

THE RESTRUCTURING AND PRIVATISATION TRAJECTORY IN SOUTH AFRICA: TRACING THE HISTORICAL PUBLIC POLICY ORIGINS, PURPOSE, METHODS AND GUIDELINES IN THE PRE-1994 EPOCH

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Abstract

Many perspectives have been propounded and written about the restructuring and privatisation reform. However, this paper endeavours to give a South African approach to the reform profoundly delving into its historical approach on the original definition, methods, factors, criteria and goals of the reform. This paper seeks to demonstrate that this reform has its origins in the apartheid government policy which was intended at strengthening and revitalising the apartheid political economy in the 1980s. The thinking that the private sector runs enterprises in a more efficient, effective, competitive and profitable way and that such an approach may be applied to the State Owned Enterprises with success in an effort to reduce government debt and improving the operational performance, attracted the then South African government into adopting this neoliberal trajectory. State Owned Enterprises compared to their private counterparts performed poorly and suffered heavy losses and ultimately drained government financially. The then South African government initiated a white paper on privatisation and deregulation in 1987 which culminated in the implementation of the restructuring and privatisation reform in South Africa. Thus, this paper posits that the privatisation and restructuring reform originated from the then South African government policy initiatives in the 1980s.

Keywords: Restructuring, Privatisation, South Africa

1. INTRODUCTION AND HISTORICAL BACKGROUND

The government of South Africa was under the National Party in 1948. The National Party won the elections and consequently took over control of government. The world experienced so many changes after the end of Second World War in 1945. In terms of economic growth, more than half of the industrial growth recorded internationally in the 260 years up to 1973 was achieved in the quarter of a century after 1948, and the industrial growth rate of the world increased year after year by 5.6% on average during that period, while world trade grew at a rate of 7.2% per annum (White Paper, 1987).

The world oil crisis of 1973 affected the world economy sharply, however. Much negative economic development took place. The following also occurred

- Vigorous consumer and government spending as a result of, inter alia, easy bank credit and sharply increasing wages for Blacks, but at the expense of.
- A reduction in net reserves.
- A sharp increase in foreign debt, government guarantees, and debt and government guarantees.
- A high rate of inflation (White Paper, 1987:3).

The above paints a gloomy economic picture of the Republic of South Africa in the eighties. In fact foreign debt increased in rand terms from 9 500 million Rand in 1975 to 65 800 million Rand at the

end of 1985 and in US dollar terms from US\$10 924 million to US\$23 721 million (WP, 1987).

Again the rate of inflation on a year to year basis was 10.6% on average during the seventies and 14% in the early eighties, until this figure was surpassed in 1985 and 1986 (White Paper, 1987). One of the major income earners of South Africa, gold, decreased in terms of reserves, from 17.75 million fine ounces in 1975 to 4.84 million at the end of 1985 (White Paper, 1987). This was an acute decline which meant less financial income to the South African government, thus affecting the national treasury as well. It is important to mention that the Sharpeville massacre of 1961, the 1976 Soweto uprising and the collapse of the oil prices in 1973 impacted negatively on the South African government and its treasury. With all of the above government had to reconsider its participation in the economy. Globally most countries in the west had embraced, neo liberalism and its principles which included cutting down government spending and generally implementing, deregulation and privatisation initiatives. The National Party was tempted and attracted to follow in the footsteps of the Western countries because neo-liberal policies promised greater efficiency, effectiveness, profitability and competitiveness in terms of operational performance of State Owned Enterprises

(SOEs). The period of National Party rule saw a number of policy reforms initiated to placate political support for the government and its political and ideology of apartheid. During this period South Africa had states and self-governing territories within a Republic of South Africa. She consisted of the four provinces of Transvaal, Cape, Natal and Free State the self-governing territories such as KwaZulu, KaNgwane, KwaNdebele, Gazankulu, Leboa, QwaQwa and black homelands of Ciskei, Transkei, Venda and Bophuthatshwana. This type of public administration arrangement weighed financially, heavily on South Africa. The National Party government initiated many activities meant to win the support and allegiance of the white communities. These included:

- Providing employment for white workers on the railways, in the post office, and in the civil service in general.
- Providing social benefits for whites, including free education, subsidies for basic services like water and electricity, and state housing.
- Setting up enterprises to provide the infrastructure needed by a developing local industry, including setting up new SOEs like ISCOR and SASOL and expanding existing public sector companies like Eskom; to further build the government's base of support, the services and products of these parastatals were provided to business at subsidised rates (White Paper, 1987:3).

The foregoing represents apartheid political economy by 1987 which influenced the National Party government to adopt the Neo-Liberal trajectory of restructuring through privatisation. The adoption of the White paper on privatisation and deregulation was a significant milestone in the reform process in South Africa. Hence, this paper endeavours to give a South African approach to the reform profoundly delving into its historical approach on the original definition, methods, factors, criteria and goals of the reform.

2. METHODOLOGY

It is literature-based and relied on secondary data. Content analysis is used to analyse secondary data. A number of sources of data such as journal articles, government documents, newspaper articles, etc are used.

3. LITERATURE REVIEW

Privatisation and restructuring reform hugely hinges on the idea improving performance of entities or enterprises in their operations. This thinking is also informed by the need by governments to deal at a macro-level, with their public spending and capital allocation. Privatisation undertakings should be pursued within the above thinking parameters. The National Party government laid down the macro-economic ground rules to be initiated and observed in pursuance of a better economic order and a sustainable government. The economic philosophical ground work was in detail undertaken and the basic underlying economic and financial philosophy or guiding principles outlined clearly in the white paper on privatisation and regulation in the Republic of South Africa.

The thinking of privatisation and restructuring in South Africa can be traced directly from the white paper on privatisation and deregulation in the Republic of South Africa. As far as government spending was concerned the following applied:

- State consumption expenditure must be curtailed as far as possible.
- Greater emphasis must be placed on expenditure of a socio-economic nature.
- Those services in respect of which the state accepts responsibility must be provided to an extent and at a standard which the country can afford.
- The provision of social services must as far as possible be focused on the really needy persons, which could inhibit the sharp increase in subsidy payments.
- Since salaries and wages form a large part of State consumption expenditure, they should be kept in check by a further rationalisation of government functions and the sustained enforcement of establishment control.
- In order to alleviate the burden on the ordinary taxpayer in general, services must as far as possible be undertaken on an economic basis so that the user personally pays for the service or product (White Paper, 1987:3).

Again the government of South Africa emphasized that the efficient and judicious allocation of capital and restrained capital spending in the public sector using the following stipulated measures:

Table 1. Measures of capital allocation and spending in the public sector in South Africa

Wherever possible state business enterprises and public corporations will be run on a profit-and-loss basis with targeted return on capital as the criterion.
Other semi-government organisations must, where possible, be operated on business principles by charging realistic fees for projects undertaken for the private and public sectors, with the State contributing only a fixed percentage of their income.
Investigations to bring about rationalization in parastatal undertakings, such as the one undertaken with notable results in respect of Eskom, will be continued. Similar studies in respect of the South African Transport Services, the Department of Posts and Telecommunications and the Atomic Energy Corporation have been completed or are already under way.
As a further step in rationalisation, all commercial activities of Government departments will, where possible and feasible, be conducted on the basis of a trading account in order to establish more business-orientated control over the activities and a more efficient application of resources.
Net fixed investment in buildings and other facilities must be limited by means of rationalisation in order to ensure better utilization of existing infrastructure.
When considering government projects requiring large capital investments, it should first of all be determined whether the user should pay for the service without subsidisation by the taxpayer. If so, it should be considered whether or not the service can be undertaken by the private sector. If not, should be determined whether the public sector itself should provide the service as an economic service.
Irrespective of whether such an economic service should be provided by the private or the public sector, it is essential, as a first step, to establish the viability of a project. Where necessary, therefore, the internal return on capital will be determined in respect of public sector projects by using the discounted cash-flow method of analysis. A method and programme for the financing of the project will then be developed.

Source: White Paper (1987:7)

What comes out clearly from the foregoing as far as government spending is concerned is that, curtailing it was a critical element. The thinking of cutting government expenditure can be traced from the 1987 White Paper. Governments spend mostly on socio-economic welfare initiatives but with the idea of cutting spending, a reduction in social spending goes a long way. The word rationalisation of government functions indicates without doubt the prelude to privatisation and restructuring.

Rationalisation is closely and directly associated with restructuring and privatisation. In fact, some scholars use rationalisation instead of restructuring or privatisation. Government activities are reorganized with the thinking of cutting costs of operations to ameliorate financial performance of SOEs. The user-pay-personally, approach, to service delivery, mirrors a direct change of direction to a market trajectory, where consumers pay directly to a private contractor for service in any of the essential services sectors including transport, energy and power telecommunication, housing and education. It is important to note that, the foregoing gives a vivid portrayal of the original thinking of the government of South Africa about privatisation in the pre-1994 epoch. The above, also reflects the development of the public policy thinking on privatisation and restructuring in South Africa in the 1980s. The White Paper on privatisation and Deregulation produced in 1987 stipulated, as motivation for adoption of a neoliberal trajectory, the following:

- The size of the public sector and government spending needed to be reduced to open up investment opportunities for the private sector.
- Business must be allowed to develop and grow without state intervention and with minimum regulation.
- Cutbacks on state spending and money raised by selling off state assets could provide much-needed funds for government (Mostert, 2002:10).

Mostert (2002) concedes that with economic sanctions and the general worldwide economic slump, the government was struggling to find enough money to carry on paying for its apartheid political economy and this, commenced a commercialisation of state owned enterprises. Full privatisation was not possible because of the global sanctions imposed on the apartheid government, which meant few world class companies were interested to do business in South Africa, and the opposition which emanated from organized labour which vigorously opposed any government initiative to privatise or restructure state owned assets or enterprises (Mostert, 2002).

Various definitions have been given to privatisation and restructuring. A plethora of scholars have coined up manifold meanings of restructuring and privatisation concepts. Within the South Africa context, the then apartheid government described privatisation and restructuring in their own way. Privatisation denotes the systematic transfer of appropriate functions, activities or property from the public to the private sector, where services, production and consumption can be regulated more efficiently by the market and price mechanisms (White Paper, 1987).

This in essence implies shedding off state control and ownership of particular services, functions and assets, in favour of private ownership and private participation in the economy.

Traditionally, state control and ownership of assets, was closely associated with the communist/ socialist trajectory, while private ownership and participation was associated with the neoliberal market ideology. With the collapse of the erstwhile USSR, Soviet Union, the socialist's state-control and ownership of public enterprises gospel became less popular. The belief that markets and competition can improve service delivery and the quality of products public enterprises render, attracts many governments and consequently tempts them to practice market led, activities in their respective countries. The white paper on privatisation and deregulation in the Republic of South Africa, summarises the above by conceding that, the privatisation process forms part of a strategy where by

- Firstly, the public sector's involvement in the economy can be limited or reduced so that more capital, means of production and opportunities can be made available to the private sector.
- Secondly, the private sector is given the opportunity to develop and grow optimally and with minimum state intervention and regulation (White Paper, 1987:8).

With this view, the apartheid government hoped to cut on governmental spending, and more private sector participation in the economy. The apartheid government was facing international political pressure through sanctions. Essentially, the government aimed at attracting more private sector involvement in the economy irrespective of the international sanctions that the pre-1994 regime endured from the international community. The government of South Africa believed that the purpose of privatisation was to improve the performance of the economy through effective use of production factors; optimal functioning of market forces and increasing of the percentage of net fixed investment in the private sector (White Paper, 1987:9). The apartheid government also shaped and modelled its concept of the methods of privatisation.

4. APARTHEID GOVERNMENT METHODS OF PRIVATISATION BEFORE 1994

To the government of South Africa of that time (during apartheid), the following methods of privatisation were applicable. These, inter alia, included:

- The sale of public sector enterprises and assets;
- Partnerships;
- Leasing of business rights;
- Contracting out; and
- Discontinuation of service or activity which was previously provided by the public sector (White Paper, 1987:9).

For all these various methods which are used to privatise a public enterprise, many factors influenced the privatisation method. These generally include:

- The history of the assets ownership;
- The financial and competitive position of the SOEs;
- The government's ideological view of markets and regulation;
- The past, present and potential future regulatory structure in the country;
- The need to pay off important interest groups in privatisation;

- The government's ability to credibly commit itself to respect investors' property rights after divestiture;

- The capital market conditions and existing institutional framework for corporate governance in the country;

- The sophistication of potential investors; and

- The government's willingness to let foreigners own divested assets (Megginson and Netter, 2001).

The goals of privatisation included to, (a) raise revenue for the state (b) promote economic efficiency, (c) reduce government interference in the economy (d) promote wider share ownership (e) provide the opportunity to introduce competition and (f) subject state owned enterprise to market discipline and finally (g) to develop the national capital market (Megginson and Nitter, 2001).

The above methods of privatisation in South Africa meant drastic reduction of state involvement in the running and control of the economy and associated activities. The withdrawal of state control and ownership set a suitable economic platform conducive to active private sector engagement and greater influence in the economy particularly in the state assets sector, where large government enterprises had a greater monopoly over essential services such as transport, housing, power and telecommunications. When a government sells off some public enterprises, it does not that either totally /completely or partially, where, partially means that the state remains or retains part ownership of the asset or enterprise especially in the state security or strategic sectors of the economy. Most governments sometimes lease business rights to private businesses on a long term basis and that gives the private owner more leverage to participate in the economy on a longer term basis. Government normally gives out long-term concessions to the private investor. An agreement of this nature injects capital into the treasury.

In the case of new ventures, government, engage in a partnership with a private partner. Strategic reasons normally propel governments to opt for a partnership in a new key to public interest venture. Partnerships between the state and the private sector take various forms and differ from one form to the other. Political economic and global factors are usually critical in the determination of the type of partnership. The manner, in which a partnership is structured, would probably differ from case to case and could include the following:

- The acquisition of shares by the private sector in existing or new state undertakings, but with the public institution, as an interim arrangement retaining its shareholding until such time as full ownership can be transferred to the private sector.

- The acquisition of shares by the private sector in an existing or new state enterprise in which the public institution maintains a permanent involvement. Such a partnership between the public and private sectors may be appropriate in the case of natural monopolies or when, for special reasons full private ownership is deemed not to be in the interest of the country ; and

- The phasing out of shareholding by the public institution in undertakings as and when it has fulfilled its responsibility from a development point of view (White Paper, 1987:10).

In 1986 at a President's conference, private investors pleaded with government of South Africa that particular attention should be given to the privatisation of services and activities which were already undertaken by the private investors in a competitive situation and their request was acceptable especially where contracting out was in public interest and where the official criteria of privatisation was satisfied. Government accepted that the private sector can undertake public services or activities on its behalf for a consideration (White Paper, 1987:10).

Contracting out can be justified if the public sector is not itself able to undertake the service or activity or if the private sector can perform it just as or more efficiently or economically (White Paper, 1987:10). In public enterprises, non-core business units are completely contracted out to the private sector and the public enterprise remains with the core-business of the activity. Major questions have been raised about what is core and non-core and who determines that and with what legislative powers? The World Bank/IMF may simply prescribe privatisation and restructuring reform as a condition of some financial incentive which recipient countries obtain, but may not prescribe the modus operandi at the micro-level organisation. The government of South Africa conceded that even if contracting out is implemented, the fact that the tax payer will still be paying for the services or activity must therefore be recognized (White Paper, 1987).

It does not mean that when a service is contracted out, the citizens stop paying taxation for the activity. The citizens continue to endure the wrath of taxation and its increases. The private investor has more control of the contracted out initiative because of the financial implications on the balance sheet of the private owner. Contracted out services are more likely to be expensive for the general public because of the profit-pursuance inclinations of the private investor. The necessity of services and activities can be evaluated chronologically and systematically to check their relevance, desirability and demand. When, the demand for service dwindles, then the government can discontinue its provision and off load it to a private owner. However, when transferring such services to the private owner, governments ensure that the users are not exploited at any level. This may be difficult to enforce in the absence a conducive legislative framework.

5. GUIDELINES FOR PRIVATISATION IN SOUTH AFRICA BY 1994

In tracing the origins of the neoliberal trend in South Africa it critical to examine the guidelines which the apartheid government drafted as principles to followed. For the South African government before 1994, were prescribed guidelines, which informed an official privatisation exercise. According to the South African government such guidelines had to be adhered to during the implementation of the privatisation initiative. These, included, that:

- Each case of privatisation be considered individually and this may require that a public enterprise first have to be more efficient and profitable in order to obtain the best benefits from privatisation, but without trying artificially to make it more attractive to investors.

- The concentration of economic power and possible foreign control of strategic industries be avoided.

- Privatisation must be integrated with the total economic for strategy for the Republic.

- Privatisation must be applied on a continuous basis in respect of both existing and contemplated future public sector activities.

- Funds which become available to the state as result of privatisation measures must be applied judiciously and subject to strict requirements for capital or development projects (White Paper, 1987:11).

State enterprises are unique and perform different, functions which vary in terms of scope, extent and public interest. Some perform key strategic activities and others not. The government of South Africa in the late 80s did not apply whole sale privatisation and restructuring. It believed in taking measures first to enhance organizational efficiency and profitability of a public enterprise before privatizing it. This gave more value to the enterprise and its services and government emphasized that such efficiency and profitability-improving exercises should not be used as a tool to attract private investors (White Paper, 1987). Thus, the approach to privatisation was cautious and strategic. With this in mind, the government was mostly inclined towards preventing and avoiding higher concentration of economic power and foreign control of key strategic industries of the country. Again the government saw privatisation not in isolation, but as part of an integral process of achieving a total economic strategy for the Republic (White Paper, 1987). This helps critically because to achieve total economic growth, it is essential to align all strategies of government in one economic direction. A nation is most likely to fail in its privatisation endeavours, if the process is isolated from the broader macro-economic strategy.

The privatisation reform must be seen as a continuous process under taken continually, within a broader macro-economic reform framework for it to succeed. Stringent measures in dealing and handling financial proceeds of privatisation deals require to be applied judiciously. In the late 1980s the government of South Africa believed that funds which become available to the state as a result of privatisation measures must be applied judiciously and subject to strict requirements for capital or development projects (White Paper, 1987). One of the reasons why governments privatise is the need to procure finance properly and in line with relevant statutes. The foregoing guidelines were propounded by the government in an effort to implement a fair privatisation project, which emphasized greater fiscal discipline, efficiency, effectiveness, competitiveness and better enterprise performance.

6. APARTHEID REGIME CRITERIA FOR PRIVATISATION REFORM BEFORE 1994

In pursuance of a cautious privatisation approach, government set a criterion for privatisation during the late 1980s. This criterion was a ring-fence to ensure that the process does not jeopardise key public interest concerns in sectors such as defense and security. However, there was a general agreement that non-core activities may be out sourced.

The government of South Africa agreed that the privatisation of a function or activity must:

- Not entail a real risk to state security or internal order

- Not defeat the constitutional, social or ecological objectives served by a function or activity.

- Be reconcilable with the policy on competition. This means that adequate capacity to effect competition for and during the performance of the function or activity in the private sector must exist or be able to be created. In appropriate cases, however, a function or activity for which there is insufficient competition can be undertaken on a partnership basis by the private and public sectors.

- Be to the long-term benefit of the taxpayer or the community in general. This means that the continuation of the function or activity must as far as possible be ensured at a fair cost (White Paper, 1987:11).

The foregoing sets the basis for a fair and cautious privatisation in South Africa. In fact, the process of privatisation must not jeopardise state security and order. The above also indicate the green-concerns and sustainability issues which the government was concerned with. This criterion meant that unscrupulous private investors would not get opportunities, especially if they disregarded environmental impacts. This spelt out criteria envisaged that privatisation must on a long-term basis benefit the citizens of the communities instead of exploitation. Most scholars are concerned that privatisation transactions are often considered detrimental to the poor because they entail the elimination of subsidies to products and services such as water electricity and public transportation (Berthelemy et. al, 2004). Again the other concern is history has proved that not all subsidies to SOEs are geared to reduce poverty, mainly because those who have access to the services concerned are the richest groups (Berthelemy et. al, 2004). Owing to the greater emphasis on profit maximizing by private companies, consumers are most likely to be exploited when an activity or service has been privatised or restructured. When competition is engendered, the likelihood of good quality service rendering occurs so privatisation had to propel or create conditions conducive for competition.

7. DISCUSSIONS

A closer look at the above literature review reflects that the 1987 white paper on privatisation and deregulation in South Africa is the single most apartheid policy which shaped the restructuring and privation reform in South Africa at that time a today. The democratically elected government of South Africa simply continued with the reforms as they were originally conceptualized by the apartheid government. The thinking on the current neoliberal economic trajectory emanate hugely and profoundly from apartheid political economy. In fact the National Party regime was the architect of the restructuring and privatisation ideology and thinking which the new government religiously embraced as evidenced by a plethora of government policies which the ANC-led government enacted since 1994 to 2015. However with all these reforms the apartheid government faced major riots in urban areas in 1976, 1980, 1984 and 1985, punctuating an

almost continuously escalating wave of strikes stay-away and boycotts (Stadler, 1987). In fact in the homelands ,self-governing territories, which the Nationalist government had formed as part of its policy of separate development there was a marked increase in worker and community action on the one hand and state repression on the other (Stadler, 1987). All these activities crippled the viability of state treasury and hence the need to reform the SOEs in a bid to raise capital from the private sector: because of international sanctions against the apartheid regime, it was difficult for secure international private sector participation. The private sector counterparts of large SOEs do better in terms of performance and their general finances. The privatisation restructuring reform is usually prescribed as part of total national package from the World Bank/IMF, when nations request or receive financial aid from these multilateral institutions. This pattern has not change since it started two to three decades ago. Assistance programmes which states receive normally are attached to reforms which countries must implement. Even today Marrez (2015:3) concedes that the large number of SOEs and their dominance in the energy and rail transport sector their suboptimal operational performance and the room for improvement with regards to corporate governance, restructuring and privatisations became an important pillar in the successive balance of payments assistance programmes in Romania. In most countries high indebtedness and low rate of return generate payment problems for the SOEs and hence the need to solicit private sector participation (Marrez, 2015). The white paper on privatisation and deregulation in South Africa was a huge milestone in orchestrating the neoliberal mind-set and thinking in South Africa.

8. CONCLUSIONS

This paper provided valuable information of privatisation and restructuring in South African context. This paper has traced the origins of the restructuring through privatisation reform with particular regards to definition, methods, criteria

and guideline for privatisation in South Africa. The thinking and ideology of reform through restructuring and privatisation emanate from the apartheid regime. Local factors and exogenous ones propelled the then apartheid government to implement privatisations. The need to enhance the operational efficiency, effectiveness, competitiveness and profitability of SOEs and to deplete the escalating foreign debt propelled the apartheid regime to privatise so as to generate capital and reduce fiscal risk through over-financing of SOEs with made huge operational losses.

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