ABOUT THE AUTHOR

Stephen Greenberg is a researcher with a particular interest in the political economy of food, agriculture and land. He has worked in the NGO sector for the past decade and has a strong belief in the importance of grassroots organisation.

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"This publication forms part of a larger study on the public sector and privatisation in Southern Africa. The detailed research investigating the nature, scope and impact of privatisation in South Africa is seminal and is a vital addition to the growing critical literature on South Africa's transition from apartheid. As such, it helps to unpack how globalisation and the major trends in the world economy are being reproduced in South Africa........ in this way this study will prove to be an excellent source of information for trade unionists, social movement activists, and academics from both South Africa and Southern Africa. For social analysts in other parts of the world interested in the debate on the appropriate role of the state and the public sector in facilitating sustainable development, this research will be invaluable."

Brian Ashley
AIDC Director

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THE STATE, PRIVATISATION & THE PUBLIC SECTOR Stephen Greenberg

THE STATE, PRIVATISATION & THE PUBLIC SECTOR

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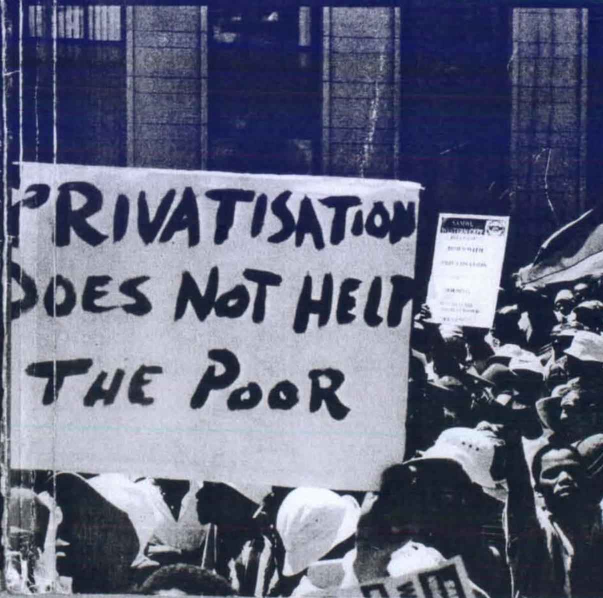

by
Stephen
Greenberg

THE STATE, PRIVATISATION AND THE PUBLIC SECTOR IN SOUTH AFRICA

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Written by Stephen Greenberg
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FOREWORD

This publication forms part of a larger study on the public sector and privatisation in Southern Africa undertaken by the Southern African Solidarity Network (SAPSN) and co-ordinated by AIDC. The detailed research investigating the nature, scope and impact of privatisation in South Africa is seminal and is a vital addition to the growing critical literature on South Africa's transition from apartheid. As such, it helps one see how globalisation and the major trends in the world economy are being reproduced in South Africa. While, the IMF and World Bank have not had the same impact in our country as in the rest of Southern Africa through the imposition of structural adjustment, nevertheless the role of other global institutions such as the World Trade Organisation, trans-national corporations, intensified competition and the ideological offensive of economic liberalisation have shifted policy towards commercialisation, outsourcing, public-private partnerships, outright sale of state assets, in a word, privatisation.

Tracing the development of the public sector and the evolution of the new governments macro-economic policies, the study outlines how privatisation has had far reaching effects in South Africa and carries serious implications for economic development, delivery and access to vital services and more generally for social justice and human rights. The detailed information contained in the research question's government's announcement that privatisation is not part of its current policy. In fact, privatisation has been much more extensive and affected many more sectors of the economy than commonly believed. Privatisation has taken place in sectors as varied as telecommunications, energy, water, land, forestry, tea, airlines, education, health and a range of others. With strong facts to back up the arguments the study concludes that privatisation has not had a positive effect on national economic development. Thousands of workers have been retrenched and profit making and cost recovery has led to hundreds of thousands of people being excluded from services. In addition, expected inflows of foreign direct investment and access to new technology has not materialised. As a result the report concludes that privatisation "has prevented a large proportion of the population from gaining substantial material benefit from political democratisation."

While this research forms part of a larger six-country regional research project and while this desk research is the first part of the study, it nevertheless makes an invaluable contribution to the debate on the role of the public sector and the state in driving sustainable development. One of the gaps in previous research has been the lack of combined and comparative research on privatisation. The research will be consolidated into a composite edited volume that will pull together similar studies undertaken in Tanzania, Malawi, Zimbabwe, Mozambique and Zambia, once the second phase of participatory research has been completed. In this way this study will prove to be an excellent source of information for trade unionists, social movement activists, and academics from both South Africa and Southern Africa. For social analysts in other parts of the world interested in the debate on the appropriate role of the state and the public sector in facilitating sustainable development, this research will be invaluable.

Brian Ashley
AIDC DIRECTOR

PREFACE AND ACKNOWLEDGEMENTS

The research study was carried out as a collaborative activity jointly undertaken by the Alternative Information and Development Centre (AIDC), on behalf of the Southern African Peoples Solidarity Network (SAPSN). SAPSN and AIDC are jointly responsible for the production of this book, which is based on the desk research that forms the first phase of the project.

SAPSN is a network of organisations drawing its membership from the Southern African region, and aims to develop alternative strategies to neo-liberal globalisation, based on principles of social justice and equality. SAPSN members include organisations representing women's organisations, trade unions, faith based organisations, economic justice networks, community-based organisations and others, working on capacity building around trade, debt and globalisation. Since its founding in 2000, SAPSN has been at the forefront of raising awareness in the region and other international forums and to highlight the plight of the majority of Southern Africans in the context of regional integration processes and economic globalisation.

AIDC, a founder member of the SAPSN network, has, since 1996, been engaged in research, public information, education/training and capacity building programmes with organisations of civil society within South Africa and the region. In addition AIDC aims to develop policies and campaigns, which can help in the mobilisation of social movements around alternative strategies of development which are people-centred, participatory and needs orientated.

It is in this context that the project was conceptualised during a SAPSN Strategy Meeting in 2003, after a decision that a combined and comparative project on the impact of privatisation on the public sector in the countries of Southern Africa, should be one of the undertakings by the network during the coming years. The project team is composed of identified SAPSN members acting as core project focal points in 6 countries in the region - Malawi, Mozambique, Tanzania, South Africa, Zambia, and Zimbabwe; a researcher from each country; a Reference Group selected on the basis of established linkages with relevant popular organisations, social movements and institutions that can oversee the study and provide the popular participatory outreach for the second phase of the research.

A Planning and Methodology Workshop was held on 4-5 April 2005, which determined the methodology and established guidelines for the first phase of research.. Researchers completed the desk studies in early 2006, and these were subsequently tabled for a discussion during a Regional Report-back Workshop on 19-20 April 2006. The desk research traces the process of privatisation in each of the project countries, and will be the basis of national report-back meetings to disseminate the findings at national level, to an inclusive audience of trade unions, social movements, women's groups, HIV/AIDS activists etc. Following this, a Regional Conference will be held in the early part of 2007 to bring together the research and share the outcome with our allies in civil society with a view to identifying common trends and finalising an advocacy programme that establishes the appropriate role of the state and the public sector in driving sustainable development.

The resulting desk research on South Africa's experience of privatisation is the basis for this book. It is the project team's hope that this study brings to the fore a political and strategic perspective locating privatisation within the currently prevailing global shifts to neo-liberalism.

The SAPSN Secretariat, as the Executing Agency, provided overall supervision and direction to the project, while AIDC as the Implementing Agency, took the lead in planning, coordination and implementation of the regional project, in collaboration with SAPSN member organisations in each project country, acting as National Coordinating Organisations, responsible for planning and coordinating national processes and lending assistance in the research. The National Coordinating Organisations drew upon the skills and capacities of selected national organisations and/or individuals to act as a Reference Group. The team is most grateful to the South Africa Reference Group, which assisted with technical guidance, innovative ideas and advice. The Reference Group was made up of the following: Jeff Rudin (South African Municipal Workers Union), Saliem Patel (Labour Research Services) and Mercia Andrews (New Womens' Movement).

However, we are most indebted to the author, Stephen Greenberg who produced this excellent and insightful study under very difficult time constraints. This book is a product of the author's excellent research skills and deep grasp of the subject, and the team is confident that it provides policy actors, advocacy organisations, trade unions and social movements, a solid foundation for a well-informed and well-structured campaigns.

The project, which is the foundation for this book, could not have been possible without the financial support of our funding partners: Christian Aid; Africa Groups of Sweden; and Oxfam Belgium. The team is also grateful for the input and comments, of a large number of people and institutions from the region, who have taken an enormous interest in the research.

July 2006

ABOUT THE AUTHOR

Stephen Greenberg is a researcher with a particular interest in the political economy of food, agriculture and land. He has worked in the NGO sector for the past decade and has a strong belief in the importance of grassroots organisation.

1 INTRODUCTION AND CONCEPTUAL BACKGROUND

Global context

The rapid expansion of the world economy after the Second World War was coupled with a high level of state intervention in the economy. Most of the advanced capitalist economies experienced fast growth, including in wages, very low unemployment and only brief and mild recessions. The repression or containment of militant worker uprisings and the labour movement in general was the basis of the high profit rates that generated the economic expansion (Brenner 2002:8-10). The state played an important role in regulating the excesses of the capitalist economy that had led to the Great Depression in the 1930s and to the subsequent war. Global regulation in the form of the Bretton Woods institutions (the World Bank and the International Monetary Fund) was an extension of this domestic regulation. After the war the hegemonic US state expanded its economy globally through the creation and facilitation of markets for its surpluses, and a simultaneous dampening of the communist alternative (Rist 1997:75-76). Amongst other things, this entailed support for decolonisation and the right for former colonies to constitute themselves into national communities and integrated as full members of the inter-state system (Arrighi 1994:66). This form of self-determination, however, was acquired in exchange for the right to self-definition (Rist 1997:79). The combined form of national and international regulation resulted in a diffusion across the expanding state system of a national model of economic growth that was "the ideal representation of US political economy institutionalised in the Bretton Woods system" (McMichael 1994:2). A core element of this model was the use of the state to centralise capital and push development forward (Binns 1984:51).

Much has been written about the structural crisis and unravelling of the post-war 'regime of accumulation' from the early 1970s onwards. Causal factors of the crises that engulfed global capitalism at the time included rising worker militancy, the saturation of consumer markets, and technological over-capacity (Tickell & Peck 1992:190; Brenner 2002). The state interventionism of the post-war period that had stimulated growth began to have a negative effect on the economy. Once the general rate of profit was cut back, many enterprises became loss earners. And the greater the level of state investment in them the greater the overall decline in the national economy (Binns 1984:57). Instead of fuelling increases in output as they did during the expansion, the ever-increasing public deficits of the 1970s had the primary effect of raising prices (Brenner 2002:34). The 'US-

led neo-liberal counter-revolution of the 1980s and 1990s' (Arrighi, 2004:4) sought to withdraw the state from direct interventions and actively to restructure relations between capital and labour, between different fractions of capital, between capital and the state and between states. This was and is a political project and not without its own contradictions and resistance from those on whom the costs of restructuring are being imposed.

A massive growth in debt – especially public debt that enabled parallel increases in private borrowing – was the indispensable key to international economic stability and expansion in the post-Bretton Woods period. The US government led this process by sustaining ever-larger budget deficits (Brenner 2002:33). Third World countries, structured into a dependence on US food imports and also reliant on oil imports, were struck hard by the dual food and oil crises of the early 1970s that saw the prices of these necessities rise rapidly (Friedmann 1993). The only way out was to borrow money to pay for them, at the same time as the financial system was awash in petro-dollars (windfall profits from the sudden rise in oil prices). These dollars were loaned to Third World countries to pay for imports. When these countries could no longer repay the debts in the 1980s, the driving forces of the counter-revolution – primarily the international financial institutions (IFIs) and state managers in dominant countries – took advantage of the debt crisis to impose structural adjustment programmes (SAPs). The SAPs were designed to restructure the location of subordinate economies and states in the global system to fit into the newly emerging global division of labour and trade regime. On the one hand, these countries were to open their economies to global trade (i.e, to surpluses resulting from chronic over-production). On the other hand, their own economies were restructured to facilitate the export of raw materials and occasionally semi-processed goods required by dominant economies.

Within the global neo-liberal framework, there is a strong relationship between privatisation, trade liberalisation and deregulation/re-regulation. Underlying this is a project of state restructuring to favour certain interests – in particular the transnational corporations (TNCs) that require greater flexibility of movement across national boundaries and also require standardisation of regulations and laws across national boundaries to generate greater profits. Part of the restructuring project was also to open up new areas for profitable investment, and some of the more profitable state-owned enterprises were targeted for privatisation – in particular energy, telecommunications, water in some sections of the mature capitalist economies and transport. Trade liberalisation – increasingly through the General Agreement on Trade and Tariffs (GATT) and the World Trade Organisation (WTO) that replaced it in 1994 – sought to enforce market access for TNCs and finance capital, but in an unequal way that protected their domestic markets while opening the domestic markets of potential or actual competitors. Since most of the TNCs are based in the mature capitalist economies, the rules served to protect these economies to an extent, while obliterating any protection to the smaller and more vulnerable economies. At the most extreme, proponents of deregulation sought the almost total withdrawal of the state and the transfer of its regulatory functions to the market. But a series of financial crises in the mid to late 1990s from Mexico to East Asia and Russia has tempered this extreme version of deregulation. In any case, this was an ideological argument that could not function in reality, because the state is a central mediator in processes of capitalist accumulation, as well as a crucial investor, in every epoch. The choice was not between 'regulation' and 'free' trade', but between new forms of implicit or explicit regulation (Friedmann 1993:29).

In particular, the state is required under capitalism to carry out functions that serve the interests of the capitalist class as a collective but that any individual capitalist enterprise will not – or cannot – perform on its own. Public activities form a major part of the general overheads of capitalist production. They lie at the margins of capitalist production but are indispensable to its development (Aglietta 1987:235-6). Even from a neoclassical growth model viewpoint, there is recognition that public investment in physical infrastructure, public spending on education and health care and the stimulation of domestic research and development are interventions that can improve the growth capacity of economies (Calitz & Siebrits 2002:2). The means of collective consumption were originally built to support capitalist accumulation processes. That is, the technology to supply electricity and bulk water supply was developed on the basis of the needs of growing capitalist industry. Once the technology was in place, it was sometimes extended as a public service to the population. When run efficiently, some of these public services revealed that they could potentially be run profitably in their own right. These sectors came under pressure for privatisation when capital began looking for new avenues for investment.

The parameters of privatisation

In the narrow sense of the term, privatisation refers to the outright sale of state assets to private interests. However, there are a number of intervening processes and forms of ownership and control between a state and private ownership. Corporatisation and commercialisation orient a state entity to the market and competition. Corporatisation and commercialisation go hand in hand, and are necessary steps in the process of privatisation. Corporatisation is a legal process of converting an entity into a company, although initially the state is the sole 'shareholder'. In South Africa, a corporatised entity operates in terms of the Companies Act as a stand-alone entity. It is financially and managerially separated ('ring fenced') from any parent company or entity.

Although commercialisation does not have to involve the private sector at all, it is a process directed at establishing private sector management principles, values, practices and policies within public sector organisation. It often involves the appointment of managers from the private sector. It refers to a state corporation operating on a cost recovery basis in the market. Commercialisation puts a worth on state assets – a crucial step in preparing a state asset for sale. Taken together, corporatisation and commercialisation establish the profitability of an entity. Given that many services are loss making, a drive for profitability requires a structuring of payment for services to cover costs plus profits. This usually means imposing user fees even on poor users of the service; making subsidy mechanisms transparent so that it becomes clear if and how costs are being covered; and an increase in fees or tariffs to move from cost recovery to profitability. Ratepayers to whom the municipality should be accountable are converted into 'customers' or 'clients' and the accountability nexus is broken.

Since private capital can choose whether to buy into a particular economic sector or not, existing or potential profit rates must be equal to or higher than rates of profit in other sectors of the economy. The picture is more complex because a lot of capital is immobile; that is, it is already 'sunk' into physical infrastructure. It is on the basis of existing investments that decisions about possible synergies or value creation in other or related sectors of the economy are made. For example, three of

South Africa's biggest state owned corporations – Eskom, Transnet and Denel (see below for more) – invested (with state permission) in internal telecommunications systems. This sunk investment created the opportunity for them to enter into the broader telecommunications market in the phase of liberalisation. To an extent, the existing investments determined the opportunities. The same does not hold for finance capital however and, since we have entered an era of the dominance of money capital over commodity capital[1] (see Arrighi 1994), sunk investments are less of a factor and potential profit rates are more of a factor in determining private sector investment decisions.

A distinction should be made between ownership and control. In many instances the state retains ownership of the underlying assets but control is passed to the private sector, in whole or in part. Concessioning is the primary form of transfer of management control in its entirety to the private sector. Separating infrastructure from operations or, in other words, separating ownership from control – is a key feature of concessioning. This process of separation is to be found in many sectors in South Africa, indicated in the sectoral overviews below.

The simplest form of a concession is when the state grants an operator, usually a private consortium, a sector to operate and helps it show a profit by topping up its revenue with a fixed subsidy. In contrast to the disposal of state assets (full privatisation), concessions can be understood to involve the transfer of production rather than the transfer of the means of production. The size of the profit depends on how 'efficiently' the sector is operated (Financial Mail 27.09.96). It should be noted that efficiency itself does not have a predetermined meaning. For private capital, efficiency relates to profitability, while for the left efficiency may refer to social equity.

Concessions may involve building of infrastructure by the private concessionaire, which is repaid by the state over the period of the concession. At the end of the concession, the state takes ownership and, theoretically, control of the assets. In practice, concessions are likely to be extended as the private company or consortium entrenches itself as the operator. A lesser form of concession is the management contract, where the state pays a private entity a fee to manage an entity or sector, but it does not involve building infrastructure except within the terms of the contract. While concessions are usually long term contracts of 25 years or more, a management contract is usually a shorter contract of two to ten years.

Outsourcing is based on the segmentation of the functions of an entity into 'core' and 'non-core' functions. For example, the core functions of an aerospace company may be defined as the marketing and selling of aircraft and related goods and services. The non-core functions would then include catering services, transport logistics, cleaning, security, and a vast range of other functions a formerly integrated company might have performed for itself in the past. However, non-core functions could even extend to procurement of raw materials, component assembly and other functions that might appear to be at the core of what the company does. Like efficiency, core functions are subjectively determined and based on the goals of the entity. The 'core' entity will often retain those sections of the value chain that are most profitable, outsourcing the rest in such a way that the formerly vertically integrated entity will retain control over the entire process of production and distribution (Rabach & Kim 1994:138).

Forms of privatisation that entail a combination of state and private sector involvement are often referred to as Public-Private Partnerships (PPPs). These are one of the currently favoured forms of privatisation in South Africa. Referred to as the 'quiet privatisation' (BusinessMap 2004), PPPs change the operational calculus of a service from 'public good' to 'private profit', alter the underlying managerial ethos of delivery organisations, and change the nature of political relationships between citizens and the state (McDonald & Ruiters 2005:3).

II THE STATE, THE PUBLIC SECTOR AND NATIONAL DEVELOPMENT UNDER APARTHEID

Rise of the parastatals

The state was actively used to build the economy in South Africa from the earliest days. The discovery of gold was the initial impulse for a growth of investment in South Africa and formed the base of the national economy. Long before Union in 1910, the nascent state had developed an integrated railway service built primarily to serve the mines. At Union these services were amalgamated in South African Railways and Harbours (SAR&H). When South African Airways (SAA) was established in the 1930s it was placed under the control of SAR&H. Not only did the railways play a key role in providing basic infrastructure, but in the twentieth century were also a key site of employment for 'poor whites' on relief works. Although more blacks than whites worked on the railways, the ratio shifted in favour of whites in the 1920s and early 1930s, and white workers also replaced black workers in skilled jobs after the NP came to power in 1948. In the 1960s, SAR&H (renamed South African Transport Services - SATS - in 1982) expanded rapidly during the economic boom, upgrading existing infrastructure and building new ports and railways to handle growing commercial traffic (Davies, O'Meara & Dlamini 1985:96-101).

In the early days, one of the key inputs for the railways was electricity. In the 19th and early 20th centuries, electricity generation was initially privately run through the Victoria Falls Power Company (VFPC), funded by the mines. Municipalities generated their own power. The state-owned Electricity Supply Commission (Eskom) was formed in the early 1920s with the express aim of providing cheap electricity to the railways. It gradually expanded its power, in the process constructing a national grid. Although mining capital was initially opposed to state control of electricity, as the economy grew it became apparent that centralised control of this vital function, using government resources, could be beneficial to the mines (Clark 1994).

Like electricity, private companies initially supplied water to the mines and growing settlements on the Rand. Prices were high and erratic, and in 1903 the government set up the Rand Water Board to provide water to the area. The board was given certain powers for the exploitation of water, could raise loans and arrange for their repayment, as well as lay down tariffs for the sale of water. A fixed rate for water meant that the Rand could develop independently of the source of water, and the rate

for water was not to yield any profit, but was calculated to cover only working costs (Rand Water 2005). As other urban and industrial areas developed, Water Boards were also constituted along the same lines in these places to provide water.

Having consolidated the basic infrastructure required for the functioning of the mines, the state turned to the provision of other necessary inputs. The state played a major role in the growth of manufacturing in South Africa. On the one hand, it set up a range of state corporations and entities primarily to support the growth of heavy industries for inputs to the mines and for beneficiation of mine outputs – the Minerals Energy Complex (MEC). These corporations included the Iron and Steel Corporation (Iscor), the South African Forestry Company Ltd (Safcol), the South African Coal & Oil Company (Sasol) and a number of other chemical and mineral beneficiation entities. Some, like Iscor, initially were unable to compete with international producers and the state kept them alive using trade protection. But a rise in demand for steel products during the war allowed Iscor the open new plants and to become cost-efficient (Davies, O'Meara & Dlamini 1985: 101).
Sasol's oil-from-coal technology was initially going to be developed by the private sector (Anglovaal) in the 1940s. But lack of resources led the state to step in and take over the technology rights. Major expansions, especially after the 1970s oil price shocks, led Sasol to make a number of important technological advances, being the only commercially operative oil-from-coal plant in the world at the time. The Sasol 2 and 3 plants were the biggest financing operations ever to take place in South Africa, valued at R2.4bn and R3.2bn in 1980. The Sasol projects were partially constructed to reduce dependence on foreign oil supplies, especially after Iran refused to sell oil to South Africa after the 1979 revolution there (Davies, O'Meara & Dlamini 1985:103).

Strongly supported by the state, the iron and steel and chemicals sectors absorbed more than a quarter of gross domestic fixed investment in manufacturing, rising to nearly 50% at times in the 1970s (Fine & Rustomjee 1996:162-165). The Industrial Development Corporation (IDC) played an important role in directing state investment from the 1950s. The IDC not only sponsored the growth of public corporations but also provided investment capital to private ventures. In making these investments, the state was also trying to assist the growth of non-MEC manufacturing, or light industry. The biggest of the light industrial sectors were food, fabricated metal products, transport equipment, machinery and textiles and clothing. This part of the manufacturing sector rose from 4% in 1924 to around 15% in the 1950s and fluctuated around that level from then on (Fine & Rustomjee 1996:166-168). This second, consumer goods, part of the manufacturing economy mainly survived through import protection (MERG 1993:213). The size of government (measured by the ratio of tax to GDP, and total government resource use and mobilisation) increased in the 1970s and 1980s but stabilised and was reduced in the 1990s. Virtually all growth in the size of government occurred before 1994 (Calitz & Siebrits 2002:3).

Racially skewed delivery

Any political party that captures state power has the dual task of regulating and driving the general growth of the inherited economy while simultaneously advantaging the alliance of social forces that brought it to power (or alternatively reconstituting that alliance while trying not to lose state power). When the National Party (NP) came into power in 1948, it did so on the basis of a cross-

class alliance with an Afrikaner ethnic identity. Key components of this bloc were farmers and businesses that were battling to compete with the dominant English mining capital. The NP used state power and state resources for 'Afrikaner economic empowerment' by pressuring English mining capital in particular to transfer blocks of economic wealth to Afrikaner ownership. English capital was not entirely unwilling to do so, but only in exchange for policies that continued to favour general capital accumulation. The NP also intervened decisively to establish a wide range of institutions – including the parastatals – that provided the base for the expansion of Afrikaner capital into previously underdeveloped sectors of the economy.

Apart from Afrikaner commercial (and later industrial and to an extent mining) capital, agricultural capital was a significant fraction in the hegemonic bloc. It was farmers who swung the vote in 1948, to the great surprise of the United Party of Smuts and the NP alike. Although the pre-apartheid state had gone quite far in eliminating African competition and nurturing the growth of a white commercial farming class, support was institutionalised under the NP. State intervention to control the movement of labour in favour of agricultural capital was a core feature of the apartheid political economy.

State-directed industrialisation was also used to hold the white working class components of the hegemonic bloc in place through various means. One was the provision of sheltered employment for a large section of the Afrikaner white working class. This 'state nationalist' intervention was expressed most importantly through labour market interventions that prevented competition from black workers. But there were also subsidies and benefits for state employees, including housing, pensions and even extending to holiday resorts. Black workers were the largest section of the state workforce, but were excluded from the benefits afforded to their white counterparts. Indeed, this allowed the white population as a whole to realise the benefits they did.

Another means of cementing white workers (of all ethnicities) to the hegemonic bloc was the expansion and maintenance of residential infrastructure and services of a high standard. Although one can trace the roots of infrastructure development to the needs of capital, the construction of bulk infrastructure has the potential to allow citizens to benefit. White citizens received a high standard of municipal services, including parks, libraries, public transport, health care, cemeteries, food price subsidies on bread and milk, and so on.

Organic crisis

State-supported industrialisation, the strength of gold as the foundation of the economy and the state's overall success in maintaining an ultra-cheap black labour system all contributed to strong growth in the economy in the post-War period. But in the early 1970s a number of external factors combined to weaken and eventually expose the economy to crisis. The ending of the gold standard in 1971 resulted in a fluctuating gold price, but also a rapid rise in the price (the fixed price before 1971 had been US$35/ounce but in 1979 the price approached US$900/ounce). But in the mid-1980s, capital market and trade liberalisation diminished the role of gold as a store of value. The price of gold drifted downwards, and with it South Africa's economic fortunes (Hirsch 2005:21-22).

The apartheid government had recognised the need to reorient the economy, and a series of measures were put in place to do so. In 1972, the Reynders Commission had suggested the need to shift from the existing import substitution strategy to a greater emphasis on exports (O'Meara 1996:178). In essence, the Commission identified structural constraints to industrialisation that would limit growth potential unless more attention was paid to the promotion of exports. The Commission did not suggest abandoning import replacement policies, but called for a greater emphasis on exports to place the economy on a more balanced footing (Fine & Rustomjee 1996:193-194). The state liberalised the financial sector in the late 1970s following the De Kock Commission report (Bayley 2000), paving the way for a weaker currency and therefore improved export possibilities, but also causing great volatility in the balance of payments.

Having faced severe repression in the 1960s that all but shattered their organisations, the black majority engaged in an ever-deepening series of struggles against the apartheid state, notably in 1976, 1980-81 and 1984-86. The state tried to manage the growing social and political instability with a series of reforms (including the Riekert Commission on population movement and the Wiehahn Commission on labour relations) together with harshly repressive tactics that included the forced removal and relocation of millions of black South Africans in accordance with the bantustan strategy. Attempts to reform the economy were piecemeal and the NP tried to reform the economy within the framework of grand apartheid. The NP failed to recognise that "the material basis of territorial segregation had been fundamentally eroded by structural changes in the socio-political terrain of the society" (Morris 1991:47). Related to this was the fracturing of the hegemonic bloc that had underpinned NP rule – the alliance of farmers, Afrikaner business and white labour (O'Meara 1996).

III OVERVIEW OF SOUTH AFRICAN POLICY ON PRIVATISATION AND THE PUBLIC SECTOR, 1985-2005

Late apartheid privatisation initiatives as one response to organic crisis

Already by the mid 1970s, Afrikaner capital was calling for a reduction in state ownership and control of key areas of the economy, to be replaced by 'an aggressive entrepreneurship' (O'Meara 1996:272). An early gesture of the adoption of a policy of the gradual reduction of state control of key industries was the partial privatisation of Sasol in 1981. In the decade following, privatisation became part of government policy. The 1987 White Paper on Privatisation and Deregulation set out the case for privatisation, and listed areas where government had already fully or partially privatised it functions. Apart from 'non-core' functions such as catering, laundry, cleaning and security services for government departments and buildings the list significantly included construction and maintenance of roads, bridges, dams, water purification works, and some hospitals and institutions for the aged (RSA 1987:15).

In the late 1980s, the government set up the Ministry of Public Enterprises to oversee the commercialisation of state-owned enterprises. Though individual ministries retained control over the daily management of specific enterprises, it was decided a single ministry was needed to ensure that their restructuring along business lines occurred in a uniform manner (Financial Mail 18.04.97). In 1989 Iscor was the first public corporation to be privatised since the partial privatisation of Sasol in 1981. Thereafter, the government rapidly laid out a plan for the privatisation of Eskom, state-owned forests, national parks, the sorghum beer industry and the South African Transport Services, and corporatisation with the aim of privatising the Post Office and telecommunications (SAIRR 1990:583-586) (more details of each one are found in the sectoral overviews in section V below).

Proposals from the liberation movement

> "The nationalisation of the mines, banks and monopoly industries is the policy of the ANC and a change or modification of our views, in this regard, is inconceivable"
> – Nelson Mandela, February 1990
>
> "We visualise a mixed economy in which the private sector would play a central and critical role to ensure the creation of wealth and jobs"
> – Nelson Mandela, World Economic Forum, Davos 1992
>
> "Privatisation is the fundamental policy of the ANC and is going to be implemented"
> – Nelson Mandela, following a visit to Germany, May 1996
>
> [all quotes from Financial Mail 31.05.96]

The liberation movement had long held nationalisation to be one of its economic principles. In 1955 the Freedom Charter had called for the nationalisation of the wealth of the country, and this remained the most developed statement of the Congress movement until the 1980s. At the ANC's 1969 Morogoro Conference the movement adopted a paper arguing that the basic wealth and resources needed to be "at the disposal of the people as a whole and…not manipulated by sections or individuals, whether they be White or Black" (quoted in Hirsch 2005:36). The organisation's 1979 'Green Book' called for the liquidation of economic exploitation. It is fair to say, as Hirsch does, that each of those statements was coloured by its time. Similarly, the climate of the late 1980s - when the ANC began the process of developing an economic model for a democratic South Africa – strongly influenced ideas of what was and wasn't possible. First and foremost, the unravelling and eventual collapse of the Soviet Union and the Stalinist project was profoundly influential, and deflated belief in centralised state planning. Second, the South East Asian economies were growing at a rapid pace and appeared to some people to offer an alternative to Anglo-Saxon capitalism, especially in the use of the state. Third, the social democratic welfare states of Western Europe were facing internal and external economic and political pressures, suggesting limits to that model.

Nationalisation remained on the ANC's policy agenda throughout the period of economic policy development in the late 1980s to 1990s. This was partly because of popular support for nationalisation, and partly as a warning to the apartheid state that any privatisation it carried out might be reversed when the ANC came to power. There was strong belief that the apartheid state's privatisation plans were an attempt to denude the post-apartheid state of assets and at the same time retain white ownership of economic wealth. The result of the threat of nationalisation was that sales of state assets more or less stopped from 1990 to 1994 (Hirsch 2005:47). But within the ANC, the idea of a 'mixed' economy gained ground, and both privatisation and nationalisation were approached from a more pragmatic angle. That is to say, the ANC gradually developed a position – reflected in the Macro-Economic Research Group (MERG) report and the Reconstruction and Development Programme (RDP) – that the possibility of privatisation did exist, but would be decided on a case-by-case basis (MERG 1993:273; ANC 1994:80-81). At the same time, the state owned corporations were given a central role in future developmental activities, especially extending infrastructure to

those without. Thus, by the time the ANC came to power in 1994, privatisation remained an option if circumstances warranted it. Decisions would be made on the basis of the 'national interest'.

As a document, the RDP provides evidence of competing economic worldviews. In the interests of unity and compromise, these competing views were mixed together. The way the 'national interest' was to be defined, and in favour of which social forces, would be highly dependent on the balance of class forces in the immediate years following the end of apartheid. In the same way, the choice of clauses to be selected from the RDP for implementation was also a question of the relative power of social forces. Much in the RDP has been neglected, ignored or cast aside by government in the ten years that have followed. But equally, most of what government has done can also be traced back to the base document. The seeds of present economic policy – including on privatisation - were sown in the late 1980s.

External factors: the IMF, the World Bank and the WTO

South Africa's transition to democracy occurred at a time of the collapse of the Soviet Union as well as the growing dominance of the neo-liberal counter-revolution. The collapse of the communist project undermined notions of state ownership and centralised planning. The social forces driving the neo-liberal project used their power to impose privatisation and associated policies of deregulation and liberalisation onto countries around the world. The World Bank and the International Monetary Fund (IMF) played key roles in forcing governments into structural adjustment programmes of varying degrees of stringency to repay debt and as a condition for further borrowing.

The South African government had tried to spend its way out of economic trouble in the 1980s. Levels of debt grew sharply from around 30% of GDP in 1981/2 to 41.2% in 1992/3 (MERG 1993:74). Nevertheless, the national debt wasn't high by international standards, and external indebtedness was particularly low by international standards. Total public sector debt as a percentage of GDP was 56% for South Africa in 1995, in comparison to 95% for Japan, 63% for the USA and 60% for Germany (Adelzadeh 1996). This limited the role of the IMF and the World Bank somewhat, although both institutions did intervene to shape the direction of economic reform. Their job was made much easier by the support of the incumbent government and important fractions of capital – especially monopoly and export-oriented capital.

The IMF had played an important role in supporting the apartheid state, from the beginnings of economic crisis in the 1970s, to ease the transition towards a less state-driven and more open economy. The Fund provided three loans to the apartheid government in the mid-1970s, and another standby loan of $1.1 billion in 1982 (Padayachee 1993:190). Even after it was forbidden from lending more money to the South African government in 1983, the IMF continued to send advisory teams to South Africa each year to help the government switch to neo-liberal policies (Bond 2000:159). Its involvement with the apartheid state also gave the latter credibility and allowed it to raise further loans from private banks well into the 1980s when international sanctions were imposed.

In the early 1990s the transitional government (consisting of representatives of both the apartheid government and the liberation movement) was granted a US$850m loan from the IMF's Compensatory and Contingency Financing Facility (CCFF) (Padayachee 1994:82). The loan would be used to support South Africa's balance of payments problems caused by the drought that in turn had led to a sharp drop in agricultural exports. The condition of the loan was the obligatory signing of a Letter of Intent, which the transitional government did sign in 1993 in preparation for the loan. The ANC was party to the signing, and has subsequently obliged with the stated macro-economic intentions.

The contents of the Letter of Intent have remained secret to this day. A summarised version of a leaked copy (Business Day, 24.03.94) indicated the transitional government's intent to achieve a sustainable balance of payments and reduction in inflation through the tightening of monetary policy. Increases in the government deficit were ruled out, and the need to address social needs in 'a responsible manner' was suggested. A central government deficit of 6% was targeted, with a continuation of the process of reducing the budget deficit. These would be achieved through expenditure containment rather than through raising taxes. Government committed itself to containing the public service wage bill with no increase in real wages.

The IMF released research and recommendations on the economy in the early 1990s, and its key themes found more than an echo in the NP's Normative Economic Model (NEM), released in 1993 as a proposal on the future economy (Marais 1998:152-3). Privatisation of state assets was one amongst a range of conservative economic proposals. In turn, the Growth Employment and Redistribution (GEAR) strategy adopted by the ANC government in 1996 drew heavily on the modelling and assumptions of the NEM (Adelzadeh 1996:2). Subsequently, there has been regular interaction between the IMF and the government, with the former repeating its prescriptive formula of deregulation and labour flexibility year after year when it publishes its Article VI consultations.

The World Bank had less influence on South Africa. Although it provided loans to the apartheid government in the 1950s and 1960s to build infrastructure, it did not give the country further loans from the mid-1960s. This was probably due to the fact that South Africa ceased to qualify for concessionary loans from the World Bank's International Development Agency facility on the basis of its per capita GNP (Padayachee 1993:190). The World Bank took a different route to the "customarily strident injunctions" of the IMF and opened channels to the ANC and the trade unions after the 1990 unbanning. The World Bank's recommendations were neo-liberal but at times offset by incorporating aspects of progressive economic thinking (Marais 1998:151-2).

The South African government has been a member of the General Agreement on Trade and Tariffs (GATT) since its inception in 1948. The government participated in the negotiations leading up to the Uruguay Round and the formation of the World Trade Organisation (WTO). Although there is nothing about GATT and the WTO that imposes privatisation on member countries, the trade liberalisation model that was pushed in the Uruguay Round and subsequently is closely allied to the whole raft of neo-liberal economic policies to enhance the power of capital. Liberalisation and deregulation are rooted in the concept of the state as a parasite that prevents free economic activity. This is despite the fundamental role of the state under Reagan and Thatcher as much as Bush and Blair to constantly manage and intervene in economic activities in favour of sectional interests.

This is not the place to go into those arguments or to select from the countless examples of the way the state is used to consolidate groups in power. The point that needs to be made here is that these global arguments created a discursive framework that resonated in South Africa. The state was portrayed as a vast, inefficient and overblown bureaucracy that wasted and misdirected resources for narrow political interests. And that's what was found in South Africa. The state was portrayed as an impenetrable monolith, inaccessible to the general public except through a tangled web of patronage that was only available to a few. And that's what was found in South Africa. The state was presented as a dampening force, preventing the flourishing of human creativity (even if this was defined by the ideologies as entrepreneurship). This is what the majority of the South African population experienced in their day-to-day lives. It was this popular dislike for the state as it was under apartheid that allowed the new state managers to present a picture of the state as they thought it should be. The new state managers argued that in order for the state to play a progressive role, it had to be restructured. But the meaning of restructuring was contested, and privatisation emerged as a central component of this understanding as technocrats gained greater control over the state machinery.

GEAR and the rise of privatisation as policy

It was not long after the ANC came to power that privatisation became official policy. In late 1994, apparently feeling the pressure from capital and realising that budget reallocations would not be enough on its own, the government announced a 'belt-tightening' strategy. One of the six key elements was "a commitment to the full or partial privatisation of state assets and enterprises to reduce debt or supplement the RDP" (Hirsch 2005:73-4). Apart from the direct cost to the fiscus of the state owning productive units, another argument was that the state was a monopoly *consumer* of valuable semi-state expertise, in areas where the broader economy is critically weak, such as research and development, technical services, and machinery (Financial Mail 07.07.95). In order to remove constraints to economic growth, this expertise had to be freed for use in the economy more broadly. Another argument was that the state did not have the resources required to modernise and expand service providers, and that privatisation or partial privatisation would allow for recapitalisation.

In 1995 Cabinet approved a discussion document on the restructuring of state assets that indicated the possibility of privatisation. The document divided state assets into three categories:

- Assets with a "clear public policy" or function to provide services such as Eskom, Telkom, Spoornet, the Post Office, the SABC, ACSA, Air Traffic and Navigational Services;
- Assets with a "public policy or strategic dimension" such as Denel, Petronet, the Atomic Energy Board, Armscor, Mossgas, SAA, the Strategic Fuel Fund and Soekor; and
- Assets with no public policy: Sun Air, Autonet, Safcol Alexkor (profitable) and Transkei Airways, Aventura, PX parcel express and Abakor (not profitable).

Assets in the last two categories would be targets of state divestiture and restructuring would start along with sectoral policy development. For the first category, substantive sectoral policies would be developed before a process of restructuring. Nevertheless, future privatisation even of these assets was not ruled out (Financial Mail 08.09.95). Cabinet appointed six task teams - covering transport, defence, trade & industry, agriculture/water/ forestry, minerals & energy, and posts & telecommunications - to outline options for privatisation (Financial Mail 19.01.96).

In February 1996, the three labour federations and the government signed the National Framework Agreement on the Restructuring of State Assets (RSA 1996). The agreement stated that: "restructuring is not necessarily geared towards reducing state economic involvement in any economic activity". Looking at the document as a whole, it is clear that it was worded to allow both parties to continue to think of restructuring in their own way. But ultimately, Cosatu did not gain as much as it may appear. In the section on the functions of the labour-government structure to be set up to manage the agreement, the first point is: "to explain the Government's position, share and discuss strategic and policy documents that have a material impact on the restructuring discussion…" The agreement was therefore no more than a formalised way of telling the union movement what government's privatisation plans were. From that point on, the unions were on the back foot.

Soon thereafter, the restructuring and privatisation strategy was consolidated in the Growth, Employment and Redistribution (GEAR) strategy. A core element of GEAR's medium term strategy was "the implementation of the public sector asset restructuring programme, including guidelines for the governance, regulation and financing of public corporations, and leading off with the sale of non-strategic assets and the creation of public-private partnerships in transport and telecommunications" (Dept of Finance 1996: section 2.2). Restructuring of state assets " to create opportunities for equity investment in public corporations by foreign partners" was seen as a key component of attracting foreign direct investment (Dept of Finance 1996:Appendix 12). The period following the adoption of GEAR until around 2002 was the period where restructuring of state owned assets, including but not exclusively privatisation, was high on the agenda. In mid-1996, Hong Kong & Shanghai Bank (HSBC) and its South African subsidiary, Simpson McKie James Capel, were appointed to advise government on the restructuring of state assets. HSBC was previously involved in a range of privatisations in other countries (Financial Mail 16.08.96).

The launch of the Accelerated Restructuring of State-Owned Enterprises policy document in 2000 saw a confirmation of the key thrust of restructuring processes to that point. At the sectoral level, the aim of restructuring was to create a market environment where state monopolies had historically dominated. At the macro-economic level, the objectives were to reduce public debt, attract FDI and assist in promoting industrial competitiveness. The policy document also confirmed the process of establishing shareholder compacts between government and the SOEs, to align their activities with the broader objectives of government (Ministry of Public Enterprises 2000).

Not long after, however, there were indications that the state was adapting its approach. In 2001 the Director-General of Public Enterprises, Sivi Gounden, argued that the wholesale selling of state-owned assets in developing countries would not work in South Africa. He further argued that government had obligations such as extending electricity, transportation and postal services across the country, and this called for state involvement in the economy (Financial Mail 24.08.01). The shelving of plans to dispose of core assets in the electricity and transport sectors followed, and a new emphasis placed on how the key parastatals might contribute to developmental goals as state-owned entities. These goals referred to the extension of services and economic access to the poor. But there was also an increasing emphasis on the blockages to higher growth in the capitalist economy, seen as the necessary precursor to the redistribution of wealth throughout the society. There was a reorientation to arguing that greater public investment was required to move the economy

at a faster growth rate (Hirsch 2004:3). Growth through the GEAR period was consumption led growth, but there was a limited connection between this and fixed investment (Hirsch 2004:8). The Growth and Development Summit had highlighted the problem of low rates of investment and the Nedlac parties agreed that it was necessary to increase the rate to encourage growth (Nedlac 2003:17).

The Accelerated and Shared Growth Initiative

Following the phase of macro-economic stabilisation marked by the GEAR strategy, government turned its focus to structural reforms to eliminate constraints to higher growth rates. Higher growth was viewed as essential to tackle poverty and reduce chronic unemployment. In 2001 government launched its Micro-Economic Reform Strategy (MERS). The strategy identified a number of structural constraints, including impediments to cost competitiveness (including cost of public sector services), a poorly skilled workforce, lack of basic infrastructure in the "second economy", technological under-provision and insufficient value adding in manufacturing (Department of Trade and Industry 2001). The strategy was not an alternative to the macroeconomic policies in GEAR, but rather was a set of interventions nested within the GEAR framework. As much as the GEAR interventions were not the only possible way of achieving macroeconomic stability (although they were presented as such), MERS was a political choice based on a belief that capitalist growth was the prerequisite for reducing poverty. The strategy emphasised infrastructure investment and partnerships with the private sector (Business Day 12.02.01).

The newly released Accelerated and Shared Growth Initiative (ASGI) is built on the platform of the GEAR-induced belt-tightening of the 1996-2002 period and the logic of the MERS. A more interventionist role for the state is envisaged. But it will intervene with the goal of strengthening the hand of domestic capital in global markets. The core of the 'new direction' being taken at present is to make business cheaper and easier, primarily through improved efficiencies. The expenditure will be carried out in conjunction with private sector expenditure, and the main goal is to improve the economic infrastructure of the country. In the words of one business reporter: "The spin-offs of this investment will be to reduce the cost of doing business and to enhance the country's competitiveness by supporting the export-led growth strategy" (Business Report 05.01.05). There is a relationship between the infrastructure drive and the fact that the existing infrastructure was mainly built in 1960s and 1970s and refurbishment has become necessary to halt the further deterioration of economic infrastructure.

Government aims to increase fixed investment to 25% of GDP by 2014. The state would lead this process by increasing its own investment to 6-8% of GDP – primarily through the state-owned corporations. Big investment plans are being launched, including plans for Eskom expenditure of R84bn over 5 years and Transnet expenditure of R40bn over 5 years, of which R11bn will be spent on the Gauteng-Durban corridor which handles two-thirds of the country's container traffic (Business Report 05.01.05). ACSA's announcement of a R5.2bn capital-spending programme in preparation for World Cup in 2010 and others will all aim to realise the goal of 6% annual growth by 2010.

Despite the emphasis on the use of state-owned enterprises to drive investment, selective outright privatisation (asset disposal) is still on the agenda, albeit more 'non-core' elements of the state enterprises. But more importantly, the business model and competition are the fundamental forces structuring the interventions. There is a confluence of interests and the consolidation of a 'hegemonic bloc' incorporating state managers (including managers of state-owned enterprises and managers of the state itself) and a coalition of capitalist interests – however open to imminent fragmentation, as indicated by recent political developments – that forms the foundation for ASGI. Public contracts give selected sections of large-scale capital the opportunity to carry out strategies of integration and diversification that further accentuates centralisation to their own advantage (Aglietta 1987:238). In the era of financial capital, this is particularly true for finance capital, as it reaches into all spheres of economic activity as a direct shareholder.

There is widespread support for an actively interventionist or developmental state in South Africa. But the question is intervention and development of what and for whom? A dominant fraction in the ruling ANC seeks to model a developmental state along lines of the Asian interventionist state. This state can be understood to be a 'plan rational' state, i.e. the state is determined to influence the direction and pace of economic development by directly intervening in the development process rather than relying on uncoordinated market forces to allocate economic resources (Besson 2003:2). It is immediately apparent that development in this context refers to the development of the productive forces under capitalist relations of production. This is quite different from the 'development' of socially desirable conditions and human well-being. This contestation around development has grown sharper as consultants bring a capital-friendly understanding of the concepts to bear on their work for government. There is a discursive and ideological battle that is waged both within the state and in civil society.

The key features of successful developmental states are a degree of state autonomy to implement economic policies, coupled with a political system that allows the bureaucracy to take the political initiative and operate effectively without major constraints, and a reliance on private capital and ownership. State autonomy may be in relation to capital, although this should be located in the context of the state's leading and organising role in a hegemonic bloc that includes capital as a core component. The flipside of state autonomy is a weakness of civil society, and economic growth may be used to justify state oppression or the lack of liberal democratic rights (Hossain n.d). The state also requires some social anchoring to prevent it from using its autonomy in a predatory manner and enables it to gain adherence of key social actors (Mkandawire 1998:2). The requirement for an efficient state bureaucracy to carry out this developmental project may be one of the driving forces behind some of the centralisation that is taking place in South Africa. The weakest sphere of government, and the most inefficient, is the local level. This inefficiency is a potentially fatal flaw in the rational, technocratic developmental plan that is unfolding. The close relationship between private capital and the state is the second core feature of this model of the developmental state. The state does not seek to supplant the role of private enterprise, but it does seek to guide private sector investment into priority areas identified by the state (Polidano 1998:4). Liberalisation and privatisation are not at all anathema to this model of the developmental state. The crucial fact is that the state is able to impose its strategic plan onto other social actors.

An interesting additional feature of many state-led models of this sort is that the political logic of the state is underpinned by its necessity to secure the nation against actual or perceive threat against its sovereignty (Hossain n.d). In the South African case, dominant fractions in the ruling elite certainly mobilise the discourse of constant threats to the safety of the democratic project from inside and out, of which they are the only protectors. This justifies a laager mentality, and the dampening and even repression of any political influence coming from outside the Congress laager. The developmental state in the model of Asia is an authoritarian state.

IV A BROAD OVERVIEW OF PRIVATISATION TO DATE

Extent of privatisation

This section will deal mainly with the disposal of state assets (privatisation as understood in a narrow sense), while corporatisation, commercialisation, concessions and related issues will be covered in detail in each sectoral overview. The post-apartheid state inherited between 300 and 400 state enterprises. However, Eskom (electricity), Transnet (transport), Telkom (telecommunications) and Denel (defence) dominated. Between them, these four were responsible for 86% of aggregate SOE turnover, 94% of total SOE income, 77% of SOE employment and 91% of total SOE assets (Cassim 2004:20).

According to Alan Hirsch, currently Chief Director of Economic Policy in The Presidency and former Chief Director at the DTI, the post-apartheid government had three main goals in pursuing a policy of privatisation. The first was to reduce the national budget deficit. Thus most proceeds went straight to the Treasury even though ministers of portfolios affected by privatisation argued that those funds should have been reinvested in the sectors they came from. The second goal of privatisation was the redistribution of infrastructure and services, and privatised entities often had to make undertakings to invest in new services or infrastructure. The third goal of privatisation was to improve the efficiency of the economy. At a later stage, a new goal was added: privatisation could be used to support black economic empowerment (Hirsch 2005:234-5).

TABLE 1: EXTENT OF PRIVATISATION, AS AT DECEMBER 2005

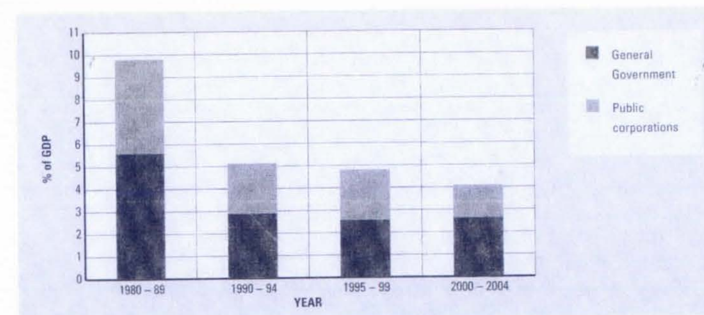
Enterprise	Date of transaction	Stake sold (%)	Total proceeds (R'm)	Proceeds paid to exchequer (R'm)	Type of sale*
SA Micro-Electronic Systems	1995	51	N/a		Foreign buyer
SABC radio stations	Mar 1997	100	510	510	SEP/BEE
Telkom	May 1997	30	5 631	1 165	SEP/BEE
Sun Air	Nov 1997	100	42	21	BEE
Viamax	May 1998	30	12		BEE
ACSA	Jun 1998	20	819	819	SEP
ACSA	Oct 1999	4	173	173	BEE
ACSA	Oct 1999	1	44	44	ESOP

SAA	Jul 1999	20	1 400	611	SEP
Connex	Aug 1999	100	15	-	SEP/BEE
Sasria	Feb 2000	SRD**	7 100	7 100	Restructuring
Sasria	Apr 2000	SRD**	3 200	2 200	Restructuring
M-Cell/MTN	Jun 2000	6	2 400	2 000	BEE
Transnet's Production House	Jul 2000	100	11		BEE
Transnet's Chemical Services	Aug 2000	100	3		SOE
Transnet's Transwerk Perway	Sept 2000	65	19	-	SEP
Safcol KZN	Oct 2000	75	100	75	SEP/BEE
Safcol EC North	Oct 2000	75	45	-	SEP/BEE
Telkom: Ucingo	Mar 2001	3	565	565	BEE
Transnet: MTN	Jan 2002	20	5 300	2 000	Monetisation
Transnet: MTN	Aug 2002	-	-	1 100	
Denel Airmotive	Apr 2002	51	30	0	SEP
Apron Services	Oct 2002	51	117	0	
Aventura (Kareekloof, Eiland, Heidelbergkloof, Roodeplaat)	Jan 2003	100	30	0	BEE
Safcol Lourenford	Feb 2003	100	22		
Telkom	Mar 2003	25	4 100	4 100	BEE
Aventura	Jul 2003	100	101	13	
Safcol	Dec 2003		68	68	
Safcol	Dec 2004		30	30	
Safcol	Dec 2005		30	30	
Total			**31 917**	**22 624**	

Source: Sekgobela 2003; BusinessMap 2004; Business Day 01.04.04; World Bank 2000; National Treasury 2006; 178-79
**SEP – Strategic Equity Partner, BEE - Black Economic Empowerment, ESOP – Equity Share Ownership Programme, SOE – State-Owned enterprise . **SRD – Special Restructuring Dividend*

A decade after the ANC came to power, state assets worth R32bn had been sold (table 1 above). Of this, around R22.6bn went into state coffers, with most of the remainder being dispersed or used to recapitalise the privatised entity. Despite the inflow to state coffers, the post-apartheid state reduced public investment (figure 1) to well below average international levels of 23.4% for "emerging markets" (Financial Mail 17.02.06). GEAR aimed to increase public sector investment that had fallen from around 16% of GDP in the 1970s to less than 4% in the 1990s, but the overall fiscal tightening that was also a core component of GEAR prevented this from happening in most sectors (Hirsch 2004:3-4). The proceeds from privatisation also did not have any significant impact on reducing debt levels. In 1993 government debt as a percentage of GDP stood at 40.4%. This rose to more than 50% in 1999 as a result of currency devaluation, and in 2003 stood at 40.2% (Hirsch 2005:77). So after a decade of privatisation proceeds, debt remained stubbornly at the same levels.

FIGURE 1: PUBLIC SECTOR GROSS FIXED CAPITAL FORMATION AS % OF GDP, 5 YEAR AVERAGE 1980-2004



Source: SA Reserve Bank 2005 s-122, 1999 s-116; Stats SA 2005, p.23; Calitz & Siebrits 2002 p.4

The major privatisations listed in table 1 above are dealt with in individual sections below. These include the first post-apartheid privatisation, of six SABC radio stations in 1997, and other key partial privatisations including Telkom, SAA, the Airports Company of South Africa (ACSA) and the sale of government stakes in MTN. From the point of view of proceeds, the restructuring of Sasria generated the greatest income for government of over R10bn in two sales. Sasria, previously known as the South African Special Risks Insurance Association, was established in 1979 after local short-term insurers, responding to the Soweto uprising of 1976, implemented political damage exclusion clauses on their policies. The government stepped in to act as an insurer of last resort. Since its conversion into a public company wholly owned by government in 1998, it has extended its cover to include damage caused by non-political riot and public disorder, including labour action (Namibia Economist 16.03.01). The special restructuring dividend amounted to a liquidation of Sasria's assets for use in reducing government debt. Government has set a 5-year target for the privatisation of Sasria (Sasria 2005).

However, privatisation has not been an entirely one-way street. Some of the biggest deals have been reversed as strategic equity partners have pulled out for various reasons (see table 2). Even the business press suggested that the profits made by Thintana and ADR in selling shares in Telkom and ACSA respectively "showcase[d] the perverse effect of government policy, which has been the transfer of huge resources from the broader economy to the shareholders of two companies" (Business Report 11.10.05). The details of these reversals are found in the sector overviews below.

TABLE 2: PRIVATISATION REVERSALS

Entity	Reversal
Telkom	Thintana sale of shares – sold stake for more than double what it paid in 1997
SAA	Swissair sale of shares
Post Office	Cancellation of management contract for poor performance
ACSA	ADR sale of shares – paid R819m in 1998, sold for R1.67bn in 2005

Municipal privatisation

Municipal privatisation had its roots in the late apartheid era, when some municipalities began contracting out services to the private sector in water (see sector overview of water below) and electricity provision. The first post-apartheid municipal privatisation involved the Benoni City Council in 1994. The council created the Benoni Fire and Emergency Services (Pty) Ltd and contracted out its services to the private sector. After the privatisation, emergency ambulance services had to be paid for (Brynard 2003:7). However, the profound local government transition following the end of apartheid reduced these to isolated projects.

Once the first phase of local government restructuring was completed, and the national government had adopted an orientation in favour of privatisation and public-private partnerships, the space was opened up for further municipal privatisation. In 1998, after two years of preparation, the Municipal Infrastructure Investment Unit (MIIU), located in the DBSA, was set up to provide technical assistance and funding to municipal councils when entering into public-private partnerships. With an initial lifespan of 5 years, subsequently extended until March 2006, the MIIU took over the functions of a programme in the then Department of Constitutional Development (now Provincial and Local Government). Support focused on municipal services partnerships (MSPs), a form of PPP, in the water and sanitation and solid waste sectors, with a few other projects in transportation, energy and information technology (Hlahla 1999:578). In 2000 Cabinet established a specialist PPP unit to deal with national and local level partnerships. In February 2005 the National Treasury had finalised 12 public-private partnerships ranging from fleet management to hospital construction (National Treasury 2005a). There were an additional 52 PPPs under development at that time (National Treasury 2005b).

The White Paper on Municipal Services Partnerships, released in 2000, went into detail on the types of partnerships local government could enter into with CBOs and NGOs, other public sector entities and the private sector. At many points, the White Paper explicitly stated that while the government was committed to facilitating the use of MSP arrangements, it did not mean that MSPs were the preferred option for improving service delivery. MSPs are essentially municipal level public-private partnerships. MSPs were presented as one in a range of options that should be open to municipalities in providing the best service for the lowest possible cost. The White Paper essentially indicated legislative gaps that need to be filled, and made additional proposals on how to enable municipalities to enter into services partnerships with external entities. The Department of Provincial and Local Government (DPLG)'s Project Viability revealed that 230 MSPs had been entered into by March 2002 (DPLG 2002:32). Appendix 1 shows the extent of municipal service partnerships supported by the MIIU between 1998 and 2003.

More systematic processes of corporatisation and outsourcing occurred in the soon to be metros. The potential for profits from services are far greater in the big cities where there is a concentration of people and there are no alternative water or energy supplies, for example. Given the depth of its financial crisis, Johannesburg was the first city to be driven into a process of restructuring that took a corporatist form because of the politics of the day. The iGoli 2002 plan set up a number of programmes to restructure the financial and institutional arrangements of the city. Utilities were to be created for electricity distribution, water and sanitation, and municipal solid waste collection and disposal. These would be open to MSPs. An explicit aim of the creation of the utilities was to distance them from political 'interference' and to apply private sector cost recovery techniques. Arm's length agencies were established to manage roads and storm water, and parks and cemeteries, with the aim of reducing the council's role as an actual provider of these services and to hand them to the private sector. A programme of privatisation was set up to dispose of Metro Gasworks, the stadium and Rand airport, and the outsourcing, or contracting out of fire and emergency services, fleet and management services, metro bus services, information technology, the fresh produce market, and the municipal power plants (Govender & Aiello 1999:657-58). The city's zoo, Civic Theatre, bus service, fresh produce market and property company each compete in the open market to 'sell' their wares to individual consumers who choose to pay for their services. These departments have been corporatised into separate businesses, run by new managements on performance contracts, and tasked to cut their subsidy levels by R100-million in the next five years (City of Johannesburg 2005).

The restructuring of the Cape Town municipality into the Unicity in 2000 brought the corporatised model to the whole city for the first time. However, between 1996 and 2000 outsourcing of municipal services was prevalent. This was not only because local government was controlled by the Democratic Alliance. In the two municipal substructures that the ANC controlled – Tygerberg and the City of Cape Town outsourced services included library services, industrial refuse collection, street cleaning, childcare, parking, water reticulation services and other core and non-core services. The City of Cape Town also introduced the first city improvement districts (CIDs) that include private sector policing and cleaning (McDonald & Smith 2002:20-21). After the formation of the unicity in 2000, the metro council corporatised its water and sanitation, electricity and solid waste disposal services in three separate units, although it did not immediately bring the private sector in to run the services (Mail & Guardian 29.03.01). The fresh produce market and the abattoir were disposed of (see agriculture sector overview below). In the other metros, processes of corporatisation also occurred, but to a lesser extent. In Ekhuruleni (formerly East Rand), bulk conveyance and treatment activities associated with wastewater were corporatised into Erwat. In eThekwini (formerly Durban) the management structure of the city as a whole was corporatised, with a municipal manager and service units, but these have not yet been ring fenced or set up as separate legal entities.

Privatisation and BEE

In 1996 the idea of a black economic empowerment fund was first mooted. The proposed fund would warehouse shares in privatised state assets on behalf of black buyers to give individuals and consortia time to raise the capital to acquire the shares. A 1995 Public Enterprises discussion document argued:

"restructuring must redistribute wealth, boost small and medium enterprise, have substantial affirmative action implications and facilitate genuine black economic empowerment" (Financial Mail 26.07.96). In 1998 the National Empowerment Fund Act was passed, with the aim of creating a National Empowerment Fund (NEF) that would be allocated a share of proceeds from sales of state assets either to give black investors a stake in privatised companies or to assist with start-up funding of new enterprises or acquisitions. The NEF was to be allocated stakes in recently privatised companies: 5% of Telkom worth about R1bn, 10% of the Airports Company worth R400m, and 15% of Sun Air worth R7.5m. The NEF also opened discussions with the state-owned Industrial Development Corp (IDC) to buy its stakes in companies such as the listed Sasol, Iscor and Sappi (Financial Mail 29.05.98).

However, the fund was only established in 2001, as part of the DTI's group of development finance agencies. In 2003 government suspended funding to the NEF pending a review of its operations. At that time the fund had received R200m seed funding plus a 1.5% stake in MTN (Business Day 20.08.03). The NEF was relaunched in 2004 but failed to achieve anything. In 2005 government recapitalised the fund with R2bn, of which half had been disbursed or assigned within 3 months. It is anticipated that the plan to allocate shares from privatised or commercialised public corporations will proceed. Shares worth about R1bn in companies such as MTN, Denel, Telkom, Eskom and Acsa are to be transferred to the NEF from the national treasury, where they have been warehoused (Financial Mail 21.10.05). Equity allocations to the NEF ranged from a 1.5% allocation from MTN through a 5% allocation from Telkom and SAA, a 10% allocation from Safcol, Sentech, Acsa and others, and a15% allocation from Sun Air (BusinessMap 2004:28). Towards the end of 2005, the NEF received about R870m of shares in MTN and Uthingo (the majority coming from the former).

The Public Investment Corporation (PIC), and the Industrial Development Corporation (IDC) are very important players in the South African economy. Not only do they have holdings in state owned corporations but they also have extensive investments in the private sector. Both corporations are reorienting to a focus on BEE in their investment decisions. The PIC, known as the Public Investment Commission until 2004 when it was corporatised, manages the assets of a number of pension funds and the Unemployment Insurance Fund (UIF). By far the largest is the Government Employees Pension Fund (GEPF) that accounts for 91% of assets under PIC management. The PIC is responsible for investing pension fund money. Until 1991 it was limited in its investments to certain debt instruments, mainly government bonds. After that it was allowed to invest in a wider range of asset classes. In 1999 amendments to legislation provided for 3.5% of assets under management to be invested in socially responsible investments. The Isibaya Fund was established to carry out this mandate (Public Investment Corporation 2005).

On becoming a corporation in 2005, the PIC has oriented itself towards BEE investments. One of the ways it has done this is to buy shares for possible later sale to empowerment consortia. In 2004 it purchased shares in Telkom from Thintana, and in 2005 it bought shares in ACSA from the exiting Aeroporti di Roma (ADR) (for more details see telecommunications and transport sector overviews below). The PIC had R500bn in assets under its management in December 2005, and it is the largest institutional investor on the Johannesburg Stock Exchange (JSE). The corporation has investments in more than 150 listed companies with holdings ranging up to 20% in most blue-chip stocks, from Standard Bank to Anglo American, and Tiger Brands to Sasol (Financial Mail Corporate Report 09.12.05).

For its part, the IDC has had a long history of investment. It remains a significant player, especially in mineral and steel beneficiation, forestry, and some presence in agriculture and textiles (Industrial Development Corporation 2005:54-64) (more details provided in sectoral overviews). The IDC has also oriented its investments to BEE, with the disposal of shares in a number of its investments to BEE companies, and participation in BEE consortia to make new investments. The value of BEE approvals increased from just over R1bn in 2001 to more than R3bn in 2005, and amounts to more than 70% of the total number of financing approvals (Industrial Development Corporation 2005:28).

TABLE 3: WHO IS BENEFITING FROM CORPORATISATION?

Name	Corporation	Total package (year)
Coleman Andrews	SAA (CEO)	R232 m (golden handshake, 2001)
Thulani Gcabashe	Eskom (CE)	R13.05m (2005*)
Sizwe Nxasana	Telkom (CEO)	R8.45m (2004)
Ehud Matya	Eskom (divisional manager)	R7.80m (2005*)
PJ Maroga	Eskom (divisional manager)	R7.23m (2005*)
Sizwe Nxasana	Telkom (CEO)	R6.97m (2005)
Steve Lennon	Eskom (divisional manager)	R6.79m (2005*)
SM McKenzie	Telkom (executive director)	R6.75m (2005)
Mpho Letlape	Eskom (divisional manager)	R6.36m (2005*)
Andre Viljoen	SAA	R6.32m (2003)
PD Mbonyana	Eskom (divisional manager)	R6.26m (2005*)
Johnny Dladla	Eskom (divisional manager)	R6.16m (2005*)
Mafika Mkwanazi	Transnet (CE)	R6.05m (2004)

*Including performance bonuses *Eskom 1 Jan 2004 – 31 Mar 2005*
Source: Annual Reports

The linkage between the government's BEE strategy and privatisation raises a number of issues. The ANC is using the state to build a black capitalist class that begins to form its primary support base. Through corporatisation, managers of public corporations have become part of the super-rich (see table 3 above). The state itself has belatedly recognised that these salaries are not justifiable. Auditor-General Shauket Fakie referred to "exorbitant fees and bonuses", and Trevor Manuel talked about "salaries of senior management in some parastatals approach(ing) stratospheric proportions" in relation to plans to create a uniform standard for pay to executives and directors (Business Day 19.09.05). A big salary does not a capitalist make, since the capitalist class is defined by its ownership of the means of production. But the political leaders in control of the state claim ownership of the assets under their control (assets that theoretically belong to all citizens) and use them 'privately' to build their own support base. This is ideologically managed through the idea that BEE is in the interests of the majority of citizens, if not all. But the majority do not stand to benefit from BEE as it is currently formulated. A strong critique of the elite character of BEE is widespread in the society, including from inside the ANC and it alliance partners, the SACP and Cosatu.

State assets are privatised, a share is kept aside for BEE, but a small group of politically connected individuals benefit the most from it. In the most blatant cases, state managers prepare the grounds for privatisation, and then leave public service to take advantage of the privatisation. One example is former Communications DG Andile Ngcaba setting up a consortium to buy into Telkom through a process that he had a key role in designing. In this, the private sector has followed the state's lead, with a spate of BEE deals being launched with big names in the ANC. Most recently Murphy Morobe, head of communications in the Presidency, was the beneficiary of a Sun International BEE deal. Foreign Affairs spokesperson Ronnie Mamoepa and presidential adviser Titus Mafolo were allocated shares in Aerosud as part of a deal whereby Aerosud got a contract to buy military aircraft for the government and to manufacture components. Cheryl Carolus, former High Commissioner to London and current head of SANParks got a 4% stake in De Beers. Manne Dipico, a member of the ANC's national executive committee also got shares in De Beers. Popo Moelefe and Valli Moosa, both on the ANC national executive and former North West premier and Environment & Tourism Minister respectively, got shares in Sun International (which happens to have casinos in the North West and falls under the tourism sector) (Mail & Guardian 11.11.05). Former Minister of Constitutional Development Penuell Maduna will be a beneficiary of the merger of Engen and Sasol's fuel businesses should the merger be allowed. Maduna boasted that the deal had three million direct and indirect beneficiaries. When asked why his benefit of R268m was 750 000 times larger than that of the other beneficiaries (R350 each), he said that as a co-leader of the empowerment consortium, he was entitled to get a larger slice of the share allocation than the ordinary member (Mail & Guardian 28.10.05). These and many other similar deals raise suspicions that BEE deals are structured to gain political influence. There is a logical relationship between this intertwining of state and private interests and the concept of a developmental state alluded to above.

An alternative use for the funds and assets under the control of the PIC, IDC and others could be investment in prescribed assets, including social infrastructure and services. An outcome of the 2003 Growth and Development Summit (GDS) was an agreement to invest 5% of 'investable income' in the real economy. Business immediately argued that 'investable income' referred to after-tax profits in an attempt to limit the amount they would have to contribute to the GDS targets (Horsley 2004:1). The 5% target should also be contextualised. In 1956 the government implemented the Pensions Fund Act, which required financial institutions to hold not just 5% but 50% in government and prescribed stock, including National Defence Bonds, Iscor, Sasol, water services and homeland development corporations. The private sector supported this, and many investors even chose to exceed the 50% requirement (Horsley 2004:15-16). Pension funds have to be careful of how they invest, because they must safeguard and grow the assets on behalf of the members. But socially targeted infrastructure investments do have the potential to boost returns in the investment portfolio of retirement funds in South Africa (Kemp & McDonald 2004:23). BEE can still be supported through procurement policies, for example, while there is simultaneously socially beneficial use of the vast resources under management of the PIC and others. This seems to be a better use of the resources than merely buying shares and enriching an elite without any tangible impact on poverty and inequality.

V SECTORAL OVERVIEWS OF PRIVATISATION

ENERGY

Electricity

Overview

- Some piloting of privatisation at municipal level in late 1980s
- Commercialisation of Eskom started in mid 1980s
- Eskom converted into a company in 2001 with government as the sole shareholder
- Electricity sector separated into generation, transmission and distribution and ring fenced in anticipation of partial privatisation of Eskom and/or concessioning of segments of the industry
- Eskom power stations organised into competing clusters with the plan to privatise 30% of Eskom's generation assets – 10% to BEE and 20% to other private sector interests
- In 2000 the first commercially driven independent power producer was licensed
- In 2003 the plan to privatise part of Eskom's generating assets was put on ice. Instead, 30% of new generating capacity would be produced by the private sector.
- Transmission was divided into high voltage and low voltage transportation, with the possibility of privatisation or concessioning of low voltage transmission (from sub-station to the consumer)
- Transmission has been ring fenced and is a division of Eskom, and the plan remains to establish a state-owned transmission company separate from Eskom, in a form amenable to future privatisation.
- Eskom's Power Exchange Department was ring fenced in preparation for the formation of a South African Power Exchange
- Corporatisation of municipal utilities from 2000 onwards, with concessioning and the possibility of privatisation
- A separate company, EDI Holdings, established to manage the process of conversion of distribution into 6 regional electricity distributors (REDs). REDs to take over the electricity distribution assets of municipalities and Eskom. Ownership of REDs would be in accordance with value of assets placed in the RED, but with a share-

Generation
In the electricity supply industry (ESI) ERIC suggested opening up to competition and encouraging private sector participation (Dept of Minerals and Energy 1996). The White Paper indicated government's support for gradual steps towards a competitive electricity market to be taken, and the related restructuring of Eskom into separate transmission and generation companies. The 2000 framework on restructuring state assets stated the need to introduce competition into the generation market through the creation of independent competing generation companies (Ministry for Public Enterprises 2000:132).

Transmission
In the transmission sector, the possibility of splitting transmission into high voltage transportation and low voltage transportation (from power sub-station to the consumer) was raised. Both of these areas are natural monopolies and in the medium term Eskom would be likely to retain control over high voltage transmission. There was a possibility of encouraging private sector participation in low voltage transmission (Dept of Minerals and Energy 1996). Later the state indicated that transmission could potentially be opened up to a 'strategic equity partner' (Ministry for Public Enterprises 2000:132).

The long-term vision for the transmission sector was the operation of a power exchange, or energy trading market. An energy trading market would theoretically allow non-discriminatory access to the grid. Power is purchased from a number of generators and put into the pool. There would be one price in the market that included a capacity and an energy element. Generators place their bids hourly for the following day and scheduling is done from the cheapest to the most expensive. Once expected demand and reserve requirements are met, the market is closed for the day. The price paid for the last unit to be scheduled becomes the pool price. Generators are not obligated to supply, and may withhold electricity if they do not feel the price is reasonable. The system is driven by competition, and thus generators are unlikely to share information regarding costs with one another. Those who benefit the most would be those who are able to produce electricity at the lowest rate and sell at a rate closest to the 'marginal rate' (the price of the last unit scheduled) (ESI Southern Africa 1997:40-43).

Distributors would purchase power from the pool, based on the marginal price plus a transmission cost. The transmission cost was to include the cost of losses in transporting the electricity to the distribution points of buyers. This meant buyers closer to power stations would pay less because of the lower losses associated with long-distance transmission. In another version being contemplated, trading through the pool would be voluntary not mandatory. In this system, bilateral contracts would be concluded between individual generators and individual suppliers and/or customers (Eberhard 2001).

Within Eskom, an internal power pool has been in operation since the mid-1990s. It is the prototype for a broader South African pool in the future, which may be integrated with the Southern African Power Pool (SAPP), already in operation at a regional level. South Africa currently imports slightly more power from the SAPP than it exports to the pool. Nevertheless, the regional pool remains a small part of electricity trading in South Africa, with South African imports amounting to no more than 2.8% of the total electricity pool in South Africa (NER 2000:2).

Distribution
For the electricity distribution industry (EDI) ERIC recommended consolidation into 5 (eventually set at 6) independent regional electricity distributors (REDs), jointly owned by the municipalities and Eskom to carry out low voltage transmission and supply functions. All distribution network assets would be passed to the distributors. Municipalities and Eskom would exchange the assets handed over for shares in the regional distributors, thereby allowing them to continue raising funds against their asset base. The distributors would be registered as companies, but permission from government would be required for them to trade their shares (Dept of Minerals and Energy 1996). The White Paper identified two business forms of REDs that would be acceptable to government – a company established under the Companies Act, or special statutory corporations. Although it stated that government would retain ownership, it did not specifically identify whether this would be national or local government, or both (PWC 2000:4). Licensed privately owned distributors would be allowed to operate alongside existing distributors to distribute their own generated capacity, subject to approval by the National Electricity Regulator (NER – replaced the ECB with regulatory powers over Eskom and the municipalities).

ERIC proposed the introduction of competition in the EDI. The first phase of competition in distribution would be by comparison, where separate distributors could measure their performance against one another while supplying to separate areas. The second phase would then be to give the consumer 'choice of supply', meaning that distributors could compete directly with one another in the same geographic space. The Committee indicated certain key principles that were to underpin restructuring. These included no forced retrenchments, continued public ownership of the EDI through municipalities and Eskom in the short- to medium-term, with changes only to take place within government's policy framework for restructuring of state assets. The industry should be self-funded as far as possible, meaning that income would have to be generated from sales (Dept of Minerals and Energy 1996). Restructuring of distribution would be dependent on the separation of, and introduction of competition in, the transmission and generation sectors, because the proper functioning of the REDs was reliant on the ability to source electricity from competing generators (PWC 2000b:13). The proposals were explicit that the introduction of competition in the retail section aimed to provide large-scale users (industry) with greater options, while it was accepted that residential users would fall into a captive market with no choice (PWC 2000a:16-17). In the interim, an EDI Holding company would be established as a merger between Eskom Distribution Unit and the distribution functions and assets of municipalities (Dept of Mineral and Energy 1999).

According to the logic of corporatisation and privatisation, the process will eventually arrive at a point where low voltage distribution (the wires leading up to and into the building) would be separated from the supply of an electricity service. It is envisaged that the retail supply would eventually be opened to market competition, allowing customers to choose whom they buy electricity from (although it will still be distributed to the building by a monopoly distributor).

Distribution restructuring and local government
Restructuring of the distribution sector has significant implications for service delivery obligations at local government level. The 1996 Constitution implied a distinction between the role of a service authority and a service provider, with local authorities having the option of contracting an external

provider if this would meet the goals of policy more effectively. The 1998 White Paper on Local Government expanded on the role of local government, and established a number of possible options for service delivery, including community-based and private sector delivery mechanisms. Forms included the corporatisation of service delivery units, contracting out, leases and concessions, and transfer of ownership (privatisation). The White Paper did, however, indicate that privatisation of core municipal services, including electricity and water supply are so important to meeting the needs of communities that it would not be desirable that "ownership of associated infrastructure and assets is removed from the public sphere". It was therefore suggesting that the involvement of the private sector should, at this stage, be limited to outsourcing, leasing or concessions.

For local government, the main concern is covering the recurrent costs of providing municipal services. The Consolidated Municipal Infrastructure Programme (CMIP) and various conditional grants from line departments offer some level of subsidy for infrastructure and bulk supply, mainly to clear away service delivery backlogs. However, municipalities are expected to generate sufficient revenue to cover ongoing administration, and operations and maintenance for the services. It was inevitable that local government would be affected by the restructuring of the electricity sector, especially since many of the councils relied heavily on electricity revenue to subsidise other services. In 2001, local government received 53.6% of its revenue from utility fees (DPLG 2001:45-46). It proved very difficult for the NER to withdraw licenses from local authorities for this reason, despite most of them not meeting the formal criteria for the granting of licenses. The Energy White Paper showed that government desired to move away from electricity-based cross-subsidisation of municipalities towards a transparent and nationally regulated tax system. However, it planned to do this over time so as to limit the impact on local government finances.

In the interim, the White Paper indicated that municipalities would be entitled to continue funding other municipal services through funds generated from electricity sales, but that mechanisms would have to be found to make this transparent. DME suggested that a transfer of R2.4 billion for 5 years would replace the surpluses. However, this was considered inadequate to cover the lost value to local governments (Business Day 18.06.01). Thereafter, in order to recoup this lost revenue local government would have to impose a levy of between 6% and 7% on electricity bills (PWC 2000b:12). According to the White Paper, the short-term aim would be to cap revenues that could be derived from electricity surpluses. The potential negative impacts on local government finances was one of the major blockages the government was required to resolve if it was to carry through its plans for the creation of the REDs.

COSATU remained in favour of continuing vertical integration of the three sectors under public ownership. The federation accepted the need to rationalise the distribution sector, and indicated its support for a single national distributor that would allow for the allocation of capital and skills where they are needed (2001:4).

Actual restructuring

In 1998 the Eskom Amendment Act vested ownership of Eskom's equity in the state, repealed Eskom's tax-exempt status, and mandated the public enterprises minister to act to incorporate Eskom as a limited liability company with share capital. Until this point, Eskom did not have share capital and equity consisted of accumulated reserves through retained earnings from the sale of electricity. The amendments prepared the ground for the Eskom Conversion Act 13 of 2001. This Act converted Eskom into a company (Eskom Holdings Limited) in accordance with the Companies Act. A Board of Directors replaced the Electricity Council and the Management Board, with government the sole shareholder. Control of the corporatised entity would be managed through the negotiation of 'shareholder compacts' between utility management and government as the shareholder. However, these compacts "will be reassessed when outside bodies acquire equity" (Dept of Public Enterprises 2001).

From January 2001, Eskom's power stations were organisationally restructured into five clusters. The Arnot, Hendrina, Kriel and Matla stations are in the first group of power stations; Duvha, Majuba and Kendal in the second; Lethabo, Matimba and Tutuka in the third; nuclear power plant Koeberg in the fourth; and Simunye in the fifth (Business Day, 03.04.01). The clusters were organised into Eskom's Generation Division. The companies were to operate independently of, and in competition with, one another, and be fully owned by the state (Dept of Public Enterprises 2000). These entities formed the basis for competing privatised companies in the future, with the state retaining a portion of generating capacity (Eberhard 2001:19). In 2001, the Public Enterprises Minister announced the planned recommissioning of 10% of Eskom's capacity with a black empowerment focus, and the intended sale of up to 30% of Eskom's generation capacity in two tranches (Business Day 12.07.01).

In December 2000 the NER licensed South Africa's first commercially driven independent power producer. The company, Biomass Energy Ventures, would convert waste from a Mondi paper mill near Durban into energy to power the mill. It was set to supply about 15% of the mill's requirements. In July 2001, the NER issued a licence to US utility company Allied Energy Systems (AES) to refurbish Kelvin power station and provide power to the Johannesburg Metropolitan Council (Business Day 15.12.00; 01.10.01). A power purchase agreement was signed between City Power (the electricity utility for the Johannesburg metro) and the Kelvin station to guarantee purchasing and sale of electricity between the two. This was the first substantial independent generator to be licensed. In 2002 AES announced it was going to sell its 95 percent stake in the power station to UK's CDC Globeleq (Business Report 19.12.02).

In the bigger municipalities, local government started a process of corporatising service delivery vehicles. In Johannesburg, the iGoli 2002 restructuring programme resulted in the corporatisation of Greater Johannesburg's electricity supply. City Power was established as a company through the merging of the electricity distribution functions of Johannesburg, Roodepoort, Midrand, Modderfontein, Randburg and Lenasia in 2001 (Business Day 29.06.01). To begin with, the councils will be the only shareholders and will also regulate the utility. But the structure allows for the councils to bring the private sector on board over time. This is the explicitly stated direction to be followed, with the MD of the utility having the responsibility, amongst other things, to 'bring in external partners, where appropriate' (Greater Johannesburg Metropolitan Council 2001). Similar processes of ring fencing and corporatising municipal utilities have occurred in other metros.

Ring fencing of regulated activities was only half of the restructuring process inside Eskom. In 1999 Eskom Enterprises (EE) was formed by the unbundling of Eskom into core and non-core areas, with EE taking over the latter. Non-core areas included support services (such as telecommunications, engi-

neering and transport), research into nuclear technology, and energy related activities outside South Africa's borders. EE was formed as a wholly owned subsidiary of Eskom and took the form of a company. It was required to pay taxes and dividends like any other company. EE's mission was to lead the global expansion of Eskom activities. From 1999 EE expanded aggressively into Africa in the infrastructure development, energy business operations and energy services, and the telecommunications and information technology fields, with contracts or negotiations under way as far as Egypt and Morocco. By 2003 EE had offices in South Africa, Mali, Uganda and Nigeria (Eskom 2003:2). EE's long-term goal was to link electricity routes between Africa, Europe and the Middle East (Business Day, 12.03.02).

Rotek Industries, EE's engineering and construction division, was established in 1989 when the assets and operations of Eskom's central maintenance services were transferred to an independent holding company. This allowed Eskom to 'contract out' its power system maintenance. Rotek provides services that include heavy electrical and mechanical repairs and refurbishment, infrastructure development, property management and transport projects. Rotek has been involved in projects in Africa as well as Australia and South East Asia (Business Day, 01.03.01). The privatisation of Rotek was started with the announcement of the full disposal of Rotek Vehicle Services in 2002 (Dept of Public Enterprises 2002).

In 2001 a new company – Arivia.com - was formed out of the consolidated telecoms and information technology networks of Eskom, Transnet and Denel (see section on communications below). Shareholding was based on the value contributed by each partner, with Eskom holding 45% of the shares (ESI Africa 2001). Eskom is also part of the second national fixed line telecommunications operator with a 15% stake through Esitel, its telecommunications arm (see section on communications below).

By 2003 a general rethink resulted in the shelving of the plan to sell Eskom generating capacity in the immediate term. In 2004 the Minister of Public Enterprises announced that government had changed its objective from establishing a wholesale market to a focus on ensuring security of supply (Eskom 2005:71). Rather than selling Eskom generating capacity, competition would be introduced by allowing the private sector to build and operate additional power generation capacity (Financial Mail 18.02.05). A tender is to be issued for independent power producers to provide additional needed capacity by the end of 2008. Five international energy companies are participating in the consortia that have been short listed to build, own and run the first two private power plants in the Eastern Cape and KwaZulu-Natal (Business Day 24.08.05). Eskom would remain intact, but only be responsible for 70% of generation capacity. Eskom's three mothballed power stations - Komati, Grootvlei and Camden, together grouped into Simunye – will be recommissioned and brought on stream in 2006 under Eskom ownership and management. Further ahead, the utility plans to invest in at least four new power stations. The utility announced an R84bn spending plan over the next 5 years. However, internal restructuring was to proceed, with the planned disposal of non-core businesses (Financial Mail 01.07.05).

Transmission has been ring fenced and is a division of Eskom, and the plan remains to establish a state-owned transmission company separate from Eskom. Eskom's Power Exchange Department was ring

fenced in preparation for the formation of a South African Power Exchange (Eskom 2005:73). EDI Holdings (Pty) Ltd was established to implement government policy on the setting up of REDs. In 2005 government made a decision that REDs would be municipal entities, thus giving effective control of the businesses to the municipalities. However, conflict remained, with national government seeking to compel municipalities to join REDs while some municipalities wanted this to be voluntary on the basis of their constitutional obligations to provide electricity. An Electricity Distribution Industry Restructuring Bill will be placed before Parliament early in 2006 (Financial Mail 18.11.05). In the meantime, Eskom's Distribution division reorganised itself into 6 regions to align with the proposed REDs (Eskom 2005:73). Despite lack of resolution, the first RED was launched in Cape Town in July 2005 and appointed as the electricity supplier of choice to Cape Town for an initial 25 years (Business Day 07.07.05). The other REDs are expected to be operational by 2008. Restructuring of distribution into REDs is expected to result in the loss of up to 1000 jobs (Business Day 10.08.05). Late in 2005 it was announced that a seventh RED was to be established. Each of the six biggest urban areas will have a stand-alone RED. Municipalities falling outside these REDs will have a choice of joining one of these REDs or of participating in a seventh, national, RED (Mail & Guardian 02.12.05).

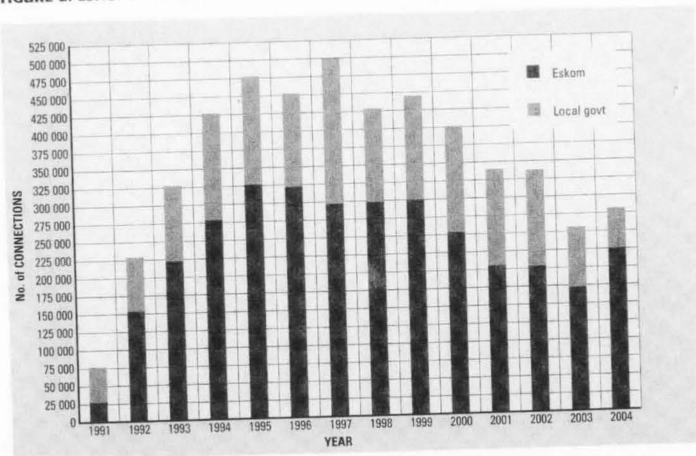
In 2005 EE was pulled in directly under Eskom Holdings as the Enterprises Division, whereas it was previously a ring fenced subsidiary. The line divisions would be clients of the Enterprises Division (Eskom 2005:51). The change in government focus indicated a need for greater integration between the core functions of Eskom and the functions of EE (Eskom 2005:72). While EE is to continue as the contracting vehicle for non-regulated activities, it will now also house the non-core assets and businesses that have been identified for disposal. Rotek Industries remained a stand-alone subsidiary of Eskom.

Impact on delivery, prices and employment

What have the impacts of restructuring been on service delivery, prices and employment? Eskom was tasked with rolling out electricity infrastructure during the 1990s. The RDP set an electrification target of 2.5 million household connections by 2000, and the electrification of all schools and clinics as soon as possible. As a contribution to this target, Eskom established its own target of 1.75 million household connections (300 000 a year) on the assumption that municipal distributors would be responsible for the remainder.

Because of the structure of the industry, with Eskom monopolising all the segments while not being required to pay taxes since it was a part of the state, funds for the electrification programme came from Eskom's internal resources, including a levy on existing users. Prior to 1994 Eskom funded municipal connections by refunding R400 of the cost of each new connection. It also made available bulk discounts to municipalities on the basis of their electrification programmes (Davis 1996:475). After 1994 the NER picked up where Eskom had left off, providing a more substantial average subsidy to municipalities of R2 400 per connection. In 2001 the Department of Minerals and Energy took over the funding of the electrification programme but Eskom was contracted as the business planning and implementation agent for the programme.

FIGURE 2: ESKOM AND LOCAL GOVERNMENT ELECTRICITY CONNECTIONS, 1991-2004



Source: Eskom Annual Reports and Statistical Yearbook 1996, NER Supply Statistics 1996 & 2003
**Eskom figure for 2004 a 12 month approximation based on reported figure for 15 months Jan 2004-Mar 2005 for the sake of comparison; local govt figure for 2004 supplied by Chris van Zyl, Department of Minerals & Energy, personal communications, 23 March 2006*

Between 1991 and 2004, Eskom made over 3.2m new connections. These were of varying standard, and included full 3 phase connections as well as low voltage single-phase connections for poor consumers. Although the number of connections grew rapidly, there was also a high level of disconnections mainly for non-payment. Unfortunately, data on disconnections is very hard to come by. The Department of Provincial and Local Government (DPLG) released detailed quarterly statistics on connections and disconnections at municipal level from 1996 to March 2002. Taking the first quarter of 2002 as an example, the figures show that more people were being disconnected than connected in this period (see Table 4). The primary reason for disconnections is lack of payment for services. So although the infrastructure is rolled out, access is limited to those who can afford the service.

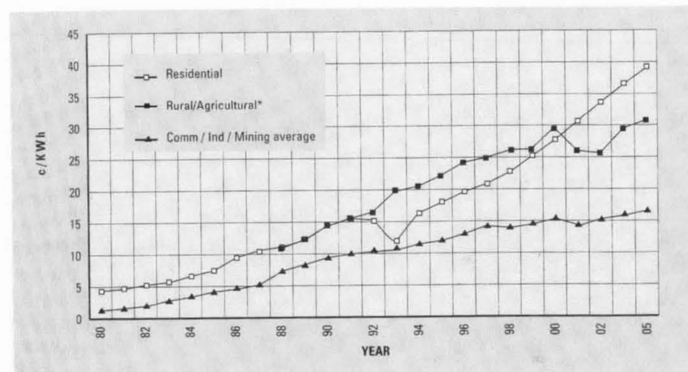
TABLE 4: ELECTRICITY PROVISION GOING BACKWARDS...

Average number of disconnections per month by municipalities (Jan 02-Mar 02)	90 224
Estimated number of disconnections per month by Eskom	20 000
Total avg monthly disconnections before reconnections and new connections	*110 224*
Less average monthly reconnections by municipalities (Jan 2002–Mar 2002)	- 38 691
Less avg new connections per month if government's full targets are reached	- 29 167
Total avg monthly disconnections after reconnections and new connections	***42 366***
Total number of people affected every month by disconnections (excluding those disconnected and then reconnected) at an avg of 6 people/household	254 196

Source: Greenberg 2002: Derived from Project Viability reports, Eskom Annual Reports

Lack of payment for services is closely related to the inability to pay. In the 1990s Eskom moved to a policy of 'user pays' cost recovery and cost reflective tariffs. In essence this meant that residential users would pay more than other users since it is more expensive to deliver and manage a residential service than bulk supply to industry. This is borne out in the tariff figures. Overall electricity prices from Eskom showed a gradual decline in real terms from 1983 until 2002. From 2003, overall tariffs began rising slightly above inflation. But if tariffs are broken down into different user categories, it is clear that residential tariffs have risen faster than those for other user groups - especially after 1993 (figure 3). Tariff restructuring has placed a heavier burden on residential users than commercial and industrial users. Above inflation price increases are expected over the next few years to assist Eskom to fund part of its capital investment programme (Business Day 28.10.04).

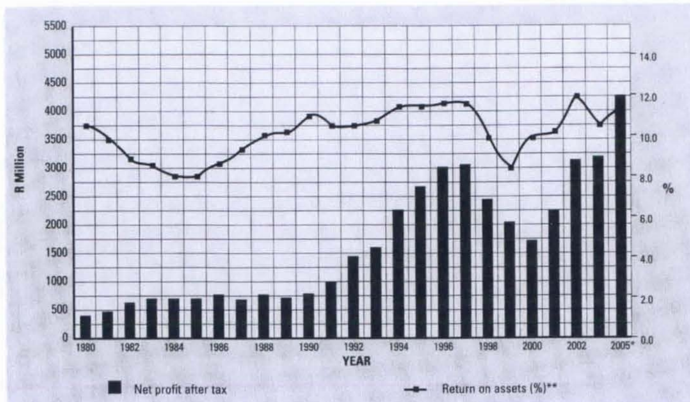
FIGURE 3: ELECTRICITY TARIFFS BY SELECTED USER CATEGORY, 1980-2005



**Prior to 1987, farming was included under industrial*
Source: Eskom annual reports, Eskom Statistical Yearbook, 1996

Eskom profitability has risen substantially since corporatisation (figure 5). It reached a peak in 1996-97 and has more or less plateaued since then (with a trough bottoming out in 2000). The 2005 after tax profits are for a 15-month period so cannot be compared directly with previous years. A comparison with the *Fortune 500* top global companies shows that Eskom's after-tax-profits-to-revenue ratio is nearly twice the median produced by 23 electricity utilities listed, and it would be in second place if it were large enough to get on the list (Mail & Guardian 14.10.05).

FIGURE 5: ESKOM PROFITABILITY INDICATORS, 1980-2005



**Jan 2004-Mar 2005 ** Net operating income (before finance charges) divided by total assets*
Source: van Horen, 1996 (up to 1994); Eskom annual reports (from 1995)

Fuel and gas

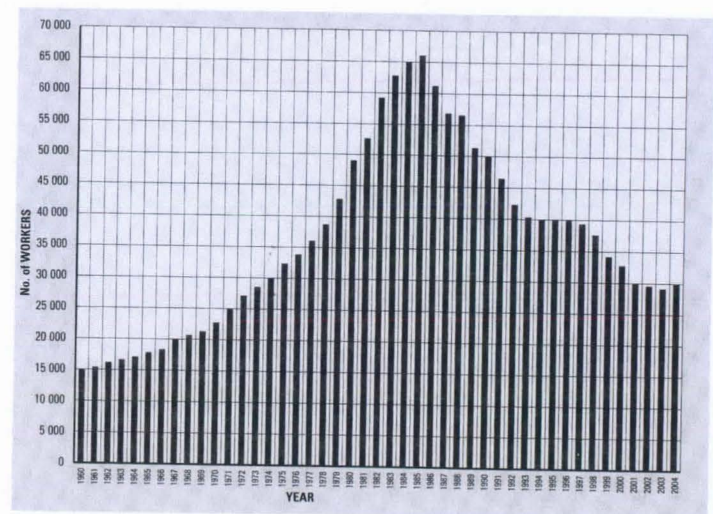
Overview

- Privatisation of Sasol under apartheid
- Corporatisation of state-owned petrol and gas holdings into PetroSA in 2002
- Privatisation of Johannesburg's gas utility in 2001
- Although PetroNet will remain under Transnet at present, there are plans to separate the pipeline network from pipeline operations, opening up the possibility of concessioning of operations in future

Corporatisation of Eskom has had a strong negative effect on employment at the utility (see figure 4 below). Soon after Eskom adopted the 1984 De Villiers Commission recommendations, a rapid decline in the workforce began. This reached a brief plateau during the period of negotiations for political democracy in the early to mid-1990s. After 1996 – the year when GEAR was introduced and proposals for the restructuring of the electricity sector began firming up – the descent continued. The transfer of some workers to the separate units with the unbundling of Eskom does partly account for the decline, since these workers – in Eskom Enterprises and Rotek, for example – were no longer considered to be Eskom workers. The slight rise in 2005 indicates the re-absorption of EE workers back into Eskom (Eskom 2005:72).

In 2001, government acknowledged that changing operational requirements resulting from restructuring could lead to significant job losses (Dept of Public Enterprises 2001a). In exchange for short-term job losses, the Ministry for Public Enterprises made the lame suggestion that these might be offset for labour 'as a group' by the 'appreciation in the value of shares acquired in the restructured enterprises' and 'improved economic conditions that permit re-absorption into the job market' (Ministry of Public Enterprises 2000:39). Therefore, retrenched workers will lose, but those who remain might benefit from having shares in the restructured company. The retrenched workers might then find new jobs if South Africa ever again finds itself in a phase of job-creating growth.

FIGURE 4: ESKOM EMPLOYMENT 1960-2005



**Jan 2004-Mar 2005*
Source: Eskom Statistical Yearbook 1996; Eskom Annual Reports 1999, 2001, 2005

Sasol, the state-owned coal-to-oil giant, was already partially privatised in the early 1980s, with Sasol 1 sold in 1980 and Sasol 2 in 1984 to the IDC and Konoil for a combined total of R2.34bn. In 1991 Sasol 3 was sold to the same companies for R1.05bn (World Bank 2000). Sasol Limited was established as the private corporation holding the shares. In 2003 the public owned 70 per cent of the shares in Sasol Ltd, and the IDC owned 30 per cent. Sasol Limited owned 100 per cent interest in Sasol 1 and 50 per cent interest in both Sasol 2 and Sasol 3 (Brynard 2003:7). In the process of privatisation, government agreed to continue to subsidise the company when oil prices fell below US$23/barrel. If the price exceeded US$28.70, Sasol would forfeit 25% of all income above this level until the subsidies were repaid in full. The subsidies grew to R6bn, but in 2005 – when oil prices peaked at US$70/barrel – government agreed that the privately owned Sasol was no longer required to repay those funds (Mail & Guardian 23.09.05).

Mossgas, a natural gas-to-petroleum products producer, was another state-owned fuel entity that began production in 1993. The company was part of the Central Energy Fund (CEF) group of companies through which the government's interest in the liquid fuel industry is owned, developed and managed commercially. Although Mossgas was considered a white elephant and there were calls for its disposal in the mid 1990s, government held onto it. In line with the 1998 Energy White Paper, in 1999 the DME announced the merger of the CEF commercial interests into a national oil company. Mossgas, along with Soekor Exploration & Production (Soekor), and elements of the Strategic Fuel Fund (SFF) were joined to create the Petroleum Oil and Gas Corporation of South Africa (PetroSA) (Alexander's Gas & Oil Connections 2002). PetroSA was launched in 2002 as a subsidiary of the CEF (Pty) Ltd, and operates as an upstream company for South Africa's government-owned oil and gas holdings. The company has become an active trader and provider of oil and chemicals to over 40 countries (Davidson & Winkler 2003:5). In 2005 PetroSA announced a joint venture agreement with US-based Pioneer Natural Resources Company to develop gas fields off the Cape's south coast in a deal worth R2.6bn (Business Day 29.09.05).

The first privatisation in South Africa's gas distribution sector was completed in August 2000, when a consortium led by the US-based Cinergy and BEE group Egoli Empowerment Holdings was chosen to purchase Johannesburg's Metro Gas Company. The company was renamed Egoli Gas (Alexander's Gas & Oil Connections 2002).

Petronet is a Transnet division (see more under 'Transport' below) that owns and runs almost the entire network of petroleum pipelines in South Africa (apart from a section on the west coast owned and run by Caltex). The pipes mostly transport petroleum and gas products, but can also be used to transport solids in suspension (slurry or paste). The network basically operates between Durban where most of the refineries are, to Gauteng and Mpumalanga. There do not appear to be any plans to separate Petronet from Transnet, although Transnet's business strategy indicates a plan to separate the pipeline network from pipeline operations (Dept of Transport 2005:53). This suggests the possibility of concessioning operations to the private sector at some time in the future.

MINING, PRIMARY SECTOR MANUFACTURING AND ARMAMENTS

Mining and primary sector manufacturing

Overview

- Alexkor diamond mine commercialised in 1992 and split into two business units in 2001
- Management of Alexkor outsourced since 1999
- Government announcement of intended sale of 51% stake in Alexander Bay Mining (ABM), one of the two units, in 2001
- Non-core assets in process of being transferred to municipal and provincial government
- Privatisation process halted while Richtersveld land claim goes through courts

Given the centrality of the Mineral Energy Complex (MEC) the state was deeply entrenched in direct activities in this broad sector. From electricity and fuel production (see section above), steel production, to mineral beneficiation and mining, the state occupied a crucial place in the primary economic complex in South Africa. In 1989 the iron and steel manufacturer, Iscor, was converted into a public company and its shares were placed on the market. About two-thirds of the shares were made available to corporate institutions, 10% were set aside for Iscor employees, around 8% were for the general public and the state kept a 16% holding through the IDC. The sale raised R3.7bn that was used to reduce government debts (SAIRR 1990:581-82). Also in 1989 government sold a 30.7% share of aluminium producer Alusaf to Gencor, with a further 20% going to employees (World Bank 2000). In 2004 Iscor was merged into Mittal to become part of the world's largest and most profitable metals company.

At the end of apartheid, the state retained ownership of a number of mining and mineral beneficiation corporations, including phosphate producer Foskor (a wholly-owned subsidiary of the IDC) and diamond mine Alexcor. IDC plans to sell a 26% stake in Foskor were scaled back to a proposed 6-10% sale following poor results in 2004 (Business Day 22.07.04). In early 2005 the IDC announced it had signed a deal giving Indian company Coromandel Fertilisers Ltd (CFL) an option to buy up to 16.5% of Foskor (Business Report 14.02.05). CFL entered into a three-year business assistance agreement with Foskor to provide management skills, technology and access to markets (Industrial Development Corporation 2005:55).

In 1992 Alexkor was commercialised and run as a public company with the state as sole shareholder. Since 1999 the management of Alexkor has been outsourced. In 1999, Nabera consortium was awarded a management contract for Alexkor. When the contract expired in 2001 Mintek, a parastatal research, development and technology transfer institute operating in the metallurgy and minerals processing fields, took over management responsibilities (Financial Mail 15.06.01). Mintek introduced a massive retrenchment exercise in a bid to make the mine profitable (Alexkor 2003:8). Non-core businesses included dairy and cattle, ostrich, lucerne, grain, fruit and oyster farming.

Alexkor also had residential services, community services, outside engineering services, external transport services, guesthouses, campsites, tourism, airport, recreational clubs, a museum, and a printing press (Alexkor 2005).

In 2001 government passed the Alexkor Limited Amendment Bill and announced plans to sell 51% of Alexcor's mining interests and a free transfer of another 10% of shares to the local community. This would follow the disposal of a string of non-core assets, including the transfer of Alexander Bay Town and all its social infrastructure to the Richtersveld municipality and the Northern Cape provincial government, which would decide on their future (Financial Mail 17.05.02). Alexkor was split into two corporatised business units, Alexander Bay Mining (ABM) and Alexander Bay Trading (ABT). However, in 2005 the Constitutional Court ruled that the Richtersveld community has a right to ownership of the land and the minerals in accordance with their land claim. The claim is still in court and resolution is expected in early 2006. Meanwhile, government has announced the termination of the privatisation process (Alexkor 2005).

Armaments

Overview

- Armscor split into two units and Denel formed as a state-owned company out of the split in 1992
- Armscor Business set up in 2002, consisting of 14 business units
- Unbundling of Denel's IT operations from core military functions in 1997
- IT operations renamed Ariel Technologies and corporatised in preparation for privatisation
- Cabinet approves sale of 30% of Denel Aerospace and Ordnance to BAE in 2002 for R375m and hands-on management access, but the deal falls through
- 51% of Airmotive, Denel's aero component and helicopter maintenance division sold for R30m to the French Snecma group
- Turnaround strategy in 2005 plans to unbundle Denel into independent subsidiaries with state ownership of umbrella investment company and private sector ownership or partnership in subsidiaries

The Armaments Development and Production Corporation was formed in 1968 and later merged with the Armaments Board to form the Armaments Corporation of South Africa (Armscor). Armscor was formed to circumvent the threatened arms boycotts against South Africa. By 1980 Armscor was one of the biggest corporations in the country. State defence contracts also supported 400 private arms contractors. Armscor was also responsible for purchasing weapons from outside South Africa, and did deals in contravention of UN arms embargoes with France, Italy, the US and West Germany for technical assistance and licensed production. In the 1960s, Armscor began developing homegrown weapons technology for own use and export (Davies, O'Meara & Dlamini 1985:104-5). The industry – state and private alike - was heavily reliant on state subsidies for survival (Armscor 2005). Almost half of government's spending on defence research and development in 1993 (R206m) went to private firms through the SA National Defence Force acquisition budget (Financial Mail 20.10.95).

In the 1990s, as the defence budget shrank, the defence industry was reoriented from a manufacturer of military products only to a manufacturer of civilian products as well. As the Act in terms of which Armscor had been set up, prohibited it or any of its subsidiaries from manufacturing civilian products or competing with the private sector, this plan resulted in the splitting of Armscor into two separate corporate entities, Armscor and Denel. Armscor remained part of the Ministry of Defence, and focused on programme management and arms acquisition. In 1995 Armscor relinquished control of arms marketing and exports to the Defence Force Secretariat. In 2002 Armscor's strategic facilities were grouped together into Armscor Business. These facilities included the Institute for Maritime Technology, Protechnik Laboratories, Hazmat Protective Systems, the Defence Institute and Armour Development Group (Armscor Business 2005).

In 1997 Denel unbundled its non-core operations from its core military business. Denel Informatics was renamed Ariel Technologies and corporatised in preparation for privatisation. Some small non-core and unviable companies were sold off and others folded into existing operations, resulting in staff numbers falling from 1 600 to 1 350. Ariel contributed about 20% of Denel's revenues at the time (Financial Mail 31.10.97). Denel's non-core assets include Bonaero Park (commercial property), Specialised Protein Products (soya processing), Dendustri (manufacture of parts for aluminium smelters), Voltco, Irenco and Observer Technologies (consumer electrical products and plastic mouldings) and CoSource (IT solutions) (Mail & Guardian 15.12.05).

The corporation drafted a "Masterplan for Restructuring and Privatisation of Denel" in 1999, proposing full privatisation of Ariel by the end of the year and the partial privatisation of Denel Aviation (Financial Mail 07.08.98). In 2000, government announced plans for the partial privatisation of Denel, with BAE systems signalled as the preferred bidder. In 2002 Cabinet approved the sale of 30% of Denel Aerospace and Ordnance to BAE for R375m and hands-on management access (Financial Mail 17.01.03). However, in 2003 government halted these discussions, and continued searching for a single strategic partner for Denel (BusinessMap 2004:10). In 2002, 51% of Airmotive, Denel's loss-making aero component and helicopter maintenance division, was sold R30m to the French Snecma group to form Turbomeca Africa (Financial Mail 17.05.02; 17.01.03).

A new plan in 2005 saw a return to the path of privatisation following the collapsed BAE deal in 2003. The plan is based on unbundling Denel into between 6 and 10 independent subsidiaries and their preparation for part or full privatisation, funded by R5bn from government over 5 years. Denel will be a 100% state owned investment holding company called Denel Ltd as an umbrella for clustered technology businesses, partly or wholly owned by Denel. The first phase will involve cleaning up finances and retrenching unwanted staff, and the second phase will be to modernise and expand plant and equipment, and invest in research and development (Financial Mail 17.03.06). Swedish

aerospace company Saab said it would buy some of Denel's non-core units as well as buying stakes in core units including Denel Aviation, the aero-engineering division. Saab would buy an initial 20% stake with the option to raise this to 51% over several years. The purchase would form part of Saab's offset commitments from its sale of jets to the South African airforce as part of the recent arms deal (Business Day 01.02.06; Financial Mail 17.03.06).

COMMUNICATIONS

Telecommunications

Overview

- Extensive commercialisation and corporatisation across telecommunications, broadcasting, postal services and IT especially since 1991
- Telkom partially privatised in 1997 – a 15% stake sold to US-Malaysian consortium Thintana with another 15% to minority shareholders for R5.5bn, of which R1.15bn went to government
- Thintana given management control, and Telkom given a five year exclusivity deal that permitted it to operate without competition
- In 2001, another 3% government stake in Telkom sold to Ucingo BEE consortium and another 2% to staff, leaving government with a 65% stake
- Although Telkom rolled out 2.1m lines between 1997 and 2001, it ended up disconnecting two thirds of the lines because of inability of customers to pay and other breaches of contract
- An IPO on the Johannesburg and New York Stock Exchanges in 2003 resulted in the sale of a further 26.7% of Telkom's shares, and raised R4.3bn – far below valuations of just two years previously. Government remains the majority shareholder with a 38.5% stake in Telkom
- Plans to launch a second national operator (SNO) to coincide with the end of the five year exclusivity deal in 2002 did not materialise, allowing Telkom to continue its de facto monopoly
- In 2002, Transnet sold a 20% stake in MTN to a management and staff consortium for R5.3bn, of which R2bn went to government. Senior management got a 70% allocation
- In 2005 Transnet's plans to dispose of its final 5% stake in MTN fell through after it could not reach agreement with a BEE consortium on the price
- Employment in Telkom almost halves between 1999 and 2005
- In 2005 the Minister awards the SNO licence to a consortium that includes the telecommunications units of Eskom and Transnet, some BEE consortia and an as yet unnamed equity partner. The introduction of a SNO is not anticipated to bring down call prices for residential users in the medium term.
- In 2004 Thintana first reduces its stake in Telkom to 15%, selling to local and international investors, and then sells its final 15% to the Public Investment Corporation (PIC) which warehoused them for a BEE consortium that includes former Communications DG Andile Ngcaba and ANC spokesperson Smuts Ngonyama

Telkom was a government business enterprise established in 1958 at the same time as the Post Office. Although Telecommunications was very profitable, some of the profits were used to cross-subsidise loss-making postal services (see below). There was some consideration of privatisation in the late 1980s, but plans were shelved during the transition. Nevertheless, the apartheid government began the process of commercialisation and a drive for profitability with the separation of the Posts and Telecommunications units in 1991. Telecommunications was a state monopoly until the early 1990s when the apartheid government licensed two mobile phone operators and introduced some competition into value-added network services (VANS) and customer premises equipment. Telkom held a 50% share in Vodacom, one of the mobile phone operators.

In 1995, Telkom tabled a plan to privatise some 'non-core' services, such as restaurants, security, construction, workshops and transport, by selling these to business partners and staff (Financial Mail 25.08.95). The international Gemini consultancy was brought in to assist with initial restructuring, and US bank Goldman Sachs was recruited to assist with finding an equity partner for Telkom (Financial Mail 19.01.96). However, union opposition prevented this from taking place.

In 1997 Telkom became a partially privatised monopoly with a five-year exclusivity period where it was permitted to function without competition, in accordance with the 1996 Telecommunications Act. Thintana Communications (a consortium of US-based SBC Communications and Malaysian-based Telkom Malaysia Berhad) purchased a 30% stake in Telkom. The consortium was given management control of the company (Hodge 2004:2). Of the approximately R5.6bn from the sale, government received about R1.15bn with the remainder going into Telkom's capital programme. Government used its share to reduce government debt (Financial Mail 11.04.97).
In terms of the agreement, Telkom was given three licenses: public switched telecommunications, transmission of radio frequencies, and VANS. In exchange, Telkom was to spend R40-53bn on capital expenditure over five years, to roll out 2.7m lines and 120 000 payphones, and to replace all 1.25m analogue lines with digital technology (Financial Mail 04.04.97). Despite these commitments, Thintana stated that network rollout would be done on commercial principles only, and that network expansion was subject to consumer demand (i.e. whether potential customers could pay for the service) (Financial Mail 20.06.97). As it turned out, Telkom ended up disconnecting two-thirds of the 2.1m lines it installed in the four years to March 2001 because of bad payments,

breaches of contract and relocations (Financial Mail 19.10.01). By 2005, fixed line penetration was only 10%, and had actually decreased to 4.7m lines by 2005 (Telkom 2005:13). The number of residential fixed line subscribers was lower than when Telkom's exclusivity period began in 1997 (Mail & Guardian 11.06.04). Telkom does not anticipate a significant increase in fixed line penetration rates in the short term, primarily because of competition from mobile phones. Access to telephony remains racially skewed, with just 37.3% of black households having regular use of a telephone compared with 93.3% of white households (Gillwald & Esselaar 2004:8).

Telkom's 50% share in Vodacom is its main asset, and the company appears to be focusing on the mobile market and the African the fixed line market, especially with the imminent launch of the second national fixed line operator in South Africa (see below). Despite the emphasis on mobile technology, South Africa's total household telecommunications penetration rate of 47% remained marginally lower than the average for other lower-middle-income countries. The poor fixed line penetration has implications for the extension of internet technology because of the continued high costs of mobile data services (Gillwald & Esselaar 2004:5).

In 2001, a further 3% of Telkom was sold to BEE consortium Ucingo for R565m, and another 2% was planned to go to current and former employees. This reduced government's ownership to 65%. Despite the sharp devaluation of telecoms stocks following the bursting of the tech stocks bubble at the end of 2000, government went ahead with plans to list Telkom on the stock exchange. By 2002, Telkom's value had dropped to a third of the R100bn-plus valuations of just one year earlier (Financial Mail 20.09.02), and Telkom was valued at just R15.6bn by the time of the IPO in 2003. Initially planned for 2001, the listing took place in 2003 when Telkom SA Ltd was listed on the Johannesburg and New York Stock Exchanges, raising R4.1bn from the sale of over half of government's remaining shares in the company. Although an effort was made to widen the base of shareholders to include less wealthy individuals, church groups and stokvels through the Khulisa scheme, the biggest chunk of the shares went to institutions. Just 9% of shares (or 2.3% of Telkom) went to individual shareholders, of which 58% of those were allocated to the Khulisa shareholders. The remaining 91% went to institutional and foreign investors (Financial Mail 07.03.03). Government remains the majority shareholder with 37.7% of Telkom shares. The Communications Department receives dividends from these shares. In 2006 Mpetjane Lekgoro, chair of the Parliamentary portfolio committee on communications, was quoted as saying government would consider selling its remaining stake in Telkom "if the deal makes good business sense, and (government) is confident that matters of pricing and universal coverage will go right" (Business Day 09.03.06).

In 2004, Thintana reduced its stake in Telkom to 15%, selling half its shares to local and international investors. Then, in a move that surprised everyone, in late 2004 Thintana sold its remaining stake. Originally the Elephant Consortium, headed by former Communications Director General Andile Ngcaba, and including ANC spokesperson Smuts Ngonyama, was the preferred buyer. But when the consortium couldn't come up with the capital, the Public Investment Corporation (PIC) stepped in to buy the shares and warehouse them until the consortium could find the money. This use of pension fund money for what amounted to patronage was widely condemned, since the PIC is tasked with making investments that will benefit its members in the long term. In 2005 the PIC restructured the purchase to keep 5% of the shares for itself, sell 6.7% to Ngcaba's group and warehouse 3.3% for planned distribution to 1.5 million government employees. However, the board of the Government Employees Pension Fund – in particular the Cosatu representatives - vetoed the proposal to distribute shares to employees (Business Day 26.08.05). Cosatu argued instead that all shares should be returned to government and Telkom renationalised. Instead, Ngcaba's consortium ended up with a 10.1% stake.

During this period, a process of 'managed liberalisation' was carried out; with plans for a second national operator (SNO) to be licensed to compete with Telkom, and a third mobile operator was licensed (National Treasury 2005:640). Later four operators were granted Under-Serviced Area Licenses (USALs) to operate small networks in areas with less than 5% teledensity, with another three granted licenses on condition of clarification of ownership issues (Gillwald & Esselaar 2004:16). The USAL licensees were to receive a subsidy of R5m plus an interest free loan of R10m each, drawn from the Universal Service Fund (that all telecoms license holders pay a proportion of their income to) (Business Report 04.06.04). There are questions about the business viability of these licenses, especially in the light of ongoing liberalisation of the sector. The Electronic Communications Bill, finalised in 2005, also makes provision for small-scale private telecommunications networks (PTNs) that will require registration but will be licence-exempt except where capacity is resold (Business Day 22.09.05).

Despite Telkom's five-year exclusivity period ending in 2002, the SNO had not yet been licensed, giving Telkom an extension on its monopoly that it used to good effect to entrench itself (see below). In 2005 the Minister awarded the second fixed line network license to a consortium of Nexus Connexion (a BEE company), Transtel (Transnet's telecoms branch), Esitel (a division of Eskom Enterprises), Wip Investments Nine (trading as Communitel), Two Telecom Consortium and Tata Africa Holdings (through its telecommunications subsidiary Videsh Sanchar Nigam Ltd of India) with 26% (Business Day 07.09.05; Eskom 2005:74). A new company, Sepco, will be formed out of the last three to hold 51% of shares. Nexus will have 19% of the SNO and Transtel and Esitel (organised into SoeCo) will have 15% each (National Treasury 2005:627). This will give the state a 30% stake in the SNO. The SNO was finally licensed in mid December 2005.

To ensure that there is competition in a liberalised environment, a big issue that has merged recently is unbundling of the local loop. This refers to Telkom's monopoly control of the last link between the exchange and the customer. Unbundling the loop will give other telecoms operators direct access to the final section of Telkom's phone lines. Telkom stated it would allow the SNO to use its network facilities for only two years – after which any agreements would have to be negotiated commercially (Financial Mail 20.09.02). Telkom would like to – and does - argue that public resources were used in the past to build the local loop and that free access would amount to a subsidy to private operators. However, this neglects to acknowledge that Telkom is a mainly privatised entity itself today and that its shareholders are thus benefiting exclusively from past public expenditure.

In 2002, Transnet sold a 20% stake in listed telecoms company M-Cell (holding company for cellular operator MTN) to a management and staff consortium for R5.3bn, of which R2bn went to

government. Senior management got a 70% allocation and the remaining 30% was allocated to other employees (Financial Mail Top Companies 2003: 115). The planned sale by Transnet of its last 5% stake in MTN to a BEE consortium, Umthunzi Telecoms Consortium, fell through in 2005 because of the low value that had been placed on the shares (Business Day 23.09.05). There were also concerns that the consortium, led by former Denel chair Sandile Zungu, was not broad based enough. The proceeds were to be used to boost Transnet's ailing pension fund (see more under Transport below).

The Telecommunications Act of 1996 established independent regulators for telecoms and for broadcasting. These were later merged into the Independent Communications Authority of South Africa (ICASA). ICASA gets licence fees from telecommunications operators and broadcasters, and deposits these with the Communications Department. The Icasa Amendment Bill, currently on the table, proposes that a new Electronic Communications Authority replace Icasa. It also gives the Minister of Communications rather than Parliament the responsibility to appoint councillors, bringing into question the independence of the proposed regulatory authority (Mail & Guardian 30.09.05).

The regulator does not have a lot of power to set fixed line tariffs. Regulations and the Rate Regime allow for a very generous 'productivity factor'[2] that limits the regulator's ability to cap prices (Hodge 2004:1). Telkom's license conditions provide great leeway for Telkom not to produce regulatory accounts to ICASA, even though this information is crucial to working out how Telkom arrives at its prices (Hodge 2004:5). In the face of a weak regulator with inadequate information, Telkom was able to manipulate the regulations to suit its profit making purposes, for example by eliminating the 50-100km band from its call structure and categorise these as long distance calls. This increased the cost of calls from Johannesburg to Pretoria in particular (Hodge 2004:9). Local call charges increased nearly five times between 1996 and 2004 to compensate for reductions in long-distance calls (Mail & Guardian 11.06.04). Given that competition will reach the residential segment of the market last, Telkom is likely to transfer the cost of discounts elsewhere to residential consumers (Gillwald & Esselaar 2004:6). Overall, Telkom has been able to make abnormal profits from its monopoly position.

In 2004 the deputy DG in the Communications Department, Pakamile Pongwana, said that although the intention of liberalisation was to lower call costs, this had not happened anywhere else in the world, unless accompanied by major technological innovations and new products aimed at business. It would take a new operator up to five years to break even so local calls would not be cheaper during that period (Business Report 30.08.04). All in all, business is likely to be the main beneficiary of the SNO. The licence conditions for the SNO only require the operator to function in the metropolitan areas for the first 5 years. This may result in a reduction of prices for business users because this is the profitable section of the market where the operator will concentrate its efforts, but residential users will still be left without a choice of providers. International evidence also suggests that a duopoly does little to bring prices down (Financial Mail 08.09.00). The costs incurred by Telkom to install pre-selection technologies at exchanges, to allow consumers to choose which network they want to connect to, would be passed on to Telkom customers (Financial Mail 20.09.02).

Employment in Telkom has declined precipitously since its corporatisation, despite telecoms being a growth area. New technologies and a need to acquire new skills while shedding old skills have contributed to this. Telkom has long argued that it has too many workers per line (its measure of productivity) compared to other countries like the US. It therefore engaged in a drive to reduce the workforce. The results are apparent in figure 6 below. The growing share of mobile networks in the telecommunications market has not absorbed the labour shed by Telkom because mobile technology is less labour intensive. Between them, MTN and Vodacom employed around 7000 people in 2004 (Gillwald & Esselaar 2004:10). In 2004 Telkom announced plans to cut another 4 181 jobs over the next three years (Business Day 14.09.04). The reasons Telkom gave for the planned cuts were to create shareholder value and to benchmark itself against its peers in emerging markets (Business Day 21.07.04). But Telkom's annual reports showed the effect of continued retrenchments. Statistics showed that it took five times as long to install a corporate line from 2003 to 2004 and Telkom became 8% slower at repairing faults over the same period (Business Report 29.06.04).

FIGURE 6: EMPLOYMENT AT TELKOM, 1995-2005

Source: Telkom Annual Reports

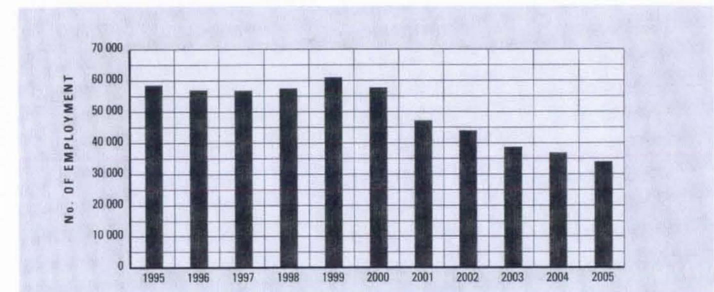
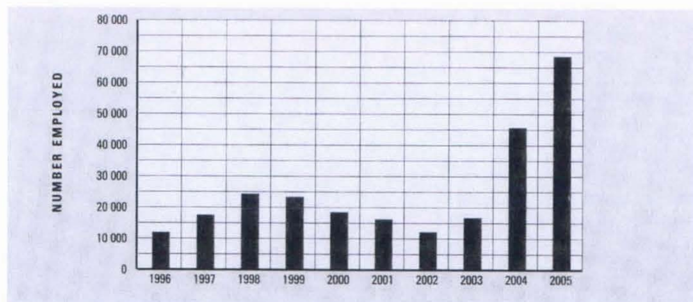


Figure 7 below shows that Telkom's after tax profits have risen dramatically since 2003. If this is looked at in conjunction with the decline in employment shown above, it is clear that profit is coming at the expense of job losses. Jobs start declining rapidly in 2000. 2000-2003 was a period of difficulty for telecommunications companies globally following the bursting of the tech stocks bubble at the end of 2000. Simultaneously, Telkom was paying significant retrenchment costs for those years. But since 2004 it is apparent that the main retrenchments have worked their way through Telkom's financial system and consequently profit has risen sharply. A comparison with the Fortune 500 list of top global companies shows that Telkom's taxed-profits-to-revenue ratio is nearly twice the median of its peers. It would rank as the fifth most profitable telecommunications company on the list if it were big enough to be there (Mail & Guardian 14.10.05).

FIGURE 7: TELKOM AFTER TAX PROFITS, 1996-2005



Source: Telkom Annual Reports

Broadcasting

Overview

- In 1996, broadcast signal distributor Sentech was corporatised
- In 1997 the first privatisation in post-apartheid South Africa took place with the disposal of six of SABC's regional radio stations, worth R0.5bn
- SABC is corporatised in 2003 as a limited liability company with a public broadcasting division and a commercial broadcasting division

The SABC was established in 1936 in terms of the Broadcasting Act as a government enterprise to provide radio and television broadcasting services in South Africa. Under apartheid the state had a monopoly on electronic broadcasting (radio and television), and it was only in 1985 that limited competition was allowed in the form of the pay channel, M-Net. This targeted a small wealthy elite.

In the early 1990s, a process of licencing community broadcasters was carried out, with 80 community stations licenced and about 60 of these functioning at the end of 1995. The stations had to function as purely commercial entities, attracting their own funding either through donors or from advertising (Financial Mail 21.07.95). In 1997 the first privatisation in post-apartheid South Africa took place with the disposal of six of SABC's regional radio stations - Radio Algoa, Radio Orange, KFM, Jacaranda Stereo, Highveld Stereo and East Coast Radio (formerly Radio Port Natal) – to a total value of R0.5bn. All these stations were profitable at the time of sale. The sale left the public broadcaster with 16 stations. At around the same time, eight additional private commercial radio stations were also licensed.

Satellite radio and television was introduced in 1995 as a competitor to SABC, but only at the top end of the market. SABC's foray into the pay-to-view satellite market was explicitly aimed at Africans who are materially benefiting from the broad changes South Africa was undergoing, according to then SABC group CE Zwelakhe Sisulu (Financial Mail 28.06.96). In 1997 the state opened bids for two independent commercial TV licences to compete with SABC channels, and a privately owned commercial channel was launched in 1999. The Broadcasting Act of 1999 required the corporatisation of the SABC, and in 2003 SABC Ltd was corporatised as a limited liability company, with a public broadcasting division and a commercial broadcasting division. Channel Africa, the foreign policy broadcasting unit, is to be corporatised as a subsidiary of SABC Ltd (National Treasury 2005:619). The public broadcasting service (PBS) function and Channel Africa are both subsidised by government, with expenditure budgeted to be R206m and R33m respectively in 2007/08 (National Treasury 2005:630). Licensing income is only available to the PBS function, while the commercial broadcasting division has to raise its own revenue from advertising.

Sentech is a broadcast signal distributor that was part of the SABC until it was spun off as a public company in 1996. In 2001, Sentech was awarded two new licences: to carry international telephony for current domestic operators, and to provide e-commerce, internet and value-added telecommunications services to end users (National Treasury 2005:642). Although the company got a once-off allocation of R54m from government to cover an SABC loan in 2002, it otherwise derives its income from fees on the services it provides. Sentech has been requesting funds from government to carry out technological upgrading, but there is no budget for this in the Medium Term Expenditure Framework.

Postal services

Overview

- Post Office commercialised in the 1990s
- In 1999 the Post Office enters into a three year management contract with Transend, the international arm of New Zealand Post
- Government cancels the contract after 2 years after Transend fails to meet its contract obligations
- Government reinstates targeted subsidies that were phased out in 2000

Postal services in South Africa date back to the 19th century. In 1910, the four main post office administrations were unified under a central control system with the formation of the Union of South Africa. The South African Post Office (SAPO) as it is known today was established in 1958 as a government business enterprise. It was a loss making entity, and until they were separated in 1991, the Telecommunications division cross-subsidised the Post Office. By 1989, Telecommunications contributed more than 80% of the Post Office's revenue (SAIRR 1990:584). After separation, government provided subsidies to the Post Office. The subsidy was phased out and terminated in 2000.

In 1995, Proudfoot, a consultancy that had assisted New Zealand's Post Office to commercialise, was called in to assist SAPO to restructure itself. Commercialisation led the Post Office to begin a process of 'redeployment' of staff away from post offices that were to be closed to places where new offices would be opened. Workers opposed this plan, not wanting to leave the places they were living in and familiar with, especially if with children in schools, close relatives or employed spouses (Financial Mail 03.03.00).

In 1998 the Postal Services Act granted SAPO an exclusive mandate to provide postal services in the country, including obligations to provide a universal service. The Act also made provision for the Postbank, a savings bank run by the Post Office. In 1999, a three-year management contract with a consortium headed by New Zealand Post International's international subsidiary, Transend Worldwide Ltd, was announced. As part of the deal, former New Zealand Post managing director Harvey Parker, one of three consultants, demanded $125,827 a month on a pro rata basis to act as special adviser to SAPO chair Max Maisela. That was six times the amount paid to South Africa's President (UniPostal 2000). In 2001, the government approved a recommendation by SAPO to cancel the contract because Transend had failed to meet its obligations of getting the Post Office to break even by March 2001 (Dow Jones 31.05.01). Transend was also accused of failing to reach the target of extending postal services to 4 million homes in the agreed time.

After the failure of the management contract in 2001/02, subsidies to the Post Office were reintroduced, to the value of R600m to cover two years' losses and then another R300m for 2002/03. In 2004/05 the national fiscus also made a R750m payment to the Post Office to reimburse the Postbank for depositor's funds that the Post Office had used to fund its own operations (National Treasury 2005:621). The subsidy was set to continue in the medium term, specifically to fund postal outlets in rural areas that do not generate sufficient revenue to cover their expenses.
A strategy is in place to corporatise the Postbank as a stand-alone entity with its own board and executive management (National Treasury 2005:632). There do not appear to be any immediate plans to privatise the Post Office, although continuing commercialisation and the eventual elimination of cross-subsidisation is a stated goal. There was a 22% decline in employment in the Post Office from 2000 to 2004, down to around 20 000 employees (SA Post Office 2004:117).

Information technology

Overview

- Merger of Denel, Eskom and Transnet's IT units result in the formation of Arivia.com, a state-owned commercialised IT company holding government contracts but aiming to expand beyond government in future

The state-owned IT company Arivia.com was formed from the merging of Datavia (Transnet's IT arm), Eskom's IT department and Ariel Technologies amongst others. It provides commercial IT services to the parastatals and has other government accounts including the SA Revenue Service, the SABC, the State Information Technology Agency (Sita), the Department of Water Affairs & Forestry (Financial Mail 14.02.03) and the Airports Company of South Africa (ACSA). Sita itself is a commercialised government entity under the Department of Public Service and Administration, involved in providing IT services nationally and globally including R&D. In the process of restructuring, it has shed 13% of the approximately 3000 workers it employed at the start of 2004 (Business Day 19.09.05). In 2005 Denel CEO Shaun Liebenberg said the parastatal sold its 23% stake in Arivia.com as part of its restructuring process, although Public Enterprises had not yet announced a deal (Financial Mail 17.03.05).

TRANSPORT

Overview

- Extensive commercialisation and corporatisation across rail, ports, aviation, commuter services and roads, beginning in the 1980s
- A plan to introduce competitive concessioning in rail commuter transport was put on ice following opposition from unions and other CSOs
- Current proposals for concessioning of dedicated iron ore rail link, and of Blue Train
- State commitment to continue providing passenger transport subsidies
- Leasing of port infrastructure and concessioning of port operations in the pipeline
- ACSA partially privatised in 1998 – 20% stake sold to Aeroporti di Roma, with a 4.2% stake to staff and black empowerment groups
- SAA partially privatised in 1999 – 20% stake sold to Swissair
- Following its financial collapse, Swissair sells its 20% stake in SAA back to government in 2002
- Aeroporti di Roma sells its 20% stake in ACSA to the Public Investment Corporation (PIC)

in 2005

- Municipal public transport services corporatised
- Toll roads first established in 1984 – 13 by 1996
- Three Build Operate and Transfer (BOT) 30-year toll road concessions signed between 1996 and 2000, with another four concessions already budgeted for
- Current plans to dispose of 'non-core' assets to the value of R7.7bn
- Sharp drop in employment in SATS/Transnet since 1982, down from 278 289 to less than 80 000 in 2002 (more than 70% decline in employment)

The broad transport sector is one of the biggest economic sectors in the country. For most of the apartheid era, the government-owned South African Transport Services (SATS) was the largest single employer in the country, with employment peaking at 278 289 in 1982 (SAIRR 1992:233). SATS controlled the railways, harbours and SAA. SATS also controlled a road transport service that was the dominant force in road haulage in the country.

The spatial policies of the segregationist and apartheid eras resulted in displaced urbanisation – the physical separation of the black workforce from their places of work in the 'white' areas. To sustain this policy, employers and the government were forced to subsidise transport to and from work every day. By the mid 1980s, the national fiscus via the Department of Transport subsidised 37% of the tariff of bus commuters. Long distance commuters had a higher subsidy, of up to 80% of the tariff. On the trains, the state subsidised trips for the poorest commuters of 63% of the tariff, partly through the treasury and partly through cross-subsidisation within SATS (McCaul 1987:436).

Cross-subsidisation of commuters who were forced by government to locate far from work was paid for by inflated costs on the conveyance of manufactured goods, harbours and pipelines – sometimes up to 200% above cost (McCaul 1987:436, 441). This cross-subsidisation was never a clearly defined policy choice but was more the result of a profitable part of the transport network subsidising an unprofitable part in an unplanned way (Teljeur 2004:28). By the late 1980s, given its fiscal crisis, the state was keen to offload these costs. Initially it tried to pass the costs to capital (through the RSC levy) and workers, but resistance from both quarters put an end to that plan. South Africa has a strong history of bus boycotts and transport struggles, leading a government commission of the time to bemoan that: "It is an unfortunate fact that in South Africa, public transport, particularly public bus transport, is highly politicised" (quoted in McCaul 1987:437).

The rise of a deregulated minibus taxi industry in the late 1970s led to greater options for commuters. But it also led to high levels of violence between the taxi operators and the bus companies. Despite police harassment, attempts by the state to regulate the industry and private business attempts to create alternative competition under their own control, by 1992 46% of African commuters were using taxis. Buses with 20% of market share and trains with 13% both fell further behind (SAIRR 1994:361). Taxi fares were comparatively low, but this came at the cost of reduced maintenance and lower passenger safety (SAIRR 1994:363).

At the same time, SATS overpriced rail haulage service was facing growing competition from private sector freight hauliers (McCaul 1987:438). A restricted permit system meant a growing number of private hauliers were operating illegally. The railways had their own police force, and used it to mount roadblocks and impound illegal vehicles and fine owners (McCaul 1987:441).

All in all, by the end of apartheid, the public transport sector was in a mess. At the point of commercialisation in 1990, SATS had a debt of R19.6bn that was being carried by the national fiscus, and there were additional contingent liabilities such as a massive pension fund and medical aid deficits worth another R15.3bn (Financial Mail 8.8.97). Commuter transport was losing money and losing commuters to other forms of transport. Goods transport was facing growing competition from private sector road haulage companies. Infrastructure and rolling stock was getting old (Dept of Transport 2005:14), and there was significant disinvestment in commuter rail infrastructure leading up to restructuring in 1990 (Teljeur 2004:34). The last mainline passenger coach was built in 1980 and locomotives were older than the world standard. Government costs of maintaining the system were rising at the same time as it was facing a major financial crisis. Although the state had developed a good infrastructure this was skewed towards particular areas, with the African population under-provided. And although the state had cross-subsidised commuter services, these were geared towards maintaining the irrational settlement patterns of apartheid.

In 1989 SATS was converted into a tax-paying entity and was incorporated as Transnet in 1990. Transnet controlled five other companies under it: Petronet (pipelines), Autonet (roads), Spoornet (railways), Portnet (harbours) and South African Airways (SAA) (SAIRR 1990:585). The group had around R40bn in operating assets under its control (Financial Mail 22.11.96). In the 1990s further internal restructuring resulted in the formation of a number of business units under Transnet. These are Spoornet (rail transportation of freight and mainline passengers); Metrorail (commuter rail transport services); National Ports Authority and South African Port Operations (see more below); Petronet; Freightdynamics (road freight); Transtel (telecommunications); Transwerk (engineering, especially of railway rolling stock); and Propnet (real estate). SAA was made a subsidiary of Transnet (Teljeur 2004:9). Transnet has a list of local and international subsidiaries and associates across the fields of transport logistics, property holdings, construction, engineering, IT procurement, marketing and insurance (Transnet 2004:120). Transnet is structured as a holding company with government, represented by the DPE, as the sole shareholder.

Internal restructuring of Transnet continues, with the latest model structured into three units: the transport portfolio (divided into rail infrastructure and rail operations, port infrastructure and port operations, and pipeline network and pipeline operations); an investment portfolio (aviation and other); and an integrated intermodal service (Dept of Transport 2005:53). Transnet is currently aiming to exit businesses not involved in bulk freight transport, with asset sales expected to raise R7.7bn. The assets to be disposed include a 49% stake in Equity Aviation (airport baggage handling), a 26% stake in V&A Waterfront, a 35% shareholding in locomotive refurbishment firm VAE Perway, a 60% stake in fleet management company Viamax, and a 100% stake in Autopax (Translux and City to City) (Business Day 13.09.05). Propnet Facilities Management and the Blue Train are to be sold to private companies. The loan book of Transnet Housing is to be sold to banks, Pension Fund Administration is to be administered by a private sector organisation and Transtel will be

outsourced to Ernst & Young (Mail & Guardian 03.03.06). After restructuring, Transnet's corporate office will be reduced to 50 employees, down from 580 (Business Day 13.09.05).

Rail

With the formation of Transnet, and Spoornet as the division to manage the railways, rail commuter assets (including stations, rolling stock, land and around 10% of the tracks) were transferred to the South African Rail Commuter Corporation (SARCC). SARCC had a dual mandate of exploiting the assets under its management in a commercial manner while also providing commuter rail services in the public interest under a subsidy (Teljeur 2004:34). SARCC's main source of revenue was and remains government transfers to subsidise services (see below) and it also generates a small amount of money from Intersite, a wholly-owned company that leases commercial property at stations, on billboards and through disposal of unused property (National Treasury 2005:866).

In 1995 the then Minister of Transport Mac Maharaj indicated that the passenger transport system should operate on the basis of 'regulated competition', suggesting this meant competition for a route or network rather than competition on a route or network. This implies the state providing a contract or concession for approved service providers (Financial Mail 22.09.95). In 1997, Metrorail was created as a ring-fenced division of Transnet responsible for operating rail commuter services. This involved the transfer of 10 285 workers (Spoornet 2005). SARCC, a public-owned entity, managed rail commuter services on concession contracts, mainly with Metrorail (Teljeur 2004:9). A process of piloting competitive concessioning on 10% of the network took place in the late 1990s, with the aim of introducing a competitive concessioning system thereafter. However this was put on ice in 1998/99 after sustained criticism from the unions and civil society organisations against privatisation and concessioning in particular (Teljeur 2004:36). Nevertheless, the conversion of Metrorail into a profit-making entity encouraged cost-cutting. In the absence of clear targets or cost allocations, Metrorail cut costs by retrenching staff and reducing service quality and maintenance (Teljeur 2004:36 & 37). The declining quality of service, including lengthy delays that sometimes result in workers reaching home after 10pm, has led to a spate of arson attacks on trains by angry commuters, especially in Gauteng.

There are proposals on merging Metrorail, SARCC and the main line passenger service into one and revising the subsidy structure. Despite the corporatisation of the structure, passenger transport subsidies continue to be paid, and are rising. The cross-subsidisation of Metrorail by Transnet was replaced with a commuter subsidy from the national budget. Bus subsidies to private sector concessions grew 26.7% from R1.715bn in 2001/02 to R2.173bn in 2004/05, and are expected to rise another 22.6% to 2007/08. Rail subsidies grew 37.2% and an expected 20.5% in the corresponding periods (National Treasury 2005:863). Although the state subsidises the bus services here, it should be noted that these are not public sector services as such since private sector companies are operating them for profit. Management of subsidies will be devolved to provinces and municipalities over time, and government has committed itself to continuing to pay subsidies to assist with the integration of transport modes, including taxis; to encourage travel along routes that are most cost-efficient; and to support those who find themselves living in locations where a transport service is not economically viable (National Treasury 2004:113).

Opposition has recently grown to the Gautrain high-speed passenger train to be built between Johannesburg and Tshwane. This has emerged especially after it was revealed that the estimated cost of the train had risen from R7bn to R20bn, with government footing most of the bill. The Parliamentary Portfolio Committee recently criticised the plan for failing to integrate the project with a more comprehensive transport plan for the province. There is limited connection to townships or other settlements where the poor are concentrated, and there is little integration with public transport along the route. The train also primarily targets middle class travellers between Johannesburg and Pretoria who have cars. Only 134 000 people are expected to use the train every day, compared with 6-7m passengers who use public transport in the province (Financial Mail 18.11.05). The amount spent on the link is nearly three times the total national transport budget for 2005/06.

With the separation of rail commuter assets to SARCC, Spoornet retained control of about 90% of the rail tracks, the long-distance passenger network and the assets related to these. The Department of Transport plans to take direct control of the passenger network, leaving Spoornet as a logistics business with its core competency being the movement of freight on rail (Spoornet 2004:5). The rail freight division was split into General Freight Business (GFB), Orex and COALlink. GFB provides commodity freight transport, and COALlink (export coal from Mpumalanga to Richard's Bay Coal Terminal) and Orex (iron ore from Northern Cape to the Western Cape coast) are dedicated commodity rail links. Coal remains one of the most important items transported, at over a third of total tonnage of goods conveyed by Spoornet (Dept of Transport 2001:83). Main users of Spoornet are the mining, manufacturing and agricultural sectors. In 2004, Spoornet was leasing out around 2.5% of its tracks (Spoornet 2004:50). International experience suggests that general freight is always a loss-making enterprise, while bulk freight is profitable because of the large tonnages and no complicated movements between pickup and offloading. Where cross-subsidisation has been stopped through the break-up of the system into a number of (usually private) companies, general freight operations have been all but eliminated (Financial Mail 11.10.02). There is therefore a trend to merging general freight with bulk freight, and there were proposals to do this in Spoornet too (Financial Mail 01.03.02). Restructuring of the freight services has recently seen a new division, not categorised by business sector but along the lines of a new 'three category' approach: MegaRail would capture large, consistent volumes; FlexiRail would include traffic not consistent enough to be allocated to the same day in a week or the same time of day; and AccessRail would be small, irregular consignments that are accommodated on a first-come, first-served basis, but using a pre-allocation of wagons and a fixed train plan (Financial Mail 03.12.04).

In restructuring recommendations, government-appointed advisors Rothschild recommended that Spoornet sell off its most divisions and shed 20 000 jobs. Government did not follow this advice (Financial Mail 01.03.02). However, there are some proposals about possible privatisation of parts of Spoornet following further restructuring, in particular the concessioning of Orex (the dedicated iron ore line) and the concessioning of Luxrail (the Blue Train) (Teljeur 2004:10). There are also proposals to set up a rail infrastructure utility with responsibility for all rail infrastructure, although the primary rail network will remain in Spoornet as a vertically integrated rail service. This sets the scene for concessioning of operations (Dept of Transport 2005:49). The National

Freight Logistics Strategy (Dept of Transport 2005:40) argues that in principle the government is in favour of competitive, private sector involvement in rail operations, while retaining (majority) ownership of infrastructure (see the ports model below). Licensed operators will be allowed open access on the secondary network, while regulated competition will be introduced on the primary network (2005:50). In 2004 Public Enterprise Minister Alec Erwin indicated that Spoornet was looking to sell 2 434km of closed track and sell, lease or concession lines identified as non-strategic (Business Day 22.07.04).

Ports

Historically the state controlled the ports and their functions, although there were some private terminal operators. Ports were the most profitable part of Transnet, and historically cross-subsidised the loss-making rail operations. In 2001 an Independent Port Regulator was established along with the National Ports Authority (NPA). In 2002, landlord functions were separated from port operations, and the NPA was given control over the former. The reason for this was that while ownership of ports infrastructure is a natural monopoly at the single port level, port operations are potentially competitive (Teljeur 2004:10). Although the NPA had control over terminal infrastructure, services or utilities and cargo handling equipment, these are to be opened to private sector leases, concessions or purchases. The NPA is to be moved outside Transnet and established as a state-owned corporate entity (RSA 2002:14). Reasons for separating out the management of the ports from Transnet as a whole are given as the need to overcome problems and perceived problems of skewed prices, misallocated revenues and suspicion that the ports favoured Transnet over other users (RSA 2002:13). The relationship between NPA and Transnet will be regulated by DPE to ensure that Transnet does not derive an unfair advantage over other transport companies and that port revenues are used to benefit Transnet's other units or divisions. This means a definite end to the cross-subsidisation of public transport commuters as happened in the past, however unintended this had been.

The state itself aims to "reduce and phase out direct involvement in terminal operations where feasible" (RSA 2002:17). Services in the port, managed either by the NPA or Transnet's Ports Operation Division, will be opened for leases or concessions to the private sector. The Durban Container Terminal was to be fast-tracked for private sector participation because of major backlogs there, with the state retaining ownership of the land and real estate (RSA 2002). The NPA will have regulatory oversight to ensure licensees and concessionaires (including the Port Operations Division) provide an efficient, affordable service. Wherever possible, regulation will make way for the market (RSA 2002:18). Although this process has started with the formation of the NPA and SAPO, there are no clear timeframes for the restructuring and the process could take up to two decades to complete (Teljeur 2004:29). Towards the end of 2005 government put on hold plans to create concessions to run container ports at Durban and Nqura in the Coega Development Zone, until Transnet had completed its public-private partnership model. Port operations could in future be run through partnerships rather than concessioned outright (Business Day 25.11.05).

Aviation

Prior to 1993, all airports were operated by the state. Thereafter, the majority of South Africa's airports fell under the newly formed Airports Company of South Africa (ACSA). The company provides aeronautical services for which it receives a charge, as well as non-aeronautical services such as parking and shops from which it gets property and retail revenues (Teljeur 2004:12). In 1998 Aeroporti di Roma (an Italian airport management firm) won a competitive tender and bought a 20% stake in ACSA with an option of another 10% in 2004. The Minister of Transport is the majority shareholder. Cosatu supported the sale (Financial Mail 10.10.97). Following the sale, plans were put in place to publicly list the company, but they never materialised. Despite the partial privatisation, the company operated in a monopoly environment and a lax regulatory regime, and took advantage of this to implement steep tariff hikes. In 2005, Aeroporti di Roma sold its 20% stake to the Public Investment Corporation (PIC), on behalf of the Government Employees Pension Fund. The result is that ACSA was once again almost fully state-owned except for a 5.4% stake held by staff and empowerment firms. The PIC says it will be a long-term shareholder and is not warehousing the shares for anybody (Business Day 22.09.05). A tougher regulatory regime that capped price increases may have been one of the reasons behind Aeroporti di Roma's decision to sell (Business Day 23.09.05). Despite capped increases, ACSA announced it would hike tariffs above inflation to help finance its R5.2bn capital expenditure programme in preparation for the 2010 World Cup (Business Day 31.08.05).

Also established in 1993, the Air Traffic and Navigation Services Company (ATNS) is a 100% state-owned enterprise that provides air traffic, navigation and associated services. It operates on a commercial basis and the Minister of Transport is the sole shareholder. A Regulatory Committee regulates the fees ACSA and ATNS charge, since they are monopolies. However, the Minister of Transport, who is also the majority or sole shareholder in both entities, must approve the Committee's members, and the regulator is therefore not entirely independent (Teljeur 2004:13). The result is that the regulatory regime is favourable to the companies, as indicated by ACSA's high levels of operating profit and rates of return compared to the world average. ACSA has the second highest return on capital employed in the world (Teljeur 2004:19). This is the product of a profit cap being determined by a state that is in favour of privatising the entity, so making it more attractive.

At the end of apartheid, the state owned Sun Air and South African Airways (SAA). There was some domestic competition from the private sector, although SAA dominated the market and was the only local airline to have international flights. The state-owned airlines have long been a privatisation target. As early as 1996 the government indicated its desire to privatise Sun Air, arguing that there was no point in it competing with SAA (Financial Mail 26.01.96). At the end of 1997, Sun Air was sold to Rethabile-Comair consortium. Rethabile and Co-ordinated Investments held a controlling 55% of the consortium, Comair 25%, employees 5%, and the National Empowerment Fund held the rest (Financial Mail 21.11.97). Sun Air held about 17% of the domestic market (Financial Mail 27.02.98). At the end of 1999, it announced its financial collapse and impending liquidation (Financial Mail 10.09.99).

In 1996 UK-based investment bank SBC Warburg was appointed to value SAA in preparation for partial privatisation, but corporatisation was slowed because of complications with outstanding debts. In 1999 SAA ceased to be a division of Transnet and was incorporated as a company in its own right, South African Airways (Pty) Limited. In the same year, the company was partially privatised with

Swissair buying a 20% stake as a strategic equity partner, with an option on a further 10%. The majority of the 2 200 workers retrenched from Transnet in the year leading up to the privatisation were from SAA (Financial Mail 16.07.99). Following the global recession in the airline industry after 9/11, Swissair collapsed and the South African government repurchased its stake in SAA. The shareholder agreement between government and Swissair had a buy-back option in the event of insolvency that gave government a pre-emptive right. The buy-back price was based on the present value of SAA plus a 15% discount (Financial Mail 05.10.01). The state ended up paying R380m for shares that Swissair paid R1.4bn for three years earlier (Financial Mail 17.05.02). The buy-back did not indicate a reversal of privatisation plans. Rather, the government decided to buy back the shares at a profit and resell them later when market conditions improved again. Given the poor state of the industry at the time, government also decided to put on hold plans for a public listing, originally scheduled for 2002. SAA is not seen to be core to Transnet's long-term strategy and will be transferred to the Department of Public Enterprises.

In 2002 Transnet sold 51% of Apron Services to equity Aviation Consortium (UK's Serco Capital and empowerment group Equity Alliance). The consortium had an option to acquire a further 34% provided it met certain profit targets (BusinessMap 2004:9).

Other Transnet divisions

Freightdynamics is a Spoornet unit formed from the amalgamation of the road transport fleets of CX Containers, Portnet and Autonet. It is one of the largest road transport companies in South Africa. The company operates a fleet of truck-tractors, trailers and customised containers, as well as a network of depots. CX is a loss maker and government has expressed interest in disposing of it. There were no takers and the unit is to be closed, with the loss of 1800 jobs (Mail & Guardian 03.03.06). Viamax Fleet Solutions, a fleet management subsidiary owned by Transnet, was partially privatised in 1998 with 30% sold for R12m (BusinessMap 2004:2). Full privatisation is being planned as part of Transnet's strategy to sell off non-core assets over the coming few years. Viamax has few tangible assets, and was responsible for managing a fleet of about 9 000 Transnet vehicles. On privatisation, the management unit would also seek to tender for fleet management contracts outside Transnet.

Roads

Under apartheid, the South African Roads Board under the Department of Transport managed national roads. The road network was good, but spatially skewed. While white commercial farmers were able to get fresh produce into global supply chains on time while maintaining the necessary quality, impoverished rural residents had to walk on dusty tracks to reach basic amenities such as hospitals or schools.

In 1998 a law was passed to set up the South African National Roads Agency Ltd (SANRAL) to construct, upgrade and maintain the national road network in South Africa. Provinces and municipalities are responsible for roads that are not declared national roads. SANRAL is an independent statutory company operating along commercial lines, with government as the sole shareholder. SANRAL set about entering into Build, Operate and Transfer (BOT) public-private partnerships to construct, maintain and operate roads in the country.

The first toll road was instituted in 1984 and by 1996 there were already 13 national toll roads in South Africa, covering 734 km (Dept of Transport 2001:20 & 25). At present, 17% of national roads are covered by tolls. SANRAL introduced three toll road systems into South Africa. In the Comprehensive Toll Road Operations and Maintenance (CTROM) system, SANRAL raises capital for the construction of toll roads from the capital and money markets. The private sector then operates and maintains these toll roads. Roads of this type include the N1 Vaal Toll Road Extension between Bloemfontein and Kroonstad and the N1 Great North Toll Road between Polokwane and Musina (SANRAL 2005).

The second type of toll road system is the Concession Toll Road, financed, constructed, maintained and operated by private sector concessionaires. Standard contracts are 30-year concessions. There are three such concessions in operation at present. The earliest concession was granted to Trans African Concessions in 1996 to operate the R3bn N4 Maputo Development Corridor from Gauteng to Maputo in Mozambique. In 1999 the N3 Toll Concession Pty (Ltd) (N3TC) was granted the R3.5bn concession for the N3 toll road from Cedara in KwaZulu-Natal to Heidelburg in Gauteng. In 2000, the Bakwena Platinum Concession Consortium (Pty) Ltd was given the concession to operate the R3.2bn N4 Platinum Highway toll road through the North West from Tshwane to Botswana. The small number of big construction companies and engineering consultants – including Wilson Bailey Holmes-Ovcon (WBHO), Murray & Roberts, Concor, Stewart Scott and BKS – are partners in the concessions. There is a big overlap with companies involved in other BOT schemes – like in water, for example (see section on water above). There are also international companies involved, including Spanish outfits Dragados SA and COFIDES, a financier.

The third kind of toll road is the unsolicited proposal. These are toll roads initiated by the private sector, which then approach SANRAL with their proposals. Examples of proposed developments of this sort are the N2 Wild Coast Toll Road between East London and Durban; the N1-N2 Winelands Toll Highway; and the R300 Cape Town Ring Road linking the Cape Town West Coast with the False Bay (SANRAL 2005). These, plus the N1 Corridor between Pretoria and Johannesburg are expected to become concessions in the coming two years (National Treasury 2004:109). A 30-year concession contract for the Chapman's Peak Drive toll road in the Western Cape was signed in 2003. The concession - given to Capstone 252, comprising Concor, Thebe Investments, Maribe Holdings and Haw & Ingles – involves design, part financing, build, operate and transfer (National Treasury 2005a).

Toll roads have been justified by saying that only users pay for the road and so people who do not use the road do not foot the costs of constructing and maintaining the road. Even if the biggest users of the national roads are businesses and private vehicles, poor commuters who happen to have to use toll road routes will be forced to pay a higher fare that incorporates the toll instead of being cross-subsidised by wealthier (by definition) tax payers, thus eliminating a possible source of subsidisation. A subsidy could be built into the system by charging business vehicles and private vehicles but exempting mass passenger transport (buses and taxis). At present, for those who can pay, the toll roads offer a range of additional emergency and related services that are not provided to users of non-toll roads (see N3TC 2002). This is a good example of privatisation resulting in a dual system of good service for those who can pay and poor service for those who can't. In addi-

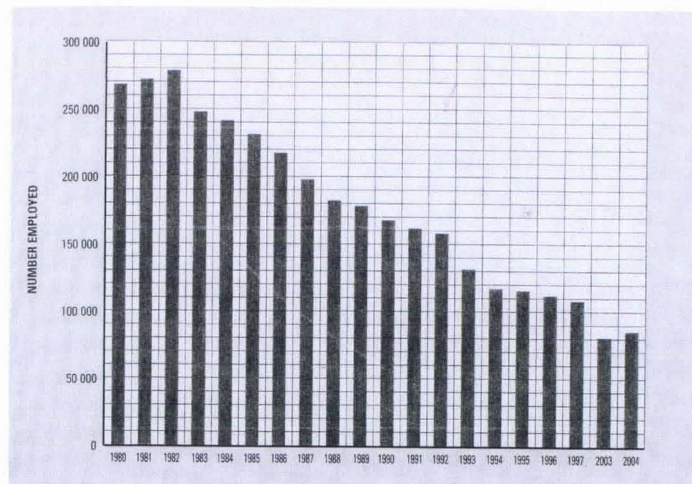
tion, there are companies that are using the secondary road network rather than the primary tolled network to transport goods and this is resulting in deterioration of these roads (Dept of Transport 2005:15). Yet in this case the user is not paying the cost of damaging the road.

The roads that would make the most difference to the poor, especially in the rural areas, are under the jurisdiction of municipalities, most of which have many competing demands and will be unable to extend and upgrade the local road network to meet the needs of the poorest in the population. It also shows that prioritising national development paths over local development will lead to entrenching inequalities. This prioritisation is expressed through a roads agency dedicated to maintaining and upgrading national roads required for export production, while there is no similar agency to improve local road networks.

From the point of view of infrastructure, government argues that most infrastructure should be state owned but that the private sector should be allowed to own, operate and develop new infrastructure and rehabilitate existing infrastructure in bad condition wherever an opportunity exists (Dept of Transport 2005:38). These could include PPPs and even outright privatisation where there is "a defined customer base that makes it [the infrastructure] suitable for management as a non-common user facility" (2005:38). The government accepts that when a state infrastructure utility owns the infrastructure, socio-economic obligations can be built into its mandate, but such obligations cannot be imposed on the private sector (Dept of Transport 2005:38).

The overall impact of the public transport sector's restructuring on employment has been one of a rapid decline in employment (figure 8). By the early 1980s SATS was being used as a site for sheltered employment for whites. Even in 2000, whites formed more than 40% of the total workforce at Transnet.

FIGURE 8: EMPLOYMENT IN SATS/TRANSNET, 1980-2004



Source: SAIRR 1992,1994; Dept of Transport 2001; Transnet Annual Report 2004

FORESTRY, AGRICULTURE AND LAND

Forestry

Overview

- Safcol restructured into 7 clusters and prepared for privatisation in the form of long lease on the land and sale of the forests in 1999
- Privatisation of the Eastern Cape North and KwaZulu-Natal packages finalised in 2001 to consortia that included Hans Merensky Holdings and Mondi, two big local forestry companies
- In 2002 a bidding process was started for the disposal Safcol's non-core assets
- In 2002 Zama Resources Consortium won the bid for the Komatiland forests (repackaging of Mpumalanga and Limpopo assets), but the deal was put on hold after allegations of corruption. Zama Resources was later cleared.
- In 2004 Bonheur consortium – with US company Global Forest Products holding

70% of shares was
awarded the bid for Komatiland forests valued at R396m. But the deal was prohibited by the Competition Commission and is awaiting a tribunal hearing

- In 2004, Mountain to Ocean (western and southern Cape assets) were sold to Cape Timber Resources for R17.5m
- Government has embarked on a programme to lease to the private sector the remaining plantation land outside the packages
- State halts further attempts at sale of Komatiland forests following Competition Tribunal rejection of proposed sale to Bonheur consortium in 2006

At the end of apartheid, the state owned 29% of South Africa's total area planted to forests and was the largest single grower of softwood timber. About 55% of all saw logs were grown by the state and, of that, 75% was of strategic importance for the construction industry (SAIRR 1990:583). State-owned forestry interests were corporatised in 1989 with the formation of the South African Forestry Company Ltd (Safcol) 'to run the state's commercial and timber processing interests on a business basis' (SAIRR 1990:583). Safcol took in 65% of the state's timber holdings with the remainder in the homeland forestry departments. After 1994 the latter were transferred to the Department of Water Affairs and Forestry (DWAF) (Business Day 15.09.00). In late 1995 the state began to consider the possibility of privatising the state forestry and timber industry. At that time, the public sector as a whole held 420 000 ha of commercial plantations (DWAF 2005:74). The 1998 National Forests Act set in motion a process of shifting DWAF from being a manager of forests to being a regulator of the forestry sector as a whole. The department thus developed a strategy to transfer all forests and plantations out of the department to other authorities including the private sector (DWAF 2004:54).

Government's initial plans were to privatise its forests, but to retain a minority stake in the restructured enterprises and sell only the timber and not the land on which it was located (Financial Mail 06.02.98). The assets would be leased for 70 years. Safcol was packaged for long lease and sale to interested bidders, with plantations organised into seven clusters: Komatiland in Mpumalanga (120 000 ha); Southern Cape (70 000 ha); Eastern Cape South (14 000 ha); Eastern Cape North (58 000 ha and the use of Weza sawmill); KwaZulu-Natal (33 000 ha); Northern Province (19 000 ha) and Western Cape (18 000 ha). In 1999 government issued a call for bids on 75% of Safcol's forests, sawmills and associated assets. The call drew interests from a range of international companies as well as local forestry companies and empowerment consortia (Business Report 18.07.99). Parties could bid for 75% of Safcol as a whole, for any one of the seven packages, or for a combination of packages. The bid was described as the largest single privatisation of forest assets anywhere in the world (Business Day 27.08.99). The process was delayed when up to 40% of Safcol land was exposed to land claims and when the state decided to incorporate some forests from the former homelands into the packages. It was decided that the privatisation process would go ahead but in cases of successful land claims, rentals would be paid directly to the communities involved (Business Day 11.08.99). Claimant communities were not satisfied with this, saying that they wanted to be part of managing the land and decision-making (Mail & Guardian 05.05.00).

In October 1999 short-listed bidders were announced: African Forestry Consortium (AFC) with Sappi as a management partner in Mpumalanga; Thesen Consortium (Thesen, Khwela and Southern Cape Forestry - two empowerment groups, and the IDC) in Southern Cape; the Singisi Consortium (Hans Merensky Holdings and the Eastern Cape Development Corporation) in Eastern Cape North; AFC and Siyaqhubeka Consortium (involving tribal authorities investment arm and Mondi) in KwaZulu-Natal; and Amatola Timber Holdings in Eastern Cape South. There were no acceptable bids in Northern Province or Western Cape (Business Report on Sunday 24.10.99). No consortium or company bid for the whole package. At the end of 1999 the state decided it did not accept the bid for the Mpumalanga forests, considered the 'jewel in the crown'. It announced a plan to hold a second sale of the three packages where there had not been acceptable bids for early in 2000 (Business Day 01.12.99). Thesen announced the likelihood that 300 jobs would be lost in the southern Cape following transfer (Business Day 01.12.99).

In 2000 government negotiations on the Eastern Cape South package were suspended because of debts owed to Safcol. The Eastern Cape South forests were placed under the newly formed Amatola Forestry Company. In 2001 the privatisation of the Eastern Cape North and KwaZulu-Natal packages was finalised. In the Eastern Cape, Singisi Forest Products got the 75% share it bid for, with 10% of that going to a community trust; employees were allocated 9%, the NEF 10% and government via Safcol retained 6% (Business Day 15.08.01).

In 2000 Safcol and South African National Parks (SANParks) reached an agreement to transfer the Tokai and Cecilia plantations in the Table Mountain area into the Cape Peninsula National Park. 15 000ha of forestry in the Western Cape and 30 000 ha in Boland in the southern Cape was to be phased out over a period of 10-20 years, on the basis that timber was no longer the best land use for those areas. This would leave just 3 000 ha of plantations in the Western Cape and 30 000 ha in southern Cape (Business Day 15.09.00). These plantations were clustered into a group called Mountain to Ocean (MTO). Government announced the planned transfer of 7 000 ha of the forests to communities, with a further 15 400 ha made available in 2005. The land was to be used for conservation with a smaller percentage for agriculture (Business Day 12.09.01). In 2004 MTO assets, comprising plantations and two sawmills, were sold to Cape Timber Resources for R17.5m. The remaining 25% was split along similar lines as the Eastern Cape North deal (Business Day 01.04.04). The lease resulted in 13 000 ha of state forest land being reincorporated under DWAF. The land had been clear-felled in line with the decision to phase out forestry, and will be transferred to the Dept of Public Works with the likelihood of transfer of management to SANparks (DWAF 2005:78).

The Mpumalanga and Limpopo packages were consolidated into a single package named Komatiland Forests and three bidders were short-listed: US company GMO Renewable Resources, Pahapur of India and AFC (Business Day 07.11.00). In 2002 Zama Resources Consortium won the bid for the Komatiland forests, including two Safcol sawmills and some land. Government, communities and employees would share the remaining 25%. The Eskom Pension Fund facilitated the purchase with a loan (Business Day 14.03.02). However the process was put on hold when it was alleged that Andile Nkuhlu, the then chief director for restructuring public enterprises had acted inappropriately by accepting money from the Zama Resources chief executive, Mcebisi Mlonzi before the empowerment company was named the preferred bidder. Nkhulu subsequently resigned (Financial

Mail 06.12.02). Zama Resources was later cleared and allowed to participate in a new bidding process. In 2004 Bonheur consortium - consisting of Global Forest Products (a US company) with 70% of shares and Imbokodvo Lemabalabala, an empowerment group with 30% of shares – was awarded the bid for Komatiland forests valued at R396m (Business Day 01.04.04). The Land Bank and IDC financed at least 60% of the purchase (Financial Mail 26.11.04). In 2006 the Competition Tribunal rejected the proposed sale as anticompetitive, saying it would create a huge private monopoly, lead to job cuts or the closure of small independent saw millers. Government announced it would not be proceeding with the transaction and would reconsider the future of Komatiland forests in the light of ASGI (Business Day 20.03.06). Government has embarked on a programme to lease to the private sector the remaining plantation land outside the packages (DWAF 2005:75).

In 2002 a bidding process was started for the disposal of Safcol's non-core assets, including the Lakensvlei trout fishing resort, a 120 ha avocado orchard and a 11 000 ha eucalyptus forest both in Mpumalanga. Safcol's fruit, fern and flower interests also came on to the market. The assets were not to be sold, but leased on 70-year contracts (Financial Mail 01.03.02).

The state also has under its control 288 000 ha of natural forest and around 7m ha of natural woodlands. Most of the indigenous forests are in the process of being transferred into the National Parks System under SANparks (DWAF 2005:78). State-owned woodlands are to be made available for use by local communities as part of integrated development plans.

Agriculture

Overview

- Homeland agricultural development corporations dissolved in mid 1990s
- Transfer of former homeland irrigation schemes to communities started at end of apartheid, but most schemes have not survived because of lack of support previously provided by agricultural development corporations
- Land Bank and Agricultural Research Council corporatised in mid 1990s
- In 1992 Onderstepoort Biological Products (OBP) and Onderstepoort Veterinary Institute were separated. OBP became a fully state-owned company in 2000
- Abakor started selling off non-core operations and made staff cuts of up to 78% in 1998
- Abakor's Bloemfontein abattoir sold in 1998 and Cato Manor abattoir sold in 1999
- In 1999 government approved the sale of the remainder of Abakor, but it was liquidated in 2000 before it could be privatised
- In 2004 the Cape Town city council sold the business operations of the Epping Fresh Produce Market, leasing the property for 20 years

Agriculture is more of a difficult story. Commercial agriculture has mainly been in commercial hands, but heavily subsidised by the state. The sector underwent a profound process of restructuring – in particular deregulation and liberalisation - starting in the late 1980s with the Marketing of Agricultural Products Act of 1996 signifying the completion of the legal and policy processes of deregulation. However, the state did have a heavy direct involvement in some aspects of agriculture. In the former homeland areas the state ran agricultural projects under the auspices of agricultural development corporations (ADCs). The ADCs provided integrated support to the projects, including research, training, extension and technical support, finance and credit, marketing and management. The quality and appropriateness of these services was highly questionable (Mthethwa & Callear 1996; Perret 2001). These projects were typically broken into individual plots of around 1.5 ha each but with centralised infrastructure and management. Former bantustan schemes covered about 47 000 ha, with irrigated food plot schemes covering another 50 000 ha. Almost half of the schemes (171) were found in Limpopo (Perret 2001:2). Government officials, usually from the homeland agricultural development corporation, managed and operated the projects. Workers were paid a monthly wage, usually higher than that paid to farm workers on commercial farms. The projects mostly ran at a loss and were a drain on the fiscus mainly because of weak market opportunities and high technology and management costs.

Even before 1994 some management decisions, such as what to plant and where to market products, were delegated to farmers (van Heerden & Stimie n.d.:2). With the reintegration of the homelands in to South Africa, agricultural deregulation and the broader political changes, the government cut funding to the projects. The management that had controlled the whole operations left and, although workers continued producing on the land, the commercial side of the operations was severely curtailed or ceased. Through the 1990s the former homeland agricultural corporations were dissolved and the services integrated into development corporations or the relevant government departments of the new provinces. The projects themselves were transferred to the provincial agriculture departments and from the late 1990s rehabilitation and management transfer programmes were set up. This process of Irrigation Management Transfer (IMT) involved the transfer of the projects to the workers and local communities. But it began in the context of the withdrawal of any meaningful support to the beneficiaries. The farmers had to get credit, mechanisation services and inputs on their own. They had few skills, no access to inputs and no operational organisational structure (van Heerden & Stimie n.d.:2). This has resulted in a sharp decline in production, the decay of infrastructure and in many cases the abandonment of production.

A public and private partnership led to the establishment of an empowerment project to revive pineapple farming in Peddie in the Eastern Cape in 1999. The project had been transferred to workers who set up a Workers' Trust and a Community Trust that each holds 40 percent of the shares, with the remaining 20 percent belonging to Pineco, the project's managing body (Daily Dispatch 19.04.05). The Ncora, Qamata, Keiskammahoek and Zanyokwe irrigation schemes were fully controlled by community-based trusts although the latter two were not functioning because of lack of funds (Dispatch Online 04.05.01). In 2002, an invitation to tender for the Ncora Irrigation Scheme was announced (Privatization Group Inc 2002:2)

Apart from the homeland irrigation projects, there was also 350 000 ha of irrigation for white farmers under schemes built and operated by the government. Operating costs were charged to farmers at a subsidised rate. Another 400 000 ha of irrigation board schemes were privately managed but were frequently developed with government grants and subsidised loans. Both of these types of schemes were transferred to Water Users Associations (WUAs) consisting of the farmers following the passage of the National Water Act in 1998 (Ministry for Agriculture and Land Affairs 1998:67).

There were four national level agricultural parastatals in existence at the end of apartheid: these were the Land Bank, the Agricultural Research Council (ARC), Abakor and Onderstepoort Biological Products (OBP). The Land Bank and ARC remained in state hands, albeit slightly restructured. The Land Bank continues to provide credit to farmers, but unlike the apartheid days of subsidised interest rates, it is now at a disadvantage. The Land Bank cannot borrow from the Reserve Bank and must borrow money from the money market. This means its interest rates are actually higher than those of the commercial banks (interview with Land Bank officials 21.09.05). The ARC, like other parastatal research institutions, receives far less government funding than in did in the past. Government grants provide resources for salaries only, and the institutes must raise funds elsewhere for actual research. This has resulted in an orientation to private sector research needs since the private sector is able to pay for large-scale research. It has also resulted in loss of staff (interview G. Bothma, ARC Roodeplaat 06.10.03).

Both OBP and Abakor were restructured in preparation for privatisation (Ministry for Agriculture and Land Affairs 1998:62). In 1992 Onderstepoort Biological Products (OBP) and Onderstepoort Veterinary Institute were separated and Onderstepoort Veterinary Institute became one of the research institutes of the Agricultural Research Council. In 2000 OBP was converted into a company and operates as a commercially-driven enterprise (OBP 2005). It remained state-owned, under the Department of Agriculture.

Abakor owned 10 abattoirs that were operating at below capacity because of insufficient carcasses passing through the slaughterhouses (Business Day 06.02.98). The abattoirs included Johannesburg's City Deep and Cato Ridge near Durban. Before the deregulation of the meat industry, Abakor handled 90% of the national kill, but this had dropped to only 35% by 1998. In 1998 the corporation started selling off non-core operations and made staff cuts of up to 78%. Operations in Kimberley and City Deep were mothballed and at the Springs and Benoni slaughterhouses, the company sought takeovers of its leases (Business Day 01.04.98). The Bloemfontein abattoir was sold in the same year to black empowerment company Sentari Agt (Business Day 30.07.98). In 1999 the company sold the Cato Ridge slaughterhouse. A 50% stake was transferred to the Meat Industry Trust, a non-profit concern that took over the assets of the Meat Board when the board closed in payment for outstanding debt owed to the board by Abakor. In 1999 government approved the sale of abattoir operator Abakor on a 'voetstoets' basis. Although most of the abattoirs were not profitable, at least 4 were, including the Pyramid abattoir in Pretoria that continued to handle most of South Africa's meat exports to niche markets in Europe (Business Day 13.11.00). Nerpo Investments, a black empowerment consortium that included emerging livestock farmers, labour, Abakor management and other empowerment groups made a bid for Abakor in 2000. However, the corporation was provisionally liquidated in 2000 before it could be privatised (Business Day 12.10.00).

At a municipal level, the country had 15 national fresh produce markets that were considered to function very effectively. However, in the mid 1990s cash strapped municipalities started considering possible privatisation sell-offs of the lucrative markets to independent operators. Farmers who used the produce markets paid a 5% fee on all sales to the municipalities for the upkeep, administration and expansion of the markets. In 2004 the business operations of the Epping Fresh Produce Market in Cape Town was sold for R16m to Cape Fresh International. The property at the market was leased for R100m over 20 years (City of Cape Town 2004).

The state had also made forays into commercial agricultural production. In 1998, government adopted a policy that it would not establish any new government-owned or government-run agricultural enterprises, arguing that costs of such projects far outweighed the benefits. Existing projects were to be transferred to a corporation or management agent, with the objective to transfer ownership to land reform beneficiaries or commercial interests as soon as possible (Ministry for Agriculture and Land Affairs 1998:63). In 1998 the Magwa Tea Corporation was liquidated and the assets in the former Transkei were transferred to workers shortly thereafter. The workers kept the project functioning, but at a low level of production and profit. In 2004 an attempt to bring in Ugandan tea company Madhvani as a partner to revitalise Magwa failed after the company could not agree on terms with Ferrostaal (Business Day 07.04.04). Ferrostaal, the German submarine consortium, was to invest in the tea project as part of its arms deal industrial participation obligations. In the same year the Eastern Cape Development Corporation announced a management and investment agreement for Magwa with Indian tea exporter JV Gokal and Ferrostaal. In the first phase, JV Gokal would be responsible for the day-to-day operations of the estate as well as its rehabilitation. Ferrostaal would come in with investments in the second phase. In this phase, a new company will be established where JV Gokal will have a shareholding of between 50 to 74 per cent equity. Local partners (including the workers' trust) will own the remaining shareholding. The ECDC included a clause in the contract that will allow the local partners to grow its equity to 50 per cent (Eastern Cape Business News 23.07.04).

In 2001 the IDC swapped 70% of its shares in Sapekoe Tea Estate in Limpopo with UK-based agricultural group John Ingham & Sons. The IDC retained 30% of the shares in the company. Ingham is a wholly owned subsidiary of London Stock Exchange-listed Linton Park, which is, in turn, controlled by one of the worlds largest tea producers, Camellia plc (Business Day 22.03.01). Sapekoe was South Africa's largest tea grower and processor, and also produced macadamia nuts. But the company faced difficulties as tariff protection on tea produced in SADC was phased out in terms of SADC free trade agreements. In 2005 Sapekoe shut down its entire tea operations and retrenched 95% of its 8 300 employees in the tea division (Industrial Development Corporation 2005:63). The Limpopo government said it would resuscitate the plantation but would have to wait for the resolution of a claim on the plantation by the Mokgoba community (Business Day 15.02.05). Other privatisations of state-run agricultural projects included the sale of Agrichicks, a provincially owned poultry project that faced liquidation in 2002 (Privatization Group Inc 2002:2).

Under racially exclusive rule and apartheid, the state had also taken direct control of the brewing of sorghum beer. In the 1930s the government forbade any other companies to brew sorghum beer. Brewing rights were passed to municipalities, on condition that all income from sorghum brew-

eries should be allocated to the development of black townships and villages. Eventually the National Sorghum Breweries came under the management of the IDC, which corporatised it (Brynard 2003:5). In 1991 government sold NSB through an IPO, with United Breweries of India taking a 30% share (World Bank 2000).

In the white commercial sector, the agricultural control boards and the farmers' co-operatives were the central institutions in the agricultural sector under apartheid. The former were run by the state but with strong representation from farmers' bodies that gave the latter de facto policy-making power. The Boards were systematically dismantled from the mid 1980s. In the negotiations and lobbying around the Marketing of Agricultural Products Bill in 1995, a key issue was the disposal of control board assets once the boards were dismantled. Organised agriculture argued that these assets were the collective property of farmers. The first Minister of Agriculture was from the National Party and sympathetic to the white farmers. There was agreement that the assets should be kept inside agriculture, placed in trusts and used to advance the interests of the sector (Bayley 2000:50). In terms of the final Act control board assets with a total value of about R630m were transferred into eleven commodity specific trusts. Aims of the trusts allowed for the funding of activities to improve market access, research and information provision (Bayley 2000:52-53). Not all boards were compelled to close down, but in many cases closure was motivated by concerns that board assets should be removed from the discretion of any future Minister (Farmers' Weekly 25.05.90; 10.04.92; 09.04.93). There were a number of examples of farmer representatives privatising control board funds. For example, in 1996/97 the Wheat Board dissipated its reserve funds to farmers and the Mohair Trust funded a floor price using Trust funds without Ministerial approval (Bayley 2000:65).

The co-operatives were membership-based organisations that provided support and services to their farmer members. However, the state played an important role in facilitating the establishment of the co-ops, of subsidising them and of providing them with monopoly control over services such as storage and marketing, so that they operated almost as parastatals (see Bayley 2000:26-28). Co-ops handled all exports of deciduous and citrus fruit, 98% of the wheat crop, 93% of the maize crop and the whole wool clip. They supplied or financed 90% of the fertiliser, 85% of the fuel and 65% of the chemicals used by white farmers (Bayley 2000:26). About 250 agricultural co-ops owned total assets worth R15.3bn in 1995 (Financial Mail Top Companies 27.06.97) and employed 70 000 people (Bayley 2000:26).

In 1993 the Co-operatives Amendment Act allowed for conversion of co-ops into companies. A similar fear to that regarding the boards, that government might seek to appropriate the assets, prompted the conversion of co-ops into companies in the early 1990s with a sharp rise after 1994. Some of the biggest co-ops in the country privatised themselves and their assets, including grain giants OTK, Sentraalwes, SOK and VKB, dairy co-ops Bonnita and NCD/Clover, canning co-op Langeberg, meat co-op Kolosus, wool co-op BKB, Sasko, Bokomo and KWV. By 1999 a fifth of all agricultural co-ops had become companies (Business Day 09.06.99). The former single channel marketing boards for deciduous fruit (Unifruco) and citrus (Outspan) merged to form a private company Capespan. Skirmishes between the newly privatised companies and both government (in the case of KWV's assets, for example) and farmers (in the case of Capespan's attempted disposal of assets) continued into the new millennium. Farmers and workers have borne the brunt of the privatising of agricultural assets, with institutional investors (banks, insurance companies) gaining the most.

Land

Overview

- 772 626 ha of state land disposed of by 2004
- Communal Land Rights Act of 2004 permits transfer of communal land into control of traditional leaders
- Seven 20 year concessions to build, own and operate lodges in national parks signed in 2000
- Announcement of a further 6 concessions plus outsourcing of a hotel in 2001
- 10 year concessioning and outsourcing of restaurants, shops and picnic sites
- Poor service levels forced SANParks to cancel a contract with Vilayet in 2005
- Parastatals' land holdings consolidated into business units, with plans for disposal and leasing approved in 2005

State land is estimated to comprise around 20% of all land in South Africa, excluding that held by parastatals and communal areas. Each of these categories has been targeted for some form of transfer out of state hands. Ownership of state land is dispersed amongst a range of holders, at national, provincial and municipal level, as well as across different departments. Management was fragmented and administration un-coordinated. Management and administration of communal land was divided between the South African Development Trust (SADT) and traditional authorities in conjunction with homeland governments and white magistrates. In 2001 a national State Land Disposal Programme was announced. Provincial State Land Disposal Committees were formed, overseen by a national committee. The intention was to transfer ownership to individuals or groups in communities as part of the land reform programme. Land was disposed of in terms of the State Land Disposal Act (Act 48 of 1961), which requires that state property be sold at market value. The Minister of Land Affairs made it clear that it was not government policy to alienate state property for free, and that the National Treasury specifically required that state assets be disposed of at market value (Minister of Agriculture and Land Affairs 2001). By 2004 a total of 772 626 ha had been delivered under the Programme (Minister of Agriculture and Land Affairs 2004).

In 2004 the Communal Land Rights Act (CLRA) was passed. The Act aimed to transfer ownership of land in the communal areas to community structures with 'land administration committees' responsible for administration. Where they exist, 'traditional councils' as established through the Traditional Leadership and Governance Framework Act of 2003 will be the land administration committees. The DLA's estimate of 892 eligible 'communities' to which land will be transferred is the same as the number of traditional authorities in South Africa (Claassens 2005:3). In short, the communal lands will pass into the hands of unelected and politically dominant traditional authorities as a result of the Act. This is likely to entrench patriarchal power relations, especially with regard to women's control over land, and also entrench past discrimination against women by

'upgrading' and formalising 'old order' rights held by men (Claassens 2005:3). Prior to transfer, a land rights enquiry is to establish the majority views of the community. But there is no indication that majority consent is necessary for the decision to transfer title, to establish a land administration committee or for the Minister to reserve part of communal land for state use (Cousins 2005). The Bill was opposed by all sections of civil society with the exception of traditional leaders.

Municipal commonage was a source of state land that was identified in policy for inclusion in the land reform programme. The land could either be leased to members of the community, or could be transferred outright as part of the land reform programme. Between 1994 and 2002, a total of 381 000 ha of commonage land was transferred as part of the programme, constituting 44% of the total land transferred in the land redistribution programme as a whole[3] (Anderson & Pienaar 2003:11).

National parks are another category of state land. In the mid 1990s SANParks replaced the National Parks Board as the custodian of the country's national reserves. In the late 1990s SANParks redefined its core business as biodiversity conservation, and announced its plans to privatise tourism activities. In 2000, thirteen concession opportunities were made available and 7 successful bidders were announced. The successful bids were for luxury lodges in the Addo and Kruger parks. The build, own and operate concessions were to run over 20 years and bidders were contractually committed to paying royalties of at least 65% of forecast revenues (Financial Mail 24.11.00). The concessioning of a further 6 lodges in the Kruger, Cape Peninsula and Kgalagadi Transfontier Parks, plus a call for private investors for three greenfield developments at Kruger and Kgalagadi, and outsourcing of the hotel at the Golden Gate National Park were announced in 2001. In the same year the second phase of the commercialisation programme started with the concessioning and outsourcing of restaurants, shops and picnic sites as going concerns, complete with staff and assets for a 10-year period (SANParks 2001). Cosatu's investment arm, Kopano Ke Matla formed part of the winning consortium for joint retail and restaurant facilities in four parks (SANParks 2001a). In 2005 SANParks gave Vilayet - which had won the Kruger restaurant concessions – notice to cease operations following continuous poor service levels (SANParks 2005).

In 2003 provincial governments also started commercialising and privatising parks and tourism facilities under their jurisdiction. The Limpopo provincial government called for bids to take over nine of the province's 15 nature reserves. These assets were regarded as non-core assets and were to be sold to generate funds for service delivery (Business Report 29.05.03). The Eastern Cape Tourism Board announced the commercialisation of provincial parks and nature reserves, and put out to tender new eco-tourism projects (Financial Mail 11.07.03).

In the early 1990s the state was selling public land across the country. The National Housing Forum (see housing above) raised its concern, saying it was highly questionable as to whether present or future national assets should be used to finance current expenditure (SAIRR 1994:100). In 1999 Johannesburg council called for bids for a three-year contract to manage the commercialisation of its R2bn-plus council-owned property portfolio, including parks, the zoo, waste ground, public utilities and council buildings (Business Day 12.11.99). In 2000 the Greater Johannesburg Metropolitan Council sold its Metro Centre in Braamfontein for R120m and municipal offices in Sandton for about R90m. Cape Town City Council sold a prime foreshore property to Investec for its regional office. Experts believed they could have raised almost the same money without selling (Financial Mail 28.01.00). In 2000, acting on behalf of Johannesburg city, Intersite auctioned 23 municipal properties (Business Day 21.02.02).

The main parastatals control significant amounts of land. Each of the major parastatals consolidated their land holdings into stand-alone business units. Intersite is the property management arm of the SA Rail Commuter Corporation. It manages R1,2bn worth of assets comprising 374 commuter stations throughout the country. Between 1992 and 1998 Intersite involved the private sector in deals worth about R700m through the commercialisation of train stations and station-related properties (Business Day 19.08.98). In 1998 Intersite signed a management contract to lease and develop the 35-40 000 ha of land and property belonging to the National Roads Agency. Development was based on long-term leasehold instead of outright sale (Business Day 24.02.99). In 2001 plans were announced to launch a state property company to help government restructure and dispose of some of its 250 000 properties, worth an estimated R120bn at the time (Financial Mail 12.10.01). In 2005 the Minister of Public Enterprises approved the opening of negotiations for the sale of Denel's commercial property division, Bonaero Park. Approval was also given for the leasing of Transnet land (Business Report 31.10.05).

OTHER SECTORS

In the sectors below, the state has historically played the main role in providing the service. Privatisation has generally not taken the form of the sale of state assets or even the transfer of control and management to the private sector of formerly state-owned entities. Yet the private sector is increasingly involved in these areas once considered to be the exclusive terrain of the public sector. In order for the private sector to be involved, it has been necessary to construct markets in water, housing, education, health and even prisons. In line with the corporatisation seen in other sectors above, these sectors have also been corporatised and restructured to accommodate the possibility of user fees, cost recovery, competition and the potential to make profit.

Water

Overview

- Water management in process of being transferred to Catchment Management Agencies (CMAs), multistakeholder entities dominated by industrial, mining and commercial agricultural interests
- Queenstown municipality signs 25 year water supply concession with French TNC Suez in 1992
- Stutterheim municipality signs a 10 year water supply concession with Suez in 1993

- Fort Beaufort signs a concession with Suez subsidiary WSSA in 1995. The contract is cancelled on a technicality in 2001 after costs rose fourfold
- Dolphin Coast signs 30 year water supply concession with a consortium including French multinational SAUR in 1999
- Nelspruit signs a 30 year water supply concession with a consortium including British multinational Biwater in 1999
- Harsh credit control methods, including water cut offs, follow sharp tariff increases in Nelspruit
- Five year management contract signed between corporatised Johannesburg Water and Suez in 2001
- eThekwini municipality signs 22 year water treatment contract with French TNC Vivendi in 1998
- In rural areas, DWAF's water supply programme in four provinces converted into build, own, operate and transfer schemes with the state paying the costs and the private sector gaining a monopoly on water supply programmes. Companies involved include Suez.
- Between 1995 and 2003 roughly 15% of the total population were supplied by foreign private sector operators in water services
- The general drive for cost reflective pricing and cost recovery policies results in sharp increase in water prices

Under apartheid, access to clean water was highly skewed racially. In the urban areas water boards and municipalities served the white population to a high standard. Although local authorities provided the black urban population with water, in 1990 an estimated 18% of the urban population did not have access to an adequate water supply and 36% of urban residents were without access to adequate sanitation. In the rural areas, some 8m r4esidents lacked an adequate water supply and some 14m did not have access to adequate sanitation (SAIRR 1994:353-4).

Prior to the Water Services Act of 1997 (WSA), there was no national legislation dealing with water supply and sanitation services. Each city, town and village had to make its own arrangements. Seventeen water boards provided bulk water to municipalities, the latter who then had the responsibility to reticulate water to consumers. The water boards did not cover the entire area of the country, and municipalities, regional services councils (RSCs) or regional water schemes – later with the assistance of the Development Bank of Southern Africa (DBSA) - provided water in the remaining areas, in particular in the former homelands. The focus of post-apartheid water supply was in the rural areas through the Department of Water Affairs & Forestry (DWAF)'s Community Water Supply and Sanitation Programme (CWSS). In the urban areas water supply was funded through

the Department of Provincial and Local Government (DPLG)'s Consolidated Municipal Infrastructure Programme (CMIP) (now Municipal Infrastructure Grant) and to a lesser extent through the Department of Housing. Government provides some subsidy to poorer users through the Free Basic Water policy and irrigation subsidies to black farmers for 5 years.

The water boards were originally established on the understanding that the rate for water was not to yield any profit, but was calculated to cover working costs only (Rand Water 2005). By far the largest boards are Rand Water, serving Gauteng and parts of the Free State and North West provinces, and Umgeni Water serving Durban (eThekwini), Pietermaritzburg and surrounding areas. They accounted for 60.9% and 16.8% respectively of total water board revenue of R6.1bn in 2005 (National Treasury 2005:904). The City of Cape Town had its own water department that carried out bulk water provision. In the early to mid 1990s the bigger water boards were given an expanded mandate to supply bulk water to the peri-urban and rural hinterlands surrounding the main metropolitan areas. Additional boards were set up in the mid 1990s, funded by DWAF, to provide bulk water to some areas not previously covered by boards. The 1997 Water Services Act set the boards up as financially independent institutions that are, however, owned, controlled and regulated by DWAF and the National Treasury. There are presently 15 water boards. There has been no plan to privatise or corporatise the boards, although they must generate their own income, can raise funds on the capital markets and can enter into other economic activities as long as these don't impact on their ability to perform their primary water service provider functions. This has led some boards into profit making partnerships in other parts of the continent. For example, Rand Water was recently involved in a deal with Dutch company Vtiens International to manage Ghana Water Company (Public Agenda 21.11.05).

Government became the public custodian of the country's water resources following the National Water Act in 1998. The Act eliminated the old system of riparian rights that gave the landowner the rights to any water on or under that land. In a sense, water was nationalised with the 1998 Act. However, despite the rhetoric (or even intention) of shifting water use towards the previously disadvantaged population, existing water users generally retained their previous rights to water in the subsequent system of water use registrations and authorisations.

Water affairs have been divided into two broad categories: water management and water services. In both of these, the DWAF aims to delegate authority to a mixture of public and private entities. In water management, the process of setting up wall-to-wall catchment management agencies (CMAs) began after the passing of the National Water Act in 1998. The CMAs are stakeholder institutions that represent the water users in a given catchment. These fora are usually dominated by mining, industry and commercial agriculture as the largest users of water. In 2005 government announced the creation of a National Water Resources Infrastructure Agency (NWRIA) that will take responsibility for developing and operating South Africa's major national dams and water transfer schemes currently managed directly by DWAF. All assets and income will be transferred to the new entity. The Trans-Caledon Tunnel Authority (TCTA), the parastatal organisation responsible for funding the Lesotho Highlands Water Project, will be integrated into the new agency (Dept of Water Affairs & Forestry 2005a). This is part of the process of transferring functions and assets out of the department.

Water services are the constitutional responsibility of local government. However, the 1997 Water Services Act divides water services institutions into water service authorities and water service providers. Water service authorities are the municipalities with the constitutional responsibility to ensure that the population has access to water services. The authority may also be the provider, but water service provision may be outsourced to another entity, whether public or private.

To date there are four urban water supply concessions being operated by the private sector. Two of them were set up before 1994, in the Eastern Cape towns of Stutterheim and Queenstown. In 1992 Queenstown municipality signed a 25-year concession contract with Suez, and in 1993 Stutterheim signed a 10-year concession contract with the same company (Bayliss 2002:4). In 1995 a water supply contract was signed between Suez subsidiary Water Services South Africa (WSSA) and the eastern Cape municipality of Fort Beaufort. Payments to the concessionaire rose fourfold between 1995 and 2000, and it eventually absorbed 20% of the municipal operating budget (Ruiters 2005:159). The municipality escaped from the contract in 2001 when it was nullified on technical grounds.

In 1999 two municipalities signed 30-year concessions to manage and supply water to their residents. In Dolphin Coast in KwaZulu-Natal, a concession was granted to Siza, a subsidiary of French company Societe d'Amenagement Urbain et Rural (SAUR), and partly owned by South African finance house Metropolitan Life, to manage and supply water and waste services. Until 1996 the Port Natal Ebodwe Joint Services Board provided water and sanitation services to the approximately 28 000 people in the towns in the area. After 1996 the JSBs were abolished and the local municipality had to take over these functions. At the same time, the population had grown to 40 000 people (Kotze, Ferguson & Leigland 1999:624-25).

In Nelspruit, the municipality signed a contract with the Greater Nelspruit Utility Company, which had as its majority shareholders British firm Biwater and local BEE group Sivukile Investments. The contract gave the company responsibility for managing and developing the water and sanitation infrastructure of Nelspruit town (population 25 000), its two ancillary townships (about 60 000 residents each) and underdeveloped peri-urban settlements (population about 150 000). The estimated 145 municipal staff members were transferred to the employ of Biwater (Financial Mail 09.10.98). Although the concession resulted in a general improvement in overall quality and level of service to township residents, a number of problems also arose. It exposed serious weaknesses in municipality capacity to monitor compliance and to regulate the concession. Sharp tariff increases (a 69% increase in the first band after the 6kl/month free water between 1999 and 2002) made payment for poor households more difficult. The company responded by implementing harsh credit control measures that were used to enforce payment, including water cut-offs, removing meters and portions of pipes to prevent illegal reconnections, reducing 24 hour supply to intermittent hours throughout the day and night, and installing flow restrictors (Smith *et al.* 2005). In both the Nelspruit and Dolphin Coast concessions, fixed rates of return (i.e. profits) were structured into the tariffs (Kotze, Ferguson & Leigland 1999:630).

The metropolitan municipalities have corporatised their water supply units. Johannesburg Water is a water utility wholly owned by the City of Johannesburg. Management of the utility was contracted out to French multinational water company Suez Lyonnaise des Eaux on a 5-year contract in 2001 as part of the iGoli 2002 Plan (Harvey 2005:122). A process of commercialisation of Cape Town's water sector took place between 1997 and 2001 in preparation for the corporatisation of water services in the metro in 2004. It included the outsourcing of non-core services as well as meter reading, water cut-offs, maintenance and construction work. The process also resulted in tight credit control methods that included water cut-offs to non-paying households, regardless of why they didn't pay (Smith 2005). In 1998 Durban signed a build, own, operate and transfer contract with Durban Water Recycling (51% owned by French water company Vivendi) for the treatment of wastewater for sale to industrial customers. It was a 22-year contract involving the rehabilitation, operation and maintenance of Durban's secondary treatment works, with construction and rehabilitation to cost around R72.3m (Breytenbach & Manning 1999:707). Water services have also been corporatised into eThekwini Water Services in that city (Loftus 2005). However, in no case except Johannesburg are water and sanitation services truly stand-alone and ring-fenced activities (National Treasury 2004:139).

In the rural areas, concessions took a different form but were more overarching. Historically the private sector had played a role in constructing government water schemes, but private sector involvement had been limited to that. In 1997 DWAF unrolled a Build, Operate, Train and Transfer (BOTT) programme for water supply in rural areas. Four provincial contracts were handed to private sector consortia: Amanz'abantu Services in the Eastern Cape; AquaAmanzi in KwaZulu-Natal; Consultburo Consortium in Mpumalanga and Metsico in Limpopo. In the Eastern Cape and Limpopo, WSSA - a joint venture company between Group 5 and Northumbrian Water Group, a subsidiary of Ondeo Services (Suez) - was the lead company (Global Water Intelligence 2002). These consortia gained a monopoly over rural water supply programmes in these provinces, controlling 300 out of a total of 357 projects (Greenberg 2005:209). As the name implies, the concessions gave the consortia the right to build the infrastructure, to operate it while training local communities in operations and maintenance, and then finally transferring the schemes to the local authorities or local communities. The BOTT programme differed from standard Build, Operate and Transfer (BOT) contracts in that, in the latter, the private contractor finances the construction and then makes profit from operating it for a period of time. The state then benefits from the transfer of ownership of the infrastructure after that period. But in the water BOTTs the state funded the infrastructure costs. The contracts were based on a guaranteed income, resulting in inflated rates and inefficiencies (Dept of Water Affairs & Forestry 1998; DWAF External Review Team 1998:43; Hemson & Bakker 1999:10; Greenberg 2005:210-11). In 2002 an "improved BOTT" model was developed and advocated by DWAF for use by local governments. The private sector consortia remained at the centre of delivery, but the contracts were restructured and municipalities would negotiate them.

Between 1995 and 2003 roughly 15% of the total population had come to be served by foreign private sector operators in water services (Morgan 2005:12). The general drive for cost reflective pricing and cost recovery policies has resulted in a sharp increase in water prices. The large municipalities are driving the increases, with the Cape Town municipality increasing prices by 67% between July 2004 and July 2005, and an average water price increase of 13.8% for South Africa as a whole in the same year (Business Day 15.08.05). This is well above inflation.

Housing

Overview

- 413 006 state-owned houses transferred to tenants by 2004, under a scheme started in 1983
- Housing delivery structured around private sector, with the state paying a small grant and potential homeowners expected to find sources of credit to add to the grant themselves. This gave the banks an effective veto over housing projects

Under apartheid, the state did not permit blacks to own their own housing in line with the Verwoerdian notion that blacks were only temporary sojourners in white society. In the 1960s and 1970s the state attempted not only to contain, but to reverse, black urbanisation by imposing a freeze on land development and building of family houses in African townships and the removal of free-hold rights (Boraine 1989:107). Although funding for African township development began to increase after the advent of the Administration Boards in 1977, the allocation of funds to urban African housing remained low. Between 1973 and 1978, while 44% of the urban population was classified as African, only 6% of the Housing Fund's resources were put towards the development of African residential areas (Parnell 1990:3). One result of these policies was that the state limited the construction of houses for the black population, causing the growth of a massive backlog of some 1.4m units (with some estimates as high as 3m units) at the end of apartheid, with African house-holds representing the vast majority (SAIRR 1994:323).

In 1983, in an attempt to defuse growing mass-based political opposition, government adopted a campaign to sell all government-owned houses to their occupants. At that time there were 338 241 housing units, and by 1993 government had sold 39% of the stock (SAIRR 1994:343). Residents had to buy the houses and in many cases either could not afford to, or were of the opinion that they had already paid for them through the payment of rent over may years. There was a demand for the transfer of these houses free of charge to residents. In 1992 government offered a R7 500 discount on the purchase prices (SAIRR 1994:343). Male tenants dominated public housing, with the right to purchase this housing at preferential rates. Women who mostly sub-let from tenants throughout apartheid had to buy their own houses at full cost on the private housing market (Parnell 1990:18). By 2004, 413 006 houses had been transferred to occupants through the scheme (suggesting that the original number of council-owned houses was underestimated) (National Treasury 2004:119). The scheme continues.

By the 1980s, the state had shifted its responsibility for the provision of housing to the private sec-tor, based on individual home ownership and bond repayments. Given the extremely low wages of the average African worker in the 1980s, most could not afford formal housing without heavy sub-sidisation. The rapid expansion of informal settlements in and around the urban areas attested to the failure of the state and the private sector alike to provide adequate shelter for the African popu-lation. For those who could pay for housing, the houses were of notoriously poor quality, and the banks did little to hold developers accountable. This led to the bond boycott strategy where entire communities stopped paying their bonds and demanded improved housing. This was the backdrop to a growing crisis for the financial institutions that led to the unwillingness of the private sector to lend money in the early 1990s – especially during an era where financial speculation generated far higher rates of return than the provision of housing for the poor. In 1994 a joint venture agency between government and commercial banks called Servcon was set up to 'rehabilitate' non-paying bonds and to 'right-size' (i.e. evict) households to properties they could more easily afford (Bond 2000:146). In 2001 repossession rates were running at 11.75% (Business Report 04.06.01).

Hostels were another significant source of housing for migrant workers in particular. At the end of apartheid there were 411 hostels (excluding mine hostels and excluding the homelands), of which 214 were owned or controlled by local or provincial authorities and the remaining 197 were privately owned. There was no accurate count of the number of beds, with estimates ranging from 308-456 000. The number of residents was certainly higher than the number of beds; since most beds were used for sleeping in shifts, i.e. more than one occupant used each bed (SAIRR 1994:347-48). In 1990 a process of upgrading and conversion of government-owned hostels into family units was started. This process included the privatisation of hostels for upgrading (SAIRR 1992:354). On the mines, the majority of workers still live in hostels with the Chamber of Mines putting the proportion at 60-70% and the unions saying 80% (Onstad 2005).

The R7 500 subsidy to buy state owned houses was extended to become a subsidy for new housing too. It was increased to R15 000 in 1994 to keep up with inflation, and the subsidy was only avail-able for the construction of housing where there was individual title deed (Bond 2000:136). At that time the housing policy was a basic 'site-and-service' policy (nicknamed 'toilets-in-the-veld'). The policy provided a new homeowner with a place to build a house plus bulk infrastructure for basic services. It was a developer-led policy, funnelling state subsidies directly to developers who, in return, designed and constructed low-income housing estates. The Housing White Paper in 1994 and subsequent amendments based housing policy on "the fundamental pre-condition for attract-ing investment, which is that housing must be provided within a normalised market" and in 1996 the Ministerial Task Team confirmed that the state's gradual withdrawal from housing provision was a fundamental principle (Bond 2000:145).

In line with the market driven housing policy, housing finance guarantees were structured to favour lenders rather than borrowers, the construction industry was self-regulated rather than govern-ment-regulated, housing standards were very low, a full cost recovery policy on services was adopt-ed, and tenure was limited to individual title deed. The overall effect was to transfer state resources into the private sector (Bond 2000:145). The financial institutions retained the power to decide whether to grant home loans and were reluctant to lend to those without collateral. In 1995 the gov-ernment granted the banks permission to impose a 4-5% interest rate premium on housing bonds to low-income borrowers (Bond 2000:147). The result was the construction of very small, poor quality houses to the value of the housing subsidy (R15 000) because poor households could not get extra credit. Less than 1% of houses built under the housing scheme have been linked to credit (National Treasury 2004:128). In 1998 only a one-room frame house could be afforded with the sub-sidy (SAIRR 2002:46).

The subsidy was not designed to be the only source of financing for the houses, and the limitation to the subsidy had further unintended consequences. It resulted in the continuation of peripheral development as developers sought to reduce costs and accommodate the declining value of the subsidy (Khan 2003:79). Unrestrictive and poorly defined standards made this easier and led to "unscrupulous developers skimming off and producing units that are substandard in terms of adequate living spaces for families" (then Minister of Housing Sankie Mthembi-Mahanyele in 1998, quoted in Bond 2000:148). In 2002 only 30% of subsidised houses erected since 1994 adhered to the $30m^2$ minimum size required by national building regulations (SAIRR 2002:46).

In terms of the financial services charter, banks committed to making R42bn available to finance low-cost housing. However, the banks demanded higher levels of state protection, in the forms of a mortgage levy against losses caused by defaulting bondholders (Mail & Guardian 02.09.05). In essence the poor remain locked out of the formal housing market, and housing delivery has lagged behind demand. Despite the construction of 1.74m new houses since 1994, delivery has not kept up with demand nor has it wiped out the backlog (National Treasury 2005:683). Between 1994 and 1999, formal housing stock only grew by 12%, compared to the 97% increase in informal dwellings (rising to 142% in urban areas) (Business Day 11.12.01). After having achieved the RDP target of 1 million new houses in 2000, the number of houses completed each year dropped significantly and rollovers on the conditional grant skyrocketed – to R1.2bn in 2002/03 (National Treasury 2005:699). In 2002/03 new policies required that beneficiaries contribute to the cost of their housing. This further reduced access to formal housing since most households cannot afford to make their contribution in cash (National Treasury 2004:126). The result is a shift to self-help housing schemes.

Education

Overview

- 1992 education strategy created a category of state-aided schools where assets were transferred to parent bodies and the state only paid operational costs. In the formerly whites-only schools this permitted exclusion on the basis of race.
- In 1996 government adopted a model of user fees for schools. Government would pay a basic subsidy and schools were allowed to impose a top up fee for additional costs. This created a duality between schools whose parents could afford to top up, and schools that had to rely entirely on the subsidy
- 'Hidden costs' including additional school fees, uniforms, books, transport and the provision of meals in schools has transferred much of the cost of education to individual households
- The number of private schools has risen from 477 in 1993 to around 2000 in 2005. The percentage of the school population in these schools rose from 1.5% to 3.4%.
- Rapidly escalating fees have put university education beyond the means of many middle class families, who join working class families in this plight
- Private higher education has grown significantly since the early 1990s, so that 12.3% of the higher education population were in private institutions by 2000
- Parastatal research institutes have been corporatised, state subsidies reduced and a growing proportion of their income comes from contracts with the private sector

The education sector was one of the starkest examples of inequality and segregation in South Africa. Some 14 departments were fragmented across provinces and homelands. Resource distribution was highly skewed. White pupils and students received a far larger per capita share of the budget than their black counterparts, with per capita spending on college and school education for whites standing at R4 372 and as low as R1 046 for black students in 1993 (SAIRR 1994:52). In white schools the teacher:pupil ratio was 1:18 in 1993, compared with 1:44.4 in African schools (SAIRR 1994:711). In 1992 25% of teachers in the black schools were under qualified, rising to 86% on farm schools (SAIRR 1994: 54). Legislation made education for whites compulsory, and for Indians and coloured it was compulsory up to 16 years old. But for Africans there was no requirement for compulsory schooling (SAIRR 1994:705). In its 1993 proposals on a new education system, the ANC called for ten years of free, compulsory education for all (Mayibuye 04.93).

Schools

In 1992 the apartheid government released a new education strategy that reorganised the schooling system. It set up three types of schools: state schools; state-aided ('Model C') schools, which were formerly state-subsidised schools; and private schools (SAIRR 1994: 695). Each of these schools received state funding, but at a progressively lower proportion as state control diminished. Prior to this model, government covered the full costs of all state schools. The Model C schools represented a step back by the state, with infrastructure resting with the community and the state only covering 75% of operational costs. The schools were permitted to raise funds – including through user fees - themselves to cover additional costs including for infrastructure maintenance and upgrading. Although there is an aspect of local, decentralised control that may have some value here, it had the effect of removing formerly state-owned assets from a national resource pool. This led the ANC at the time to say that the system resulted in the educational assets of the country being handed over to a small minority and that they would have to be transferred back into the national pool to ensure a more equitable allocation of resources (John Samuel, head of ANC education department, cited in SAIRR 1994:697).

In Model C schools, governing bodies were allowed to determine admission criteria, and this effectively privatised admissions policies. For example, fees in Model C schools were increased by 100% between 1992 and 1993 (SAIRR 1994: 53) as white parents chose to increase fees rather than allow poor and most black pupils in. "Leaving the question of access for black to historically white schools…to market forces is extremely problematic in the South African situation. If past experience is anything to go by, there is every reason to believe that many white parents will continue to prefer to set higher fees rather than admit more blacks" (L. Tickly, quoted in Vally & Spreen 2005:11).

The 1996 Schools Act recognised only two categories of school: public (state-controlled) and independent (privately-controlled). Public schools are then sub-divided into Section 21 and non-Section 21 schools. The former are characterised by a high degree of self-management where there is evident capacity. The school governing bodies (SGBs) at these schools can be allocated functions including: maintenance and upgrading of school property; determining the extra-mural curriculum and subject options within the provincial framework; and purchasing textbooks, educational material or equipment for the school. The non-section 21 schools are those still lacking management capacity and appropriate administrative systems. These tend to be found in previously black residential areas. The goal is for these schools to become section 21 schools as capacity is built. In the meantime, they remain the primary responsibility of the provincial education departments (Pillay 2004:6). In 2005 there were around 29 000 public schools and 2 000 independent schools (Financial Mail 29.04.05).

In 1995 the ANC's education policy document promised compulsory fees would not have to be paid for pupils compulsorily attending public schools (Financial Mail 23.08.96). But in 1996 the ANC government adopted a funding model based on user fees. The state would provide a subsidy to schools, and then the SGB would determine the level of 'top-up' fee to cover costs. In practice, this is closely related to the ability and willingness of parents to pay the fees. Formerly whites-only schools were able to maintain higher funding levels significantly above poorer schools, maintaining inequitable education expenditures (Vally & Spreen 2005:11).

Public costs of education include paying staff; building, extending and upgrading infrastructure; providing textbooks, stationery and other teaching aids; and paying for transport in some cases. The education budget cannot cover the necessary costs of these items, with the result that private households must absorb the additional costs even in public schools. These extra costs include school fees, uniforms, books, transport and the provision of meals in schools. Figures from Stats SA show that education expenditure as a percentage of total household income rose for poor and rich households alike between 1995 and 2000 (Pillay 2004:14). Private costs of education have been made worse by families having to fund infrastructure, with evidence of substantial contributions to infrastructure provision in the absence of government funding for this purpose. There are also demands on parents to make monetary or in-kind contributions over and above the officially determined school fee (Pillay 2004:17 & 19). A Department of Education survey from 2003 reported a situation where a R100 official fee concealed a 'hidden fee' of some R6 700 when items such as food, transport and uniforms were included (Pillay 2004:19). Less than 5% of pupils receive exemptions from school fees, and the poor borrow R2.7bn a year in total to spend on education (Mail & Guardian 14.10.05).

Private schools have a long history in South Africa, either as elite institutions for wealthy white pupils or mission schools for black pupils. In 1993 there were about 136 600 pupils in private schools, of which slightly over 49% were black. Private schools only accounted for around 1.5% of the total school population at the time. In 1993 there were 477 private schools in South Africa (SAIRR 1994: 702-03). By 2005 the number of private schools had risen to nearly 2 000, and the proportion of black pupils had risen to 70.6% of the private school population (Financial Mail 02.12.05). However, in the traditionally white elite private schools this percentage stands at just 18.6% up from 13% in 1988 ((Financial Mail 30.01.04). About 3.4% of school pupils were educated through private schools in 2005. About 43% are faith-based schools (Financial Mail 02.12.05). The state continues to subsidise independent schools, ranging from 0% subsidy for high fee schools to 60%/pupil of what a state school receives for lowest-fee independent schools. Up to two-thirds of new independent schools are in low-income areas where there is no access to public education or where the public school is dysfunctional (Financial Mail 02.12.05). Subsidies to independent schools stand at around 0.5% of total expenditure on public ordinary school education, and this will remain the case in the medium term (National Treasury 2004:44).

Public libraries used to be the mandate of municipalities. In 1996 provinces were given the responsibility for public libraries, but did not receive any funding for them and the service has fallen into disrepair. Municipalities continue to fund staff salaries and infrastructure maintenance, but books are not forthcoming. Lack of funds in municipalities has also meant they are cutting back on library budgets, leading to staff cuts, reduced hours and even closures (Business Day 21.07.05).

Higher education

Historically, universities and other higher education institutions received a proportion of their funding from government. In the pre-apartheid era private higher education institutions became semi-public institutions as the state institutionalised them and gave them funding. At the end of apartheid, the public sector consisted of state-aided semi-autonomous universities designated for whites, and state-controlled 'new colleges' designated for blacks (Mabizela 2002:45).

State subsidies to semi-public institutions were paid on the basis of the number of science students in a university. This favoured white universities because they had more students enrolled in the sciences (SAIRR 1994:731). In 1993 the funding formula was changed to take into account the projected growth in student numbers. The remaining funding was a mixture of industry funding and user fees. Subsidies to universities were cut in the context of a macroeconomic strategy that forced redistribution in education spending to take place through reallocations within a budget not exceeding that of the late apartheid period (van der Walt et al. 2002:6). In 2003 a new funding framework for public higher education institutions came into effect. Planned student enrolments, approved by the Minister and linked to institutional performance, now determine state funding to these institutions (National Treasury 2005:304).

In the late 1980s and early 1990s rapidly escalating fees put university education beyond the means of many middle class families (SAIRR 1994:732), who joined the vast majority of working class families in this plight. Universities employed harsher credit control measures, including holding back results until fees were paid and using debt collectors (SAIRR 1994: 733). A national bursary and loan scheme was developed, but could not accommodate the rising number of enrolments of working class students. The universities have not coped with the growth in student numbers, and staff numbers have grown at less than one third of the rate of new students. This has led government to impose a cap on new students – a policy that will affect poorer students most negatively (Financial Mail 13.05.05).

Since the 1990s the universities have undergone a fundamental restructuring along business lines, including processes of marketisation, the rise of managerialism and outsourcing of 'non-core' func-

tions. Marketisation and the new managerialism go hand in hand. They are not just the product of a restrictive fiscal environment (though that did play an important role), but also emerged out of the institutions themselves to reconceptualise universities as potentially profitable corporations which should be run according to the managerial principles and profit-making imperatives of the private sector (van der Walt et al. 2002:8). This new conceptualisation of the university is to be found in the Council for Higher Education's 1996 report, the 1997 White Paper on Education and the 2001 National Plan for Higher Education. The universities adopted practices such as corporate branding, corporate management styles, intensification of academic work, and administrative appropriation of academic authority (Bertelsman 1998:142-150; Webster & Mosoetsa 2001). Universities aimed to cut costs on the one hand - including through retrenchments, outsourcing of support services, and work intensification, and a rise in a competitive managerial model that privileged 'cost consciousness' above collegial governance (van der Walt et al. 2002:14). On the other hand, university management sought new sources of funding. This included a growth in for-profit research, with the effect of breaking down intellectually driven research and the disintegration of the relationship between research and teaching (van der Walt et al. 2002:13). It also included attempts to optimise "revenue opportunities from intellectual property and from entrepreneurial activities" (Wits University strategic plan 1999 quoted in van der Walt et al. 2002:14).

The historically white universities have had greater success in transforming themselves into market universities than the historically black universities. This is primarily because they were on a sounder financial footing and had greater internal capacity than the black universities. The result has been an entrenching of inequality between the formerly white and formerly black universities, and the ultimate absorption of the latter into the former through the merger process, or their 'disestablishment' and closure.

Outsourcing at universities has included functions that are considered to be 'non-core' because they do not contribute directly towards knowledge production, but are nonetheless essential to the functioning of the university. These functions include catering, cleaning, grounds and building maintenance, security services and transport. An intermediate level of outsourced functions included IT, accounting and legal services. But outsourcing also includes functions that would normally be considered core to the university, including teaching, human resource management and library services (Adler et al. 2000:4-6). The majority of public sector universities that were outsourcing support services by 2002 cited the need to cut costs as the key reason for outsourcing (van der Walt et al. 2002:23).

Private higher education institutions grew outside any regulatory framework under apartheid, but they were under-resourced and offered lower-level qualifications. These institutions served as a cheap alternative avenue mainly for black students (Mabizela 2002:47). After 1990 there was a growth in private higher education institutions, many of which operated in partnership with a range of local and international institutions. Prior to regulation in 1997, private higher education was a "free-for-all where you could call a three-day course a diploma" (education consultant quoted in Financial Mail 25.07.03). Four different types of private providers have been identified: transnational (foreign) institutions operating in South Africa; franchising colleges acting as tuition centres for distance public providers; technical vocational and educational training institutions (TVETs) that target niche markets; and corporate classrooms set up by companies to train their own staff (Kruss 2002:17).

The transnationals and franchising colleges tend to serve an elite – mainly white but increasingly black (Kruss 2002:21). They market themselves as providing 'better' (exclusive) education than public institutions. This 'better' education is sold as internationally portable, high-status, career-oriented education. A number of these are owned by publicly listed education holding companies, including Educorp (owned by Naspers), Adcorp and AdvTech. They tend to rely on tuition fees as their sole source of income, making fees high (Kruss 2002:23). These include the largest private education institutions such as Lyceum College, Damelin Education Group, Midrand Graduate Institute, Eden College, Allenby and Boston City Campus.

TVETs and corporate classrooms market themselves as offering 'different' (specialised) education not found in the public sector (Kruss 2002:22). They tend to serve people with disadvantaged backgrounds, mostly who are gaining access to credentialing for the first time (Kruss 2002:21). Although there were expectations of a 'massification' of higher education following the end of apartheid, this did not materialise because of the low number of school pupils qualifying to move into higher education. The private institutions have positioned themselves to attract students excluded from the public sector either because they do not have the financial means or they do not meet the entry requirements (Kruss 2002:23).

Some institutions meeting the 'specialised' demand often operate as not-for-profit organisations, although they are under pressure to become self-sufficient and profit-oriented (Kruss 2002:23). However, most operate for profit. A category of small, individually owned institutions that operate for profit tend to target 'specialised' demand. Large corporations owned another small group of 'specialised' demand institutions for their own internal training needs. These are now being restructured into self-sustaining, profit-oriented units (Kruss 2002:23-24).

In1997 private higher education institutions were incorporated into the definitions of the Higher Education Act and their role recognised as complimentary to the role of public institutions. This recognition was the result of the growth of the private institutions that met a demand not catered for by the public sector. This demand included undergraduate diplomas and certificates; and the outsourcing of tutorial support and face-to-face contact with the expansion of UNISA and Technikon South Africa's open learning methods (Mabizela 2002:49). A set of regulations that required private sector institutions to register with the department and to apply for preliminary accreditation of their programmes with the South African Qualifications Authority (SAQA) followed the 1997 Act (Subotzky 2002:2). This has been credited with stemming the possible tide of market-driven transnational institutions located in education-exporting countries such as Australia and the UK (Subotzky 2002:5). Nevertheless, transnational institutions did continue to enter the country, either in their own name or through partnerships with local organisations (Thaver 2001:44). Despite these accreditation requirements, SAQA was unable to fulfil its monitoring function because of lack of resources, and a government investigation in 2003 found a high number of fly-by-nights and institutions producing poorly trained graduates with weak qualifications. 84% of the institutions surveyed offered degrees presented as higher education, but that actually belonged to the high-school band of the national qualifications framework (NQF) (Financial Mail 25.07.03).

Many of the students that attend private sector institutions are actually registered with a public sector institution where services or syllabi are outsourced. This is a form of PPP (Mabizela 2002:50). Most

enrolment in the private sector is clustered in the lower qualification levels and in the three dominant fields of business, education and information technology (Subotzky 2002:1). In 2000, around 12.3% of students enrolled in higher education were in private institutions (SAIRR 2002:262 & 271).

Research institutes

Across the board, South Africa's parastatal research institutes have become more market oriented as they are forced to seek funding from the private sector to do research. The Medical Research Council (MRC) is a statutory science council and the main organisation responsible for medical research in South Africa. In 1989 its entire budget came from the government, but a decade later 30% came from contracts with international partners and industry (Financial Mail 19.03.99). In 2005, 50% of its revenues came from commercial research services to government and the private sector (National Treasury 2005:357). The Council for Scientific and Industrial Research (CSIR) received a state grant of just one third of its operating revenue (Business Day 20.09.05). The grant is insufficient to cover operating expenses, and this requires the council to raise income from commercial contracts for staff costs and to top up operating expenses (CSIR 2005:96). The Human Sciences Research Council's (HSRC) income from private research contracts rose from 39% of revenue in 2001/02 to 62% in 2004/05 (National Treasury 2005:787). This is part of a global trend towards the effective privatisation of facilities, expertise and resources of nominally public research entities. Scientists are integrated into the values and priorities of the commercial sector; commercial sponsorship and 'corporate gifts' to research such as extra funding, equipment or materials raise questions about the independence of research findings and knowledge is turned into private property (Bowring 2003:112-117).

Health

Overview

- Private health care sector already mature at end of apartheid, with private sector absorbing half the doctors, 80 to 90 percent of dentists, nearly 20% of nurses and half the money spent on health in the early 1990s but only serving 16% of the population
- A shift in emphasis from tertiary to primary health care, coupled with severe cost cutting in the mid and late 1990s saw many public hospitals downgraded or closed
- Of 3 560 clinics in 2005, 27% had no municipal water connection, 11% no electricity, 13% no municipal sewerage connection and 9% no telephones
- In 1995 the Department of Health announced plans to start imposing a rigorous cost-recovery user- charge system on all patients at state hospitals
- In 1996 the Western Cape provincial government sold Volks Hospital to Medi-Clinic
- From 1996, hospitals started leasing out empty wards and beds to the private sector, starting with Uitenhage
- Negotiations on PPPs started in Western Cape, Gauteng, Limpopo, Free State and Eastern Cape between 1998 and 2002
- In 2002 the University of Cape Town formed a joint venture with German hospital group Rhön- Klinikum to establish the UCT Medical Centre inside Groote Schuur Hospital. The centre is fully funded, equipped and managed by Rhön-Klinikum, and UCT provides personnel
- In 2002 Wits University secured a R100m donation from the Donald Gordon Foundation to buy the Kenridge Hospital in Johannesburg and renovate it into a non-profit, private facility
- A 15-year concession worth R4.5bn to equip, manage and finance the Inkosi Albert Luthuli Central Hospital is signed between KwaZulu-Natal province and Impilo consortium. The hospital opens in 2002 and charges normal state rates.
- In 2002 a 16.5-year PPP is signed between the Free State province and a Netcare/Community Health Management consortium to design, finance, build, operate and transfer (DFBOT) the Universitas and Pelonomi Hospitals
- In 2003 the national Department of Health signed a 4-year equity partnership contract with Biovac Consortium to invest in the State Vaccine Institute
- In 2003 the Eastern Cape provincial health department entered into a 20-year DFBOT partnership to upgrade the Humansdorp District Hospital
- In 2002 the state started working on a plan for a low-cost medical aid scheme that would bring all the employed under cover, but also result in their effective transfer to private sector health care. This set the scene for a three tier health care system: for the rich who could afford full medical aid, the middle who could get some private care, and the bottom who would use public hospitals as a safety net

Under apartheid, health care services were fragmented, inefficient and ineffective, and resources were mismanaged and poorly distributed. In 1990 there were 18 separate health departments. The public provision of health care was only available to a minority, while the majority received negligible provision. In 1992 there were 324 provincial hospitals with 836 5354 beds. There were 260 private or state-aided hospitals, with 8 466 private beds and 17 109 beds in state-aided hospitals. The ten homelands had 121 hospitals with 39 200 beds (SAIRR 1994:130-31). There were an additional 2 160 clinics (of which just 37% were in homelands) (SAIRR 1994:135-36).

There were 13 academic hospitals in 1990, providing 32% of the total bed count, treating 29% of all in-patients and 40% of all outpatients in South Africa (excluding the 'independent homelands'), and received 43% of the total health budget (SAIRR 1990:389). In 1993 these hospitals became

autonomous from the state, funded by government but with the authority to raise additional funds. They were no longer governed by the provincial administration but were run by a management board. Doctors at these hospitals would also be allowed to engage in limited private practice in order to augment their incomes (SAIRR 1994:132).

The private health care sector was already fully fledged at the end of apartheid. Medi-Clinic started in the early 1984, with backing from Rembrandt. It planned and constructed many of its own hospitals, also acquiring the biggest private hospital at the time, the Sandton Clinic. Afrox started about the same time, but grew mainly through acquisition, as did new player Netcare which listed in 1996 (Financial Mail 06.08.04). The private sector employed half the doctors, 80 to 90 percent of dentists, nearly 20% of nurses and absorbed half the money spent on health in the early 1990s (Macro-Economic Research Group 1993:110). Around 6m people (16% of the population) used private health care services in 1990 (SAIRR 1992:115). In 1996 only 953 pharmacists out of 15 794 worked in the public sector (Financial Mail 15.11.96). The private sector is totally dependent on medical personnel whose training has been publicly funded (Macro-Economic Research Group 1993:106). In 1994 government placed a moratorium on the issuing of private hospital licenses and the construction of additional private hospitals. This facilitated concentration in the private sector since expansion could only occur through mergers. By 1999 there were just 3 major private hospital groups: Netcare, with a market share of 30%, the combined Afrox Healthcare with about 26% and Rembrandt subsidiary Medi-Clinic, with about 22% (Financial Mail 30.07.04). Growth in private health care is largely a product of subsidy cuts to state hospitals that meant the state's level of service was lower (Financial Mail 04.05.01).

The post-apartheid government's shift in emphasis from expensive tertiary treatment at hospitals to cheaper primary care in clinics saw the downgrading and closure of a number of hospitals. Severe cost cutting in the mid to late 1990s resulted in the closure of beds, the deterioration of equipment and infrastructure, a ban on capital expenditure, and the termination of posts and services in public hospitals (Financial Mail 09.06.00). As part of the attempt to cut costs, nurses were offered severance packages in the late 1990s. This has led to a situation where nearly half of all nursing posts in the public sector remain vacant (Financial Mail 19.08.05). Public hospital expenditure, especially for central, tertiary and district hospitals, has declined in real terms since 1999 (National Treasury 2004:63). While there is a growing network of primary care clinics, facilities and skilled staff are lacking in many of these, especially in the rural areas where many clinics do not have running water or electricity. Of 3 560 clinics in 2005, 27% had no municipal water connection, 11% no electricity, 13% no municipal sewerage connection and 9% no telephones (National Treasury 2005:353).

As public hospitals were given greater management autonomy they began contracting out more services. In 1996 the Western Cape provincial government awarded a tender to Medi-Clinic to purchase the Volks Hospital in the City Bowl and gave it a licence to operate on the site despite the moratorium on new licences. In about 1994 the hospital was mothballed when the province slashed its medical budget (Financial Mail 28.11.97). In 1996 the Uitenhage Provincial Hospital began leasing wards to private patients, earning R2m from the lease in its first year (Financial Mail 06.02.98). In 1998 Gauteng initiated five pilot PPPs. The department allowed GPs to lease empty beds in Sebokeng and Kaponong hospitals for private patients. The department also invited private-sector proposals on ways to overhaul its emergency services, hospital IT systems and renal service, and was considering outsourcing of hospital laundry services (Financial Mail 05.06.98). In 1999 the Limpopo provincial government issued a call for tenders to privatise the Phalaborwa Hospital and to upgrade and manage the Maphutha Malatji Hospital, situated in the town's Namakgale township (Financial Mail 08.01.99). In 2001 the Western Cape provincial government adopted a public-private partnership policy in the health sector. The province immediately started the process of investigating the building of an R65m public hospital in Philippi on the Cape Flats in partnership with a company that would provide facilities management and non-core services. It also sought private partners to upgrade public hospitals in Hermanus, Grassy Park and Cape Town (Financial Mail 13.07.01). In 2002 in Bronkhorstspruit, Netcare and the state were involved in a PPP where beds were leased to the local health department for state patients. In Bloemfontein, Netcare was preferred bidder at two state hospitals. Afrox Healthcare was granted the right to develop a provincial facility in Humansdorp, near Port Elizabeth (Financial Mail 03.05.02).

In 2002 the University of Cape Town (UCT) formed a joint venture with listed German hospital group Rhön-Klinikum to establish the UCT Medical Centre, an R45m, 124-bed facility inside Groote Schuur Hospital. The centre is fully funded, equipped and managed by Rhön-Klinikum, and UCT provides most of the clinical personnel. Senior academics will retain their UCT appointments and do only private, part-time work in the centre (Financial Mail 08.03.02). The beds were standing empty because of budget cuts (Financial Mail 26.06.98). In the same year, Wits University secured an R100m donation from the Donald Gordon Foundation to buy the Kenridge Hospital in Johannesburg and renovate it into a non-profit, private facility (Financial Mail 08.03.02). Also in 2002 the first fully-fledged PPP - the Inkosi Albert Luthuli Central Hospital (IALCH) - was opened in Cato Manor in Durban. The hospital was to handle complex referrals from regional and tertiary hospitals, with specialist units from existing public hospitals to be transferred in phases. The launch saw the downgrading of neighbouring hospitals to secondary and district hospitals. The hospital was to charge usual state rates. The hospital is equipped, managed and financed by the Impilo Consortium in a 15-year partnership worth R4.5bn. The Impilo Consortium includes Siemens Medical Solutions with 31%, Austrian IT company AME International with 20%, and facilities management company Drake & Scull with 9%. The BEE partners are Vulindlela Holdings with 26%, and Mbekani Health and Wellbeing and Omame Investments with 7% each (Financial Mail 22.11.02). In the same year a 16.5-year PPP was signed between the provincial health department and a Netcare/Community Health Management consortium. The contract was to design, finance, build, operate and transfer (DFBOT) the Universitas and Pelonomi Hospitals in the Free State (National Treasury 2005a). In 2003 the Department of Health signed a 4-year equity partnership contract with Biovac Consortium to invest in the State Vaccine Institute (National Treasury 2005a). Also in 2003 the Eastern Cape provincial health department entered into a 20-year DFBOT partnership with Metro-Star Hospital (Pty) Ltd (comprising Metrolpal Hospital and Season Star Trading 123) to upgrade the Humansdorp District Hospital (National Treasury 2005a).

Although the ANC's initial plan was to provide free primary health care for all within five years, this changed with the 1997 Health White Paper. This policy document set the goal of providing basic health care within 10 years – and no longer to be free for those who could afford to pay (Financial Mail 25.04.97). In the early 1990s provincial hospitals had already started charging paying patients private-sector rates and marking up drugs (purchased on state tender at reduced rates) by up to 100%. In 1995

the Department of Health announced plans to start imposing a rigorous cost-recovery user-charge system on all patients at state hospitals (Financial Mail 25.08.95). Visits to primary care clinics cost between R47.20 (Limpopo) to R97 (Gauteng) per visit in 2003/04 (National Treasury 2004:61). Sharp hikes in fees in 2004 also left many patients unable to afford their hospital bills. In 2005 the department of health announced plans to cut fees in public hospitals by up to 70% (Business Day 01.09.05).

NetCare, South Africa's largest private hospital group, has also entered other countries on the continent where privatisation initiatives have begun. The company took a 35% equity stake in an operational company and assumed management control of a hospital in Rwanda in 1998. In Addis Ababa, Netcare is running a nursing college for a new R100m, 250-bed tertiary hospital. In Bulawayo, Netcare entered into a joint venture with the Zimbabwe Health Trust to run a new 180-bed hospital (Financial Mail 22.05.98). In 1999 Medi-Clinic owned two hospitals in Namibia. Afrox Healthcare has been in Botswana since 1993 and has constructed its own facilities there.

The role of medical aid in accelerating health care privatisation is important. The link is apparent when one considers that 7m people are on medical aid in South Africa, and private health care providers serve 7m people. This number has remained stagnant for the past decade or more, indicating that almost everyone who can afford health care insurance already has it. Medical insurance has the effect of increasing costs because providers and suppliers have a profit motive to supply more services than the patient actually needs, and insured patients who face zero cost at the point of service have an incentive to consume services in excess of their needs (van den Heever 2004:5). In South Africa there is no regulation of technology used in the private sector and this results in suppliers adopting the latest technology whether really needed or not. Lack of information about what is necessary causes patients to accept the advice of suppliers (including doctors) who have an interest in selling the technology. This pushes costs up. In the 1980s expenditure by medical aid schemes on private hospitals rose almost twice as fast as total medical expenditure. The deregulation of medical aid in the early 1990s resulted in a further cost spiral as private hospitals adopted excessive use of technology, surgery and medicine (SAIRR 1994:134). Between 1988 and 2001 expenditure by medical aid schemes on private hospitals increased 249% in real terms, expenditure on medicines/pharmaceuticals increased by 153.6% in real terms, and expenditure on specialists increased by 183.8% in real terms (van den Heever 2004:7).

In an apparent attempt to curb these costs, managed health care was introduced into South Africa in the mid 1990s. In this system the funder steps between the patient and the doctor to determine whether the recommended treatment is appropriate or not. In theory managed health care is supposed to reduce costs by eliminating 'over-servicing'. But enforced cost reductions may jeopardise quality of treatment, and savings are seldom passed on to medical aid members but are added to medical aid scheme profits (Financial Mail 30.01.98; 29.05.98). Since 1999 the gap between beneficiary contributions and benefits has started widening (van den Heever 2004:10). Consolidation in the medical aid industry has resulted in the dominance of three companies: Medscheme, Newmed and Discovery Health. Big conglomerates still hold enormous economic power at the top of the pyramid. For example, Rembrandt owns Medi-Clinic (private hospital group), and also own FirstRand which has a 66% share in Discovery Health. FirstRand, in turn, owns Rand Merchant Bank that has a 10% stake in Afrox Healthcare (another private hospital group) (Financial Mail 18.02.05).

The privatisation of health is related to employment through occupational health insurance schemes. This works to marginalize the unemployed from adequate cover, and creates a hierarchy amongst the employed, with higher ranks receiving greater benefits (MERG 1993:107). In 2002 proposals were made regarding a social health insurance scheme targeted at those who are employed but still cannot afford the existing medical aid schemes or to pay for private health care. This was closely related to the increasing use of wards at state hospitals for private patients. These patients received a higher level of care than the general user of the public hospital, but lower than that provided at private hospitals. The result is the emergence of a three tier health care market: private care for employed people with medical aid; private care in public facilities for employed people who cannot afford to be on a full medical aid; and a safety net of public care for the unemployed or working poor. In 2004 a single medical scheme for public servants was launched, and was extended to cover almost 450 000 state employees who did not qualify for medical aid at the time (Financial Mail 28.03.03). The single state medical scheme is part of a plan to establish a national health insurance system, in which everyone, except the poor, contributes to the cost of providing universal health care. This will make it compulsory for anyone employed to buy health cover (Financial Mail 22.10.04). Because private health care is unaffordable for most people, an increase in medical aid coverage facilitates an increase in market demand for private health care. This can be considered a form of financial privatisation that involves a shift from public-funded health care to medical aid schemes funded by employers and employees (Bachman *et al.* 1989:374 & 358).

Privatisation of health care leads to the consolidation of inequality, creaming off available capacity at the expense of a public sector that begins to act as a safety net for those unable to afford private care. In 2004 the state spent R33.2bn to cater for 38m people (about 84% of the population), while the private sector spent R43bn on just 7m people (Department of Health 2005:16).

Correctional services

Overview

- In 2000 government signed a contract with Ikwezi Consortium (also known as Bloemfontein Correctional Contracts Pty Ltd) to finance, design, build and operate a 3 024-bed maximum-security prison at Bloemfontein. UK prison operator Group 4 (now GSL Solutions SA) led the project. The prison was opened in 2001
- In 2002 the Kutama Sinthumule maximum-security prison near Makhado (Louis Trichardt) in Limpopo was opened. SA Custodial Services (SACS) – with US company Wackenhut Corrections Corp a major shareholder - designed, financed, built and is managing the prison.
- The contracts were on terms very favourable to the concessionaires, with annual return on equity of 29.9% and 25.1% respectively. They absorbed a large portion of the departmental budget while South Africa's 238 public prisons were 66% over capacity in 2002

The private operation of prisons in South Africa unfolds through the Asset Procurement & Operating Partnerships Systems (Apops) programme of the Department of Public Works. The programme is designed to build public-private partnerships in asset procurement and operation. In 1999 contracts were negotiated for the construction and operation of two prisons. In 2000 government signed a contract with Ikwezi Consortium (also known as Bloemfontein Correctional Contracts Pty Ltd) to finance, design, build and operate a 3 024-bed maximum-security prison at Bloemfontein (Prison Reform Trust 2000). UK prison operator Group 4 (now GSL Solutions SA) led the project (Financial Mail 24.03.00). The prison was opened in 2001.

In 2002 the Kutama Sinthumule maximum-security prison near Makhado (Louis Trichardt) in Limpopo was opened. It is the second biggest privately run prison in the world. SA Custodial Services (SACS) designed, financed, built and is managing the prison under contract to the department of correctional services. SACS is a 50-50 partnership between Wackenhut Corrections Corp, the world leader in privately run prisons and Kensani Corrections, part of Kensani Holdings, a consortium focused mainly on the empowerment of women (Financial Mail 01.09.00).

The contracts were negotiated in 1999 when interest rates were high, resulting in big profits being made. The fees paid by the Department of Correctional Services are the largest single cost in its budget. Costs rose rapidly from R106.7m in 2001/02 to an estimated R604.6m in 2007/08 (National Treasury 2005:470). In the first 7 years of the contracts, the government will have paid R7.7bn – with another 18 years still to go. By the end of 25 years, payments to the two prisons could have funded the entire correctional services department, whose tasks include running 236 public prisons. The Bloemfontein consortium will make a nominal 29,9%/year return on equity over the 25 years, and the Louis Trichardt consortium will get 25,1% (Financial Mail 06.12.02). In 2001 then Correctional Services Minister Ben Skhosana said: "In view of ... the high cost of private financing, public sector financing for prison construction remains the most cost effective option. Nonetheless, the government will continue to explore private financing options for prison infrastructure development, even though this is not the ideal". The reason he gave for pursuing the private partnership route was that there was massive overcrowding in South Africa's prison system and a building programme would be too expensive for government. The concession spreads the cost out over 25 years. South Africa has 238 prisons that were 66% over capacity in 2002 (Prison Reform Trust 2002). The two private prisons accommodated approximately 3.5% of prisoners in South Africa. Speaking at a meeting of South Africa's correctional services portfolio committee in 2003, the chief deputy commissioner for corporate services referred to the contracts as "25 years of slavery". At a conference on private prisons in London in June 2003, a senior South Africa Treasury official said: "We ordered a Rolls Royce when we should have ordered a Toyota" (Prison Reform Trust 2003a).

In 2003 there was an announcement that four new prisons were to be commissioned. Correctional services indicated its preference for a 50-50 sharing with the private sector, with the private sector providing the structure of the prisons but the department running the operations. At the same time government was reviewing the contracts of the two existing prisons to see how escalating costs could be reduced (Prison Reform Trust 2003). Even though Correctional services eventually indicated it preferred the prisons to be in the public sector, it was under pressure from the treasury to use PPPs (Prison Reform Trust 2004).

It is worth quoting Chris Giffard of the Prison Transformation Programme, Centre for Conflict Resolution at the University of Cape Town at some length. He said: " ... it is necessary to wave a large flag of caution. Prison privatisation in South Africa was introduced under a veil of secrecy. There was little if any public debate in parliament or civil society ... the issue of whether to allow the punishment of criminal behaviour to be in private hands and indeed whether companies or individuals should profit financially from the consequences of crime, are complex issues worthy of strenuous debate." Going on to describe developments in the United States and the move by prison companies to "look for opportunities in less developed countries" Giffard argued that: "the prison industry should not be part of the engine of economic growth in our country. If it does, we may lose sight of why we need prisons and how we should use prisons in the first place…" (Cape Times 04.08.04).

CONCLUSIONS

It is apparent from the above that the state in South Africa historically has played a very central, even dominant, role in the economy. On coming to power, the ANC did not advocate a wholesale withdrawal of the state from the economy, but rather sought to restructure the state's interventions. In the early years of unbanning, the emphasis was on what the state could do to improve the conditions of those who had been denied basic services and access to economic opportunities under apartheid. The ANC inherited some very poorly managed, debt-ridden, run-down enterprises when it took political leadership of the state. There was broad agreement that these needed to be restructured: but in what direction and for what purpose? The RDP and the Constitution can be seen as artefacts of the political struggle that was waged in the 1970s and 1980s against the apartheid government. They set an agenda, but the social force that had driven that agenda dissipated in the mid 1990s, giving the state managers greater leeway to set alternative agendas. A combination of the interests of an emerging black capitalist class and the longstanding and deeply entrenched interests of the white capitalist class came to the fore in the absence of sustained mass based mobilisation and the elaboration of a left wing alternative.

The main official arguments for privatisation were to reduce the national budget deficit; the redistribution of infrastructure and resources; and to improve the efficiency of the economy. The economic logic was that the state was crowding out private sector investment and absorbing scarce skills and resources, and that a competitive market is the best mechanism for the distribution and allocation of economic resources. Apart from the economic motivation, there was also a political motivation for privatisation. Although not immediately present, the use of the sale of state assets to support black economic empowerment became an additional official motivation. Underlying this was the use of public resources to consolidate a social bloc around the post-apartheid political leadership through patronage and transfer of public assets to private hands.

The main impulse towards the reduction of the public sector emanated from a combination of internal and external forces. At a global level, the political decline of "left" alternatives that used the state for production and to determine and channel national expenditure (Stalinism and social democracy) strengthened the perception that only neo-liberal state models could survive the global climate. The IMF and the World Bank both played important roles in channelling domestic discourse into the economic mainstream of rampant Thatcherism and Reaganism. The IMF used loan conditionalities to get

the transitional government to sign a letter of intent that constrained macroeconomic policy options. The ANC was party to the agreement. The World Bank played a less direct role, electing to forge links with the liberation movement to achieve influence from within by supporting those inside the movement who leaned towards a more conservative economic viewpoint. Domestic capital – especially export oriented monopoly capital - remained strong through the transition, and its grip on the economy gave it great influence on the direction of debate. The leadership of the liberation movement itself was not anti-capitalist, and dedicated policy support for a restructuring project that did not negatively affect capitalist accumulation strengthened the hand of leadership that oriented towards capital.

The state's decision to adopt privatisation was partly embedded in key policy documents including the Reconstruction and Development Programme (RDP), which suggested the possibility of privatisation on a case-by-case basis. The RDP was the product of an unprecedented level of popular input, but was also a compromise document that reflected incompatible trajectories. Once the ANC in government managed to lock the trade unions into the restructuring agenda through the National Framework Agreement, other civil society actors were closed out of the debate. The unions bought into the restructuring process in exchange for the protection of their own members' interests narrowly conceived. The GEAR strategy that drove the privatisation agenda from 1996 was imposed on the population without consultation, and the ANC relied on Nelson Mandela's stature to tell the broader population and its alliance partners that the ANC was in government and was not negotiating the implementation of GEAR.

Private consultants were brought in to elaborate both the discursive understanding and the modalities of restructuring, and privatisation took centre stage. Available documentation on proposals suggests that the mandate to the consultancies was to consider the modalities of privatisation of specific sectors rather than to investigate sectors broadly and consider what might be the best structural form to meet government objectives of delivery and redistribution. This in turn suggests government had already made up its mind that privatisation was the route, before detailed investigations or assessments of alternatives. Financial capital has played a key role in persuading state entities to adopt market-oriented structures and delivery mechanisms. This is not only through the role of financial consultants in advising government on corporatisation and privatisation. It is also through their unwillingness to lend to municipalities but their willingness to lend to private sector partners for the same projects. Nevertheless, privatisation was not a rapid process. The ANC sought detailed sectoral restructuring plans – partly the result of internal resistance in the alliance - especially in key areas such as energy and transport, and this slowed the process.

A focus on the outright sale of state assets drew attention away from less visible processes of corporatisation, commercialisation and outsourcing at all levels of government. Many of these processes had started in the 1980s under the apartheid government. The processes were wide-ranging and differed from sector to sector. Underpinning almost all restructuring has been the incorporation of business principles into the operation of public services. User pays cost recovery principles have been key to aligning public service provision with the market, to the extent that electricity and water services even to schools and hospitals were cut off for non-payment. This has taken the logic of the market to extremes. Ring fencing of nodes in the delivery chain or of components of formerly integrated utilities into business units, and the elimination of cross-subsidisation between them has occurred across

the board. Outsourcing and subcontracting was commonplace under apartheid, but has been extended in the face of the enforced shrinking of the public sector. The form of ownership transfer ranged from competitive bidding in the open market to initial public offerings. A 'sweetener' for management and employees, in the form of the free transfer of a small percentage of shares (with the majority going to management), accompanied most asset sales.

The process of privatisation was carried out by the Department of Public Enterprises – specifically set up under apartheid to oversee the privatisation of state assets – in conjunction with other relevant departments. Public involvement in these processes was limited, and it is safe to say that the general public was unaware of the vast majority of asset sales or other forms of privatisation. Tracking processes even in one sector requires time and resources, and there was no attempt on behalf of the government to inform the public – beyond selected 'stakeholders' - about plans and processes for the disposal of public assets. At the root of this is the belief that elections confer automatic authority for 5 years without the need for meaningful ongoing and deepening public participation.

Despite an inflow of around R22bn into government coffers from privatisation proceeds, state gross fixed capital formation as a percentage of GDP has been on a constant decline. In 2003 government debt as a percentage of GDP was at the 1993 level. While the decline in the exchange rate is a significant contributory factor, it is not easy to separate the decline of the exchange rate from broader economic policies of liberalisation and deregulation. These come as a package, even in IMF orthodoxy, and this must be considered part of the cost calculation. After using debt repayment as a key reason for privatisation, and after a decade of spending almost 40% of government income to repay debt every year, the debt has not shifted as a percentage of GDP (except for upwards in the intervening period).

Production and service delivery has not been sustained in privatised or corporatised entities. Although conditions of privatisation or corporatisation included targets for extension of infrastructure to the population that previously did not have access, this was based on commercial (profit-making) criteria. In electricity, telecommunications and water, infrastructure was rolled out but then either the infrastructure was under-utilised because of the high costs of the commodified service, or disconnections because of inability to pay outnumbered new connections. There was a steep decline in new connections in the electricity sector once plans for Eskom's corporatisation were confirmed. In the telecommunications sector, two-thirds of installed lines were disconnected and the number of fixed lines actually decreased in 2005.

The state and the public corporations have shown an impressive capacity to roll out infrastructure. However, the presence of infrastructure and access to the service to be supplied by that infrastructure are two very different things. The number of disconnections of water, electricity and telephones for non-payment, the eviction of people from their homes and their 'rightsizing' into smaller houses are all the product of a user pays cost recovery policy that eliminates the benefits of infrastructure delivery. The state has been zealous in its credit control, to the extent that it would rather destroy infrastructure (ripping up pipes and cables), or allow it to decay, than provide a service without payment from the immediate user. This market-driven approach to development places fundamental limits on broad-based redistribution of resources and utilisation of these resources to meet human needs.

Despite the apparent shift towards expenditure on social services, user pays policies remain in place but with a welfarist edge, and even the latter is not immune to decay as evidenced in cut-offs for non-payment of services above a 'lifeline' free supply.

In other sectors, private sector encroachment has resulted in the creation and entrenchment of a dual system of provision, where those who can afford to pay are provided with a high level of services – often by the private sector – while those who can't afford to pay have to accept inferior quality services. This is most evident in the health, housing and education sectors. Privatisation leads to 'cherry picking', where the most lucrative sections of the market are taken by the private sector, leaving the public sector to deal with those sections of the market that cannot pay for services. It reinforces the notion of the state as an inefficient provider of poor quality services and the private sector as an efficient provider of good quality services. There is a close link to cross-subsidisation of loss-making (but socially desired) services, especially to poor areas. If those who can afford to pay are 'ring fenced' - through the dual provision of services - from those who cannot afford to pay, there is no possibility of cross-subsidisation. A good example is the suggestion that the second national fixed line phone operator will focus its attention in the first 6 years on lucrative business contracts in the urban areas. Not only does this mean that the beneficiaries of competition are those who can afford to pay for services, but it also means that there can be no cross-subsidisation unless the state imposes this as a condition of entry.

There has been some foreign direct investment as a result of privatisation, mainly in telecommunications and transport (airways and airports). However, in almost all these cases the investor has profited from operations for a short period and then sold back the shares at a great profit. The result has been an outflow of resources. Management contracts and concessions in a number of sectors including water, postal services and correctional services have bled local and national government of scarce resources, preventing these from being used more effectively in the same sector.

It was not the case that all public entities performed poorly and had to be fundamentally restructured or removed from state hands. Sometimes concentrated economic power is necessary, especially when the sector is a 'natural monopoly' such as electricity or telecommunications. In these cases, a vertically integrated monopoly may be the most efficient form of organisation to develop the sector and deliver services. A more important question is what role does the public have in setting the direction for the development and delivery vehicle. The public sector is by no means necessarily transparent, democratic or accountable. But privatisation eliminates the possibility of realising real transparency, democracy and accountability in economic activity and service delivery. Telkom is a good example. Instead of putting effort into developing ways of democratising the former utility's internal structure and making it more responsive and accountable to the citizenry, the state sold off a large section of the utility. Now that section is no longer held as a block but has been dissipated amongst millions of individuals, each of who have no power at all to influence the direction of the vehicle. Institutions and corporations that decide, on the basis of private considerations, how to make best use of their investment hold the larger blocks. The state's ability to make that entity accountable to the public interest (defined through democratic processes) has been severely weakened.

The negative impression created by state owned entities under apartheid was related to the mandate to deliver only to a small section of the population. However, patronage and corruption played a key

role in cementing the apartheid hegemonic bloc, and this did have a negative impact on efficiency and transparency. Eskom offers the example of an entity that was increasingly poorly managed until the mid 1980s, when debt levels were skyrocketing and the utility had been vastly overcapitalised. However the experience from the mid 1980s following the De Villiers Commission showed that a publicly owned utility could be brought under financial control, even under apartheid. The problem before the mid 1980s was that Eskom had too much leeway to make decisions on its own, and these decisions were based on its capacity to raise foreign funding for its activities but with state guarantees. The importance of the electricity utility in carrying out the post-apartheid government's electrification programme indicates that where government is able to set the direction and framework for utility activities, a publicly owned utility can be an effective vehicle for delivery. There is certainly a case to be made that the recent energy sector crisis, based on an inadequate supply response to growing demand, is the result of the dragged out partial privatisation plans that prevented the utility from responding to demand, rather than a failure of the public utility to anticipate demand. A comparison with the Telkom privatisation debacle suggests that substantive reform of public entities is a feasible alternative to privatisation.

Poor performance in the public sector was also closely related to apartheid duplication of services and uneven standards deliberately applied to different sections of the population. This resulted in a high level of inefficiency and fragmentation of delivery. A classic example is the education sector with its fourteen different departments, each of which had to reproduce core infrastructure and administration that should have been pooled. The outsourcing of developmental functions to the bantustan administrations was built on patronage and dependency and prevented economies of scale, efficient use of resources or the capacity to share knowledge and information. This was entirely deliberate under apartheid, but it cannot be taken as the model for the public sector always and everywhere. Again, substantive reform of the structures and methods of delivery were required, but this could have been carried out within the public sector.

A key argument that needs to be considered in the debate around privatisation is the role of competition in economic activity, in particular in providing users of a service with choice and thereby forcing better services and lower costs. However, the privatisation experience has not resulted in greater competition but rather offered select private sector entities the opportunity to profit from formerly public services without the threat of meaningful competition. IPOs that distribute shares across a large population merely dissipate a small proportion of ownership while effective control remains in the hands of large institutional investors that are units of monopoly capital. In essence, privatisation has amounted to little more than monopoly private capital occupying space relinquished by monopoly state capital. These spaces are by definition where the greatest profitability lies.

Effective regulation is a minimum requirement of a competitive environment, especially in providing necessary services to the population. Yet regulation may not be the most efficient way of securing the public interest. Regulating private sector activities can be far more complex than running the services themselves (Smith 2005:169). And the recurring costs to the state of regulation are seldom factored in when planning to privatise or outsource service provision. This is equivalent to the state paying to privatise or outsource. The experience of prison and water concessions in particular reveal greater costs to the state than anticipated. An emphasis on regulation also diverts state resources and capacities away from building other potential areas of competence, including delivery.

In build, operate and transfer type concessions the public sector may benefit from an extended period of repayment for infrastructure because capital costs are spread over the concession period. Ownership of the infrastructure also reverts to state, but at the cost of capacity to operate that infrastructure itself. The private sector concessionaire essentially entrenches itself as the service provider since it, instead of the state or public authority, has built up the expertise to run it. More generally, corporatisation, commercialisation and PPPs separate day-to-day management of services and political decision-making. Citizens, to whom public institutions are politically accountable, are converted into customers or clients with responsibilities to pay for services and no meaningful input into decisions about levels or types of service. These become technocratic decisions based on profit-maximisation. This is true whether the entity is a private company or a commercialised state owned entity.

Overall, privatisation has not had a positive effect on national economic development. In particular, the ongoing commodification of water, shelter, energy, food, health and education – reflected in user pays cost recovery models, and the exclusion of those who cannot afford to enter the market – has prevented a large proportion of the population from gaining substantial material benefit from political democratisation. Privatisation remains firmly on the agenda in South Africa, ranging from the disposal of core assets (Denel, telecommunications, forests and land) to the disposal of non-core assets (across all sectors) and the ceding of services to the private sector (housing, health, education, correctional services, telecommunications, postal services, energy, transport, agriculture). Even where the state retains control of assets, the business model pervades all thinking: cut costs, become self-sufficient, and seek to generate profit wherever possible, regardless of what goods or services you are providing. This is not a model that can overcome the inequalities of the past.

APPENDIX 1: MIIU Municipal Services Partnerships, 1998-2003

	Local council	Sector	Signing date	Contract length (years)	Total contract value (Rm)
	Operate and Maintain				
1	Johannesburg WMLC	Waste	1 Oct 99	5	0.6
2	Robertson	Waste	1 Jul 00	1	0.5
3	Harrismith	Water	19 Oct 00	3	6.0
4	Thabazimbi	Waste	1 Nov 00	5	10.0
5	Johannesburg	Parking	5 Dec 00	5	12.0
6	Maluti a Phofung	Water	30 Nov 01	3	12.0
7	Overstrand	Waste	6 Dec 01	3	1.0
8	Mbombela	Electricity	30 Sept 02	1	3.2
9	Mbombela	Rev mngmnt	1 Jan 03	3	1.0
10	Theewaterskloof	Waste	1 Jan 03	5	1.0
	Operate and maintain plus capital expenditure				
11	Dolphin Coast	Water	29 Jan 99	30	261.0
12	Nelspruit	Water	21 Apr 99	30	446.0
13	Pretoria	Airport	15 Feb 00	20	306.0
14	Johannesburg	Info tech	1 Oct 00	5	590.0
15	Johannesburg	Fleet mngmnt	9 Oct 00	10	2 400.0
16	Tzaneen	Waste	15 Nov 00	5	20.0
17	Richards Bay	Airport	16 Nov 00	20	17.0
18	Hibiscus Coast	Airport	29 Nov 01	20	2.0
19	Mogalkwena	Water	1 Oct 02	25	190.0
20	Cape Town	Waste	1 Feb 03	5	20.2
21	uThungulu DM	Waste	14 Apr 03	5	41.0
	Divestiture				
22	Johannesburg	Rand Airport	17 Jan 00	-	28.0
23	Johannesburg	Metro Gas	18 Sept 00	-	386.0
24	Johannesburg	Kelvin Power	9 Nov 01	-	1 253.0
	Corporatisation				
25	Johannesburg	Market	30 Jun 00	-	50.0
26	Johannesburg	Water utility	1 Jan 01	-	
27	Eastern Cape	Info tech	28 Feb 01	-	
28	Johannesburg	Waste utility	1 Jun 01	-	
29	Johannesburg	Bus	1 Jul 01	-	
30	Uthukela MJMSD	Water	21 Sep 01	-	18.5
	Equity partnership				
31	Naledi Deboning Project	LED	3 Jul 03	5	4.5
	TOTAL 6 080.5				
	New contracts				
32	Msunduzi	Refuse collection	4/11 Aug 03		
33	uMhlathuze (Richards Bay/ Empangeni)	Water & sanitation	28 Aug 03	5	16.0
34	Ilembe (ring fenced internal co. set up)	Water & sanitation		1	
35	Emfuleni	Water & sanitation	27 Jun 03		
36	Nelspruit	Supplementary	31 Jul 03		

Source: BusinessMap 2004:32-33

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