

**PERSPECTIVES ON THE SOCIOECONOMIC IMPACT OF PRIVATIZATION
POLICY IN THE DEMOCRATIC REPUBLIC OF THE CONGO**

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ABSTRACT

This study investigates the challenges facing the management of public enterprises in the Democratic of Congo. The study is based on the hypothesis that poor performance by state-owned enterprises in the Democratic Republic of the Congo has been influenced by inadequate management which has led to the dissatisfaction of citizens. Due to this problem increasing attention is being paid by the DRC Government to encouraging private sector involvement in services such as water and electricity. This study investigates the arguments for and against privatization, especially in the water and electricity sectors. In pursuing this debate the study explores the following main research question: *To what extent will the DRC Reform Law aimed at transforming the commercialisation of public enterprises enhance the effectiveness of basic services such as water and electricity services in the DRC?* A case study of the city of Bukavu in the eastern DRC is used to explore this question.

The following subordinate questions will also be addressed in the study:

- Can the privatization of state-owned enterprises such as the National Electricity Company (SNEL) and the Agency for Water Production and Distribution (REGIDESO) improve quality and accessibility to basic services such as electricity and water at affordable rates to the population of Bukavu?
- Are existing resources and logistics able to sustain the privatization process in the DRC?

The study is largely based on qualitative and descriptive research methods. A case study of the city of Bukavu is used to test whether the contemplated privatization of SNEL and REGIDESO is likely to bring about improvements in service delivery. The major finding of the study is the fact that privatization of state owned organisations is not a viable way of improving service delivery in the DRC because the private sector does not have the necessary capacity in terms of financial and human capital to carry out this task. The study recommends that the Government should instead strengthen control mechanisms and the legal framework for the more efficient management of state-owned enterprises in the DRC.

Key words: DRC; Bukavu; Privatization; Water and Electricity Services; State-Owned Enterprises; Public Utilities; Social Development; Service Delivery; Performance Management; Accountability.



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ABBREVIATIONS

BIC:	Bank Information Center
COGELIN:	Congolese Company for Enterprises for Electricity and Industry (Société Congolaise d'Entreprises d'Electricité et d'Industries)
COPIREP:	Steering Committee for Reform of State Enterprises (Comite de Pilotage de la Reforme des Entreprises du Portefeuille de l'Etat)
DAWASA:	Dare-es-Salaam Water and Sewerage Authority
DFID:	Development for International Development
DRC:	Democratic Republic of Congo
EU:	European Union
Fc:	Franc Congolais (DRC Currency)
FDI:	Foreign Direct Investment
GECAMINES:	General Mining Company
IFI:	International Financial Investments
IMF:	International Monetary Fund
KWH:	Kilo Watts per Hour
LICOSKI:	League of consumers from Kinshasa
MW:	Mega Watt
NGO:	Non Government Organization
NIS:	Network Information Service
OECD:	Organization for Economic Co-operation and Development
PPP:	Public-Private Partnership
PSI:	Public Services International
REGIDESO:	Agency for Water Production and Distribution (Régie de Distribution des Eaux)
SOE:	State Owned Enterprise
SOGELC:	General Electric Company (Société Générale d'Elèctricité)
SEMAPA:	Public water supply network

Sicomines:	Sino-Congolaise des Mines
SME:	Small and Medium Enterprises
SNELAC:	Great Lakes' International Electricity Company (Société Internationale d'Électricité de Grand Lac)
SNEL:	National Electricity Company (Société National d'Électricité)
UK:	United Kingdom
USA:	United States of America
USAID:	United State Agency for International Development
US:	United States
WB:	World Bank
WHO:	World Health Organization



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DECLARATION

I declare that “Perspectives on the Socioeconomic Impact of Privatization Policy in the Democratic Republic of the Congo” is my own unaided work, that it has not been submitted before for any degree or examination in any other university, and that all the sources I have used or quoted have been indicated and acknowledged as complete references.



Signed..... Date.....

CHAPTER 1

INTRODUCTION AND BACKGROUND

1. INTRODUCTION

Privatization and deregulation of basic utilities such as electricity and water has become an important economic strategy to improve the efficiency of state owned enterprises through generation of much-needed revenue. This has been reiterated by Bende-Nabende (2002) who argues that dozens of governments have embarked on the pathway to electricity deregulation and privatization since the mid-1990s. It has become an accepted practice amongst many governments and opinion leaders despite the consequent price rises and failures that have often followed in its wake. Examples include the series of blackouts that have been experienced from California to Buenos Aires to Auckland; the government bailouts of electricity companies that have been necessary in California and Britain; the need for electricity rationing in Brazil; and the fact that it has become too expensive for millions of people from India to South Africa.

This thesis explores the possibility of whether the privatization of public enterprises being considered by the Government in the Democratic Republic of Congo (DRC) in order to boost its socioeconomic development is the most appropriate idea to serve the interests of consumers facing poor service delivery from parastatals such as the National Electricity Company (SNEL) and the Agency for Water Production and Distribution (REGIDESO). Since 1960, when the DRC became independent, the economy of the country has never been stable. Among many reasons causing instability in Congo, the study chose to explore privatization of the public entities as an aspect of the economic system as an alternative to economic stagnation which has characterised the country's economy, and in the process, to establish how efficiently it could be implemented in the country and whether or not it would improve the lives of the Congolese. This is the reason the study has focused on this issues.

The thesis also reviews literature that discusses the outcomes of privatization policies as implemented in different developing countries. This includes a survey of case studies demonstrating both the limitations and successes of privatization schemes. Cases of weakness and failure include the Philippines water privatization, and privatization of the Dar-es-Salaam Water and Sewerage Authority (DAWASA) in Tanzania. Cases of success include the privatization of water supply in Bolivia and Kiliwater in rural areas in Tanzania. These cases were selected from developing countries in order to ascertain and analyse the different circumstances that led to success or failure in terms of the impact on social and economic development. The review of such literature led to the formulation of the research topic, and the carrying out of an investigation and assessment of the impact of privatization policy in the DRC.

The Democratic Republic of Congo is in a transitional stage from decades of dictatorship to a democratic system. The country is not only a new democracy, but it is a challenged nation in terms of institutional inefficiency and ineffectiveness. Initiatives of institutional reform have not ruled out the possibility of privatising or nationalising some institutions. In this regard, the fundamental focus of this thesis is on privatization of major water and electricity utilities in the DRC. This was aroused by existing debates among state and private stakeholders in the DRC about the advantages and disadvantages of privatization as a means of improving service delivery. Despite such debates, there have been few if any detailed studies that have investigated the feasibility of the privatization of public assets in the DRC. This research report is an attempt to fill this gap by conducting a detailed analysis of the prospects for the privatization of water and electricity utilities, using Bukavu City as a case study. It aims to assess in particular whether the privatization of electricity and water utilities will help to benefit the population of Bukavu after many decades of mismanagement and violent conflict.

This chapter provides an introduction and background, including the problem statement; objectives and significance of the study; a definition of key terms and concepts; and the organisation of the study.

1.1. BACKGROUND

Before the Democratic Republic of Congo obtained its independence in 1960, the provision of electricity and water utilities was carried out by private companies. These included the Forces de Bas Congo (Power from Bas Congo) which provided electricity in the Bas Congo Province including Kinshasa then Leopoldville; the Forces de l'Est (Power from the East) which provided electricity and water in Kivu Province (Bukavu, Goma and Uvira); the Société Générale d'Électricité (SOGEFAR) which covered the Oriental Province; and the Société Congolaise d'Entreprises d'Électricité et d'Industries which covered the Equateur and Bandundu Provinces (COGELIN). With the completion of the Inga¹ Dam I built on the Congo River in 1972 southwest of Kinshasa, the Government initiated the nationalization of companies that manage electricity utilities.

At the time, the Government through Act No 74/012 of 14 July 1974 decided to nationalise the provision of electricity and created an entity called the “Société National d'Électricité “(SNEL) which became the state enterprise supplying electricity to the whole of the country from the 25th of April 1978. Since then, SNEL became the only company which has the right to produce, transport and distribute electricity in and outside the country. The hydropower dam Ruzizi I in Bukavu, which was built in 1958 with a capacity of 28, 2 MW, was incorporated into the new state enterprise. However, due to various factors, including mismanagement, under servicing of equipment, and the stripping of parts for individual benefit, this hydropower station has only been able to produce 12 MW; a quantity which cannot meet the demands of the population which is estimated to be in the region of 700 000.

According to non-governmental organizations such as the League of Consumers of Congo Kinshasa (Licoski, 2008), the services provided by SNEL have been inadequate to meet the demands of the people. In Bukavu, for example, while the price of electricity is high, there are have been more blackouts than in other provinces where electricity is

Inga: The Inga Dams are a series of [hydroelectric dams](#) located on the [Congo River](#), approximately 225 km (140 mi) southwest of [Kinshasa](#). The current two existing dams, [Inga I](#) and [Inga II](#), are rated at 351 [MW](#) and 1,424 [MW](#) respectively.

cheaper. According to Licoski (2008) the price that SNEL charges for its customers living in Bukavu is three times higher than that charged the inhabitants of cities such as Kinshasa, Lubumbashi, Bandundu and Bas-Congo. Mulikuza (2009) highlights the high incidence of blackouts that the citizens of Bukavu face. Many consumers have reported that their electrical appliances have become damaged due to the quality or type of electricity provided. Claims for compensation are ignored.

According to Rudahigwa (2005) in the DRC the water and sanitation sector is governed by the following instruments:

- i. The Ordinance of 1 July 1914 on the contamination of springs, lakes and rivers, which provides for the demarcation of protected areas for the collection of drinking water;
- ii. The Decree of the 6th of March 1952 on the award of concessions and administration of water and determining the rights of way of ground waters, lakes and waterways;
- iii. Ordinance No. 52-443 of 21st of December 1952 on measures to protect springs, water tables, lakes and water ways to prevent water pollution and wastage and controlling the exercise of user rights and conceded rights of occupancy;
- iv. Ordinance No. 071-079 of 26th of March 1971 defining State action as regards storm and waste water;
- v. Ordinance No. 74/345 of June 1974 on hygiene measures in built-up areas, as supplemented by Inter-Ministerial Decree No. 120/89 of September 1989 on public health protection in cities and urban, commercial, industrial, agricultural and mining centre;
- vi. Ministerial Decree No. 0014/DPT-MINER/86 of 2nd of September 1986 prohibiting the use of natural water other than that supplied by the Agency for Water Production and Distribution (Régie de Distribution des Eaux or REGIDESO)..

The Ministerial Decree No. 0014/DPT-MINER/86 of 2nd of September 1986 gave REGIDESO the monopoly over the production and distribution of water in the DRC.

However, REGIDESO, it has been argued, has failed to update its infrastructure and machinery in order to supply adequate water and sanitation for the growing population. Only a few people are connected to the REGIDESO grid. And even if they are connected, the quality and quantity of services are poor and inadequate. According to Chaco (2009) “Kinshasa’s population needs an estimated 700000 cubic meters of water per day, but REGIDESO produces only 425 000 cubic meters. The situation in other parts of the country is similar if not worse.”

The evidence suggests that most state owned enterprises in the DRC have performed in a similar disappointing fashion to SNEL and REGEDISO. The ability of the majority of publicly-owned enterprises to deliver good services and generate revenue in order to contribute to socioeconomic situation of the country has been judged to be poor. In the light of this, the Government has recently decided to embark upon a reform of its state owned public utilities.

The current government approach to reform is governed by the following decrees:

- i. Decree No. 09/11 of the 24 April 2009 to reform its State Owned Enterprises;
- ii. Decree No. 09/12 of the 24 April 2009 establishing the list of public owned enterprises to be reformed and among them: SNEL and REGIDESO;
- iii. Decree No.9/13 of the 24 April 2009 relating to the liquidation and dissolution of some public enterprises;
- iv. Decree No. 09/15 of 24 April 2009 creating a state agency to take charge of public enterprises reform. This was COPIREP, the Steering Committee for the Reform of State Enterprises (Comite de Pilotage de la Reforme des Entreprises du Portefeuille de l'Etat.

1.2. PROBLEM STATEMENT

This research views the current state of affairs in the Democratic Republic of the Congo with respect to state owned enterprises as seriously problematic. Most state-owned enterprises have suffered from long term governance problems, such as a the lack of

appropriate regulatory mechanisms and performance accountability, together with weak leadership, which has contributed to operational deficiencies, financial uncertainty and a failure to deliver. In addition, the evidence suggests that political favouritism has led to the appointment of unqualified persons to the boards of state owned enterprises (SOEs).

In the light of this, it is perhaps not surprising that the Government is currently considering the privatization of SOEs. However, given the shortage of local human capital competent to manage commercialised government organisations, questions can be raised as to whether this is likely to prove a viable alternative to state ownership.

This study is therefore designed to assess whether the conditions in the DRC are currently favourable or unfavourable for the privatization and commercialisation of essential services such as electricity and water. The study will make use of Bukavu as a case study to investigate this problem with reference to SNEL and REGIDESO. The study's main research question is *“to what extent will the DRC Reform Law aimed at transforming the commercialisation of public enterprises enhance prospects for the efficient and effective delivery of basic services such as water and electricity in Bukavu?”*

The following secondary questions will also be addressed by the study:

- Will the privatization of SNEL and REGIDESO improve quality and accessibility to basic services such as electricity and water at affordable rates to the population of Bukavu?
- Are existing resources and logistics able to sustain the privatization process in the DRC?

1.3. OBJECTIVES OF THE STUDY

The objectives of the study are to:

- Critically examine the DRC Government's policy for commercialising services

- such water and electricity
- Investigate the likely practical implications if the privatization goes ahead.
 - Assess the historical strengths and weaknesses of SNEL and REGIDESO.
 - Critically discuss the current justification for commercialising these enterprises. them
 - Explore public reactions on the likely impact of the privatization of SNEL and REGIDESO on the lives of people in Bukavu.

1.4. SIGNIFICANCE OF THE STUDY

The findings of this study will be used by policy-makers, economists in DRC in planning for appropriate policy framework for commercialisation of government services. On one hand, for policy-maker and economists in DRC, it will help them to shape their economic policy which would help to decide if privatizing public owned-enterprises would be beneficial to the majority of the population and the creation of investor confidence. Furthermore, this study may also be used as a resource by academics and policy-makers from other countries on issues of privatization.

1.5. ETHICAL STATEMENT

This research report follows the guidelines for research ethics laid down by the University of the Western Cape. In particular, the interviews conducted as part of the study were based on informed consent and voluntary participation as the purpose of the interviews was explained to the interviewees. The interviewees were also assured of confidentiality and that the researcher may not divulge any information without their consent.

This mini-thesis is written with respect to the guidelines for APA referencing of the Economics and Management Sciences Faculty from the University of the Western Cape as academic rules of conduct. Therefore, all book or papers cited in this work have been listed in the reference list.

1.6. ORGANIZATION OF THE STUDY

The study is divided into five chapters as outlined below:

Chapter 1: Introduction and Background

This chapter provides the introductory part as well as the background of the study. It also highlights and outlines the contextualization of the research problem.

Chapter 2: Literature Review

Chapter two concentrates on the theoretical overview of related literature. It also outlines definitions of different forms of privatization, key concepts and the advantages and disadvantages of different forms of privatization. The chapter highlights lessons learnt from various case studies in different countries. It gives a detailed account of success stories of privatization, as well as those that have failed. The aims, processes and outcomes of privatization in different case studies are given. It further attempts to provide and interrogate the environment in which privatization is to be implemented in the DRC.

Chapter 3: Methodology

This chapter outlines the research design and methodology used in this study, together with the sample and sampling techniques employed for data collection. The chapter presents the structure of questionnaires and interview schedules which are the main research instruments in this study.

Chapter 4: A Case study of Bukavu

This chapter provides a description and analysis of the main findings of the study in relation to the possible advantages and disadvantages of privatizing electricity and water

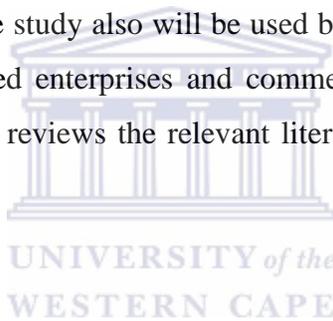
provision in the DRC, particularly in a main urban centre such as Bukavu.

Chapter 5: Conclusions and recommendations

This chapter provides a summary of the research findings, together with conclusions and recommendations.

1.7. SUMMARY

This chapter is introductory and has contextualised the research topic and research problem. It also outlined the research questions and supporting objectives. It appears in this chapter that the results of this study will be useful for public policy makers in the DRC in their endeavours to solve the current challenges associated with state-owned enterprises. It is hoped that the study also will be used by other researchers interested in the management of state owned enterprises and commercialisation of state enterprises and services. The next chapter reviews the relevant literature and provides a theoretical framework for the study.



CHAPTER 2

LITERATURE REVIEW

2.1. INTRODUCTION

Chapter one above provided the context of the research comprising a problem statement and the research questions. This chapter provides an examination and overview of selected case studies of privatization schemes, and the reasons that led to their success or failure. It is organized in five sections:

- Definition of privatization
- Modes of privatization
- Debate on privatization and performance
- Theory of privatization
- Moving beyond privatization debates



This chapter also attempts to explore some hypotheses of anti-privatization and pro-privatization found in literature. Particular attention is given to cases related to the privatization of public assets which provide basic services such as water and electricity. This exploration is intended to enable the study to draw lessons of experience from a range of countries, both developed and developing, and to provide recommendations as to whether the privatization of public enterprises would help to promote socioeconomic development and equitable income redistribution in the Democratic Republic of Congo.

2.2. DEFINITION OF PRIVATIZATION

Meggison and Netter (2001) view privatization as the sale of government-owned equity in nationalized industries or other commercial enterprises to private investors. Privatization is expressed here not simply as an action that leads to a new situation but also as one that leads to a change in behaviour. Meggison and Netter (2001) opine that privatization may be assessed by looking at the ownership, management, and mission or

objectives of the entity being privatized. Additionally, Young (1991:50) as cited by Von Weizsäcker et al (2005) states that privatization can be both narrowly and broadly defined. Narrowly, it entails a shift of productive activities or services being undertaken by the public sector to private ownership or control. However, privatization can also be understood in broader terms as referring to a process by which the state's role within the economy is circumscribed while at the same time the scope for the operation of private capital is deliberately extended.

Von Weizsäcker, et al (2005: 4) define privatization as all initiatives designed to increase the role of private enterprises in using society's resources and producing goods and services by reducing or restricting the roles that governments or public authorities play in such matters. This is often carried out by a transfer of property or property rights, partial or total, from public to private ownership. Finally, Greenberg (2006: 3) defines privatization in its narrowest sense as “the outright sale of state assets to private interests.’ All these definitions are relevant to this thesis. Privatization can be expressed into modes depending on functionality of the existing environment. The modes of privatization are Public-Private Partnership (PPP), Commercialisation, Corporatisation, Outsourcing and Concessions as explored in detail below.

2.3. MODES OF PRIVATIZATION

Privatization may take different forms, depending on the agreement between government and private owners. However, each of these forms has its advantages and disadvantages in their socioeconomic implications for the life of the people. For instance, one could consider such terms as corporatization, commercialization, concession, outsourcing, management, buy-out, and public-private partnership to notice existing differences. These are briefly discussed below.

2.3.1. Public-Private Partnership (PPP)

MacDonald & Ruiters (2005:3), cited by (Greenberg, 2006:5), define Public-Private

Partnership (PPP) as a form of privatization that changes the operational calculus of a service from public good to private profit.

An advantage of PPPs is that they change the traditional managerial ethos of delivery organizations, as well as the nature of political relationships between citizens and the state. It creates confidence between shareholders since it promotes participation principle and accountability. According to De Palma, Leruth and Prunier (2009) a key advantage is that it gives a very high level of confidence that infrastructure will be available on time and without cost blowouts, as well as an ability to hold providers financially accountable for the performance of a particular infrastructure throughout its lifetime. In the context of this thesis this is not the type of privatization that is being considered for adoption by the Government of the Democratic Republic of the Congo, especially in Bukavu.

2.3.2. Commercialization

Greenberg (2006: 3) defines commercialization as a system which does not have to involve the private sector at all. It is a process directed at establishing private administration principles, values, practices and policies within public sector organization. It often involves the appointment of managers from the private sector.

The advantage of commercialization is the improvement of asset management in applying private sector principles within public assets management. However, its disadvantage is that it may prepare the ground for the sale of public assets that will reduce state control over such entity. Commercialization is the form of reform underway in the DRC in general and in Bukavu in particular. However, in the case of the DRC, this study observes that it would be a mistake to assume that commercialization is the best form for the process, as the root causes of public entities mismanagement will not necessarily be addressed. The observation is made in the light of the view that uncertainty about the success of the reform process may well arise due to the fact that those officials who managed public utilities prior to the current reform process are the same ones who are now being asked to implement the reform. The question that arises is

how accountable they would be when in the past they have not been seen to be. At the same time, there is concern that the Government will not be able to apply strong mechanisms to regulate effectively the reform in process due to the shortage of skilled manpower to do so, as well as the lack of sufficient political will to put in place mechanisms to prevent mismanagement and abuse.

2.3.3. Corporatisation

Greenberg (2006, 3) defines corporatisation as a legal process of converting an entity into a company, although initially the state is the sole 'shareholder'. The advantage of corporatisation is that it establishes the profitability of entities that were seen to be loss-making services. It requires the structuring of payment for services to cover costs and to make profits. Corporatisation makes subsidy mechanisms more transparent in the way costs are being recovered, as well as the increase in fees and tariffs. The disadvantage of this form is that it imposes user fees upon all categories, even on poor users who are obliged to pay for the service provided. This form however has never been adopted by DRC government as the reform mode to be implemented. This study suggests that corporatisation would not be an ideal reform model to be implemented in DRC at the moment since it may well lead to increased fees and tariffs while the current majority of the population in Bukavu are experiencing high rates of unemployment, poverty, and the displacement of civilians as a result of conflict.

2.3.4. Outsourcing

According to Rabach & Kim (1994: 138) cited in Woescher (2003) outsourcing is a form of privatization based on the segmentation of the function of an entity into 'core' and 'non-core' functions. Non-core functions may even extend to procurement of raw materials, component assembly and other functions that might appear to be at the core of what the company does. The advantage of outsourcing is that the work (infrastructure) will be carried out. The disadvantage is that the revenues will be paid to private company shareholders rather than to the public budget. This form of privatization would not necessarily promote the socioeconomic development of the population, as revenues

would be going into private hands hence defeating the purpose of public participation in controlling their own resources.

2.3.5. Concessions

Greenberg (2006: 4) defines concessions as the forms of privatization that may involve the building of infrastructure by a private concessionaire, which is repaid by the state over the period of the concession. At the end of the concession, the state takes ownership, and theoretically takes control of the assets. Referring to the current situation of public utilities in the DRC, concessions might be one of the forms of privatization which might be seriously considered by the Government, especially given the failure of public utilities to maintain and to update their infrastructure. This form of privatization may therefore be useful in innovating public utilities tools on order to improve the quality of goods such as water and electricity in Bukavu in particular and in the DRC in general.

2.3.5. Partial privatization

Partial privatization is a form of privatization arrangement which gives a certain percentage stake of a public asset to a private company (cited in Von Weizsäcker et al (2005: 35). The advantage of partial privatization is that the state still has some control over the asset; this gives more power to the state to protect the public interest. The disadvantage of partial privatization is that the agreement gives management rights to the private partners, reducing the state's authority (Juras & Schenk cited in Von Weizsäcker et al. 2005: 35). In the case of the DRC, partial privatization may be beneficial since the state will still have a percentage of the public assets. Therefore, government will not depend only on incomes generated from taxes but will also have income from the companies involved as shareholder. This would allow government to respond to the needs of the population and to cover its financial obligation.

2.4. DEBATE ON PRIVATIZATION AND PERFORMANCE

There has been a lot of debate on privatization and how it impacts on the economic

performance of a country. These debates include pro-privatization and anti-privatization discourse, some of the main elements of which are set out below.

2.4.1. Anti-privatization views

There are several criticisms surrounding the claims that the privatization of public assets will improve the social and macroeconomic situation of a state. Many researchers have argued that privatizing public owned enterprises can worsen the life of the majority, particularly in the developing world. In the case of the privatization of public goods such as water and electricity, this may also be seen in some ways as a violation of human rights. From this point of view, Gleick (1999) argues that the access to basic water is a fundamental human right implicitly and explicitly supported by international declarations, such as the UN Declaration on Human Rights. Thus the privatization of water and wastewater would undermine human rights as the private control is not accountable to the public. Therefore, a democratically elected government which is accountable to the voters through parliament would act firstly to safeguard public assets, and promote service delivery to meet social objectives; the profit motivation should then be subordinate to social objectives.

Regarding the claims of accountability and corruption, privatization is often characterized by corruption, as well as lack of accountability and transparency. Many cases reveal the irregularities that occur during the process of privatization. For example, research on the socioeconomic impacts of New Zealand's electricity privatization conducted by Rosenberg & Kelsey (1999) shows that privatization neither reduced electricity prices nor improved service delivery. Instead of reducing price which was 4.70 cents and 7.54 cents per KWh respectively for domestic users and commercial users by the end of March 1984, it was observed that prices in fact rose steadily to 11.9 cents per KWh after privatization. Moreover, instead of improving services delivery, private companies were judged to have failed. This assertion came after cities such as Auckland experienced consecutive blackouts for three months from February to May 1998. Many workers were seen to being retrenched and as a result electrical infrastructure and appliances were damaged. According to Rosenberg & Kelsey (1999) one of the sixth largest power

companies in New Zealand, the Wellington Company with 8.5% of the national electricity market, laid off 200 of its staff of 530. It raised its debt from 51% to 60%, since it had to cover all of TransAlta's New Zealand assets and debts - prior to privatization.

This suggests that the management efficiency claims put forward by private companies may be challenged, and it is with this hindsight that the analyses of cases such as the aforementioned cast on the claims by the supporters of privatization with respect to the economic and social benefits that privatization can confer. Governments therefore need to assess and to analyse the possible pros and cons of privatization before rushing into the sale or transfer of state-owned enterprises. This is particularly the case in a country in transition from a dictatorship form of government to that of democracy such as the Democratic Republic of Congo.

2.4.2. Privatization versus poverty reduction strategies

The impact of privatization on poverty reduction is questionable, since privatization is often characterized by reduced employment and higher prices for services, leading to worse paid jobs. In cutting the number of employees, this can create social insecurity and deepen poverty, as those who lose their jobs will not be able to respond to the social needs of their families, relatives and friends who are dependent on them. According to Kikeri (1998) privatization often increases poverty and can lead to fewer jobs. Thus, while privatization of public assets can increase incomes and expand services, the welfare outcome is not guaranteed. Therefore, privatizing SNEL and REGIDESO in the DRC cannot be expected to automatically guarantee the welfare of its people.

Privatization, with its envisaged principle of losers and winners, may increase the number of losers, especially in countries such as the DRC, since its implementation is often flawed by a lack of transparency. This can lead to state-owned enterprises being appropriated by those who have political connections, especially in developing countries where regulatory institutions are weak or absent. As highlighted earlier, the DRC is in

transition, and it does not have strong institutional capacity to enforce regulations which can protect the interest of its people. This therefore implies that thinking of privatization let alone implementing it might not yield expected results as the proceeds may serve only a few well-connected individuals. This was the case in the recent Parliamentary Hearing Commission in the DRC led by Mr. Modeste Bahati Lukwebo to investigate the missing US \$ 23million of the US\$50 million provided by the Chinese to renovate the state-owned mining company GECAMINES (Africa Asia Confidential (2010). Those who were supposed to appear before the Commission refused to do so with no legal action being taken against them. This demonstrates the weakness of the current state of affairs to implement policing that would curb infringements or utter abuse of public funds.

Another example reported by Africa Asia Confidential (2010) relates to US\$23 million in signature bonuses payable on China's \$6 billion Sino-Congolaise des Mines (Sicomines) deal with the Kinshasa Government. These were alleged to have been stolen according to a probe by a commission set up by the National Assembly. Commission President and ruling party member Modeste Bahati Lukwebo criticized the collusion of government officials in this scandal (Africa Asia Confidential, 2010).



2.4.3. Pro-privatization

Contrary to anti-privatization claims, privatization proponents argue that the practice improves the micro economy of a country. According to Nellis (2007) the vast majority of studies report post-privatization increases in profitability, efficiency and returns to shareholders. However, they also point out that a high percentage failed to produce a noticeable improvement in the quantity or quality of service or product. Many relied on subsidies from government to keep them afloat, leading to a large financial burden on government budgets.

Nellis (2007:6) argues that pro-privatization actors, especially the World Bank, the International Monetary Fund, and the multinationals, promote and support their pre-emptive rights, insisting that the law of the host country should give preference to foreign

shareholders when state-owned companies are sold, in order to influence inflow of investment. In this regard David & Colin (2005) cited in Economic Focus (2007) argue that regulatory reform in developing countries needs to address the design of the pricing and access policies which balance economic efficiency and social equity.

Many developing countries lack administrative and institutional capacity, which limits the development and adoption of the liberal market regulatory mechanisms that promote competition, including measures that would allow foreign investors to buy shares in previously state-owned companies. The promotion of competition policies and regulatory laws in these countries appears not to be among their priorities; moreover, many of the laws are subjected to policy subsystem complexity and the power of the actors who will be affected by such legislative changes.

In support of privatization, Economic Focus (2007) explains that it has been proved in many developing countries that privatization drives can be successful, especially in areas where governments cannot provide the finance necessary for major development projects. Private companies can often deliver goods or services more efficiently in a free market where state-owned enterprises have failed. Generally, this leads to lower prices, improved quality of service, less corruption, less red tape, and quicker delivery over time. An example of successful privatization is the case of water in Bolivia. According to Von Weizsacker et al (2005: 18) a consortium of French, Bolivian and Argentine companies known as AISA succeeded where public ownership had failed. They state that after privatization, the number of water connections to households rose as planned from 154,000 to 225,000 between 1997 to 2002, with an estimated increase of 45 percent; 45,000 households were connected to water services in the poor areas of El Alto in 2002 alone. Moreover, on top of raising the number of connection to water pipes, sewerage system also improved and connection increased from 30 to 54 percent in El Alto. In La Paz, 90 percent of households were connected to a sewerage system, an advance on the planned 77 percent. In addition, instead of retrenching workforce from SEMAPA, the consortium took the entire workforce 640 onto its payroll.

The case of Bolivia shows that privatizing publicly owned utilities may improve service delivery of basic goods, if there is good will from both the government and private sector. According to Komives (1999) and Foster (2001) cited in Von Weizsäcker et al (2005), despite some financial problems AISA encountered, it did not need subsidies from the Bolivian government, but continued to pay annual revenue of US\$ 3 million to the government.

By synchronizing anti- and pro-privatization arguments, this thesis concludes that there are good practices which the DRC government may apply in order to enhance the efficiency and effectiveness of public utilities management so that these utilities may generate incomes to be used for the socioeconomic development of the people.

2.4.4. Privatization and stakeholders

Many debates around privatization issues are concerned with its impacts on the socioeconomic development of the country; especially the benefits to the poorest sectors of society. However, there has been less discussion about stakeholder involvement, and in particular how the poor may become stakeholders in order to benefit from privatization. According to Moran et al (1999) cited in Investors and Shareholders: NIS (2010) there are four classes of stakeholders: providers of capital, including equity holders and debt holders; suppliers of inputs to the entity, including employees and suppliers of other factors of production; customers or clients, and finally government. Therefore, the interests and roles of these stakeholders are clearly different. However, the role of government may raise questions in this process, particularly in relation to the involvement of officials who might engage in corrupt activities such as mismanaging revenue generated by a given entity.

It would be a mistake for governments to pursue privatization solely as a cure for the failings of public entities. It might be more appropriate to adopt private managerial systems within the public sector which would then produce goods for the common good.

2.5. THEORY OF PRIVATIZATION

According to Megginson and Netter (2001) quoted in Parker and Saal (2003) argue that the theoretical arguments for the advantages of private ownership of the means of production are based on a fundamental theorem of welfare economics: a competitive equilibrium is pareto optimal, under certain assumptions. These assumptions include that there are no externalities in production or consumption, that the product is not a public good, that the market is not monopolistic in structure, and that information costs are low.

Nonetheless, the theory of privatization as portrayed by different scholars depends largely on their particular ideological beliefs and preferences. According to Ugorji (1995) quoted by Adeyemo and Salami (2008) privatization is a strategy for reducing the size of government and transferring assets and service functions from public to private ownership and control; and is based on four core distinctive schools of thought that have tried to explain variations of policies applicable to privatization:

The first is the free-market ideology of the laissez-faire classical economic theory, which favours the unleashing of the competitive profit motive by emancipating free-market pricing from the interfering hands of state regulation. Therefore, free-market economy may be effective for it allows competition and offers other business characteristics that it might have as advantages for the economic development of the country. However, in our opinion, free-market theory may not be applied in the DRC as an economic system. We say this because even though the country is in transition there first needs to be in place strong democratic institutions that are able to enforce market regulatory mechanisms. In addition, taking the hands of government away from the control of the economy would allow private entities free reign, especially multinationals.

It seems clear, therefore, that a free-market economy is not an economic model that can be adopted under the current political and economic situation in the DRC. This is supported by the fact that in 2002 the World Bank advised the Government to privatize the mining company (GECAMINES). Since then, however, there has been very little infrastructural or economic development resulting from this.

The second school of thought is that the 'public choice approach' to policy and political analysis. This approach tries to explain the behaviour and provide sets of standards about what the government should do. The theory assumes that people are rational, utility-maximizing individuals and that economic efficiency becomes the prime criterion for judging the success or failure thereof of the political, social and economic system. Simon (1947) cited by Jones (2002) states that public choice is at least as old as the political economy itself, while economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses; therefore choice is a central issue of economics. Thus, public goods such as water and electricity in the DRC and particularly in Bukavu should be provided by public utilities. This is due to the fact that the majority of the population in Bukavu would not be able to afford the prices of services provided by private entities.

Further, water and electricity are two basic public goods that every human being should not be excluded from and yet giving overall rights to distribute and charge for them would imply these basic requirements for human existence are beyond the reach of many except those who perhaps would be able to pay for the services. In addition, if the provision of the public goods were provided by private entities what would be the element that could be used by people to judge the impact of the effectiveness and efficiency of government towards social and economic development?

Thirdly, the 'populist approach' argues for allowing citizens more choices in terms of sources of services they purchase. This position is geared towards community enterprises that could be more responsive to the needs of the people they serve. Empowerment is seen as the other half of the equation. As privatization compels government to embrace the efficiency and effectiveness of the market, privatization must also embrace the community. The populist approach might be applicable for some cases where the provision of public goods would serve a small community in rural areas. This would contribute to empower the community and promote skills training to such an extent that people would participate in production of common goods and maintain tools. However,

regulatory systems should be enhanced to assist the community to match accountability from the private entity that might be servicing this type of community.

The fourth school of thought is the ‘pragmatist approach’, which advocates alternative approaches to enable the government to provide services with the highest possible efficiency. Pragmatists believe that whereas the private sector may operate efficiently in resource allocation and service provision, the government should still be responsible for functions that are essential for the public good. This is particularly the case where public goods and services, such as water supply, are concerned. However, in such cases, the government could definitely consider implementing some private management systems and practices in its stated-owned public utilities, including employing and promoting people on merit.

One could therefore say that there are points on which the different schools of thought agree and disagree. The main point agreed upon is the benefit of the consumers no matter which economic system is producing goods and services. However, the disagreements are based on the efficiency, effectiveness of services and resources allocation. For some they believe that public utilities are able to deliver effectively if they apply private management system, while other believe that privatizing public utilities is the best economic system which can efficiently and effectively deliver services, and allocate resources adequately.

2.6. MOVING BEYOND THE PRIVATIZATION DEBATE

According to Cook (2009) everyone knows that water is the stuff of life. But is it best viewed as a commodity or as part of the common good? Should the role of providing safe, affordable water be solely for the government?

It goes without saying that water is very indispensable for all, and that its provision should be under strong regulation in order to protect the rights of all. Therefore, as the body governing and managing the country resources, government should have the role to

provide safe water to its people. However, in some cases, government may allow private entities to provide such common commodities/services meanwhile observing strict control of how the commodity is delivered to the people. As a precautionary measure it is noted that, in case of the private entity failing to provide safe water, the government will be the first to be blamed. As such, government needs to be involved in the production, distribution and/or regulation of common goods and services such as water and electricity.

According to Cook (2009) all drinking-water utilities, including those that are privately owned, must comply with drinking-water standards established by the U.S governing policies. Therefore, government has responsibility to control private companies providing basic goods in order to ensure fair and affordable rates for consumers. In addition, government's role should not be limited to be that of the regulator, but it should be involved as well. To this end, public-private partnership system should be applied as it allows the private and public sectors to produce a given common service with regard to each part's interest in general and the interest of consumers in particular.

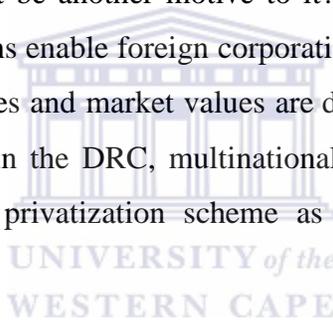
With regard to the provision of electricity, Bende-Nabende (2002) argues that publicly-owned electricity enterprises have consistently provided electricity at no greater cost than privately-owned enterprises and often for prices that were far less than those charged by private companies. Thus, the provision of electricity by publicly owned utilities may be helpful for the poor in terms of consumer' affordability to pay price.

Moreover, public utilities charge their services according to a social or developmental mandate, whereas private entities aim to make profits. Therefore, they often charge their services at a higher price than publicly owned charges for the same service. At the same time, privatization has often been accused of lack of transparency and corruption. Governments have also sometimes been accused of selling assets at below their market related prices so that private companies can provide them with jobs and cash kickbacks. In addition, companies often spend huge amounts of money to mobilize public opinion and to pay bribes to officials. For example, in the context of the USA, Bende-Nabende

(2002) points out that “during the first six months of 1996 alone, energy interests spent at least US\$37 million to lobby Congress and federal agencies on deregulation”.

Therefore, taking into account the strategies used by private companies in promoting the privatization of public utilities that produce and distribute common services, it would be wise for developing countries such as the DRC to analyze carefully the impact of privatization elsewhere before it can engage into the process in its own country.

An interesting question arising is why would these multinationals and foreign investors not fund new infrastructures instead of buying the state-owned infrastructure that currently exists? In addition, in many cases foreign investors and banks have been seen to target countries that have or are undergoing economic crises, need that be considered a good gesture or there may just be another motive to it?. According to Bende-Nabende (2002), mergers and acquisitions enable foreign corporations to take advantage of a crisis situation when local share prices and market values are down. Therefore, due to current economic weakness situation in the DRC, multinationals might take advantage on the DRC government to impose privatization scheme as a condition to attract foreign investment.



This section illustrates briefly the catalyst role played by multinationals and international and bilateral agencies in shaping strategies to push developing countries to privatize public assets. However, there has been a change of emphasis recently amongst some agencies. According to New African (2007), for example, in March 2005 DFID adopted a new policy on aid conditionality in which it pledged that it would no longer make the privatization of public services, such as electricity and water, a condition of UK aid to developing countries. New African (2007) acknowledged the damage which such privatization has caused in the past, and recognized that conditions imposed by donors can often undermine democracy in recipient states. However, 40% of UK aid is still being channeled through the World Bank, IMF and EU, and much of this is still dependent on developing countries accepting conditions such as the privatization of public services. (Source) Thus, one can say that privatizing public utilities that provide common services such as water and electricity is not for the local community's interest.

Since 2002 the reforms that have been undertaken by World Bank and IMF in the DRC have not improved the institutional capacity to provide quality services. Moreover, the World Bank and IMF have been accused by NGOs of promoting the looting of the country's resources, particularly in the mining and timber logging sectors. According to the Bank Information Center (2006), which reveals the contents of a leaked internal World Bank memo concerning the Bank's involvement in the Democratic Republic of Congo's mining sector, the Bank may be perceived as complicit in the non-transparent awarding of mining contracts between the DRC's transitional government and a number of major international mining companies.

Therefore, the reform of public utilities in Bukavu particularly REGIDESO for water and SNEL for electricity may not be benefiting the majority of the population from Bukavu, given the fact that there is not strong regulatory mechanisms able to protect consumers' rights.

2.7. SUMMARY

The purpose of this chapter was to review relevant literature on privatization and how it impacts on the socioeconomic development of countries in general and the DRC in particular. In the chapter, definitions of privatization and the different forms that have been used in implementing privatization policy have been deliberated upon. The literature analyzed in this chapter will serve to link objectives of this study to different respondents' views with regard to research method and questionnaire. It also highlights that water and electricity as social goods, and taking into account previous the case of privatization analyzed in this chapter, there is a doubt that privatizing SNEL and REGIDESO would be the most appropriate solution to improving access of the majority of people to clean water and electricity in Bukavu, while the Government still struggling to implement democratic rule. The next chapter provides the methodology of how the study is going to be conducted.

CHAPTER 3

RESEARCH DESIGN AND METHODOLOGY

3.1. INTRODUCTION

Chapter two has provided a literature review and theoretical background of this study. This chapter provides the methodology used in this study to investigate attempts to reform public utilities initiated by the DRC Government. The main research is: *to what extent will the Reform Law of July 7, 2008 in the DRC, which came into force on the 9th of April, 2009 be effective in terms of the provision of water and electricity services in Bukavu?* The Reform Law is aimed at transforming public enterprises into commercial entities so that they may become more effective in delivering basic services and contributing to the socio-economic development of the country. This chapter outlines the research strategy sampling and sampling procedures. It also introduces the research instruments that will be used.

3.2 RESEARCH STRATEGY

This study is descriptive and it uses qualitative data-collection methods. According to Creswell (2009; 173) qualitative inquiry employs different philosophical assumptions, strategies of inquiry, and methods of data collection, analysis and interpretation. Qualitative procedures have unique steps in data analysis, and draw on diverse strategies of inquiry. According to Creswell (2009:175) researcher as key instrument, qualitative researchers collect data themselves through examining documents, observing behavior, or interviewing participants. They may use a protocol on instrument for collecting data, but the researchers are the ones who actually gather the information.

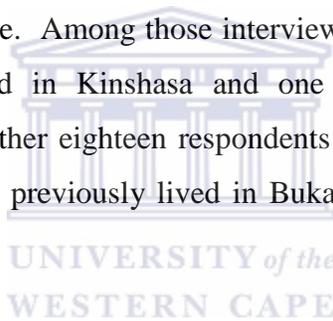
In this study, qualitative data was collected primarily through stakeholder interviews with Congolese nationals who come from Bukavu but are currently living in or visiting Cape Town. In conducting interviews, the researcher met face to face with interviewees so that he could gain a detailed picture of their opinions and emotions on the issue of water and

electricity privatization in Bukavu.

3.3. SAMPLING TECHNIQUES AND PROCEDURES

According to Creswell (2009: 178) the idea behind qualitative method research is to purposefully select participants or sites, documents or visual materials that would best help the researcher understand the problem and the research question.

In this study use was made of the snowball non-probability research technique. This was appropriate because there was not been a clearly defined population for this kind of study, especially given the existence of unstable political and economic prevailing conditions dominating the country's political landscape. The researcher began interviews with a number of targeted individuals known to him, and then extended the sample through the snow-ball technique. Among those interviewed was one ex-Chief Executive Officer of REGIDESO, based in Kinshasa and one Regional Deputy Director of REGIDESO in Bukavu. The other eighteen respondents were Congolese nationals with tertiary qualifications who had previously lived in Bukavu and therefore knew the city and its challenges well.



3.4. INSTRUMENTS

The major research instrument that was used in this study was a questionnaire administered to all the respondents by the researcher. The questionnaire was written in English but also translated into French for use with those respondents who were not fully conversant with the English language. Section A of the questionnaire investigates underlying practical implications during and after commercialisation of these services. Section B examines government policy of commercialising services such as water and electricity. Section C assesses the historical pros and cons in the operations of SNEL and REGIDESO, as well as the current justification for commercialising them. Section D explores reactions to the likely impact of the commercialisation of SNEL and REGIDESO on the lives of the people of Bukavu. A copy of the questionnaire is attached as Appendix A to this study.

3.5. LIMITATIONS OF THE STUDY METHOD

As mentioned in chapter one, this study aims to provide information about the impact of privatization policy that may be used by policy makers in the DRC, as well as academics and researchers. Thus, with sufficient resources to carry out a major study in Bukavu, the study would have been able to make use of a stratified random sample of interviewees. However, such conditions were not met, and therefore the researcher had to limit the number of respondents to 20 people living in or visiting Cape Town. This was obviously a limitation in terms of the representativeness of the findings. Another limitation encountered was the limited amount of information related to the socio-economic issues in the DRC that was within easy reach of the researcher. This led to a dependence on the internet for sources of secondary information.

In an attempt to strengthen the validity of the results, the study was able to draw the information from well-informed respondents. Most of the people interviewed for the study have completed their tertiary education especially in areas such as economic sciences, law, and business studies. They were therefore well informed about the impact of privatization on the socioeconomic development of ordinary people. In this regard, their views would not necessarily represent the population that would be affected by the privatization of electricity and water utilities in Bukavu yet that was the best possible backdrop to contrast or backup interview results.

3.7. SUMMARY

This chapter presents the research methods and strategies used in this study. A descriptive qualitative method was selected as the most appropriate for the purpose and nature of the study. Hence, the chapter also outlines the sampling technique suitable for this method. A non-probability form of purposive sampling technique was used, and this was expanded into a snow-ball process to reach to as many people as possible. In addition, the important component in this chapter was the design of research questionnaire which is the main research instrument used in this study. The questionnaire was structured on a

basis of research objectives provided in chapter one of this study. The researcher used the questionnaire to collect the data which is presented and interpreted in the next chapter.



CHAPTER 4

A CASE STUDY OF BUKAVU

4.1. INTRODUCTION

Chapter three provided the methodology and research strategy of the study. This chapter focuses on data presentation and analysis. It also presents fieldwork responses which were used for the final presentation of the results. The chapter contains the field notes, supporting analysis, results, and a report of conclusions.

As noted in Chapter 1 the purpose of the study is to:

- Examine government policy strategy of commercialising some services such as water and electricity
- Investigate underlying practical implications during and after the commercialisation of these services
- Assess the historical pros and cons in the operations of SNEL and REGIDESO and the current justification for commercialising them
- Explore public reactions on the likely impact of the commercialisation of SNEL and REGIDESO on the life of the people in Bukavu.

In pursuit of these objectives, this chapter operationalises the research design in the case study of Bukavu. The chapter presents and analyses data obtained through interviews of 20 respondents from Bukavu in the Democratic Republic of the Congo (formerly known as Zaire). The respondents are identified among Bukavu citizens currently living in Cape Town. Since these respondents are professionals and have vast experience in the situation of the DRC and Bukavu in general, the validity of the findings is justifiable. The chapter is structured on the basis of the objectives. It starts with a brief overview of the situation in Bukavu (past and present) and proceeds with analysis of government policy strategy of commercialising some services such as water and electricity; practical implications during and after commercialisation of these services; historical pros and cons in SNEL and REGIDESO operations and current justification to commercialise

them; potential public reactions on the impact of SNEL and REGIDESO commercialisation to individual people's life; and the chapter ends with a comprehensive summary.

4.2. AN OVERVIEW OF BUKAVU

4.2.1 Introduction

Bukavu is the main city of the Sud-Kivu Province which is one of the eleven provinces of the Democratic Republic of the Congo. According to the 2006 Constitution of the DRC political and administrative power in the provinces is vested in the Provincial Assembly and the Provincial Government. The Provincial Assembly has power over the Provincial Government and its provincial public services including rural entities. Most of the members of the Provincial Assembly are elected from different territorial entities. However, a small number are also appointed by the main political parties. The Provincial Government is constituted by a Provincial Governor, one Deputy Governor and Provincial Ministers. The Governor and the Deputy Governor are elected by the member of the Provincial Assembly, while Provincial Ministers are appointed by the Governor (Democratic Republic of the Congo, National Assembly; May 2005). The Sud-Kivu Province is located in the East of the country, with an areas of 65,128 km² and a population estimated in 2003 at 3 464 082. It is constituted by eight rural territories: Fizi, Idjiwi, Kabare, Kalehe, Mwenga, Shabunda, Uvira, Walungu and four urban Municipalities Bagira, Ibanda, Kadutu and Kasha.

4.2.2. Location

Bukavu is located in the eastern Democratic Republic of Congo, and lies at the extreme south-eastern extent of Lake Kivu. At the west is Cyangungu in Rwanda and is separated from it by the outlet of the Ruzizi River. Bukavu is the capital of Sud-Kivu Province and has a population of approximately 700 000. The provincial administration is located in Ibanda. The city is experiencing a massive rural exodus due to political turmoil caused by rebellions in the country since 1996. The City is run by a Mayor assisted by two Vice-Mayors.



4.2.3. Socio-Cultural Characteristics

The City of Bukavu is occupied by different ethnic groups from the rural territories of Sud-Kivu, the Bashi from the territories of Kabare, Kalehe and Walungu), the Barega from Mwenga and Shabunda, the Bahavu from Idjwi, the Bafurero from Uvira and the Babembe from Fizi.

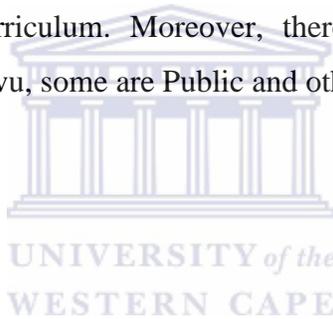
4.2.4. Health

According to Provincial Health Inspectorate of Sud-Kivu cited in the Monograph of Sud-Kivu (2005), there are in three public hospitals in Bukavu: the government hospital

known as Reference Hospital, the Panzi Hospital run by the Pentecostal Churches of Congo, and the CELPA Hospital also run by the Pentecostal Churches. of in Africa in French: Communauté Pentecotiste des Eglises Libre en Afrique. Beside these three hospitals, there are several private medical clinics and health care centres. However, despite these facilities, there is a critical shortage of qualified health professionals. For example, the doctor/patient ratio is currently one doctor for 31 000 patients, whereas the norm is supposed to be one doctor per thousand patients.

4.2.5. Education

In Bukavu, public primary or secondary schools are run by the Government as well as by the Churches. There are also a number of Islamic Schools and private schools. All of these follow the national curriculum. Moreover, there are several High Education Institutions in the City of Bukavu, some are Public and others are private accredited.



4.2.6. Water

According to Provincial Directorate of Regideso/Bukavu quoted in the Monograph of the Sud- Kivu (2005), the installed capacity of the plant Murhundu is 1,200 m³ / h with an additional amount of 108 m³ / h at the plant in Funu Kawa. Despite this production capacity, this public utility had connected only 15 718 people by 2004. However, in the period since then, and with the financial and technical assistance of the international community, there has been a significant increase in the number of connections.

4.2.7. Electricity

According to Rudahigwa (2005) the power consumed in Bukavu is produced by two hydroelectric dams Ruzizi I and Ruzizi II. The first one was built in 1959 with a capacity to produce 28, 2 MW. Besides providing power to Bukavu, this dam supplies electricity to other cities within the country and to neighboring countries like Burundi and Rwanda respectively. The second hydroelectric dam was built in 1989, and is collectively owned

by three countries, namely Burundi, the DRC and Rwanda. It is managed by the Société International d'Électricité de Grand Lac (SNELAC) with a production capacity of 200 GWH.

According to the Provincial Directorate of SNEL/Sud-Kivu cited in the Monograph of Bukavu (2005), the number of people who are connected by SNEL was 19 593 in 2004 out of a population of close to three quarters of a million.

4.2.8. Tourism

According the Division of Tourism Sud- Kivu cited by the Monograph of Sud-Kivu (2005), indicates that, there are many hotels in the City ranging from big to small. However, due to the political turmoil caused by wars, many small hotels had closed down particularly in Kadutu and Bagira municipalities, and are used as store rooms.

4.2.9. Industry

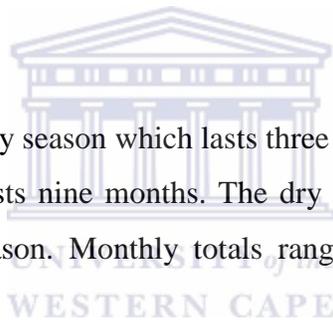
The Zairianization policy initiated by Mobutu in 1972 which consisted of the confiscation of foreigner businesses, coupled with the collapse of infrastructure especially roads, led to a considerable reduction in economic activity in the province. This has been compounded more recently by the regular electricity blackouts. had led to the collapse of the industry in Bukavu”. The main manufacturing industries include PHARMAKINA, which produces anti-malarial and HIV/AIDS drugs, BRALIMA, which is a brewery, and TOLINKI which produces metal sheets. The population of Sud-Kivu at large and that of Bukavu in particular depends on import manufactured products from retail companies like KOTECHA, DATCO, TRAFCA and SHENIMED. However, many families depend on informal activities including the selling of food products (agricultural, fish, meat and fruits) from small markets called Limanga, artisanal workshops, and the small scale exploitation of minerals especially coltan, gold and cassiterite. The city is the main point where sellers and buyers meet, consequently, the population of Bukavu benefit from these transactions.

4.2.10. Poverty

The city of Bukavu, like other cities from the DRC, exists in an environment of chronic conflict. Therefore, most social and economic structures including healthcare are in a very weakened state. Insecurity and the lack of infrastructure have deepened the level of poverty in the city. According to the UN's International Human Development Indicators (2010), " Between 1980 and 2010 in the DRC the HDI (Human Development Index) declined by -0.4% annually from 0.267 to 0.239 today, which gives the country a rank of 168 out of 169 countries with comparable data. Moreover, the HDI (2010) shows that 59.22 % of the population in the country are living on less than \$ 1.25 per day per person. Although specific figures for Bukavu are not available, the incidence of chronic poverty is certainly as high as that in the country as a whole.

4.2.11 Climate

Bukavu has two seasons: the dry season which lasts three months from June to September and the rainy season which lasts nine months. The dry season is characterised by high temperatures. In the rainy season, Monthly totals range from 15.0 to 573.0 mm per month.



4.3. AN OVERVIEW OF REGIDESO AND CHALLENGES

4.3.1. REGIDESO

REGIDESO in Bukavu is the provincial branch of the state enterprise that was created by the Act No 78-002 of 6 January 1978. It has the monopoly of producing and distributing water all over the province. It produces water from two plants: the Murhundu plant with a production capacity of 1200 cubic meters per hour, and Funu-Kawa an additional plant with a production capacity of 108 cubic meters per hour Monographic de la Province du Sud-Kivu (2005).

4.3.2. Challenges

According to Aluma (2009), access to clean and potable water in Bukavu is a challenge, particularly from areas where the majority who live here are of low income, such as Funu, Cimbunda, Igoki, Muhungu, Essence and Kazaroho. For example, at Funu fountain, people are in constant conflict and fight for access to water.

The population surrounding Bukavu do not have access to potable water at all, even those who live near REGIDESO' water processing plant in Murhundu. This water plant is located in the Kabare Territory but the populations from Kabare do not have access to clean drinking water, they consume water from rivers which is not hygienically appropriate for drinking. Moreover, the cost related to the water connection is very high; equal to 180 USA Dollars and local people cannot afford such amounts. They make arrangements such as joining with their neighbors who are connected, then when the bill comes at the end of a given period, they divide the amount accordingly. According to Aluma (2009) REGIDESO has the capacity to supply only 17 litres per day per person which is very low in comparison to 140 litres per day considered adequate in a developed country. In order to cover those who cannot afford to pay their bills, the company charges different rates for domestic and industrial consumers. It charges \$0.22 per m³ for domestic consumers and \$3.80 per m³ for industrial consumers.

Therefore, as a public utility, REGIDESO currently charges less for its services than it spends in order to produce and supply water. So one may ask, is it possible for a private company to charge less than what it spends, bearing in mind that a private entity is motivated by profit rather than social development? At the moment, personal assessments suggest that the majority of the population of Bukavu is not even able to afford the current rate. A likely scenario if REGIDESO is privatized is that the service rate may well increase substantially, and consequently the poor would not be able to afford the new tariffs.

4.4. AN OVERVIEW OF SNEL AND CHALLENGES

4.4.1. SNEL

The electricity consumed in Bukavu is produced and transported by SNEL from Sud-Kivu which is the provincial directorate of the state-owned enterprises. According to Rudahigwa (2005) the power consumed in Bukavu is produced by two hydroelectric dams Ruzizi I and Ruzizi II. The first one was built in 1959 with a capacity to produce 28, 2 MW. Besides providing power to Bukavu, this dam supplies electricity to other cities within the country and to neighboring countries like Burundi and Rwanda respectively. The second hydroelectric dam was built in 1989, and is collectively owned by three countries, namely Burundi, the DRC and Rwanda as the Great Lakes Region power dam managed by the Société Internationale d'Électricité de Grand Lac (SNELAC) with a production capacity of 200 GWH.

4.4.2. Challenges

However, despite having two hydro-electric dams, SNEL is not able to provide sufficient services to its customers due principally to the mismanagement of government resources by elected/administrative officials. For example, one of the four machines from Ruzizi I has broken down, and the cost to repair is evaluated to be at US\$ 3 547 330 according to SNEL engineers. This has reduced the production capacity from 28.2 MW to 14 MW, and has led to regular blackouts in Bukavu with a negative impact on the socioeconomic development of the city. Only a few places have an uninterrupted supply of electricity, including public offices and the areas where high ranking officials live (Diovenspeck, 2007).

In addition, on top of regular blackouts, SNEL does not provide metered power to its customers, but charges its service not according to units used by customer but at an all inclusive price. The tariff applied for Bukavu customers is seen to be three times higher when in comparison to other provinces.

According to Mulikuza (2008: 1) services provided by the SNEL are inefficient as most areas in Bukavu experience regular blackouts and the price is extremely high compare to others provinces. For instance the price that the SNEL charges for its customers from Bukavu is three to four times higher than customers from Kinshasa, Lubumbashi, and Bandundu and Bas-Congo provinces. In addition, unreliable electricity provision has had adverse consequences, for example putting patients' lives in danger for those in hospitals, lowering the production of enterprises, as well as negatively impacting on education in the city.

4.5. DATA ANALYSIS: INTERVIEWS

4.5.1 Government policy strategy of commercialising water and electricity utilities

On the question whether the government policy and strategy on commercialization of water and electricity is viable in Bukavu, the respondents provided diverse opinions. The findings are expressed in the following subsections below.

4.5.1.1. The process of privatization of public utilities

The respondents were asked about their views on the process of privatization of public utilities such as REGIDESO and SNEL in Bukavu. In response to this question, 45% of respondents were opposed to the privatization of public utilities. They further expressed a concern that there was a lack of transparency since the current government did not provide information to the public. In addition, the government didn't involve all stakeholders in process. Therefore, privatization is not likely to improve the situation. Instead of improving the delivery of services and increasing the number of water and electricity connections, privatization is likely to exclude the poorest members of the community from access to water and electricity, as the price is likely to increase substantially. These respondents argued that privatization will not meet the needs of the Congolese in general and those in Bukavu in particular, but will worsen the situation as has often happened in other developing countries.

However, 35% of respondent were not sure if the privatization of SNEL and REGIDESO in Bukavu would be a good strategy, while 20% believed that the privatization route is appropriate for their country. Therefore, taking into account the above views, someone may say that Congolese are not supporting privatization of public utilities. The general consensus was that privatization will is not beneficial to the people but only to the corporations who take over the entities. However, the 20% who felt that privatization would be beneficial argued that government providers have no real incentive to hold down costs or to provide quality service (see also Pasour, 1996).

4.5.1.2. Potential Reform

On the question whether government institutions are capable of reforming the public sector in line with privatization processes, the respondents argued that these institutions will find it difficult to enact regulation and provide mechanisms to enforce them, due to the current levels of corruption and mismanagement that are prevalent within them. Corruption in particular creates obstacles for economic development, violates principles of human rights, and undermines the rule of law. Thus, before contemplating privatization, government should first implement anti-corruption measures as one of the key state programmes to strengthen public trust in government agencies. Preventive measures should be introduced to bring to justice persons having committed acts of corruption. Secondly, government must improve control mechanisms in combating corruption and the protection of the rights of victims who suffered from acts of corruption. Thirdly, government should strengthen integrity and professional behaviour, in particular by introducing a code of conduct for government officials and civil servants.

The confidence of the respondents was discouraged by consistent reports of corruption in the Government. For example, as indicated in Africa Asia Confidential (2010), a recent Parliamentary Hearing Commission led by Mr. Modeste Bahati Lukwebo revealed that US \$23 million was missing out of the US\$50 million provided by the Chinese to renovate the state-owned mining company GECAMINES. Most of those who were invited to appear before the Commission failed to do so and no action was taken against

them. In addition, the Commission President criticized the collusion of some senior officials in GECAMINES with local justice officials in Lubumbashi. The result was that little was done by GECAMINES in Lubumbashi to renew the infrastructures of the state mining company or to promote sustainable social and economic development as expected.

4.5.1.3. Legal framework and privatization of water and electricity facilities

The respondents were asked whether the Government is capable of enacting laws and policies, enabling the privatization process. To this question 100 % of respondents said no. They argued that the Government had failed to enforce the rule of law which is supposed to serve as a watchdog during the implementation of government programmes. The result also revealed that it is impossible for the current government to enact laws that will protect the interest of people from Bukavu or the DRC at large. They further argued that in most of the cases, private companies bribe public officials to underestimate the value of public utilities after which the private companies then buy the utilities at a cheaper price.



The respondents also highlighted a number of irregularities that have taken place or are likely to take place in the privatization process. First, they argued that the Government is supposed to appoint a transitional board of directors to oversee the management of privatized entities. However, the same board often continues to manage these utilities in the longer term. Secondly, they expressed concern about the ability of the regulatory body charged with the responsibility of overseeing the privatization reform process (COPIREP, the Government Steering Committee for Reform) to adequately protect the interests of the public in the process, in particular with respect to output pricing and the quality of service delivery. So far COPIREP has failed to impose its authority on officials to present reports on their respective public utilities two years after the launch of the reform process. Thirdly, there is a persisting doubt regarding the ability of COPIREP to lead the process effectively, for if it cannot establish its authority when dealing with public officials, then it is unlikely to be able to do so with private companies and

investments banks. Fourthly, the respondents were concerned with the lack of stakeholder involvement in the process.

4.5.1.4. Pro and anti-privatizations views of respondents

Those in favor of the privatization of public utilities argue that it will lead to improved service delivery of basic services. The respondents were asked whether they would agree with this statement or not. Seventy percent disagreed. They argued that whilst privatization might have led to positive results elsewhere, this was not likely to be the case with respect to the privatization of SNEL and REGIDESO in Bukavu.

The problem, these respondents argued, does not lie so much in the ownership of the entities but the mismanagement of public funds. Therefore, privatization is not viewed as the only solution to social and economic problem but it could worsen. They further argued that privatization could well result in unintended consequences, for example by increasing conflict between neighbors. In the past those who were connected to water often allowed their neighbors to share their taps. However, this would not necessarily be the case if they had to pay more following privatization, thereby increasing tension and conflict.

Whilst 20% of the respondents were not able to provide a clear yes or no answer to the question, 10% believed that private companies would be able to deliver where public utilities have failed, and felt that private entities could well be in a better position to extend their services to the rural areas. Their response was based in the main on their awareness of successes with privatization in other parts of the country, particularly with regard to the increase in the numbers of people connected to water and electricity services.

4.5.1.5. Regulatory Mechanisms to Protect the Public Interest

In the light of the current political dispensation and economic environment in the DRC,

respondents were asked to comment on whether they thought that adequate regulatory structures were in place to protect the public interest during and after the privatization reform process. All the respondents argued that this was not the case due to the current lack of transparency within public institutions and the lack of accountability amongst public officials. They therefore expressed the view that before privatization on a large scale is contemplated the Government should strengthen management and accountability within existing public utilities.

The respondents highlighted in particular the failure of officials in charge of public utilities to provide regular reports of the activities and financial affairs of their organizations. These tallies with the findings of the recent Parliamentary Hearing Commission led by Mr. Modeste Bahati Lukwebo which was discussed above in Section 4.5.1.2 of this research report.

4.5.2. Implementation machinery

4.5.2.1. Practical implications of commercialisation of water and electricity services

It was probed whether the respondents support the privatization of public utilities in Bukavu in relation to the level of income of residents. In response to this question, it transpired that 85% of respondents do not support the privatization of SNEL and REGIDESO in Bukavu. They argued that many people are currently unable to afford the services provided by REGIDESO and SNEL and that the situation would be worse if these public utilities are privatized. They also argued that private companies do not always provide basic services to everyone in the society, and they raised the question: Why would Multinational Corporations invest in public entities rather than building new infrastructures? Instead of privatizing existing public utilities, the respondents argued that the Government of the DRC should allow private entities to build new infrastructures to provide the same services as those offered by public enterprises so that consumers would have more choice available to them to use services provided by either public utilities or private ones.

Only 15% of the respondents supported the idea of allowing government to give the freedom for private companies to invest in public entities, arguing that this would improve the quality and affordability of services.

4.5.2.2. Private companies versus public institution in service delivery

The study investigated whether private companies can provide basic services at a more affordable price than public institutions. The data reveals that 95% of respondents were negative, arguing that private companies are working to make profits. In the absence of strong regulation mechanisms which control quality services and prices, private companies would be likely to charge higher rates and will not mind about quality services they would provide. Moreover, there are critics against privatization of public utilities especially water and electricity from developing countries saying that the cost of services provided by private companies are higher than the cost services provided by public utilities. Cairns and Vanderweyden (2003) argue that rather than contributing to poverty reduction, in fact, water privatization and greater cost recovery could make water less accessible and less affordable to the low income communities that make up the majority of the population in developing countries.

The most immediate impact of reducing the accessibility and affordability of water falls on women and children. More than five million people, most of them children, die every year from illnesses caused from drinking poor quality water. When water become more expensive and less accessible, women and children, who bear most of the burden of daily household chores, must travel farther and work harder to collect water - often resorting to water from polluted streams and rivers.

Only 5% of respondents felt that private companies may be able to provide basic services at cheaper prices, largely due to better management and efficiency gains.

4.5.2.3. Governmental security measures

Another question posed to respondents was: can the current Government provide social security to those who might lose their jobs in the course of privatization process? On this question, 100% of respondents said no. As the Government is struggling to pay its own civil servants, it is highly unlikely that they would be willing or able to provide social security for those who lose their jobs.

The respondents felt that those who lost their jobs would fall into chronic poverty. This tallies with Kikeri (1997) who argued that fearing unemployment and the loss of benefits, labour unions and state enterprise workers are often among the most vocal and organized opponents of privatization, taking actions to deal or block reform. These difficulties, combined with the absence of social safety nets and functioning labour markets, often have led governments to delay privatization.

4.5.2.4. Privatization under conditions of an economic downswing

Due to the collapse of social and economy activities in the country, can conditions for privatization allow ordinary citizens to participate and buy shares private companies? Responding to this question, 95% of respondents said no, as people do not have incomes, unless the government provide vouchers to ordinary people. Five percent of the respondents felt that those who are politically well-connected may acquire shares, which might bring us back to the 1972 when situation Mobutu decided to nationalize private companies and distributed them between his cronies without any managerial skills. This was one of causes of the economic collapse of the DRC, the economic consequences of which are still being experienced today.

4.5.2.5. Alternative privatization approaches

The views of respondents were sought on what kind of privatization can be adopted in order to protect the interests of both the interests of the private companies and those of citizens and consumers.

All the respondents felt that public-private partnerships (PPPs) would be the best form of

privatization which could protect the interest of both private companies as well as consumers under a transparent and strong regulatory mechanism. Such partnerships should be formed in a transparent and accountable way, with the involvement and participation of the communities that would be affected. Partnerships would be the best option, they argued, as they could well provide the benefits of a new managerial ethos which improves service delivery, whilst at the same time promoting participatory principles which change the nature of political relationships between citizens and the state.

The respondents also argued that PPS may well help to ensure a high level of confidence that infrastructure will be available on time and without cost blowouts, as well as an ability to hold a provider financially accountable for the performance of a particular infrastructure throughout its lifetime. Moreover, they could create added value through synergies between public authorities and private sector companies, in particular, through the integration and cross transfer of public and private sector skills, knowledge and expertise, thereby reducing capacity constraints and bottlenecks in the economy through higher productivity of labour and capital resources in the delivery of projects.

4.5.3. The historical pros and cons in SNEL and REGIDESO operations

4.5.3.1. Privatization and quality of water

REGIDESO provides poor quality of water and few people have access to its services. There are also complaints that the price it charges to connect customers is very high. Based on this, the study inquired whether a private company will improve water services quality at low price as pro-privatization claim. In response to this question, 60% of respondents did not support the idea that private companies would provide basic service such as water at cheap price. They argued that in Bukavu in particularly and in DRC at large the provision of basic service like water and electricity should be provided by public utilities not private ones As water and electricity are two basic social goods that each people is entitled to, thus, the government should subsidize the provision of them.

Moreover, it was argued that private companies often push for deregulation to reduce the State's role in price control and the quality of services provided. In addition, it was argued that government needs to provide funds and give more responsibility to local authorities so that they and the people they represent can participate in the activities of water utilities and hold them accountable.

However, 40% of respondents argued that private companies may be able to deliver quality services where public utilities have failed. They argued that since the nationalization of the provision of water and electricity, the Government has done little to improve the performance of utilities or to upgrade their infrastructure. They therefore felt that private companies may be able to provide water at cheaper prices in Bukavu, if there is a strong regulatory mechanism and if the government its role effectively as regulator through its agencies and allows NGOs to participate to be part of monitoring team. These tally with Nellis (2007:10) who argues that the vast majority of studies report post-privatization increases in profitability, efficiency and returns to shareholders

4.5.3.2. Privatization and quality of electricity

The quality of electricity services in Bukavu is characterised by almost permanent blackouts. In many areas in Bukavu people do not have access to electricity at all, and for those that do the tariffs are very high. In this regard, the respondents were asked: Can the privatization of SNEL improve electricity services and increases the number of consumers at affordable price? The results indicate that 90% of respondents argued that whilst privatization may improve the management of electricity provision it is not likely to improve access as the majority of people in Bukavu cannot afford to pay the current service rates.

They further argued that the DRC has huge potential resources of electricity and exports quite significant amounts to neighbouring countries, from which it derives revenue in foreign currency. If these revenues were well managed, the Government should be able to use them to improve electricity supply at affordable rates to its own citizens. In this

context it is instructive to note that whilst Bukavu experiences regular blackouts, Cangugu in Rwanda, which is on the opposite side of the Ruzizi River has a very reliable service, even though both cities receive power from the same hydro-electric power plants.

The respondents further argued that the major problem with SNEL is not that it is a public utility but rather the result of the poor management or mismanagement of the funds generated by this utility, as well as the lack of vision and appropriate development programmes from the Government. For example, as noted earlier in this research report, the Ruzizi I dam has not produced to its capacity due to unattended maintenance problems of a very longstanding nature (dating back to 1974). After 36 years, some of the generating machinery has still not been repaired. The Government, it was argued, should therefore first concentrate more effort to improve management and eradicate corruption before engaging in economic reform.

4.5.3.3. Privatization and improvement of quality of water

In addition to problems of service quality and access, there have been complaints that the price charged to customers in Bukavu is very high. In the light of this, the question was asked: Do you think that privatization will not lead to improved water services and quality at an affordable price, as critics of privatization claim?

The result shows that 75% of respondents support this anti-privatization claim. They argued that the provision of social goods by public utilities should allow citizens to participate in the provision and monitoring of water and electricity. In contrast, privatization would most probably not allow citizens to control and participate in the provision of these basic services. Moreover, Bukavu is surrounded by Lake Kivu, the Ruzizi River and a number of small rivers. Therefore, government should negotiate with investors to build new plants in order to meet the demand of the growing urban people, and to upgrade the existing plants. This, may bear social and economic benefits: social benefits in the sense that REGIDESO as a public utility would have the capacity to provide good quality service and increase the number of people to have access to clean

water; and economic benefits through increased job opportunities and employment creation.

The respondents further argued that the inefficiency of public utilities in the DRC at large and in Bukavu in particular is due to the lack accountability and transparency in public institutions, for we are aware that, if public revenues are well managed, there will not be problems in funding developmental programmes. Several audits in the DRC have revealed that public officials misappropriate huge amounts of money. If this was used by the Government to serve the people's interests, then utilities such as REGIDESO could be assisted to extend their operations and improve their performance.

Twenty five percent of respondents argued that privatization of REGIDESO could improve quality service and increase the number of water connections in Bukavu, but, for this to happen, the Government would need to provide strong regulatory systems and involve independent monitoring bodies.

4.5.3.4. Privatization and quality of electricity services

The quality of electricity services is characterised in Bukavu by regular blackouts, and in many areas in Bukavu people do not have access to electricity at all. Tariffs are also very high. Respondents were asked if they thought that the privatization of SNEL can improve electricity services and increase the number consumers at affordable prices in Bukavu. With regard to this question, 98% of respondents argued that the privatization of SNEL in Bukavu is highly unlikely to improve the quality of service provision or to increase the number of consumers. In fact, they argued, it could well worsen the situation due to the fact that the majority of the population does not have the means to afford electricity. Private companies are unlikely to be interested in providing services to poor areas where people cannot afford the price. In Bukavu this problem is compounded by the fact that consumers pay three times more for electricity than consumers in Kinshasa and Lubumbashi (Mulikuza, 2008).

The respondents concluded that the privatization of SNEL would almost certainly not lead to improvements in the quality of service or to increased access to electricity to those who have been denied it for decades. Instead, there is an urgent need for the Government to improve the management and maintenance of its public utilities.

4.5.3.5. Additional views on privatization of REGIDESO and SNEL

The respondents were asked to provide further suggestions on the privatization of REGIDESO and SNEL. In response to this question, 80% of respondents argued that REGIDESO and SNEL should not be privatized in Bukavu or in the DRC at large. Instead, as the Government's decentralization programme is in process, the management of these public utilities should also be decentralised, and the distribution of water as well as electricity should be under the control and supervision of the local municipal authorities. SNEL and REGIDESO should be in charge of the production of electricity and water, not its distributor. Distribution and the recovery of fees should be the responsibility of local municipalities who are accountable to their electorates. Under such conditions, service provision and pricing would become more transparent, and people would be able to participate in decision making with respect to the provision and pricing of these vital public goods.

4.5.4. PUBLIC REACTIONS ON COMMERCIALISATION OF SNEL AND REGIDESO

4.5.4.1 Impact of the Commercialisation of SNEL and REGIDESO

In response to this question 80% of the respondents argued that the impact of the commercialization of SNEL and REGIDESO on individual life in Bukavu would be conditioned by two factors. On one hand proposals for privatization should set basic goals to be achieved, especially to meet explicitly the needs of under-served communities through an expansion of access to water and electricity as well, and on the other hand strong regulatory mechanisms and watchdog bodies should be put in place and should include the involvement of all relevant stakeholders including community members.

Moreover, the DRC, as in all or most developing countries in transition, is faced by a range of serious political, administrative, social and economic challenges. Consequently, it will be difficult for the Government to implement economic reform policies that will impact positively on individual life in cities such as Bukavu, especially through the privatization of utilities that provide basic services such as water and electricity. This will particularly be the case as privatization may well be accompanied by job losses and increased tariffs, both of which will impact negatively on the poor.

At the same time, the respondents argued that, for privatization to succeed in bringing benefits to all groups including the poor, strong regulatory institutions would need to be in place to balance the demands of the different groups involved and, at the same time, to be able to adapt to changing circumstances. As earlier sections of this research report have demonstrated, such institutions are currently lacking in the DRC.

4.5.4.2 Impact of the privatization of REGIDESO and SNEL on the poor

The study investigated whether the privatization of REGIDESO and SNEL will be capable of increasing the access of the poor to water and electricity services at affordable rates in Bukavu? The data reveals that 85 % of respondents argued that this would not be the case. Instead they felt that the privatization of these utilities would instead reduce the access of poor to these basic services. As they are primarily motivated by the need to make profits, private providers would undoubtedly focus their activities on better-off or middle-class area which have the ability to afford the services provided. Evidence from elsewhere suggest that such private companies would be hesitant to move downstream and provide services to the poor, who are perceived as unable to pay and thus a significant risk. As tariffs are also likely to increase, this would compound the situation, as it did, for example in Mexico when water provision was contracted to a subsidiary of the French transnational Vivendi (Marrero, 2005).

As noted earlier in this research report, the respondents further argued that, in order for the DRC Government to address the development needs of the country, it should change

the methods of providing basic services such as water and electricity. Instead of concentrating all roles (production, distribution and collections rates) into one public utility, government should give local municipalities and community organizations the responsibility to take care of the distribution and cost recovery of such services. The respondents argued that the distribution of water and electricity could be executed by the municipalities and rates collections could be carried out by NGOs and community organizations under the supervision of the municipal authorities. As stakeholders, the community would need to be involved in activities or programmes that are implemented in their areas. By involving them it would empower user groups as well as associations to take ownership of the processes at hand.

The involvement of citizens may help to realise savings as the residents may be more careful to ensure proper maintenance of the infrastructure. Therefore, government should promote participatory principles by influencing local government to encourage the organization of town meetings and open city government sessions to enable citizens to participate in strategic planning processes that may build consensus for services that not only meet immediate needs, but will attract businesses and contribute to urban employment and economic growth.

This research therefore concludes from the synthesis of interview results that, although the commercialization of public utilities may have achieved positive results in other countries and areas, it would be too early as yet to expect such results in Bukavu. Only 15% of respondents felt that the privatization of SNEL and REGIDESO would be likely to increase the access of the poor to water and electricity services at affordable rates.

4.5.4.3 Privatization of REGIDESO/SNEL and Job Creation

With respect to job creation the question put to the respondents was: Can the privatization of REGIDESO and SNEL create jobs in Bukavu where the majority of the population are unemployed? All the respondents felt that this would not be the case. In fact it was highly likely that there would be job losses, as the private companies would try to

maximise their profits by retrenchments aimed as cost cutting and increasing productivity. This would be highly likely, as many public utilities in the DRC are currently over-staffed and experiencing low levels of productivity. This would be in line with Alhaji (2003) who argues that privatization often reduces overstaffing and leads to layoffs. It replaces political and social objectives with profit maximization. In 1991, for example, he shows that privatized industries in Argentina laid off eighty one percent of the labor force in the national rail company, seventy two percent in the oil sector, and fifty percent in steel.

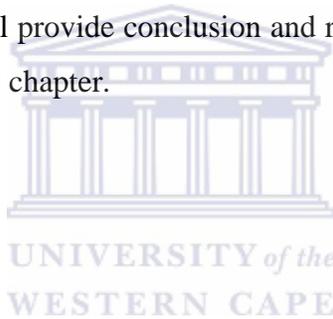
4.5.4.4. Social situation after privatization

In response to the question of whether the privatization of REGIDESO and SNEL will improve people's living standards in Bukavu, 75% of the respondents argued that, as privatization would likely result in job losses, this could easily lead to a reduction in living standards. Workers retrenched would struggle to find alternative forms of employment, with obvious consequences for themselves and their families.

This tallies with Nellis (2007) who argues that in most cases the rewards of privatization go to the agile, the rich, the foreign, and the corrupt, at the expense of the poor. Privatization quite often negatively affects the mass of citizens. It harms workers because of lost jobs, consumers because of higher prices, and taxpayers in general, because of government under pricing of assets, the collusion of crooked bureaucrats with buyers, or the inability of ill-trained and underpaid public servants to see through the stratagems of clever private investors. By so doing it contributes to growing inequality and poverty. For example, the polling firm Latino-Barometro annually surveys reactions to economic programs and policies among 19,000 people in 18 Latin American countries (with a combined population of more than 400 million). The percentage of respondents viewing privatization *negatively* rose from 55 percent in 2001 to 80 percent in 2003, and then fell back to about 70 percent in the most recent, 2005 poll. Surveys from other regions, including sub-Saharan Africa, the post-communist transition states, and South Asia, also show high levels of public opposition.

4.6. SUMMARY

This chapter presents the qualitative findings of the interviews conducted by the researcher with a sample of 20 people from Bukavu living in Cape Town. The questionnaire was structured on a basis of research objectives provided in chapter one and the research methods outlined in chapter three, and sets out to solicit the views of the respondents regarding the possible advantages and disadvantages of the privatization of SNEL and REGIDESO. The analysis of views shows that the majority of respondents do not support the privatization of public utilities that provide water and electricity in Bukavu. They were far from confident in the Government's ability to carry successfully the reform while it still struggling to implement good governance which implies in particular the existence of public accountability, transparency and the rule of law. In the next chapter, the researcher will provide conclusion and recommendation based on views of respondents presented in this chapter.



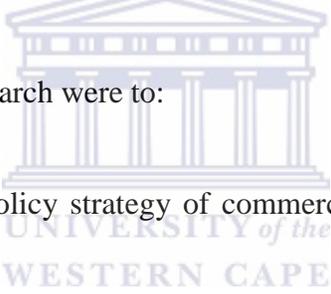
CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter provides conclusion and a set of recommendations drawn from the lessons learnt during the study and from the literature review on privatization. Views from respondents will also help consolidate the findings and literature on privatization. Consequently, the study provides the findings and recommendations for consideration by policy-makers in DRC in particular, and researchers in the economic sector in general. Below are the conclusions and recommendations which the study has come up with as a result of the fieldwork and insights gained thereof.

The main objectives of this research were to:

- 
- Examine government policy strategy of commercialising some services such as water and electricity
 - Investigate underlying practical implications during and after commercialisation of these services
 - Assess the historical pros and cons of the operations of SNEL and REGIDESO and the current justification to commercialise them
 - Explore public reactions on the impact of the commercialisation of SNEL and REGIDESO on individual people's lives.

5.2 CONCLUSIONS

The Democratic Republic of the Congo has suffered from decades of extreme exploitation and oppression, first under Belgian colonialism and then under the rule of Mobutu Sese Seko. Since the latter's overthrow in 1997 the country has suffered from foreign interference and violent conflict which has claimed millions of lives. This has

presented enormous economic, political and social challenges to the Government of Joseph Kabila following the country's first multi-party elections in 2006. In attempting to build or rebuild the economy of the country, the Government has turned its attention to increasing the level of private involvement in state owned enterprises. This has been in part the result of influence from the international agencies and finance institutions. It has also been motivated by the poor performance of such enterprises in the DRC, itself a result of mismanagement and corruption.

As the literature review in Chapter 2 of this research report shows, the privatization, of essential services, particularly in the context of the developing world, has had a mixed record, with successes in some areas and failures in others. Through a case study of the water and electricity sectors in Bukavu city, this study therefore has set out to assess whether this is likely to be a feasible and viable option in the DRC. The main research question pursued by the study was to what extent will the DRC Reform Law aimed at transforming the commercialisation of public enterprises enhance the effectiveness of basic services such as water and electricity services in the DRC? Subordinate questions that were addressed were (i) can the privatization of state-owned enterprises such as the National Electricity Company (SNEL) and the Agency for Water Production and Distribution (REGIDESO) improve quality and accessibility to basic services such as electricity and water at affordable rates to the population of Bukavu; and (ii) are existing resources and logistics able to sustain the privatization process in the DRC?

Based on documentary sources (in Chapter 2) and the perceptions of respondents (in Chapter 4), the major finding of the study is the fact that the privatization of state owned organisations is not likely under current conditions to be a viable way of improving the quality of and access to basic services such as water and electricity. This is partly because the private sector in the DRC does not have the necessary capacity in terms of financial and human capital to carry out this task successfully. Equally if not more important, is the fact that some of the key preconditions for successful privatization are severely lacking in the DRC. These include strong, well managed and accountable public institutions, an efficient regulatory framework, an impartial and efficient judicial system

that is capable of enforcing the rule of law, and a participatory approach to decision-making.

Under such conditions, the vast majority of respondents surveyed by the researcher felt that the privatization of water and electricity services in a city such as Bukavu would not lead to improved access to quality services at an affordable price. Instead it could well compound the current development challenges faced by the people of the city, through retrenchment and job losses and an increase in tariffs that could lead to the increasing exclusion of the poor.

The study recommends that the Government should instead strengthen control mechanisms and the legal framework for the more efficient management of existing state-owned enterprises in the DRC. Instead of full privatization, another option could be the development of public-private partnerships (PPPs) which could protect the interest of both private companies as well as consumers under a transparent and strong regulatory framework. Such partnerships should be formed in a transparent and accountable way, with the involvement and participation of the communities that would be affected. Public-private partnerships would have the potential to create added value through synergies between public authorities and private sector companies, in particular, through the integration and cross transfer of public and private sector skills, knowledge and expertise, thereby reducing capacity constraints and bottlenecks in the economy through higher productivity of labour and capital resources in the delivery of projects.

5.3 RECOMMENDATIONS

Based on the conclusions above, this chapter recommends that:

- The Government should practice transparency, good governance, accountability, political will, and strong regulatory mechanisms, particularly with regard to its policy and practice towards state owned enterprises.

- Since the DRC is a country in transition from dictatorship to democracy, still facing challenges to implement democratic principles within institutions, the DRC Government should first improve its political situation and enforce the rule of the law, before it embarks on a major campaign of privatizing public utilities.
- The Government should base its economic reform programme more generally, and its privatization programme in particular, on accurate and reliable benchmarking information about targets and the monitoring of performance.
- Economic benefits from privatization should be equitably redistributed to meet social objectives, as well as to ensure that basic services are improved for low income households.
- Decision-makers should focus on the upgrading of infrastructure and its maintenance to ensure future production capacity according to population growth.
- Good governance should be applied within all institutions and spheres of government in order to manage effectively its economic resources in order to deliver services efficiently and equitably.
- Corruption should be addressed as a key step in improving accountability, transparency and institutional performance, before embarking on the privatization of public utilities.
- In order to improve the quality of and access to basic services, especially electricity and water, SNEL and REGIDESO should focus on their respective purposes and on outcomes for citizens and service users, and to make sure that users receive a high quality service and that taxpayers receive value for money.
- Government should ensure that public utilities that provides basic services particularly water and electricity and other agencies as well perform effectively according to their responsibilities.
- Government through its agencies and public utilities should promote values for the institutions and ensure that public servants demonstrate the values of good governance. To this end, government needs to inform all stakeholders about the decisions and risk that may occur in a transparent manner, to improve maintenance and service expansion to those who were previously under served.
- Government should appoint officials on the basis of their skills, knowledge and

experience rather than on political connections.

- Government should implement accountability mechanism designed to promote professionalism and deter wrongdoing within institutions, financial or otherwise, that impede service delivery. Experts such as engineers and others specialists involved in services production should be held accountable according to their professional norms.
- Accountability should not be limited to a single category of senior officials within public departments. All employees of state institutions and agencies should be held accountable through systems of performance measurement.
- Public officials must have ethical obligations regardless of whether they are elected or appointed, and should not use public fund for their personal interest.
- Concerning regulation of public utilities, the research recommends that the Government should establish regulatory policies and practices that are applied at all levels of government in line with national reform goals and strategies.
- The DRC Government should improve its legal system so that it can enforce the law and regulatory mechanisms, particularly with regard to the operation of public utilities.
- Sound regulation should promote innovation through market incentives and goal-based approaches. They should be simple and practical for users.
- Government should put in place a credible and effective co-ordination mechanism, foster coherence across major policy objectives, clarify responsibilities for assuring regulatory quality, and able to respond to a changing business environment.
- Government should guarantee that institutional frameworks and resources are adequate, and that systems are in place to manage regulatory resources effectively and to discharge enforcement responsibilities. Such frameworks and resources should assist and support small and medium enterprises (SMEs) in particular.
- Regarding transparency, it is recommended that the Government should incorporate within public utilities units that provide stakeholders with information and monitor the performance. Information should include data on the

quantity and the quality of services provided; information regarding finance and operations, as well as the volume of demand according to demographic growth.

- In order to ensure the transparency, the Government as well as non-government organizations should publish periodically information regarding service delivery and consumers' complaints.
- Government needs to implement measures to combat corruption by eliminating conditions that lead to corruption, and also by taking preventive measures. It should also bring to justice persons alleged to be having committed acts of corruption, and to protect the rights of persons who have suffered from acts of corruption.
- Government should promote and strengthen exemplary conduct by officials in terms of integrity and professional behaviour.
- The Government should promote more effective forms of participation, especially at the local level. Participation should serve to promote more genuine and effective forms of sustainable development. Furthermore, participation should help to monitor and oversee the provision of quality services. Participatory principles should be adhered to in allocating resources since people should have a say in the running of their own affairs.
- Government should therefore ensure the full involvement of all major stakeholders and beneficiaries in the design as well as implementation of sustainable development programmes. National and local government organs of administration should involve citizen participation during budget elaboration and implementation.
- Access to information should be increased, in particular by requiring public authorities to make information available to the public.
- With respect to the commercialisation of SNEL and REGIDESO in Bukavu, the Government should inform the population before decisions are taken, allow people to comment on proposals through public hearings and other forums, and ensure that such comments are taken into account during the policy formulation and implementation processes.

The main conclusion drawn from this research is that, whilst the privatization of public utilities has improved access to and the delivery of basic services such as water and electricity in some countries and areas, the conditions or preconditions for this to happen successfully in the case of SNEL and REGIDESO in Bukavu are not currently present, particularly regarding the accountability, transparency and efficiency of public utilities, and the existence of effective regulatory mechanisms and the rule of law.

Given this, the study therefore recommends that, instead of focusing on privatization, the DRC Government should consider changing the methods of providing basic services such as water and electricity. Instead of concentrating all roles (production, distribution and collections rates) into one public utility, government should give local municipalities and community organizations the responsibility to take care of the distribution and cost recovery of such services. As stakeholders, the community would need to be involved in activities or programmes that are implemented in their areas. By involving them it would empower user groups as well as associations to take ownership of the processes at hand. The involvement of citizens may help to realise savings as the residents may be more careful to ensure proper maintenance of the infrastructure. Therefore, government should promote participatory principles by influencing local government to encourage the organization of town meetings and open city government sessions to enable citizens to participate in strategic planning processes that may build consensus for services that not only meet immediate needs, but will attract businesses and contribute to urban employment and economic growth.

5.4 RECOMMENDATIONS FOR FURTHER RESEARCH

The research conducted in this thesis has led to some useful results and conclusions on the privatization of public utilities (SNEL and REGIDESO) that provide electricity and water. However, it has also uncovered many areas that need additional study. Therefore, there is need for further research, particularly in areas such as health and education. The study therefore recommends extensive investigation and in-depth research into such areas

to provide a more accurate and reliable basis for decisions about the future privatization of public utilities and services.



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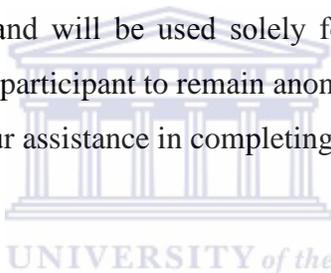
APPENDIX A

QUESTIONNAIRE

Dear participants,

This questionnaire is about collecting views regarding perspectives on the socio-economic impact of reform and the possible privatization of public utilities particularly electricity and water in Bukavu in the Democratic Republic of the Congo. I am a Master's student at the University of the Western Cape. Your contribution will enable me to form a picture of social and economic paradigms in Bukavu. Your views will be used to analyse prospective outcomes of privatization, and how it will negatively or positively impact on the socioeconomic development of Bukavu's population. The information you provide will be treated confidentially and will be used solely for the purpose of my Master's research report. Your right as a participant to remain anonymous will be respected.

I would be very grateful for your assistance in completing the questionnaire.



Section A

Examines government policy strategy of commercialising some services such as water and electricity

1. What is your view on the process of privatization of public utilities such as REGIDESO and SNEL in Bukavu? Explain your view		
2. Given the current levels of transparency within the Senate as well as the Parliament which is struggling to enact laws to promote redistribution of income, do you think government will be able to enact laws that are in the interest of the masses of Bukavu?		
3. To what extent do you think these institutions will be able to enact regulations that would allow reform to benefit the community?		

<p>4. Pro-privatization advocates argue that the privatization of public utilities would improve the delivery of basic services. Do you agree with this statement? If yes, please explain.....</p>		
<p>5. Due to the current political dispensation and economic environment in the DRC, are there structures in place through which regulations would protect public interests during and after the reform process...</p>		

Section B

Investigates underlying practical implications during and after commercialisation of these services

<p>1. Would you support the privatization of public utilities in Bukavu in a situation where the majority of the population are poor?</p>	Yes	No
<p>2. Can private companies provide basic services at cheaper prices in the absence of strong institutions and credible regulatory mechanisms?</p>	Yes	No
<p>3. Can the current government provide social security to those who might lose their jobs in the course of privatization process? If no, what is your view?</p>		
<p>4. Due to the collapse of social and economy activities in the country, can conditions for privatization allow ordinary citizens to buy shares in the new corporations?</p>	Yes	No
<p>5. What kind of privatization can be adopted in order to protect the interests of the private companies providing services and the interests of the consumers...</p>		

Section C

Assess the historical pros and cons in SNEL and REGIDESO operations and current justifications for commercialising them

1. REGIDESO provides poor quality of water, and few people have access to its services; there is also a complaint that the price it charges to connect customers is very high. Do you think privatization will improve water services quality at an affordable price as pro-privatization advocates claim?	Y	N
2. The quality of electricity services is characterised by regular blackouts, and in many areas in Bukavu people do not have access to electricity. Do you think that privatization of SNEL will improve electricity services and increase the number consumers at affordable prices?	Y	N
3. Considering the poor quality of water provided by REGIDESO, the fact that few people have access to its services; and complaints from customers that connection charges are very high, do you think that privatization will not improve water services and quality at an affordable price, as anti-privatization advocates claim?	Y	N
4. The quality of electricity services is characterised by regular blackouts, and in many areas in Bukavu people do not have access to electricity. Referring to anti-privatization arguments, do you think that the privatization of SNEL cannot improve electricity services and increases the number consumers at affordable price in Bukavu?	Y	N
5. What solution do you suggest to ameliorate the situation of both ; REGIDESO and SNEL ?		

Section D

Explores public reactions on the impact of the commercialisation of SNEL and REGIDESO on the lives of people.

1. Do you think that the privatization of public utilities such as REGIDESO and SNEL will increase consumer choices in Bukavu?	Y	N
2. Do you think that the privatization of REGIDESO and SNEL will increase the access of the poor to water and electricity services at affordable prices in Bukavu?	Y	N

3. Do you think that the privatization of REGIDESO and SNEL will create jobs in Bukavu where the majority of the population are unemployed?	Y	N
4. Do you think that the privatization of REGIDESO and SNEL will improve people's living standard in Bukavu?	Y	N
5. Can privatizing REGIDESO and SNEL promote social assistance to vulnerable citizens in Bukavu?	Y	N

Thank you for completing this questionnaire

