

Chapter 3

Decentralization, privatization and countervailing popular pressure

South African water commodification and decommodification

Patrick Bond

This chapter considers the underlying pressures to decentralize and privatize state water services, rooted in capital's drive to commodify. The 1990s and early 2000s witnessed the formal establishment of "water as an economic good" in multilateral programs and multinational corporate expansion of service provision. But, in addition to various forms of economic logic that have driven water commodification, countervailing pressure emerged, both implicitly in the form of poverty, and more explicitly from trade unions, community and consumer groups, environmentalists and other citizens' movements. The case of South African water during the first decade of post-apartheid democracy is illustrative, not only for the way decentralization of financing initially limited access, but also for the revealing ways resistance shifted state policy to a "free basic water" tariff in 2001, which still left consumers disempowered because it retained crucial micro-neoliberal pricing principles.

Introduction

The decentralization of state services generally entails the shifting of delivery mandates from higher to lower scales but with fewer resources, a problem known as "unfunded mandates." It is sometimes argued that the core *economic* objective behind decentralization is increased efficiency, but what this means in practice, as we will see in our case study, can better be termed "commodification." Simultaneously, urban areas are under much more severe competitive pressures, as decentralized planning compels a shift to entrepreneurial management. The most extreme case may be the full transfer of state responsibilities to households, under the guise of "community-based management" and "participation." In many rural areas suffering lack of state capacity, decentralization reflects a rollback of state service delivery commitments altogether. These features of decentralization have had a devastating impact upon water/sanitation access for poor people, and throw into question the over-reliance upon decapacitated municipalities for essential state services such as water.

In these respects, decentralization is a symptom of a deeper set of adverse state–society relationships that have emerged in the past three decades or so, which follow the globalization of capital and widespread adoption of neoliberal policy

frameworks and which, in turn, reflect changes in class power, especially as applied to urban municipal management. Consistent with the critique of “accumulation by dispossession” by David Harvey (2003), a “double movement” emerges, consistent with Karl Polanyi’s (1956) analysis. As we will observe, commodification has been joined and rebuffed by decommodification pressures from grassroots communities. Harvey cites the South African water sector as an exemplar of accumulation by dispossession, among other examples of the ways profits are being sought, not only at the point of production and through the expanded reproduction of capital, but also through systems such as privatization, which transfer common resources and values from society or nature, into capital assets. For Third World municipalities in particular, decentralization led to “a mismatch between financial authority and functional responsibility,” as Patricia McCarney (1996: 19) observed.

During the late twentieth century, these processes unfolded via central-local shifts in governmental responsibilities and were codified through entrepreneurial competition between cities, which put added pressure on services for low-income people. For roughly two decades after the 1986 launch of the World Bank’s New Urban Management Program, a neoliberal *interurban* Washington Consensus unfolded, especially in relation to urban water and sanitation delivery. The Bank’s 1991 policy paper on urban management, the 1996 United Nations Conference on Human Settlements in Istanbul, the UN Development Program’s Municipal Services Program and Habitat housing division adopted similar strategies, alongside the US Agency for International Development, British Department for International Development, Canadian CIDA and other official donor agencies. The overall orientation paralleled austerity and structural adjustment policies at the macro-economic scale, with US AID consultants from the Urban Institute (1991) spelling out the:

important change in policy thinking in the developing world closely linked to the acceptance of market-oriented economies: the growing acceptance of rapid urbanization. . . . An emphasis on national economic growth and export-led development will usually mean that new investment resources must be directed to already successful regions and cities. . . . Governments have considerable control over the entire cost structure of urban areas. Public policy should be directed to lowering these costs.

“Lowering these costs”—especially by lowering the social wage (including subsidies for water)—is crucial for the more direct insertion of “competitive” cities into the world economy. The focus here is not merely on limiting public financing of social services to those deemed to add value (though this is one of the more obvious effects of structural adjustment and the catalyst for many an IMF riot). Just as importantly, the New Urban Management Program also highlights the *productivity* of urban capital as it flows through urban land markets (now enhanced by titles

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and registration), housing finance systems (featuring solely private sector delivery and an end to state subsidies), the much-celebrated (but extremely exploitative) informal economy, (often newly privatized) urban services such as transport, sewage, water and even primary health care and educational services (via intensified cost-recovery on “human capital” investments), and the like.

The problem also became severe in Third World rural areas where, as Ugandan scholar Mahmood Mamdani (1996: 111, 287) has shown for Africa, local-level state administration often amounted to “decentralized despotism,” even prior to the 1980s–90s rise of neoliberalism. Even in the best case, Museveni’s Uganda, where local-level power relations inherited from centralized despotic rule had to be thoroughly broken, there remained a “bifurcated” duality of power: between a centrally located modern state (sometimes directly responsible for urban order in primate capital cities) and a “tribal authority which dispensed customary law to those living within the territory of the tribe.” With this observation, Mamdani sets the stage for the problem of global–national–local processes:

In the absence of democratization, development became a top-down agenda enforced on the peasantry. Without thorough-going democratization, there could be no development of a home market. The latter failure opened wide what was a crevice at Independence. With every downturn in the international economy, the crevice turned into an opportunity for an externally defined structural adjustment that combined a narrowly defined program of privatization with a broadly defined programme of globalization.

As state service delivery withered under pressure of this sort during the 1980s–1990s, World Bank (1994) decentralization and community participation programs were introduced to “improve quality, effectiveness and sustainability . . . [and] strengthen ownership and commitment.” The Bank’s (2000: Annex 2) *Sourcebook on Community Driven Development in the Africa Region: Community Action Programs* captured the contradictions associated with an instrumental approach to decentralization and participation:

Fifteen years ago, community based management and user friendly handpumps were introduced [across Africa], together with VIP latrines. Communities had to manage and pay for the maintenance of their handpumps. The approach was received with great skepticism by sector ministries: “Villagers can’t possibly maintain a pump.” Today community based management is accepted by all sector professionals across Africa as the only sustainable approach to village water supply and sanitation (with construction of low cost latrines) and increasingly to town water supply. Demand responsiveness where communities choose the facilities they want, decide how to manage and finance them, and pay part of the capital cost is also widely accepted as fundamental to sustainability.

Before considering how widely these ideas are indeed accepted—and can be sustained financially—in the water sector, we might first examine how urban South Africa came under immediate pressure to decentralize state services during its critical 1990s transition period.

Decentralization hits democratic South Africa

The African National Congress government of Nelson Mandela (1994–99) articulated the pro-globalization, entrepreneurial sensibility of decentralized urban neoliberalism in its 1995 *Urban Development Strategy (UDS)*: “Seen through the prism of the global economy, our urban areas are single economic units that either rise, or stagnate and fall together. . . . South Africa’s cities are more than ever strategic sites in a transnationalized production system” (Ministry of Reconstruction and Development 1995: 17, 41). As intrametropolitan struggles over resources intensified, the competition in laxity that South Africa began experiencing at the regional level via 1970s and 1980s apartheid-era decentralization initiatives (Bond 2000) jumped scale to the international level.

With apartheid running out of steam and Mandela released from jail in 1990, the main corporate advocates for urban neoliberalism, a think tank developed by Anglo American Corporation and other business leaders, the Urban Foundation (UF) (1990: 59), called for a “‘bottom-up’ regional development policy, in which functionally-defined regions compete with one another for development funds on the basis of their local and regional comparative advantages.” The “winner region” would be Johannesburg, whereas the demise of decentralization incentives—to the benefit of large metropolitan corporations—also meant the demise of household living standards in peripheral areas. Based upon Mike Morris and Dave Kaplan’s (1987) analysis of a potential South African post-fordism, the UF (1990: 12) celebrated decentralized industrial systems on the grounds that “just-in-time production technology requires spatial compactness and spatial integration of metropolitan areas in order to ensure rapid interactions between complementary firms.”

The result would be intensified uneven development in the country’s system of cities and towns, combined with political decentralization of a rather circumscribed sort. In 2006, the South African Presidency (2006: 20, 22) of Thabo Mbeki announced its National Spatial Development Perspective’s three objectives: “Focus investment and development interventions to ensure maximum and sustainable impact; spatial arrangements to facilitate nation building and social and economic inclusion; ensure government implements its programmes taking into account economic, social and demographic realities.” Notwithstanding talk of inclusion, in reality the second of these three—decentralization of resources to rural areas (especially ex-Bantustans) suffering underdevelopment—is systematically undermined by the strategy’s second “normative principle,” drawn from the economic “realities” of apartheid-era capitalism: “focus economic infrastructure

development on *localities of economic growth and/or economic potential* in order to gear up private sector investment, stimulate sustainable economic activities and create long-term employment opportunities” (emphasis added). This is the key linkage, then, between the amplification of inherited local spatial patterns and the needs of the world economy, a phenomenon known as glocalization.

As a result, political decentralization—including the rationalization of 843 apartheid-era local governments in 1994 into 284 “wall to wall” municipalities by 2001—occurred during an economic rescaling that rewarded already-rich regions. One result was an acute case of unfunded mandates for lower-income municipalities, as central government shrunk central-local operating subsidies by eighty-five percent in real terms during the 1990s. This left municipalities incapable of drawing upon external resources for infrastructural operating/maintenance (Bond 2000). At the same time, the local authorities’ capacity to generate cross-subsidies from differential prices to high-income residents and corporations was also declining owing to interurban competition and services commercialization. There is no better case to illustrate the problems associated with these trends towards uneven development than the urban water sector, where access by poor people has been threatened by intensified commodification and diminished state subsidies. Indeed, paying for water systems has proven an exceptionally difficult task, one that soon generated riots and a partial state concession: “free basic water.”

Financing water infrastructure

From the very outset of organized water provision, the institutional delivery mechanism was decentralized in most countries, at the municipal scale. However, the New Public Management paradigm focused much more attention on gaining efficiencies through restructured water supplies that more closely related retail *prices to costs* (Bond 2004, Wilson 2006). Indeed, the main dilemma, posed by neoliberals aiming to roll back state support for water services, is how such systems should be financed, not only for initial capital investment to expand the water reticulation grid, but especially with respect to the operating and maintenance costs that bedevil so many delivery systems.

Since the early 1990s, privatization and commercialization of water supplies have expanded in many parts of the world. The intense conflict over the economics of water resources’ allocation was prefigured by the 1992 International Conference on Water and the Environment in Dublin, where water was formally declared an “economic good” by key multilateral officials and firms active in the sector. Four years later, the Global Water Partnership and World Water Council advanced the position that commodification of water would lead to both private-sector investments and more efficient utilization. In the same spirit, 1997 witnessed the first World Water Forum in Marrakesh, the founding of the World Commission for Water in the 21st Century.

At the same time, the International Monetary Fund (IMF) and World Bank became much more explicit in promoting water commodification through what were once mainly macro-oriented structural adjustment programs, whether called the Enhanced Structural Adjustment Facility, Poverty Reduction and Growth Facility or Poverty Reduction Strategy Programme (Hennig 2001). According to one NGO critique by the Globalization Challenge Initiative (2001):

A review of IMF loan policies in 40 random countries reveals that, during 2000, IMF loan agreements in 12 countries included conditions imposing water privatization or full cost recovery. In general, it is African countries, and the smallest, poorest and most debt-ridden countries that are being subjected to IMF conditions on water privatization and full cost recovery.

In early 2006, the European Union's attempt to have water included within the World Trade Organization's General Agreement on Trade in Services as a tradeable service—in the process subjecting water to further competition/privatization pressures—appeared to falter, based largely on strong alliances between Third World movements and Scandinavian activists. However, in 109 bilateral requests made by European governments of trade partners in 2000, water was included in seventy-two requests, indicating the underlying water commercialization pressure.

With the 2006 Nobel Prize award to Muhammad Yunus, founder of Bangladesh-based Grameen Bank, the idea that even decentralized microfinance could fund water systems became more credible. The most extreme form of this position came from Yunus himself (1998: 214): "I believe that 'government', as we know it today, should pull out of most things except for law enforcement and justice, national defense and foreign policy, and let the private sector, a 'Grameenized private sector,' a social-consciousness-driven private sector, take over their other functions." Yet the private provision of water—whether a major commercialized municipal operation or microsupply of water through small-scale retail outlets—is often so prohibitively expensive (compared with state-supplied water), that even the United Nations Development Program (UNDP) (2003: 106) is forced into a contradiction, by first demonstrating that cost-recovery on water is prohibitively expensive, but then, second, insisting that microcredit is the solution:

How difficult is it for poor people to cover the costs of water and sanitation infrastructure? Consider an example from Bolivia and some cost estimates for water and sanitation from a project in El Alto:

- Average monthly income: \$122 (\$0.80 a day per capita).
- Connection costs: \$229 for traditional water, \$276 for sanitation (excluding trunk infrastructure).

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- Connection costs for condominal technology with community participation: \$139 for water, \$172 for sanitation.

An important additional cost for poor households is the construction of a bathroom or similar in-house facility, including a toilet. In El Alto these costs averaged \$400, plus 16 days of labour. These costs are typically not factored into costing exercises for water and sanitation. Even with microfinance available the costs were too high for most poor people. But with hygiene education, the demand for toilets more than doubled. Where poor people struggle to cover charges, they should be helped through credit schemes. Bangladesh's Grameen Bank has been extending credit for water and sanitation, on a group basis, for years.

(United Nations Development Program, 2003)

The UNDP's (2006: 120) *Human Development Report* on water also assumes that sometimes the state should allow the market to take over (in a site where the "flying toilet" of excrement in small plastic bags hurled from private to public spaces is common):

In Kibera, Nairobi, constructing a pit latrine costs about \$45, or two months of income for someone earning the minimum wage. To help poor households meet the financing requirements of improved sanitation, arrangements are needed that provide subsidies or allow payments to be spread over time through microcredit.

The same report claims progress in rural sanitation in Lesotho, where state involvement has shrunk:

The full cost-recovery and zero-subsidy policy has created incentives for innovation. But even basic latrines are still beyond the means of the very poor. Only recently have measures been put in place to reduce the costs of latrines through microcredit programmes offering extended loan repayment periods.

(UNDP 2006: 125)

Setting aside the problem of the state shirking its historic responsibility to fund water (as Yunus apparently celebrates), there are numerous dangers associated with microcredit, especially where the link between financing and productive sector activity is tenuous, and in so many situations where women discover that the expensive (high interest rate), overly indebting and residual-patriarchal features of microcredit are opposite to that advertised (Bond 2007).

The gap for such initiatives comes from system state failure—not surprising given the various ways African states have been financially and politically disempowered in recent years (Mkandawire and Soludo 1999). In large African cities, the commercialization of water is typically introduced so as to address classic

problems associated with state control: inefficiencies, excessive administrative centralization, lack of competition, unaccounted-for consumption, weak billing and political interference. The desired forms will vary, but the options include private outsourcing, management or partial/full ownership of the service. In the field of water, there are at least seven institutional steps that can be taken towards privatization: short-term service contracts, short/medium-term management contracts, medium/long-term leases (*afferimages*), long-term concessions, long-term Build (Own) Operate Transfer contracts, full permanent divestiture, and an additional category of community provision, which also exists in some settings. Aside from French and British water corporations, the most aggressive promoters of these strategies are a few giant aid agencies (especially US AID and British DFID) and the World Bank.

For example, “The World Bank has worked with the City [of Johannesburg (CoJ)] in recent years to support its efforts in local economic development and improving service delivery,” according to World Bank (2002) staff and consultants. Early interventions included a 1993 study of services backlogs and the new government’s 1994 Municipal Infrastructure Investment Framework. More recently, according to the Bank (2002), Johannesburg’s vision strategy document for 2030:

draws largely on the empirical findings of a series of World Bank reports on local economic development produced in partnership with the CoJ during 1999–2002, and places greater emphasis on economic development. It calls for Johannesburg to become *a world-class business location* . . . The World Bank’s local economic development methodology developed for the CoJ in 1999 sought to conceptualize an optimal role for *a fiscally decentralized CoJ* in the form of a regulator that would seek to alleviate poverty . . . through job creation by creating *an enabling business environment for private sector investment* and economic growth in Johannesburg. (emphasis added)

This short-termist commitment to urban entrepreneurialism negates the needs of poor people for higher levels of municipal services paid for through cross-subsidies from business, for Johannesburg would become less competitive as a base within global capitalism if higher levels of tariffs were imposed. Throughout the 1990s, precisely this sort of pressure intensified in South African cities, especially Johannesburg, to outsource a variety of functions. Among key pilot projects were late-apartheid water supply projects established by the Suez-controlled company Water and Sanitation South Africa in three Eastern Cape towns: Queenstown (1992), Stutterheim (1994) and Fort Beaufort (later named Nkonkobe) (1995). Similar supply deals with foreign firms in Nelspruit and the Dolphin Coast were temporarily stalled in 1998 by trade union-led resistance, but were resuscitated in 1999. Johannesburg followed in 2001.

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The primary advocates of privatization were the World Bank and its private sector investment arm, the International Finance Corporation, as well as local and international firms. For example, Banque Paribas, Rand Merchant Bank, Colechurch International, the Development Bank of Southern Africa, Générale des Eaux, Metsi a Sechaba Holdings, Sauer International and Suez had all met with officials of South Africa's fifth largest municipality by 1997, in the wake of a week-long 1996 World Bank study of the council's waterworks that suggested just one policy option: full privatization (Port Elizabeth Municipality 1997). Many municipalities had closed down their public housing and, in some cases, civil engineering departments during the 1980s as part of the first wave of municipal state shrinkage. The adoption of municipal neoliberalism intensified thanks to dramatic shortfalls in central-local operating subsidies, late 1990s legislation favoring PPPs, and a large US Aid grant for the development of PPP business plans in various towns.

In this context, the World Bank felt able to continue promoting privatization (including in its *World Development Report 2004* (2003), which offered Johannesburg as a success story box). In addition to its ideological commitment to the market, the Bank also would have considered self-interest in safeguarding its vast sunk investments in water systems. The International Consortium of Investigative Journalists found that, during the 1990s, the Bank lent \$20 bn to water-supply projects and imposed privatization as a loan condition in one third of the transactions (Logan 2003). To protect these loans and investments, the Bank and other financiers participated in the 2002-03 World Panel on Financing Infrastructure that reported to the World Water Forum in Kyoto. Chaired by former IMF Managing Director Michel Camdessus, it brought together the Global Water Partnership, presidents of major multilateral development banks (IADB, ADB, EBRD, WB), representatives of the International Finance Corporation, Citibank, Lazard Frères, the US Ex-Im Bank, private water companies (Suez, Thames Water), state elites (from Egypt, France, Ivory Coast, Mexico and Pakistan) and two NGOs (Transparency International and WaterAid).

Among Camdessus' recommendations were that international financial institutions should increase guarantees and other public subsidies for private water investors. Camdessus called for \$180 bn in capital expenditure, even though just one-sixth of that would be earmarked for investments aimed at meeting drinking water, sanitation and other hygiene needs. A primary reason for the Commission's existence was that, after the East Asian, Russian, Brazilian and South African crises of the late 1990s, the dramatic increase in private water investments in the Third World suddenly reversed. With Suez in trouble in Argentina and many other settings, Camdessus was required as a means of generating greater risk and currency insurance for the large French and British water firms. Assisted even by an NGO (WaterAid), Camdessus designed a "Devaluation liquidity backstopping facility" to those ends, as well as a "revolving fund" to cover the "large fixed cost

of preparing Private Sector Participation contracts and tenders.” Public Services International (2003), whose union affiliates boast 20 million members, declared:

The bankers’ panel pursues the goal of having private corporations manage and profit from delivering the world’s water. They want these companies to serve the world’s cities, and to build more dams and reservoirs . . . [yet] there is no attempt to address the issue of how the international community can effectively cross-subsidize the provision of clean water for the poor.

Pricing water

Cross-subsidization of water in South Africa often occurred from national to local scales, a practice that the Department of Water Affairs and Forestry began phasing out in the late 1990s. For consumers in some rural areas of KwaZulu-Natal Province, the decision fully to decentralize water provision in search of full cost-recovery suddenly became clear when their previously free water was switched off in early August 2000, when they failed to pay a \$7 connection fee. The country’s worst-ever recorded cholera crisis broke out within one week. Six months later, the government’s failure to decentralize sanitation services to community and household scale became evident as a journalist reported:

Communities in cholera-ravaged northern KwaZulu-Natal were on Monday told they had to build their own toilets if they wanted to win the war against the disease, which has claimed 66 lives and infected nearly 20,000 people in the province since August last year. Provincial health MEC Zweli Mkhize told communities in the worst hit areas of Empangeni/Eshowe that 87,000 households in northern KwaZulu-Natal—between the Tugela and Umfolozi rivers—still did not have proper sanitation facilities . . . The department [of Water Affairs and Forestry] came under fire earlier this year for failing to spend less than half of its sanitation budget of \$1.7 million earmarked for the [KwaZulu-Natal] province for the current financial year. The department claimed there had been a “lack of interest” from rural communities. Community leaders at Ntambanana on Monday told government officials that their numerous calls for toilets over the past few years had fallen on deaf ears. “We have asked for toilets, but we got nothing . . . we have taps, but no water. We would not have had an outbreak if we had water and toilets,” one elderly man said.

(South African Press Association January 15, 2001)

As both Public Services International and *The Economist* agree, hence, the crucial controversy is the way water services are priced under conditions of commercialization. In the course of outsourcing to private (or even NGO) suppliers, the benefits of water as a public good (or “merit good”)—namely, environmental, public health, gender equity and economic multiplier features (Bond 2000:

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Chapter 4)—are generally lost. The lack of “effective demand” by poor consumers, and the difficulty in identifying accurate “shadow prices” for subsidies, together make it very difficult to internalize these externalities via the market. Regulation is normally insufficient in even middle-income countries such as South Africa, as the cholera case shows. Indeed, the aspect of water commodification that is both most dangerous from the standpoint of low-income people, and most tempting from the side of management, is the reduction of cross-subsidization within the pricing system, sometimes termed “cherry-picking” so as to signify that, within a local retail market, the premier customers are served and the masses are left behind.

When the World Bank (2000: Annex 2) instructed its field staff on how to handle water pricing in both urban and even impoverished rural Africa, the mandate was explicit, for, if it is accepted that communities should benefit from a “sustainable” and “demand-responsive” strategy based on their own “choices,” then state support to water schemes, via subsidies, should—as a matter of policy, regardless of affordability—be terminated, in favour of full cost-recovery:

Work is still needed with political leaders in some national governments to move away from the concept of free water for all . . . Promote increased capital cost recovery from users. An upfront cash contribution based on their willingness-to-pay is required from users to demonstrate demand and develop community capacity to administer funds and tariffs. Ensure 100% recovery of operation and maintenance costs.

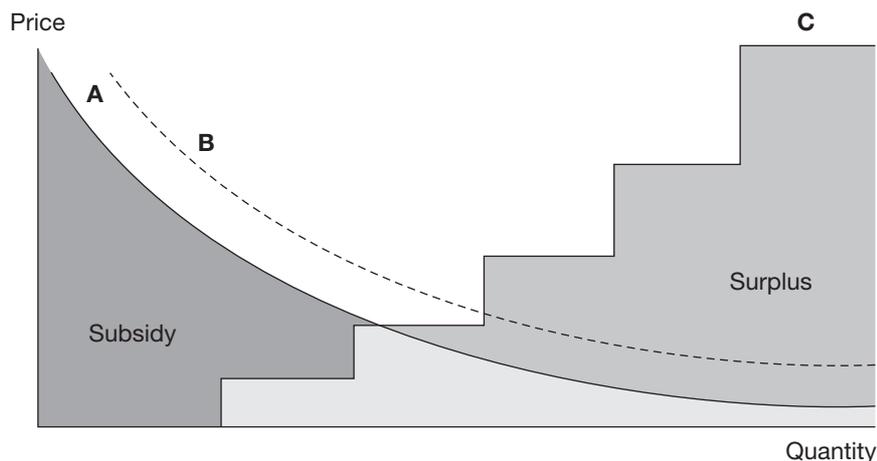
In most urban systems, the cost of supplying an additional drop of water—the “short-run marginal cost curve” (line A in Figure 3.1)—tends to fall as users increase their consumption, because it is cheaper to provide the next unit to a large consumer than a small consumer. Reasons for this include the large-volume consumers’ economies of scale (i.e., bulk sales), their smaller per unit costs of maintenance, the lower administrative costs of billing one large-volume consumer instead of many small ones, and the ability of the larger consumers to buy water at a time when it is not in demand—e.g., during the middle of the night—and store it for use during peak demand periods. The premise here is that the pricing of water should correspond directly to the cost of the service all the way along the supply curve. Such a system might then include a profit mark-up across the board (line B), which ensures the proper functioning of the market and an incentive for contracting-out or even full privatization by private suppliers.

The progressive principle of cross-subsidization, in contrast, violates the logic of the market. By imposing a block tariff that rises for larger consumers (line C), the state would consciously distort the relationship of cost to price and, hence, send economically “inefficient” pricing signals to consumers. In turn, argue neoliberal critics of progressive block tariffs, such distortions of the market logic introduce a disincentive to supply low-volume users. For example, in advocating against South Africa’s subsequent move towards a free lifeline and rising block tariff,

the World Bank advised that water privatization contracts “would be much harder to establish” if poor consumers had the expectation of getting something for nothing. If consumers didn’t pay, the Bank suggested, South African authorities required a “credible threat of cutting service” (Roome 1995: 49–53).

The progressive rebuttal is that the difference between lines A and C allows not only for free universal lifeline services and a cross-subsidy from hedonistic users to low-volume users: there are also two additional benefits of providing free water services to some and extremely expensive services to those with hedonistic consumption habits: higher prices for high-volume consumption should encourage conservation, which would keep the longer-run costs of supply down (i.e., by delaying the construction of new dams or supply-side enhancements); and benefits accrue to society from the “merit goods” and “public goods” associated with free provision of services, such as improved public health, gender equity, environmental protection, economic spin-offs and the possibility of desegregating residential areas by class.

Another progressive critique of private suppliers who require tariffs reflective of marginal cost plus profit is that water infrastructure is a classical natural monopoly, so that competition in building multiple piping systems is irrational. The large investments in pipes, treatment centers and sewage plants are “lumpy” insofar as they often require extensive financing and a long-term commitment, to which the state is more suited. Furthermore, replying to the argument that a private-sector supplier might still meet social objectives through a strong state regulator, progressives mistrust “captive regulators,” given the long history of corruption in the water sector. Rebutting those who argue that African states are intrinsically incapable of providing water services, progressives cite more proximate reasons for the recent degeneration of state water sectors: 1980s–90s structural



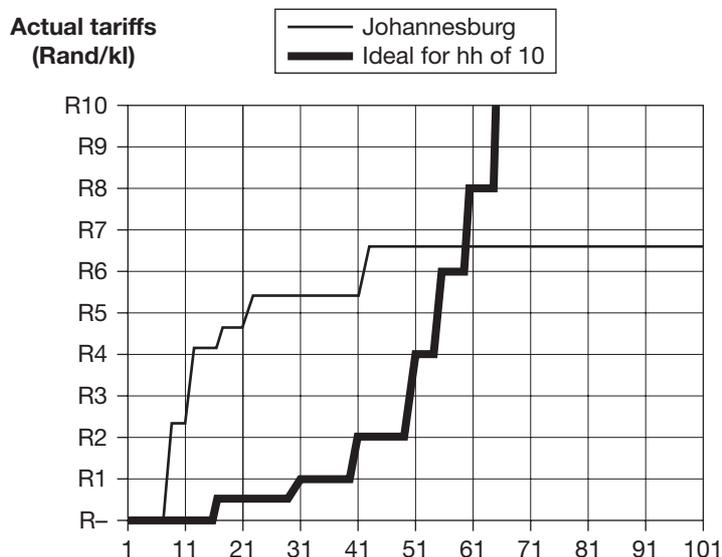
3.1 Pricing water: marginal cost (A), for-profit (B) and cross-subsidized lifeline plus block tariff (C)

adjustment programs, which decapitated most states; corrupt state bureaucrats; weak trade unions; and disempowered consumers/communities. All can be reversed with sufficient political will.

Finally, the progressive argument for making a water subsidy universal—not means-tested for only “indigent” people—is both practical and deeply political. If the service is means-tested, it invariably leads to state coercion and stigmatization of low-income people by bureaucrats. Further, it is an administrative nightmare to sort out who qualifies, as so many people depend upon informal and erratic sources of income. More philosophically though, it is a premise of most human rights discourse that socio-economic rights such as water access are *universally* granted, not judged on the basis of a subjective income cut-off line, especially given the differences in household size for which different low-income people are responsible. This is partly because international experience shows that defense of a social welfare policy requires universality, so that the alliance of poor, working-class and middle-class people who usually win such concessions from the state can be kept intact (Esping-Andersen 1990).

As *The Economist* observed in mid 2003, one of the most important sites to consider the economics of water resources allocation is South Africa. One reason is that, because of the international drive to commercialize water, even post-apartheid South African citizens were subject to neoliberal cost-recovery and disconnection regimes. This affected many who simply could not pay their bills. From the late 1990s through 2002, as a result, approximately 10 million people suffered water disconnections (McDonald and Pape 2002). Africa’s worst-ever recorded cholera outbreak—affecting more than 150,000 people—can be traced to an August 2000 decision to cut water to people who were not paying a South African regional water board. After the ruling African National Congress promised free basic water supplies in December 2000 during a municipal election campaign, the same bureaucrats responsible for water disconnections began redesigning the water tariffs.

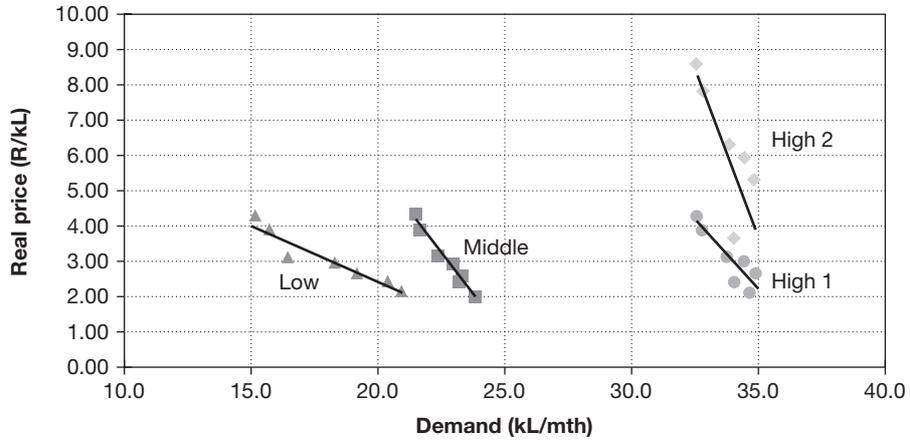
In July 2001, revised price schedules provided a very small free lifeline: 6,000 liters per household per month, followed by a very steep, convex curve (see Figure 3.2). However, the next consumption block was unaffordable, leading to even higher rates of water disconnections in poor areas. The 6,000 liters represent just two toilet flushes a day per person for a household of eight, for those lucky enough to have flush toilets. It left no additional water to drink, wash with, clean clothes or for any other household purposes. In contrast, from the progressive point of view, an optimal strategy would provide a larger free lifeline tariff, ideally on a per-person, not per-household basis, and then rise in a *concave* manner to penalize luxury consumption. Johannesburg’s tariff was set by the council, with help from Suez Lyonnaise des Eaux, a Paris-based conglomerate, and began in July 2001 with a high price increase for the second block of consumption. Two years later, the price of that second block was raised thirty-two percent, with a ten percent overall increase, putting an enormous burden on poor households that used more



3.2 Divergent water pricing strategies: Johannesburg (2001) versus ideal tariff for large household
Source: Johannesburg Water and own projection

than 6,000 liters each month. The rich got off with relatively small increases and a flat tariff after 40 kiloliters per household per month, which did nothing to encourage water conservation and, hence, did not mitigate the need for further construction of large dams, which in turn would drive up the long-run marginal cost curve and further penalize low-income Johannesburg townships residents.

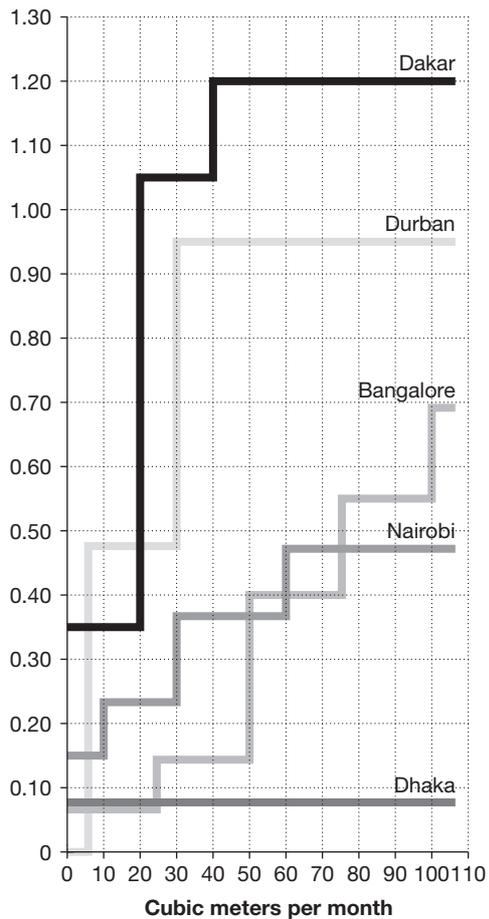
In Durban, the 1997 consumption of water by the one-third of the city's metered (and regular bill-paying) residents who have the lowest income was 22 kiloliters per household per month (see Figure 3.3). Shortly afterwards, a "Free Basic Water" strategy was adopted (for just the first 6 kiloliters per household per month), but step increases in price for the next blocks of water were imposed. By 2003, the price of the average liter of water consumed by the lowest-income third of billed residents had doubled from R2 in 1997 (about US\$0.30) to R4. According to Reg Bailey, that price increase resulted in average consumption by some low-income consumers diminishing to 15 kiloliters per household per month during the same period. The price elasticity for water was, hence, a disturbing -0.55 —an extremely large impact for what should be a basic need and, hence, relatively impervious to price change. In contrast, for middle- and high-income consumers, the price rise was higher, but the corresponding decline in average consumption far less (Bailey and Buckley 2005). Indeed, the UNDP's 2006 *Human Development Report* indicates that Durban has a convex-shaped tariff curve, compared with several other Third World cities. Durban charges by far the highest



3.3 The impact of price on consumption for different income groups in Durban: from 1997 (lower price, higher volumes) to 2003 (higher price, lower volumes)

Source: Buckley and Bailey 2005

Step increases in block water tariffs, 2001-05 (US\$)



3.4 Durban's tariff compared with four other cities

prices in the 6–20 kiloliters per month range, the block in which many of the lowest-income people consume (see Figure 3.4).

Conclusion: advocacy for decommodification

What kinds of countervailing strategy are being experimented with to counter the negative trends? First, it is important not to overstress the merits of centralization, as if geographical scale is the central criterion. As Wittvogel famously argued, centralized–despotic regimes of ancient India, Egypt and China were underpinned by vast irrigation infrastructures whose maintenance needed legions of workers, artisans and bureaucrats. These “hydraulic civilizations” oversaw a vast system of agricultural production and environmental and social management.

In contrast, strategic debates among progressive water activists combine centralized–democratic financing systems with decentralized–participatory state service delivery. Mamdani (1996: 287) argues that rural and urban alliances are vital here:

Decentralized democratization confined to the local state is both partial and unstable. It harbours contradictory possibilities: the point of reform of rural power can just as easily be to link up with representative demands from urban civil society as it can be to check these. If the objective is an overall democratization, it requires a balance between decentralization and centralization, participation and representation, autonomy and alliance. But if it is to checkmate civil society, a one-sided glorification of decentralization, autonomy and participation will suffice because, in the final analysis, it is bound to exacerbate the breach between the urban and the rural . . . This tendency needs to be seen as a negative development.

Perhaps most importantly, water resources-allocation debates under conditions of decentralization demonstrate, simply, that pricing is highly political. Indeed, commodification in the water sector has generated some of the most intense local social-justice struggles in the world today, calling into question the very tenets of neoliberalism in state services provision, even when—as in South Africa—a small concession is made in the form of circumscribed “free basic water.”

Needless to say, outside South Africa (where redistributive water pricing is feasible at the municipal scale for more than half the population in major urban centres), a prerequisite for improving state supply of water is a greater central–local subsidization, which in turn requires dramatically intensified advocacy for debt repudiation and the implementation of exchange controls, so as to halt the outflow of finances that would make expanded systems financially feasible. Given the depth of the legitimacy crisis associated with globalization and commodification, new social forces have emerged to contest these processes. Many of these groups have coalesced around opposition to privatization.

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The strategy adopted by so-called “water warriors”—a component of the global justice movements—in anti-privatization campaigns is typically to defend elected municipal government as the key institution for delivering water. They argue that, in most societies, the state remains the main agent that can redistribute resources and organize purified, high-pressure water in sufficient quantities to serve public health, gender equity and other broader eco-social goals (Barlow and Clarke 2002; Friends of the Earth International 2003; Grusky and Fiil-Flynn 2004; McDonald and Ruiters 2005; People’s World Water Forum 2004; Polaris Institute 2003; Public Citizen 2003a; 2003b; Shiva 2002; Transnational Institute 2005).

Networked transnational civil society forces opposed to the commercialized model of water delivery, and generally in favour of reasserted state provision of water, include citizens’ organizations (Council of Canadians in Ottawa, Public Citizen in Washington and the World Development Movement and War on Want in London); trade unions (Public Services International and their affiliates); indigenous people’s movements; environmental groups (especially the International Rivers Network and Friends of the Earth); think tanks (e.g., the PSI Research Unit at Greenwich University, Polaris in Ottawa, the TransNational Institute in Amsterdam, the Agriculture and Trade Policy Center in Minneapolis, the Municipal Services Project involving three universities in South Africa and Canada, Parivartan and the Centre for Science and the Environment in New Delhi, Food and Water Watch in Washington, and the International Forum on Globalization in San Francisco); and high-profile community leaders, intellectuals and politicians.

Many of these water warriors emerged from urban community revolts against privatization, in sites ranging from Detroit, Atlanta and several French cities, to Accra, Dar es Salaam and Soweto in Africa, to Cochabamba and El Alto in Bolivia, Buenos Aires, and Asian cities including Manila and Jakarta, as well as Auckland, New Zealand. In Vancouver, a 2001 “Blue Planet” conference gathered activists; in Delhi, the 2004 People’s World Water Forum brought the movements into alignment on analysis and common targets; and in 2006 these forces—numbering at least 10,000 activists—marched on the World Water Forum in Mexico City. The World Social Forum (in Porto Alegre, Mumbai and Nairobi), as well as regional Social Fora, provides space for water activist assemblies. Email listserves such as “water warriors,” “reclaiming public water” and “right to water” permit information exchange and coordination.

The campaigns for decommmodification of water have been successful, in many settings, in driving out the water privatizers who have sought profits under conditions of decentralized financing in which desperate municipalities search for new sources of capital. What they have not yet done, however, is take control of sufficient national state power to establish redistributive national–local subsidization systems. Even in Bolivia, where the Cochabamba and El Alto water wars were one reason state power shifted to the Movement Towards Socialism in late 2005, more than a year of hard work in establishing a water ministry and national water agency

did not result in lower retail prices. These struggles continue and are a crucial signifier of whether neoliberal, decentralized forces driving towards commodification can be repelled by citizens' movements demanding decommodification.

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