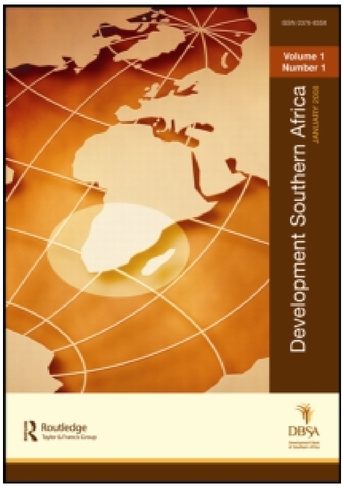

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Discourses of privatisation: the case of South Africa's water sector

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Discourses of privatisation: the case of South Africa's water sector

Sagie Narsiah

The neoliberal offensive incipient during the 1970s matured into a globally hegemonic discourse during the 1990s. Developing countries like South Africa have their own peculiar brand of neoliberalism. This has taken various forms in South Africa, one of which is privatisation. Its discursive origins may be traced to key thinkers and institutions. And while there is a general discourse of privatisation there also exist sub-discourses in particular sectors, such as the water services sector. This paper examines the way a general discourse of privatisation evolved in South Africa and how this discourse has filtered into water services delivery. It argues that key role players and institutions acted as disseminators of a discourse of privatisation in the water services sector.

1. INTRODUCTION

There is little doubt that neoliberalism as a global phenomenon has swept everything in its path, in effect creating and re-creating a world in its own image. South Africa has not been immune to the neoliberal influence: indeed, the South African state has openly adopted neoliberal policies in the post-apartheid era. Yet much of what has been written about this experience focuses on government macroeconomic policy and some sectors such as land, housing, water and electricity (McDonald & Pape, 2003).

In the water sector there has been a focus on the impact of neoliberal approaches on low-income communities (McDonald & Ruiters, 2005). Yet there remains a gap in the water services provision literature, in particular when it comes to examining the privatisation discourse that has entered this field, specifically the role of key institutions and consultancies as disseminators of the discourse. It is this gap in the literature that this paper addresses.

It is not the intention here to examine the impact of privatisation on low-income communities or the process of water commodification. The approach is also geographically biased in that it addresses the role of key institutions and consultancies within South Africa. It is this scale that, in the author's view, has been largely neglected. The role of international agencies has been documented (Bond, 2000, 2001). This paper examines the institutional bases, one public and one private, which, in the author's view, have led to the crystallisation of a discourse around privatisation of water in the post-apartheid era. However, it must be noted that these are 'dependent institutions' i.e. they responded to macro-policy positions that were adopted by the government. However, this paper's reading of this process is not a simplistic truth correspondence approach, whereby institutions merely carry out the mandate of the government. Rather, it is argued that the relationship is dialectical – institutions also playing a role in shaping policy positions.

This paper argues that there is a discourse of privatisation that reveals itself through a particular set of languages and practices deployed through a structure consisting of

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academics, institutions and the media. This is not a novel argument, but one which borrows from the work of Michel Foucault and from the ideas developed by Said (1977) in his interrogation of the relationship between the Orient and the Occident in his publication *Orientalism*, with perhaps the best account given by Escobar (1995) in his application of Foucault to development in *Encountering Development: The Making and the Unmaking of the Third World*. So, the language of privatisation is enshrined in 'theories' or, to follow Foucault, the 'serious speech act' (Dreyfus & Rabinow, 1982), which delimits an epistemological field. By discourse it is meant, following Foucault (1980), not the conventional act of speaking, rather the specific speech act of the expert. The expert, having the institutional backing of a professional qualification or affiliation, is one who can make certain claims – truth and knowledge claims. Consultants are experts who make such claims. This argument differs from one that is not sensitive to the role of agency. This paper shows how the general discourse of privatisation evolved in South Africa and how it became part of water services delivery.

This paper argues that privatisation is a discursive practice within the overall neoliberal discourse. Privatisation is a nebulous term, although unambiguous in political origin (Donahue, 1989) and coincides with the rise of neoliberalism. Privatisation of state assets, especially those relating to infrastructure and services, is an essential element of neoliberal economic development policy and a key strategy in the counterrevolution against state intervention. Moreover, for the proponents of privatisation it is the very incarnation of the liberal project.

Privatisation makes clearly articulated assumptions about the production and consumption of goods. The private sector is viewed as the most efficient provider of goods and services to society. But this view is the product of a historically constituted discourse – the collapse of the Keynesian state intervention approaches of the post-Second World War era and its supplanting by the conservative monetarist school. Privatisation is thus a discursive strategy aimed at constructing a subjective reality. And, indeed, privatisation produces particular forms of disciplinary conduct or, as Foucault (1980) conceptualised it, governmentality.

In South Africa it was apparent that, as far back as the mid-1980s, privatisation was a policy which the apartheid state took very seriously. The incipient privatisation/neoliberal project of the apartheid state was, ironically, to mature in a liberated South Africa of the 1990s. Key policy instruments were created to give effect to the privatisation project.

Yet privatisation is not purely a national project: it has serious implications for the delivery of services, for example, at the local level. The privatisation of basic services became a serious option during the 1990s as restructuring on the local government scale left municipalities in a tenuous situation when it came to financially sustainable delivery. These conditions, coupled with the influence of private sector consultants, created the space for the development of a peculiar sub-discourse on the local scale. Moreover, new forms of governmentality were taking root through the application of revised accounting procedures.

The conventional view is that a change in ownership from the public sector to the private sector would constitute privatisation. But there are various types and hues of privatisation, ranging from the outright sale of assets to the outsourcing of key functions to commercialisation and corporatisation. Yet privatisation, when viewed as a set of social relations, suggests the application of techniques of governance (the techne of government), i.e. 'through what means, mechanisms, tactics, and technologies is authority constituted and rule established' (Dean, 2003:14). Thus, the water services delivery experience in South Africa is not privatisation in the sense of a change in ownership but rather a form of governance whereby new techniques (marginal cost accounting in particular) are implemented that mimic the private sector. While some may argue that these techniques were put in place to ensure that high-income and high-consumption households and industries did not enjoy public subsidies, the prevalence of pre-paid technology (as one outcome of the process) suggests that the poor are now paying more than the rich for services (because in addition to their water usage they have to pay for the pre-paid metering technology). Indeed, the poor now subsidise the rich (Barchiesi, 1997). Furthermore, new forms of visibility and identification are created through this process – the reconceptualisation of water as a commodity and the mutation of citizens into consumers, respectively.

The following section discusses what constitutes the discourse of privatisation by engaging with its key parameters: full-cost recovery and marginal cost pricing. Thereafter the paper discusses the origins of privatisation in the apartheid era in South Africa, linking this to the post-apartheid experience. The paper then engages with the role of the Water Research Commission as a public institution that plays a major role in water sector research. The paper concludes with an examination of the role of a private consultancy, the Palmer Development Group, as an agent in the propagation of neoliberal policy.

2. THE ARCHITECTURE OF PRIVATISATION

The perspective adopted in this paper considers the parameters through which privatisation is made sensible and authoritative, viz. full-cost recovery and marginal cost pricing.

Providing services on the basis of full-cost recovery means that all the costs of production are recovered from the consumer. This recovery is necessary because subsidy mechanisms are removed, through a process of differentiation facilitated by accounting procedures. An initial intervention is to de-link service provision from subsidy mechanisms by creating a 'trading account' where income and expenditure for a particular purpose are accounted for. Therefore, surpluses (profits) and losses remain within that single account and funds are not transferred to other activities. This process is referred to as 'ring-fencing'. All costs are maintained in one account, specifically in order to calculate fixed and variable costs. Such costs need to be calculated so that performance or, in a word, profit may be scientifically determined. The marginal cost pricing strategy is used in both the public and the private sector to determine the costs of production and to effect full cost recovery.

Marginal cost pricing is a product of neoclassical economics. It is a reaction to classical price theory, which claims that prices equal average cost and socially necessary labour time (Beckwith, 1955). Marginal costing shifts the focus to the microscale – to individual prices. It means pricing a product so that the price covers the cost of producing one extra unit of the product (Rickwood & Piper, 1980).

Marginal costing informs prices in two main ways. Firstly, prices may be set such that the marginal cost equals the price, i.e. the marginal costs of production would determine the price and, secondly, they may be set so as equate to marginal revenue. The second approach is used by profit seekers (Beckwith, 1955). Furthermore, in the calculation of costs there are two general types of marginal costing: short term and long term. Short-term marginal costing means calculating costs taking into account fixed and variable costs, whereas long term means taking into account future expenditure, such as investment in fixed capital. Beckwith (1955:14) suggested that long-term marginal costing is 'always arbitrary and indemonstrable' and the 'lumpy' nature of fixed investments makes it extremely unreliable. Moreover, the costing of water presents added difficulties, for example the 'quantification of the true value and costs of water, including the environmental value' (Zilberman & Schoengold, 2005:7). The costs for water can only be viewed as approximations. Full cost recovery in the water sector is based on insecure foundations and may be linked to rent seeking. Managers in this sector in effect have complete control over prices and may manipulate them to satisfy certain performance indicators. Clearly this approach violates measures of economic efficiency in terms of productive efficiency (there being no objective basis for determining costs since long-term costing is unreliable) and allocative efficiency (the cost of providing a service more or less equalling the cost involved in producing it). Consumers usually have to pay for future costs, which may be subject to any number of externalities related to the nature of the investment environment. The World Bank has been at the forefront in promoting this approach among municipalities in the developing world.

3. PRIVATISATION IN SOUTH AFRICA

Privatisation in South Africa is not peculiar to the post-apartheid era. Hertz (2000) suggested that, during the late 1980s, privatisation was used as a (successful) exit strategy by the erstwhile National Party government. In effect Hertz (2000) argued that the privatisation policy, adopted by the apartheid state during the 1980s, was a political tactic used to satisfy a political constituency. The author would suggest that Hertz (2000) is partly correct. The US, the UK and the World Bank deployed privatisation globally during the 1980s. The apartheid state maintained close ties with these countries and their global financial institutions. This paper maintains that the National Party government subscribed to the neoliberal discourse that was being deployed by the institutional apparatus of the 'global north' during the period leading up to the demise of apartheid. This would suggest that the apartheid state was merely following worldwide trends. Of course, the internal business lobby was also campaigning for the government to promote increased private sector participation. But increased private sector participation is a little more complex when the peculiar political geography of South Africa is added to the mix. Within the National Party itself there was a realignment of class forces. The dominant group, led by F W de Klerk, had aligned itself with an urban bourgeois constituency, differentiating itself from the traditional rural base.

These actions must be viewed against the backdrop of the economic crisis that the apartheid state found itself in during the 1980s. The rescheduling of debt repayments (1985) was very much a case in point. Privatisation was viewed primarily as a means of addressing the foreign debt burden. It was suggested that privatisation of government assets could realise up to R250 billion (at 1989 prices), which could have been used to pay off the apartheid foreign debt of R60 billion (CRIC, 1989a). The key government-owned institutions – Escom (the electricity utility), Iscor (the iron and steel manufacturer), SAA (the air transport company) and the Post Office – were all earmarked for privatisation. It was evident from as early as 1984 that the government was considering privatisation as a serious option. This was borne out by the fact that the apartheid state appointed a minister of privatisation. Several working groups and policy positions were forthcoming from the group referred to as Syncom during this period (CRIC, 1989a).

Clearly, the utilities with the best potential for profits were being targeted. But the state strategy went beyond merely the sale of its most valuable assets. The privatisation strategy was a more wide-ranging tactic aimed at comprehensively restructuring state–civil society relations. State intervention in the economy was giving way to management of the economy through deregulation, specifically a perverted Keynesianism was being supplanted by an incipient neoliberalism. The privatisation of basic services such as water, electricity and refuse removal is supported by Neoliberalism. To the apartheid state this option had appeal. It could generate much needed capital and, importantly, the sphere of collective consumption could be depoliticised. As early as 1986, cities such as Cape Town, Durban and Johannesburg were looking to the privatisation option (Community Resource and Information Centre (CRIC), 1989b). But there were certain impediments: legislation preventing local authorities from entering into private–public partnerships and the insecurity of workers' jobs.

The apartheid government's privatisation programme was articulated in the following terms: 'Privatisation means the systematic transfer of appropriate functions, activities or property from the public to the private sector, where services, production and consumption can be regulated more efficiently by the market and price mechanisms' (Republic of South Africa, 1987:8). It was apparent that privatisation was going to be an ongoing process aimed at transferring the responsibility for the administration of the economy to the private sector. However, the demise of the apartheid state, signalled by the events of February 1990 (when the liberation movement was unbanned and political prisoners, among them Nelson Mandela, were released) meant that the apartheid state's vision for a free market utopia was temporally constrained. In order to dispense with the legislative strictures preventing the entry of the private sector into local government, in 1991 an amendment to the Promotion of Local Government Affairs Act No. 91 of 1983 effected changes, furnishing local government with the necessary instruments to create a company or own shares in a company registered in terms of the Companies Act No. 61 of 1973. The Act read as follows:

> To amend the Promotion of Local Government Affairs Act, 1983, so as to amend certain definitions; to authorize a local authority to form a company and acquire shares in a company; and to provide that a local authority may transfer or second its officers or employees to or place their services at the disposal of a company; and to provide for matters connected therewith (Republic of South Africa, 1991:1).

In 1993, the year leading up to the first democratic era in South Africa, the apartheid state embarked on several privatisations, among them water privatisation, in two towns in the Eastern Cape and Queenstown (with a management contract concluded with Suez-Lyonnaise in 1992) and Stutterheim (with a management contract concluded with Water and Sanitation South Africa in 1993).

The beginning of the new era in 1994 did not challenge the discourse of privatisation. Moreover, privatisation as a discursive strategy solidified into a key policy position of the new African National Congress (ANC) government. Key agreements, such as the National Framework Agreement in early 1996, with the Government of National Unity, the Congress of South African Trade Unions (COSATU), the Federation of South African Labour and the National Council of Trade Unions as key signatories (*South African Labour Bulletin*, 1996), ensured that privatisation could be deployed without legislative impediments. Specifically, the National Framework Agreement set out the following key objectives: 'belt tightening, reprioritization of state expenditure, restructuring of state assets and enterprises; restructuring of the public service' (*South African Labour Bulletin*, 1996:18). The agreement thus mapped out a discursive terrain for the private provision of basic services. Ironically, the post-apartheid state seemed to be realising in a more systematic way the goals of the former regime. Moreover, the political fetters that had purportedly constrained the development of capitalism under apartheid were being removed.

These constraints had to be removed by the liberation movement and government in waiting, the ANC. In May 1992, at the ANC's policy conference in Durban, it had become apparent that the organisation was being heavily influenced by the neoliberal approaches espoused by the Washington Consensus. Fiscal and monetary discipline, deregulation, trade liberalisation, privatisation and export-led growth became the new discourses of the ANC. The way the discourse was deployed was exemplified by the 'inclusion through exclusion' of privatisation. 'Privatisation' was changed to 'reducing the public-sector in certain areas in ways that will enhance efficiency, advance affirmative action and empower the historically disadvantaged while ensuring the protection of both consumers and the rights of employment of workers' (African National Congress, 1992:24).

In 1996 the government unveiled the Growth, Employment and Redistribution (GEAR) strategy, which mapped out an unequivocally market-oriented growth strategy. In doing so it set the parameters for the National Party's privatisation initiative to be realised. The assimilation of the ANC into a neoliberal economic philosophy implies that the space for privatisation was created in a post-apartheid era.

A discursive structure was developed to promote privatisation as a key method of providing basic services. The Municipal Infrastructure Investment Framework detailed the financial and regulatory framework for the delivery and accessibility of basic services. The Municipal Infrastructure Investment Framework made provision for the Municipal Infrastructure Programme to promote service delivery at the local level. And, while this was a framework for a substantial increase in public transfers for the provision of public services in poor communities, the space was also created for the entry of the private sector. The discursive framework was being constructed in a particular way in order to promote increased private sector involvement through the preferred options of 'ring-fencing', corporatisation and outright privatisation. The rationale for these options was the prevention of cross-subsidisation and greater efficiency in services provision. Yet, as Sclar (2000) argued, this rationale is insufficient and simply degenerates into a duel between anecdotes. An institutional structure was set up to promote 'closer relations' with the private sector. The Municipal Infrastructure Investment Unit was established to allow private capital to penetrate the provision of basic services. A report by the Public Services International Research Unit revealed that the United States Agency for International Development, which sought to facilitate the entry of the private sector into municipal infrastructure projects, was funding the Municipal Infrastructure Investment Unit. Private consultants from the US, the Planning and Development Collaborative and Research Triangle International were responsible for setting up the Municipal Infrastructure Investment Unit to facilitate privatisation in South Africa (Public Services International Research Unit, 2004).

The Municipal Systems Act (2000), the Municipal Structures Act (1998) and a host of documents relating to public–private partnerships created the space for the private sector to play an increasingly large role in the provision of public services. For example, the Municipal Systems Act (2000) stated that a municipality may provide services through

> Any business unit devised by the municipality provided it operates within the municipality's administration and under the control of the council in accordance with operational and performance criteria determined by the council . . . any other institution, entity or person legally competent to operate a business activity (Republic of South Africa, 2000:76ii).

State–Civil society relations were also qualitatively reconfigured. Legislation and supporting documentation all emphasised the economic value of basic services, full cost recovery and the 'user pays' principle. The concept of citizen was conflated with that of client or customer. Citizenship thus became a function of the market. The mutation of citizens into consumers engenders the stripping away of collective decision making, cultural values and so on and their replacement by purchasing power. Conservative macroeconomic policy, such as the GEAR policy, which emphasises fiscal discipline, demands that citizens be conceptualised as consumers. Cost recovery is thus neoliberalism incarnate.

The frameworks described above enabled the devolution of decision making to the local level. Since 1997 a number of local authorities have exercised the options of outsourcing of services and concessions. The record of private company involvement is poor with specific reference to disadvantaged communities. Privatisation has occurred throughout South Africa. There have been water and sanitation concessions in Nelspruit in the Mpumalanga Province, in Queenstown in the Eastern Cape Province and on the Dolphin Coast in KwaZulu-Natal Province. In Johannesburg the water and electricity utilities have been corporatised. The French multinational company Lyonnaise des Eaux has been perhaps the key private sector player as a provider of water, not only to the Eastern Cape towns of Queenstown, Stutterheim and Fort Beaufort, but also to the corporatised Johannesburg Water (Ruiters, 2002). The multinational Vivendi took over water services on the Dolphin Coast, while the British Biwater won a concession contract in Nelspruit. A cornerstone of the neoliberal approach to service delivery is cost recovery. A failure to pay for services leads to disconnection. Ruiters (2002) demonstrated how the entry of the private sector into services delivery led to disconnection on a massive scale and large-scale debt.

The new era – post-1996 – signalled a new approach by municipalities to efficiency and financial sustainability, which is not undesirable. However, efficiency and financial sustainability had become ends in themselves. The consequence was that citizenship had been subsumed under a conservative brand of economics. Yet this approach was not the consequence of technocrats being newly liberated from the fetters of apartheid. Municipalities were forced to rethink service delivery in order not to sink into bankruptcy. Central government exercised strict fiscal control, especially with regard to transfers to municipalities. The Finance and Fiscal Commission (1998) reported that intergovernmental transfers to municipalities were cut by 85 per cent between 1991 and 1997. The seriousness of this cutback in funding cannot be overstated: municipalities rely on central government for up to 95 per cent of their funding (Finance and Fiscal Commission, 1998). Thus, the only alternative left to municipal administrations was to adopt stringent fiscal and credit control measures to ensure solvency. This created the space for privatisation.

Yet privatisation in its various incarnations is not the product of a sudden enlightenment on the part of the authorities in the various towns and provinces. Rather, it is a product of 'discursive primitive accumulation' – the separation of the means of production from the public. It is a discourse, highly technical and technicist in nature and is the preserve of a tiny group of 'experts'. It is these 'experts' who produce reports, guidelines and handbooks and peddle 'advice' on particular areas of their 'expertise'. In many cases it is an expertise that is foreign in discursive origin. Key decisions are then made on the basis of these documents and the advice. There have been some attempts to engage with the role of 'experts' in the post-apartheid era (Bond, 1996). But the literature is limited. The next section engages with the role of the Water Research Commission as a key institutional purveyor of neoliberal techniques in the water and sanitation sector and thereafter with the role of an influential player in the field of consultancy services for basic services provision in the post-1990 era, the Palmer Development Group. The paper focuses on the role of the Palmer Development Group in peddling advice to municipalities, with special reference to financial sustainability.

4. THE WATER RESEARCH COMMISSION

The Water Research Commission was established in 1971 in terms of the Water Research Act. The head of the Water Research Commission reports to the Director General of Water Affairs who reports to the Minister of Water Affairs and Forestry. The Director General of Water Affairs and Forestry sits on the board of the Water Research Commission. The Minister of Water Affairs and Forestry appoints the board of the Commission. The Water Research Commission was established with a view to generating new knowledge through research and development. It strives to

> [support] both the creation of knowledge through R&D [research and development] funding and the transfer and dissemination of the created knowledge. An appropriate, sustainable knowledge base that is effective in its ability to absorb new knowledge is a prerequisite for effective knowledge dissemination. The [Water Research Commission], therefore, aims to develop and support a water-related knowledge base in South Africa which is both representative and sustainable, with all the necessary competencies and capacity vested in the corps of experts and practitioners within academia, science councils, other research organizations and government organisations (central, provincial and local) which serve the water sector.
>
> The [Water Research Commission] provides the country with applied knowledge and water-related innovation, by continuously translating needs into research ideas and, in turn, transferring research results and disseminating knowledge and new technology-based products and processes to end-users. By supporting water-related innovation and its commercialization, where applicable, the [Water Research Commission] seeks to provide further benefit for the country (Water Research Commission, 2004a:1).

The Water Research Commission plays a key role in the deployment of a discourse around water. The commission occupies a strategically powerful position, as it not only defines the basis for creating and validating knowledge but also promotes the translation of research into policy. The Water Research Commission has five key strategic areas in which it intervenes: water resource management, water-linked ecosystems, water use and waste management, water use in agriculture and water-centred knowledge. In effect these map out fields of knowledge, each containing a portfolio of programmes. Collectively these cover the complete spectrum of water-related topics of strategic importance and they are linked to a business plan (www.wrc.org). The Water Research Commission explicitly aspires to be the 'hub of water-centred knowledge in South

Africa'. It therefore by design sets out to map a discursive field for the water sector, as explained in this section.

The commission sets the terms and conditions for research according to determined research priorities, in addition to controlling knowledge dissemination and managing information. A key mechanism for doing this is the commission's journal, *Water South Africa*, where both national and international peer-reviewed research is published. The journal has been in existence since 1975 and is published quarterly. It has a substantial influence in promoting ideas and trends in the water and sanitation sector in South Africa.

The Water Research Commission takes its mandate from the government but at the same time influences policy through focused research. For example,

> Issues such as water for all, quality of life, and a sustainable environment are an essential part of the country's national priorities and require considerable attention. In addition, implementation of the National Water Act of 1998 and the related national water strategy places considerable demand on water management and calls for research support. The role of South Africa in SADC [Southern Africa Development Community] and NEPAD (New Partnership for Africa's Development), especially with regard to water resource and water supply and sanitation issues, poses new challenges and requires new initiatives which are within the mandate of the Water Research Commission (Water Research Commission, 2004a:1).

The Water Research Commission imagines a pivotal role for itself in terms of informing policy through sound research. Its mandate is taken from the policy reforms circumscribed by the new constitutional dispensation of the democratic era. Thus,

> the target group or clients of research activities are policy advisors and policy makers in the executive branch of government. Top [management] and ministries of national and provincial departments, as well as local authorities, require decision-support which will improve their bargaining position. At the same time research results *must create an awareness [among] members of the public of the expected benefits and costs of proposed policy changes and institutional arrangements*' (Water Research Commission, 2002:168, emphasis added).

Moreover, in early 2002 the Water Research Commission (2002:2) shifted from 'supporting policy-making to providing guidance for policy implementation and development of policy instruments'. The Water Research Commission sees its role as being the producer and disseminator of forms of knowledge that it views as legitimate and thus in the public interest.

For example, while the Water Research Commission (2005a:114) views water ostensibly as a human right and basic need, a tip of the hat to the principles enshrined in the Constitution of the Republic of South Africa, it envisages '[finding] unique solutions to problems arising from the application of our trail-blazing Water Act, which provides several opportunities to become world leaders in specialised niches within the economic domain'. In the final instance it recognises water as 'an economic good' (Water Research Commission, 2005a:112). Moreover, it conceptualises water as a commodity: essentially it strips away the human rights and basic needs aspect of water and reconceptualises it as an economic good governed by economic principles. Thus, water is subject to marginal cost pricing, i.e. conventional neoclassical economics: 'It is important to know the absolute and relative price (or a surrogate thereof) that users are willing to pay for water in order to assist decision-makers regarding the allocation and development of water resources' (Water Research Commission, 2005a:239).

In laying out the principles that guide its research thrusts, the Water Research Commission is responding to the global and national trends towards the neoliberalisation of water services delivery exemplified above. Internationally there was a reconceptualisation of the supply and demand of water services. In terms of supply, state intervention was giving way to increased participation of the private sector from concessions and management agreements through to outright privatisation, while on the demand side water was treated as an economic good. In this regard, the key moment was the 1992 Dublin International Conference on Water and the Environment, which concluded that 'water has an economic value in all its competing uses and should be recognised as an economic good' (Water Research Commission, 2002:7). And, following economic principles of efficiency in resource use, the use of economic instruments to effect behavioural change in the use of water became a key objective. Here, the utility of the rising block tariff system was proposed (Water Research Commission, 2002). This approach is analysed in Section 5 below.

The key question, namely whether the economistic conceptualisation of water was suitable in and of itself or to the South African situation, was left largely unanswered. Moreover, the Water Research Commission position on water as an economic good has been reinforced by recent *Knowledge Reviews* (see Water Research Commission 2004b, 2005a). In March 2005 the Water Research Commission (2005b) published a document *Towards a Research Strategy and Agenda to Support Water Services in South Africa*, which outlined key challenges for the water services sector and the research imperatives required to address these challenges. Among the challenges identified were the sustainable delivery of basic water and sanitation services and institutional reform. In each case cost-effectiveness and efficiency were stressed. In mapping out research themes to inform the key challenges, the Water Research Commission articulated the discourse of privatisation by authorising the adoption of private sector principles. For example, in the management of water services the Water Research Commission (2005b:6) mapped out the field as follows: 'The delivery of water services is a business, therefore it is important to ensure that water services institutions operate according to sound business principles' (Water Research Commission, 2005b:6). This approach had been adopted earlier, as evidenced by a research project commissioned in 1998 on 'The preparation of guidelines and a model for the financing of district councils' water supply functions', whose objective was to develop a model to 'assist in the business planning process of water services . . . [and] enable financial forecasting, investment scheduling and determining tariffs and expected revenue generation' (Water Research Commission, 2003:169).

Furthermore, full cost recovery was accepted as a legitimate premise with 'innovative cost recovery methods required to sustain and fund free basic water services delivery'. It was stated that 'Effective credit control policies and procedures must be developed in order to deal with the problem of poor cost recovery and financial sustainability of municipalities' (Water Research Commission, 2005b:9). The Water Research Commission (2005b:9) considered cutting off the water supply because of non-payment acceptable as a credit control measure and advised the 'development of innovative cost recovery mechanisms and credit control procedures including best approaches for managing water supply cut-offs'. The idea that water cut-offs might be a violation of human rights does not feature in the research strategy document. That water is an economic good and ought therefore to be managed according to economic principles effectively closes off alternative arrangements.

To realise its aims in the key strategic areas, the commission puts out a large number of tenders for contract research. The expertise is limited, however and the Water Research Commission (2002:113) recognises this, but says 'South Africa is fortunate to have a group of environmental economists who, although small in number, are well trained, dedicated and keep abreast of international developments in the field'. Among the companies that have enjoyed a number of successful tenders for research is the Palmer Development Group. This company is analysed in greater detail in the next section.

5. THE PALMER DEVELOPMENT GROUP

The Palmer Development Group, which was founded by Ian Palmer in 1990, has had perhaps the most profound influence on water sector research and policy in post-apartheid South Africa. Since its inception, it has carried out a considerable amount of contract research, primarily for the Water Research Commission and local government and has also consulted widely for the Development Bank of South Africa, the Department of Water Affairs and Forestry, the Department of Finance, the Department of Provincial and Local Government, the provincial and local governments and service providers. It has intervened in four key areas.

1. Research: focused primarily on water supply and sanitation, but also actively engaging with municipal infrastructure and municipal finance.
2. Policy: helping national and local government create policies for municipal infrastructure finance, subsidies and support for indigents and tariffs.
3. Planning: economic, infrastructure finance and development.
4. Management support: helping clients establish municipal services partnerships.

The Palmer Development Group plays a key interstitial scalar role. In other words it links the various geographical scales by consulting for national, provincial, metropolitan and local governments, thereby enabling the deployment of discursive practice in a fairly uniform way across the South African socio-spatial formation. Moreover, the institutional role it plays in the deployment of discursive practice creates the space for the development of a hegemonic discourse around basic services policy.

The Palmer Development Group has been instrumental in developing a uniform framework for water policy and its application in both urban and rural contexts. The key mechanisms of services provision policy were fashioned in the early 1990s. In 1994, a Water Research Commission-commissioned research report into water supply in developing urban areas articulated several key principles. Ian Palmer and Rolf Eberhard, the authors of the report, suggested that marginal costing should be applied to water services, that cost recovery was necessary, that service providers should be financially viable and that the conditions should be created for the privatisation of service delivery (Palmer Development Group, 1994). An earlier report to the Water Research Commission by the Palmer Development Group actively promoted the adoption of marginal pricing instead of using average historical cost (Water Research Commission, 1993). Eberhard (1999a,b) produced a similar report, again under the aegis of the Palmer Development Group, where substantive issues and proposals remained largely unchanged. He merely affirmed the World Bank differential tariff policy linked to affordability levels, but argued in the main against full long-run marginal cost pricing. He did not dismiss marginal costing but argued for it to form some part of the tariff structure (Eberhard, 1999a,b). Marginal costing would be applied to certain tariff blocks, because the first block would be free and thus zero-costed.

In 1995 a Development Bank of Southern Africa modelling exercise on service delivery, in which Palmer Development Group personnel were also involved, promoted a World Bank approach to services provision, whereby levels of services were linked to affordability. The Durban Municipality has adopted this approach. The report argued against the provision of universal full services provision. A key factor militating against this provision was macroeconomic constraint. So, basic needs were defined in economic terms. Affordability levels relate to people occupying certain spaces, thus areas where there are poor people unable to pay for a full service would be entitled to a lower service level. Yet, they would be liable for the full costs of the service because services were now treated as trading services (Roux & Eberhard, 1995). Economics and basic needs were linked, producing a spatial discourse sharp in class aspect and racial in character: 'white' areas having full service and 'black' areas consigned to the differentiated lower service levels. Needs are not central to the models. Financial viability is the determining factor in each instance. Therefore, the provision of low levels of service is linked to the costing of the service and financial viability rather than meeting needs as the main criterion. The Palmer Development Group was instrumental in developing financial planning tools that provided financial inputs into business planning (Palmer Development Group, 1999). Basic needs were recast as business needs and service providers redefined as business units in order to make them financially viable. In this regard the costing of services suggested the use of a rising block tariff system. Various techniques of tariff engineering were suggested so as to enable full cost recovery. The use of marginal costing as a means to satisfy the objective of cost recovery and the financial viability of the utility was detailed in reports on tariff policy.

Handbooks were published by the Palmer Development Group as a means of promoting techniques of management. For example, the *Introduction to Water Services Management in South Africa's Urban Areas* and *Sanitation Services Model* (Palmer Development Group, 1998a,b) set out, in detailed modules, how to prepare a water services development plan, a description of the customer profile and the demand for services and the reporting procedures for water and sanitation services and how to set the tariffs for these. The handbook also provides and explains computer models for the detailed costing of services and data sheets. Consultants are responsible for developing models, undertaking case studies and drafting reports (Palmer Development Group, 1999) and, since bureaucrats are seldom able to investigate the veracity of research or conduct research on their own, they accept consultants' reports as inherent truth. Handbooks and reports play important roles in guiding practice, thus creating a structure within which basic services are imagined. As Eberhard (1999a:1) admitted

> The researcher was actively involved in and/or contributed to a number of important policy initiatives in the [water and sanitation] sector, in particular, the development of the first tier water pricing strategy, the water services act and the regulations related to third tier water pricing. *Thus, it is fair to say that the research outcomes reported here have already helped shape the current water policy environment* (emphasis added).

It is apparent that, during the post-apartheid era, the provision of basic services has been framed in particular discursive terms. The neoliberal discourse deployed in services provision exploits spaces created in the Constitution of South Africa and also exploits the legislative outcomes. Among the key legislative outcomes has been the 'user pays' principle (Republic of South Africa, 1998), which has been translated into stringent full cost recovery at the local level. The private sector now contests the provision of water on an equal footing with the public sector.

The Palmer Development Group has also been instrumental in researching the provision of free basic water. This is now government policy. Thus the first six kilolitres of water are free to households. Thereafter, full cost recovery kicks in – once more than six kilolitres have been used the consumer must pay for those first six, through the fixed charge mechanism. This rising block tariff approach is problematic. Such tariffs may in fact be regressive in that the poor, because of bigger households and, thus, higher consumption may in fact be subsidising smaller, rich households. Seasonal variations are difficult to capture using a rising block tariff. In the summer months, water consumption will increase, thus moving poor households into the higher consumption blocks and making them pay more.

The rising block tariff approach is popular because of its purported equity benefits, which arise from the cross-subsidy schema. But cross-subsidies reflect notions of fairness, not equity, precisely because and, particularly in South Africa where racial inequities dominate, the derivation of the tariff blocks has no objective basis. Thus, it is highly questionable whether the rising block tariffs address racial imbalances. Furthermore, assuming that poor households consume within the first block, they will lose part of the subsidy unless they consume the entire six kilolitres. Reduction in water use leads to a smaller subsidy (Boland & Whittington, 2000).

The rising block tariff is not only *de rigueur* in municipalities throughout South Africa, but also ubiquitous in the developing world. Yet it is an economically inefficient, inequitable and poor forecasting tool (Boland & Whittington, 2000). Those who have worked in the water sector for a long time are at a loss to explain why it is adopted in the poorest countries (Whittington, 1992). Boland & Whittington (2000:234) suggested that 'water sector professionals really ignore the indirect consequences and hidden costs of [increasing block tariffs], particularly their often adverse effects on poor households'. Yet, these self-same professionals use the 'benefits to the poor' ruse as the basis for implementing the rising block tariff.

Consultants such as the Palmer Development Group, who borrow their methodology, particularly modelling techniques and philosophy, from institutions such as the World Bank and, in the water and sanitation sector, the American Water Works Association, are responsible for effecting the neoliberal colonisation of post-apartheid South Africa. New techniques of intellectual dependency are created and neoliberal ideas engendered.

6. CONCLUSION

Privatisation is not peculiar to the post-apartheid era: it has germinated from a conscious strategy conceived during the apartheid era of the late 1970s and the1980s. It is apparent that privatisation in the post-apartheid era has become systematic and is now viewed as an integral part of the government's macroeconomic and development strategy.

Of particular interest is the privatisation of basic services. By linking neoliberalism and privatisation as a discursive framework, this paper has shown that basic services are being privatised so as to renegotiate the relationship between state and society. It has explained how the efficiency argument is used to make marginal costing and cost recovery into key principles for the delivery of basic services and how this particular discourse has engendered a partnership between academia and key institutions. It has examined the role of the Palmer Development Group and concluded that this group has played a key role in opening up a space for policy and practice that is overtly neoliberal in orientation.

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