

# Costs and affordability of water supply and sanitation provision in the urban areas of South Africa\*

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## Abstract

"Costs" and "affordability" need to be considered together with "price" and "subsidy". Underlying this is the premise that issues of developing communities cannot be addressed in isolation from developed communities, while at the same time recognising that this must take place within the limitations of the country's resources. With respect to the costs of water supply and sanitation, the cost of a high level of service (house connection and full water-borne sanitation) is approximately four times the cost of a low level of service (stand-pipe and VIP). These costs are often not fully reflected in the prices charged to domestic consumers. Considering the higher levels of service, new domestic consumers in Johannesburg municipality are being charged only about 75% of the average current replacement cost of their services while black local authorities have been drastically undercharging for services. In Soweto consumers are charged less than 25% of the cost (for all services including water supply and sanitation). With regard to affordability, some 40% of urban black multiple households are unable to pay for services at the current low tariffs. At least 55% would be unable to pay the actual costs of the services (based on figures for Soweto). Substantially fewer households appear willing to pay for these services at the current low tariffs (again based on figures for Soweto in the context of the rent boycott). The revenue that may realistically be expected to be recovered from these households in the future lies somewhere between what they are able to pay and what they are presently willing to pay. The difference between what is recovered and the actual costs will have to be made up by some form of subsidy. The size of these subsidies is substantial in comparison with the funds available to central government. In the light of this, choices with regard to services, particularly with regard to level of service, should not be considered in isolation from other competing demands for funds.

## Introduction

The issue of costs and affordability in South Africa is a mixture of very simple and very complex. But whether it is simple or complex to state, it is not easy to solve. It is not in fact a new problem. What is perhaps new is the recognised ownership of the problem: Whereas in the past, apartheid policies kept black and white, poor and rich divided, there is now widespread recognition of a linkage between the two, and a determined attempt to address it. As President FW de Klerk put it on 18 March 1992 "The massive positive result sends out a powerful message to all South Africans... that those who have the power in terms of the present, imperfect constitution really mean it when they say we want to share power. We want it to be fair and equitable" (Star, 1992a). So too, a recent editorial article of Engineering News called for the fight against poverty to be elevated to a national priority (Engineering News, 1992). A key element of such a thrust is the provision of basic services to all in the country, and in particular the provision of adequate water supply and sanitation. In order to meet this goal it is possible that there may need to be some form of cross-subsidy from rich to poor, and it is this that has made the issue of costs and affordability a contentious one.

The title of this paper, as it stands, addresses only half of the issue at stake. The other half of the issue is addressed by what could be termed the hidden aspects of the title: "price" and

"subsidy". Together with "cost" and "affordability" go "price" and "subsidy". The interrelationships between these four aspects can be stated as follows:

- A very substantial proportion of the population of South Africa cannot **afford** the **cost** of basic services.
- It is accepted that the whole population should have access to adequate water supply and sanitation at a **price** that they can **afford**.
- The full cost of these services must be carried somehow. Any difference between **cost** and **price** has to be made up by some form of **subsidy**.

Irrespective of how the interrelationships are resolved, a key constraint is that the resolution must take place within the limitations of the country's resources as a whole.

In an overview of costs and affordability, this paper presents figures for cost, price, affordability and subsidy of water supply and sanitation provision in the urban areas of South Africa and proposes that a broader perspective be adopted in reconciling the competing demands for funds.

## Costs of various levels of service provision

What are the costs of water supply and sanitation? The answer depends to a significant extent on what we mean by "cost".

There are numerous different meanings. A broad definition which is common to them all is as follows: "**Cost** is a sacrifice that must be made in order to do or acquire something. The nature of the sacrifice - i.e. what is given up - may be tangible, objective or subjective, and may take one or more of many forms such as money, goods, leisure time, income, security, prestige, power, or pleasure" (Spencer, 1983). In this paper, the meaning of "cost"

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