

Who Pays? Municipal Services in South Africa



Stagnant pools surround standpipes that have leaking faucets and inadequate stormdrains to channel away water. (Photo courtesy of Laila Smith.)

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When South Africans discarded apartheid in the heady days of 1994, they showed they could face one of the world's great problems. Now, they're dealing with another — inequitable water, electricity, and waste disposal services.

If this challenge seems minor compared with apartheid, consider the fact that poorly administered services and related cost recovery programs can affect the stability of national governments. Municipal services are many people's largest contact with government, says Dr [David McDonald](#), co-director of the [Municipal Services Project \(MSP\)](#) and director of Queen's University's Development Study Program in Kingston, Ontario. The MSP, partly sponsored by Canada's International Development Research Centre (IDRC), is a [multi-partner](#) initiative examining the restructuring of municipal services in South Africa and other countries.

McDonald says the South African experience has global implications, as governments around the world try to balance their budgets by downloading responsibilities onto municipalities and cutting back their funding transfers. Municipal cost recovery efforts in South Africa, for example, have spawned civil unrest, especially among poorer people desperate for services they can no longer afford. The issue is big enough that, in August 2001, some four million workers went on a three-day strike to protest cost recovery and related privatization.

"The crisis of cost recovery, I would say, is enormous," he says. "In many ways, it has undermined the ANC's [African National Congress] otherwise impressive infrastructure program."

The crisis of cost recovery

Cost recovery is about consumers paying partial or full costs for their municipal services. Municipalities use it to try to balance their financial books, to avoid deficit financing and to stabilize finances for service delivery. It's intended to generate revenue for future service upgrades

and extensions and can be used along with progressive block tariffs to generate subsidies for poor households. It can be a way to manage demand for power or water by penalizing over-users. [See related sidebar: [Progressive block tariffs](#)]

Cost recovery can also lay the groundwork for governments to sell services to private companies to run. Because such companies wouldn't be interested in buying utilities that lose money, cost-recovery is often seen as a pre-condition for privatization.

Since apartheid's end, basic municipal services among poorer families have been expanded impressively. More than three million South African households gained clean drinking water, and two and a half million have joined the national power grid. Homes have been built for three million people. But the Municipal Services Project has catalogued problems, too. Numbers belie an affordability problem that current cost recovery policies fuel. "People have been provided the infrastructure, but they can't afford to pay for the service," McDonald says.

The devastating impact on health

The most tragic example of this inability to afford services began in mid-2000 when the provincial government in KwaZulu-Natal began charging rural residents for water that used to be free (a \$10 connection fee and/or volumetric charges). Thousands of poor households could not afford these costs and began using nearby rivers and stagnant ponds. Within weeks, cholera broke out; it has since claimed more than 250 lives and caused more than 100,000 cases of illness.

"The evidence is conclusive that cost recovery was a major factor here, to the point where the ministry responsible for water has admitted that this is what caused the cholera outbreak," McDonald says.

And there is an important economic lesson here as well. It is now costing the South African government much more to deal with the cholera crisis than it did to provide free water. To give some sense of the scale of the problem, some 43,000 people (mostly black children under the age of five) die from diarrhea-related illnesses in South Africa every year, and total cases number 24 million. Direct medical costs for all of these are \$3.4 billion rand, with broader losses in economic production totalling another \$26 billion. To supply proper water and sanitation to everybody in the country would cost less than two-thirds of that.

Zeroing in on the fundamental problems

McDonald stresses that cost recovery, in principle, has advantages (e.g. cross-subsidization, demand-side management). But it's sometimes been applied inflexibly or harshly. Some South African municipalities have evicted homeowners for not paying utility bills, or have set minimum acceptable monthly arrears payments at levels higher than users' monthly wages.

Several factors bear on South African cost recovery efforts, McDonald says. One is a broad fiscal conservatism now permeating government from federal to municipal levels. Tensions exist between the idea of services as an economic good and as a human right. Some municipalities charge utility bills at high consumption rates, without reading actual — and often lower — user meter totals. There's also been a moral campaign to end what some administrators see as a "culture of nonpayment," begun under apartheid when black South Africans refused to pay for services in protest.

McDonald's research suggests low-end utility users are willing to pay within their means, but services are now priced beyond them. In fact, he says, it may be that poor people are being scapegoated with the "culture of non-payment" label. One municipality that checked its books found that its worst deadbeats for overdue service bills were large corporations.

Making cost recovery effective and fair

Having identified the biggest problems, the Municipal Services Project is entering a new phase of finding fairer ways to recover costs to make services more equitable and sustainable.

"The direction we want to head with the second phase of the project is looking at what are now referred to us as 'public-public,' or 'public-people' partnerships," says McDonald. "That, and ways of looking at cost-benefit analyses that go beyond the narrowly defined financial bottom line of so many of the cost-recovery approaches in South Africa and other places."

McDonald says many solutions parallel the problems. For one, the project recommends that the South African government pay bigger transfers to municipalities to cover capital and infrastructure costs. Existing services could also be better distributed by moving rich suburbs' long-held excess capacity to underserved poor ones, in many cases without incurring more costs. As well, the project also sees a place for more flexible payment plans — fewer penalties, more realistic minimum "lifeline" supplies for low-end users, a moratorium on service cut-offs for nonpayment, and a temporary reversion to realistic flat rates until inequitable block tariffs can be fixed.

Municipal services: basic human right or economic good?

Other fixes are philosophical. McDonald believes South Africa — and the world in general — needs to reopen debate about whether municipal services are a human right or purely an economic good. That debate, he says, must be widened to factor in questions related to the larger public good, including public health and safety, gender equity and racial desegregation. It needs to include a cost-benefit analysis, not just the financial bottom line.

"Factoring those much-less-tangible and more-difficult-to-quantify features into a cost-benefit analysis isn't easy," he admits. "Economists, I think, in some ways, have simply run away from the problem. We're really just at the starting point of trying to understand the broader social, environmental, and other costs of service delivery. One needs to consider the broader public good. There's a moral question here, too."

"I think there are a lot of lessons to be learned internationally, both in terms of mistakes that have been made and also lessons about what can be done," McDonald says. "You get these higher tiers of government that are getting toward balancing their budgets, but it's a false saving because they are simply passing on the costs — financial costs, health costs, equity costs, and everything else — to the lowest tier of government. It can't last forever. The bottom line is that the broad social safety nets are being dropped in the name of fiscal responsibility."

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Research partners are the [University of the Witwatersrand](#), Johannesburg; [Queen's University](#), Kingston; the [International Labour Resource and Information Group](#), Capetown; the [South African Municipal Workers' Union](#); and the [Canadian Union of Public Employees](#). The project publishes an Occasional Papers series, a newsletter, special reports, academic papers, and books. Broadcast documentaries have also been produced. A book will be published in 2002 with a series of case studies and a national survey on issues of cost recovery.

Sidebar

Progressive block tariffs

One of the measures taken to promote water conservation and at the same time increase access and equity in water supply provision, is the establishment of different forms of tariff setting. In a progressive block tariff system (also called increasing block tariff system), the first 5 to 10 m³ have a low, subsidised tariff and the following blocks have an increasingly higher tariff. The rationale for the system is to promote water saving practices with all households and to ensure that low-income households can afford to use an amount of water that is necessary to keep themselves and their environment healthy, typically 50 litres/per capita/day.