

# The Theory and Practice of Cost Recovery in South Africa

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Cost recovery refers to the practice of charging consumers the full (or nearly full) cost of providing services such as water and electricity. In direct contrast to the long-standing practice of the state subsidising these services, consumers around the world are increasingly expected to pay in full for service delivery.

This chapter lays out the theory and practice of cost recovery in South Africa as it applies to basic municipal services such as water, electricity, sanitation and waste management. It draws on international literature and practice in this regard, particularly as it has been articulated by the World Bank and its partners. It also illustrates how and why these policies have been introduced in post-apartheid South Africa.

The purpose of the chapter is to provide a conceptual overview of what cost recovery means in practical and theoretical terms, as well as to prepare readers for the empirical case studies presented in this book. I begin with a summary of what cost recovery means in practice and then review the fiscal, moral, environmental and commercial arguments used to justify its implementation. The chapter concludes with an overview of the problems associated with cost recovery in the South African context, particularly as it relates to low-income households. An examination of cost recovery will take us to the very heart of the neoliberal paradigm, with its focus on balanced budgets, fiscal restraint, market discipline and privatisation.

The chapter also prepares readers for the concluding section of the book, which deals with alternative approaches to cost recovery.

## What is Cost Recovery?

The concept of cost recovery is a simple one: the recovery of all, or most, of the cost associated with providing a particular service by a service provider. For publicly owned service providers, this may or may not include a surplus above and beyond the cost of production, whereas for private-sector providers it necessarily includes a surplus (i.e. profit). In either case, the objective is to recoup the full cost of production.

Determining what to charge consumers is the difficult part. It is first to the pricing of services that we must turn, to better understand the basis of cost recovery.

For those services that can be accurately measured in volumetric terms (e.g. water, electricity, water-borne sewerage) cost recovery is achieved by charging end-users the (full) short-run marginal cost of production plus a portion of long-term operating and maintenance costs. To illustrate, if a person wanted to have electricity provided to their home, they would be expected to pay the cost of connecting the household to the electricity grid, a portion of the amortised operating and maintenance cost of the bulk infrastructure required to generate and distribute electricity, and a volumetric rate for the marginal cost of every kilowatt hour of electricity consumed.

There are several different ways of calculating these costs (Dinar 2000), but most models incorporate a downward-sloping marginal cost curve where, because of economies of scale, those who consume more of a service are charged less per unit of consumption than those who consume less. In practice, this has meant that poor households are in effect penalised on a per-unit basis because they consume less than wealthy households and industry.

In response to these equity concerns, progressive block tariffs have been introduced in many countries (including South Africa), in an effort to make the initial levels of consumption (or "blocks") more affordable, or even free, while charging increasingly higher prices as consumption levels rise. This rising tariff has the added potential benefit of curbing consumption at the top end, thereby introducing conservation incentives.

Block tariffs are not inconsistent with cost recovery, however. The difference with more orthodox pricing models is that block tariffs charge higher than marginal cost prices at upper levels of consumption in order to make up for lower-than-marginal cost prices at lower levels, effectively cross-subsidising the poor. Most importantly, they also provide individual consumers with a certain level of subsidised consumption.

It is important to highlight that not all services can be measured and priced on a volumetric basis. With services such as refuse collection and dry sewerage (as well as non-metered water or electricity), there is no way of accurately and easily measuring what an individual household has consumed. In such cases, cost-recovery models follow a flat rate that covers the average fixed and variable cost of the service. This can be done through a separate flat-rate charge or it can be included in a general rates account. Equity concerns can be dealt with through the application of differential rates, either along household-income lines (i.e. means testing), or through some form of property valuation (i.e. the higher the value of your home, the more you pay, regardless of your level of consumption).

Whether volumetric or flat, all cost-recovery models depend on "ringfencing" – i.e. the isolation of cost and revenue associated with a given service and the removal of subsidies in or out of that sector. Ringfencing means that resources – be they human or capital – cannot be shared between different service sectors unless they are paid for on a cost-recovery basis to the unit that provided them (e.g. a water department would pay the accounting department of a municipality for the cost of keeping its books). The intention is to ensure that a service provider knows all its fixed and variable costs and is therefore able to apply (marginal) cost pricing to its consumers.

Managerially, ringfenced units are controlled by officials who operate independently of all other service sectors, and at arm's length from elected authorities. Politicians generally retain the right to set standards and service delivery goals for a service unit, as

well as monitor and evaluate their activities, but the daily management and long-term planning of the unit – including decisions about cost recovery – are carried out by the ringfenced management team, whose only concern is the management of its own sector.

In theory, therefore, the cost of water, electricity, refuse and sanitation can be isolated and applied to end-users (with varying degrees of equity considerations). In reality, the actual cost of service production is seldom known: costs are complex and difficult to measure; they are constantly changing because of the "lumpy" nature of infrastructure investments; there are inevitably joint costs that are difficult to apportion; accounting for externalities is constantly evolving, and so on (Renzetti 2000, 130). At best, cost-recovery models are an approximation of real costs.

In the end, it is *fuller* cost recovery that agencies such as the World Bank are after, i.e. charging prices that are as close as possible to the marginal cost in the short term, and to the average cost curve in the long term, with the aim of eventually achieving full cost recovery. We therefore use the term "cost recovery" in this book to refer not only to *full* cost recovery but also to the intermediary stages of *fuller* cost recovery.

## How is Cost Recovery Enforced?

For any cost-recovery policy to be effective, a service provider must be able to measure the consumption of a particular service by an individual household regularly and accurately, and it must be able to collect payments. For volumetric services such as water and electricity, measurement is relatively easy with the use of increasingly sophisticated meters that measure the number of litres used and kilowatt hours consumed. Without meters it is virtually impossible to apply marginal cost pricing. For those services that are not measurable on a volumetric basis, it is necessary to approximate average consumption and to charge the average cost (with or without differential rates).

But the most accurate measurement and pricing systems in the world mean little if the service provider cannot collect the monies owed for services rendered. Effective administration is important here, including a good postal/payment system. Of equal importance are the punitive measures/threats used to persuade and force consumers to pay their bills. The most common form of punishment is to cut off a service to a household (or merely to threaten to do so). In the case of water and electricity this means disconnecting the household from the water and electricity mains. In most situations this is temporary. But in an increasing number of "delinquent" cases in South Africa, it involves shutting off services for weeks or months and sometimes the permanent removal of infrastructure to prevent illegal reconnections. Other enforcement tools include legal action, the attachment of assets, and, most controversially in the case of South Africa, the eviction from one's home for non-payment of services. Cutoffs are more difficult with services such as refuse collection and non-water-borne sewerage, but there have been cases in South Africa of households being denied these services as a penalty for non-payment of water or electricity (see Ruiters, this volume).

Cutoffs and evictions are expensive and politically sensitive enforcement weapons, however, which is why service providers interested in cost recovery are moving towards the use of prepaid meters wherever possible. A prepaid meter is a device that not only measures the exact amount of a service that is consumed – allowing for marginal cost pricing – but also forces users to purchase the consumption in advance. "Units" (be they litres of water or kilowatt hours of electricity) are purchased at a retail outlet and then entered into the prepaid meter with the use of an electronic "smart card" (the meters are usually located in or at the household, but can sometimes be centrally located and therefore controlled).

Prepaid meters are the ultimate cost-recovery mechanism. They collect money in advance, thereby earning interest for the service provider in the process. They also do not allow the consumer to go into default and, theoretically, they require no overt punitive

measures to ensure payment for services. But there have been cases where prepaid meters were tampered with, and the system itself can be cheated. Service providers and meter manufacturers are actively working to develop more sophisticated meters, and to sell the prepaid meter as "pro-poor". The argument is that it allows low-income households to budget more effectively for services so as to avoid falling into debt. As one manufacturer of prepaid electricity meters stated to me in an e-mail on the subject, "Without controlling the meter it is not possible to control the [electricity] business".

The enforcement of cost recovery, therefore, requires a measuring system that allows a service provider to allocate costs to individual end-users, a billing system that informs consumers of their payment obligations, and collection mechanisms which ensure the payment of bills.

### Cost Recovery in South Africa

Cost recovery for basic municipal services has not always been a policy of national and local government in South Africa. Only since the end of apartheid in the mid-1990s has full (or fuller) cost recovery been isolated as an explicit, widespread policy objective.

There were user fees, tariffs and general property rates for services under successive apartheid regimes, but for the most part these charges had little relevance to the actual marginal cost of providing them. This was partly due to the fact that it was virtually impossible to estimate the cost of a given municipal service because apartheid local governments were so fragmented. The City of Cape Town, for example, which is now a single "unicity", was composed of 25 municipalities and 69 local authorities prior to 1996.

More important was the lack of interest on the part of the apartheid state (national and local) to pursue full cost recovery. Indeed, the opposite was true, with heavy subsidies – both hidden and transparent – being provided for services such as water, electricity, sewerage and refuse collection. This was particularly true for white suburbs and industry. During the 1970s and 1980s, these areas received per capita infrastructure investments on a par with, or even higher than, most European and North American countries (Ahmad 1995). They continued, however, to pay extremely low rates for these services.

Even the black townships and "bantustans" received considerable subsidies for services (although much smaller in relative and absolute terms than those of white areas). Part of this subsidisation was direct – in the form of infrastructure developments and public housing in the 1960s and 1970s – but the bulk of it was indirect, extracted unwittingly from the apartheid state in the form of payment boycotts by township residents in the 1980s and early 1990s. In spite of the boycotts, the apartheid state continued to provide services to these areas for fear of the political fallout from not doing so, resulting in a *de facto* subsidisation of township services.

These service subsidisations were no doubt motivated in part by clientelist politics designed to win votes in white suburbs and maintain puppet regimes in the "homelands", but they were also driven by a "statist" vision of service delivery. In direct contrast to the neoliberal view of cost recovery and privatisation that dominates official service delivery discourse in South Africa today, the apartheid state saw its role as one of providing and subsidising the delivery of essential municipal services (albeit in a racially skewed manner). The statist model came under attack in the mid-1970s with the formation of the Anglo American-financed Urban Foundation, began to splinter in the 1980s with the retreat of the National Party from state housing, and largely disintegrated in the 1990s. In fact, it has been under the post-1994 African National Congress – both nationally and at municipal level – that the push for cost recovery on basic municipal services has been most clearly and vociferously articulated. This shift has been supported and encouraged by an increasingly neoliberal civil service as well as by an ideologically reconstituted

New National Party (NNP), and an overtly neoliberal Democratic Party (DP) (Bond 2000, Mirra 2000, McDonald and Smith 2002).

This ideological transformation is not total, however. There are still some bureaucrats, politicians and other members of the ruling elite, who believe that basic municipal services should be delivered by the state and should be heavily subsidised. But the paradigmatic shift to privatisation and cost recovery has been profound. Virtually every political party in the country has expressed explicit support for cost recovery in policy documents – most notably the ANC and the Democratic Alliance (DA) – while implicit support from other quarters is evident in the silence that has met the introduction of aggressive cost-recovery measures in the legislatures and councils of the country.

Most South African municipalities are still a long way from meeting these cost-recovery goals – with payment rates in some areas as low as 21 per cent of billings<sup>3</sup> – but the desire for full cost recovery is clear. In the meantime, it is *fuller* cost recovery that the South African government is after, with "cost reflexive" pricing being the preferred nomenclature.

Take, for example, the directive in the Municipal Systems Act (RSA 2000a) – the omnibus legislation that deals with municipal services throughout the country – that service delivery should be "cost reflexive" (§74.2.d). The same applies to policies for specific services such as electricity, water and sanitation. In the Draft White Paper on Energy Policy (RSA 1998b, 7), it is stated that "government policy is to ... encourage energy prices to be as cost-reflective as possible." In the White Paper on Water and Sanitation (RSA 1994, 19), it is argued that "government may subsidise the cost of construction of basic minimum services but not the operating, maintenance or replacement costs". The subsequent National Sanitation Policy White Paper (RSA 1996, 4) states: "Sanitation systems must be sustainable. ... payment by the user is essential to ensure this".

Some policy documents make it clear that *full* cost recovery is the objective. The White Paper on Water Policy (RSA 1997, 4) proposed that in order to "promote the efficient use of water, the policy will be to charge users for the full financial costs of providing access to water, including infrastructure development and catchment management activities".

It must be noted, however, that in each of these policy documents, attention is paid to questions of equity in the form of indigency clauses, progressive block tariffs and, most recently, "free services" for an initial block of consumption. After stating that government will "charge users for the full financial costs of providing access to water", for example, the White Paper on Water Policy (RSA 1997, 4) goes on to state that in order to "promote equitable access to water for basic needs, provision will also be made for some or all of these charges to be waived".

The National Water Act (RSA 1998c, s5.1) takes the equity issue further:

*The Minister may from time to time, after public consultation, establish a pricing strategy which may differentiate among geographical areas, categories of water users or individual water users. The achievement of social equity is one of the considerations in setting differentiated charges. Water-use charges are to be used to fund the direct and related costs of water resource management, development and use, and may also be used to achieve an equitable and efficient allocation of water.*

<sup>3</sup> The Democratic Alliance (New National Party and Democratic Party) election manifesto for the 2000 local government elections, for example, states that "increased [local government] income will be obtained from: expanding consumption-based user charging; recovery of outstanding rates and other debts; ensuring that all persons and organisations liable for rates, levies or other charges are properly billed; professional and tight credit control." The document goes on to state that "Municipal services delivered to households or used by households will be charged at cost, minus agreed-to rebates, plus a minimal surcharge sufficient to enable the accumulation of reserves for maintenance of equipment and facilities" and the party intends to "create a culture of payment for all services consumed above the lifetime level, inter alia by strictly collecting all arrears and debt" (Democratic Alliance 2000, 35, 39, 25).

<sup>4</sup> For example, for seven months at the end of 2001, residents of Khayelitsha in Cape Town paid 21 per cent of the amounts charged to them (Cape Argus, 20 February, 2002, "Khayelitsha is city's top debt headache" by Moses Mthetheli Masekay).

Similarly, the Municipal Systems Act (RSA 2000a, s97.1.c) states that tariffs for municipal services can be differentiated if based on indigency (i.e. poverty).

In other words, cost-recovery policy in South Africa has explicit equity considerations, and distinguishes itself in this respect from more orthodox cost-recovery models based on simplistic downward-sloping marginal cost curves.

But, as noted above, progressive block tariffs, indigent policies and even free blocks of services are not necessarily inconsistent with full cost recovery. The difference is where price points are placed *vis-à-vis* levels of consumption and at what point on the consumption scale consumers are expected to pay towards the full cost of service delivery. As we shall see below, the manner in which block tariffs, free services and indigent policies have been introduced in South Africa has only marginally protected the poor but disproportionately benefited the rich. Within the neoliberal state, such measures are constrained by being part of a broader cost-recovery model and are intended to alleviate some of the hardest edges of this model, not replace it.

Another sign of the move toward cost recovery in South Africa is the rapid and extensive introduction of meters – particularly prepaid meters – for volumetric services. Even communal water stands are being metered using prepaid systems in many municipalities, while in some areas communal taps are being replaced with yard taps or in-house connections (with significant connection fees of up to several thousand Rands).

But the most visible feature of the move to cost recovery in South Africa comes in the form of punitive measures for non-payment of service bills. Service cutoffs, attachment of assets and evictions from households are now common throughout the country, and receive considerable media attention. Research undertaken for this book (see McDonald, Chapter 8 this volume), suggests that as many as 10 million South Africans have had their water cut off and 10 million have had their electricity cut off since the end of apartheid. Furthermore, some two million people have been evicted from their homes for non-payment of service bills. Legislatively, the Municipal Systems Act grants local authorities this power, most notably the right to “seize property” for non-payment of services (s104.1.f).

## The Rationale for Cost Recovery

The following sections provide a theoretical overview of the fiscal, moral, environmental, and commercial arguments used by those who support cost-recovery measures, and highlights how these arguments have been adopted in the South African context.

### Fiscal arguments

The single most important reason given for cost recovery is the need to “balance the books”. Cost recovery, as the World Bank (1998, 44) is wont to say, is “a matter of good public fiscal practice”, allowing governments to reduce tax burdens and thereby attract and retain human and financial capital. Cost recovery in lower-income areas, it is argued, reduces the need for cross-subsidisation from industry and higher-income households, making a country or a municipality a more financially attractive place to locate to. These competitive pressures are often most explicit at national level, but are becoming increasingly common at municipal level as well. Cities and towns are increasingly competing with each other for investment while struggling to deal with the downloading of responsibilities and cutbacks in intergovernmental transfers.

It is also argued that cost recovery is necessary to sustain services on a long-term basis. Without cost recovery, the argument goes, the state will not have the funds to invest in future service and infrastructure upgrades and extensions. Cost recovery is seen as “pro-poor” because it provides the fiscal basis for further service improvements and expansion: “When a public-sector utility does not recover the costs of providing a

service, it is often unable to extend the system – leaving poorer, marginal areas unconnected to the grid” (Brook and Locussol 2002, 37).

The South African government adopts the same basic line of argument, stating in the Water Supply and Sanitation Policy White Paper (RSA 1994, 23) that if government does not recover operating and maintenance costs there will be a “reduction in finances available for the development of basic services for those citizens who have nothing. It is therefore not equitable for any community to expect not to have to pay for the recurring costs of its services. It is not the government who is paying for its free services but the users.”

These micro-economic policies are reinforced at the macro level with the fiscally conservative Growth, Employment and Redistribution (GEAR) framework. Introduced by the ANC national government in 1996 without any consultation with its labour or civic allies, GEAR’s effect on cost recovery has been profound. Firstly, it has resulted in significant decreases in intergovernmental transfers from national to local government, resulting in an 85 per cent decrease (in real terms) between 1991 and 1997, and further decreases of up to 55 per cent between 1997 and 2000 (Finance and Fiscal Commission 1997; Unicity Commission 2000). Moreover, the amount of funding from central government is so low that it will take decades to address the backlogs. In fiscal 2000, the total value of transfers to local government across South Africa was only R3 billion. Projections of the capital costs required to address service backlogs are in the order of R45 billion to R89 billion (depending on the level of service provided), with government-sponsored operating costs adding many billions more (RSA 1995, 2000c).

National government has also put caps on rates increases that local government is able to levy on (wealthy) property owners. The Draft Local Government Property Rates Bill (RSA 2000b, Chapter 2, s4–5), for example, states that local governments cannot apply taxes at local level which threaten its own tax-reducing, fiscally conservative strategy, as evidenced by the following quotations:

*A municipality may not ... exercise its power to levy rates on property in a way that would materially and unreasonably prejudice national economic policies, economic activities across its boundaries, or the national mobility of goods, services, capital or labour.*

*The Minister, with the concurrence of the Minister of Finance, may by notice in the Gazette, set a limit on the amount of the rate that municipalities may levy on property; or the percentage by which a rate on property may be increased annually.*

With approximately 90 per cent of all local government revenues being generated locally (of which approximately 25 per cent come from property rates), these caps mean that local government is unable to increase its own revenue pools significantly through progressive taxation. Little wonder, then, that local authorities have begun to push for fuller cost recovery as a way to finance and expand service delivery.

Competition for investment is also a critical factor here. As South Africa and its larger cities vie for increasingly mobile and fickle flows of private capital, municipal governments are under pressure to reduce tax and tariff rates in order to make it cheaper for firms to operate. As a result, there are pressures to minimise (if not eliminate and even reverse) cross-subsidisation measures in commercial, industrial and high-income areas.

Consider the following. The Durban Chamber of Commerce and Industry “has in recent years expressed the concern of its members regarding the increasing cost of doing business in the Durban Unicity area. The cost of water is one of the major components of the total infrastructural cost, over which our members have no control ... The prime concern of the Chamber is ensuring that the trading environment in the Unicity area contributes to the national and international competitiveness of its members in both commerce and industry.” The Chamber goes on to complain that the “expensive rural

water schemes" in the newly formed Unicity have "exacerbated the financial implications of possible solutions [i.e., put pressure on business to help pay for the costs of these water extensions]" and says that it will work to maintain "acceptable" bulk water tariffs (Anon. 2002).

Another revealing quote comes from the former Director General of the Department of Constitutional Development (the person in charge of all infrastructure development in the country): "If we increase the price of electricity to users like Alusaf [a major aluminium exporter], their products will become uncompetitive."<sup>3</sup>

In other words, if a country/city wants to be internationally competitive in terms of attracting private capital, it must reduce subsidies (at least for the poor), and boost its cost recovery efforts.

### Moral arguments

Another set of arguments used to justify cost recovery are moral in nature. The first of these revolves around liberal notions of rights and responsibilities. If people have the "right" to a service like water, they also have the "responsibility" to pay for it.

The South African Constitution and Bill of Rights are classic expressions of this thesis. "Everyone has the right," for example, "to have access to sufficient food and water" (Bill of Rights, 1996, s27.1.b). All South Africans would also appear to have the right to services that protect their basic health and well-being, such as refuse removal and sanitation, as captured in the Bill of Rights environment clause (s24): "Everyone has the right to an environment that is not harmful to their health or well-being; and to have the environment protected, for the benefit of present and future generations, through reasonable legislative and other measures that prevent pollution and ecological degradation (for more on this point see Glazewski 2002). The right to electricity is more difficult to ascertain, but the Department of Minerals and Energy's Draft White Paper on the Energy Policy of the Republic of South Africa (RSA 1998b, 3), does argue that "Energy should ... be available to all citizens at an affordable cost."

But these rights are met with obligations. The Department of Water Affairs and Forestry, for example, has taken out half-page newspaper advertisements titled "Knowing your water and sanitation rights and obligations", in which it is clearly stated that one obligation is "paying your bills for services rendered".<sup>4</sup> According to the Municipal Systems Act (RSA 2000a, s5.2.6), this obligation applies across the board, with residents having the "duty" to pay for all of their municipal services.

Considerable efforts have gone into enforcing this message of civic responsibility in South Africa, and tying it to a broader notion of civic and personal development. These goals are perhaps best exemplified by the Masakhane ("let's build together") campaign. Introduced with much fanfare in 1995 by then-president Nelson Mandela, the campaign has focused largely on convincing (low-income) consumers to pay their bills for water, electricity and other municipal services. But the ANC has also been at pains to point out that Masakhane is about more than bill payments. It is seen as a broad political vision that makes service payments part of a larger societal transformation: "The true essence of Masakhane [is] mass involvement in the transformation process" (ANC 1997).

A related argument is to be found in the burgeoning "willingness to pay" literature. The rationale here is that most people – low-income households included – accept their civic responsibility to pay the full cost of service delivery, and are happy to do so as long as the services are reliable, affordable, and of good quality (see, for example, Jimenez 1987; Whittington, Briscoe and Mu 1990; Whittington, Laura and Mu 1991; Alberini and Krupnick 2000).

Finally, it is argued that only by paying the full cost of a good or a service can one appreciate its true "value". Receiving a service for free, or having it heavily subsidised, distorts not only its exchange value but its use value as well. According to the World Bank (1999, 44) only "a fee reflecting the costs will encourage users to correctly value the service they receive". Charging a fee will "help reverse the 'entitlement mentality' that has been the historical result of subsidising public services".

The notion that a service such as water could have a use value without an exchange value – i.e. a right without a (financial) responsibility – is an alien one to the commodity-oriented cost-recovery literature. This final point takes on a didactic tone in South Africa, with private capital and apartheid-era municipal bureaucrats keen to inculcate market values in township dwellers and rural Africans.

### Environmental arguments

These moral arguments are extended to the environmental arena. Subsidisation, it is argued, promotes wasteful consumption of environmentally sensitive services such as water, electricity and refuse collection because the "correct value" is not reflected in the price. There is, therefore, little financial incentive to limit consumption. In other words, subsidies promote waste, while cost recovery promotes conservation.

The World Bank (1994, 83) has the following to say about the environmental benefits of cost recovery on electricity:

*Efforts to mitigate environmental impacts through consumer investments in energy saving are hampered by low consumer prices and subsidies. On average, developing countries use 20 per cent more electricity than they would if users paid the incremental cost of supply. Once economic pricing is established, governments are able to promote the use of more energy-efficient technologies.*

The argument that prices are the best or, indeed, the only way to shape human behaviour is central to all (neo)liberal tropes, from Adam Smith onwards. Without price incentives and market institutions, humans behave in self-maximising and destructive ways (the "tragedy of the commons" thesis). Proper pricing, on the other hand, creates a moral and economic framework for environmental sustainability by appealing to our own self-interest.

The World Bank (1994, 81) argues that these price incentives should be structured in the form of rising block tariffs (in order to curb over-use by the rich). With downward-sloping cost curves for many services, this is in fact the *only* way that conservation can be achieved through pricing mechanisms. In reality, however, the World Bank (and the South African government) do not always promote sufficiently progressive block tariffs with prices that would really make a difference to consumption at the upper end. This is especially true of commercial agriculture and industry in South Africa, which have been amongst the most inefficient users of water and electricity, and flagrant producers of waste, in the world.<sup>5</sup>

### Commercialisation argument

Much is also made of the link between cost recovery and commercialisation. The argument that cost recovery promotes efficiency, accountability and transparency by providing easy-to-understand performance indicators is based on two premises: a financial surplus means success; a deficit means failure. Subsidies, by contrast, obscure the bottom line, making it difficult to evaluate service performance in a given sector, and contributing to bureaucratic sloth, mismanagement and fraud.

<sup>3</sup> Chippy Oliver as quoted in the *Mail & Guardian*, 22 November, 1996.

<sup>4</sup> See *Business Day*, 7 March, 2002.

<sup>5</sup> For example, South Africa, with a minuscule percentage of global industrial production, produces some two per cent of the world's greenhouse gas emissions, much of which is generated by coal-fired electricity generators and consumed in large (and cheap) quantities by industry (Eberhard and Van Horen 1995). See also McDonald (2002).

This introduction of business principles is a key part of the neoliberal transformation of municipal services. Broadly defined as the "commercialisation" of services, these principles apply equally to publicly owned, ringfenced service units (i.e. corporatisation), as well as to public-private partnerships and outright privatisation.

The stated rationale here is that finances are the only true and reliable indicator of service performance (just as they are the only true indicator of a service's "value"). Cost recovery, it is argued, forces managers to think continuously about the bottom line, engenders creativity, forces transparency, and provides an incentive to improve service delivery consistently through performance-based salaries. This is a system where the evaluation and remuneration of managers is determined by financial results.

But cost recovery must also be seen as a crucial step in the privatisation of municipal services. For without full (or close to full) cost recovery in the public sector, there is little chance of furthering the cause of privatisation. No private firm is interested in purchasing a public utility that only collects 50 per cent of its costs in revenue (unless it can obtain subsidies from the state to make up the difference, which is not uncommon).

Addressing a UNDP/World Bank workshop on financing water delivery, Mike Muller, the Director General of the Department of Water Affairs and Forestry (DWAf) in South Africa, had the following to say about the relationship between cost recovery and privatisation:

*I must be blunt. There are many who believe and/or hope that the private sector may make money available for basic levels of service in poor communities. But we must remember, the private sector cannot (and should not) be bankrupted; it is there to make a profit. So we should not imagine that private-sector involvement is somehow going to make it possible for the poor to get what they cannot afford to pay for – at least not directly (1999, 4).*

In other words, the private sector will not (and "should not") provide services to the poor at below cost. Cost recovery is paramount, and services will only be provided by the private sector to those who can pay, or will be provided at a level that people can afford (e.g. communal water taps and pit latrines).

Having said that, it would be incorrect to conflate cost recovery with privatisation. "Cost reflexive" service providers can remain public and still satisfy the fiscal restraint objectives of neoliberalism. It could even be argued in the current South African context that public-sector service managers are more aggressive than their private-sector counterparts when it comes to cost recovery. Given their desire to prove themselves as being "business minded", and the incentive of remunerations based on cost-effective performance, many municipal managers are keen to demonstrate that they can be as conscious of the bottom line as any private-sector manager. The public sector also tends to service more low-income areas due to "cherry-picking" in the private sector, and therefore has to deal with the more difficult cost-recovery cases, making its efforts more visible.

## Problems with Cost Recovery in South Africa

I have alluded to a number of concerns with cost recovery thus far, but turn now to a more explicit critique of how it has been applied in South Africa. The discussion is broken into two parts. The first describes a series of practical concerns with cost recovery and highlights the inequitable manner in which it has been applied. South African cost-recovery policy and legislation makes a rhetorical commitment to equity, but when it comes to implementation it has been anything but. In highlighting these concerns, I also anticipate some of the short- to medium-term arguments being made in the final chapter of this book on "reformist alternatives" to cost recovery – quick and important ways of alleviating some of the most regressive aspects of cost recovery as it is currently practised.

The final section looks at the larger theoretical question of commodification and the distorting effect this has on our ability to develop systems of production and consumption of essential goods and services beyond the dictates of the market.

## Historically unfair

Perhaps the single most compelling argument against full cost recovery in South Africa is the fact that it was not practised under apartheid. As noted earlier, white South Africans and industry benefited enormously in social and economic terms from heavily subsidised municipal services. Now that apartheid has officially ended, black South Africans are expected to pay their own way, with scarcely a mention of the fact that this has not always been state practice. The ahistorical nature of policy development and the hard-hitting tone of the Masakhane campaign reek of hypocrisy in this respect, with the biggest beneficiaries of the formerly subsidised system – white ratepayers and industry – being the most vociferous advocates of a user-pays system.

## Continued subsidies for the rich

Inequality in cost recovery is not just an historical concern, however. There are clear and significant examples of ongoing pricing biases in favour of suburban residents and industry. There are, for example, enormously different tariffs for electricity in South Africa, with rural (African) households paying on average 48c per kilowatt hour (kWh), while suburbanites pay an average of only 23c. Township residents will often pay more for electricity than their suburban counterparts do, despite being in the same city. Residents of Soweto, Johannesburg, for example, were paying about 30 per cent more per kWh than were residents in the nearby wealthy area of Sandton (Fiil-Flynn 2001).

Industry benefits the most in this regard. To illustrate, average electricity prices for the manufacturing and mining sectors in South Africa are in the order of 12c per kWh, while deals are negotiated with large consumers (e.g. Alusaf) for prices as low as 3.5c per kWh (Fiil-Flynn 2001, 4). In fact, South African industry enjoys the lowest industrial charges for electricity in the world.\*

Part of the reason for these price differences is that capital costs in most suburban and industrial areas are sunk and fully amortised, while in township and (especially) rural African areas, prices reflect the full capital cost of new infrastructure development and upgrading. In other words, suburbs and industry continue to benefit from the racially skewed investments of apartheid because of a pricing structure that has largely written off their fixed costs. There are competitive reasons at play here as well, with the South African government keen to keep industry globally competitive, even if this means subsidising its electricity at below cost.

There are also hidden subsidies for suburbs and industry. One of the most significant is the ongoing skewed nature of municipal spending and resource distribution. Recent research by the Municipal Services Project has shown enormous differences in resources available for service delivery in suburbs and industrial areas compared to townships. In Cape Town, for example, discrepancies of five, ten and even one hundred-fold were not uncommon in the water and waste management sectors (McDonald and Smith 2002), with similar results in the waste management sector in Johannesburg (Barchiesi 2001). In effect, township residents are paying the same (or higher) per-unit prices for a given service as are suburban residents, while in practice receiving considerably lower resource allocations.



### Voluntarism as a form of cost recovery

Another form of inequality is found in the guise of voluntarism. Using the argument that low-income households/neighborhoods are unable to afford the full cost of a particular service (or a particular level of service), municipalities will often ask local residents to contribute their labour on a volunteer basis so as to lower the costs of service delivery. Not only are there hidden health and social costs associated with picking refuse off the street, cleaning sewers, digging ditches, and so on, there are also gender, race and class dimensions to this form of cost recovery which make it little more than a neo-apartheid strategy of cost recovery. Take, for example, the following quote from a rural dweller:

*The RDP [Reconstruction and Development Programme established by the ANC in 1994] is ridiculing our mothers. Our mothers are made to dig trenches. It is called employment. Whereas you walk right around this South Africa and you never find a white woman digging a trench. The dignity of our mothers is taken because they have to dig trenches, while they have to feed their babies, cook for their loved ones (cited in Budlender 1998, 21).*

### Progressive block tariffs?

Despite the lip service paid to rising block tariffs for water and electricity, few municipalities in South Africa have introduced and enforced them in a meaningful way. Most block tariffs rise steeply in the first one or two blocks after the "lifeline" or free block, penalising those at the lower end of consumption while tapering off or even decreasing at the top end. Some municipal tariff structures are regressive from the start, with prices decreasing as consumption increases (see Ruiters, this volume, for a description of this phenomenon in the Eastern Cape).

But even where tariff structures are rising, they are unlikely to make any significant difference to the consumption patterns of well-to-do suburbanites as they are currently structured. In Cape Town, for example, which has one of the most progressive water-tariff structures in the country, a household will pay only R212.40 for consuming 60kl of water per month – an enormous amount of water (used for watering gardens, filling swimming-pools, and washing cars), but hardly a budget-breaking expense for the typical middle- to upper-income suburban family with monthly household earnings of R6 000 or more. Meanwhile, a household in the townships consuming 20kl of water per month would be paying R36.40 – a considerably lower payment in absolute terms but one that is likely to be much higher in proportional terms given typical household incomes in the townships of R500 per month or less.<sup>7</sup> In fact, it is not uncommon for low-income households to spend 25 to 40 per cent of their incomes on basic municipal services (see Chapter 8, this volume).

Block tariffs in South Africa must be considerably more progressive if they are to play an effective role in cross-subsidisation and conservation. They will also need to be more consistent across (and within) municipalities in order to avoid capital flight to places where tariffs for industry and high-income households are low.

### Free services?

A related problem is the issue of "free services". This concept was initially developed by the national office of the ANC and used in the lead-up to the local government elections of December 2000. It was subsequently adopted by the Democratic Alliance as part of its election campaign the same year. The free services policy is a variation on block tariffs with the initial block of consumption in water (six kilolitres) and electricity (50kWh) provided free of charge on a per-household, per-month basis.

Although potentially progressive, and an important step forward in the cost-recovery debates in South Africa, free services in practice would appear to have made little difference to the lives of the urban and rural poor since being introduced in mid-2001. First, there is the problem of the quantity of free services being offered. With respect to electricity, the 50 free kWh per household per month being offered by ANC-controlled municipalities (20kWh by DA-controlled municipalities) will provide some financial relief, but this amount of electricity will only run a light bulb and a few small appliances for a month (one kilowatt hour will light a 100-watt light bulb for ten hours). Moreover, 50 per cent of rural families are not on the electricity grid, which means that, for some time to come, millions of low-income households will not benefit at all.

The promise of 6kl of water per household per month also offers little financial respite. Many low-income households use considerably more than six kilolitres because of the relatively high average number of occupants per household and also because of the old and leaky apartheid-era infrastructure. Rapid tariff increases after this free block can mean that poor families end up paying more, not less, for water than they did under the old tariff structures. Those accustomed to paying a "flat rate" for services have seen dramatic price increases for both water and electricity (more than 400 per cent for the cost of electricity in some cases in Soweto, despite a 15 per cent decrease in the average real price of electricity since 1994 (Fijl-Flynn 2001)).

The 6kl figure is based on an average household of eight people and works out to 25 litres per person per day. This is at the bottom end of the World Health Organisation's (WHO) recommended daily minimum – with estimates of 50 litres being more common in the health literature – and is well below the 50 to 60 litres per day called for in the ANC's original Reconstruction and Development Programme (RDP) as a medium-term service delivery goal. To put this in perspective, the average bathtub takes 200 litres to fill, while the average toilet uses 10 to 15 litres per flush – a situation made worse by the fact that water (and energy) saving devices have never been a serious part of service delivery strategies in South Africa.

The fact that many low-income households comprise more than eight people heightens the problem, as does the fact that for many people this water is only delivered to a communal, metered standpipe within 200 metres of the recipient's household (as part of the "basic level" of services envisioned by the ANC). With violence and rape a serious problem in many low-income areas, these communal standpipes can be both inconvenient and unsafe, particularly after dark.

Another concern with the use of the household as a unit of measurement for free water and electricity is its intrinsic bias against low-income families. For example, a young couple with two incomes and no dependants living in a home in the suburbs receives the same amount of free water as a single, unemployed mother with seven dependants living in a run-down council house or shack in the townships. In many municipalities (e.g. Durban), households are not means-tested to see if they qualify for the free service (using the rationale that the administrative cost of these tests would outweigh the savings). The result of this is that some middle- and upper-income South African households are benefiting more from the provision of free lifeline services than are poor households. This is not to suggest that individual means-tests should be used to determine which households should have access to free services – a potentially degrading and divisive procedure separating the very poor from the even poorer – but it does highlight the inherently inequitable feature of basing free services on a per-household basis.

Finally, there is the problem of delivery. Although free water and electricity were to have been implemented across the country on 1 July, 2001, implementation delays have been widespread. This is particularly the case in rural areas. There have also been disputes over what level of government should cover the costs of free services. In the case of electricity, unresolved negotiations between the parastatal ESKOM and national government over

<sup>7</sup> Figures taken from the following tariff structure: the city does not charge for the first block of water (0 to 6kl), while the second block (7 to 20kl) is charged at R2.60/kl, the third block (21 to 40kl) at R4.10/kl, the fourth block (41 to 60kl) at R5.50/kl and the final block (61kl+) at R7.00/kl (City of Cape Town 2001).

the subsidisation of the free 50kWh has resulted in lengthy delays for free electricity in Soweto and other township and rural areas.

Moreover, many households are not receiving free blocks of water and electricity because they are in arrears, and there are widespread reports of continuing cutoffs of water and electricity despite the free services policy. The Department of Provincial and Local Government (RSA 2002, 30–1) reported that more than 296 000 disconnections of electricity and 133 000 disconnections of water took place in the last quarter of 2001 – most of which would have been low-income households. This at a time when “free services” promises had been in effect for several months. Still, these figures do not tell the whole story. Data are incomplete, with not all municipalities reporting and no statistics forthcoming from ESKOM which cut off as many as 20 000 households a month in Soweto in early 2001 (Fiil-Flynn 2001).

### Narrow accounting methods

Even if block tariffs were more progressive, municipal resources more equitably distributed, and free services more accessible, neoliberal cost-recovery models (South Africa's included) are fundamentally flawed in their narrow accounting methods. Only direct financial costs are included in the cost recovery analysis, leaving out many of the less tangible but equally important cost and benefits of service delivery such as gender equity, public health and safety, and the environment. As a result, pricing structures tend to overcharge the poor (for whom lower prices would generate considerable private- and public-good benefits), and undercharge the well-to-do (who have never paid the *real* social and environmental costs of their hedonistic consumption patterns in South Africa). To account for all of these social and environmental costs would dramatically alter the cost recovery equation.

One of the reasons this is not done is that these social and environmental costs are very difficult to quantify. What kind of monetary value, for example, does one attach to a valley that has been flooded out by a new dam, or the loss of dignity associated with service cutoffs? These are real costs, nonetheless, and must be taken into account.

Other costs, such as public health epidemics, are more easily measured. A recent study has shown that the cost of dealing with all diarrhoea-related illnesses in South Africa in 1995 (much of which was a direct result of poor water and sanitation services and no doubt exacerbated by water cutoffs), was R3.4 billion in direct medical costs and R26 billion in lost economic production. This is more than the total amount needed to provide water infrastructure to everyone in the country for a ten-year period (Moodley 2000).

And yet, even these relatively easy-to-measure costs are ignored in the drive for cost recovery in South Africa. One tragic example is the cholera outbreak that began in mid-2000. As Deedat and Cottle argue (see Chapter 2, this volume), it was the introduction of cost-recovery efforts on water in rural KwaZulu-Natal that precipitated (or at least exacerbated) the cholera crisis. Households that could not afford the new connection fees and volumetric charges for water were forced to use contaminated ponds and rivers for bathing and drinking. The outbreak has been the worst in South Africa's history and has led to over 100 000 infections, and close to 300 deaths. Ironically, the state is now spending tens of millions of Rands dealing with the epidemic, many times more than it was costing the provincial government to provide free (unmetered) communal tap water prior to the cost-recovery measures.

Ringfencing is partly to blame here as service managers focus on their own narrow sectoral bottom lines – uninterested or uninformed about the implications of their decisions on other sectors. There is a fundamental contradiction here between the drive to ringfence a service so it can better isolate its own micro costs and the need to understand the broader macro-economic costs and benefits of a particular service (e.g. public health).

Nor can one forget the fact that national and municipal governments are under increasing pressure to keep operating costs as low as possible for footloose international capital. To include the true cost of gender equity, environmental sustainability and spatial desegregation into water and electricity tariffs would undoubtedly put South Africa and its cities at a competitive disadvantage. Instead, government has made it clear in its 1998 White Paper on electricity that prices to industry must not be affected by the (true) costs and benefits of a household electrification programme: “Cross-subsidies should have minimal impact on the price of electricity to consumers in the productive sectors of the economy” (RSA 1998b, 12).

### Harsh measures

Another concern with the way that cost recovery is being implemented in South Africa is the harsh way in which it is enforced: letters threatening legal action, cutoffs, evictions, intimidation and even overt violence. In some cases, private companies (e.g. the so-called “red ants” of Johannesburg's townships) are hired to remove not only the furniture, but the physical structure of the dwelling itself. As people desperately resist, they are subject to significant physical abuse and intimidation. Tear gas, rubber bullets and real bullets are used against anti-eviction protesters, as happened in the township of Tafelsgig, Cape Town, in September 2001. Members of the Soweto Electricity Crisis Committee in Johannesburg were shot at in April 2002 as they protested against cutoffs in front of the mayor's house.<sup>8</sup> Some families have returned from work to discover their homes auctioned for non-payment of services, and their belongings on the street (Deedat, Pape and Qotole 2001). In other cases, people have had services cut for non-payment of bills totalling thousands of rands, received as a result of defective piping, faulty meters, and/or incorrect meter-readings.<sup>9</sup>

More subtle forms of injustice and insult include: pensioners waiting for hours on end in the heat and cold to pay their bills at under-staffed municipal offices, and receiving rude service when they do finally get to speak to someone; a lack of flexibility when it comes to payment schedules despite (low) fixed incomes; being told that you should be used to living without water and can get by a little longer.

These are not merely isolated incidents. As noted earlier, cutoffs and evictions have been widespread in the country, with millions of people being subjected to either a water or an electricity cutoff, or an eviction from their home for non-payment of service bills. Not all of these incidents have been violent, but the emotional impact is extreme. The fact that ESKOM, the main electricity provider, reported a 37 per cent increase in profits to R2.56 billion in 2001 adds insult to injury.<sup>10</sup>

There are also the insidious injustices of prepaid meters. Far from being the friends of the poor, prepaid meters merely conceal the extent of service cutoffs by having low-income households cut their own consumption at the point of purchase by buying only as much as they can afford. Although it is too early to know the full impact that this new technology may have, if the experience in the UK of prepaid meters is anything to go by (Drakeford 1998), it is very likely that they will yield yet another layer of inequity in South Africa.

Finally, despite the fact that large commercial and industrial consumers are often the most delinquent, and largest, payment defaulters, low-income households bear the brunt of cost-recovery efforts. In the City of Cape Town, businesses and industry make up just under a third of the R2.1 billion outstanding in service payments.<sup>11</sup> Newlands cricket ground alone has been allowed to run a deficit of some R4 million in service arrears.

<sup>8</sup> See also Desai (2002), for examples in Durban.

<sup>9</sup> See also Fiil-Flynn (2001), for examples in Soweto.

<sup>10</sup> “Cost Cutting Helps Eskom Profit up 37 per cent”, *Cape Times*, 7 March, 2002.

<sup>11</sup> “Council Talks Aggressive Action to Claim Arrears”, *Cape Argus*, 26 February, 2002.



There has even been a proposal by the city to offer tax rebates to the stadium.<sup>12</sup> Meanwhile, low-income families have been evicted from their homes in the city's townships for arrears of only R1 500 and some have received threats of eviction for arrears as low as R250.<sup>13</sup>

### Unconstitutional?

It is ironic that there are such strong moral overtones to the cost-recovery agenda, and such morally bankrupt means of implementation. In fact, service cutoffs and household evictions are very possibly unconstitutional. Although the Bill of Rights does not provide for equity based on income (see Introduction, this volume), it does provide the right to a "healthy and safe environment", as well as "access to adequate housing", under which access to basic municipal services would seem to apply. The landmark Grootboom case in the Constitutional Court in May 2000 would appear to have set a precedent for socioeconomic or "second-generation" rights as enshrined in the Constitution (access to housing in this case), and could be used in future court challenges against service cutoffs and evictions.

One international indication of the potential for this constitutional/legislative change is found in the United Kingdom. Water cutoffs to residential homes, schools and other essential public buildings have been outlawed since 1999 after a rash of cutoffs took place following the privatisation of water services. It has also been ruled that self-imposed cutoffs through the use of prepaid meters is illegal, and that it is the responsibility of the water supplier to ensure water provision even if the household is unable to pay for prepaid consumption (Drakeford 1998).

### Blindly ideological

It is also worth noting that much of the cost recovery efforts to date in South Africa have been driven by a blind ideological faith in neoliberalism. There has been no thorough analysis of the costs and benefits of cost recovery, and no dedicated effort to explore alternatives (aside from the politically expedient decision to offer "free" water and electricity in the run-up to local elections in December 2000). Nor has there been sufficient effort to restructure and redistribute existing municipal resources which remain highly skewed along racial lines and are inefficiently deployed. Local government has been virtually silent on the dramatic cutbacks in intergovernmental transfers as well, effectively accepting its fate of unfunded mandates, and has been pushing hard to collect the full cost of municipal services without challenging the state for a larger slice of the national budget. The DA in Cape Town did threaten to make this an issue in the lead-up to the December 2000 local elections, but did not follow up on it, no doubt because of its own commitment to macro-economic restraint at national level.

Municipalities, especially the large metropolitan ones, also seem blindly committed to the notion of being globally competitive. Barely a report from any city in the country is released without some reference to being "world class" and "a good place to invest."

But it is the lack of monitoring and evaluation of cost recovery that is perhaps most disturbing of all. This book represents the first concerted effort in South Africa to measure and evaluate the impacts of cost recovery, and provides the only comprehensive set of quantitative and qualitative data available. The Department of Constitutional Development, now the Department of Provincial and Local Government (DPLG), did run a tracking programme in the mid-1990s called Project Viability which included some questions for municipalities about the number of cutoffs they had undertaken each

quarter. Unfortunately, reporting rates of municipalities were as low as 30 per cent, and the programme stopped after a few years.

The DPLG has begun to collect this raw data once again – starting in mid-2001 – but has not made it available to the public through its website as it did with earlier Project Viability data. The results cited earlier (more than 296 000 electricity disconnections and 133 000 water disconnections in the last quarter of 2001) are included in this book only because we managed to get access to a leaked version of the report. The data are also incomplete, with only 88 per cent of municipalities reporting, and there are inconsistencies in data presentation. In the end, it is not certain that cost recovery advocates in the government understand, or even know about, the implications of the disconnection policies.

Nevertheless, bureaucrats and politicians accept the mantra of balanced budgets, ringfencing, and commercialisation, and forge ahead with a neoliberal agenda while listening intently to advisors from the World Bank and other like-minded donor institutions, paying millions of Rands to consultants from the private sector to help them with their cost-recovery plans.

### Decommodification

Many of the concerns cited here can be mitigated to a greater or lesser extent by remedial policies and actions of local and national government: more progressive tariff structures; a better distribution of existing municipal resources; more flexibility in payment schedules and/or writing off of arrears; more holistic accounting methods; larger quantities and a wider range of "free" services; new legislation banning water cutoffs to residential housing and public buildings; a dedicated commitment to collecting and analysing data on the impact of cost recovery. Although complicated, these and other measures could be enacted in South Africa and would make a significant difference to the lives of millions of people in the short to medium term (see, Pape, this volume, for a more detailed discussion).

But as difficult as it would be to introduce these reformist policy measures in South Africa, it is the longer-term question of "decommodification" (i.e. removing "price" altogether as a determinant in the production and consumption of services like water and electricity) that will prove to be much more intractable. Decommodification is a call that is being heard with increasing frequency in South Africa and in the anti-neoliberal literature more generally (e.g. Barlow and Clarke 2002; IFG 2002). The rationale is that societies the world over have determined (and to some extent continue to determine) resource distribution by means other than exchange value, making decisions based on notions of "the commons", shared cultural values, etc. Although not unproblematic in themselves (e.g. gender relations can be unequal in "traditional" cultures), these non-commodified systems of production and distribution provide powerful alternatives to the neoliberal cost-recovery framework.

Are they feasible in South Africa? One immediate concern is what would be done with rich households and industry. Would these consumers also be given access to "free" water and electricity? Would their "shared cultural values" fit with those of low-income families? What would be the power relationships between multinational corporations and households when it came to determining distribution of water on a basis other than price? Clearly there are some very real concerns here that would require an enormous shift in institutional decision-making, political culture, and so on.

Partial decommodification (of, say, water and electricity) is not going to resolve these tensions either. The problem is that these services still function within a larger market economy which is constantly (re)inventing new products and needs, requiring ever-increasing volumes of supply and putting constant upward market-driven pressure on their use and allocation. The domestic use of water and electricity, therefore, cannot be

<sup>12</sup> *Gemini News*, 22 February, 2002.

<sup>13</sup> In a revealing Letter to the Editor of the *Cape Argus* on 13 March, 2002, George D van Schalkwyk, the Interim Manager, Revenue and Debt Management for the City of Cape Town, wrote (in response to a previous letter, in the paper): "The alleged threat of evictions for water accounts of R100 is incorrect; only accounts exceeding R250 were handed to the attorneys".

<sup>14</sup> For an analysis of Cape Town, see McDonald and Smith (2002).

separated from the broader production and consumption cycles of capitalism and the role of prices in determining what gets produced and for whom.

Decommodification is an all-or-nothing proposition that takes us to the heart of the market economy, built as it is on the transformation of "things" (with a "use value") into products (with an "exchange value") through the use of wage labour. To challenge this transformation process and the impact it has on growth and the allocation of resources is to challenge the very foundations of capitalism itself (Harvey 1982).

A massive proposition indeed, and one that takes us far from the seemingly technical challenges of a more equitable pricing system. These are essential considerations, nonetheless, as South Africa grapples with the question of what makes for a fair and sustainable system of producing and consuming basic municipal services.

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