. Another factor might be their inexperience in such activities; the TUC (2005) refers to Vitens and RW as "smaller, inexperienced would-be water multinationals".

[20] The actual management contract, as well as a World Bank contract, refers to the company as AquaVitra, while RW in its 2006 annual report repeatedly refers to AquaVita.

[21] A fact not widely known is that Uganda's National Water and Sewage Corporation was awarded a contract worth $12 million "to provide technical experts and short-term consultants" for this project. Yeboah (2006:61) argues that Uganda's involvement might have been purposefully low profiled due to "the opposition to foreign involvement (especially Ugandan involvement) that prevails in certain segments of the Ghanaian population".

[22] This compares to 55 percent and 45 percent wage increases accepted by public utilities workers in, respectively, electricity and state housing (NCAP 2007).

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International Labour Research and Information Group (South Africa),
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This project is funded by the
Canadian government through the
International Development Research Centre (IDRC)