PUBLIC AFFAIRS RESEARCH INSTITUTE

JUST TRANSITION

RESTRUCTURING FREE BASIC SERVICES TO SUPPORT EQUITABLE DEVELOPMENT

POLICY BRIEF

July 2025

THE SOUTH AFRICAN CONTEXT

South Africa is characterised by high poverty and inequality. More than half of all households live below the upper bound poverty line, which for a household of four means a total monthly income of less than R6,536 in 2024. Forty per cent of households live below the lower bound poverty line: a total monthly income of less than R4,436 for a family of four. Some 25 per cent – almost 4.5 million households – live below the food poverty line: less than R3,076 total income for a family of four. Living below the food poverty line means that the entire income of the household is less than what is required to purchase minimum daily calorie requirements.

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1. Universal access to developmental levels of basic services is key to supporting poverty reduction and equitable development

Ensuring everyone can access services such as electricity and water is a prerequisite for reducing poverty and inequality. Access supports increased standards of living and a range of productive activities that will reduce poverty.

- **Access to electricity supports employment and small business development.** Households with access to electricity are more likely to start their own small businesses than those who do not.[1]
- **Access to electricity directly supports better food security and nutrition: the ability to cook means cheaper and more nutritious food.** Refrigeration allows households to purchase food in bulk and to store it.
- **Access to water and improved sanitation contribute to better health outcomes and supports home-based livelihoods such as own food production and small enterprises**. Research shows that increasing access to clean water and improved sanitation is positively correlated with higher levels of economic growth.

However, access to services only fulfils this equitable development mandate, rather than a basic survival mandate, when everyone can access a certain *minimum amount* of services. For example, if a household can only access a tiny amount of electricity (150kWh per month or less), they will only be able to have basic lighting, charge cell phones, store a small amount of food with refrigeration and do a limited amount of cooking. This is a survival level of access, which only supports the lowest standard of living and offers no opportunities to engage in economic activities – most of which require access to electricity – that will lift them out of poverty.

1 Prasad, G. and S. Dieden (2007) 'Does access to electricity enable the uptake of small and medium enterprises in South Africa?' Paper presented at 20th Domestic Use of Energy Conference. Cape Town, January 2012.

In contrast, a developmental level of electricity access will allow households to cook regularly – which usually results in more nutritious and cheaper food – and to engage in small-scale economic activities.[2] The same applies to access to water: a survival amount of water supports basic health standards, but a developmental amount of water allows households access to improved sanitation and to use water to support livelihoods and food security through home-based economic activity and own production of food.

Genuinely pro-poor, pro-equity policies for the provision of basic services must aim to progressively deliver a developmental level of access for everyone and not stop at a survival level.

Providing a survival level of services may make some marginal improvement in the lives of poor households but will never facilitate long-term sustainable reductions in poverty or inequality. Universal access to a developmental level of basic services will deliver the NDP goal of achieving a minimum standard of living that allows people to develop their capabilities and move out of poverty.

1.1 What is a developmental level of access to electricity and water?

Although this is a debated issue with no clear consensus, almost all research agrees that the current free basic electricity (FBE) level of 50kWh per month is far too low to be considered developmental. Most studies on the subject find that a developmental level[3] of access is at least 200kWh per household per month. PARI's research suggests that a developmental level of electricity for a household is 350kWh per month.[4] This allows for cooking every day, heating water for household use, and possibly some small-scale home-based economic activity.

Estimating a developmental level of water use is a little more complex than calculating one for electricity, since water use is determined to a much greater extent by the number of persons in a household. Household sizes vary enormously in South Africa: the average is 3.4 people, but poorer households are often larger and in many rural areas, household sizes of eight to ten persons are not uncommon. The World Health Organization (WHO) has calculated that the minimum water requirement to support a basic standard of living is 50–100 litres per person per day.[5] This amount still only allows for minimum use of improved sanitation, which generally requires around 44 litres per day per person.[6] The WHO minimum also makes no allowance for non-personal uses of water such as growing food or other productive activities.

A truly developmental level of water access should, therefore, be higher than the WHO minimum, to support both improved sanitation and productive uses.

We propose a minimum developmental level of water consumption at 110 litres per person per day – which is well below the average level of consumption of 140–250 litres per person per day across South Africa's metros. That would equate to 13kl per month for a household of four.

1.2 The long-term policy goal should be to ensure universal access to a developmental level of basic services

Policies that aim to deliver on the equitable development promise of universal access to basic services should focus on the long-term goal of ensuring that all households are able to access these developmental minimums – 350kWh of electricity and 13.2kl of water per month for a household of four people. Although it may not be possible to deliver these targets in the short term, progress in delivering universal access should be measured against them. In the absence of such quantified developmental access targets, it is likely that we will spend another 30 years without the levels of service access that will support equitable growth and reduce poverty.

2 Research indicates that households that can access sufficient electricity are more likely to start their own microenterprise than those that cannot (Prasad and Dieden, 2007).

3 Although that term is not widely used.

4 Assuming that the household is not using any other energy sources, such as gas for cooking or solar water-heating.

5 This is the amount indicated in the United Nations declaration of The Human Right to Water, which South Africa has endorsed.

6 An average flush uses 11 litres.

2. Affordability is the main barrier to universal access to developmental levels of services

There are multiple factors that prevent a household from accessing a developmental level of services, such as not being connected to the electricity grid or a piped water network, or intermittent and unreliable service quality. However, the single biggest barrier for poor households is the ability to pay for services. The current levels of free basic services, at 50kWh of electricity and 6kl of water each month, are well below the developmental level. This means that households must pay for services over and above these free allocations if they want to reach the developmental level of access.

Most of South Africa's basic services policies contain the objective of ensuring that these are affordable; that poor households can afford to buy the additional services that they require. But there is generally very little (or nothing) in the way of concrete affordability standards in these policies against which this objective can be assessed.

What is an affordable monthly tariff for a developmental level of electricity? R300? R500? Policymakers do not currently have an answer to this critical question.

The issue of affordability, in concrete terms, is not addressed during annual tariff setting processes, either by municipalities or by NERSA (in respect of electricity prices). Blanket statements about whether proposed tariffs are 'affordable' or 'unaffordable' are never backed up by detailed empirical analyses that compare the cost of services to household income and poverty i.e. what households can *actually* afford.

2.1 What is the best way to measure affordability in the South African context of high poverty?

Globally, the most widely used measure of affordability is to calculate the percentage of income that is spent on a service and to compare that to an upper limit. The upper limits for affordability of services in developing countries proposed by the World Bank are:

> *Households should spend less than 5 per cent of total income on electricity, and between 2 and 5 per cent of income on water.*

However, we do not believe that this percentage-of-income approach is appropriate in a high-poverty environment such as South Africa.

The percentage-of-income approach measures how much a household is *actually* spending on services. The poorer the household, the less money they will spend, by self-limiting usage to levels well below what would be considered developmental. A developmental approach to services implies that policy should aim to ensure a certain minimum amount of usage by each household – the developmental level of access – and it is the cost of that level of services, not actual expenditure, that should be considered in affordability calculations.

We want to know how affordable the developmental level of usage is, not the current less-than-developmental level.

It is problematic to use a percentage-of-income approach in a high-poverty environment where many households have very small incomes, food insecurity is high and research shows that households often sacrifice food expenditure to pay for electricity. The human-rights-based approach to affordability takes a relative approach, stipulating that a service can never be considered affordable if it requires the household to sacrifice other basic needs, such as food – even if that expenditure falls below the threshold percentage level. This relative approach gives a much clearer picture of the poverty (development) implications of a certain level of tariffs.

The relative approach to calculating affordability of services – taking into account other basic survival claims on household income – is much mor suitable in the South African context than the percentage-of-income approach.

2.2 How affordable are current tariffs for services on a relative basis?

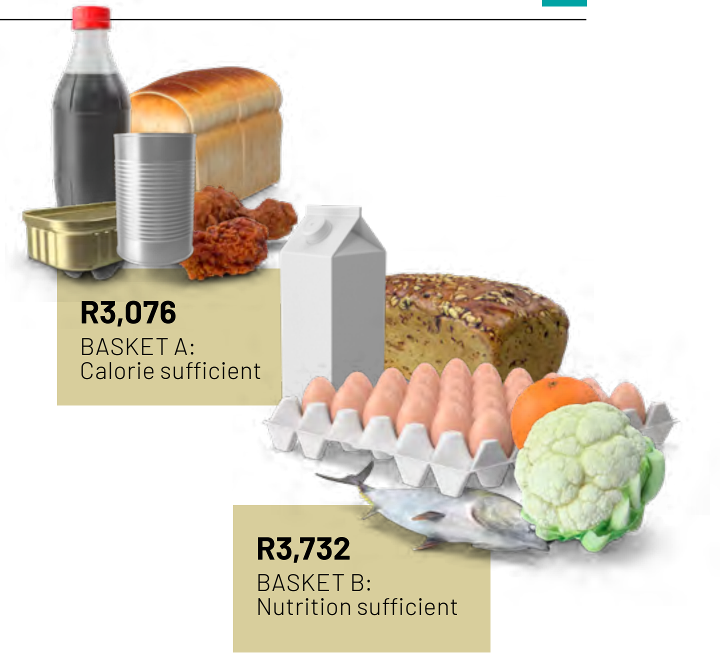
The assessment of whether services are affordable on a relative basis is made first by calculating the amount of household income available after deducting the cost of basic food requirements or post-food income, on the basis that this expenditure should be the household priority.

From this post-food income, the amount of money required to pay for water and electricity is deducted. The income that remains after the payment for services is what the household would have available to spend on all other essential expenses, such as accommodation, transport and non-food household and hygiene items. For the purposes of this study, we have assumed that if this remaining household income is less than R900, i.e. R30 per day, then the cost of those services should be deemed unaffordable. This is a very conservative approach, since most households require more money than this to pay for those other items.

To do these calculations, we assumed several scenarios, combining the following possibilities:

- Two options for household food expenditure were modelled: the *minimum calorie but nutrition-insufficient Food Basket A*, and the *minimum nutrition (but still very basic) Food Basket B*.
- We modelled the outcomes for households that received the FBE and FBW ('best case'), and those that did not ('worst case').
- We modelled for each household to use 13kl of water per month under each combination of (i) and (ii) above but modelled two possible levels of monthly electricity consumption – 200kWh/month and 350kWh/month.

The cost of water and electricity in our model was based on an average of the lowest cost for these services across all the metros, and Eskom for the electricity component.



	POVERTY LINES		
	Upper-bound	**Lower-bound**	**Food-poverty**
% of population living below*	55%	40%	25%
Monthly income	R6,536	R4,436	R3,076
Calorie sufficient basket of food (Basket A)	R3,076	R3,076	R3,076
Residual income A (Income – Food Basket A)	R3,460	R1,360	R0
Nutrition sufficient basket of food (Basket B)	R3,732	R3,732	R3,732
Residual income B (Income – Food Basket B)	R2,804	R704	(R656)
Average cost of 200kWh	R460	R460	R460
Average cost of 350kWh	R805	R805	R805
Average cost of 13kl of water	R325	R325	R325
Value of 50kWh of free electricity	R115	R115	R115
Value of 6kl of free water	R150	R150	R150
Best case 1A – income remaining after payment for services (200kWh electricity, Food Basket A, receives free services)	R2,940	R840	(R345)
Best case 1B – income remaining after payment for services (200kWh electricity, Food Basket B, receives free services)	R2,284	R184	(R1,176)
Best case 2A – income remaining after payment for services (350kWh electricity, Food Basket A, receives free services)	R2,595	R495	(R865)
Best case 2B – income remaining after payment for services (350kWh electricity, Food Basket B, receives free services)	R1,939	(R161)	(R1,521)
Worst case 1A – income remaining after payment for services (200kWh, Food Basket A, no free services)	R2,675	R575	(R785)
Worst case 1B – income remaining after payment for services (200kWh Food Basket B, no free services)	R2,019	(R81)	(R1,441)
Worst case 2A – income remaining after payment for services (350kWh, Food Basket A, no free services)	R2,330	R230	(R1,130)
Worst case 2B – income remaining after payment for services (350kWh, Food Basket B, no free services))	R1,674	(R426)	(R1,786)

Our calculations yielded the following key findings:

For households living below the food poverty line, there are no scenarios where the household can afford to purchase any level of services, even if food consumption is restricted to below an adequate nutrition level and the household receives all the free services. The reality for these households is that they generally consume even less than the calorie-sufficient amount of food, to pay for other basic essentials. This contributes directly to South Africa's high levels of child malnutrition[7] and significant burden of non-communicable diseases related to poor diet.8 For these households, the only 'affordable' services are free services. Access to free water is particularly important for those households that would like to produce some of their own food.

For households living above the food poverty line, but below the lower bound poverty line, there is also no scenario where services could be considered affordable at current tariffs. Even if the household limits its food consumption to below what is necessary for basic nutrition and receives both FBW and FBE and limits its electricity consumption to 200kWh per month, the residual income is below the threshold R900/month level. Additionally, if these households purchase a basic, but nutrition-sufficient basket of food, the best-case scenario is that they are left with a residual income of R704 per month to pay for all services and all other items. That is, for these households, no tariff is compatible with the national development goal of universal food and nutrition security.

For households living above the lower bound poverty line, but below the upper bound poverty line, all the scenarios result in a residual income above the R900 threshold. It should, however, be kept in mind that this is the best possible outcome in this category, since it represents the highest household income across this category. If these households use 350kWh of electricity each month – the developmental level of access – and purchase the basic nutrition sufficient basket of food (scenario 2B), the maximum remaining household income for all other purposes is R1,939 per month (R64.63 per day).

In summary, for households living below the lower bound poverty line (40 per cent of the population), there is no scenario in which a household can afford to pay for services above the current free levels within the context of South Africa's national development objectives around food security and nutrition. The implication is that these households should receive all the developmental level of services at a zero tariff.

7 Twenty-eight per cent of South African children under the age of 5 are classified as malnourished.

8 Diabetes caused by poor nutrition is now the leading cause of death among black women in South Africa.

3. The existing Free Basic Services policy is failing to deliver the intended outcomes

In theory, the current free basic services (FBS) policy should be the answer to the affordability challenge. But the current design and implementation of the policy is not adequate to resolve the affordability issues:

FBS was intended to provide a survival level of services at 50 kWh of electricity and 6kl of water per month, with the expectation that households would pay if they required additional services. We have demonstrated that services are not affordable, which means that effectively, households cannot reach the developmental level of services even though most do purchase services over and above the FBS levels. To facilitate universal developmental access, these allowances should be higher – preferably 200kWh of electricity per household per month and 13kl of water. This would ensure that many more households are able to reach the developmental level of services.

Implementation of the FBS programme is very poor: currently, some 11 million households are funded in the national budget to receive the free allowances of water, electricity, sanitation and waste removal. But only around 2.5 million receive *all* these services. In particular, relatively few households are benefitting from the FBE. **PARI research** over the past five years, (including multiple community engagements) has highlighted the problems that poor households face in trying to access these benefits. This is because municipalities are often failing to pass the benefits on to residents. This contributes to spatial inequality – very often the ability to access the FBS is determined by which municipality someone lives in, rather than how poor they are.

Even where households *do* receive the benefits, the very onerous conditions that most municipalities impose on the recipients of the free services may result in households being in a worse position – in respect of being able to use these services to improve their lives – than if they did not receive them. Municipalities often impose severe restrictions on registered indigent households that greatly reduce those households' ability to leverage the free services to improve their lives. These restrictions are completely at odds with the initial intentions of the free services programme as part of the social wage – to support households to move out of poverty by using *more* services and using them for productive economic purposes. In addition, municipalities are incurring high administration costs in enforcing these multiple requirements.

4. Policy recommendations for restructuring free basic services

Our research shows that the developmental level of access to services is unaffordable for the approximately 25 million people (some 7 million households)[9] who live below the lower bound poverty line. The FBS policy was envisaged as a key component of the social wage; an important means for poor households to meet a minimum standard of living despite their limited income. However, the current structure and management of the free basic services – which was intended to significantly reduce this barrier to access – is not delivering the intended pro-equity development impact:

- Millions of poor households are not receiving these benefits because of the exclusionary indigent policies of their municipalities;
- The current level of benefits – particularly electricity – makes up only a small part of the developmental level of access; and
- The onerous conditions imposed by many municipalities on free services beneficiaries effectively prevent beneficiaries from using these services to engage in productive activities and increase the administrative costs of implementing the FBS policy.

We believe that significant socioeconomic benefits can be obtained by redesigning the current FBS and indigent register system, as set out below. These recommendations have been developed with the current fiscally constrained national budget in mind: they aim to balance the imperative of universal access to developmental levels of services against the limited state resources available for this purpose.

4.1. Who should benefit?

Currently, some 11.2 million households are funded for the FBS in the national budget, while fewer than 3 million households receive the benefit. We recommend limiting the free services to the estimated 7.5 million households that live below the minimum wage household income level – R4,744 per month in 2024 for a 40-hour week, which is marginally higher than the lower bound poverty line for a family of four. This will target the FBS towards the poorest households, which will have a pro-equity impact since the benefit proportionate to household income is greater the poorer the household. These are also the households that, our research shows, are not able to afford developmental levels of services. Additionally, reducing the number of beneficiary households will allow for an increase in the quantum of services to be provided to the poorest households, which will have a further pro-equity impact.

Although it is likely that some current beneficiaries may lose their benefits, given the current very low level of beneficiary households, this is likely to be a relatively small number.

4.2. The quantum of the FBS package

If the pool of beneficiaries is smaller, each beneficiary can receive a higher level of benefits. If beneficiaries are capped at 7.5 million, the FBE allowance is increased to 150kWh per household per month and the FBW allocation is increased to 8kl per month, the difference in fiscal impact from the current situation will be as indicated in the table below:

	2025 BUDGET (11.2 MILLION BENEFICIARIES)			PROPOSAL (7.5 MILLION BENEFICIARIES)		
	Allocation	Cost	Total* (Rbn)	Allocation	Cost	Total*
FBE	50kWh/month	R150.00	R20.13	150kWh/month	R450.00	R40.50
FBW	6kl/month	R213.80	R28.68	8kl/month	R285.10	R25.66
Sanitation	Basic	R133.80	R17.95	Basic	R122.80	R12.04
Waste removal	Basic	R112.10	R15.04	Basic	R112.10	R10.09
Totals		R609.7	R81.80		R970.00	R88.29

* The total budget allocation to fund all beneficiary households over 12 months.

Source: Annexure W1 to DORB 2025/26 and own calculations.

9 Based on the assumption that the percentage of individuals living below the lower bound poverty line is the same as the number of households, bearing mind that some households in this category are larger than the average and some are smaller. The possible distribution of household sizes implies that there are between 5 and 8 million households in this category.

An almost 50 per cent increase in benefits to the poorest households would cost the fiscus an estimated R6.5 billion per annum. This relatively modest increase in allocations would result in substantial benefits for the poorest households, giving them a level of free services that can support higher standards of living and facilitate a wide range of livelihood opportunities. This expenditure – focused on the poorest households – would have a significant positive impact on poverty and inequality and can also be expected to translate into better nutrition levels among these households.

4.3. Administrative arrangements for more effective delivery

The current institutional arrangements – each municipality sets its own indigent register policy – have not delivered the intended benefits, have resulted in considerable spatial inequality in access to benefits and have increased the administrative costs of implementation. To date, many municipalities have failed to demonstrate a commitment to improving the situation. Although some municipalities are delivering the benefits as intended, they are in the minority. Additionally, an implementation structure that is fragmented across all municipalities is neither efficient nor spatially equitable. Against this background, we propose the following new administrative process for implementing the FBS:

1. **The FBS is no longer implemented by municipalities**, although they will still receive the relevant payment for the free services allocated to municipal residents. Instead, the FBS will be delivered under a new FBS social grant, administered by an independent agency.[10]

2. **FBS grant beneficiaries should be identified on a much simpler i.e. less administratively costly, less exclusionary and less punitive, basis than municipalities.** The grant will be allocated per dwelling connected to a municipal service11 or an Eskom meter. This approach will be more equitable than a per-municipality conditional grant – which has been proposed to improve implementation – since all beneficiaries will be subject to exactly the same qualification criteria no matter where they live.

3. **Once a beneficiary is SASSA-registered, their details will be handed over to the relevant municipality who will register them for the free services, and provide these.** SASSA will transfer funds to municipalities once the latter can show that the FBS are actually being provided. Payments to Eskom will proceed in the same manner. The addition of this third party (SASSA) means that households who are registered, but who do not receive benefits can approach SASSA to intervene on their behalf. Additionally, the condition that municipalities must first prove that they are providing the services before they receive payment for them will contribute to better implementation and a significant improvement in the number of beneficiary households.

4. The effective **removal of the indigent register in each municipality will reduce administrative and billing-related costs** in municipalities and also facilitate other initiatives that will contribute to more sustainable municipal finances. As one example, where a municipality is currently providing free basic water to all residents, this can be stopped. Only FBS grant recipients will receive the relevant credit on their accounts.

This administrative model would ensure that municipalities still receive national funding for FBS, but only in respect of households that actually get the benefits.

We propose that these changes are implemented over time, starting with the municipalities where the discrepancy between households funded for the FBS in the budget and households who actually receive them is the greatest. This staggered implementation will also allow opportunities to refine the administrative processes.

10 This would most likely be SASSA. Despite criticism of the SASSA administrative model, we believe it would result in more beneficiary households than under the current municipal administration model.

11 As discussed below, alternative arrangements will be required for informal settlements where bulk services (i.e. not metered per household) such as water and sanitation are provided.

4.4. Additional issues to be addressed

This proposed new FBS allocation and administration system will address many of the problems with the current system and disproportionately benefit the poorest households. However, there are some additional issues to be addressed in detailed system design, as follows:

1. **Informal settlements and bulk services**

A process will need to be developed to ensure that municipalities are compensated from the FBS funding where bulk services, such as water standpipes and communal sanitation, are provided to informal settlements.

2. **Alternative (non-electricity) energy**

Many households use non-electricity energy sources, either because they are not connected to the grid or because they choose non-electrical, cheaper sources of energy such as gas for activities like cooking. Non-grid connected households in particular could benefit significantly if the FBS allocation was designed to give them non-electricity options, including using allocations to pay for community-based renewable energy systems. There is currently a free basic alternative energy (FBAE) policy in place, which is intended to ensure that non-grid households benefit from the FBE allowance. However, relatively very few households do benefit in a manner that gives them access to alternative electricity sources, particularly when these are to be provided by non-state entities. In addition, there is currently no provision for grid-connected households to use a portion of the FBE to purchase gas. More flexibility in the energy category that can be purchased using the FBS and from whom services can be purchased will greatly improve access for poor households.

We recommend, therefore, that, as part of the restructuring of the FBS, the free basic electricity component effectively becomes **free basic energy**, and that a wide range of delivery options – apart from electricity purchases from a municipality or Eskom – are permitted.

3. **Cost of services**

The lower the cost of providing services, the more affordable services will be for more households. Lower costs, particularly for electricity which makes up almost half the cost of our proposed revised basket of basic services, will also reduce the cost to the fiscus of subsidising the free services.

Currently, municipalities are required to base tariff increases on some assessment of what it costs to produce these services, but there is very little to incentivise them to actively work to reduce these costs, rather than to simply pass them on to users.

In the electricity sector, the most important factor that can reduce the cost of supply is reducing bulk electricity costs through diversification of municipal bulk purchases. In the water sector it is reducing non-revenue water and particularly, the significant amount of water lost due to leaking infrastructure.

A national programme to benchmark the cost of supplying the various services and to ensure that municipalities actively work to achieve these benchmarks will, in the medium-term, result in lower real tariff increases. This will make services more affordable, which in turn will support broad-based growth and improve the general standard of living.