

THE VALUE AND PRICE OF WATER

(The Women of Lutsheko)

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Last year, I visited a newly installed water supply scheme in a typical South African rural village called Lutsheko. Communal taps had been installed within 200 metres of every household, the reservoir fed by a diesel pump taking water from a nearby borehole. Households were contributing R10 a month (under 5 US cents per day) to cover the operating costs. The project was well run by a village water committee and had improved the lives of 3000 people.

Afterwards, I went down to see the borehole, on the banks of a dried out riverbed. There I found a young woman, with a three-week old baby on her back, scooping water out of a hole she had dug in the riverbed. When I asked her why she was not using the taps, she told me she could not afford to do so. For those living in deep poverty, a US nickel is just too much to spend on a day's supply of clean water.

This is not a unique finding. Recently, a research survey established that many poor rural women in South Africa feel that to spend R10 on clean water would be to deprive their children of food. So they choose to search for free, unsafe water instead. We must, all of us, acknowledge that there are millions of 'women of Lutsheko' around the world. And it is with the thought of them, often walking long distances daily or burrowing in the riverbeds in search of water, that I enter this discussion.

The plight of the women of Lutsheko is a challenge to us all. We must pose the question: how does the World Water Vision presented at The Hague in March this year relate to this challenge? While much of that document impresses, and we were enthused by The Hague event and its vital contribution to world water security for the 21st century, it is difficult to reconcile the Vision's approach on pricing with the kind of realities I have described.

The Vision Formulation

The Vision is specific in its recommendations. One of the primary actions it identified was the need to:

“move to full cost pricing of water services for all human uses. Because of its scarcity, water must be treated as an economic good ... this report recommends that consumers be charged the full cost of providing water services. That is they should pay the full costs of obtaining the water they use and the full cost of collecting treating and disposing of their wastewater.”

There is acknowledgement in the Vision that:

“this does not preclude governments from providing targeted transparent subsidies to the poor”.

But it envisages a system of income support to enable the poor to pay their bills.

This approach is reflected in the separate *Report of the Commission* at The Hague

which managed the Vision process. It states:

“The single most immediate and important measure is the systematic adoption of full-cost pricing for water services”.

It also specifies that:

“subsidies should be delivered directly to people not to service organisations. It is essential to separate the welfare task (the task of government) from the business task (which service organisations should be asked to do)”

The Ministerial Declaration

As a government Minister with a constituency that includes many ‘women of Lutsheko’, this full cost pricing formulation was simply unacceptable. It contained huge assumptions about the role and nature of government and also about our administrative capacity.

My colleagues in the Southern African Development Community (SADC) shared my reaction and, as a result, we believe that the Ministerial Declaration of The Hague considerably improved the approach. It separated the challenge of meeting basic needs from that of protecting ecosystems and, in turn, put forward the challenge of valuing water.

It suggested that we need:

“to manage water in a way that reflects its economic, social, environmental

and cultural values for all its uses, and to move towards pricing water services to reflect the cost of provision. This approach should take account of the need for equity and the basic needs of the poor and vulnerable.”

This, I believe, more accurately reflects the world in which we live and it is from here that I want to turn to the approach we are taking in South Africa.

For us, there are three related issues, poverty, effective resource utilisation and finally, the engagement of the private sector.

The first issue is how we deal with poverty.

South Africa is a deeply unequal country, for well-known historical reasons. A key goal of our democratic government is to bridge the gulf between rich and poor, paralleled by the gulf between white and black. We must do this for reasons of social justice, equity, survival and of our identity as a nation.

In water supply, as in many other sectors, we have to consider how best to achieve this overarching goal. The South African government has given water a high priority, recognising that providing access to basic clean water supply is a direct attack on poverty. My illustrious predecessor, Professor Kader Asmal, was the trail-blazer, and has justifiably been honoured as recipient of the Stockholm Water Prize. All South Africans celebrate this prestigious award with him.

Now we do not believe that developing complicated subsidy systems to put money in the pockets of the poor, followed by equally complex mechanisms of charging for 25 litres of water a day, which is the preferred approach of the Water Vision, is a practical or efficient approach. However good it looks in the textbooks, it is just

not appropriate or workable in the rural communities where the bulk of our very poor live. Our approach has been rather to design systems that are appropriate to the different contexts in which our communities live.

In big cities like Durban for instance and, soon, Johannesburg, funds are available within local budgets. A simple stepped tariff system that provides the first 6 kilolitres a month free to each household is designed to recover costs from those who use more water. This system works and is efficient and effective. It means that the more you consume, the more you pay. Those who cannot afford to pay at least get the basic safe water they need to survive.

In rural areas, where the overwhelming majority of people are poor and the economies of scale of the urban centres are lacking, this approach cannot work. In this context we are developing a financial system for local government to ensure that the operating costs of basic water supply can be paid. Funds are available as a subsidy from national government – operating costs of US\$100 million annually represent less than half a percent of the national budget. The challenge is to ensure that this is used for basic needs and does not benefit those who can afford to pay.

We believe this is a sound, social policy approach and should not be frowned upon. Indeed, the poverty alleviation and indigence policy guidelines of my colleague, South Africa's the Minister of Provincial and Local Government, with which our proposals are fully consistent, were drawn up with the help of agencies such as USAID and the World Bank.

The second issue is how we price water as a resource.

We need to stress the fact that water flowing in pipes to the consumer is not the

same thing as water in rivers on its way to the sea. We must not confuse the way we value water as a resource with the way we charge for services. Unfortunately, these two issues were conflated in the World Water Vision which argued that one reason the poor had to pay full cost price for their water was because this:

“will reduce withdrawals from and pollution of eco-systems and encourage the use of water-saving technologies.

This is where, once again, we parted company from the Vision.

The issues of over-use, pollution and poverty are obviously related but, in South Africa, and I am sure in most other countries, people's basic needs account for perhaps one or two percent of water use. This consumption has marginal impact on the environment or on other users although, uncontrolled, agriculture and industrial use will decimate supplies to the poor. But in South Africa, as in most parts of the world, the way we charge for *basic* water impacts little if at all on the way in which the bulk resource is used.

What *is* critical is how we price water for large users, for agriculture, for the manufacturing industries, for mines and for the fully plumbed homes of our cities and towns. If we do not get the resource pricing right for these, then we *will* have overuse, inefficient use, shortages and environmental degradation.

Even in this respect, full cost pricing does not solve the problem. If we were to apply full cost pricing to some of the older, well-established water systems in South Africa that have hitherto benefited the privileged minority, the former privileged would benefit once more. For them, prices would fall and consumption rise, increasing the demand for new structural water developments for which all

would have to pay, both privileged and underprivileged. We have to manage our water supply in a way that ensures that the full value of water and the marginal cost of new schemes are reflected. As we all know, the *value* of water is determined as much by the opportunities for other uses as by the cost of its provision.

I will not go into detail about how, in South Africa, our National Water Policy is addressing these issues. What I want to highlight is simply the fact that in resource management as in the provision of basic needs, full cost pricing is simply not the magic bullet it was made out to be.

The third issue is the engagement of the private sector.

One reason the advocates of full cost pricing were so passionate about full cost pricing was their belief that, without this, there could not be adequate engagement of the private sector. But here again, the approach was flawed.

Public-private partnerships have given rise to much heated debate throughout the world, including my country. In South Africa, as elsewhere, we have recognised the value and the necessity of partnership with the private sector. If we can successfully mobilise capital, there is no doubt we can gain valuable assistance in meeting our goals of achieving effective water delivery.

This is the pattern worldwide. I have debated with those in South Africa who instinctively oppose the involvement of the private sector, and I have pointed out that if even Cuba can use private sector providers to help manage Havana's water supply, why should there be an objection to such an approach in South Africa. In embracing the idea of public-private partnerships, however, we must recognise that, while government's priority is to provide basic services to the people, the

private sector is profit-driven. This means that we must achieve a balance between those two objectives. I have recently issued draft regulations in respect of private sector investment in water projects, both in order to provide certainty for investors and protection for the consumer.

It is in the nature of the debate that the problems of the private sector attract less attention than the failures of the public. Our southern African experience reveals examples of both. We are, for example, currently reviewing the results of the innovative BoTT (Build Operate Train and Transfer) contracts which have helped us deliver water to nearly 6 million rural people in six years. It is not immediately clear that greater private involvement has achieved either efficiency or sustainability gains.

We also supported the concessioning of Nelspruit, a medium size town, as an important pilot for the private sector, but must note that it has had to rely on local parastatal finance for its operations. Private capital has yet to come to the party. On the other hand, I recently opened a US\$40 million Vaalkop regional purification works in our North-West Province, an excellent example of a partnership between two public utility companies which was financed by private capital.

In Mozambique, the drama of this year's terrible floods distracted us from the fact that water supply to the capital Maputo failed during that period, and a cholera outbreak ensued. It would be crass to claim that privatisation causes cholera. But my understanding is that supplies were interrupted, not because of flood damage, but because the new private operator had reduced its chemical stocks. It might have been a sound business decision to save on inventories but it was appalling services management. While I cannot comment on liability, it is a matter of record that the concessionaire's senior managers were summarily removed from their posts.

Experiences like this highlight the need for new approaches, both private or public, carefully considered and cautiously applied. And whilst wanting to encourage private sector involvement in the water sector for the benefits it can bring, let us not mislead ourselves and our people in pretending this and full cost pricing is the critical success factor.

The broader context

In drawing to a conclusion we need to place our discussions in a broadest context. We live in a world of deep divisions between poor and wealthy nations. We cannot deal with water in isolation from the rest of this picture.

I was therefore pleased that the Commission Report, if not the Vision, highlighted the fact that it is difficult for the developing countries to reduce water subsidies to farmers while their access to world markets is blocked by protectionist agricultural policies. Indeed, the richer nations have made it eminently clear that European agricultural policy is not open for negotiation. We all know what damage that is doing to the poorer countries of the world.

We must acknowledge that, if our farmers can export table grapes and cut flowers to the markets of Amsterdam, they can pay the full costs of their water. If they can only sell maize and lucerne, they will have difficulty affording just the operating costs.

In looking across the gulf that divides the rich and poor in this world, we must look beyond the cost, price and value of water to the values that govern our society. In South Africa, we talk of *Ubuntu*, a concept that says we are only people through

other people. We do not help the poor because we are charitable. We help them because they are part of us and we are nothing without each other. Above all we aim to create a better life for all our people.

These are the values that guide our policies, not because we are starry-eyed idealists but because, if our country is to have a future, it must be governed by respect for the dignity of all who live in it.

If I appeal for one thing here today, it is for a sense of fairness and justice, for recognition of the interconnectedness between us. I appeal to you to recognise that the policies which may seem so eminently sensible to us in the pleasant surroundings of Stockholm and The Hague look very different to rural women in the cold morning light of the village water queue; and very, very different to those who, too poor to pay the basic minimum, forgo the water queue to burrow in the ground for water.

We must ask ourselves about the values that guide us. Can we claim our full dignity as members of the human race while the women of Lutsheko burrow in the sand for water for the want of a nickel a day?