OCCASIONAL PAPER NO 5

Reflections on

South Africa's Restructuring of State-Owned Enterprises

Cheslyn Mostert

March 2002

Published by the
Friedrich Ebert Stiftung
South Africa Office
34 Bompas Road, Dunkeld West
Johannesburg, South Africa

P O Box 412664, Craighall 2024
South Africa

Tel 27 11 447-2232

Fax 27 11 788-5840
Fessa@fessa.co.za
www.fes.org.za

First published in March 2002

ISBN 1-919706-13-5

ABOUT THE AUTHOR

Cheslyn Mostert is the Economic Policy Co-ordinator for the Economic Transformation Committee of the NEC of the African National Congress.

CONTENTS

1. INTRODUCTION

This paper examines the process of privatisation - support, resistance, and effects. The process cannot be separated from a debate about the economic development of South Africa.

Privatisation has become one of the most used economic instruments in the 1990s, having different meanings for different people. The most popular definition of privatisation is the selling off of state-owned enterprises (SOEs) to the private sector. However, this is only one form of privatisation. Other forms include:

- *Contracting/outsourcing:* A particular service that has been provided by state employees is handed over to a private company. This may be a permanent arrangement or a contract for a given period.
- *Public-private partnerships:* State and business jointly manage the enterprise or provision of the service. Often referred to as PPPs, these partnerships can take various forms.
- *The state stops providing a service:* The expectation is that the private sector will fill the gap.
- *Increasing user charges for services* (education, health, transport and so on): The expectation is that the private sector will fill the gap.
- *Taking away restrictions which prevent the private sector from operating in particular sectors of the economy.* For instance, regulations which prevent private companies from operating in the telecommunications field may be removed so that public and private enterprises compete against each other.

Critics and supporters of privatisation both point out that the last decade has seen the increased use of privatisation as a policy instrument for economic development throughout the world. This process has been part of a broader process of economic restructuring that has taken place over the last two decades (Rondinelli & Iacono, 1996:1; Van der Hoeven & Sriraczki, 1997:1; Pape, 1998; Reconstruct, 1998). Rondinelli and Iacono (1996) estimate that at least 80 countries went through a privatisation process in the late 1980s and early 1990s. This process of economic restructuring is often referred to as globalisation or, by critics on the left, as neo-liberal globalisation (Pape, 1998; Reconstruct, 1998).

A common term used for these processes, in developing countries and countries in transition from a command economy to a market economy, is "structural adjustment programmes" (SAPs) (Rondinelli & Iacono, 1996:1). In the industrialised countries these programmes go by different names. One term used very often refers to the "austerity programmes" implemented in industrialised countries (Reconstruct, 1998; Pape, 1998).

In South Africa privatisation arrived in 1987, when the then National Party government started a process of selling off many state-owned enterprises (SALB, 1989). The ANC-led government in the post-apartheid period included privatisation as part of its economic policy instruments and provided continuity to the process started in 1987.

While privatisation is in its infancy, it still generates considerable debate in South Africa. The purpose of this paper is to examine the issues of privatisation: the support for, resistance to, and the effects that it has had and is likely to have in the future. As in other developing countries, "privatisation" cannot be separated from a broader debate about the economic development path that South Africa should follow given the existing political, economic and social conditions that this country faces.

2. ORIGINS

Privatisation, and specifically the notion of private sector participation in productive activities and the provision of services, goes back some centuries and continued into the first half of the twentieth century (Rondinelli & Iacono, 1996:8-9). It was closely identified with the development of capitalism itself, until the Russian revolution in 1917 introduced state or collective ownership of the means of production, land and services, commonly known as the socialist organisation of society.

After the Second World War socialist governments nationalised many private enterprises, land and services in Eastern Europe. Governments in Western Europe developed a mixed market approach that saw the state controlling many strategic enterprises, while it allowed capitalism to co-exist and develop industry for consumer goods. In the post-colonial period of the 1950s and 1960s, many governments in Latin America, Africa and Asia established SOEs, nationalised existing private colonial and foreign companies, land, natural resources, and established public services to provide for social needs like education, health and transport.

The number of SOEs mushroomed in many countries and the public sector grew both in the number of enterprises and number of employees (Rondinelli & Iacono, 1996:8-9). The state started to spend more and more, running up government deficits in the process as it incurred debt to finance public expenditure while revenues lagged behind. By the 1990s many countries were heavily indebted, opening the way for the International Monetary Fund and the World Bank to develop the notion of "conditionality" for further financing. This conditionality translated into structural adjustment programmes that included privatisation as one of the conditions, amongst a range of mechanisms to be implemented, before guarantees and finance were agreed upon (Reconstruct, 1998).

In South Africa the ANC-led government was under the same pressures that many developing countries faced after colonialisation in Africa, Asia and Latin America, and indeed Western Europe after the Second World War. The need for post-apartheid reconstruction prompted the government to consider the role the state would play in the development of the economy. It was faced with the dual challenge of providing social needs and delivery on the one hand while at the same time reintegrating into the global economy after years of relative isolation.

The post-apartheid government had to consider what role the state would play in the development of the economy.

The global economy of the 1990s was, and still is, dominated by the forces that drove market economies after the collapse of the socialist economies in Eastern Europe. This, combined with the prevalence of conservative neo-liberal governments in the North, home of many multinational enterprises, placed many constraints on the South African government and contributed to determining the way it would interpret the role of the state and government (Pape, 1998).

3. RATIONALE BEHIND PRIVATISATION

The rationale behind privatisation emanates from a belief in the system of capitalism. Supporters of capitalism regard the private sector as the best provider of goods and services in an economy (Pape, 1998:8). Other reasons advanced for privatising goods and services are given by writers like Van der Hoeven and Sriraczki (1997:2) who argue that the reasons for creating public enterprises no longer exist. The reasons they cite are:

- *national security* which led to state involvement in the defence industry;
- ease *revenue raising* by avoiding costs for procurement of products;
- the need for *economic control, and self-reliance* and fear *of private monopolies* to reduce dependence on other countries or foreign companies; and
- the *lack of private initiative* to undertake large-scale initiatives like electrification of a country.

They argue that the absence of these reasons has led to privatisation in the industrialised world, but that this has been implemented in the developing world without consideration of the state of these economies.

The rationale for privatisation, they continue, is more political than economic, undertaken as part of structural adjustment programmes, and is in the end (like other instruments such as the relaxing of exchange controls) a signal to domestic and international investors that the country is open for business. The *World Guide 1997/1998* (Instituto de Tercer Mundo, 1997:55) puts it as follows: "Structural adjustment aims to open national markets, suppress subsidies and price controls, reduce budget commitments, privatise public companies and deregulate salaries and working conditions".

Supporters of privatisation believe that SOEs are outdated, and that privatisation will help modernise the economy. Critics believe that privatisation will mean higher profits for companies at the expense of consumers.

Supporters of privatisation uphold the above view that SOEs are not necessary any more, that they correspond to a particular epoch of economic development: the post-colonial period, following the Second World War, and the collapse of the Soviet Union and other Socialist states in Eastern Europe. Other reasons given are that people in these countries became dissatisfied with government-provided goods and services as they were of poor quality, and that centralised command economies did not provide for the diversity, innovation and competition which would have encouraged product and service improvements. Examples are quoted from industries such as communications, water provision, education and health services, which are said to place a drain on the fiscus (Rondinelli & Iacono, 1996:9-17).

Critics on the left believe that the real reason for privatisation lies in the crises of capitalism in the 1970s. Critics of neo-liberalism state that, far from the inefficiency of communism as practised in Eastern Europe, the drive for privatisation is part of a drive by multinational companies to open up new spaces for profit taking.

4. METHODS OF PRIVATISATION

Different methods of privatising are employed, which Rondinelli and Iacono (1996) sum up as follows:

- transferring ownership of state enterprises or assets to the private sector;
- restructuring SOEs for retention or later sale;
- transferring management of commercial operations, public services or infrastructure to the private sector; and
- delegating responsibility for production of goods and services to the private sector or non-governmental organisations (NGOs).

These broad processes are implemented using different means, which include:

- property restitution and reprivatisation, especially in the former socialist countries of Eastern Europe;
- auctioning of state property through a call for bidders or by issuing demands for tenders;
- divestiture of SOEs using the following methods:
    - private sale of assets directly to domestic or foreign investors,
    - public offering of shares on the stock exchange,
    - management or employee buy-outs,
    - free or low-cost distribution of vouchers to citizens, widely used in Eastern Europe;
- restructuring or commercialisation of SOEs, which involves:
    - commercialisation – that is, eliminating subsidies and forcing SOEs to recover costs to make profits,
    - creating joint stock companies,
    - allowing private firms to compete with the state in the same industry,
    - unbundling or breaking up SOEs into divisions, some of which are divested and others retained as public services;

- contracting with private companies – these often include giving service contracts or management contracts;
- establishing public-private partnerships, where the state invites a private enterprise to be an equity partner, to run a company and share in the profits;
- build, operate and transfer operations in which the state buys a service or facility after allowing a private company to operate it for an agreed period of time until they have recuperated their cost and gains;
- by provision of state incentives or tax breaks.

These methods have been employed to varying degrees in many countries over the last few decades, including South Africa in the last few years.

5. PRIVATISATION IN SOUTH AFRICA

5.1 Privatisation under the apartheid state (pre-1994)

After the National Party came to power in 1948, it needed to consolidate its support base among the white working class and Afrikaner business owners. This it did by making use of its control of the state. It took steps such as:

- providing employment for white workers on the railways, in the post office, and in the civil service in general;
- providing social benefits for whites, including free education, subsidies for basic services like water and electricity, and state housing;
- setting up enterprises to provide the infrastructure needed by a developing local industry, including setting up new SOEs like ISCOR and SASOL and expanding existing public sector companies like Eskom; to further build the government's base of support, the services and products of these parastatals were provided to business at subsidised rates.

The large enterprises set up by the government gave the state a very big influence over the economy. The public sector employed many people, and was responsible for considerable investment in the economy. The role that the state played helped to empower the Afrikaner population, especially Afrikaner business owners.

Historically, the apartheid state had enormous control over the economy.

Throughout the 1960s and 1970s, South Africa was one of the fastest-growing economies in the world. This growth mainly benefited the white population. However, by the 1980s, the National Party government was feeling the effects of the global economic crisis. The moves toward the lean and mean state in the UK and other industrialised countries began to influence the apartheid government. In 1987 the National Party government produced a White Paper on Privatisation and Deregulation.

The White Paper put forward the following motivations for privatisation and deregulation:

- the size of the public sector and government spending needed to be reduced to open up investment opportunities for the private sector;

- business must be allowed to develop and grow without state intervention and with minimum regulation;
- cutbacks on state spending and money raised by selling off state assets could provide much-needed funds for government.

With economic sanctions and the general world-wide economic slump, the government was struggling to find enough money to carry on paying for apartheid. The apartheid state began a process of commercialising SOEs like Eskom, Telkom and the Post Office. Commercialisation meant that these enterprises needed to make efficiency and profit-making a priority. Apart from commercialisation, the state also sold off ISCOR.

Despite the aims of the White Paper, the government was not able to carry through a full privatisation programme. There were two reasons for this. Firstly, international sanctions meant that many transnational companies were not prepared to buy South African state enterprises. Secondly, the trade unions and anti-apartheid organisations were strongly opposed to the "unilateral restructuring of state assets" and engaged in mass action to block the selling of these state enterprises.

5.2 Post-1994 privatisation: the RDP, the NFA and GEAR

The ANC's position on privatisation has changed over the years.

For many years prior to the democratic elections in 1994 there had been a heated debate in the ANC and other political organisations about the future of the economy. Privatisation was a key issue in this debate. From 1990, the position of the ANC had been anti-privatisation. On his release from prison Nelson Mandela had voiced his support for nationalisation as a fundamental policy of the ANC.

Those who supported nationalisation and opposed privatisation drew on the Freedom Charter which said:

> *The people shall share in the country's wealth! … The national wealth of our country, the heritage of all South Africans, shall be restored to the people! … The mineral wealth beneath the soil, the banks and monopoly industry shall be transferred to the ownership of the people as a whole.*

5.2.1 The RDP

The first economic programme of the new government was outlined in the Reconstruction and Development Programme (RDP), published just prior to elections in 1994. The RDP pushed for a developmental-type state in a mixed economy:

> *Reconstruction and development will be achieved through the leading and enabling role of the state, a thriving private sector, and active involvement by all sectors of civil society which in combination will lead to sustainable growth.*

The RDP also emphasised the gender implications of the role of the state in delivering affordable services:

> *The needs of women, children, and disabled people for affordable and safe transport are important. Adequate public transport at off-peak hours and security measures on late-night and isolated routes must be provided.… One important aspect of people being able to take control of their lives is their capacity to control their own fertility. The government must ensure that appropriate information and services are available to enable all people to do this.*

While the RDP promoted a developmental state, it did not take a fixed position on the issue of nationalisation and privatisation. On this issue the RDP stated:

> *There must be a significant role for public sector investment to complement the role of the private sector and community participation in stimulating reconstruction and development. The primary question in this regard is not the legal form that government involvement in activity might take at a given point, but whether such actions strengthen the ability of the economy to respond to the inequalities in the country, relieve the material hardship of the majority of the people, and stimulate economic growth and competitiveness.*

5.2.2 The National Framework Agreement

Throughout the debates over economic policy, there was general agreement within government, labour and business that the state needed to be restructured. The essential issues were (i) what form would the restructuring take, and (ii) who would make the decisions about restructuring? Business wanted the state to step aside and provide more opportunities for the private sector. They preferred a lean and mean state. Labour generally promoted a developmental state, with increased service provision by government to redress apartheid backlogs in areas like housing, health, education and welfare. Some groupings within labour also continued to promote the policy of nationalisation of certain privately-owned companies and industries. COSATU and its affiliates held demonstrations and other actions in response to privatisation proposals from the newly-elected government. The conflicts and debate between government and labour on the issue of privatisation culminated in the National Framework Agreement (NFA) in 1995.

The NFA was signed through the National Economic Development and Labour Council (NEDLAC), COSATU, the Federation of Unions of South Africa (FEDUSA), the National Council of Trade Unions (NACTU), and the Government of National Unity (GNU). The NFA outlined the goals for "restructuring of certain state assets" and the steps that were to be followed in the process. The NFA set up a number of joint structures of government and labour to discuss plans for restructuring. The NFA also stated that restructuring proposals would be "negotiated through the collective bargaining process in terms of the Labour Relations Act".

5.2.3 The GEAR macroeconomic framework

The changing role of the state

In June 1996 the government introduced its Growth, Employment and Redistribution (GEAR) macroeconomic strategy (Department of Finance, 1996) . One of the main issues addressed by GEAR was the role of the state in the economy. GEAR shifted the state more toward the lean and mean model. According to GEAR, government should not focus on owning assets or manufacturing enterprises. Rather, the government should focus on:

- regulating the economy, rather than being an owner or producer;
- encouraging foreign investment by providing a climate attractive to investors; and
- cutting back state spending.

GEAR and privatisation

GEAR has had an impact on the government's approach towards privatisation.

The GEAR document does not use the word *privatisation*. However, in outlining the process of the restructuring of state assets, selling off of these assets is noted as a possible approach:

- The nature of restructuring, as outlined in the framework agreement [NFA], may involve the total sale of the asset, a partial sale to strategic equity partners or the sale of the asset with government retaining a strategic interest.
- GEAR notes that state entities should have "appropriate regulatory policies, aimed at ensuring that pricing policies are fair and fully recover operating costs, while also promoting competition or protecting consumers against monopolistic practices."

- It also advocates the creation of public-private partnerships in order to supplement government spending. "Recognising the limited capacity of the fiscus, government is committed to the applications of public/private partnerships based on cost recovery pricing where this can practically and fairly be effected."

Privatisation under GEAR

Once GEAR became the economic policy of the government, restructuring exercises were carried out in a number of SOEs and sectors. In different cases, the government opted for different forms of privatisation. The government has given three main motivations for privatisation:

- *Finance*: The government says it does not have enough money to build and maintain the infrastructure that is needed. By privatising it wants to access private sector funding for building infrastructure. Furthermore, by selling off state assets it hopes to cut back on annual expenditure and to raise money to pay off past debts.

- *Public sector inefficiency*: Another reason that the government sometimes puts forward is the amount of waste and corruption and the lack of efficiency in the public sector. It argues that, since these problems cannot be avoided because of the nature of the public sector, the best way of developing efficient, economical use of resources and delivering effective services is to bring in the private sector.

- *Black economic empowerment*: The government also argues that privatisation can be used to promote black empowerment. It argues that this can happen through mechanisms such as the National Empowerment Fund (NEF). All state assets which are privatised will have to sell up to 10% of their shares to this fund. The money in the fund will be used to help small black manufacturing businesses. It will also give historically disadvantaged communities the opportunity to own shares and, in this way, encourage them to think of themselves as having a stake in the economy. All state enterprises which restructure will also be encouraged to offer some shares to employees. This is meant to encourage the employees to work harder and be more committed to the company because they now have a stake in how well it does.

The ANC government has committed itself to restructuring state assets.

The new South African government committed itself to the restructuring of state assets, considering among other measures, "nationalisation, purchasing a shareholding in companies, establishing new public corporations or joint ventures with the private sector…." This would be considered along with "reducing the public sector in certain areas in ways that would enhance efficiency, advance affirmative action and empower the historically disadvantaged…" (RDP, 1994:80).

The present ANC-led South African government has not nationalised any industry, but it has implemented many of the other measures cited. The 1998 *South Africa Yearbook* outlines a number of initiatives undertaken (Burger, 1998).

While GEAR was touted as a framework that would help realise the objectives of the RDP, its announcement, coupled with the closure of the high-profile RDP ministry earlier in the same year, signalled a shift in government policy towards IMF-inspired economics. Although GEAR does not mention the word *privatisation,* it does use the phrase *restructuring of state assets* which is widely associated with privatisation. The Government Communication and Information Service (GCIS) uses the two interchangeably when it describes economic developments and policy in South Africa (Burger, 1998).

These privatisation initiatives have taken different forms and include:

- the complete sale of companies, like Sun Air and seven radio stations to consortiums;
- Build, Operate and Transfer arrangements for the building of roads;
- the opening of private-public partnerships at local government level for the provision of services like water;
- selling a partial stake (30%) in Telkom to combined American-Malaysian consortium; and
- the proposed sale of a 25%-30% stake of South African Airways (Burger, 1998:229-230,463-464).

6. CURRENT GOVERNMENT POLICY

It is often expressed that government should leave management and ownership to the private sector; this might, in many cases, be the most feasible option, not least in a national and global economy that is dominated by capitalism.

Government reiterated its firm commitment to its overall strategic vision for the restructuring of SOEs at the November 1999 Cabinet Lekgotla. With the launch of the Policy Framework in August 2000 (DPE, 2000), government sought to define clearly the continued role of the state, in the light of international experience with restructuring of SOEs and the ever-changing economic and developmental needs of South Africa. *An Accelerated Agenda Towards the Restructuring of State-owned Assets*" (DPE, 2000) endorses the NFA's objectives and highlights a number of key restructuring principles, among them:

- Competition should be promoted within a regulatory framework to ensure that restructuring brings lower prices and better goods and services.
- A regulatory framework will ensure that monopolies do not distort the development of competitive markets in unregulated sectors.
- The framework must be consistent, manageable and appropriate, but not bureaucratic.
- Government's intent and relationship with the restructured state enterprises should be explicit in shareholder agreements, in the enterprises corporate governance framework, and in a clear policy framework and restructuring programme. The performance of enterprises will thus be easier to assess, enabling the state and investors to make appropriate investment decisions.
- Government should explore options to enhance productivity, profitability, investment and innovation, including equity sales for access to additional funding, technology or markets.
- Where this is not required, corporatisation joint ventures, employee participation schemes and community partnerships may be more beneficial.
- With partial privatisation, other partnership arrangements may also be appropriate.
- Government should maximise the return to the fiscus through equity sales, dividends, and/or tax returns.

The policy states that long-term returns can be maximised by trading off short-term gains from equity sales in depreciated assets for medium- to long-term gains, such as dividends and taxes, from restructured enterprises. Restructuring proposals should assess the enterprise's impact on social welfare. They should address the direct and indirect costs and benefits to society, for example concerning employment, pricing and the delivery of essential services. Government will monitor the implementation of laws, particularly on transparency and the management of public finances.

The National Framework Agreement aims to stimulate investment and create mechanisms for directing market-oriented strategies. This will ensure that growth does not negatively affect people's welfare, make infrastructure a development platform rather than a burden, and release capital for social development.

Government sees privatisation as an important vehicle towards restructuring.

Government's restructuring of SOEs is aimed at the integration of public, private and social capital and expertise to ensure that the developmental objectives for South Africa are achieved.

The Reconstruction and Development Programme and statements included in the GEAR strategy and the 1996 Framework were the foundation from which discussion started. At the official launch of the revised Policy Framework, Minister of Public Enterprises Jeff Radebe said: "[T]here is an unambiguous need for the state to play a developmental role in South Africa to deal with the legacies of apartheid, widespread poverty and unemployment. SOEs in South Africa represent massive financial, investment, labour, technology and infrastructure resources." Government's perspective is one where privatisation is the primary vehicle towards restructuring. The strategy aims to maximise the contribution that these state assets can make to development.

In his February 2001 State of the Nation address, President Thabo Mbeki outlined the broad economic strategic shift of focus with an emphasis on:

- a shift of focus from the macroeconomic to the microeconomic (or "real" economy), without neglecting the importance of the former;
- a major focus on infrastructural development – embracing both economic and social infrastructure;
- a related, targeted, focus on urban renewal and integrated rural development; and
- lowering input costs within the economy without attacking workers' wages.

The Treasury has adopted a particularly uncritical approach to privatisation. In the *Budget Review 2001*, it argues that restructuring of SOEs can "broaden economic participation, recapitalise public enterprises and reduce state debt".

The Treasury supports privatisation as it can raise funds to enable it to meet GEAR targets. In 2001/2, it expects privatisation of the major parastatals alone to raise R18 billion – 7,4% of the budget.

The Department of Public Enterprises (DPE) has committed government to bringing in private interests wherever possible, believing that full or partial privatisation can enhance the productivity and profitability of SOEs by giving them access to additional funding, technology and markets. The DPE and the Department of Trade and Industry (DTI) maintain that it is important to introduce competition into sectors traditionally controlled by the state, arguing that competition will improve services for all.

The Municipal Systems Act is the only legislation on restructuring the state, and applies only to local government. The Act sets limits on privatisation, but faced with the national government's pressure to privatise, municipalities have largely disregarded the Act.

In general, government voices caution on privatisation, maintaining that wholesale and unregulated privatisation will not occur. Preference is given to the usage of less controversial terms such as "restructuring" or "public-private partnerships". However, policy documents indicate a belief in the effectiveness of markets and private managers, regarding privatisation as a way to compensate for recent budget cuts.

Government's stated restructuring objectives are broadly categorised into the following:

- those internal to the firm's, industry's or sector's broader economic and social objectives;
- at the enterprise and sector level, improving the efficiency and effectiveness of the entity, accessing globally competitive technologies where appropriate, and mobilising private sector capital and expertise;
- assisting in the creation of effective market structures in sectors currently dominated by SOEs;
- at the macroeconomic level, to attract foreign direct investment, to contribute to a reduction in the public borrowing requirement, and to assist the development of an economic context that promotes industrial competitiveness and growth; and
- social imperatives include the need to ensure growth in employment, particularly in new areas of endeavour, and to rationalise or develop new skills within the labour force and their deployment throughout the economy.

7. THE ALLIANCE PARTNERS

To what extent do the Alliance partners share the same goals?

The Alliance partners, for the most part, often appear to be in agreement at a strategic level. However, at the heart of many problems within the Alliance is a tendency to fudge real differences, or to present different and perhaps contradictory objectives as if they were converging and mutually reinforcing goals.

7.1 African National Congress

The overwhelming support for privatisation by national departments in the past few years contradicts the far more cautious view historically adopted by the ANC. This approach culminated in the repeated commitment to look at restructuring the state on a case-by-case basis, rooted in careful examination of the costs and benefits of different options.

The Freedom Charter called for greater, not less, state control of the economy.

The ANC's 1969 *Strategy and Tactics* did not focus much on economics. It did, however, argue that,

> *… in our land [transformation] cannot be effectively tackled unless the basic wealth and the basic resources are at the disposal of the people as a whole and are not manipulated by sections or individuals, be they White or Black.*

This seems to suggest strong support for state ownership.

In 1992, *Ready to Govern* introduced the commitment to restructure the public sector on the basis of investigations to determine developmental needs.

> *The primary question in this regard is ... whether [restructuring] will strengthen the ability of the economy to respond to the massive inequalities in the economy, relieve the material hardship of the majority of the people, and stimulate economic growth and competitiveness. In this context, the balance of the evidence will guide the decision for or against various economic-policy measures…. The democratic state will therefore consider:*
>
> - *Increasing the public sector in strategic areas.*
> - *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 and employment of workers (ANC, 1992).*

Ready to Govern also stressed that "The ANC is opposed to privatisation of essential municipal services." The RDP repeated the *Ready to Govern* formulations on restructuring the state almost *verbatim.* It added that,

> *The processes of commercialisation and privatisation of parastatals must be reviewed, to the extent that such processes are not in the public interest. That will require the elaboration of more appropriate business plans, and publication of those plans for open debate. The democratic government will reverse privatisation programmes that are contrary to the public interest (ANC, 1994).*

The 1997 Mafikeng Conference of the ANC essentially repeated the call for a case-by-case approach, while generally arguing for a strong state (ANC, 1997). It resolved that restructuring of state assets should be driven by a sectoral policy and include agreements with labour on skills development and employment (ANC, 1997, para 4.3). Most of the current restructuring proposals do not meet either of these requirements.

More recently, in its 1999 Elections Manifesto, the ANC made no reference to privatisation, but stressed the importance of a strong and active public sector. It argued that:

> *The ANC will speed up public sector investment through increased capital expenditure and through co-ordinated investment plans of parastatals (like Eskom). The main aims of such investment will be:*
>
> - *job creation,*
> - *increasing the rate of growth of our economy,*
>
> *meeting basic infrastructure needs,*
>
> *promoting development in regions where it is most needed.*

The 1999 Manifesto also argued that, "The ANC is committed to moving as rapidly as possible to free, dynamic and compulsory education." Again, achieving this aim is not possible as long as schools are effectively semi-privatised.

In 2000, the ANC's Local Government Elections Manifesto promised a strong public sector that could deliver basic services to the majority. It committed government to:

- Keep the public sector as the preferred provider of municipal services, to ensure adequate service for all communities.
- Ensure local government has the powers and resources to serve you adequately, in part by reviewing and strengthening the system of subsidies to local government.

It suggested that local government should enter into "partnerships" with other entities only where it lacked capacity, and that these partnerships would serve the poor only if "strictly regulated." At the same time, it committed ANC-led local governments to "reviewing existing plans and policies that could reduce employment, and finding alternatives."

7.2 Congress of South African Trade Unions

COSATU's policy recognises the need for state intervention in the economy to boost reconstruction and development.

Before the government produced GEAR, COSATU came out with its own economic policy document called *Social Equity and Job Creation* (COSATU, 1996). Although this document says less about the role of the state, it does still recognise the need for state intervention in the economy to facilitate reconstruction and development. It talks about an extensive public works programme, the restructuring of state assets, and redirecting state spending to meet the needs of the poor.

The COSATU Central Executive Committee (CEC) of 1996 resolved:

> *[We reiterate our] opposition to wholesale privatisation of state assets since this is usually driven by greed, the need to push the state out of production and to subject delivery of certain basic services as outlined in the RDP to the laws of profit.*

At its 1997 Congress, the CEC also argued that there was a place for all forms of ownership:

> *… nationalisation, privatisation (where necessary), joint venture, opening of new entities and partnerships between the state and private sector. … There may be state assets which should never have belonged to the state sector in the first place, whose retention does not benefit the majority of people or helps perpetuate the apartheid divide...these would need to be identified and sold. … [COSATU has committed itself to] publicise and resist the GEAR elements of subsidy cuts, privatisation, labour market flexibility, etc (COSATU, 1997 Congress).*

Generally COSATU opposes privatisation, which it defines broadly as "the extension of the control and wealth of the private sector at the cost of the state." It explicitly rejects both the introduction of private competitors in sectors historically monopolised by the state, such as electricity and railroads, and contracting out management without changing the ownership of assets.

COSATU also argues that the state must continue as the provider and manager of basic services and national infrastructure. This would narrow the scope of the case-by-case deliberations recommended in the RDP.

In July, COSATU declared a NEDLAC Section 77 dispute with government over privatisation. The dispute relates not to privatisation in the narrow sense of selling state assets, but rather broadly to the replacement of state functions with the market or with private control. COSATU's Section 77 notice defines privatisation in terms of the extension of the private sector's control and wealth at the cost of the state.

This definition of privatisation covers not only the open sale of state assets, but also other processes that turn state functions over to the private sector. These processes include:

- The sale or partial sale of state-owned assets or enterprises.
- The introduction of private competitors in sectors historically controlled by the state. Effectively, this approach privatises part of an industry or sector, even if the state does not itself sell any assets. It effectively subjects state interests to pressure to compete on the market, ultimately reducing their capacity to meet social needs.
- Relinquishing the management of state functions to private interests. This can take the form of outsourcing services away from the public service. It also takes the form of contracting management of municipal services to private companies. In these cases, the state does not necessarily sell assets, but they nonetheless fall under private control.
- The requirement that state functions operate on a commercial basis, in some cases registered under the Companies Act. Commercialisation often forms a first step toward privatisation by subjecting state activities to the logic of the market. As with the privatisation of historically state-run industries, it makes state interests pursue commercial imperatives rather than broader social needs.

Given this definition, it is clear that COSATU demands not just an end to the sale of state assets, but a re-examination of whether it is desirable for market forces to govern the delivery of basic services.

In COSATU's *Position Paper on Privatisation* (July 16, 2001), it states that the main argument for government's plans to privatise SOEs is that it will enhance efficiency in addressing social needs and leverage private investment to that end. According to COSATU,

> *The first argument assumes that South Africa has relatively efficient markets from a social standpoint – an assumption that holds neither in theory nor in practice. Above all, because of very unequal incomes, private providers have little incentive to serve the poor and cannot easily capture the benefits of broad-based*

> *development. The result is that they simply cannot take on the developmental role of the state. They also undermine cross-subsidisation, increasing the pressure to raise tariffs for the poor. It is argued that in these circumstances, government lacks the capacity to compel private providers to meet national targets. Moreover, the attempt to restructure on a broad front, combined with excessive faith in private expertise, has led to management mistakes.*

COSATU also states:

> *Given these realities, the argument that privatisation will bring in funds really only means that it will increase the off-budget resources available for infrastructure. The cost may be high – to the state, in terms of subsidies or lost assets, and to poor consumers in the form of rising tariffs and limited access.*

COSATU believes that, given mass poverty, private interests will not provide adequate services to the poor. It also argues that the state must retain control over strategic assets in order to restructure the economy. It holds that regulation by the state will not be sufficient to make the private sector achieve these aims. Therefore, COSATU has called for a freeze on privatisation until the Alliance has agreed on a more detailed policy framework.

7.3 South African Communist Party

The SACP wants public control of sectors that are essential to development.

The SACP does not place such stringent limits on privatisation, but does argue for public control of "enterprises and services that are essential to development." By that it means water, electricity, transport, health, education, post and telecommunications.

In addition, the SACP stresses the critical importance of developing a much clearer industrial policy strategy to guide the restructuring of publicly-owned assets. In particular, it has expressed concern that restructuring could fragment and weaken state agencies, so that they would not be able to intervene decisively to restructure the economy.

In recent months the SACP has adopted the view that restructuring should be re-assessed based upon the South African experience of privatisation over the last seven years. Though the SACP has more or less endorsed privatisation, it is of the firm conviction that assessment and re-examination of the process is of the utmost importance.

In an input paper – Restructuring of State Assets: SACP Input to Alliance 10-A-Side (SACP, 2001), the SACP also takes stock of international experience with regard to privatisation and how these have forced the debate around privatisation to be reshaped and rethought.

> *[I]nternationally, in the last few years, there has also been an emerging and generally more nuanced view of restructuring, coming out of concrete experiences, many of them negative experiences – e.g. electricity in California, rail and water in the UK, rail in Argentina, not to mention the woeful experience of mafia-style privatisation in Russia.*

The SACP's argument for publicly owned corporations includes the following dimensions:

- *Developmental priorities*: Privately owned corporations are not going to invest major resources in overcoming the huge structural inequities in society. Neither are they going to deliver educational, health, electricity, transport and telecommunications infrastructure and services to the marginalised.

- *Strategic economic priorities, including the defence of a relative national economic sovereignty* : "Rolling out infrastructure" does not imply the end of the need for public ownership. It is questionable whether privatised corporations will maintain effective and affordable provision of services to the marginalised. Without public ownership in a number of key areas, critical economic strategic priorities will not be realised. The short-termism of private capital mean that key strategic economic (and not just social) objectives may be ignored or frustrated by private capital.

- *Weak corporate governance where boards and senior management fail to take seriously their public mandate*: It is critical that the senior management of publicly-owned entities has a clear sense of public responsibilities and strategic priorities. Management has to grasp the qualitative difference and advantages of publicly-owned entities.

- *Attempting to regulate the private sector might be more complicated than actually owning and managing a public-owned entity*: Regulating major transnational corporations might be more intimidating and complex than improving public service capacity and resources. The Dolphin Coast and Umgeni Water experiences refer in these instances.

The SACP, in calling for a comprehensive review of the restructuring of state assets to date, stipulates that this review must:

- emphasise the direction and control of the restructuring by the national government, including restructuring at local government level;
- ensure that public sector corporate governance is competent, and plays a leading role in reaching growth and development objectives;
- ensure that public-owned assets are used to broaden the public sphere, and roll back the oppression of the market;
- ensure full disclosure of all decisions, contracts and information regarding the public sector;
- ensure that the public is allowed access to all meetings where crucial decisions are taken, for example with respect to tenders;
- ensure effective harmonisation between government departments and clarification of the role of the relevant line departments; and
- revitalise and strengthen the National Framework Agreement so that managers do not merely pay lip service to it or do not follow it at all.

8. THE SALE OF STATE-OWNED ENTERPRISES

Government's restructuring of SOEs – especially Eskom, Transnet, Telkom and Denel – is aimed at the integration of public, private and social capital and expertise to ensure that the developmental objectives for South Africa are achieved. They comprise approximately 91% of estimated total assets, provide 86% of turnover and 94% of net income, and employ 77% of all employees in the top 30 SOEs.

Government restructuring aims to integrate public, private and social inputs to achieve developmental goals.

8.1 Eskom

8.1.1 Overview

The dominant electricity utility in South Africa ranks among the world's top five in terms of capacity. Its regulated business is structured into three main groups, namely generation, transmission and distribution, each of which is a ring-fenced business.

8.1.2 Legislative and regulatory framework

The 1998 White Paper on Energy Policy (DME, 1998) sets out the policy objectives of the energy sector as follows:

- increasing access to affordable energy services;
- improving energy governance;
- stimulating economic development;
- managing energy-related environmental impacts; and
- securing supply through diversity.

The White Paper supported taking gradual steps towards a competitive electricity market in the short term while investigation into the desired form of competition was completed. It stated that, from an energy point of view, natural gas is an attractive option and that government was committed to the development of this industry. It will legislate for the transmission, storage, distribution and trading of piped gas.

A National Electricity Regulator (NER) was established in 1995 to regulate pricing, national tariff systems, and national service and technical standards. The White Paper noted that complete details of the regulatory regime had yet to be finalised.

The Department of Minerals and Energy is currently finalising a policy document on the reform of the electricity supply industry. Restructuring the electricity supply industry is viewed in terms of generation, transmission and distribution activities. Currently, there is a generation oligopoly, a transmission monopoly and fragmented distribution. Corporatisation of Eskom would be the initial step with generation, transmission and distribution becoming separate corporate entities.

Investigations have already begun on this time-consuming task. A competitive market would result in greater market efficiencies. The most appropriate model is still to be determined.

Transmission appears to be a natural monopoly, and this function will probably remain in the hands of the state. This is likely to take the form of a separate independent transmission company. The introduction of a strategic equity partner or of an Initial Public Offering (IPO) will have to be evaluated in future. In terms of distribution, a number of regional electricity distributors (REDs) will be created. These REDs would:

- compete to buy electricity from generators;
- permit private generation of up to 30% of electricity;
- separate Eskom into competing groups of power plants and move toward market prices for electricity, while maintaining cross-subsidisation of poor households by rich ones;
- distribute electricity to the customers, most of whom would be municipalities.

It may be possible for large customers to have their electricity distributed directly from the transmission company without going through a RED.

8.1.3 Actions by government

The government will have to undertake certain actions before Eskom can be privatised.

- Eskom will be corporatised, with transmission, distribution and generation each forming a separate corporate entity.

- A full evaluation of different models for restructuring Eskom is currently being undertaken by the Department of Public Enterprises, based on a review of the electricity supply industry undertaken by the Department of Minerals and Energy.
- Different generating companies will be formed to promote internal competition prior to the introduction of private sector participation, in conjunction with new power requirements.
- The Department of Minerals and Energy is currently co-ordinating the design and implementation of the REDs.
- Strategic equity partners will be introduced into different Eskom Enterprises business units.

8.1.4 Likely impact of restructuring

If government should apply the above model for restructuring Eskom, the impacts of the restructuring will include:

- The separation of Eskom into generation, transmission and distribution will result in more transparency and accountability in the electricity supply industry.
- Different generation companies will ensure that there is competition in generation, which should result in enhanced efficiency and effectiveness in this sector.
- The creation of REDs should result in better service delivery to customers and eventually to better prices.

8.1.5 Criticisms

- COSATU feels that the proposals for restructuring the electricity industry are idiosyncratic as they interfere with the parts of the sector that work well by international standards, while leaving fundamental problems unsolved. The results could be soaring costs for households, a slowdown in electrification, and reduced investment in the industry. It is felt that government's proposals to consolidate local government systems into six REDs is driven largely by a blind commitment to free markets. The shortcomings of these restructuring proposals reflect the broader imperfections of South African markets.

There may be some negative effects of privatisation of SOEs.

- In distribution, the establishment of REDs ignores the huge inequalities left by apartheid. If REDs have to compete for skills and funding as well as wholesale electricity, there is little doubt that the poorer provinces will come off worst. Although government has agreed to a national holding company to support the weaker REDs for at least six years, it is not clear if this would be able to counteract the negative effects of regional competition. Within regions, if REDs have to maximise profits, only regulation can force them to maintain services to the poor. Establishing a regulatory framework able to monitor services and set appropriate targets will certainly cost more.

- In supply, government has not been able to consolidate the position that private generation is either necessary or likely to be cheaper than Eskom production. Without detailed investigation, South Africa could licence private producers and then face demands for tariff increases down the line.

- The proposed tariff system would end the cross-subsidisation of households by industry. This would result in increases of between 20% and 50% in the cost of electricity to households. This proposal is already being implemented under the name of the Wholesale Electricity Pricing System (WEPS).

- It is worth noting that the international experience of privatising electricity has often been disastrous. A study by the Public Services International Research Unit (PSIRU) (PSIRU, 2001) gives examples from New Zealand. Australia, the United States (US), the United Kingdom (UK), Argentina, Brazil, the Dominican Republic, Moldova and Kazakhstan. For example:
    - New Zealand had two months of power cuts in 1999 because the private electricity company did not maintain the underground cables.
    - In California, the privatisation of electricity led to a 500% price increase and frequent power failures. As a result, the state's total production dropped by 10% in 2000.

8.2 Transnet

8.2.1 Overview

Transnet dominates the South African transport industry. Incorporated in 1990, it comprises 13 companies involved in multi-modal transportation and related services, and has over 100 000 employees. Government is the main shareholder.

Transnet contributes 3,2% to GDP. Its total operating assets were valued at R43 billion in 1998, its turnover at R22 billion, its profit after financing costs (but excluding pension fund interest charges) R2,2 billion, and its capital expenditure R2,9 billion.

A major feature in Transnet's financial position is the pension fund liability relating to South African Transport Services (SATS) pensioners. Debentures of R8,471 billion are outstanding, plus an additional liability of R3,442 billion relating to medical aid costs for these pensioners. Transnet's profitability is severely affected by this outstanding debt and government has developed a strategy for resolving this situation.

8.2.2 Legislative and regulatory framework

A *White Paper on National Transport Policy* was released by the Department of Transport (DoT) in August 1996, followed in September 1998 by the release of *Moving South Africa*, which is a 20-year strategy for transport in South Africa to achieve the goals of the White Paper.

An efficient transport infrastructure could help to improve South Africa's competitiveness.

One of the major goals is "to improve South Africa's competitiveness and that of its transport infrastructure and operations through greater effectiveness and efficiency to better meet the needs of different customer groups, both locally and globally". To achieve this, it would be necessary to ensure that the region's competitive advantages could be accessed and marketed.

The White Paper notes that inter-modal co-ordination, co-operation and sharing of information will be encouraged in both infrastructure provision and operations to optimise customer service, reduce duplication, reduce destructive competition, minimise total costs, and maximise social and economic return on investment.

The White Paper noted that in the past, Government's dominant role has been that of a regulator of bureaucratic detail, a provider of infrastructure, and a transport operator, but that it has been weak in policy formulation and strategic planning. Government's intention is to reverse this legacy and to focus on policy and strategy formulation and substantive regulation with a reduced direct involvement in operations and the provision of infrastructure and services.

The White Paper states that a port authority with specific responsibilities for the maintenance and development of port infrastructure will be established. The existing policy of economic deregulation of land freight transport within the country is reaffirmed, subject to strict and effective regulation in respect of traffic quality and safety matters. Government will encourage integration, inter-modalism, and partnerships between the modes, provided this does not result in monopolies.

Civil aviation should promote the national interests of the country in general, and facilitate and enhance the expansion of trade and tourism. In particular, civil aviation policies should promote the development of an efficient and productive aviation industry that is capable of competing both domestically and internationally.

Maritime transport policy should attempt to foster and maintain a competitive climate wherever appropriate, and government will avoid protectionist maritime practices and maintain an "open ports" policy.

8.2.3 Restructuring of the transport sector

The key bottleneck to Transnet restructuring is the pension fund debt.

South African Airways (SAA) has been subjected to a turnaround strategy, which has reversed its loss-making situation. Government has realised R1,4 billion from the sale of 20% of SAA to Swissair, its new strategic equity partner.

The restructuring of Spoornet focuses on maximising value for the existing shareholder, securing investment in the underlying business and introducing new management skills. In order to realise these objectives, however, it is necessary to transform Spoornet, in particular its General Freight Busines (GFB), prior to restructuring.

8.2.4 Actions by government

- Transnet debt restructuring is being dealt with. Significant progress in dealing with the pension fund debt has already been made.
- Spoornet will be corporatised, with its different business units becoming separate corporate entities.
- Coallink, Orex, LuxRail and LinkRail will be concessioned.
- Spoornet's general freight business will be commercialised and then either an initial public offering or a strategic equity partnership (SEP) will be negotiated.

- A new ports policy and a ports regulatory framework are being drafted. Portnet will be corporatised to form a port authority entity and a port operations entity. The port operations will then be privatised.
- Subject to shareholder approval, the processing of an IPO for SAA will commence.
- Petronet will be corporatised. There will be an assessment of the synergies with other pipeline projects, and restructuring options will be developed.
- Deadlines for the disposal of non-core units within Transnet will be ongoing.
- The airports regulatory framework is being revised and once this is completed, subject to shareholder approval, an IPO will be processed for the Airports Company of South Africa (ACSA).

8.2.5 Likely impact of restructuring

Government's above restructuring plan is likely to have the following impacts:

- The restructuring of Transnet's debt will enable the enterprise to operate on commercial principles. It will enable the various divisions to operate as independent business units without cross-subsidising each other's contributions towards the debt. Transnet and its various business units will be able to make market decisions.
- The concessioning of Coallink, Orex, LuxRail and LinkRail will mobilise private sector capital and expertise, both locally and internationally.
- The commercialisation of Spoornet's GFB will ensure that it operates on market principles. This should enable it to offer more efficient and effective services. Should it be decided that GFB must offer certain social services, then these will be subsidised in a transparent manner rather than through cross-subsidisation. A future IPO or SEP will attract private sector capital.
- Because of the high levels of over-employment in Spoornet, the current transformation process and the envisaged restructuring will result in job losses. Alternative job opportunities are being investigated.
- The restructuring of the ports is likely to improve their service levels, as well as ensuring that South Africa has ports that are able to meet the needs of a growing economy.
- The separation of the ports into a port authority and port operations will separate the landlord function from the operation of the ports.
- The privatisation of port operations should improve the level of service and the competitiveness of the ports. Private operators of different port services

will be better able to focus on the needs of the customers and offer them a more efficient and effective service.

- The restructuring of SAA has already shown benefits in terms of the airline's efficiency. An IPO for SAA will bring more private sector and international investment into the country.
- The incorporation of Petronet will ensure that it offers a cost-effective service.
- The disposal of non-core units within Transnet will ensure that it focuses on its core business and improves its effectiveness.

8.2.6 Criticisms

Labour and government still do not agree on the future of Coallink and Orex, Spoornet's profitable coal and iron ore transport operations. In effect, these lines have paid for the extension of the General Freight Business, especially rural lines that have an important developmental role but remain unprofitable in themselves.

The South African Transport and Allied Workers Union (SATAWU) argues that Coallink and Orex should be retained in an integrated, state-owned Spoornet. The two lines made Spoornet as a whole financially viable, and have provided most of Spoornet's profits by transporting coal and iron ore. GFB plays a developmental role by providing a relatively cheap form of transport, and by reaching remote rural areas. In the longer run, it would cost the government more to concession the two lines – both for the profits of the private company, and to support the GFB. Moreover, Spoornet would lose up to 30 000 jobs.

Internationally, most rail freight operations have some type of cross-financing between lines. The state's proposals fall into the classic mould of selling off the most profitable activities while retaining social responsibilities and costs in government hands. Spoornet's current ability to borrow (and pay back) for infrastructural investment would be totally undermined.

A joint labour-government task team has embarked on a detailed financial analysis of the proposals. The task team has not yet finalised its recommendations.

8.3 Telkom

8.3.1 Overview

The telecommunications sector is one of the fastest growing sectors in the global economy. The South African fixed-line telecommunications industry has grown from over 3,8 million lines in 1995 to over 5,5 million lines currently. This rapid growth can be ascribed at least partially to the aggressive roll-out targets set out for Telkom when a strategic equity partner was introduced in 1997. A 30% stake in Telkom was sold to SBC (18%) and Telkom Malaysia (12%). The interests of SBC and Telkom Malaysia are held via an investment holding company, Thintana Communications LLC. Black empowerment groups bought 3% of Telkom.

Telecommunications is one of the fastest growing sectors in the global economy.

Telkom's revenue has more than doubled over the last five years, from R11 billion to R22,6 billion. On the technological front, cellular phones, the Internet and e-commerce have significantly contributed to this growth.

Telecommunications revenue in South Africa (both fixed-line and cellular) grew from R8,4 billion in 1994 to R30,4 billion at the end of March 1999. This gives a compound annual growth rate (CAGR) of 30% over the last five years.

Telkom consists of a traditional fixed-line operation as well as owning a 50% share in Vodacom, the largest of the three cellular telecommunications networks currently licensed to operate in South Africa. It also has a strong Internet presence in the form of Intekom, the third largest Internet service provider in the country. Government, which owns 67% of Telkom, approved its listing on the stock exchange in 2001. Seven percent of Telkom has been earmarked for empowerment groups and employees, and the sale of this share is currently under way.

8.3.2 Legislative and regulatory framework

In 1991, the South African government separated the activities of the Department of Posts and Telecommunications into the South African Post Office and Telkom.

Telkom duly became a legal entity incorporated under the South African Companies Act. In 1994, the granting of two cellular telephone licences heralded the liberalisation of the South African telecommunications sector. A third cellular company was granted a license in 2001.

Consistent with international developments, the 1996 White Paper on Telecommunications Policy and the Telecommunications Act (Act No. 103

of1996) established a framework for separating the regulatory, operational and policy-making functions of telecommunications.

8.3.3 Restructuring of Telkom

In August 1999, the Inter-Ministerial Cabinet Committee (IMCC) granted the Minister of Telecommunications approval to engage the Telkom minority shareholder, Thintana Communications, in discussions with a view to conducting the necessary preparatory work and processes for arranging an initial public offering (IPO) for Telkom.

Telkom's exclusivity agreement ends in May 2002. A second network operator will then be introduced. Investors in the planned IPO will need evidence that Telkom can compete once its monopoly has ended.

Government is currently looking at consolidating the telecommunications capability of the state, housed in Eskom and Transtel, with the possibility that these could form a portion of the second network operator.

8.3.4 Actions by government

- Work on the proposed IPO for Telkom is in progress.
- Work on a policy and a process for determining the second national operator is already quite advanced.
- Given the possibility of other SOEs becoming involved in the second national operator, the Department of Public Enterprises will ensure that a full investigation is undertaken into the costs and benefits, and that appropriate synergies are achieved.

8.3.5 Likely impact of restructuring

If the above restructuring plan is followed by government, the likely impacts are as follows:

- With 30% of Telkom having been sold in 1997, some of the effects of restructuring are already evident.
- The proposed IPO for Telkom will result in a significant sum of private sector capital being mobilised.

- The introduction of a second network operator will increase competitiveness in the telecommunications sector, which should result in increased efficiency and effectiveness.
- An second national operator will ensure that customers receive a higher level of service, as they will have a choice of fixed-line service providers.

8.3.6 Criticisms

- COSATU feels that privatisation in telecommunications has followed the classic path: worse services for the poor, high job losses, and improvements only for formal business and the rich.

- Privatisation has affected telecommunications in two ways: the sale of 30% of Telkom to US and Malaysian investors, with a further 20% planned for an IPO; and the liberalisation of the telecommunications market, initially to cellphone operators and more recently to a fixed-line competitor and the Internet.

- Again, a naive belief in the efficiency of private companies and the market appears to drive these policies.

- International experience shows that introducing competition increases costs for the poor, lowers costs for business and the rich, and means relatively slow improvement in access. In the past three years, the price of local calls, which the poor use more, increased in real terms by around 35%. In addition, basic rental costs are high. In contrast, the price of domestic long-distance and international calls has dropped.

- Rising costs for local calls and basic rentals have pushed telephones beyond the reach of most South Africans. Many connections are terminated every year, largely because users cannot pay. Thus, in the year to March 2001,Telkom provided 620 000 new connections while 220 000 lines were terminated.

- The regulatory framework seems unlikely to ensure affordable universal access. It does not set any time frames, and considers households to have access if they are less than half an hour away from a telephone. The latest policy directions give only the vaguest guidelines on universal and affordable access.

- Telkom itself has been commercialised and partially privatised. The foreign partners only have a minority share in the company. Yet, it has become clear that on key issues – including investment and employment – they have effective veto power.

- In the past three years, Telkom has lost about 17 000 jobs, or around a third of its total labour force. Downsizing seems largely an attempt to slim the company down for its IPO. The retrenched have mostly been unskilled African workers, many in rural areas where no other job opportunities exist. With unemployment already at record levels by world standards, the IPO is being bought at a high cost.

- COSATU argues that new competition should be allowed only at the top end of the market, where the market would function efficiently to provide better services. Access to this market should be contingent on paying a levy to help achieve universal access and cross-subsidise local phone calls. The state, through Telkom, must take direct responsibility for achieving universal and affordable access.

8.4 Denel

8.4.1 Overview

Denel is a major player in aerospace, ammunition, weapons systems and military vehicles.

There has been an increase in joint development programmes between countries and companies to share costs with regard to defence strategies and acquisition. Mergers and acquisitions have increased the average size of companies while decreasing their numbers. Many defence companies have either downsized or closed altogether.

Denel is the major player in South Africa's defence industry-related organisations, having about 50% of defence industry turnover. Denel dominates four of the seven major areas of the domestic defence market, namely aerospace, ammunition, weapons systems and military vehicles.

Denel comprises a holding company structured into three main groups: Aerospace, Ordnance, and Commercial and IT Business. In order to compensate for the decline in South African defence spending, Denel embarked on a major drive to increase exports of military products and services, and also initiated a major diversification and commercialisation drive. It had reasonable success with commercialisation in the areas of information technology, properties and electronic manufacturing.

The Denel Aerospace Group consists of Denel Aviation, Kentron, DPS (Pty) Ltd and OTB, the test range at Arniston. Denel Aviation, in turn, consists of three business units: Military Aviation, Airmotive and Transport Aircraft Maintenance. It has been recommended that an international equity partner be sought for Denel's aerospace business.

8.4.2 Legislative and regulatory framework

The 1999 White Paper on South African Defence-Related Industries (Department of Defence, 1999) uses the term "defence-related industries", since there is a growing tendency for companies producing defence equipment to make use of civilian technologies or to manufacture dual-use products that can be sold to both defence and non-defence markets. There is also increasing overlap between defence and civilian production within companies.

The White Paper notes that:

> *Government recognises that defence-related industries are an integral part of South Africa's defence capability. Government also recognises the strategic value of having a local defence industrial capability. However, due to budgetary constraints, and within the framework of broader national industrial strategy, Government will be very selective of which technologies and capabilities are to be retained on the basis that they are strategic or that they constitute a national asset.*

The White Paper also states that various broad government goals should be considered when restructuring defence industries. Government needs to articulate a clear vision for the future of defence-related industries, in particular the extent to which it is prepared and willing to support these industries.

The White Paper further notes that a restructuring of the public sector defence-related industries, including complete or partial privatisation, will have a profound effect on the nature, composition, ownership, structure and profitability of the domestic defence market. Government will therefore have to consider how such restructuring will impact on private sector defence-related industries. Government should not, however, dictate the nature, pace or process of the restructuring of the latter industries, which may occur as a result of the restructuring of the public sector industry.

8.4.3 Restructuring of Denel

The White Paper on Defence-Related Industries states that the government's preferred restructuring option for Denel is to break it up and sell off less than

100% of the shares in each cluster (e.g. aerospace, heavy ordnance, light ordnance) or division as separate entities. Those clusters or divisions that are easy to privatise, or those defence-dependent divisions that are attractive to local and foreign investors, will be restructured first.

8.4.4 Actions by government

- Denel will be corporatised, and an initial strategic equity partnering at the business unit level of Denel Ordnance is expected.
- There may be a need for some consolidation of the local ordnance industry, followed by a search for international equity partners at the corporate level.
- An investigation into the consolidation of aircraft maintenance synergies between SAA and Denel is currently being undertaken.
- The Department of Trade and Industry is currently co-ordinating a study into the consolidation of the South African aerospace industry.
- The process of finding strategic equity partners for Denel Aerospace is currently under way.

8.4.5 Likely impact of restructuring

If government implements the above restructuring plan for Denel, the likely impacts would be as follows:

- The introduction of an international equity partner into Denel Ordnance will result in an increase in foreign direct investment in South Africa and also mobilise foreign expertise for Denel. This will improve Denel's access to international markets.
- Consolidation of aircraft maintenance synergies between SAA and Denel should result in cost savings and should encourage the sharing of skills.
- The introduction of an international equity partner/s for Denel Aerospace will increase foreign direct investment in South Africa and bring new skills into Denel Aerospace. Partnering with other international players will provide access to new markets. The restructuring of Denel should improve its competitiveness in international markets.

8.5 Other restructuring initiatives

- Safcol: The sale of three packages is being concluded; the remainder will be consolidated and re-offered.

- Information technology consolidation: Options for the consolidation of the information technology capabilities of Datavia, Ariel Technology and Eskom are being assessed.

- Alexkor: A turnaround strategy is being effected with a strategic management partner.

- Aventura: A turnaround strategy is being effected with a strategic management partner; this will be followed by the sale of the entity.

- Post Office: A turnaround strategy is being effected with a strategic management partner.

- Sentech Signal Distribution: The Department of Communications is undertaking a study into a restructuring strategy for the entity.

- SOE property portfolio: The property portfolios of Denel, Eskom and Propnet are being studied with a view to identifying restructuring options.

- Water: Water supply is one of the main areas facing privatisation at local government level. Examples from developing countries, including South Africa, show that water privatisation leads to higher prices and worse services, while the state still provides the investment finance. Government policies generally say that regulations and contracts will compel private owners to meet social needs. Almost invariably, however, in the Third World private service providers renegotiate the developmental requirements after a year or two of their contracts, which is what has happened in the Dolphin Coast in KwaZulu-Natal. The municipality signed a contract with a foreign-owned water company, Siza, in 1999. Just a year later, Siza demanded renegotiation. It argued that it had a R12 million shortfall because demand for water was lower than expected. The contract provided for renegotiations if returns were above or below the expected rate. Clearly the company's need to maintain a particular rate of return has become the main consideration. Equity, meeting needs and ensuring access for all have taken a back seat. Problems have also been experienced with the

Decisions about privatisation must be made with South Africa's economic and social realities in mind.

privatisation of water in Nelspruit. Its municipality signed a 30-year contract with Biwater. Since then, there has been little progress in meeting contractual obligations. Residents complain about high and confused billing, disconnections and leaks. It also turned out that Biwater did not have the funds to meet its promises on investment. Eventually, it fell back on the public sector. In November 2000, the Development Bank of South Africa announced it would loan R150 million to Biwater to carry out the investment programme.

9. SHORTCOMINGS OF PRIVATISATION

9.1 Problems with privatisation

Privatisation still has to grapple with various shortcomings. The argument that markets and private investment are inherently more efficient than public sector delivery does not necessarily reflect South African realities.

In South Africa, markets are inefficient because of massive income inequalities, the failure of market returns to reflect the full benefits from development, and factor immobilities in a period of very high unemployment. According to COSATU, "In these circumstances, state control is necessary to ensure adequate, quality provision of services to the poor, and to initiate strategic investments to restructure the economy."

The private market argument assumes that South Africa has relatively efficient markets from a social standpoint – an assumption that holds neither in theory nor in practice. Above all, because of very unequal incomes, private providers have little incentive to serve the poor and cannot easily capture the benefits of broad-based development. The result is that they simply cannot take on the developmental role of the state. They also undermine cross-subsidisation, increasing the pressure to raise tariffs for the poor.

In these circumstances, government lacks the capacity to compel private providers to meet national targets. Moreover, the attempt to restructure on a broad front, combined with excessive faith in private expertise, has led to management mistakes.

Given these realities, the argument that privatisation will bring in funds really only means that it will increase the off-budget resources available for infrastructure. The cost may be high to the state, in terms of subsidies or lost assets, and to poor consumers in the form of rising tariffs and limited access. Overall, government policies praise market forces while calling vaguely for regulation.

9.2 Market efficiency in South Africa

The assumption that markets are more effective than the public sector supposes that South African markets are socially efficient. This assumption does not correspond with reality. Because of very unequal incomes, private providers have little incentive to serve the poor or to contribute to development.

Economic theory argues that markets will only be socially efficient if, among other factors, they have: sufficiently equal incomes, prices that reflect the full costs and benefits of goods and services to society, and resources that move easily between activities. In South Africa, especially in industries that meet basic needs, most of these conditions are noticeably absent. Yet where these requirements do not exist, the market will not compel private interests to meet social needs.

A particularly unequal distribution of income has been inherited from the apartheid years. What has to be borne in mind is that the distribution of income shapes the outcome of the market, which itself is only designed to reach those who can pay, not to raise the living standards of the poor.

Massive income inequalities mean the market will not bring about long-term development. In effect, poverty in itself creates poverty by lowering productivity and employment. The market cannot break this vicious cycle, since the poor majority cannot afford to pay the full cost of basic services. In these circumstances, private business cannot capture the full social benefits of providing services to the poor. As a result, privatisation cannot contribute to the growth of home-based micro enterprise, particularly in rural areas. Privatised industries would prefer to serve large enterprises, which can buy in bulk and pay higher tariffs. These privatised industries avoid the difficult and expensive task of extending infrastructure to households.

The Department of Public Enterprise's policy framework argues that despite these shortcomings, as consumers exercise their market choices the market will bring about efficiency. This will happen because “consumers may be prepared to accept a lower quality of service in exchange for a reduced price”. Few South Africans, however, have the luxury of making choices about basic services. They must get them from the state or not at all.

9.3 Markets and the role of the state

Since private companies cannot capture the long-term benefits of developmental measures, the market will not meet the social and economic requirements of development.

The state is aware of its role in giving social protection to every South African. The provision of basic services to every South African, in particular the poorest of the poor, is of the utmost importance. Bearing this in mind, one must be realistic in the view that private companies are not always able to capture the long-term benefits of developmental measures and their implications. According to COSATU’s paper on privatisation:

> *In the language of economics, given widespread poverty, the market price of basic services does not reflect the long-term economic and social benefits…. The market cannot break this vicious cycle, since in the short run, the poor majority cannot afford to pay the full cost of basic services (COSATU, 2001).*

One of the functions of the state in South Africa is to provide basic services to every citizen, particularly the poor.

Therefore, if left to its own devices, the market will under-provide basic services and this goes against the objectives of the state providing for more affordable and, if necessary, subsidised basic services. When and if these services are privatised the state will have to compel private agents to undertake a role that fundamentally contradicts market signals.

Insofar as industrial strategy is concerned, the state must be careful not to undermine its own capacity. When SOEs are privatised, especially the main infrastructure sectors, it relinquishes much of its control over key national assets. Furthermore, restructuring the economy and competing internationally requires large-scale enterprises. In these circumstances, breaking up SOEs or requiring the introduction of private competitors to introduce competition may undermine the efficiency of the economy as a whole. Note that for both Eskom and Spoornet, the push has been to fragment large and powerful entities into many small companies.

9.4 Resource mobility

A primary concern for many stakeholders is the mobility of resources and the notion that some of these resources may eventually become redundant. Here, labour is also included as a vital resource. Privatisation does not guarantee that resources will be readily transferable to other sectors if and when they become unnecessary in one sector.

Resources must be used in the most efficient manner possible if the good of society is to be served.

Markets will not ensure efficiency if resources cannot move rapidly and without cost to new users. The result may be substantial costs to society.

Privatisation (including commercialisation) often leads to mass retrenchments as private managers close down less profitable operations, typically those that serve the poor. They do not take political or social responsibility for the survival of the workers who lose their jobs. Where companies plan to list shares on the stock exchange through an initial public offering, they want to look lean with lots of cash. So they subcontract or downsize. Thus, Telkom has lost over 15 000 jobs in the past three years.

The DPE's policy framework simply assumes that factors are mobile, and therefore that the costs of retrenchment will be limited.

> *[S]ome declining sectors will experience an irrevocable loss of jobs. However, where restructuring brings about significant efficiency improvements and new technology, the result is often the development of new niche industries able to absorb retrenchments in other areas (DPE, 2000:39-40).*

The DPE argues that more efficient companies will lead to economic expansion, creating new jobs for the displaced workers. This naïve belief that restructuring will create new jobs is not corroborated by either local or international experience. Unemployment is now officially over 20%, and the formal sector loses thousands more jobs every year. The majority of the workers retrenched by privatised industries are less skilled, and many live in rural areas where unemployment is highest; in these circumstances, they cannot expect to find new employment.

9.5 Regulation workability

Because the developmental inefficiency of South African markets is undeniable, most government policies on privatisation admit the need for regulation. However, closer examination demonstrates a lack of seriousness. Effective regulation requires appropriate targets, monitoring and feedback mechanisms, and the capacity to enforce regulations. South Africa has inadequate capacity in all these areas. Most policies on privatisation are not linked to targets for service delivery, or the targets are inadequate and poorly publicised. Also, the new regulatory agencies at national and local level do not have capacity to monitor privatised agencies consistently.

The adoption of policies that effectively require wholesale privatisation, as opposed to the case-by-case approach of the RDP, has led to a number of basic management mistakes. South African Airways, Telkom and the PostBank are all instances where foreign managers were brought in, and they found themselves flooded with high-priced foreign employees and consultants.

9.6 Fiscal policy

The presumption that privatisation will make up for under-budgeting is premised firstly on the view that private investment is a virtually costless supplement to the budget, and secondly, that government must sell its assets in order to reduce the national debt.

Far from being free, a private investor imposes a cost on the budget and / or the public. It will participate in providing infrastructure only if it anticipates making a profit. To serve those who cannot pay, it will require a subsidy. For

Private investment poses its own costs.

the rest, it must have tariffs that ensure at least a normal rate of return. In contrast, a state-owned service provider can decide on a lower mark-up in order to realise broader social and economic benefits.

If private capital were inherently more efficient than the public sector, it could still cut costs to the state. However, almost no evidence exists that private managers are more skilled than public-service ones. Indeed, the experience with SAA and Telkom suggests the opposite.

A second fiscal motive for privatisation lies in the desire to reduce the public debt. In itself, this approach cannot justify privatisation of any single asset. An excessive focus on the immediate returns from privatisation will lead to short-sighted and costly sales of SOEs.

The real problem lies in an excessively restrictive fiscal policy. This is expressed through the attempts to cut local government budgets and parastatal borrowing, as well as tight targets for the national budget.

It is clear that fiscal policy is a primary driver of privatisation. Yet if market forces are not efficient, privatisation will not reduce the costs to society. Privatisation merely removes the cost from the budget.

9.7 Cross-subsidisation

Privatisation makes cross-subsidisation to cut costs to the poor more difficult, perhaps even impossible. In the case of fully privatised companies, management will not see why it should engage in relatively high-cost, low-profit services for the poor. Where government permits competition with parastatals, private companies will pick the most profitable opportunities. The parastatal therefore loses the option of cross-subsidising less profitable customers if it is to be able to compete with private suppliers.

Some government officials argue that cross-subsidisation is inherently inefficient, since it subverts market prices, and that it is not politically accountable. They say that they should replace cross-subsidisation with direct subsidies from the budget. This approach is flawed in that:

- It rests on the assumption that markets are inherently efficient – an argument already countered.
- Leaving decisions to the budget process introduces annual fluctuations, which can introduce costly instability into service delivery.
- Budgetary subsidies are no more accountable than cross-subsidies. After all, parastatals are ultimately accountable under law. If Parliament objects to cross-subsidisation, it can change the law.

- Budgetary subsidies typically only show the cost, not benefits such as the long-term gains from providing basic services to the poor. As a result, they are vulnerable to political opposition, especially from the relatively rich and from business, who see them as an unnecessary redistributive expenditure.

The recent experience of the corporatisation of Eskom illustrates these problems. Eskom has spent around R1 billion a year on electrification in the past few years, mostly through cross-subsidisation from industry. With corporatisation, these revenues were supposed to go to taxes, while the national budget would pay for electrification. The Department of Finance promptly proposed cutting electrification funding to R600 million.

This cut in electrification funding would have longer-term consequences, since Eskom would have to reduce the capacity it has put together for electrification over many years, which could not be rebuilt easily. Even if, as promised, government increases electrification funding to 2000 levels, the process demonstrates the risks of subjecting subsidies to annual decisions.

10. INTERNATIONAL EXAMPLES

10.1 The United Kingdom

10.1.1 Background

The British privatisation programme tried to advance the notion of "popular capitalism". In this process, the Conservative government moved slowly – sector by sector. They began to privatise by selling state-owned companies to shareholders. In many cases, the workers themselves became shareholders. For example, in the privatisation of British Aerospace, 89% of the eligible work force took up the offer to become shareholders. However, shares in many former state-owned companies were offered to the general public as well. Throughout the privatisation process, the percent of British citizens who were shareholders in companies rose from 7% to 20%.

Other countries have experimented with privatisation, with a range of outcomes. Some have been more successful than others.

Another key early initiative from the government, which tried to build support for privatisation, was the selling of council houses. In the privatisation of these state-owned houses, the tenants were typically given the first option to buy. Since most of the tenants were working class, this built some base of support for privatisation among the workers. By 1986 more than one million council houses and flats had been sold.

By the mid-1980s, the Thatcher government was rapidly expanding its privatisation activities. While productive companies had been the major targets for the first round of privatisation, the government eventually sold off public utilities: water, gas and electricity. British Rail was also privatised. By the mid-1990s over 50 major businesses employing 1 million people had been privatised. Apart from industries and housing, the British privatisation programme also included cutting back on government services. This included the closure of some 500 hospitals between 1979 and 1994. The number of hospital beds fell from 351 000 in 1981 to 242 000 in 1992.

The trade unions in the UK did try to resist privatisation. In many municipalities, unions opposed the privatisation of services. For example, in the early 1980s attempts to privatise refuse removal in Wandsworth led to a series of industrial actions, including strikes by the National Union of Public Employees (NUPE). In 1981 a proposal for employees to "buy out" shares in the National Freight Company was strongly opposed by the Transport and General Workers Union. In the end, however, few moves to oppose privatisation succeeded.

10.1.2 The miners' strike of 1984-85

The most famous confrontation over the issue of privatisation was the miners' strike of 1984-85. This was a major struggle over the closure of certain mines which government declared unprofitable. The mineworkers went on strike for over a year to try to block the action by the government. In the end, the workers were defeated. This action contributed to a huge decrease in union membership and a more defensive position by labour against privatisation. For the most part, unions focused on regulating the process and trying to protect the interests of their members. They fought for demands such as minimum jobs losses, forcing privatised industries to recognise unions, and maintaining gains which had been won through bargaining. Communities also moved toward a more regulatory approach, setting complex structures to monitor the performance of private service delivery companies. Some trade unionists and community activists, however, thought that privatisation should be resisted by building alliances between workers, the users of services, and other community structures.

10.1.3 Britain’s railways

Britain's railways have gone from public service to public laughing stock in just five years. Since the privatisation of the railways the country has suffered from an inferior and unsafe service, profiteering and incompetence. The result has been a number of train crashes, including ones at:

- Southall, where many people died because of signalling errors;
- Ladbroke Grove, where 31 people died because of poor signalling and poor driver training; and
- Hatfield, where four people died because of a derailment caused by a broken rail on a poorly-maintained track.

the great sell-off

Between 1994 and 1996 British Rail was broken into 100 different pieces, which the government sold to the private sector. The pieces included 25 train operating companies, 13 maintenance and infrastructure companies, a few rail freight companies, and three companies which owned the trains and other rolling stock. At the same time Railtrack was practically given away to the stock market in 1996. Railtrack was responsible for maintaining the signals, track and stations and ensuring that the system was safe. Never had so much been given away for so little to so few. For example, the managers who bought the rolling stock companies decided to sell them after a few months. Their initial investment of R1,15 million turned into R195,5 million.

Railtrack shareholders have seen the payouts from their shares increase drastically, most recently in the aftermath of the Hatfield crash. This was surely a landmark in greedy corporate insensitivity. Despite receiving massive subsidies from government, Railtrack puts shareholder enrichment first. For example, in May the government gave Railtrack R17,25 billion to fix the infrastructure, which has deteriorated under Railtrack's ownership. On the same day Railtrack paid out over 10% of that figure to its shareholders. And in June, Railtrack announced that it had given its former chief executive, Gerald Corbett, a parting present of R17,25 million. Corbett was in charge at the time of the Ladbroke Grove and Hatfield crashes, and while the network deteriorated. Adding insensitivity to greed, this was announced the same week as the report into the Ladbroke Grove accident was released. The report found that Railtrack was largely responsible for the accident because of its poor management of the railway infrastructure.

The fragmented system, driven by profit rather than public service, has meant:

- insufficient investment in safety;
- inadequate maintenance of the railway infrastructure;
- inefficient planning and co-ordination of services; and
- big share payouts for shareholders.

enough is enough

The Hatfield crash was a turning point. In January, the three rail unions –the Transport Salaried Staff Association (TSSA); the National Union of Rail, Maritime, Transport Workers (RMT); the Associated Society of Locomotive Engineers and Firemen (ASLEF) – launched the “Take Back the Track” campaign, which aims to restore Railtrack to public ownership. This would be the first step towards bringing the whole railway industry back into the public sector. It could end the fragmentation and permanent chaos which privatisation has caused and which looks likely to continue. The campaign has already attracted a great deal of support. Supporters include over 100 members of Parliament, political parties, London mayor Ken Livingstone, the Trades Union Congress (TUC), other unions, and environment and community groups. Recent opinion polls suggest that this could be one of the most popular campaigns of the moment. One poll showed that 76% of the public is in favour of restoring the railways to public ownership.

safety first

The fragmentation of the railway industry and the substitution of the public service ideal by the profit culture have done great damage. This cannot be reversed or the railways renewed while the industry remains badly mismanaged and structured as it is.

A publicly owned Railtrack could really mean it when it says that safety comes first. It would not have to prioritise shareholder interests. British Rail had its shortcomings, but it had the best safety systems of its time. British Rail also had a culture, which gave safety the highest priority: safety was more important than profit or contractual relationships. A publicly-owned Railtrack should take back direct responsibility for maintenance and safety work. Currently this work is subcontracted out. The result is that no one is in charge and companies blame each other.

'make it ours again'

The British government has promised R690 billion to improve the rail network over the next ten years – a significant amount of it taxpayers' money. Someone must ensure that the money is spent sensibly. Only then will it lead to safer, more reliable and faster journeys. A publicly-owned Railtrack, answerable to ministers, would give the railway the leadership and strategic direction it needs. As Gwyneth Dunwoody, chairperson of the House of Commons transport subcommittee said recently, "There is a growing tide of support to make Railtrack ours again". The general public still regards the railways as a public service, and expects the government to play a leading role in their management. Indications are that a review of the performance and ownership of Railtrack would be massively popular with the public. The longer the current farce is allowed to continue the worse it will get for government – and for the passenger.

10.1.4 The London Underground

Bizarrely, the government is seeking to repeat many of the problems of railway privatisation with its proposals for the London Underground. Government is proposing to split train operations from infrastructure management and maintenance. Train operations would stay in the public sector, while infrastructure management and maintenance would be transferred to private companies for a 30-year period. Many of these companies are the ones responsible for the maintenance, or lack of it, on the mainline railway network.

London mayor, Ken Livingstone, has described the companies bidding to control the infrastructure as the "scum of British capitalism", who would try to maximise their money by getting maintenance done as cheaply as possible. This public-private partnership is about the worst possible option to give the Underground the investment it so badly needs.

A PPP is a scheme that guarantees only one thing – rich rewards for the companies involved. The companies have been set incredibly low performance targets to make their money. These targets are 5% below the present dreadful standard of service on the Underground. Furthermore, the PPP scheme only addresses the running of the existing network. It does not allow for enhancement and development, something the London Underground urgently requires.

If these companies fail to do the job properly, the London taxpayers will pay for it. For the passenger, it means higher fares and the same consequences of fragmentation that have ruined the mainline railway.

The trade unions have demanded that government drop its rigid insistence on a PPP. Government should listen to Londoners. It should hand the Underground over to the Mayor to take responsibility for its financial future.

10.1.5 Employment and energy

Unlike the situation in the publicly-owned electricity companies of France, there are no recruitment targets in agreements with the unions in the UK privatised utilities. On the contrary, job reduction has been seen by these companies as a principal method of achieving savings and providing greater returns to shareholders.

A study by accountants suggests that this is the result of a conscious strategy of providing increased dividends to shareholders by reducing the workforce. The study, which covered all UK privatised utilities including British Telekom, shows that the combined privatised utilities "sacked nearly 25% of its workforce, some 100 000 workers, since privatisation. All of these jobs could have been sustained if the cash distributed as dividends had instead been applied to paying wages at the average rate prevailing inside the companies" (Williams *et al*., 1995).

Job reductions in all sectors have continued since this analysis was published, and mergers and takeovers in the UK have also brought significant job reductions. For example, when North West water took over the regional electricity company NORWEB to form United Utilities, the company announced that it would be shedding 2 400 jobs in order to finance the costs of the takeover.

10.2 Zambia

10.2.1 Background

In Zambia there were more than 300 parastatal corporations. These included most producers of goods like sugar, beer, cement, cigarettes, crushed stones, dairy goods, elevators and fabrics, as well as providers of services such as transport, hotels, and cold storage. The most important of all the state-owned enterprises were the copper mines.

10.2.2 Motivation for privatisation

Privatisation in Zambia was largely driven by the Structural Adjustment Programme imposed by the International Monetary Fund (IMF). In advancing privatisation, the IMF and its supporters had a number of motivations:

- They argued that the public sector was too big, inefficient and corrupt. In their view, the parastatals could only be saved by instilling the profit motive of the private sector.
- Zambia needed to raise considerable finance in order to tackle its debt problems. Supporters of privatisation viewed the revenue that could come from selling state assets as an important source of this finance.
- Many supporters of privatisation linked the move toward a more lean and mean state with a shift toward political democracy. Under Kaunda, Zambia had been a one-party state without any elections. Backers of privatisation argued that state control of the economy went hand in hand with excessive state political power.

In the end, privatisation was linked to a change of government. In the late 1980s, mass opposition arose against Kaunda. The leading opposition force, the Movement for Multiparty Democracy (MMD), pressed for free elections. In 1991 these elections were held and Frederick Chiluba, leader of the MMD, became President. Chiluba was the former leader of the Zambian Congress of Trade Unions (ZCTU).

Once in power, Chiluba began to implement privatisation extensively. A Privatisation Act was passed in 1992. By the end of 1997 more than 200 parastatals had been privatised. Privatisation took a number of forms:

- *management buyouts (MBOs)* – management bought up the shares of the company;
- *employee buyouts* – employees bought up the shares of the company;
- *public stock floatations* – shares were sold to the public on the Lusaka Stock Exchange;
- *joint ventures* – parastatals formed partnerships with local or foreign businesses;
- *outright sale of assets* – In some cases entire companies were sold off. For example, South Africa's Shoprite bought 14 shops from the government with the intention of turning them into supermarkets.

The voices of supporters of privatisation in Zambia:

> *People used to joke that in Zambia there's a parastatal for everything and if you're not careful they will set up one for you to breathe. They were like day care centres for adults. It would not have made a difference to the economy if the staff didn't turn up for work (Gedeon Njoko, World Bank representative In Zambia).*
>
> *The government inherited a vast range of problems, huge overseas debt ... a decaying infrastructure and a populace unused to democracy ... the neglected economy must be restructured, state control is being replaced by privatisation ... give us five years and we will have eradicated the neglect and excesses of the previous 27 years (Zambian High Commissioner to London, 1992).*

10.2.3 Response of unions and community groups

In the 1980s, one of the major forms of privatisation was the removal of subsidies from basic necessities like mielie meal. On a number of occasions these price rises led to mass actions and riots in the major cities. When the MMD came into existence, many opponents of the government, including the trade unions, supported the new party. Since the MMD's leader was also the head of the ZCTU, it was not surprising that organised labour supported the MMD.

Since Chiluba's party has taken forward the SAP and privatisation, the trade unions have participated in the government structures which take decisions about privatisation. Despite this participation thousands of jobs have been lost. The effects of the SAP and privatisation have even led to a split within the ZCTU, with some unionists wanting to continue to support Chiluba but others wanting to join the opposition. Some trade unions have also begun to look for alternative policies. However, they have not been able to consolidate a popular alternative vision, nor have they had much success in combating the advance and impact of privatisation.

The case of Zambia shows the difficulties that many African labour movements have faced. With national governments operating under SAPs, there is little space for labour to resist privatisation and liberalisation. This situation is often made worse when the national government itself is anti-democratic and anti-labour.

10.3 Hungary: energy privatisation

10.3.1 Background

The Hungarian government consulted with the trade unions before and during the privatisation of the energy sector. As a result, clear protections for employees were built into the contracts from the outset.

The government embarked on a programme of privatisation of parts of their energy industry in 1994. The programme proved politically controversial, and was delayed for a number of reasons.

Two ministers of privatisation resigned during this period. At the end of 1995 shares in electricity and gas distribution companies and some electricity generating companies were sold to western industrial companies. At the end of 1996 further problems arose relating to both price and pay increases.

The political and economic issues debated included:

- how far the industry should be broken up before privatisation;
- how rapidly energy prices would be allowed to rise following privatisation; and
- what rate of return on capital should be used as a benchmark.

The Hungarian energy trade unions raised a number of concerns about the impact of privatisation on employees. These included concerns over:

- loss of jobs;
- retraining and redeployment for displaced workers;
- a collective labour contract for the electricity industry;
- the future administration of social and welfare facilities in the industry; and

  opportunities for employees to buy shares.

During the preparations for privatisation the trade unions felt that they were not always being properly consulted and involved. Strike action was threatened on at least one occasion. International organisations became involved in asking the Hungarian government to negotiate. In July 1995 the government reached agreement with the trade unions on all the issues that had been raised.

Three specific points in the agreement included:

- A percentage (5%) of the money received for the shares would be used to create a fund for retraining and redeployment of any displaced workers.
- The observation of the industry collective labour contract would be a contractually binding condition of the share sales employment levels in the privatised companies.
- The government also stated that the companies would be allowed a rate of return of 8%. The status of this has since been disputed, with the companies arguing that it was a guaranteed minimum.

10.3.2 Sale of shares: December 1995

The first stage of privatisation was introduced at the end of 1995. The privatisation agency sold shares in regional electricity distribution companies, gas distribution companies, and some electricity generating companies. In each case, the shares sold represented less than 50% of the companies' share capital.

The shares were sold to a number of foreign energy companies, including Tractebel, Electricité de France, and RWE. The new owners said they were pleased with their purchases, and many of them declared their intention of investing more money in the Hungarian companies.

At least in the case of RWE, German managers and trade unionists advised Hungarian colleagues on how to set up works councils and bargaining arrangements that reflected those operating in Germany.

Nearly all the purchasers were continental European companies. Both UK and the USA energy companies were concerned that the likely rate of return was neither high enough nor guaranteed enough.

10.3.3 Disputes over price and pay rises, October 1996

The following year the Hungarian government decided that it could not, after all, allow energy prices to rise as much as had been anticipated at the time of sale. The reason was simple: political concern over the impact on people's cost-of-living. The foreign companies protested very strongly about this, and in some cases threatened to withdraw their investments. In the end a compromise was reached.

At the same time, the Hungarian trade unions accused some of the companies of not observing the collective agreement on pay and conditions. The companies had not implemented the increase in pay which was due under those agreements. First RWE and then Tractebel said that they wanted to withdraw from the national agreement.

The Hungarian energy union appealed for support from international trade unions, especially in the home country of multinational energy companies with whom they were in dispute. This resulted in extra pressure being brought to bear on these companies to observe the national agreement in Hungary. Following this domestic and international pressure, the companies did eventually implement the pay rises.

10.4 Water prices and labour costs

10.4.1 Germany: Eurawasser

In 1992 the town of Rostock in eastern Germany contracted out its water and sewage systems as a 25-year concession to Eurawasser (owned 50% by the German industrial firm Thyssen, and 50% by Lyonnaise des Eaux). The original price levels were calculated on the assumption that water consumption would fall to about 20m-22m cubic metres per year.

In 1994, however, it actually fell to 17m cubic metres because of factory closures and people saving money by reducing consumption, so income was lower than expected. The shortfall automatically activated price-adjustment clauses within the Eurawasser contract, and in 1995 water charges in Rostock were increased by 24% and sewage levies by 30%.

> *A company spokesperson said the company [Eurawasser] saw no problems over the rises and protests were being exaggerated (Financial Times, 1995).*

10.4.2 Czech Republic: Welsh Water targets workers

The UK company Welsh Water has taken over the running of the water and sewage system in South Bohemia, through a 36% stake in a company called SCVK. A report stated bluntly, "SCVK plans to make money in two ways: by cutting costs, and raising user fees. One area for potential cost-cutting is the 2 500-strong workforce..." (BCE, 1995:48).

The extent to which prices can be raised is sensitive, because Czech water prices are already 24 times as high as they were in 1989. However, the company is definite that "there will be enough gradual rises to ensure a profit", but "the issue of how much profit is being hashed out with the Ministry of Finance".

The company argues that they can do this better because "job-cutting and price-hiking would be difficult tasks for any municipality to handle". The key decisions are still being made through political processes, however.

10.4.3 Thailand: can’t afford Thames

Trade unionists in Thailand have criticised the terms of a proposed contract for Thames Water. In September 1995 it was announced that Thames would take over the running of the water concession in Pathum Thani province, building and maintaining pumping stations and pipelines, and charging consumers for the water.

This deal was criticised in leaflets published by the employees’ trade union, on the grounds that the compound price rise of 4.4% per annum would mean excessively high prices: “In the first year, residents were expected to have to pay about 15 baht for a cubic metre of tap water. The price would rise every year and in the 25th year the charge would be about 35-40 baht per cubic metre". The plans were also criticised for being technically flawed: "Thames's intention to build only three distribution stations would cost the state firm more in terms of maintenance since longer pipes would be needed" (*Bangkok Post,* 16 September 1995).

10.4.4 Brazil: Lyonnaise pipe money

The first privatised water contract in Brazil was awarded in 1995 to a company owned 50% by Lyonnaise des Eaux, at Limeira. At the time a new sewerage plant was being built, and the water supply network being repaired and capacity increased. During the 30-year concession, the company forecast investment of $100 million, $26 million of which was to be provided by the World Bank. However, the company should not have to bother its shareholders for the rest of the investment.

It has already increased prices, in June 1995: "Aguas de Limeira has already launched a publicity campaign to promote water conservation and has this month instituted tariff increases of 6% to 7% to encourage more careful use" (*FT Water Briefing,* 26 July 1995). It also notes that about half the 55 000 people connected have meters that need repair or replacement, and that another 9 000 households only pay “minimum tariffs”. The company concludes that "….while potential monthly income is put at $1,65m the actual return is $1,1m". If the company manages to realise this, it will increase income from charges by $0,5 million per month – which adds up to $180 million extra revenue over the life of the contract. This sum is enough to finance all the investment needs and still provide $4 million profit per year.

Municipalities are legally responsible for setting the price of water. In practice, however, it is clear that they have little option but to accept the recommendation of the water company. This was said repeatedly by managers of the companies and others.

10.4.5 Postscript

In some cases the concessions include clauses which automatically compensate the company in the event of an operating loss. In Rostock, water prices rose in 1996, because a fall in consumption would have led to losses for Eurawasser, and so "[t]he shortfall automatically activated price-adjustment clauses within the Eurawasser contract" (*FT Business Report*, 22 February 1995). In both Pecs and Szeged (Hungary), the concession contracts include clauses stating that if the tariffs are not sufficiently high to provide an operating profit then the council must make good the loss for the company, and if the tariff does not deliver a reasonable profit in Plzen the council is obliged to pay the difference.

11. CONCLUSION

The debate about privatisation in South Africa is closely linked to the debate about GEAR.

Both the business community in South Africa and organised labour have criticised the privatisation process and the attitude of the government. Both are closely linked to the broader criticism of the Growth, Employment and Redistribution Strategy (GEAR).

Criticism from the business community (*Business Times*, 25 April 1999) is based on the perceived slowness of the government in implementing GEAR and especially the delay in privatising state assets. Business South Africa argues that the government is sending the wrong signals to the investor community and delaying much-needed investment (Pape, 1998).

Labour's criticism, especially that of COSATU and its affiliates, is based on its analysis that GEAR contradicts and abandons the RDP, and that privatisation of state assets endangers the delivery of basic social needs and leads to loss of employment. Labour also believes that the economy can be kick-started by heavy investment that would lead to consumption and growth (Pape, 1998). Other arguments used against privatisation are that the state in fact reduces its own capacity to intervene in the economy and leaves the private sector free to sell goods and services at a profit. This being the motive, the tendency is to cut costs which often translates to cutting jobs.

In terms of restructuring, the SACP maintains that the emphasis should be on the extension of services to those who need it the most and on public control of enterprises that are essential to development. Trade unions should mobilise workers behind the delivery of quality public services instead of complaining about privatisation without ensuring that the public sector delivers efficiently. There is also the need to develop a much clearer industrial strategy which government should link to the restructuring of publicly-owned assets. The Department of Trade and Industry's most recent contribution to the development of an industrial strategy focuses only on one element – competitiveness. Even in this respect, it is limited. Furthermore, it is felt that the role of publicly-owned entities must be related to the emerging national growth and development strategy perspectives and that state assets must be restructured within the logic of an evolving growth and development vision for each industry.

International experience has shown that part of the negative consequences of privatisation is that massive unemployment often results, as was the case in Eastern Europe (Van der Hoeven & Sriraczki, 1997:8-11). This often happens immediately before or after privatisation, although it is argued by proponents that eventually the slack in employment will be picked up by the private sector.

Five years of privatisation in Eastern Europe gives evidence that contradicts this, as privatisation is often associated with the introduction of capital-intensive investment strategies. GEAR's unmet targets and the loss of more than 500 000 jobs since 1994 also bears this out.

The actual results of government's restructuring programme in South Africa will not be evident for some years to come and the debate for and against privatisation is therefore far from over.

REFERENCES

African National Congress (ANC). 1969. *Strategy and Tactics*. www.anc.org.za

African National Congress (ANC). 1992 *Ready to Govern: Policy Guidelines for a Democratic South Africa.* www.anc.org.za

African National Congress (ANC). 1994. *The Reconstruction and Development Programme*. Johannesburg: Umanyano Publications.

African National Congress (ANC). 1997. *Declaration and Resolutions of the Mafikeng Congress*. www.anc.org.za

African National Congress (ANC). 1999. *Elections Manifesto*. www.anc.org.za

African National Congress (ANC). 2000. *Local Government Elections Manifesto*. www.anc.org.za

Bayliss, K. 2001. *Privatisation of Electricity Distribution*. PSIRU / University of Greenwich. www.psiru.org

Burger, D. (ed.). 1998. *South Africa Yearbook 1998*. Pretoria: Government Communication and Information.

Congress of South African Trade Unions (COSATU). 1996. *Social Equity and Job Creation*. Johannesburg: NEDLAC.

Congress of South African Trade Unions (COSATU). 2001. *Position Paper on Privatisation*. July. Johannesburg: NEDLAC.

Department of Communications. 2001. *Telecommunications Policy Directions*.

Department of Defence. 1999. *The White Paper on South African Defence-related Industries.* December. Pretoria: Department of Defence.

Department of Finance (DoF). 1996. *Growth, Employment and Redistribution: A Macroeconomic Strategy*. Pretoria: DoF.

Department of Minerals and Energy. 1998. *White Paper on the Energy Policy of South Africa*. Pretoria: DME.

Department of Posts, Telecommunications and Broadcasting (DPTB). 1996. *White Paper on Telecommunications Policy*. Pretoria: DPTB.

Department of Public Enterprises (DPE). 2000. *An Accelerated Agenda towards the Restructuring of State-owned Assets: Policy Framework*. Pretoria: DPE.

Department of Trade and Industry (DTI). 2001. Driving Competitiveness. Pretoria: DTI.

Department of Transport (DoT). 1996. *White Paper on National Transport Policy*. August. Pretoria: DoT.

Financial Times. 1995. *Water Briefing: Resources 16 – Water Prices and Labour Costs.*. 22 February.

Instituto de Tercer Mundo. 1997. *The World Guide, 1997/1988*. Oxford: New Internationalist.

Martin, B. 1993. *In the Public Interest? Privatisation and Public Sector Reform*. London: Zed.

National Treasury. 2001. *Budget Review 2001.* Pretoria.

Pape, C.W. (ed.). 1998. *An Alternative View of Globalisation.* Cape Town: ILRIG.

Public Service International Research Unit (PSIRU). 2001. *Privatisation of Electricity Distribution: Some Economic, Social and Political Perspectives*. PSIRU / University of Greenwich. www.psiru.org

Reconstruct. 1998. *The Sunday Independent*, 25 April.

Rondinelli, D. and lacono, M. 1996. *Policies and Institutions for Managing Privatisation.* Geneva: ILO.

South African Labour Bulletin. 1989. 14(3) .

South African Labour Bulletin. 2001. 25(4).

Sunday Times Business Times, 25 April 1999.

Van der Hoeven, R. and Sriraczki, Gyorgy. 1997. *Lessons from Privatisation*. Geneva: ILO.

Van Niekerk, S. 1998. *TULEC Manual for Trade Union Organisers.* Cape Town.

Williams, Karel. 1999. Privatisation. *The Guardian*. 20 November.

ABBREVIATIONS

ACSA	Airports Company of South Africa
ASLEF	Associated Society of Locomotive Engineers [UK]
CAGR	Compound Annual Growth Rate
CEC	Central Executive Committee
COSATU	Congress of South African Trade Unions
DPE	Department of Public Enterprises
DTI	Department of Trade and Industry
FEDUSA	Federation of Democratic Unions of South Africa
GCIS	Government Communication and Information Service
GEAR	Growth Employment and Redistribution Strategy
GFB	General Freight Business
GNU	Government of National Unity
ILRIG	International Labour Resource and Information Group
IMCC	Inter-Ministerial Cabinet Committee
IMF	International Monetary Fund
IPO	Initial Public Offering
MBO	Management Buyout
MMD	Movement for Multiparty Democracy [Zambia]
NACTU	National Council of Trade Unions
NEC	National Executive Committee
NEDLAC	National Economic Development and Labour Council
NEF	National Empowerment Fund
NER	National Electricity Regulator
NFA	National Framework Agreement
NGO	Non-Governmental Organisation
NUPE	National Union of Public Employees (UK]
PPP	Public-Private Partnership
PSIRU	Public Service International Research Unit
RDP	Reconstruction and Development Programme
RED	Regional Electricity Distributor
RMT	National Union of Rail, Maritime and Transport Workers [UK]
SAA	South African Airways

SACP	South African Communist Party
SALB	South African Labour Bulletin
SAP	Structural Adjustment Programme
SATAWU	South African Transport and Allied Workers Union
SATS	South African Transport Services
SEP	Strategic Equity Partner
SOE	State-Owned Enterprise
TSSA	Transport Salaried Staff Association [UK]
TUC	Trades Union Congress [UK]
UK	United Kingdom
US	United States
WEPS	Wholesale Electricity Pricing System
ZCTU	Zambia Congress of Trade Unions