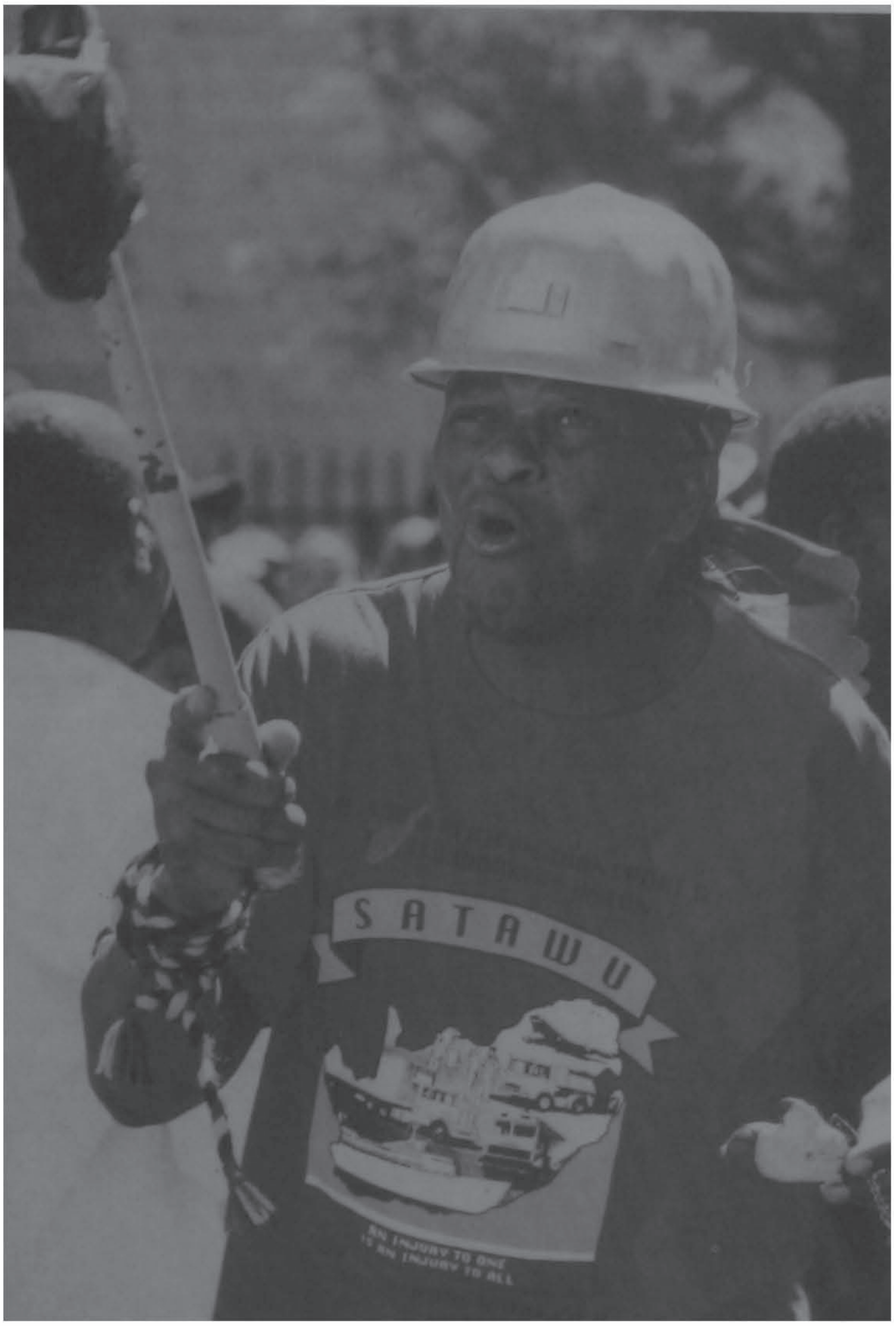
The realities of **privatisation**



The recent privatisation strike, as with the previous one, has unleashed some harsh reaction from government. ***Cosatu*** *explains why it is opposed to privatisation.*

n 2001, Cosatu filed a section 77 demanding that government

- halt all privatisation until it established a clear policy to guide restructuring;
- develop a policy on restructuring to ensure it benefits the majority of South Africans by ensuring basic services for the poor as well as protecting and creating quality jobs;
- establish procedures for restructuring to ensure consistent, open and rational decision-making.

Cosatu has three basic reasons for opposing privatisation.

First, because of mass poverty, most households cannot pay enough to get basic goods and services from private businesses. South Africa ranks amongst the most inequitable and therefore poverty-stricken countries in the world. In these circumstances, there is no market incentive for private companies to serve the majority.

Second, development requires fundamental restructuring of the economy. State-control of assets provides an important lever to achieve this aim, both by extending infrastructure and production and by maintaining cross subsidises to the poor, small and micro enterprise, and similar sectors. Privatisation rules out this type of strategic intervention.

Finally, privatisation has been widely associated with massive job losses at provincial, national and local level.

Given an official unemployment rate of close to 30% – up from 16% in 1995 – that is unacceptable.

Because of these realities, Cosatu defines privatisation as any restructuring that involves the sale or outsourcing of assets or functions to the private sector, the replacement of social objectives with profitability by state-owned agencies, and the opening of historically state-controlled sectors to private competition.

Cosatu's demands on privatisation
In its section 77 notice, tabled in June 2001, Cosatu made the following demands. They derive from the principles of the Freedom Charter and the RDP. They also reflect the recognition by parties at the WSSD that the state must play a leading role in supplying basic goods and services to the poor.

1. Government must halt all privatisation initiatives pending the establishment of a clear policy and legislation to guide restructuring, used here in the sense of changes in the management or control of any of its assets, enterprises, services, undertakings, industries or sectors.
2. The policy must be binding on all state-owned or controlled entities, including state enterprises and all levels of government.
3. The parties to Nedlac must negotiate the contents of the policy, which must subsequently be tabled as legislation.
4. The policy must give effect to the following principles:

4.1. The state must retain the capacity and assets to play a strong developmental role in order to meet its constitutional obligations in respect of second generation rights.

4.2. The state must remain the provider and manager of basic services. The government's restructuring programme must therefore exclude privatisation of government-owned or controlled institutions that provide basic services and meet basic needs. Basic services are water, sewage, rubbish disposal, electricity, welfare, and basic housing, health, transport, education, telecommunications and cultural services such as stadiums, parks and libraries.

4.3. The state must also remain the provider and manager of national infrastructure networks, including water, rail, roads, electricity and telecommunications.

4.4. No restructuring of state systems or institutions may take place until the relevant sector has established a policy on service norms and how they will be achieved, especially for poor communities. The policy must ensure that

a. historically disadvantaged communities receive adequate services, and

b. services suffice to maintain an efficient economy.

4.5. No restructuring may take place if it negatively impacts upon the poor, whether by constraining provision and extension of basic services to them or by aggravating job losses.

4.6. The state may not privatise where that would effectively end cross-subsidisation of services for the poor.

4.7. Restructuring may not lead to a reduction in the conditions of employment of employees or affect recognition agreements or existing bargaining arrangements, including the constitution of the bargaining unit.

5. The process of restructuring must be transparent and must include:

5.1. If the state contemplates restructuring, it must prepare a cost-benefit and impact analysis. The analysis must include the following:

a. The direct and indirect costs and benefits associated with restructuring, including the expected direct and indirect effects on service delivery (especially for poor communities), the health and safety of communities, the environment, employment and incomes, and the overall distribution of incomes and assets.

b. The impact on the capacity of the state, in terms of skills, expertise, administrative systems and assets needed to provide the service.

c. Reasons why alternative restructuring proposals were rejected.

5.2. The state must consult with the affected communities and bargain with trade unions in the affected entity, service or industry.

5.3. The matter must be discussed by Nedlac. The parties to Nedlac must have access to all the relevant information relating to the proposed restructuring.

5.4. In the case of a proposal to privatise in any form:

a. The state must advertise the proposal in the relevant media.

b. If the proposal applies to a provincial or national entity, the Legislature must make the decision whether or not to privatise; in the case of a proposal by a local government, the Council must make the decision.

c. Before the Legislature or Council makes its decision, it must hold public hearings and consider the submissions of interested parties and it must be provided with:

I. all relevant information, including the cost-benefit and impact analyses;

ii. a report on the consultation process with affected communities and bargaining process with trade unions;

iii. the recommendations of the parties to Nedlac; and

iv. reasons for disregarding recommendations or views expressed in the process.

Case study: Water and sanitation

Current needs and the role of the state

Clean water and sanitation are critical for public health. In South Africa, where cholera is endemic, it is particularly important. In addition, with the current household division of labour, women must spend longer hours carrying water to the house. For this reason, the RDP set short-term targets for water provision of 20-30 litres per person within 200 metres.

The democratic government has made considerable progress in providing piped water to the poor – an accomplishment that the current privatisation campaign seems likely to undermine.

According to the UNDP's 2002 Human Development Report, in 2000 one in seven South Africans did not have access to piped water. As a result, although South Africa ranks ninth amongst developing countries in terms of GDP, it only ranks 27th in terms of access to improved water.

Historically, local governments and administrations have been responsible for providing water. There has, however, been a shift to supporting private management of this service. Both nationally and internationally, the result has been a decline in services for the poor, combined with a rapid increase in costs.

What happens when water is privatised?

Currently, six municipalities have water service contracts. They are Stutterheim, Fort Beaufort (Nkonkobe), and Queenstown in the Eastern Cape, since the early 1990s; Nelspruit and the Dolphin Coast in KwaZulu-Natal, since 1998; and Johannesburg, since 2000. In addition, a number of municipalities have set up autonomous utilities that often outsource important functions.

All the contracts in the Eastern Cape have proven problematic. Since these agreements were signed before democratic governments were elected, it is not surprising that they do little for the majority. The Nkonkobe contract has been nullified by a court decision. It required the town to pay R19m a year in services, while communities complained of poor and inadequate services. At Stutterheim, the city council found that the contract does not require the contractor to repair major damage. At Queenstown, the service has run into strike action over pay differentials and a failure to recognise services.

We here examine the more recent Nelspruit and Dolphin Coast experiences in more detail. The Johannesburg contact is too new to evaluate.

Government generally argues that contracts and regulations can compel private managers to meet social needs. For water in poor countries, companies respond with a 'bait and switch' tactic. They sign long-term contracts that promise benefits for the poor – but renegotiate after a year or two to reduce services and increase prices.

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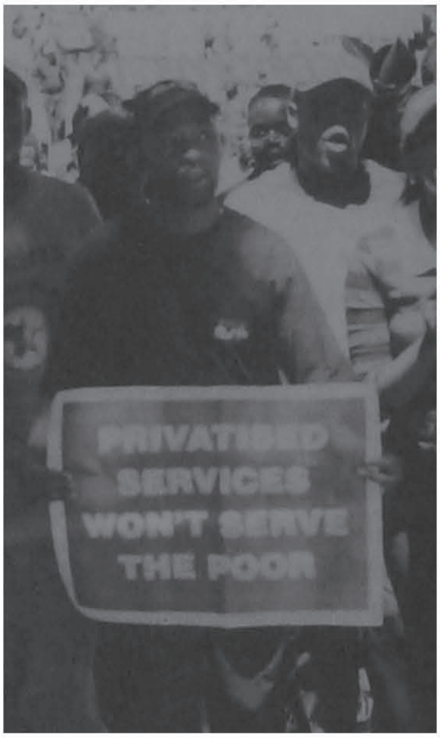

The Dolphin Coast in KwaZulu-Natal went through this process. In 1999, it signed a contract with Siza, a subsidiary of the French company, SAUR. Just one year later, Siza demanded renegotiation on the grounds that revenues were not growing as fast as expected. The municipality ultimately agreed to:

- raise tariffs by 15%;
- cut Siza's five-year investment from the original R25m to R10m;
- consider reducing Siza's fee to the municipality.

Meanwhile Siza still pays SAUR a fixed management fee.

In 1999, Nelspruit signed a 30-year contract with the British firm, Biwater. Poor communities around Nelspruit complain about unreliable, limited services and rising costs. Officially, tariffs have increased by around 10% a year – well over the inflation rate since 1998. But the basis for billing has changed from a flat rate to payment per litre. Poor households say their bills have in fact soared from R70 to hundreds of rands a month. With the average household income at under R2 000, this is unaffordable.

Furthermore, Biwater could not raise funds for the promised investments, so it borrowed R150m from the DBSA. This accords with international experience, where private water managers often end up using public funds for investment.

These experiences are not surprising. After all, private companies are in the business of making money, and getting water to poor communities at prices they can afford is not profitable.

The companies themselves admit this problem. Officials from Vivendi, one of the water multinationals, say private investment in water will only be viable in Africa in 'big cities where the GDP/capita is not too low,' and where governments, if necessary, guarantee revenues. SAUR's CEO argues that, 'Even Europe and the US subsidise [water] services ... Service users can't pay for the level of investments required, not for social projects ... The scale of the need far out-reaches the financial and risk-taking capacities of the private sector.'

Cosatu's demands

Water is a basic necessity, and should remain exclusively in the public sector. In that context, the government should:

- develop clear targets and timeframes for ensuring universal access to clean water and adequate sanitation;
- set guidelines to ensure affordable tariffs for the poor. The current system of free basic water provides so little water that most households may end up paying more, not less, for the service. The basic amount should be increased to be sufficient for poor families to avoid higher payments;
- the Water Act provides that private water providers will only be contracted as a last resort. This should be adhered to rigorously, and reinforced through appropriate regulations;
- as soon as possible, phase out existing contracts for private water management.

Assessing the strike

Cosatu is happy with the participation of membership in the strike. Reports by union monitors indicated up to 60% participation. What concerns us is that media reports tended to rely on business and government assessments of the impact of the strike, and downplayed Cosatu reports. In any case, business and government are contradicting themselves. For instance, the public service claimed only 2% participation – yet *Business Day* reported that many teachers took part in the strike in areas where schools are in session, and teachers make up 40% of the public service. Similarly, *The Star* said Daimler Chrysler in the Eastern Cape was not affected, while the *Daily Dispatch* pointed out that the factory was closed down for the day.

Moreover, despite government's claim that the parastatals were unaffected, when Cosatu's email went down, Telkom informed us that it could not fix it because of the strike.

Cosatu will continue to implement its programme for the campaign until agreement has been reached. The key elements of this campaign are:

- regional actions;
- lunch-time actions and pickets, including around high food prices;
- continued work with other sectors of civil society.

At the same time, we will continue to use any opportunity government offers for genuine engagement. In this vein, we hope that government will return to the Nedlac negotiations on poverty and joblessness, as well as re-activating the NFA.

We will also continue to engage within the alliance. In September, we agreed with the ANC that we would work intensively to overcome our policy differences. That process should continue. ■