

**University of the Western Cape
School of Government**



**Privatisation and Deregulation
Policies in South Africa**

By

Nkosana Mfuku

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Supervisor: Professor Lisa Thompson

PRIVATISATION AND DEREGULATION POLICIES IN SOUTH AFRICA

Nkosana Kally Mfuku

KEYWORDS

Privatisation Policy

Deregulation Policy

Liberalization

Globalisation

Public Private Partnerships

Enterprise

Parastatals

Tri-partite Alliance

GEAR

RDP



GLOSSARY OF MAJOR TERMS

Deregulation: Refers to a range of measures which reduce the state's role as a producer, provider of services, and promoter of social welfare.

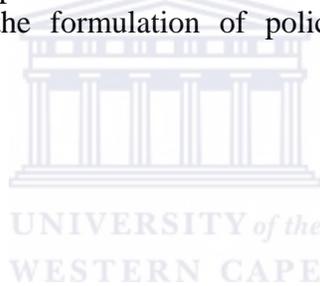
Efficiency: A high level of performance.

Flexible labour market: A labour market in which there are few rigid rules and regulations about what workers should be paid and what circumstances they can be hired or fired.

Jobloss growth: Economic growth that takes place without job creation, as industries use more modern machinery and employ less labour to save costs and increase profits.

Parastatals: Enterprises where the state owns a majority of large minority share. Usually it is a service of business set up by government and accountable to government but independently run, usually for the public good like Eskom and Telkom.

Participation: Broad-based representation from civil society, labour and the private sector must be involved in the formulation of policies for economic growth and investment.



ABSTRACT

Privatisation and Deregulation Policies in South Africa

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N. Mfuku

This research report examined the key policies of globalisation namely, privatisation and deregulation of services and also their implication on the Tri-partite alliance. Because they have impacted negatively on major economic sectors, particularly to those that help the needy. Therefore, the study explores these initiatives, which has been debatable in South Africa under the dominant understanding of 'progress' or 'development'.

The Objective of the study is to lay the basis for the examination and evaluation of policy option with regard to privatisation and deregulation of services in South Africa and to engage South Africa effectively in global policy debates and adjust in global trends and negotiations within the region (SADC) and other international countries. It examines global challenges and opportunities / threats for South Africa as a developing country in the emerging global order.

This study also attempts to provide answers to several questions concerning privatisation and deregulation of public services in South Africa. To the poor, is deregulation and privatisation of state assets threatening to become the new apartheid, which is an instrument of exclusion, not just from a better life but even from the very basic services? How are workers and including the poorest of the poor affected by the status of deregulation and privatisation? Do the timing and specifics of these processes matter?

Who should attempt to regulate the auction, as some of government officials seems to be corrupt? And which prior restructuring policies are worth implementing?



16 March 2006

DECLARATION

I declare that *Privatisation and Deregulation Policies in South Africa* is my own work, that it has not been submitted 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.

Nkosana Kally Mfuku

16 March 2006.

Signed:.....



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I would like to express my deepest gratitude to all my teachers (Fezekile Secondary School - Oudtshoorn), lectures and professors (University of the Western Cape). This study is a result of several influences and contributions too numerous to mention here. At great risk, I will mention a few and apologise for oversight on my part.

My Mother Nontsikelelo and late Father, Msindisi Mfuku and my Brothers (the Mfuku Heavyweights) as well as the Mgubasi family in Mossel Bay. The Institute of Child and Family Development and the School of Government at the University of the Western Cape, The Department of Public Enterprises Portfolio Committee in Parliament, The Parliamentary Monitoring Group, Diocese of Oudtshoorn and the Apostolic Faith Mission of Bhongolethu and lastly my Supervisor Professor Lisa Thompson for her academic guidance and expertise.



DEDICATION

“Man is a moral being whose intelligence, perception and self determination far exceeds that of any other earthly being. We should never be pleased to dwell on a level of existence lower than that on which God has made it possible for us to dwell. We should strive to be the best we can be and to reach the highest levels we can reach. To do less is to be unfaithful stewards of the life entrusted to us”, by Msindisi Mfuku (my father).

This study is therefore dedicated to my late father Msindisi Mfuku, who passed away on the 14th September 2002. I wish I could talk to him and be with him somehow. When your hero falls, so do the stars and so does the perception of tomorrow. Such heroes are not mourned. For that reason I salute and celebrate his life, whose spirit and example will always be with us. His memory will always be a source of strength to all those who devote themselves as he has exemplified, as the greatest Sons of Africa.

May his soul rest in peace.



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CHAPTER ONE: THE PROBLEM OF PRIVATISATION AND DEREGULATION POLICIES IN SOUTH AFRICA

1.1 Introduction

Privatisation has become a dominant theme internationally and domestically. What has earned it more attention recently is the extension of its reach to the provision of such basic goods and services as water, electricity, transport, telecommunication, health, and sewerage and refuse collection. Like many other countries, South Africa has undertaken privatisation and deregulation of such basic services.

Several studies on privatisation have been conducted but have rarely been approached from a South African perspective. The implications for privatisation of basic services therefore remain unresearched and largely underestimated. This paper seeks to explore this question in the South African context, fundamentally because South Africa has, generally, a very poor population with extreme inequalities between the rich and poor. South Africa has always been the country with the highest levels of inequality in the world, and according to research done earlier this year, this has not changed much today. In addition, this paper explores the concept of privatisation and its link to the notion of deregulation.

Providing basic services to the poor is crucial if we are to break the poverty cycle that oppresses the majority of South Africans. These basic services include education, healthcare, electricity, water and sanitation, transport, and telecommunications – the essentials that people need in order to participate and advance in society.

Government's major solution informed by the virtues of “extending markets” and increasing “consumer choice” is to accelerate the privatisation process. Those who support the free market opposed the intervention of the state into the economy as a producer, owner or deliverer of services argue that the state is never as efficient in producing goods or delivering services as a private business. As a result of privatisation, state owned enterprises have been sold off (Irig Globalisation, 1989:8).

Privatisation is an ambiguous term but its multiple meanings have attracted little controversy. As a process and broadly defined, privatisation entails the reduction of the role of the government in asset ownership and service delivery and a corresponding increase in the role of the private sector (Gayle & Goodrich, 1990:1-3).

A central theme underlying privatisation is the general distrust of the public sector to manage commercial enterprises. A general supposition among proponents of privatisation is that, everything else being equal, a private actor will be a better manager of a commercial entity than the public sector. It is often argued therefore that the government can be more effective as a facilitator than a provider of basic services. Privatisation is commonly associated with full divestiture (complete transfer of a public enterprise to a private actor) (McDonald, 2002:296-7).

However, methods of public sector involvement in service delivery are diverse and need not be an outright sale of assets. Its other forms include partnerships between public and private institutions, leasing of business rights by the public sector to private enterprises,

outsourcing or contracting out specific activities to private actors, management or employee buyout and discontinuation of a service previously provided by the public sector on the assumption that if it is necessary, a private actor might engage in its delivery (Vuylsteke, 1988:8). This paper adopts this expansive understanding of privatisation.

It is noteworthy that privatisation is intricately linked to other market principles such as liberalisation and deregulation.¹ Indeed, it has been argued that the success of this policy is more ensured in a market-friendly environment. Deregulation entails reduction or elimination of specific governmental rules and regulations that apply to private business including removal of regulations that prevented the private sector from competing with a nationalised monopoly (Barchiesi, 2001:21).

Generally, corporate interest groups support at least some socio-economic regulations especially where they provide competitive advantage for specific firms (for example, through certification, permit and licensing systems that restrict entry into business). However, deregulation is mostly preferred in the arena of social responsibility for example; corporations prefer corporate self-regulation through corporate codes, social audits and industry codes to binding human rights obligations or legislative procedures.² Closely related to and often used in conjunction with deregulation, liberalisation involves

¹ According to Vuylsteke, “privatisation is often only an element of a broader economic policy (or reform) that may include deregulation and liberalisation as well”. See Vuylsteke, *ibid*, 1.

² See e.g. Institute of Directors, *King report on corporate governance for South Africa 2001*, available at <http://www.iodsa.co.za/IOD%20Draft%20King%20Report.pdf> (accessed 30 June 2003).

measures aimed at opening the market up for competition. Such measures include tariff removals/reduction, removal of subsidies and introduction of cost-recovery measures.

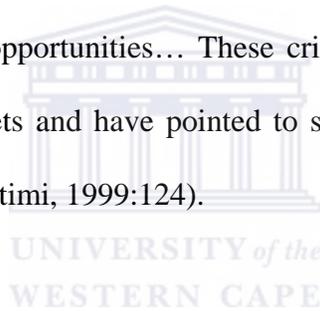
According to Wilson (1982:45-52), to deregulate is to reduce or eliminate specific governmental rules and regulations that apply to private business. Regulation may either be industry specific, where costs and benefits can usually be estimated, or economy wide, with virtually unlimited scope for expansion. Some of the key measures of deregulation are the removal of subsidies. There are many services that the state may provide for free or at low cost. For example, the government may subsidise the cost of building houses of providing certain building material free of charge. In South Africa, there have been a number of subsidies in the past for example; schools and public transport have been subsidised. These measures of deregulation may have a negative impact especially to the needy and those who come from the disadvantaged communities, which, at the end of the day, does not reflect the kind of democracy we fought for and accountability of the current government to its supporters.

The loss of jobs in South Africa is one of the consequences of privatization. Labour is a major cost to business, they (businesses) tend to keep their labour forces as small as possible. Other consequences of privatization in South Africa include:

- Reduced access to basic services (which cost too much for the poor especially in the Eastern Cape).
- Poorer working conditions (longer hours and fewer benefits- the latest workers' protests are evidence).
- Less accountability (state-owned enterprises are accountable to parliament and voters while private companies are only accountable to shareholders).
- Increased concentration of economic power (only large companies can buy state assets) (How the SA Economy Works, 2000).

Conventional economic indicators tell us that the South African Gross Domestic Product grew by a mere 0,1 per cent in 1989 and 3.0 in 2000, which is still below its original set target. Through the Growth, Employment And Redistribution (GEAR), government has clipped its budget deficit from 10,2 per cent of the Gross Domestic Product (GDP) in 1993/1994 to around 2.4 percent in 2000/1. Inflation is a process that is being implemented by the Reserve Bank and hopes to bring inflation down to between 3-6 per cent.

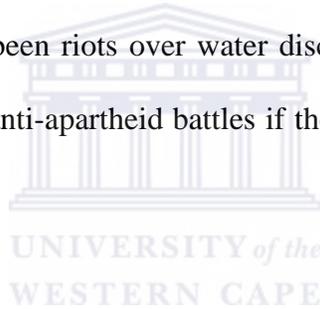
Even Finance Minister Trevor Manuel concedes that “Globalisation has brought increased uncertainty and the world appears to be inadequately prepared to deal with the risks and equitably share the opportunities... These crises...have dented confidence in the integration of global markets and have pointed to some of the shortcomings in the international environment” (Mutimi, 1999:124).



The most notorious privatization involves the British company Biwater, which in 1999, was granted a 30-year contract for water provision in Nelspruit, capital of Mpumalanga Province, east of Johannesburg. The unions were outraged, claiming that the government had promised to consult and then simply rammed the deal through. The company has been dogged by controversy ever since. It has been accused of huge tariff increases, up to 100 per cent and dwindling services, with water available only a few hours a day in some areas (Rostron, 2002: 34).

Far more important, then, are the halfway houses - restructuring, corporatization, public-private partnerships, which are often part of a softening-up process for privatisation or, as the African Nation Congress (ANC) calls it, 'managed liberalization'. A municipal drive for profitability has led to an enormous social crisis. In Soweto, an average of 20,000 homes a month were having their electricity disconnected for non-payment. Since 1999, in Cape Town, more than 100,000 households have had their water cut off. There have been angry demonstrations all over the country (Rostron, 2002).

Poor communities are beginning to organize themselves to fight back. In Soweto, moonlighting electricians immediately and illegally reconnect cut-off families to the grid, on the Cape Flats, there have been riots over water disconnections and calls to boycott payments, reminiscent of past anti-apartheid battles if the city's aggressive cut-off policy persists.



Eighteen months ago, the KwaZulu-Natal Provincial Government began charging rural residents for water that had previously been free. Thousands of households could not afford to pay, so used river water instead. Within weeks, Cholera broke out. To date, this has caused more than 250 deaths and over 112,000 cases of illness. Though the ANC can claim great credit post 1994, for providing new services three million households with clean drinking water, 2.5 million connected to the national power grid, these very gains are now under threat. Utilities connect services to the previously disadvantaged, but do not count subsequent cut-offs when they boast of their roll-out success rate. Recently, the monopoly fixed-line telephone company Telkom South Africa (already 30 per cent

privately owned), admitted that of 621,219 new telephones installed in 2001, more than a third were later disconnected. Telkom claims that it is permitted to include these terminations as part of its overall growth (Mbokwane, 2001:3).

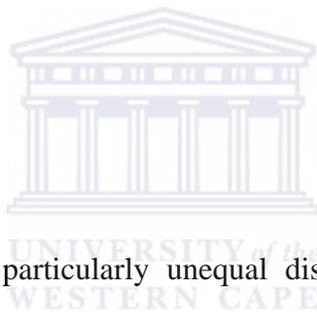
As public policies, both privatisation and deregulation imply expanded private sector activity, with complementary contraction in public sector size, in the interests of productive efficiency. In turn, liberalization maximizes efficiency gains by sweeping away bureaucratic barriers to competition. However, as Veljanovski explains, privatisation in practice may actually be antithetical to market liberalization. Moreover, regulatory decisions are ideally characterized by concern for the protection of “merit goods”, such as employee health and community safety as well as individual constitutional rights. Additional deregulation may release resources from inefficient activities without necessarily directing them toward their most competitive uses.³

Thus in the case of either privatization or deregulation, a recurrent problem is that wider competition and consumer benefits do not automatically follow. A further prototypical problem is that freshly privatized firms may be driven to increase prices in response to prospective factors, such as inflation or investment requirements, thus fueling popular demands for price controls. Should such controls be imposed, product or service quality might decline as businesses seek to maintain profit margins. In turn, such actions could well generate eventually irresistible public pressure for renewed or additional regulation (Gayle, 1990:7).

³ According to a 1988 July survey of almost 200 members of the National Federation of Independent Business.

This study attempts to provide answers to several questions concerning privatization and deregulation of public services in South Africa: To the poor, is deregulation and privatization of state assets threatening to become an instrument for exclusion, not just from a better life, but even from basic services? How are workers including the poorest of the poor affected by the status of deregulation and privatization? Do the timing and specifics of these processes matter? Who should attempt to regulate the auction as some of government officials are corrupt (The Case of the former Chief Director of Public Enterprise, Andile Nkuhlu who was involved in forestry deal worth R350 million and later resigned and Tony Yengeni who was involved in the Arms Deal worth R40 billions). And which prior restructuring policies are worth implementing?

1.2 Problem Statement



South Africa has inherited a particularly unequal distribution of income. Estimates suggest that in this regard, we rank third worst in the world following Brazil and Uruguay. The richest 10 per cent of South Africans get around 45 per cent of the national income, compared to between 30 and 40 per cent for almost all other middle-income developing countries, and 24 per cent in South Korea (UNDP 2001).

In part, inequality is rooted in the injustices of apartheid which denied the majority of our people formal qualifications and access to basic infrastructure. It has been aggravated by the massive loss of formal jobs in the past decade, fuelled partly by downsizing in the public sector. As a result, despite improvements in government services to the poor,

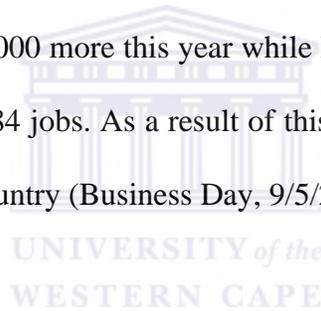
income distribution has not improved. The particular impact of unequal access to basic infrastructure emerges in the Human Development Index (HDI), which combines GDP per capita, life expectancy and educational achievements. South Africa ranks 94th in the world in terms of the HDI, but 46th in terms of GDP per capita, taking purchasing power into account (UNDP 2001).

The distribution of income inevitably shapes the outcome of the market. After all, the market is only designed to reach those who can pay, not to raise living standards for the poor. Consider the housing market: effective demand has been met, every single participant may be acting efficiently in their own terms – and yet millions go homeless. The Department of Public Enterprises (DPE) policy framework argues at length that as consumers exercise their market choices, the market will bring about efficiency. Price-sensitive consumers may be prepared to accept a lower quality of service in exchange for a reduced price. Other consumers may be prepared to pay a premium for a high level of service (Department of Public Enterprise, 2000:41).

One wonders where the department officials (Department of Public Enterprise) live because few South African households have the luxury of deciding between quality and price. After all, most earn well under R1000.00 a month. They have no choice but to rely on the state to provide a minimum of basic services at an affordable price. In the industrialised countries which have relatively equal incomes, the market will compel private service providers to meet the needs of the majority. In contrast, South Africa's

mass poverty makes a mockery of the belief that the market will secure efficient services for the masses.

Privatisation and deregulation of public services in South Africa has been a major issue. Therefore, the effect of these policies needs to be carefully studied because privatisation and deregulation of public services in this country has impacted negatively on major economic sectors, particularly those that help the needy from the disadvantaged communities. For example, state-owned enterprises have been sold-off, that is through privatisation, we have witnessed in this country how, through this economic policy, the retrenchment of workers, for example Spoornet retrenched 20 000 workers in 1999, Transnet is intending to cut 20 000 more this year while Eskom's voluntary retrenchment programme led to a loss of 3 284 jobs. As a result of this economic policy, it has created more poverty pockets in this country (Business Day, 9/5/2000).



Thousands of local jobs have been lost and local companies severely affected or taken over by foreign ones, while the government viewed these initiatives as 'progress' of 'development'. The consequences of these have been debatable in South Africa. The dominant understanding of 'progress' of 'development' is based on economic growth indicators such as the GDP.

The ANC government inherited between 600 and 800 state owned entities. The total value of these assets is about R170 billion (Gumede, 2000:8). They include small hotels, health resorts and forests as well as large entities like Telkom, Eskom, South African

Airways (SAA), Transnet and Denel. Since the introduction of the government's macro-economic policy, GEAR, many of these state-run businesses have undertaken restructuring exercises so that they can be sold at the highest price. In some cases, government is selling off part of the state owned businesses to form a public-private partnerships for example, 20 per cent of South African Airways (SAA) has been sold to Swiss Air. In other cases, the whole enterprises are sold. For example, 332 000 hectares of forest are on auction in Mpumalanga and Northern Province (How the SA Economy Works, August 2000, Eight in a Series).

"This emphasis on cost recovery, with services being outsourced, means not only job losses but disconnections of basic services and eviction of people from their homes," says Trevor Ngwane, a former ANC municipal councillor, now chairman of the Soweto Electricity Crisis Committee. "This neoliberal economic approach carries a high price. People are saying that the ANC is like those migrant workers of the old apartheid days who had to leave their homes to go and work in the city, where they were dazzled by the bright lights, often found a new woman ... and simply forgot their rural family." But Jeff Radebe describes the crisis committee as 'gangs of criminals'.

It is a commonplace that a privatised company is likely to pay more attention and devote more resources, to wealthy areas, which, in South Africa, still usually means white areas. But this is also true even when privatisation has not yet taken place. An academic study due to be released this month, will reveal that municipal services in Cape Town sometimes devote up to 100 per cent more resources to affluent suburbs than to

equivalent poor areas. In the coastal town of Hermanus (a rich holiday resort bordered by impoverished townships two miles east of Cape Town), the government introduced a flagship water programme that was supposed to provide more affordable water for the poor. But the local council, following 'best business practices', simply directed improved resources at those who could afford them, that is rich whites. Those who could not pay were simply cut off. The much-touted 'working for water' campaign soon became known by those whom it was supposed to assist, as 'working for whites' (Bryan Rostron, 1996).

"The tragedy here is that there's been a lot promised and little delivered," says the disillusioned British representative of a major multinational asset management company. "Investors who would have been interested a year ago have simply lost heart and are now looking elsewhere. The impression is that the government is dragging its feet, so the market will simply let South Africa drop off the potential investment radar screen" (Bryan Rostron, 1996).

The main state assets that the private sector is eyeing hungrily are Eskom (energy), Transnet (transport), SAA and Telkom. Of these, Telkom is seen as the likely first candidate for full privatisation. This was promised in 2001, and has recently been put off again, due to market conditions. Proponents of privatisation claim it is the only way to attract foreign investment, spread wealth, create employment and encourage black economic empowerment.

The trouble is that most South Africans live outside the formal economy, and have become marginalized by the pure drive for profit. "What we are seeing now is a class apartheid," says Patrick Bond, of the Graduate School of Public and Development Management at the University of the Witwatersrand. He points out that an estimated 85 per cent of the rural population and 31 per cent of the urban population are without adequate sewerage or sanitation (Bond P, 2001:21).

"The problem with privatisation," says Bond, "is that there is no connection between the 'public good' and 'economic good'. Hence there are promises of free water and electricity, but it is only available to those connected to the grid and the whole areas of poor townships are being cut off. We are also seeing forced evictions and removals. These communities have no services and no connections. This means, in effect, that such places become low-income ghettos forever. Bond define the problem to be analysed in this research paper, the logic of the privatised city in South Africa is one of fragmentation. This is creating a form of geographical apartheid. Privatisation and deregulation of social services as they gather pace, could yet prove the flashpoint for renewed social upheaval in South Africa (Bond P, 2001: 22).

1.2.1 Why Then is Government Pushing Ahead With Privatisation?

There is clearly no fiscal constraint forcing government to privatise. Rather government has been cutting taxes over the past few years, by over R25 billion. Further, there have not been any credible cost-benefit analyses done which show that the specific

privatisation proposals will help the poor. So, what are the real reasons pushing government to proceed with privatisation? The first of these is that consultancies, rather than government are actually driving the privatisation processes. Many of the consultancies (usually large international consultancies linked to finance capital), are aggressively promoting privatisation and also getting massive commissions on doing the actual sale. The second reason for the privatisation drive is that the DPE behaves more like a 'Department of Privatisation'. It creates an impression that it has a Cabinet mandate to sell certain state assets regardless of the impact on the poor.

Finally and fundamentally, the pushing ahead with privatisation regardless reflects an ideological approach. The benefits of privatisation are assumed as fact, even if actual developments show this to be false. This ideological approach is consistent with South Africa's other ideological strategy, GEAR, which has also patently failed to deliver on social targets (The Great Debate, July 1997).

1.3 Research Questions

For the purpose of this study, it is of vital importance to ask ourselves and those in government, whether there is a need to support privatisation and deregulation systems which deny ordinary South Africans access to basic services and increase poorer working conditions, fewer benefits and less accountability of the state and increased concentration of economic power to a small elite? Do we need such system (Privatisation), which continues to create more jobs losses? Who are the real losers and winners in this system

or is it a form of global capitalism? Or should we workout new systems of public-owned services with aim of addressing the issue of bureaucracy and inefficiency?

1.4 Assumptions

This study is guided by the following assumptions:

- Privatisation and deregulation of public services is the ‘new apartheid’ in South Africa
- The whole restructuring of public services benefited a small black elite and is doomed to fail.
- Government is neglecting its social responsibility.

1.5 Objectives of the Study

The study aims to lay the basis for the examination and evaluation of policy options on privatization and deregulation policies in South Africa. In order for South Africa to engage effectively in global policy debates and be able to adjust in global trends and negotiations within the Southern African Developing Community (SADC), New Partnership for Africa’s Development (NEPAD) and internationally with due respect to the World Summit on Sustainable Development, it is essential that all issues and possibilities be subjected to uncompromising analysis. It is more so particularly, with respect to the present input in this study, i.e. the examination of private provision of public services, socio-political costs and benefits, trade union response and also practical policy options.

1.6 Research Methodology

The research is a qualitative study approach, the purpose being to identify and explore the complexities with regard to policy option for South Africa, in particular, privatization and deregulation policies. For the purpose of data collection, the study used two methods of data collection. This means that the study used the following instruments to collect data.

- Face to face interviews were used to collect data from the relevant participants,
- Data from published journals and materials that have been written on the topic including SA policy documents, SA government reports, RDP documents and SA government websites and other relevant reading material.

The researcher chose to use face-to-face interviews because of the following reasons:

- Firstly, an interview survey attains higher response than mail surveys. It was not easy for the respondents to turn down an interviewer standing on their doorstep.
- The researcher's presence decreased the number of 'don't knows' and 'no answers'. It was possible for the researcher to probe for answers if the questions were not answered to the researcher's satisfaction.
- The last advantage of this method was that it was possible for the researcher to provide a guard against confusing questionnaire items. For example, if the respondent clearly misunderstood the intent of a question or indicated that he/she did not understand, the researcher clarified matters thereby obtaining relevant responses. One of the limitations of this method was that it was expensive.

Regarding data collected from government reports, however, it should be noted that such government reports should be treated with caution since at times they contain organizational bias.

1.7 Significance of the Study

This report intends to highlight alternative ideas and strategies with regards to privatization and deregulation. It also intends inciting alternative ideas and strategies within government that might prompt the revisit of policies already adopted. In addition, this study aims to create and share knowledge that would be useful to other researchers doing the same or related topic or study.

1.8 Organization of the Study



The study consists of Four Chapters.

Chapter One provides the research design, which includes the introduction, problem statement, and objectives of the study, hypothesis, limitations of the study, methodology and the literature review.

Chapter Two discusses and review international experience on privatisation and deregulation policies.

Chapter Three deals with the past and present policies on the South African context, GEAR policy including the trade union response, which is COSATU.

Chapter Four consists of the overall summary of the study, the conclusion and provides possible solutions and suggestions on what needs to be done in terms of interventions and the way forward.

1.9 Literature Review

The literature used in this study was reviewed for the purpose of giving background information to the studied subject, and it has revealed important information on the topic, although there were no many journals, document and papers written of privatization and deregulation of public services. Many of the same ideological, political, and economic forces of liberalization and globalization which have led to the current gigantic merger wave in the industrial countries have also been responsible for fundamental changes in the organization of economic activity in developing countries around the world. In the 1980's, and particularly during the 1990's, many developing countries have been undergoing far-reaching market oriented reforms leading to considerable diminution in the direct role of the state in economic activity. This has resulted in widespread privatization, deregulation, and internal and external financial liberalization (Singh, 1999:22).

The timing and extent of these liberalization measures varies between countries. In relation specifically to privatisation, the pattern was set by the programme of privatisation of larger state-owned enterprises (SOEs) beginning in the 1980's in the UK under the conservative government led by Mrs. Thatcher. This was followed not only by

many advanced countries, but also by the vast majority of developing countries. Leaving aside transition economies where there has been mass privatisation, the leading developing countries each with privatisation proceeds worth more than US\$1 billion between 1990-1997 were Argentina (proceeds of \$27.9 billion), Brazil (\$34.3 billion), Colombia (\$5 billion), India (\$7.1 billion), Indonesia (\$5.2 billion), Malaysia (\$10 billion), Mexico (\$30.5 billion), Pakistan (\$2 billion), Peru (\$7.5 billion), Singapore (\$1.9 billion), South Africa (\$2.5 billion), Turkey (\$3.6 billion), Thailand (\$3.6 billion), and Venezuela (\$5.9 billion) according to 16 World Development Indicators (1999:56).

Considerable privatisation also took place in African countries. However, in view of the smaller size of their economies and their lower level of development, in absolute terms the proceeds from privatisation during the same period were substantially lower for these countries, other than South Africa. Nevertheless, privatisation proceeds amounted to US\$ 864 million in Ghana, \$227 million in Kenya, \$197 million in Zimbabwe, \$140 million in Tanzania, \$730 million in Nigeria, and \$412 million in Zambia. In general, according to WDR (1999:25), the lower the level of per capita income, the lower the extent of privatisation (Singh, 1999: 36).

Privatisation was ostensibly undertaken for a number of reasons including: improving economic efficiency, reducing the drain of government resources caused by public sector losses, raising revenues for the government and to help pay off the foreign debt by raising foreign exchange through the sale of public assets to foreign multinationals. In most

developing countries, privatisations were strongly encouraged if not required under structural adjustment programmes of the international financial institutions.

It is generally recognized that, rather than efficiency reasons, the main motive for privatisation in many countries was to achieve a relaxation of the hard budget constraints which the international financial institutions enforced as part of their conditionality. There have been few studies of the effects of privatisation on economic efficiency in developing countries. However, a number of studies have been carried out for developed countries, particularly the United Kingdom (UK), which indicated that it is not ownership *per se* which is the main determinant of economic performance, but rather the degree of competition in the market.

In this overall context, it is not difficult to see why the need for competition policy becomes crucial. Further, many of the privatized companies were natural monopolies under state ownership. Privatizing them does not necessarily lead to greater social welfare since it simply involves replacing the public monopoly with a private one. The former may in fact be preferable to the latter from a social welfare perspective, as there may be some consideration given to the public purpose in the former's activities. The presence of a large state sector is probably an important reason why many developing countries have not until now felt it necessary to have a competition policy. However, in the new privatized domestic economic environment, competition and regulatory policies become essential. Moreover, as Stiglitz points out, external liberalization cannot

substitute for a competition policy if liberalized imports and exports become subject to domestic monopolistic restrictions (Stiglitz, 1999:40).

Khemani calls attention to another aspect of privatization via foreign takeovers, which affects many developing countries. He reports cases where foreign acquiring firms, normally multinational enterprises, demand that governments erect barriers to entry or permit certain pricing practices. He notes: "Often developing and emerging market economies facing hard budget constraints or rising deficits, and/or are in desperate need of foreign investment, may have no choice but to cave in to such demands" (Khemani, 1999: 105).

The Tripartite Meeting on Managing the Privatization and Restructuring of Public Utilities (water, electricity and gas) which was held in Geneva from the 12-16 April 1999, reported that the challenge or need to privatize and deregulate public services has mainly arisen from the need to meet soaring worldwide demand for utility services and the incapacity of the public sector to provide adequate services due to the multiplicity of areas demanding State attention in situations of prolonged economic crisis and hardship. In addition, new technologies, environmental and consumer concerns have increased pressure on the utilities to deliver services that are efficient, clean and above all affordable. Indeed, restructuring of the utilities has often preceded privatization in order to make public companies more attractive to potential buyers or operators. The radical changes, which have characterized the utilities sector over the past decade, are thus reflected in the composition of this study.

More than 100 countries in every continent have in recent years embarked on projects to privatize or restructure their state-owned enterprises (SOEs), including Argentina, Chile and Mexico in Latin America, Malaysia, Pakistan and the Philippines in Asia, the UK and France in Western Europe and the transition countries of Central and Eastern Europe, as well as Côte d'Ivoire, Nigeria and Togo in Africa. Some industrialized countries, including New Zealand and the United Kingdom and several developing countries, such as Argentina and Mexico, have pursued privatization programmes that are both radical and ambitious in their scale and scope. The process has affected all economic sectors, with almost all the large transactions of the last few years occurring in so-called strategic sectors, including the utilities, national and local monopolies are broken up into smaller units, competition in power generation and supply is introduced, electricity exchange systems are set up, oil and gas giants expand into energy services and multi-utilities allow customers to pay one bill to one company for a wide range of services which include electricity, gas, water and telecommunications. Thus, the water service in Newcastle, United Kingdom, is provided by a subsidiary of the same group which runs the water and sewerage services of Buenos Aires, the Lyonnaise des Eaux (a French company which is also the biggest road builder in the Czech Republic), while the water supply to Gdansk, Poland, and the power and water supply of Côte d'Ivoire are provided by the same French construction company (The Privatisation Network, 1996:1).

By the end of the 1980's, sales of state enterprises worldwide - from electrical utilities and railroads to education and prisons had reached a total of over \$185 billion. The largest single sale was in the United Kingdom, where over \$10 billion were paid for 12 regional electricity companies. Many other countries adopted similar policies, sometimes

as a matter of political and economic principle, or to raise revenue, or to meet the requirements imposed by structural adjustment programmes, while several countries in transition in Central and Eastern Europe have embraced the privatisation philosophy as a means of achieving systemic change (Pandey, 1996:135).

However, although the restructuring and privatization of the utilities have now become major priorities for many national governments, these trends (which in fact are often associated with internationalization or devolution in this context), do not happen in isolation, or just something which governments necessarily want to see happen, but are rather a result of the global trend towards the dismantling of monopolies, cuts in public spending, deregulation and the liberalization of markets, in particular through the impetus provided by the World Bank, the European Bank for Reconstruction and Development (EBRD) and the European Union. The improvement of existing infrastructure and service delivery in the utilities sector is essential for both business performance and the improvement of living standards - hence the current emphasis on greater efficiency and the universal service. But the sheer scale of the privatization revolution poses an enormous challenge to governments (particularly in developing countries and transition economies), which have little experience in dealing with private international enterprises active in the utilities sector or the problems involved in combining a guarantee of universal access with the monitoring of acceptable standards of safety, quality and service delivery, according to De Luca (1998:11).

To conclude, one may state that although privatisation and deregulation are becoming dominant global themes, there are few studies on the effects of these policies especially

on developing countries. Although it is stated elsewhere that the need to privatize and deregulate public services arises from world demand and the public services inability and inefficiency to deliver services, it is hoped that these policies may be a solution especially to developing countries and this is the critical challenge as well as lack of experience, as they are new players in the global economy.



CHAPTER TWO: INTERNATIONAL EXPERIENCES OF PRIVATISATION AND DEREGULATION POLICIES

2.1 Review of International Experience

Privatisation is by no means a new public policy phenomenon. However, this policy did not gain prominence as a key economic policy until the 1980's (Cook, 1987:3). While the momentum for privatisation in Europe might have been driven by the liberalisation of markets and budgetary constraints experienced by governments, the wave of privatisation in developing countries was initiated as part of the structural adjustment programmes (Letwin, 1988:23). The latter were a set of policies formulated by the World Bank and the International Monetary Fund (IMF) for economic reform aimed at accelerating economic growth and curing public sector inefficiencies to enable developing countries to repay debts owed to these institutions. Thus, privatisation was sold as a key part of policy conditionality on which the approval of aid or loans depended (Kikeri, 1992:32). There is a large measure of consensus suggesting that structural adjustment programmes had a negative impact on poverty in developing countries. This realisation is partly responsible for the adoption by the Bank and the IMF of the Poverty Reduction Strategies and the Poverty Reduction and Growth Facilities respectively towards end of the 1990's purporting to replace the structural adjustment programmes.

Although the stated mission of the new policies is poverty alleviation, the hallmarks of structural adjustment programmes including privatisation remain in place.⁴ Furthermore, unlike in the early 1980's, the privatisation of basic services has become a critical condition for eligibility for debt relief and aid funds. As a result, countries such as Mozambique, Tanzania, Malawi, Zambia, Mauritius, Namibia, Angola, Cameroon, Uganda and Burkina Faso have privatised or undertaken to privatise the delivery of basic services and goods. International and regional forums such as the African Ministerial Conference on Water held in Nigeria in 2002 and the International Fresh-Water Conference held in Bonn in 2001 have also endorsed the idea of privatising water and sanitation. The newly adopted NEPAD has also given privatisation a fresh impetus (Alternatives, 2002:5).

The current pressure to privatise the delivery of basic services and goods is no longer exerted by the World Bank and the IMF alone. Multinational corporations, multilateral institutions such as the European Union and the World Trade Organisation and donor agencies such as Britain's DFID, Germany's GTZ and the United State's USAID have become key supporters of this initiative. Viewed from an economics prism, privatisation has become a central feature of globalisation, a phenomenon associated with free trade, trade liberalisation, deregulation and tariff reduction (Oloka-Onyango, 2000:13).

⁴ Cheru has observed: "The IMF-supported programmes remain stringent, inflexible and in some instances very punitive, where countries have little room to manoeuvre. The Poverty Reduction and Growth Facility (PRGF) (previously the Enhanced Structural Adjustment Facility (ESAF)) remain firmly focussed on macroeconomic and financial concerns." The Special Rapporteur has further noted that, although supposed to be country driven, the development of the programme was neither participatory nor transparent. See K. Cheru, "Economic, social and cultural rights: The highly indebted Poor Countries (HIPIC) Initiative: A human rights assessment of the Poverty Reduction Strategy Papers (PSRP)", Report submitted by the independent expert on the effects of structural adjustment policies and foreign debt o the full enjoyment of all human rights particularly economic, social and cultural rights, E/CN.4/2001/56.

Since the early 1980's we have seen many governments throughout the world embarking on policies to privatize and deregulate state owned enterprises. More and more governments are selling off state run industries and shift the responsibility of providing services like transport, water, electricity, housing and telecommunications to private companies. These companies then provide these services on a profit basis.

2.2 Europe

Politicians like Thatcher in Britain have argued that privatization would allow workers to buy shares in such companies, which would make capitalism popular under the working class. The industries that the governments sold provided a lucrative opening for profits and many more companies bought shares at the time. However, this was short lived and today many of these ventures are in crisis. The services in general have become unreliable and even hazardous. In London today, many people are nervous to travel by train, not knowing whether they will reach their destination alive because in the last year, there has been a train accident every month. In California, New Zealand and Australia, people have experienced regular blackouts since the selling off of the electricity companies by the state (Alternatives, June 2000).

Yet, our own government intends continuing with the exact same policies. In 2002, while I was doing my internship in Parliament and writing minutes in Portfolio Committee Meetings. I wrote a report for the Parliamentary Monitoring Group on the Department of Public Enterprise Portfolio Committee after their tour from Argentina and Brazil in June 2002. The Portfolio Committee reported to Parliament that the privatization projects in

those countries had been **disastrous**. Instead, the South African government supports the view that, international experience is not conclusive about whether or not privatization is the primary impetus for the improvement of performance of firms and industries, since it is not easy to distinguish between pre and post-privatization impact in the studies reviewed. The theoretical argument for ownership transfer has, however, been made in a less ambiguous manner. It is argued that owing to information asymmetries (that is, differential access to information) and contract incompleteness (that is all contingencies cannot be specified contractually), full privatization (that is complete transfer of ownership) should be more efficient and effective than partial privatization or other forms of restructuring that do not involve equity sales.⁵

This is based on the assumption that restructured SOEs that are not fully privatized may continue to be subject to political interference (i.e. management will be guided more by political rather than economic or financial considerations) and that they will continue to operate with soft as opposed to hard budget constraints (i.e. the state will assist them if they encounter financial difficulties). It is argued that without full privatization, the markets will remain doubtful of Government's intentions, which could lead investors to discount such restructuring initiatives on the basis that they could be reversed, according to the Ministry of Public Enterprise Policy Framework (2000).

According to John Nellis (1999) almost everywhere in the world including Central Europe, privatization has succeeded to improve firm performance. Nevertheless, early

⁵ These arguments were first raised in this context by David Sappington and Joseph Stiglitz, who formulated the "fundamental privatisation theorem" in 1987, "*Privatisation, information and incentives*" NBER Working Paper No. 2196.

and albeit fragmentary evidence from Armenia, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Mongolia, the Russian Federation, and Ukraine so far shows that:

- The association between private ownership and restructuring (changes positioning the firm to survive and thrive in competitive markets) is weak or nonexistent,
- Firms that are partially owned by the state perform better than privatised companies,
- Few differences are discernible between the performance of state-owned and private firms, and
- Clear performance improvements are evident only in the few firms that have been sold to foreign investors.

The further East one travels, the less privatisation has improved firm performance. The first and largest disappointment is Russian privatisation that has not lived up to the expectations and pronouncements of its architects. There and in other transition countries, mass and rapid privatisation has turned over generally mediocre assets to people who have neither the skills nor the financial resources to run them well. Most high-quality assets, sometimes by 'spontaneous privatisation' that preceded official schemes, sometimes by manipulation of voucher schemes, perhaps most often and acutely during the non-voucher second phases of privatisation or during secondary trading have gone to the resourceful, agile, and politically well connected few. And only rarely have these new owners embarked on the deep restructuring that might justify their acquisition of these assets (Nellis, 1999:28).

2.3 Union of Soviet Socialist Republic (USSR)

Faced with these sobering results, many policymakers and observers particularly in the smaller or more geographically isolated transition economies, have begun to question the

wisdom of rapid mass privatisation. Several factors have made them question this policy:

- First, the failure of privatisation to improve performance in Russia has convinced many decision makers that privatisation is unlikely to succeed in their countries, where the quality of industrial assets and the business environment is as bad or worse than in Russia.
- Second, recognition has become widespread that the administrative and legal mechanisms needed to transform rapacious grasping into tolerable and productive acquisitiveness are almost entirely lacking.
- Third, policymakers in the former Soviet republics recognize that many aspects of their economies are still under the influence if not the control of Russian supply, transport, energy, and sometimes criminal networks.
- Fourth, several countries that tried mass privatisation schemes, such as Kazakhstan, Mongolia, Moldova, and Albania, have concluded that they gained little from the effort. In those countries, divesting ownership to inexperienced investors has not led to effective governance of firm managers, many of whom failed to implement change and remain largely unaccountable for their actions (Prokopenko, 2000).

2.4 Africa

A recent report by the Africa Development Bank and the OECD as well as World Bank data, confirms that privatisation in Africa has led to important job losses and price increases. In their annual study "Economic Outlooks in Africa 2002-2003", the African Development Bank (ADB) and the OECD have announced a grim future for the African continent, *Le Monde Economic* reports. Transfers of state enterprises to the private sector called for by international institutions have been formally accepted since 2001 by African countries within the NEPAD framework to accelerate economic growth and to fight poverty. Incontestably, the size of the public sector regressed, but not very significantly, the piece notes (World Bank, 2004:9).

According to the World Bank, African countries privatised some 2,700 public companies. These sales brought back approximately \$8 billion, which is barely 1,5 per cent of the continent's GDP. The best students the study notes, are Mozambique (for Southern Africa), Egypt (for Northern Africa), Tanzania (for the East Africa), Ghana (for West Africa) and Congo (for central Africa). Of 53 countries, only 9 did not really privatise their public services: Botswana, Liberia, Maurice, Namibia, Seychelles, Somalia, Swaziland, Algeria and Libya, either because the public companies are healthy there, or for political reasons. Employment seems to have been the prime victim of privatisation. A World Bank study in 54 newly privatised companies in Benign, Burkina Faso, in Ghana, in Togo and in Zambia shows that employment fell 15 per cent, on average.

If privatisation has led to low profits, it is due to the fact that many government enterprises are heavily indebted. Privatisations eliminate balancing subsidies. In Burkina Faso, subsidies went from \$31,2 million in 1991 to \$2,1 million in 1999 after privatisation. But the fruits of economic efficiency are not that obvious, notes the piece. The consumers are not always pleased by these reforms. On the one hand, enlarging competition forces prices down. On the other, privatisations often lead to a situation of monopoly. Moreover, states put an end to the subsidies that made low tariffs possible. These explain the increases that follow privatisations. The study concludes that in the long run "the rise in prices should contribute to the financing of the network's services", but they fear that "certain private owners exit from markets served by government enterprise-in particular at the expense of transport and the electrification of the rural zones-to concentrate on more profitable activities". Privatisations "raised the quality of

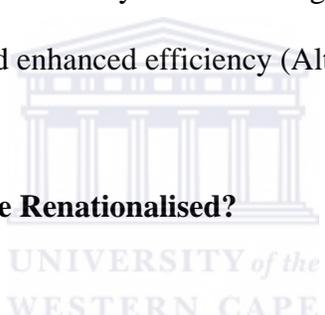
services and improved their access", but "at a significant social cost", the report says. Profitability could be increased and the renovating of infrastructure assured without cutting down the already weak purchasing power of consumers by "finding a balanced partnership between private operators, the government, consumers and international investors", answer the authors. But it is precisely this balanced partnership which Africa pains to put in place, concludes the piece. The report also notes the MDG's will not be met. To reach the goals, Africa would need to grow by 7.4 per cent per year. Botswana, Mozambique, Uganda and Senegal are the states are closest to meeting the MDG's (World Bank Media Relations Department, 2003:47).

In Africa, just three French companies have dominated the 18 major African privatisations in the past tow years. Many African privatisation projects have failed, at a high cost to governments who have dad to bail out the service. Witness Sun Air that went into liquidation shortly after 100 per cent privatisation or the SAA case where the government had to buy back the 20 per cent shares from Swiss Air (Alternative, 2002:6).

2.5 What Went Wrong?

Critics place part of the blame on the international financial institutions, since they required governments of transition economies to privatise rapidly and extensively before competitive policies and institutional safeguards recognized as important but thought to be secondary were put in place. These institutions believed that the immediate need was to rapidly create a constituency of property owners. Private ownership by itself, they

believed, would provide sufficient incentives to shareholders to monitor managerial behaviour and push firms to good performance (Alternative, 2002:14). But capitalism is revealed to require much more than private ownership. It functions because of the widespread acceptance and enforcement of fundamental rules and safeguards that make the outcomes of exchange secure, transparent, and predictable. Where such rules, safeguards, and institutions are absent fairness, equity and firm performance suffer. In an institutional vacuum, none of the players in a privatised firm workers, managers, creditors, investment fund shareholders, civil servants managing the state's residual share is interested in or capable of maintaining the long-run health of the assets. In such circumstances, privatisation is more likely to lead to stagnation and decapitalization than to improved financial results and enhanced efficiency (Alternative, 2002:21).



2.6 Should Privatised Firms Be Renationalised?

Some observers thus have suggested that further privatization be postponed until competitive forces and an enabling institutional or governmental framework are in place. Others have even called for the renationalization of divested firms, which would or could be reprivatised at some later date. Despite its prima facie (obvious) appeal, renationalization of privatized enterprises would be a desperate measure, with a high likelihood of failure, particularly in those institutionally weak settings where the idea has been most strongly endorsed. To successfully renationalize (and then reprivatise) previously state-owned firms, the state would have to select some or all of the most egregiously mismanaged enterprises, put them back in its portfolio, manage them while

there and eventually sell them in a responsible manner. Unlike the sales transacted the first time, these reprivatisations would have to be conducted in an open, transparent manner. Standard, internationally accepted valuation procedures would have to be adopted, and internationally recognized, financial and transaction advisors would have to be involved. All relevant information would need to be disclosed to bidders and bidding open to all interested parties. No restrictions (such as maintaining the same line of business or retaining a certain number of employees) could be placed on the management of the business after the sale (Stiglitz, 1999:74).

The problems with such a plan are obvious: how many transition governments outside (or even within) Central and Eastern Europe could reasonably be expected to undertake this process and handle it well? How many have the capacity to prevent asset stripping in state-owned companies, or the technical and political capability to divest firms according to this set of procedures? Regrettably few. The irony is that a country with the skills and will to run state-owned firms in an effective and efficient manner is usually the very same country that can privatise successfully. Conversely, the forces and conditions that lead governments to botch privatisation also hinder efficient management of state-owned enterprises (Stiglitz, 1999:84).

The slightly less drastic argument runs as follows: In institutionally weak and politically fractured transition economies, long removed from or never fully integrated into the Western commercial tradition, the government should halt privatisation of the remaining portfolio. Instead, it should shift efforts to strengthening market-supporting institutions

(mainly public but some private as well), with the goal of channelling present 'wild East' commercial activity into socially productive and acceptable modes. Discipline and competition should be imposed on and in the remaining public enterprises, accompanied or followed by staged, incremental shifts in ownership patterns, in a more or less evolutionary manner, 'Chinese-style' (Nellis, 1999:69).

Once again, the idea has a *prima facie* appeal. But again, the solution assumes the existence of an effective state mechanism and institutional framework. Where such a framework does not exist, the options unsuccessful privatization or maintenance of inefficient enterprises in the hands of a weak and venal state is bleak. The medium to long-term solution is to build up the government's administrative, policymaking, and enforcement capacities. However, exactly how this can be done and what the role of external assistance is in this process remains unclear. Can anything be done in the shorter term? Several transition governments have tried to compensate for managerial and institutional deficiencies and lack of political consensus by contracting out much or all of the privatization process to private agents and advisors. Estonia, Poland, Bulgaria, Armenia, and Uzbekistan have tried or are contemplating this approach. Although proved successful in Estonia, this method is far from being a universal or speedy solution (as the Poles can attest). And the effectiveness of the effort still depends heavily on the capacity of the government.

As a consequence, reformer elements in the transition governments and the international assistance community international financial institutions, the European Community,

bilateral donors abandon speed as the priority. They shift their efforts to a necessarily slower form of case-by-case or tender privatisation, a more cautious, more evolutionary, more government-led path of ownership transfer.

2.7 What Should Policy Makers Do Now?

Yes, it is time to rethink privatisation but only in those transition settings where history, geography and politics have channelled seemingly laudable economic policy into less than optimal outcomes. In Russia and elsewhere, both reformers and external advisors, aid-providers promised too much of privatisation. Reformers seemed at first to view ownership change as a sufficient condition to bring about a new liberal order. Judgement of external advisors and aid providers less forgivably may have been clouded by hopes for fast and relatively simple solutions. But the admission of error should not be overdone. When it can be carried out correctly, privatisation is clearly the right course of action. In most of Central and Eastern Europe and the Baltic States, privatisation has proven its usefulness. Difficulties that privatization had to face in institutionally-weak settings were not clear at the outset of transition and those who claim they have long perceived this did not come forward with a clear alternative strategy (Patterson, 1993:43).

One must continually ask: What was and is the alternative to privatisation? Is it not clear that Russia would be better off today had it not undertaken the mass privatization program of 1992–94? Several other institutionally-weak transition economies Belarus, Bulgaria, Romania and Ukraine, for example, that eschewed, delayed, or approached

privatization more cautiously, have little to show for it (though in no case, of course, is privatization or its absence, what explains the whole story). States that delay privatization usually find that enterprises make irresistible claims on nonexistent resources, threatening the whole of the reform process. What policy prescriptions can be drawn from this experience?

- ✓ Privatization is generally the preferred course of action. But the institutional underpinnings of capitalism must be in place if privatization is to be effective and socially acceptable in the short term. Where they are present, privatization should proceed.
- ✓ If these underpinnings are not in place but the government is effectively working to create or reinforce them, it may make sense to delay privatization until this effort bears fruit. Hungary and Poland offer cases in point.
- ✓ Where the government is unwilling to or incapable of creating the necessary institutional framework, the long-term course of action is to support measures enhancing will and capacity. In the short term, case-by-case and tender privatization as well as reprivatization should proceed, in cooperation with the international assistance community, in the hope of producing success stories that will lead by example.⁶

Share of GDP Derived from Private Sources:

| Country | 1980 | 1988 | 1994 | 1997 |
|----------------|-------|-------|------|------|
| Czech Republic | <1.0 | <1.0 | 65 | 75 |
| Hungary | 3.5 | 7.1 | 55 | 75 |
| Poland | 15.6* | 18.8* | 55 | 65 |
| Romania | 4.5 | — | 35 | 60 |
| Russia | <1.0 | <1.0 | 50 | 70 |
| Slovakia | <1.0 | <1.0 | 55 | 75 |
| United States | 79.4 | 79.6 | 81.1 | 82.0 |

(Sources: Patterson 1993, European Bank for Reconstruction and Development 1994, 1997, Bureau of Economic Analysis).

⁶ John Nellis is a senior manager in the Private Sector Development Department. He has worked extensively on the restructuring and privatisation of state-owned enterprises in the Russian Federation, Morocco, Kenya, Estonia, Moldova, Egypt, and Vietnam.

2.8 Impact of Privatisation on Employment

Facts have demonstrated that privatisation in some cases has improved the levels of production and profits, after additional investment and changes in management and labour practices. Nevertheless, the fear of job losses is the stumbling block to privatization. Where the government's power base is in urban centres, Trade Unions make employment the number one issue in the privatisation deal. They impose collective bargaining and set the levels of end-of-service benefits and severance pay. That is the case for most countries in Africa. That becomes more complicated in countries where labour is de-unionised because the government's power base is in the rural areas. Consequently, employees have to negotiate individually on the case-by-case basis.

Despite the concern about possible job losses, studies undertaken by World Bank showed that "African governments have done very little to track the effects of privatisation on employment." In view of the lack of data, the World Bank has undertaken a special review on the impact of privatisation on labour in Benin, Burkina Faso, Ghana, Togo and Zambia. That review showed a total job loss during each period of privatisation, of -675 in Benin, -6 in Burkina Faso, -922 in Ghana, - 334 in Togo and -412 in Zambia. These losses are net, taking into account new recruits and represent a percentage of employment level at privatisation, respectively of 36,05 per cent in Benin, 6,70 per cent in Burkina Faso, 17,20 per cent in Ghana, 11,58 per cent in Togo, and 6,81 per cent in Zambia. As we can see, there is no net gain in the number of employees, even if with new recruits and redeployment, the quality and efficiency of the overall manpower may have increased. In

any case, the World Bank's review is an indication of the need to improve the collecting, compiling, analysis and dissemination of data on the impact of privatisation, throughout Africa. Perhaps, in the medium and long run, job creation and quality will become more palatable with increased capital flows through Foreign Direct Investment (FDI) (Makalou, 1999:15).

2.9 Privatisation Rife with Corruption

Privatisation has become a breeding ground for corruption in Africa with contracts awarded in secret or without competitive tendering. Nowhere has this become more evident than in South Africa over the last few years. The scandals have stretched right into Parliament. There has hardly been a contract that has not been subject to speculation or investigation for corruption. Recent notorious examples were the arms deal which saw Tony Yengeni and others implicated in self-enrichment through the arms deal, the salary of R1,2 million paid to the Transnet CEO Andrew Colement by Saki Macozoma now head of NAIL, to oversee the restructuring of the Transnet. It was under his leadership that 20 per cent of SAA was sold to a bankrupt Swiss Air for US \$230 million which the government had to buy back shortly afterwards with the liquidation of Swiss Air. The other scandalous case of corruption was the payment into the account of the Chief Director of the DPE Andile Nkuhlu of over R55 000 towards his wedding reception, in the process of selling off parts of state forests (Pieterse & van Donk, 2002:14).

2.10 How Transparent is the Privatisation Process in Africa

Building transparency into the privatisation process should be a top priority for all policy makers undertaking the effort. That is how begins a commentary of the London-based policy think tank Adam Smith on *The Privatisation Manual - A Simple Guide to Privatising State- Own Enterprises Using the Tender Method* by John Francies with S. J. Masty (1998). The authors define transparency as the requirement that all investors have access to the same information during the privatisation process. Was that requirement respected in Africa? Usually people are suspicious that the information does not circulate the same way for all bidders. Here, many talk about corruption, collusion, pressure and unfairness. Most governments try to ensure transparency to a greater or lesser degree in order to maintain public support for their privatisation programs. Generally, at the highest-level, leaders should be concerned about transparency and corruption.

As Africa takes charge, many of its leaders have recognised the stranglehold that corruption has on their development effort, confirms the World Bank 1998 Annual Report. In 1997, at the invitation of their Heads of State, President Robert McNamara and Executive Secretary Ambassador Ahmedou Ould Abdallah of the Global Coalition for Africa visited six African countries (Benin, Ethiopia, Malawi, Mali, Tanzania, and Uganda) to have open discussions on transparency and corruption. These countries now, have requested help from the Bank to establish national anticorruption programs, and in many cases according to the Annual Report, the Economic Development Institute of the Bank in its integrity programs is supporting these efforts. It is however, not always easy, even with the best of intentions, to observe transparency in all instances. For example, a

transparency requirement is clearly not compatible with management/employees buyouts. In some cases, most governments retain the right to reject bids without any explanation. They may turn down the highest bidder for several reasons (for example they do not know him, he is inexperienced or suspect of not being capable to carry out his commitments or to be a rubber stamp) and select someone with more industrial experience or who has long-term investment plans for the firm. In such a case, the government clearly tries to defend consumers and workers' best interests even if that is shortsighted (Francies J. and Masty S., 1998:66).

Sometimes in international bids, political interference based on common language, monetary links, established and proven relations, leads the government to believe that it must play its role of protector of the national interest. However, in so doing the government jeopardises its own objective and could threaten the entire privatisation process for years to come. In this part of our paper, we tried to assess the African experience of privatisation in relation to the objectives of governments and how they implemented those objectives. We found out that African countries, after the period of massive liquidation and sell out of relatively small or medium enterprise, are, since 1990, and specifically these last two years, have embarked on more substantive sales in the best interests of consumers-taxpayers, workers, investors and the State. Constraints remain, notably, the lack of transparency. We will try to suggest some elements of solutions to overcome those constraints and to establish more transparency in the system (Economic Reform Today, 1998: 34-36).

Even though privatisation process is now well under way in some ten countries of Africa, although it has not so far involved the transfer of shares or capital but has been based on various alternative forms of privatisation (performance contracts, leasing contracts, concessions, etc.). The table below gives some examples of privatisation of water and electricity utilities in Africa. With the exception of Côte d'Ivoire, the institutional process began in the early 1990's, when management operations were transferred to a small number of international operators, either competing against one another or working together in horizontal cooperation arrangements. Côte d'Ivoire provided the original privatisation model for the continent: In the case of both water and electricity, the system is based on a separation between ownership and management. The electricity utility concession signed in 1990 with a private developer gave the latter the task of restoring operating balance and increasing technical efficiency with a view to lowering energy prices, with the management system being completely restructured (Economic Reform Today, 1998: 40).

Water privatisation was introduced in Guinea in 1989 in the form of a leasing contract to a private international consortium and in the Central African Republic in 1991 along similar lines. Other privatisation projects have been introduced in Gabon, Guinea-Bissau and Mali (for water and electricity production and distribution), Senegal (water supply) and Ghana (electricity generation and distribution). Although there has been no outright privatisation of the utilities in Malawi, the steps taken to transform the Electricity Supply Commission (ESCOM) into the Electricity Supply Corporation Ltd. have been seen by

the unions as the first move towards privatisation.⁷ Apart from Morocco (electricity generation, 1996), the Maghreb countries have so far remained untouched by the privatisation of utilities. The gas industry in African countries is either non-existent or publicly owned and operated in a way that has changed little over the last decade (De Luca, 1997:20).

**Examples of Privatisations of Water and Electricity Utilities
in Africa, as of June 1996:**

| Country | Company and legal status | Activity | Type of contract | International operator |
|---------------|---|---|---|------------------------|
| Côte d'Ivoire | Public ownership of facilities and private operating company (SODECI) | Water supply | From 1960, leasing contract, then concession renewed every 15 years on negotiated basis | SAUR |
| | Public asset-owning company (EECI) | Electricity generation and distribution | Leasing contract negotiated in 1990 for a 15-year term, renewable | SAUR-EDF |
| | Private operating company (CEI) | | | |
| Guinea | Public asset-owning company (SONEG) | Water supply | Leasing contract signed end-1989 for a 10-year term, awarded after international tendering | SAUR-CGE |
| | Private operating company (SEEG) | | | |
| | Asset-owning company (ENEGUI) | Electricity production and distribution | Leasing contract signed in 1994 for a 10-year term, awarded after international tendering | EDF-SAUR-HQI |
| | Private operating company (SOGEL) | | | |
| Guinea-Bissau | Public enterprise (EAGB) and private management partners | Water and electricity production and distribution | Management contract Private partner's remuneration 75 per cent fixed, 25 per cent performance-linked | EDF-Lyonnaise des eaux |
| Gabon | 64 per cent public company and indirect | Water and electricity | Management contract signed in | EDF-GQI-Lyonnaise des |

⁷ According from information provided by Escom Workers Union (EWU).

| | | | | |
|--------------------------|---|---|---|--|
| | shareholdings (SEEG) | production and distribution | 1993 after tendering | eaux |
| | Private partner (SOCAGI) | | Development towards a concession under way with reduced state share in SEEG capital | |
| Mali | Public enterprise (EDM) | Water and electricity production and distribution | 4-year overall management contract | SAUR-EDF-HQI-SOGEMA |
| | Private management partner (SHEC) | | | |
| Senegal | Public asset-owning company (SONES) | Water supply | 10-year leasing contract from 1995 after international tendering | SAUR |
| | Private operating company (SDE) | | | |
| Central African Republic | Public asset-owning company (SNE) | Water supply | 15-year leasing contract from 1991 after international tendering | SAUR |
| | Private operating company (SODECA) | | | |
| Morocco | Public enterprise (ONE) | Electricity generation | 30-year generating concession with transfer of ownership to the State when Jorf Lasfar project starts operation | Consumer Michigan Services (CMS) and Asea Brown-Boveri (ABB) |
| | Private concessionaire (Jorf Lasfar Energy Company) | | | |
| | Public company (RAD) | Water and electricity distribution for Casablanca | 30-year distribution concession after tendering | Lyonnaise des eaux-EDF-ENDESA-Agnas de Barcelona |
| Ghana | Public generating company (VRA) | Electricity generation and distribution | Partial delegation of commercial management for 4-year period from 1994 between ECG and technical operators. Industrial changes under way | SAUR-EDF |

(Source: L. de Luca (ed.): *Labour and social dimensions of privatization and restructuring*, op. cit., P. 21)

2.11 Employment Status

Upon privatisation, the question arises as to what extent employees are transferred from the public sector to the private companies and what is their subsequent employment status in the new company. A variety of practices exist in this regard. A 1995 survey by Public Services International (PSI) found that in nearly all countries in Europe, trade unions reported that the workers concerned were transferred to the private sector. In France, when water concessions are granted, workers are reportedly given three options: to remain as municipal employees and be redeployed, to be put on detached duty with renewal of contract every five years or to be transferred and completely integrated in the new enterprise (De Luca, 1988:136).

In Hungary, transfers to the private sector have been the normal practice in energy privatisation. The transfers, with protection, were agreed between trade unions and the Government and written into the contractual conditions of the sale of the enterprises. The problem remains, however, that even with transfers employment cuts can always be made later on, and at that point the handling of redundancy becomes an issue (Ibid, 1989: 136).

If employees are transferred, then the issue arises of what kind of employment status they have. In most cases transferred employees are subject to private sector contractual arrangements, which may entail the loss of certain benefits granted to public sector workers, in particular job security. Yet there can be certain positive outcomes depending on the company, labour protection laws and the industrial relations climate. For example,

workers may be able to bargain collectively for higher wages or other conditions of work. In other situations, employees may retain their public sector status, as was the case in Japan when gas companies were privatised, according from the Federation of Gas Workers Unions of Japan (Zenkoku Gas).

A new French bill on the deregulation of the electricity sector proposes to extend the favourable status enjoyed by workers currently employed by the EDF to all those working in the industry. In justifying the proposal, the bill states: "It is natural that all enterprises operating in the field of electricity should be subject to the same requirements. It is also desirable that there should be no reduction in social guarantees prejudicial to the welfare of employees". There could also be a mixed situation as in the case of Aruba, where most public sector workers were transferred to private water and electricity companies. According to information from the Trade Union of Public Employees of Aruba, however, 15 per cent stayed in the public sector.

In other countries, there may be no right or agreement to transfer to the private company. In the Philippines, where most public utilities have been privatised in the last decade, the law clearly states that when a public enterprise is sold or ownership transferred to private corporations, employees have no right to future employment in the corporation. The new owners have full and absolute discretion to retain or dismiss employees and to hire replacements. According to information from the Public Sector Labour Integrative Center, however, entitlements to severance pay and other compensation provided for under the law, contracts and collective agreements must be respected.

Experience proves that globally, privatisation does not equate to efficiency. This claim was further justified by the DPE Portfolio Committee study tour from South America. Even international institutions like the World Bank confirm job losses in Africa and the world due to privatisation and deregulation. Policy makers agreed not to privatise rapidly but rather to rethink.



CHAPTER THREE: IMPLICATIONS FOR SOUTH AFRICA

3.1 The South African Context

The privatisation debate in South Africa is not new although it has received heightened attention recently in the post apartheid era. As early as the 1970's, the previous apartheid government of South Africa had already started experiencing the pressure to privatise state enterprises from the business community (Thomas, 1987:9-11). However, little progress was made to pursue the privatisation agenda in the 1970's and the 1980's. A number of reasons could be cited for this status of affairs. The first is the drawn-out economic repression of the mid-1970 and early 1980's. The second is that the government feared that ill-designed privatisation might have negative cost implications for lower income earners. This would have provided credibility to the leftists' calls from the anti-apartheid movement for nationalisation of key private enterprises (Page & MacDonald, 2002:2). The third is the lack of pressure (partly due to economic sanctions imposed on South Africa from 1985) from the IMF and the World Bank experienced by other African countries.

The pressure to privatise mounted towards the end of the apartheid regime as the World Bank and IMF intensified their negotiations with the South African Government. The Normative Economic Model was adopted by government and released in March 1993 incorporating privatisation, liberalisation, expenditure cuts and strict fiscal discipline as its central pillars. In line with this policy, the delivery of water and sanitation services in Eastern Cape's three municipalities, Queenstown, Stutterheim and Fort Beaufort, became

the first basic municipal services to be privatised in 1992, 1993 and 1994 respectively. Lyonnaisse Water Southern South Africa [restructured in 1996 as Water and Sanitation Services (WSSA)] was the private actor that won the relevant contracts (Page & MacDonald, 2002:41-43).

The stance of the ANC on privatisation before 1992 was in the negative suggesting an inclination to nationalisation of key industries (Marais, 1998:146). A “Discussion Document on Economic Policy” issued in 1990 had growth through redistribution as its overriding theme. This theme embodied a formula “in which redistribution acts as a spur to growth and in which the fruits of growth are redistributed to satisfy basic needs”. It was envisaged by this policy that the state would play a key role in redistribution. The policy attracted spirited criticism from mainstream economists and the business sector (Ibid: 149). However, a major policy shift from a socialist stance to a neoliberal orientation was not discernible until after 1994. According to Marais, although the ANC had not entirely succumbed to the prerogatives of capital by 1994, “a strong conservative tilt had emerged” in its economic policies that endorsed a restricted role of the state in redistribution, financial and monetary stringency, restructuring of trade and industrial policies (Ibid: 156-7).

In the first policy document released by the democratic government in 1994, the “Reconstruction and Development Programme (RDP)”, the new government affirmed its commitment to reconstructing the South African society and redistributing state resources

in the post-apartheid era⁸. Among other things, an earnest commitment was made to empower people politically and economically through among other things, provision of (access to) food, health care, housing, water, electricity, land and sanitation services and provision for tariff restructuring, cross-subsidies and life line services to the poor with respect to water, sanitation and electricity.⁹ The RDP originated from the trade union movement. It can be argued therefore that the RDP's anti-neoliberal pretensions have much to do with its origin. However, the White Paper on Reconstruction and Development adopted later in the same year revised the RDP significantly. It reflected the uncomfortable compromise between conflicting constituents within the ANC and the business sector by making a firm commitment to redistribution without divorcing itself from the imperatives of the market ideology (Pieterse & van Donk, 2002:2).

In 1995, the then Deputy President Thabo Mbeki announced a plan to undertake a wide-ranging privatisation programme. However, it was not yet clear that this plan would affect the delivery of basic services. A determined move in this direction was reflected in the GEAR policy adopted in 1996. This policy was formulated specially to accelerate privatisation (including service provision in health, education welfare, sanitation and water), encourage foreign investment, bring down inflation, cut the national deficit and reduce poverty by relaxing restrictive labour laws.¹⁰ Other components of the neoliberal

⁸ African National Congress, *Reconstruction and development programme*, Johannesburg: Umayo Publications, 1994.

⁹ Ibid. See also Rural Development Services Network, "Water pricing for all in South Africa: Policies, pricing and people", Discussion document prepared for the "Water for all" Seminar, Commonwealth People's Centre Meeting, Durban, South Africa, 10 December 1999.

¹⁰ See "Growth, Employment and Redistribution: A Macroeconomic Strategy", 14 June 1996, available at <http://www.polity.org.za/html/govdocs/policy/growth.html> (accessed: 30 June 2003).

package these policies brought on board include fiscal restraint, export orientation, corporatisation, trade liberalism, cost recovery and deregulation of the market. These principles have since received wide implementation in South Africa.

Developments related to privatisation have also taken place in the arena of institutional transformation. The South African government has since 1996 undertaken wide-ranging public sector reforms. One of them has been the expansion of the reach of the state through a range of partnership arrangements, mainly with the private sector, but also with civil society organisations as elaborated in various government policies such as the White Paper on the transformation of the Public Service, the White Paper on Municipal Partnerships and the Strategic Framework for Delivering Public Services through Public-Private Partnerships.

The current trend to privatise has since 1995 become tempting in South Africa. By 2000, the government was calling for accelerated restructuring.¹¹ The reach of privatisation has extended to radio stations, the telecommunications sector, aviation, the mining industry, transportation, tourism, and forestry.¹² Since 1997, 18 state-owned enterprises have been sold. Stakes in the four biggest state enterprises Transnet, Telkom, Eskom and Denel have been sold or earmarked for sale. It is expected that by 2003 Eskom will be disintegrated into three operational components: generation, transmission and

¹¹ See The Ministry of Public Enterprises Republic of South Africa, “An accelerated agenda towards the restructuring of state owned enterprises policy framework”, August 2000. However, anti-privatisation campaigns continued apace. See P. Bond, “Privatisation and resistance in South Africa”, available at www.aidc.org.za/web/privatisationandresistance.html (accessed: 30 June 2003).

¹² Since 1995, the six SABC radio stations have been sold, Sun Air (later liquidated) and national forests have been privatised, and stakes in South African Airways, Telkom and Transnet, just to mention a few examples, have been sold.

distribution. The plans are to corporatise Eskom and sell 30 per cent of it to private companies. The Conversion Bill of Eskom was published in GN 1288, GG 24764 of 24 April 2003 and open to public comment for a month ending on 23 May 2003.¹³

The energy sector aside, privatisation of basic services has taken the form of outsourcing of refuse collection, which has become a common practice among municipalities, (Qotole & Xali, 2001:7). Between 1996 and 1999, provision of water and sanitation services in Nelspruit was privatised.¹⁴ In 1999, the delivery of water and sanitation services in Dolphin Coast and Durban was contracted out to multinational companies SAUR International and Bi-Water respectively. In 2001, contracts to deliver similar services were won by WSSA in respect of Johannesburg. In 2002, the Igoli programme was adopted as a roadmap for restructuring the delivery of municipal services in Johannesburg. This programme entails privatisation and corporatisation of municipal amenities. One of the major services targeted is solid waste management (Barchiesi, 2001:21). It is clear from the foregoing that privatisation in South Africa has affected the delivery of basic services.

The following public sectors that is health, water, telecommunication, electricity, transport, which in the South African context are of benefit to the needy had been severely affected by the status of privatisation:

¹³ See CALS, “Comment on the draft Electricity Distribution Industry Restructuring Bill”, 23 May 2003. Also M.A. Ayugu, “Debating ‘privatisation’ of network utilities in South Africa: Theories, fables, facts, other”, Paper Presented at Tips 2001 Annual Forum.

¹⁴ G. Ruiters & P. Bond, “Contradictions in municipal transformation from apartheid to democracy: The battle over local water privatisation in South Africa”, Background paper, Municipal Services Project, available at: <http://qsilver.queensu.ca/~mspadmin/> (accessed: 30 June 2003).

3.1.1 Health

Since the 1980s, private health was promoted, particularly through deregulation. Today, 16 per cent of the population are in private health costing R36 billion a year. This is more than the R32 billion spent by the public health sector that covers the remaining 84 per cent of the population. Over-servicing in private health has driven medical inflation to over 300 per cent in real terms since the 1980's. The poor are completely priced out of this private health market. The poor instead use the public sector that due to fiscal constraints, has seen public health per person spending fall by 15 per cent in real terms since 1996, resulting in deteriorating healthcare for the poor. In addition, there has been a massive shift of key health professionals from the under-funded public sector into the private sector, increasing the public health crisis.

3.1.2 Water

While government has succeeded in rolling out more water infrastructure (taps and pipes) to the poor, communities are expected to pay. Even communities who never paid for water before now have to. While government has intended to contractually oblige the outsourced water management companies to deliver affordable and quality services in practice contracts have been invariably renegotiated soon after privatisation and tariffs increased. This has led to many of the poor being forced to go back to use the rivers, contributing to the deadly Cholera outbreak in KwaZulu Natal in the past years. Recently, national government announced a free water programme, but without the support of additional national funds needed for effective implementation.

The Cape Town Municipality for example, according to a study which was released on 21 February 2002, the study found the City's water management plans would lead to an increase in water rates by up to 50 per cent, more cut-offs and to job losses. According to one of the authors of the report, David McDonald of Canada's Queens University said the process was very difficult to undo. "We're saying, get a better handle of things before you entrench the distribution of resources along apartheid lines," he told a media briefing. Privatisation was taking place in the City "in an unplanned and ad-hoc fashion without any real public debate or intensive research into alternatives", MacDonald said. He said despite the lessons to the contrary from overseas experience, these managers showed blind ideological faith in the ability of the private sector to provide services better than the public sector. This led to cutoffs, which meant 300 000 people went without water in Cape Town in 2000. "It's not a culture of non-payment: it's that people simply cannot afford to pay for these services," McDonald added. He said that if water distribution in the city was controlled as the city proposed, it could lead to price increases of up to 50 per cent as cross-subsidisation to poorer households became almost impossible, to more cutoffs and to job losses. The South African Municipal Workers' Union spokesman Andre Adams, whose union sits on the steering committee of the Municipal Services Project, said he found the results of the survey shocking. He said the research could help open up debate and lead the City to review its decisions (Macleman, 2002:5).

3.1.3 Telecommunications

Government sold 30 per cent of Telkom to a US-Malaysian consortium and gave the investors full control of the enterprise through a shareholder agreement. As part of the

service agreement, government required Telkom to roll out 1,9 million new phones to disadvantaged areas. In the three years since then the price of local calls which the poor use, has risen by 35 per cent in real terms, while international calls (used by businesses and the rich) have fallen by 40 per cent in real terms. The local call increases have led to disconnections that have almost matched the roll out of new lines. After accounting for disconnections, the reality is that there was a bigger roll out of new lines before Telkom was privatised than after.

The newest site of campaigning, Telkom shares, which initially were offered to black investors through a scheme called Khulisa but then broaden (after a white trade union complained) to all South Africans will require even more nuance by both state privatisers and their critics.

Telkom's delivery statistics since liberation in 1994 are shocking. COSATU's 1994 January 23 announcement of opposition included these allegations:

- Since its partial privatisation and full commercialization, Telkom has escalated tariffs for services used by poor households, basic rental and local calls, while slashing them for those aimed at rich families and businesses, especially international calls and the internet. Its latest tariff hike will impose 13 per cent increases on the majority of low-income families, while the high-income group will only have to pay around 6 per cent more.
- Of high basics costs, poor people cannot afford to maintain phone lines. As a result, Telkom has cut 80 per cent of the new landlines it rolled out in the past five years.

- At the same time, Telkom has cut employment by a third, and most recently cut back investment.
- These strategies seek to attract private investment when Telkom finally goes to an Initial Public Offering. But the cost to South Africa's development, and especially to the poor, remains unacceptably high.

The Khulisa offering is just an attempt to sidetrack people from reality that privatisation can only worsen conditions for the majority of South Africans. The reality of the Telkom IPO, including the much-vaunted Khulisa offer, is that property is being expropriated from 46 million South Africans to be auctioned off to, at best, 1 million investors in the name of black economic empowerment.¹⁵

The latest article on the Sunday Times by Simpiwe Piliso (9 October 2006: 1), on the sale of Telkom shares is a classical case demonstrating how the connected few in government continues to benefit against the poor. Smuts Ngonyama, the ANC's Head of the Presidency, has emerged as a central figure in the secret sale of a large chunk of Telkom shares. The shares are part of a R9 billion stake that the Elephant Consortium bought from a US-based company last year in one of the country's biggest empowerment deals. When the deal was announced, Elephant's purchase sparked an outcry and was billed as a get-rich-quick scheme for a select few. The consortium included Ngonyama, former government Telecommunications Director-General Andile Ngcaba, Gloria Serobe of women's empowerment group Wiphold, and a string of former civil servants and businessmen. Ngonyama and the consortium bought a 15,1 per cent stake in Telkom from

¹⁵ . See P. Bond, "Privatisation and resistance in South Africa", available at www.aidc.org.za/web/privatisationandresistance.html (accessed: 30 June 2003).

US-based Thintana, but the deal became mired in controversy when it emerged that the Public Investment Corporation (PIC), which manages R600 billion in civil servants' pension savings, had warehoused the shares to allow them time to raise cash. Ngonyama has consistently denied making money from the deal, maintaining that he is yet to be rewarded for his role.

3.1.4 Electricity

Eskom, under public sector management, is one of the cheapest electricity producers in the world. However, government intends to permit private generation of up to 30 per cent of electricity, particularly through transferring the stake to a black empowerment consortium. Privatisation consultants advising government estimate that the cost of electricity for households will have to be increased by up to 50 per cent. This is against a backdrop where there are already 10 000 electricity cut-offs to poor households in Soweto every month. The article on the Sunday Times by Micheal Schmidt (2002: 7), where gunfire erupted outside the Johannesburg metropolitan Mayor, Amos Masondo, when a crowd of Soweto residents attacked the house. It was the latest of a series of protest by the resident's organization, (the Soweto Electricity Crisis Committee and its umbrella Anti-Privatization Forum) against water and electricity cut-offs. Three people including two demonstrators were injured. This article bears testimony to the view that, with out the involvement of the various stakeholders in the electricity industry, the whole process of electricity not only in Soweto, but also in South Africa as a whole, is doomed to fail.



An anti-privatization activist argues with police guarding the installation of prepaid water meters in Soweto in 2005. (Photo: Indymedia South Africa)

3.1.5 Transport

Public transport is an important basic service, desperately needed to counter the spatial effects of apartheid planning. In this regard, government, advised by international consultants, has proposed that the components of the public railway enterprise, Spoornet, be privatised. Part of the privatisation would require closing or downscaling unprofitable railways lines, mainly those serving poor areas. Significantly, trade unions recently forced government into accepting a joint stakeholder technical task team to analyse the feasibility of the proposed privatisation. This team came to the unambiguous conclusion that the consultants' advice was wrong and that Spoornet would be better off if it was not privatised.¹⁶

There are further examples of privatisation of basic services that one could refer to, though the conclusion would be the same: privatisation does not benefit the poor. The

¹⁶ How the South African Economy Works, July 2002.

underlying notion of extending markets to the poor, who do not possess market power (money), particularly in view of the extreme poverty and inequality in South Africa, is irrational. In this context, allowing consumer choice to determine service levels is effectively reducing service to the inadequate levels that the poor can afford or cutting them off entirely where they cannot pay. Further, the belief that government can force the private sector to serve the poor through regulation or contracts is being proven hopelessly unrealistic (<http://www.cosatu.org.za/speeches/2001/rn010827.htm>).

There is real hardship for the poor when government privatizes and deregulates services. Services will now be sold in the market for profit and government will not be able to carry out its social responsibility in providing for the basic needs of its people. It means government will not be responsible for the provision of water, electricity, health care, housing and transport. However, the poor and working people, the majority of the population, will not be able to afford these services at prices that guarantee profits for the suppliers. Increasingly, companies selling basic services will concentrate on providing 'products' aimed at the rich (Alternatives, June 2000).

If the government, for example, privatized the collection of rubbish to a private company and you cannot pay they will not collect the rubbish. The rich suburbs will receive the best service and this company will probably offer other services like garden pruning, developing a park, etc. to increase its profits for the rich while the poor townships wilt under rotting rubbish. At the same time, government has implemented cost recovery programmes, which have led to the evictions of many poor people and auctioning of their

homes. Evictions are still continuing and we see more people resisting in different parts of the country. Khayelitsha is one of the areas in Cape Town where residence have taken up the struggle against evictions. Still in Cape Town, Lavender Hill residents have engaged in running battles with the authorities to stop evictions. In Johannesburg, the Thembelihle community resisted forced removal by the local government. In Sebokeng, 6000 people were evicted from the privatized hostel (formerly an apartheid era workers compound), in which families had been living since 1977. At a meeting, a decision was taken that residents should re-occupy the hostel. After this had been done, maximum force was used against the residents and some of the residents were shot including a security guard. The private company that has bought the hostel, VICVA Investment, is owned by the ANC local councilors. They have also implemented an aggressive policy of disconnecting water and electricity to force people to pay their debts.

The effects of privatization and deregulation need careful study. There is growing discontent and anger in many communities with privatisation of essential state service. The increased privatisation of health, education, communications, water, electricity and housing will continue to generate unemployment, poverty, hardship and a cycle of degradation in our communities. Here are a few examples that can be noted:

Who Loses?

- Parastatals have cut more than 25 000 jobs since 1994. Transnet is intending to cut 20 000 more this year,
- Eskom's voluntary retrenchment programme led to a loss of 3 284 jobs,
- Telkom cut 12 000 jobs last year, and
- Spoornet retrenched 20 000 workers last year.

Who Wins?

- Eskom's profit for the year 1999/2000 was R2,17 billion,
- A UK-based private company called HSBC has advised the government of privatising SAA and Telkom. Thus privatization in South Africa boosts HSBC's business, and
- Government is considering leasing about 12 000 km of 'unprofitable' railway lines to private operators.¹⁷

3.2 Growth, Employment And Redistribution (GEAR)

GEAR is a government strategy aimed to bring South Africa into the global economy, to be a player on the global stage and compete with other countries. It means that if we produce clothing for example, the cost of our clothing must be lower than that made in other countries. In order to compete, businesses will need to produce more at a cheaper cost so that they can export their goods on foreign markets. GEAR also encourages businesses to invest overseas. The GEAR plan banks on other countries investing in South Africa. However, many of the foreign businesses lay down conditions such as bringing money to South Africa and taking profits out without limitation. Foreign companies also want tax holidays (a period of time when they do not pay taxes to South Africa), at lower interest rates so they can borrow to build factories and flexible wages for the labour force. Opponents of GEAR argue that the government's economic strategy is a blueprint from the International Monetary Fund (IMF) (The Great Debate, July 1997:1).

¹⁷ How the SA Economy Works, August 2000.

Since 1996 when the government introduced GEAR, we have seen the beginning of the process of privatisation of various state owned enterprises like Telkom, Eskom and Transnet, as well as many of the state forests. Under pressure from big business, emerging black business and organizations like WTO, this process is being accelerated.

Government argues for the necessity of privatization and deregulation in terms of:

- Needing to reduce the debt, much of which was incurred by the Apartheid regime,
- Not having money to provide services,
- Too much inefficiency in public sector,
- The private sector will eliminate waste, and
- The public sector is bloated, inefficient and corrupt.

Their logic is that through introducing competition and choice for the consumer, it will compel those who provide such services to ensure quality services at affordable prices.

But in most cases, these arguments have proven to be a fallacy.

GEAR promised an expanding economy reaching a 6 per cent growth rate and creating 400 000 jobs by the year 2000. Besides the guaranties made to the private sector, none of the promises of delivery based on GEAR have been realized. GEAR meticulously outlines the need for the restructuring of the provision of all goods and services provided by the government (health, education, welfare, water, electricity and other services). It emphasizes the importance of private sector investment into the public sector, public-private partnerships, the need for competition in the delivery of social services to improve efficiency and many other market-related measures to be taken up in the public sector. GEAR also entrenched the NFA definition of restructuring as the total sale or partial sale to a strategic equity partner or sale of assets with government retaining strategic interests.

The DPE policy document titled, “An Accelerated Agenda Towards the Restructuring of State Owned Enterprises” and other statements have earmarked the following industries and other sectors for privatisation: agriculture and fisheries, tourism, forestry, electricity generation and power reticulation, transport, telecommunication and information technology, water and waste management. Underlying the government policy is an assumption that privatisation will attract foreign investors, boost the Black Economic Empowerment program and lead to improved economic growth rate, ultimately giving rise to the improved social benefits for the poor – the classical neo-liberal approach (Alternatives, 2002:5).

In a COSATU document submitted to the ANC’s 1997 Policy Conference, it was contended that “GEAR itself was nothing more than a knee-jerk reaction by government officials to perceived pressure from the private sector, epitomized by the depreciation of the Rand in early 1996”.

In the *Business Report* on 22 October 2002, Mandla Maleka argued that GEAR has failed. What GEAR has lacked was a comprehensive and integrated follow-on growth strategy with clear deliverables. After GEAR demonstrably stabilized the economy, a recovery economic growth strategy should have been a natural companion.

The unilateral approach to the formulation of macro-economic policy by technocrats in government, assisted by institutions such as the World Bank, undermined by the possibility of a negotiated consensus-driven approach to broader economic policy, or the

social partnership has been seen by some as being the outcome of the National Economic Development and Labour Council (NEDLAC) processes. In response to GEAR's proposal for a social contract, COSATU stressed that "a social contract involving labour, business and government should be a conditional on an agreement on the overall growth and development framework including government's macro-economic framework", according to the First Term Report of the COSATU Parliamentary Office (2000:83).

3.2.1 The Myth of Growth and Job Creation

The problem with this theory is that it does not take into account a number of factors.

- 1) Business places higher value on efficiency. Most businesses try to cut expenses as they try to produce more goods or services. The easiest place to reduce cost is by cutting wages or employing fewer workers.
- 2) The introduction of higher technology over the past 20 years with computers, robots etcetera has in fact decreased the need for workers. This means **jobloss** growth.
- 3) Reliance on every highly skilled work force, which operates computers and robots, means fewer jobs for the traditional labour force.

The population is expected to grow which will mean more job seekers. In 1995, there were 350 000 new job seekers in South Africa and only 95 000 new jobs created, while 153 000 jobs were lost through plant closings and downsizing of government departments. As a result, in South Africa and in many other countries, we now see **jobloss** growth (The Great Debate, July 1997). If we therefore take into account these factors, the picture of growth becomes very different.

3.3 Trade Union Response (COSATU)

The ANC managed to score a solid victory in the 2004 elections, yet criticism from the left has been mounting and cracks in the ruling coalition continue to grow. There has always been a rift between the ruling ANC and COSATU on privatization. But it deepened substantially last year when the Government decided to sell the state telephone company, Telkom.

A great deal is at stake here because the probably inevitable departure of COSATU and the South African Communist Party (SACP) from the ANC-led alliance will occur over ideological differences - such as whether basic services should be operated on a for-profit basis. COSATU won a minor victory early in 2003 when some railroad privatizations were halted by the former Transport Minister Dullah Omar. But President Thabo Mbeki has cemented his agenda for restructuring state enterprises. He labels his trade-union and community opponents 'ultra-leftists' and has so far combined intimidation with divide-and-rule tactics to maintain the pretence of unity (Bond P, 2004).

The ruling party's alliance partners, COSATU and SACP, do not share the economic policy of the government, and its perspective on privatisation and deregulation policies. These organizations are concerned that government policies are leading to a higher level of unemployment and a reduced focus on service delivery. COSATU and the SACP, together with other civil society organizations have challenged current economic policy through a series of protests. There is an urgent call by these parties for the government to

conduct an urgent and comprehensive review of all restructuring of state assets. Alternatively, they have proposed that more funds to be allocated to job creation initiatives and on a social safety net to deal with the large numbers of unemployed persons in South Africa” (COSATU Section 77 Notice). In order to meet these needs, the government has to compromise on its economic policy, something that it has clearly refused to do. Although the facts are clear and unmistakable that privatisation has done untold damage to poor communities and has led to astronomical job losses, estimated at 77 000 over the last six years in the public sector alone, government continues with this policy, disregarding mass protests against privatisation or the impact it has made on the lives of the majority of South Africans.

According to COSATU, privatization imposes a heavy price on workers. It raises the cost of living and leads to the deterioration on basic services and cuts jobs. Another reason, just as important for them is that, if they as workers, do not unite around their demands and put pressure on government, then business will force the government to run the country in the interests of business. For them, it is a case of organizing or starving.

According to COSATU’s Communications Department (2002), they have three basic reasons for their opposition to the privatisation and deregulation of services:

- Because of endemic poverty, most South Africans households cannot pay to receive basic services from private providers. There is therefore no market incentive for private providers to serve the majority.

- Part of their developmental challenge as a country is the fundamental restructuring of both the state and the economy, so that they serve the majority. State control of assets is an important lever to achieve this aim, by extending infrastructure and production as well as maintaining cross-subsidies to the poor, small enterprises, and similar sectors. Privatizing assets rules out this strategic intervention.

- Privatization leads to massive job losses and declining conditions of employment. Where services have been outsourced, workers have moved outside their bargaining unit and faced reduced pay, benefits and job security.

The four big parastatals, Eskom, Denel, Telkom and Transnet have between them lost around 100 000 jobs since 1994. The public service has lost even more. These figures are a major factor in joblessness, which rose from 16 per cent in 1995 to almost 30 per cent today, 41% if you count those who have given up. COSATU figures for job losses between 1991 and 1999 were estimated at 500 000 with 170 000 from the public sector, more than the 150 000 lost in mining, the 110 000 from manufacturing and 100 000 in the building industry. To this should be added the already large number of job seekers who enter the job market every year with no hope of getting a job. In a 1999 report on job losses, COSATU said about parastatals: “There have been massive job losses in this sector for a number of years or at least since the introduction of commercialisation,

privatisation and so-called strategic equity partnerships. SAA retrenched 94 workers, Spoornet intends to retrench 27 000 in the near future (Alternative, 2002:7).

COSATU has also called for basic services to remain in government hands. Only then can they ensure that need, and not profit, drives delivery. They have demanded that government restructure other functions only after it has checked how its proposals would affect services, tariffs, incomes and jobs. These are not difficult demands. But despite all their attempts to engage seriously on the issues, they have made no progress in negotiation. The government insists on going ahead with privatization even when they are trying to negotiate a common approach (Madisha, 2002).

Even Minister Jeff Radebe's response when asked by Sphiwe Mboyane (City Press Correspondent) bears testimony to this view. Minister Radebe said the government was going ahead with its privatization of state assets and was unable to accede to COSATU's demand for a moratorium on privatization initiatives. However, Radebe indicated that the government was committed to ongoing consultation with COSATU on its economic policies (Mboyane, 2002).

This is nonsense, if the government was really serious in reaching a common approach with COSATU, it could clearly have put its privatization policy on hold pending the outcome of negotiations with COSATU. To negotiate on one hand by government and on the other hand to implement, its two contradictory approaches.

The privatization process is already adversely affecting workers. The table below shows the extent of job losses in major parastatals and the public service, i.e. national and provincial government.

| Jobs in Selected Public Service | | | | |
|--|---------------|-------------|----------------------------|----------------------------------|
| | 1995 | 2001 | Number of Job Loses | % Decreases in employment |
| Transnet | 115317 | 78708 | 36609 | -32 |
| Denel | 11243 | 6363 | 4880 | -43 |
| Telkom | 58793 | 46000 | 12793 | -22 |
| Eskom | 39952 | 37311(1998) | 2641 | -7 |
| Public Service | 1176545(1996) | 1042392 | 134153 | -11 |
| | 1401850 | 1210774 | 191076 | -14 |

(Source: Information provided by parastatals and from government reports).

The table shows that:

- Large job losses have occurred during the restructuring processes within state-owned enterprises,
- While privatization process has not yet occurred in Eskom, preparing for privatization has necessitated the reduction of the workforce, and
- Job losses are likely to be higher once consolidated information from local government and parastatals are included.

Other key impacts from the restructuring process are:

- **Shift towards greater casualisation:** Casualisation processes are already observable in some parastatals (e.g. Denel through establishment of labour broker services called Denel Personnel Services or DPS). Processes in other enterprises are at an advanced stage to introduce greater levels of casual work.

Consequently, a decline in formal sector employment in the public sector is anticipated. This will worsen the position of workers, their families, and in particular, African women.

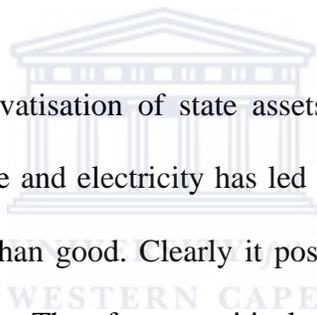
- **Reduction in benefits and conditions of service:** As privatization processes continue and enterprises ready themselves for competition, a 'race to the bottom' will become the norm. Proposals from enterprise management are already premised on reducing the costs of employment.
- **Increased unemployment:** Changes in the ownership and management structures of enterprises, local government and the public service, are likely to exacerbate the unemployment problem in the country. This would have adverse socio-economic impacts particularly in poorer provinces and communities, where public sector employment is the largest source of formal employment.¹⁸



According to Patrick Bond, (2004) with COSATU again campaigning against Telkom's privatization, there appears to be renewed scope for an 'alliance of the dispossessed'. Municipal Workers Union members sometimes dispense with traditional ANC loyalties to join Anti-Privatization Forums (APF) in the major cities, even while the latter are tentatively preparing for a future political party challenge to the ANC Government. Most importantly, the APFs and other militant communities continue taking matters into their own hands - including illegal reconnections of electricity and water. (See interview with Trevor Ngwane)

¹⁸ Conference Summary, National Labour and Economic Development Institute, 23-24 August 2001.

The cost to South Africa's development, especially to the poor, is unacceptably high warns COSATU. 'Privatization can only worsen conditions for the majority. The reality of the Telkom sale is that property is being expropriated from 46 million South Africans to be auctioned off to, at best, 1 million investors in the name of black economic empowerment. Critics threaten to disrupt further attempts to privatize by targeting merchant banks, foreign firms and international agencies that are promoting the panacea. Whatever the outcome, perhaps it might be right to suggest that President Mbeki's faith in privatization is jeopardizing the future re-election of the ANC.

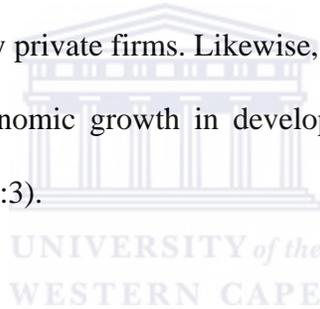


It should be noted that privatisation of state assets, especially basic services like water, sanitation, health care and electricity has led to job losses with strategies like GEAR adding more harm than good. Clearly it poses a heavy price to the workers who are affected eventually. Therefore, a critical analysis should be made before implementing such policies with destructive consequences.

CHAPTER FOUR: CONCLUSION AND RECOMMENDATIONS

4.1 Summary

Whether privatisation does in practice result in decreased access to basic services or lead to economic growth is debatable. Evidence of the positive impact of privatisation on economic growth and efficiency is inadequate and at most conflicting. Indeed, opponents of privatisation contend that there is little practical evidence establishing that privatisation does in fact result in increased efficiency, economic growth, development and competition. Gayle and Goodrich, for example, have argued that privatisation in Britain, the former West Germany, Chile and Honduras in the 1980's did not result in better economic performance by private firms. Likewise, Cook and Uchida's study on the impact of privatisation on economic growth in developing countries concludes in the negative (Cook & Uchida, 1987:3).



Where it can be established that enhanced economic performance occurred after privatisation, the difficulty remains pinpointing privatisation as the cause of such performance. Many other factors such as the introduction of competition and the liberalisation of the market without privatisation might lead to economic growth. Significantly, economic growth itself does not mean more access by poor communities to basic needs. The potential for privatisation to increase competition is also undermined by the availability of investors. In some cases, as was the case in Malaysia, potential investors have engaged in collusive tendering. The result is the emergence of private sector monopolies. In the absence of evidence establishing that the private sector is

actually more efficient than the public sector, it is disputable that a private monopoly can result in better access to basic goods and services than a public monopoly.

Opponents of privatisation also contend that managers in the private sector are accountable to their shareholders. Such accountability is largely in terms of profits. The search for profits motivates private actors to invest in areas that can bring huge turnovers. Investors are therefore less prepared to buy enterprises that make losses. In Zimbabwe, for example, a UK firm, Biwater, withdrew from a privatisation project of water supply because the users were too poor to afford the services. Furthermore, in the quest to maximise profits private actors tend to be selective about beneficiaries and the investment they make. To take the example of electricity, private service providers prefer to invest more in energy that will service industrial users than poor people. They also exercise more leniencies to corporations with respect to disconnections than poor people. These observations call into question the potential for privatisation to extend service delivery to disadvantaged communities and to provide quality services in sufficient amounts as required by socio-economic rights.

That privatisation is beneficial to health and the environment is equally questionable. Evidence is in abundance establishing that the activities of private actors are often harmful to the environment and that many private actors have violated environmental and health regulations with impunity through the improper exercise of their economic power, for example, through corruption of the responsible government officials. With regards to the potential of private actors to invest in new technologies that are environmentally

friendly, this possibility is undermined by short-term contracts of service delivery and competitive bidding, which results in losses in institutional memory necessary for innovations. Contrary to the assertion that private actors are bastions of innovation, available evidence suggests that public institutions have historically invested invaluable in new technologies and innovation without the promise of profits.

The removal of subsidies is perhaps more damaging to poor people than it is beneficial to the environment. State intervention in the form of subsidies or kindred measures is critical to increasing or sustaining access by poor communities to socio-economic rights. In *City Council of Pretoria v Walker*,¹⁹ for example, the South African Constitutional Court held that cross-subsidisation per se was not unconstitutional:

There may be cases where it is not unfair to charge according to different rates for the same services; it seems to me to be inconsistent with the equality jurisprudence developed by this Court to hold that all cross-subsidisation is precluded by section 8(2) (the non-discrimination clause of the 1993 Constitution).²⁰

The removal of these subsidies in South Africa led to massive increases in tariffs after privatisation. Such price increases have not only limited the quantity of basic services enjoyed but are also unfair to poor people in South Africa. The apartheid regime operated a service delivery system in water, electricity and sanitation that was racially skewed. While the subsidies from which white communities benefited disproportionately have

¹⁹ 1998 (3) BCLR 257 (CC). It was held in this case that special measures taken to ensure that disadvantaged communities enjoy access to basic services are necessary. However, selective enforcement of payment for tariffs (not forming part of the special measures) was held to be a violation the non-discrimination clause.

²⁰ Para 62.

been removed, the advantage of better infrastructure of service delivery systems in these communities subsists. With full cost recovery in place, poor communities now bear the unfair burden of paying for the new infrastructure for them to gain access to the services. With regard to the potential to redistribute resources, the contribution of privatisation in this regard is sharply limited by the drive to attract foreign investment. And in most cases, privatisation results in massive job losses (Ramanadham, 1993:1, 54).

Key participants in the provision of basic services and those that reap a disproportionate share of the benefits of privatisation are multinational companies and not local businesses or people. This is the case in South Africa where all the big contracts to provide water and sanitation has been won by multinational corporations. There is therefore a negligible redistributive potential that privatisation can offer. In addition, while proceeds from the sale of public enterprises can be of use in balancing the national budget, such benefit can be a short-term one. In some instances, a long-term contribution of an enterprise to the national budget can outweigh the contribution of the proceeds realised from its sale.

4.2 Conclusion

Ultimately, the most important issue for employment growth is whether privatization and deregulation will provide both expanded as well as more efficient and cost-effective services. Achieving such outcomes may well stimulate long-term economic growth and have an indirect positive impact on total employment. However, job creation and the prevention of social exclusion through the redistribution of wealth will still depend to a large extent on the type of government policies and economic models adopted and implemented. It is clear that independently of privatization or restructuring, repeated disruption of utilities services can provoke increased unemployment.

As many privatization and deregulation processes are still quite recent in South Africa, there is little evidence available at a disaggregated level to assess the impact on indirect employment and social cohesion of the privatization of a particular industry or utility. However, evidence suggests that the number and pace of privatizations, as well as the simultaneous presence of labour market deregulation, can dramatically affect the extent of employment reductions. Power failures in February 1998 in Auckland (New Zealand's most populous City), caused a severe economic slowdown. These followed a period of both privatization and labour market deregulation and sparked off an intense public debate on the limits of liberalization and the need for state regulation. Striking a balance between maintaining a good quality of service and keeping utility prices at affordable levels will undoubtedly be a key factor in achieving the often stated objective of privatization and deregulation - the enhanced provision of efficient utilities supply and

distribution. Rising tariffs result in lowering purchasing power and increasing production costs, which could have a negative effect on employment creation unless significant improvements in quality of service are, such that increased productive capacity outweighs price hikes.

Privatization leads to job losses as the new bosses attempt to reduce costs. It does not improve services as cost cutting leads to erosion of quality and safety problems. As more and more poor people cannot afford deregulation of services leads to further impoverishment and widening inequality. At the same time, privatization increases the burden of women in the households. They have to carry water, collect wood and take care of the sick. Therefore, privatization and deregulation policies are attacks on the poor and cannot be sustained.

For those who are prepared to look at the facts with an open mind, the conclusion is clear and unambiguous: Privatisation of basic services is not benefiting the poor and, in the South African context, cannot be expected to. Due to this reality, the following steps need to be taken:

- ✓ The current policy to privatise basic service delivery needs to be changed. Here one accepts that the public sector must be restructured. However, in the South African context, the restructuring should aim to extend the State, and not the market, in providing accessible and affordable services.
- ✓ The role of all foreign consultancies or any consultancies with remotely conflict of interest arrangements need to be investigated.
- ✓ Any restructuring of public sector basic service delivery needs to be preceded by credible cost-benefit analyses of its impact on the poor.
- ✓ Parliament, as the elected representatives of the people, needs to have final oversight over the restructuring process.

The ANC government needs to reflect on the profound irony represented by the forces aligned to privatisation (big business and right-wing opposition) and those aligned against it (trade unions, civics, NGO, religious and student movements). All that, and the ANC government's approach also suffers from a patent lack of evidence that privatisation will benefit the poor. In conclusion, the ANC government leadership and their policy advisors would do well to heed to the advice: If you find yourself in a hole, stop digging.



4.3 Recommendations

4.3.1. Regulate

- ✓ Privatisation is the means, not an end. Even if the government does not own the delivery system, it still has an obligation to regulate. This means if the government has decided to privatise a particular service, it does not absolve the government, and it will remain responsible for regulating the conduct of the industry or service. In order to regulate and manage the services, the government must establish a clear and transparent regulatory framework. Privatised entities must remain accountable to the government and its regulators.

4.3.2. Operate in a Transparent Manner

- ✓ The process of privatisation must be open, fair and transparent. It must be free of corruption. Corruption distorts economic choices and leads to misallocation of resources. Corruption inevitably distorts decision-making, diverts resources from one end to another. One effect: A corrupt government may build a Presidential Palace instead of building primary schools. Or, a government may offer a contract to build a privatised toll road to a company that offers bribes instead of offering it to a company that does not. The cost of the bribe is then passed on to the road users either in the form of higher tariff, or in the form of sub-standard material being used, which in turn, could cause accidents, which, being detrimental to human safety.

Operating in a Transparent Manner: World Bank Guidelines

- Ensure that the project is carried out with economy and efficiency,
- Ensure that the project is necessary for the needs of the people,
- Provide all qualified bidders and equal opportunity to compete for the project,
- Encourage and developing local businesses, contractors and manufacturers, as appropriate and
- Ensure that the process is transparent.

4.3.3. Provide a Safety Net

- ✓ Privatised entities providing essential services have an obligation to guarantee access to the poor, marginalized, vulnerable and disadvantaged individuals and groups.

4.3.4. Companies Must Guarantee Access

- ✓ Companies that become service providers for essential service must not discriminate, must guarantee access, must remain subject to regulations and fulfil universal service obligations and must compensate the state for any breach of the terms of agreement and they also must operate in a transparent manner.

4.3.5. Conduct a Cost-Benefit Analysis

- ✓ The government should ensure that any restructuring of public sector basic service delivery needs to be preceded by a credible cost-benefit analysis of its impact on the poor.

4.3.6. Consultation and Participation

The government should consult the people before changing policies that are of material interest to them. Public sector reforms have a greater chance of achieving their objectives if workers and their representatives participate at all levels of decision making, since an agreement based on a dialogue between all the parties is more credible than a unilateral decision.

According to Martin (1997:15) it can make sense for potential buyers to be involved, before the actual sale, in discussions about post-sale labour restructuring, since future obligations and trade-offs are likely to influence the price they will be willing to pay for going concerns. Alternatively, or additionally, the capacity and willingness of potential buyers to meet the investment and employment obligations agreed, as part of the terms of sale can be a factor in the choice of buyer.

One example of the establishment of a formal consultative structure can be seen in the Czech Republic where trade unions participate in a general consultation process for developing legislative standards and decrees. Contentious issues are dealt with in negotiations with Czech Members of Parliament, or directly in individual parliamentary committees. The active role played by Central European trade unions in the restructuring process is bearing fruit despite some inevitable job losses. Hungarian trade unions have reached an agreement on employment, the observance of collective agreements and ways of improving working conditions with Western multinationals wanting to invest in

emerging new markets. Czech unions have ensured their presence on new regulatory bodies and in restructuring talks. The Czech trade unions participated in the process for the privatization of water supply and sewage plans on the basis of the laws in force and the provisions of collective agreements. However, according to the trade unions, privatization has adversely affected freedom of association. Privatisation works most successfully where it is backed up by social consensus and support, these are the conditions of economic good management.

4.3.7. Measures to Ease Employment Reduction Due Privatization

In many instances, employment reduction is accompanied by a variety of measures to ensure compliance with existing legal or collective agreement requirements and to avoid industrial conflict and socially or politically motivated criticism. Such measures are often implemented on a voluntary basis, but at times may be compulsory. They include severance pay for workers made redundant, dismissal with compensation, early retirement schemes, training, retraining and redeployment and other measures such as reduced working hours and the hiring of young employees. These measures are often negotiated between governments, companies and trade unions before and during a privatization or restructuring process. For example, in Spain, employment reductions in the utilities have been based on collective agreements providing for voluntary early retirements, redundancy pay and rejuvenation of the workforce through the hiring of young people. Reorganization of plants was achieved without dismissals and accompanied by retraining and redeployment, according to information from the FIA-UGT.

The South African electricity company Eskom, has in place four different packages that are utilized in relation to downsizing. The most generous, in terms of benefits, is a voluntary separation package available to employees when the restructuring of an element of the company is imminent. A less generous severance package known, as the "surplus package" is available in circumstances where the new restructured unit is being implemented and surplus positions have been identified. A third package is available to individual employees whose performance has been the subject of review and they have been required to undertake a six-month performance enhancement programme. Under the programme, specific requirements are stipulated and appropriate training is provided. When an individual employee fails to satisfy the requirements of the programme or chooses during its duration not to proceed with the programme and elects to leave the company, then this third package (known as the volunteers' package) is made available. Some six out of every ten employees who undertake this programme do so successfully, i.e. they remain with the company. According to information from Eskom, the fourth package, known as the disciplinary package, is utilized when an employee who, following the initiation of a disciplinary process entailing formal warnings, counselling's, etc., chooses to resign following amicable discussions.

5. APPENDICES

5.1 Face to Face Interview Survey:

The following is a transcript of an interview with Trevor Ngwane of the South African Anti-Privatization Forum (APF), February 25 (2004). The interview was conducted by Nkosana Mfuku in Cape Town.

What is the current status of water and electricity privatization and evictions in South Africa?

Privatisation is going on ahead in South Africa. Due to international market turbulence, the stronger rand and opposition privatisation slowed down a bit over the past 2 years or so, or rather the government failed to meet its targets in this respect. However, the intention by the government is very much there. In respect of electricity the government parastatal Eskom which is in charge of all electricity here is busy restructuring internally preparing itself for privatisation. They are looking for someone to buy parts of it. But already Eskom is being run like a business meaning that cost recovery, huge profits, market-related pay for directors, buying up African power stations, etc. are going on ahead. With water, this is still being run by a government parastatal Rand Water but it too like Eskom is making huge profits from selling water. Municipalities are busy setting up private company, still wholly owned by the government, to run water provision. In Johannesburg City Suez, the French multinational won the management contract to run the City's water. In other areas such as Nelspruit the privatisation projects which were implemented about 4 years ago have proved to be utter failures.

With evictions these continue for poor families who cannot keep up with payments either for the bond on their houses or for services rendered. The government has failed utterly to build houses for low income earners - as the working class is called here - leaving people at the mercy of the profit hungry banks. There is a lot of squatting in make shift shelters in the urban areas and often the government sends in police and private security to kick people out and relocate them towards the outskirts of cities and towns.

What kinds of organizations are involved in anti-privatization and anti-eviction campaigns?

The trade unions are involved in that in the past 3 years Cosatu, the largest trade union federation with 2 million members, staged 2 general strikes against privatisation. But because the leadership of the unions is in a formal alliance with the ANC party, in government, the fight from the workers has tended to be weak and sporadic. Presently there is a 55 day old strike by airport baggage workers which is due to privatisation. COSATU supports the strike but in a very weak way hence the workers are fighting alone. The real opposition to privatisation has been from the community organisations now called the new social movements such as the Soweto Electricity Crisis Committee, the Landless Peoples Movement, the Anti-Privatisation Forum, Jubilee South Africa, the Treatment Action Campaign and others. These organisations have waged mass action and legal action against the government and the effects of privatisation. So far their attempts to link up with the unions has not been very successful and where it has been so it has resulted in a weakening rather than strengthening of the struggle. But I hope they don't stop trying.

What tactics are used against privatization and its effects?

When Eskom cuts off electricity to residents in Soweto the Soweto Electricity Crisis Committee reconnects. This campaign called Operation *Khanyisa* (Zulu: to turn on the light) has been very successful forcing the authorities to stop cut-offs in Johannesburg and surrounding working class areas and even scrapping the residents' huge debts. But now they are coming back with pre-payment meters which the residents are tampering with in order to get free electricity. Similarly in Phiri Soweto there is resistance against pre-paid water meters and people have been arrested stopping workers from laying the pipes. The usual method of struggle is to call mass meetings, have a march and hand over a memorandum with a set of demands. The other one is to reconnect yourself from the water or electricity if you get cut off. With evictions we put people back into their houses by force or negotiations. The strongest political line of attack on the authorities is to point out how they have go back on their election and struggle promises of a better life for all. The other is to use the country's constitution which lists a number of socio-economic needs as rights, namely, water, housing, health care, food, etc. There have been court cases around the provision of basic services which have been used to fight against privatization or demand the provision of services to the poor.

What role does the ANC play in privatization and evictions?

The ANC is the ruling party and is therefore the leader in the attack on the working class. As employer in government the ANC is busy introducing privatization in the public service thus leading to direct attacks on the workers. It is ANC run municipalities which cut off poor residents, attach their properties in lieu of payment and kick them out

of their houses. The ANC is doing what the old National Party could not do because it can hide behind its struggle credentials and the people's trust of Nelson Mandela to get away with theft and murder. During the current national elections campaign the ANC is singing a different song although you can still recognize the melody of privatization and neoliberalism.

Are the campaigns making overall progress, or are they serving to keep the damage from being worse than it could be?

The biggest success of the campaigns has been to keep the spirit of struggle and hope alive. They have all tended to be single issue campaign and often do not raise fundamental issues of class power, control and ownership. The biggest victory has been by the Treatment Action Campaign which managed to force the government to agree to provide medicine to those infected by HIV virus. The Soweto Electricity Crisis Committee was able to stop cut-offs and win the cancellation of residents' debts to Eskom. I would say at the moment the campaigns are more or less keeping things where they are but this is having the effect of the social movements beginning to realize their own limitations and starting to look for real and long-lasting solutions to the problems of capitalism. I hope they do more of this. Clear class politics is necessary and not simply more militancy.

Are there many international solidarity campaigns (I've seen the photos from NZ)?

There is a Coalition Against Water Privatisation which is supporting the struggle of the Phiri community against the installation of pre-paid water meters. There is also Jubilee

South which links up with other Jubilee organizations in the struggle against the apartheid and third world debt. The job of these international links is to show the masses that we cannot win our struggles fighting only in one country. It is also to expose and shame the South African government in the international arena and remove some of the left over halo of the struggle against apartheid and tell the world what is really happening over here. Some comrades overseas have managed to stage demonstrations in South African embassies abroad. This is important and is a throwback to the permanent pickets us once had against the apartheid regime.

What is their role?

To first build in their localities and countries and then to support the struggles here and vice versa.

Is there any threat that the trade unions could break with the ANC?

The trade unions in South Africa are the strongest in Africa. The COSATU was 'captured' by the ANC and brought into the ambit of its collaborationist class agenda with the help of the SACP. The top leadership of COSATU is wholly and totally under the thumb of the SACP. As a consequence they are not in a position to wage any sustained and serious struggle against the policies of the ANC government. They are hamstrung by the ANC-SACP-COSATU Alliance whose official leader is the ANC. Despite repeated attacks on its members COSATU is yet to shake the government with powerful opposition. Instead when things get really heated up and tensions come out into the open meetings of the Alliance are called to smooth things up. When it is election

time, as now, the Alliance closes its ranks and COSATU calls for a vote for the ANC. The 2 past general secretaries of COSATU are now senior government officials, one was a cabinet minister the other is premier of the most powerful province in South Africa. Many trade unionists joined the government and the private sector during the transition from apartheid to democracy. The present leadership of COSATU did call 2 general strikes over the past 2 years but these lasted maximum 2 days each. By failing to build a real struggle against privatisation, trade liberalisation, casualisation and other attacks on the class the trade unions are losing ground and becoming weaker. But being weaker compels the trade union leadership to look more and more to the ANC for personal political and economic protection. What the leaders of COSATU don't realise is that by acceding to Mbeki's capitalist demands they are digging their own graves. Mbeki will have no qualms smashing a weak COSATU. If that happens, the road to open dictatorship over the working class will be open in South Africa. It is possible that sometime in the future COSATU might break from the ANC but this is something in the future.

Are there other political parties challenging the ANC?

Unfortunately all the political parties in Parliament are capitalist and their challenge to the ANC cannot benefit the working class and cannot really change the situation. The official opposition, the Democratic Alliance (DA), is an old liberal white's only party which is trying to reinvent itself as a non-racial pro-capitalist party. They have got money and political savvy but are checkmated by the fact that they cannot give to the capitalists what the ANC can, namely, political leadership over the working class. The

ANC is doing everything that the DA would do except that it can claim to be doing it in the name of the oppressed. The former party of apartheid, the New National Party, is in a formal alliance with the ANC for its survival after its leader broke from the DA. The Pan Africanist Congress (PAC), a party with struggle credentials, only managed to get 1 per cent of the votes in the last election because of the disorganisation wrought by the transition from exile underground armed struggle politics into bourgeois democratic parliamentarism which it never managed to recover from. The Azanian Peoples Organisation (AZAPO), a black consciousness small party, totally compromised itself when its leader accepted the position of deputy cabinet minister. The Inkatha Freedom Party (IFP) has more support than any of the black parties but it has a bloody history of fomenting violence in KwaZulu Natal province and its leader was for a long time regarded as a sell-out during the anti-apartheid days. The IFP's greatest weakness, like all the other parties, is that it is capitalist. There is also the United Democratic Movement of General Bantu Holomisa who used to be a homeland military ruler. He was expelled from the ANC but made the mistake of becoming a capitalist party. Of course all these parties during this year's election are espousing the needs of the working class, calling for a basic income grant, criticising the fact that the rich are getting richer, but I am certain that they would not be any much different from the ANC once in power.

5.2 Policy Document



The economic and social effects of restructuring

The consequences of restructuring can be explained in terms of their impact on the firm, industry or sector, and broader economic impacts and social impacts.

This makes it possible to assess the impacts and to distinguish the relationships between them. It also becomes easier to ascertain whether these differing impacts arise from different forms of restructuring strategies. To aid the discussion that follows, the various government approaches are classified in terms of their impacts:

| Internal to the firm, industry or sector | Broader economic impacts | Social impacts |
|--|--|--|
| Enhancing efficiency and effectiveness of state enterprises | Reducing the public sector borrowing requirement | Ensuring wider participation in the South African economy |
| Accessing globally competitive technology | Attracting foreign direct investment | Mitigating possible negative social impacts arising from restructuring |
| Creating effective market structures in the sectors currently dominated by state owned enterprises | Financing growth and the requirements for industrial competitiveness | Promote sustainable employment, either directly or indirectly, through improvements in the economy |
| Mobilising private sector capital and expertise | | |

Restructuring has been practiced internationally for more than twenty years, but there is still no consensus about its consequences. Although restructuring has yielded generally positive outcomes for individual nations, most analysts concede that there have been significant failures. These have resulted from institutional arrangements within former

SOEs, as well as structural problems associated with the market environment in which they operate. Good restructuring policy must therefore take both kinds of challenges into account.

In this policy framework, therefore, it will be possible to identify issues on which there is general consensus, that can be used as guiding principles for the restructuring process, and also to note areas where there is not enough consensus to suggest an unequivocal position on restructuring. In the latter instances, it will be suggested that the state adopt a strategy that is sensitive to the specific circumstances of individual SOE's and the industrial sector of which they are part. Although some policy analysts would rather want unambiguous policy prescriptions, this approach will enable Government to proceed with restructuring within a more clearly defined set of parameters.

International experience with restructuring

The impact of restructuring SOE's can be understood when reflecting on the international experience. In a far-ranging assessment, former World Bank Chief Economist Joseph Stiglitz, acknowledges that

... Not only were the state enterprises inefficient, but their losses contributed to the government's budget deficit, contributing to macro instability. Privatization would kill two birds with one stone: it would simultaneously improve economic efficiency and reduce fiscal deficits.

In the same paper, he observes that:

... In retrospect, the advocates of privatization overestimated the benefits of privatization and underestimated the costs, particularly the political costs of the process itself and the impediments to further reform ... The conditions under which privatisation can achieve the public objectives of efficiency and equity are very limited.

Stiglitz concludes that there is still a case for privatisation but that much more must be learned about the manner in and extent to which governments manage the process:

... The Washington Consensus is right, privatization is important. The government needs to devote its scarce resources to areas that the private sector does not and is not likely to enter ... Government needs to focus its attention on those areas that represent its distinct advantages, which distinguish it from private organisations. But that having been said, there are critical issues both about the sequencing and scope of privatization: even when privatization increases productive efficiency, there may be problems in ensuring that broader public objectives, not well reflected in market prices, are attained, and regulation may be an imperfect substitute.

Impacts internal to the firm, industry or sector

In terms of the impacts of restructuring internal to the firm, industry or sector, it is generally agreed that there has been an improvement in the efficiency and effectiveness of SOE's, and this has been reflected in improved productivity, profitability, innovation and levels of investment. There remains some measure of disagreement as to whether these improvements occur before or after the transfer of ownership, i.e. whether they are due to restructuring prior to privatisation, or to the privatisation itself.

The relatively recent experience of privatisation and incorporation in developing countries makes it difficult to assess the long-term impact of microeconomic performance. Nevertheless, a study of the post-restructuring performance of 79 companies in 21 developing countries indicates that average profitability increased by 124 per cent, efficiency by 25 per cent, investment by 126 per cent, output by 25 per cent, employment by 1,3 per cent, debt leverage by -5 per cent and dividends by 44 per cent. In most cases, therefore, increasing market incentives in the operation of public enterprises have had a positive impact. Some indicators (e.g. profitability and dividends) have increased more than others (e.g. efficiency and output), possibly indicating that the benefits of restructuring have been more skewed towards the shareholders than towards customers. It is also worth noting that, in line with Stiglitz's arguments above, competition also seems to impact on performance, especially in terms of investment that increased significantly in such environments, but was "insignificant for firms in non-competitive markets".

Broader economic impacts

The broader economic impacts of restructuring are those impacts that affect the broader economy. These impacts are generally less controversial, largely because they reflect some self-evident realities. In most instances, any injection of financial resources (such as tax, dividends, or proceeds from equity sales) will result in a reduction of the public sector borrowing requirement, which in turn, will enable the state to prioritise other expenditure or reduce its demands for borrowing. A lower borrowing requirement should result in lower interest rates, which would stimulate investment and contribute to economic growth.

Social impact

It is important not to conclude the discussion of the impact of restructuring without considering the social impact. In this section, it will be argued that the potential exists to generate higher "public good" outcomes with respect to both micro and macroeconomic processes through continued state ownership of SOE's, even if the immediate financial rate of return on SOE assets is lower. It is suggested that the benefits of positive externalities realised under state, worker or community ownership (and potentially forgone under private ownership) may justify an ongoing public investment role. In these instances, the state may pursue such developmental objectives without necessarily yielding to the past shortcomings of public ownership.

Conclusion – factoring the impact into restructuring approaches

The discussion in the three previous sections described the main impacts of restructuring internationally and showed how this experience could help shape the approach to restructuring in South Africa. While there is a growing understanding of restructuring, there are still many areas that remain unresolved.

Nevertheless, the growing consensus on the issue allows Government to pursue an accelerated programme of restructuring that should incorporate the following principles:

- The promotion of competition and competitive markets should be an integral element of any restructuring strategy to ensure that the benefits of restructuring (such as efficiency gains) translate into lower prices, higher quality goods and services, and wider coverage. This should be undertaken within an appropriate regulatory framework where necessary. In addition, where there are social needs that will not be dealt with by a competitive market, government intervention will be necessary.
- Although the scope for promoting competition has increased with globalisation and technological change, in those business areas where competition is not feasible, a regulatory framework needs to accompany any restructuring initiatives. Residual natural monopolies are those businesses for which, owing to their nature, it is not feasible to have more than one firm within the industry. Examples of these are usually network industries, like power transmission, where it would not make sense to have two networks serving the same market. The establishment of such regulatory regimes should help ensure that these residual monopolies do not distort the development of competitive markets in the non-regulated sectors of the industry. The regulatory framework must be consistent, manageable, appropriate and without red tape.
- Government should clearly spell out its intentions and envisaged relationship with the restructured SOE's in individual shareholder compacts with enterprises, in the corporate governance framework for all SOE's, and in a clear policy framework and programme for restructuring. If Government's intentions are clear, the performance of individual SOE's will be easier to assess, enabling the state (as shareholder) and investors alike to make more appropriate investment decisions.
- Government should explore options to enhance productivity, profitability, investment and innovation. This will often entail equity sales (full or partial privatisation) in order to access additional funding, technology or markets. Where this is not required, other approaches such as corporatisation, joint ventures, employee participation schemes and community partnerships may be more beneficial. In instances of partial privatisation, other partnership arrangements may also be adopted.
- Government should maximise the optimal return to the shareholder (fiscus), whether through the proceeds from equity sales, dividends and/or tax returns. By adopting this optimal approach, Government can maximise its long-term returns on its shareholding by trading off short-term gains from equity sales in

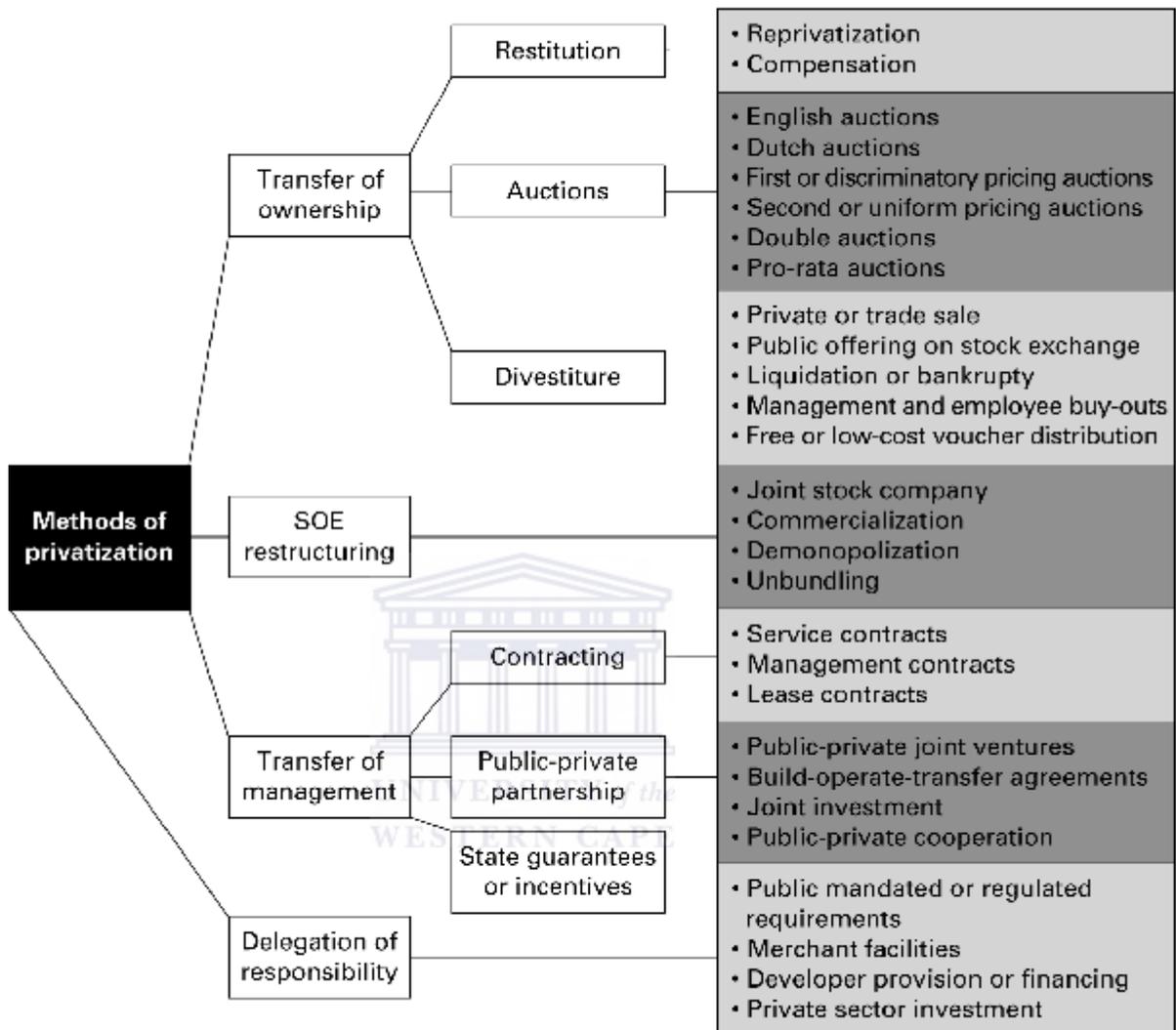
depreciated assets for medium- to longer-term gains (dividends, taxes, deferred equity sales) from successfully restructured SOE's.

- To ensure that the elements of public goods and services delivered by SOEs are still accounted for, restructuring proposals should assess their impact on overall social welfare. Such an analysis should address the costs and benefits to society, both direct (e.g. immediate impact on pricing or employment) and indirect (e.g., social costs from non-delivery of certain essential services or the impact of unemployment on specific communities). Apartheid concentrated people, as opposed to infrastructure and services, in the geographical areas of the former Bantustans. Consequently, the Northern Province, KwaZulu-Natal and the Eastern Cape are the most affected by structural poverty. The analysis should therefore consider such regional variations, as well as the impact that the restructuring process will have, for example, on the rail and road transport networks, and electricity and communications roll-out.
- Government should be transparent in addressing its social objectives (social plans, employment creation, price subsidies, optimisation of public goods, empowerment, etc.), allowing stakeholders to reach agreement on the logic and methods of the restructuring process. Such transparency will enable both Government and the restructured SOE's to better account for their individual actions towards meeting their objectives, and to ensure that poor performance can be both identified and remedied. Government will continue to monitor and evaluate the implementation of applicable laws, in particular on transparency and on the management of public finances.

There are various approaches that Government could use to achieve these objectives. These approaches can be classified into three interrelated categories: those internal to the industry or sector to which the enterprise belongs, those that relate more broadly to the economy, and those that relate to the achievement of social goals. The approaches Government adopts are related to its overwhelming electoral mandate and are defined by the dynamic relationship between its responsibilities to all South Africans and to the region as a whole.

5.3 Illustration of a Privatization Methods

Figure 1.1. Methods of privatization



Source: D. Randinelli and M. Iacuno: *Policies and strategies for managing privatization*, ILO Turin, 1996.

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