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**RESTRUCTURING OF STATE ASSETS VERSUS PRIVATISATION
IN SOUTH AFRICA: WHAT'S IN A NAME?**

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INTRODUCTION

Privatisation can take different forms. One type is “denationalisation”, returning previously nationalised assets to the private arena. Another type involves selling all or part of assets created under State control, some of which used to be considered natural monopolies, such as post offices. Privatisation in South Africa mainly covers assets previously thought to be better left to ownership, control and management by the State than the private sector.

Privatisation can also be broken down into three broad categories: outright divestiture, corporatisation and a sale of shares of varying magnitudes, and management concessions (sometimes referred to as the privatisation of management). Public-private partnerships (PPPs) are also dubbed privatisation by critics for rhetorical reasons, but neither concessions nor PPPs are strictly privatisation, which concerns a change of ownership.

South Africa has seen all of these forms of privatisation since State President PW Botha started the process in the late 1980s with the divestiture and public listing on the Johannesburg Stock Exchange of vertically integrated steelmaker Iscor.

Privatisation is often associated with the “Washington Consensus”, the set of conservative policies once prescribed to developing countries or those in transition from communism. Whether the prescriptions of the author of the Washington Consensus were ever as rigidly ideological as later critics have taken them to be, and the dangers of discarding them, is beyond the scope of this paper. The author of the 10 points that make up the original Washington Consensus, John Williamson, has, however, spiritedly defended them as “motherhood and apple pie.”¹

Research demonstrates that privatisation can yield significant performance improvements in divested firms². Experience suggests that as part of a process of liberalising economic sectors they can increase competition to lower prices and improve products and services, rid the State of burdensome financing requirements, and help government focus on what it should be trying to manage rather than being distracted by what is best left to the private sector.

However, the motives for privatisation are many-fold. They range from politically motivated desires to spread shareholding of privatized parastatals among voters such as that of the British Thatcher government, to the genuine desire to create competition and efficiency to the need to rid the State of liabilities. Privatization can also attract foreign investment and be used by multilateral agencies on developing as part of economic reform programmes.

In South Africa, another term is commonly used, that of “restructuring of State-Owned Entities”, and while it may entail privatisation, as will be explained, it is not necessarily equivalent.

¹ Did the Washington Consensus Fail? John Williamson, Institute for International Economics, November 6 2002. (<http://www.iie.com/publications/papers/paper.cfm?researchid=488>.)

² The Financial and Operating Performance of Privatized Firms During the 1990s, Juliet D’Souza and William L. Megginson, *Journal of Finance* (August 1999)

1. PRIVATISATION AND NATIONALISATION PRE-1994

De-nationalisation as a motive for privatisation has never been a necessity in South Africa. In other African countries, leaders espousing an “African socialism” or Marxist parties such as Mozambique’s Frelimo government nationalised industries and created State entities in a wide range of economic sectors, from retailing to brewing.

When the African National Congress came to power in 1994, the new government did not have to face the problem of non-performing State banks, mines or retailers. Nor had real estate been nationalised, though the concept of private property had been imperiled by the racial expropriation of land by the apartheid government and colonial government before that.

At the end of the 1980s The apartheid government had already achieved two significant privatisations, that of the South African Iron and Steel Corporation (Iscor) in November 1989, and that of State-owned breweries producing traditional sorghum beer in 1991. The shares sold in the privatisation of National Sorghum Breweries were reserved entirely for Africans. The State had already moved into the private sector and listed on the Johannesburg Stock Exchange fuel-from-coal producer Sasol, though in both Sasol and Iscor the State retained significant ownership through its development financier, the Industrial Development Corporation (IDC).

After the unbanning of the African National Congress and the Pan Africanist Congress in 1990, the political process that had been set in motion would not allow for any privatisation in the run-up to the first democratic elections; even the introduction of VAT in 1991 sparked massive protest by the ANC-aligned labour federation Cosatu, suspicious of the motives of the government headed by FW De Klerk.

2. THE POLITICAL CONTEXT OF PRIVATISATION POST-1994

Ironically, by the time the ANC gained power, a crucial aspect of its economic policy was discarded. This was the call for nationalisation espoused in the document that was the inspiration for the ANC for decades, the Freedom Charter. The Freedom Charter, adopted in 1995 and in some respects similar to the socialist policies of the UK Labour Party, explicitly called for the nationalisation of sectors of economic activity:

The mineral wealth beneath the soil, the Banks and monopoly industry shall be transferred to the ownership of the people as a whole.

On his release from prison, ANC president Nelson Mandela stood fast by this commitment to nationalisation, expressing his opposition to privatisation as late as 1994, the year the ANC’s Reconstruction and Development Programme (RDP), a replacement of the Freedom Charter and the ANC’s election manifest, was published.

The RDP did not favour privatisation in name, demanding a reversal only of privatisations that were “not in the public interest.” However, it introduced some flexibility by balancing the possibility of nationalisation and the creation of State-owned entities (SOEs) with reducing the

public sector to enhance efficiency. This policy was acceptable as long as it also advanced affirmative action by empowering the historically disadvantaged black section of the population, and protected consumers and workers.

By 1996, however, the ANC government's Growth, Employment, and Redistribution strategy decided to sell off "non-strategic assets" and attract Strategic Equity Partners (SEPs) in Telkom. While government carefully avoided the term "privatisation", the policy of privatisation was set into motion with the same gradualism that characterised other economic reforms, such as exchange control liberalisation.

As will be seen, the State prepared to sell off its non-core assets, with varying degrees of success, and attracted foreign direct equity into three core assets, Telkom, South African Airways, and the Airports Company of SA. The State's near monopoly of the airwaves was broken by the sale of several South African Broadcasting Corporation radio stations, along with the licensing of new private sector radio station owners. Plans were laid out to sell off 30% of the State electricity utility Eskom by attracting foreign investment to expand South Africa's electricity-generating capacity. Consideration was given to concessioning the profitable commodity transporting arms of Spoornet, the railways division of the State transport company Transnet. In part because the government experimented with management concessions, the idea of private-public partnerships (PPPs) took hold despite two politically contentious water PPPs.

Yet by 2004, with the appointment of a new Minister in charge of the restructuring of most SOEs at the Department of Public Enterprises, privatisation was de-emphasised. The planned sale of 30% of Eskom had mutated into allowing independent power producers to add 30% of an enlarged electricity generating market. The newly appointed Minister was adamant that no divestiture of the three big parastatals, Eskom, Transnet and Denel, was contemplated for at least five years.

In the interim the government faced two embarrassing though not crippling "anti-privatisation" strikes by Cosatu. It was clear that privatisation in the sense of divestiture, though it will be seen that little was actually sold off, could become a rallying point for the disaffected Left in South Africa.

Part of the explanation for this lies in the failure of privatisation to accomplish much in the way of Black Economic Empowerment, the government's main policy tool to deracialise the economy, commonly known as BEE. BEE is a form of indigenisation that aims to achieve a wide range of objectives to racially transform the South African economy, and encompasses procurement tilted toward black South Africans, affirmative action, enterprise development, and a number of other various aims. However, its main feature continues to be a transfer of equity to black shareholders, as part of an effort to redress a pattern of asset ownership skewed towards whites.

It was also one of government's main selling points in persuading the anti-privatisation labour movement, among other key ANC constituents, that privatisation might be an acceptable policy instrument. Political analyst Steven Friedman has succinctly pointed out that this puts constraints on the government:

... justifying the sale of State assets by creating an expectation of black empowerment did not only create a constituency for privatisation, it also placed qualifications on the way it would have to be managed. Whether municipal services or large public utilities are at stake, privatisation deals have to justify themselves by the empowerment criterion. If they do not, the constituency is likely to melt away. It is no overstatement to insist that political reality dictates that privatisation will either retain expanding black economic participation as a key goal or it will cease.³

Even a cursory glance at the privatisation efforts to date shows that neither restructuring in the broad sense, nor privatisation per se, has been effective in increasing BEE ownership.

The biggest privatisation in revenue, the sale of 30% of Telkom, was followed in March 2001 by the sale of 3% of the company to Ucingo Investments, a consortium of black empowerment investors. As is usual with certain BEE transactions, Ucingo was to raise the money to pay for the stake at a later date. Ucingo failed to do this, and disposed of its entire shareholding in September 2003. The sale of five-million shares aimed at black individuals and small organisations, sold at a discount of 20%; the Khulisa retail share offering was widely heralded but amounted to only 1% of Telkom's shareholding. In any case, BEE stakes are supposed to give some form of influence or control to the black shareholders, and therefore must be a direct holding of a block of shares where the shareholders can act in concert. The Khulisa shareholding very much represents an indirect form of shareholding.

The most admired use of privatisation to enhance BEE ownership has been in the sale of the State forests, where communities living near forests have been given a share of the rent paid by the company acquiring the forests, and a stake in the BEE companies involved in the privatisation.

The most successful early privatisations, those of the SABC radio stations, achieved some BEE ownership. Liberalisation of the airwaves to allow new entrants, such as the only private non-subscription TV channel, e-tv, and new black radio station owners, achieved as much if not more. Similarly, opening up telecommunications to allow cellular mobile services, with BEE ownership, has created one of the biggest and most profitable black-run and black-owned firms on the JSE Securities Exchange, MTN; another of the three cellular operators, Cell-C, has a 25% black ownership stake.

One of the objectives of privatisation was to transfer shares during the privatisation exercise to the National Empowerment Fund, created for financing BEE transactions. However, the NEF was moribund until recently, apparently unable to come up with a business plan to persuade government to release such shares.

On the other hand, State ownership has been used to accelerate other aspects of BEE, such as affirmative action and procurement from black suppliers in parastatals. Hence it makes more sense from a BEE perspective to keep the SOEs in State hands.

³ The political environment and privatisation, Steven Friedman, in *Restructuring 2002: A sense of movement*, BusinessMap Foundation, October 2002.

This could well explain the reluctance of the ANC government to forge ahead with privatization, especially as the privatisation of Telkom had exposed the perils of privatizing State monopolies. The privatisation achieved its objective of persuading the markets of South Africa's commitment to a free market economy, in the early years of the ANC government, when some may still have had doubts about such a commitment. But the price of the hasty and flawed privatisation was felt in costly fixed-line phone charges, while the commitment to roll out lines to previously unserved markets resulted mainly in subsequent disconnections of many of those new lines as poor communities found the cost too high to bear.

The other cardinal reason, viewed by some as a decisive shift in the economic policy, is the State's movement towards a vaguely defined interventionist, "developmental state" approach.⁴ One aspect of this would be that the State leads South Africa to a new economic growth level by massively boosting infrastructure spending – R180-billion on transport logistics, electricity and water resources.⁵ In this view, the State must continue to own the enterprises that will spend the money. Instead of privatisation and liberalisation, independent regulators will be the force that contains the above-inflation rises in administered prices that have been criticised as offsetting the effects of monetary policy.

3. REALITY VERSUS RHETORIC

The South African media viewed the pronouncement by Minister of Public Enterprises Alec Erwin, shortly after his appointment, that SOEs would not be privatised as a complete reversal of policy. The reality is that the ANC in government has never been entirely comfortable with privatisation, for the political reasons already pointed out. "Restructuring" is the preferred term, and though it has been taken to be a code for privatisation, this is not the case. Again, government prefers "managed liberalisation" rather than "deregulation." Government's main policy document on SOEs, the "Accelerated Agenda"⁶ is not an aggressive privatisation programme. This document begins by noting government's vision for SOEs includes a continued role for the State in the economy, "in the light of recent international experience with SOE restructuring and the developmental needs of the country." It talks of the need for a "mixed economy" – and the developmental state.

What has been privatised successfully? A review of revenue from divestiture since the ANC came to power in the first democratic elections until the end of 2003 showed that around R21-billion (a little over \$3-billion at the current exchange rate) had been raised from divestiture of one sort or another (as opposed to special dividends). Of that R12-billion (a little under \$2 billion) actually went to the Treasury.⁷ The most significant amounts were the R5,6-billion (\$826-million) raised through the sale of 30% of Telkom to its strategic equity partner in March

⁴ State of the Nation, 2005-2006, ed. Sakhela Buhlungu, John Daniel, Roger Southall, Jessica Lutchnann, HSRC Press, October 2005.

⁵ State of the Nation Address to Parliament, President Thabo Mbeki, February 2005.

⁶ An Accelerated Agenda Towards the Restructuring of State Owned Enterprises Policy Framework, Ministry of Public Enterprises, Republic of South Africa, August 2000

⁷ RESTRUCTURING 2004: A Change of Pace, BusinessMap Foundation, January 2004

1997, and the R4.1bn (\$605-million) raised by listing Telkom and then selling shares in March 2003. Additionally, the monetisation (a warehousing of the stake for later sale) of the State's 20% stake in MTN brought in R5.3bn., almost as much as the 30% Telkom stake

Table 1: Revenue from the divestiture of SOEs 1997 -2002			
SOE	Date	% Sold	Proceeds (R-million)
Telkom	May-97	30	5,631
MTN	Jan-02	20	5,300
Telkom	Mar-03	25	4,100
M-Cell/MTN	Jun-00	6	2,400
SA Airways (SAA)	Jul-99	20	1,400
Airports Company of SA (Acsa)	Jun-98	20	819
Telkom (Ucingo)	Mar-05	3	565
SABC Stations	Mar-97	100	510
Acsa	Oct-99	4	173
Apron Services	Nov-02	51	117
SA Forestry Company (Safcol) – KwaZulu-Natal	Oct-00	75	100
Turbomeca/Aerospace	Jan-02	51	50
Safcol – Eastern Cape North	Oct-00	75	45
Acsa	Oct-99	1	44
Sun Air	Nov-97	100	42
4 Aventura Resorts	Jan-03		31
Safcol Lourensford	Feb-03	100	22
Transnet's Transwerk Perway	Sep-00	65	19
Connex	Aug-99	100	15
Viamax	May-98	30	12
Transnet's Production House	Jul-00	100	11
Transnet's Chemical Services	Aug-00	100	3
Total			21,409

[Source: Department of Public Enterprises]

Since this information was compiled by the DPE, there has been some further movement on the sale of non-core assets: the remaining Aventura resorts have been sold off for R200-million (\$30-million) but the first three resorts, sold in 2001 for R23-million (\$3.4-million), were somehow not included in the table published by the DPE. Moreover, a number of other assets outside of the DPE's control were sold, such as Johannesburg's Kelvin Power Station and bringing in FDI (see table 3).

Equally there has been a complete reversal of the sale of strategic stakes in Telkom, SAA and Acsa. Swissair was forced to sell its 20% stake in SAA back to the South African government when the Swiss airline encountered financial difficulties. The Thintana consortium decided to exit its 30% stake, and most recently Aeroporti di Roma announced it would sell its 20% stake in

Acsa. Talks to sell a strategic stake in arms maker Denel were unsuccessful. The proposed acquisition by BAE Systems of 30% of Denel Aerospace and Ordnance for R375-million, announced in 2002, also fell through.

Moreover, an examination of the major SOEs shows that they still have a number of smaller non-core assets that they have yet to sell off. For instance, in the most recent Transnet annual report, the following non-core assets were identified as those to be sold off:

- freightdynamics,
- Autopax Passenger Services (Pty) Ltd,
- Metrorail (urban passenger transport, to be transferred to Department of Transport),
- Shosholozza Meyl,
- Transnet Housing,
- Transnet Pension Fund Administrators,
- V&A Waterfront Holdings (Pty) Ltd,
- Viamax (Pty) Ltd,
- Equity Aviation Services (Pty) Ltd, and
- VAE Perway (Pty) Ltd.

The R21bn raised must be set against the potential revenue. BusinessMap calculated that at the end of 2003 the assets of all SOEs, including State development finance institutions, was worth roughly R312-billion (\$46-billion). At a group level, stripping out all the subsidiaries, this fell to R291bn (\$42-billion), which is still a substantial sum. The so-called “Big Three” SOEs, Denel, Eskom and Transnet, had total assets of roughly R154bn (\$23-billion). Adding in Telkom, then 61% privatised, brought the figure to around R208-million (\$31-billion). To date the assets of the Big Three have climbed to R186bn (Table 2)⁸ (\$27bn).

	Total Assets	Profit	Employees	ROA
	R-million			
Eskom	109,205	5,197	31,475	4.8%
Transnet	72,663	6,810	71,639	9.4%
Denel	4,092	(378)	10,925	-9.2%
Totals	185,960	11,629	114,039	

[Source: 2005 Annual Reports, except Denel, 2004]

While the asset values of the SOEs are only a vague indicator of their market value when sold, the potential is clearly enormous.

It has been argued that the job losses arising from privatisation would be unacceptable in a country with an official unemployment rate of around 26%. There is some merit in this since Telkom, though still retaining a significant government stake, has shed a large number of jobs since 1997, and plans to shed more. The remaining Big Three SOEs employ 114,000 people. Add to this the 31,000 employed at the low-asset-base Post Office, and it can be seen that the

⁸ Denel’s reporting has been delayed, but its losses for the latest financial year could exceed the R378m substantially.

State is a major employer in the formal sector. However, all the wholly owned SOEs have also shed jobs. Over a period of two financial years (one in the case of Denel) the Big Three shed 8,700 jobs. However, while the parastatals and the privatised monopoly that is Telkom shed jobs, the liberalisation necessary to create new jobs has not been forthcoming. The Department of Communications, which is in charge of setting up the Second National Operator in the telecommunications sector to compete with Telkom, has managed to delay the process almost infinitely. Competition could legally have started on 7 May 2002, but at the time of writing competition remains severely constrained, and the SNO is still not operational.

What of attracting Foreign Direct Investment? This aspect of privatisation, sometimes implicitly taken to be one of the benefits of privatisation, has come second to liberalisation. In some cases more has flowed out than flowed in as investors scored from an appreciation in the assets they bought – but asset appreciation is also supposed to be a benefit of privatisation. The early privatisations sent the right signals to foreign investors, both direct and indirect, but in total South Africa has only attracted about R8,170-million or \$1.3-billion. (see Table 3).

Announced Date	Privatised entity	Foreign investor	Country	Stake (%)	Announced Value (Rm)	Announced Value (\$m)
June-97	Telkom SA Ltd	SBC Communications	USA	18	3,320	722
June-97	Telkom SA Ltd	Telekom Malaysia	Malaysia	12	2,200	478
June-99	South African Airways (SAA)	SwissAir	Switzerland	20	1,400	230
November-02	Apron Services	Serco Group	UK	25.5	59	6
June-03	Aventura Resorts	Forever Resorts	USA	100	200	25
June-98	Airports Company South Africa (ACSA)	Aeroporti di Roma (ADR)	Italy	20	819	135
August-01	Kelvin Power Station	AES Corporation	USA	50	500	61
December-03	Komatiland forests (Pty) Ltd	Bonheur 50 General Trading (Pty) Limited	Multi-state	49	212	32
Total					8,710	1,690

[Source: BusinessMap FDI Database]

The situation remains, however, that little privatisation has taken place, for whatever reason, in the form of long-lasting SEPs – or any SEP – or outright divestiture of the main parastatals, except for Telkom. And Telkom’s privatisation is thought to have been damaging to the competitiveness of the economy, guaranteeing as it did a five-year monopoly to foreign investors. The process of individual privatisations has often been painfully slow, littered with failed attempts to find buyers or sort out regulatory issues or make the asset sufficiently attractive. For instance, the path to selling the formerly State-owned Aventura holiday resorts has been torturous; the investment arm of Cosatu failed to come up with the money to buy the resorts in 1999, management had to be outsourced, and the finalisation of the sale of the outstanding resorts is still pending.

The South African government decided in November 2002 to sell 51% of the state-owned diamond mining company Alexkor to a strategic equity partner. However, in preceding years, management was unsuccessfully outsourced to a private company, which resulted in an unresolved legal claim on Alexkor. The SEP decision has been terminated because of a land claim brought in terms of South Africa’s land restitution process, initiated after 1994 to redress apartheid expropriation, and is the latest chapter in a long saga of unsuccessful attempts by the State to offload Alexkor.

Outside of the SOEs under DPE control, there has been little movement, especially at the municipal level, where nothing noticeable has been divested since the sale of 50% of the Kelvin Power Station in 2001 (Johannesburg’s Metro Gas and Rand Airport were sold off in 2000).

CONCLUSION

An observer would be justified in believing that the South African government was half-hearted in its approach to privatisation. The truth is that political as well as practical constraints have limited the speed at which government can affect privatisation. Moreover, with government revenue increasing and public debt under control, there is sufficient money to continue recapitalising, or guaranteeing government loans for public enterprises deemed strategic, such as South African Airways (part of Transnet) or Denel.

In the 2003/04 financial year South African Airways incurred a loss of R5.9-billion (\$78-million). Denel lost R375-million (\$55-million) in the same year and its expected loss for this financial year is around R1.6bn. The South African Post Office cannot operate without a subsidy, despite failed attempts to do so in part by outsourcing management to a foreign company. A number of SOEs outside the Department of Public Enterprises mandate are nowhere near being privatised, such as the State broadcaster, the SABC, and State-owned fertilizer company Foskor, first identified for privatisation .

Competing with this understandable lack of urgency is the need for rapid improvement of privatization efforts, from raising revenue for the Treasury, through creating competition and preserving jobs, to transferring some equity ownership to black people in every deal. The constraint of BEE, or racial transformation, is that transactions in which a “white” – or foreign – firm acquires 100% of the State asset is prohibited.

BEE complicates Public-Private Partnerships, which the government is fully committed to as a way of accessing private capital and finance. Some progress has been made at the municipal, provincial and national level on PPPs, but PPPs are far from what is usually envisaged as privatisation.

There is clearly room to expand private sector activity, and so privatisation is a necessity. Key SOEs remain at the heart of the economy: the transport and energy utilities are State owned, and the State has a sizeable chunk of the former State fixed-line monopoly, Telkom. One of the three cellular service operators is 50% owned by Telkom. The Second National Operator will be part owned by Transnet and Eskom. The State-owned IT company Arivia.com competes with private sector IT firms.

Privatisation, however, must be accompanied by liberalisation to create competitive conditions. Hopes are being pinned on the creation of independent regulators to put a lid on administered prices, but regulation should surely be an addition to competition rather than a replacement for it.

However, without a clear and stated commitment to using privatisation to create a competitive environment, privatisation would be better avoided. The partial privatisation of Telkom, with some management control granted to foreign investors, raised money for the fiscus and modernised the telecommunications parastatals. It also led to what is now recognized at the highest levels as unacceptable rises in fixed-line prices⁹ – so much so that South Africa's poorer citizens can afford a mobile phone before they can afford a home telephone. The rental cost of a phone exceeds the cheaper price of fixed-line calls. South Africa's Internet penetration is below what it should be, arguably because of the failure of Telkom to offer Internet access through either ADSL or dial-up modems at prices low enough to spur substantial purchase.¹⁰ Unless the individual airports can be privatized, it would be better to keep the Airports Company in State hands rather than fully privatise it because it has a near monopoly of international airports.

At present, competition is only beginning to make itself felt in telecommunications, with wireless non-Telkom Internet being offered to consumers only recently. Innovative ways to increase competition included separating monopoly assets, such as electricity distribution or phone lines. This will clearly be limited by the areas in which it can be introduced such as electricity generation or phone services. It is clear that government's priorities lie elsewhere, namely using SOEs to boost infrastructure spending and racial transformation.

A recent opinion piece in the business section of the Johannesburg newspaper The Star summed up the prevailing view¹¹. Titled "Privatisation is not the only answer for state-owned firms", the article uses a study by Ann Bartel and Ann Harrison¹² to argue that government's decision to retain ownership of SOE's is correct.

⁹ Telecoms report slams Telkom, ITWeb, April 2 2004, quoting NUS Consulting

¹⁰ The Goldstuck Report: Internet Access in South Africa 2004, Arthur Goldstuck, January 5 2004.

¹¹ Privatisation is not the only answer for state-owned firms, Business Report, The Star, November 7, 2005.

¹² Ownership versus Environment: Disentangling the Sources of Public Sector Inefficiency.

Reducing the reliance of state-owned enterprises (SOEs) on government funding and forcing them to compete with private companies can deliver as much improvement in their performance as selling these firms to private investors, a study by two US academic economists has found. The study challenges conventional thinking about privatisation, which has dominated economic policy since the Reagan/Thatcher era of the 1980s, that state-owned companies can only be rehabilitated if they are sold to the private sector.

It is correct that competition is as important as privatisation to keep prices down. The problem is that without privatisation the State is both the shareholder and the ultimate regulator of SOEs, and without the State withdrawing from economic sectors it is difficult for competition to flourish. The problem with SOEs is not so much government funding as “soft” budgets, which allow SOEs to compete in the private space without fear of failure. The State is not like other shareholders, who may lose faith in an asset and refuse to recapitalise, leading to its failure and liquidation. For an SOE, the State is always a last resort. The examples of Denel, which is seeking a further R5bn from government, and SAA which suffered a R6bn loss in the 2004 financial year, are two headline examples, though smaller SOEs continue to be inefficient and show poor returns on assets as well¹³.

If efficiency is the goal, then why does significant State ownership persist? If a public enterprise is efficient, why should the State continue to own it? Why not use divestiture to raise money for the State for debt reduction? Arguments about the “strategic” nature of certain assets need to be examined critically. Telecommunications used to be regarded as strategic, yet in a competitive environment the strategic importance of any one phone company becomes questionable.

Another way of looking at the benefits to privatisation is that value is locked in SOEs, and could be unlocked both for revenue and for enlargement of the private sector. “Unbundling” of large conglomerate structures is sometimes jocularly referred to as “privatisation in the private sector.” The sale of Iscor in 1980 is referred to earlier. Once privatised, the vertically integrated State iron and steelmaker continued to operate as one entity until it split into an iron ore mining company and a manufacturer in November 2001. This created two large new companies, Kumba Resources and Iscor. Kumba will itself soon be divided into two mining companies, one focusing on iron ore and titanium, and the other focusing on iron ore. As a result, government objectives of racial transformation will be achieved by creating the largest black-owned company on the JSE Securities Exchange and a new iron ore miner. It is difficult to see any government undertaking so radical a restructuring of assets.

Ultimately, “restructuring of SOE’s” has not meant the same as extensive “privatisation” in South Africa, nor for the foreseeable future is it likely to. There turns out to be quite a lot in a name.

¹³ Restructuring 2004

ABOUT THE AUTHOR

REG RUMNEY has been in charge of research into economic transformation generally and restructuring of State-Owned Entities, including privatisation. He has produced numerous research reports on restructuring, Black Economic Empowerment, investment and development finance, and written widely on these topics for various newspapers. As an executive director of the BusinessMap Foundation Board, he has also been responsible for private briefings of foreign investors, portfolio and direct, and presentations on BusinessMap findings to clients and at major conferences, domestic and international. A Print and broadcast journalist for many years before he joined the BusinessMap Foundation, he retains a keen interest in media matters. He is on the judging panel of the BusinessMap Empowerment Awards, as well as the Sanlam Financial Journalist of the Year Awards, and the Mail & Guardian Investing in the Future Awards. Representative on Press Ombudsman Panel of Appeal.