

Join the Campaign



**STOP
PRIVATISATION**

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Privatisation is when government hands over the management or assets of government services to private interests.



Government says this will lead to more efficient and better services for everyone.

But our experiences as workers are different.



- Privatised services don't provide well for the poor, who can't pay, because private interests must make profits. Government says it will ensure the poor get good services through contracts and regulations – but it doesn't have capacity to enforce them.
- Privatisation makes it harder to maintain cross subsidies. Cross subsidies mean rich communities or industry pay more, so that poor households can pay less. Getting rid of cross-subsidies tends to make the prices for services for the poor go up.
- Privatised companies don't take the broader economic needs of the country into account, for instance by buying goods locally as a way to create jobs, and providing affordable services in remote regions.
- Government just pushes for privatisation of all sorts, across the board, without a policy framework to ensure restructuring meets broader developmental national goals.
- It is difficult for the government to manage wholesale restructuring and privatisation. As a result, it is making a lot of mistakes, like paying far too much to foreign consultants and managers.

In the anti-privatisation campaign, COSATU demands:



- Government must stop privatisation at once, until it has a policy on restructuring the state. It must not privatise basic services or national infrastructure.
- The policy on restructuring the state must ensure improved services for our communities, especially for the poor. It must help keep and create quality jobs.
- Any proposal for restructuring that will require privatisation of any kind must be negotiated with parliament, community and workers organisations.



What is privatisation?

Privatisation takes many forms. But all these forms have one thing in common: they turn over the government's functions to private owners or managers. In the process, privatisation undermines the ability of the state to deliver basic services, like water or sanitation. It often leads to higher costs and worse quality services for the poor, and causes big job losses.

Examples of privatisation include:

1. Selling parastatals, sometimes called state-owned enterprise, to private owners. This has happened to some local-government bus companies and the state-owned forests. In the case of the forests, about 10 000 jobs were lost.
2. Selling shares in parastatals to “strategic partners” – usually foreign companies that are expected to make the enterprise more profitable and efficient. In fact, too often the foreign “partner” pursues its own interests at the cost of our country.

An example of this kind of privatisation was the sale of about 30 per cent in Telkom to U.S. and Malaysian firms. Even though the government owns a majority in Telkom, the foreign partner seems to have veto power over many of Telkom’s decisions – for instance on employment and investment. Since the foreign shareholder came in, local calls have increased in price by over a third, while international calls, which mostly benefit the rich and business, have fallen even more. And Telkom has lost over 15 000 jobs in the past three years.

3. Commercialising parastatals, which means making parastatals act like private businesses, looking above all to make a profit. Often, the first step is to register them as companies under the Companies Act, even though they are still government owned. This is what was done with Eskom under the Eskom Conversion Act, and with many city services, including water and electricity, under the iGoli 2002 process in Johannesburg. Once the parastatals have to start making profits like private business they start to resist serving the poor. Instead of being dedicated to a developmental role, they start acting like a private company.

*"Electricity is a privilege not a right" - salesperson for
ESKOM explaining why the company cut off
electricity to homes in Soweto.*



According to the Star, 4 June 2001, "Johannesburg residents will have to wait before they get their free 50 kW/h of electricity per month, as promised by the government.

"Eskom is first demanding R500-million from the government for the 'free' electricity it will provide. Since most of the disadvantaged areas of the city are served by Eskom, the City of Johannesburg has decided to suspend all free power until Eskom comes on board."

4. Letting private companies compete with parastatals that provide basic services. This policy effectively privatises the sector, rather than the parastatal itself – but it has the same effect. The private companies focus on serving the rich and big business, and cut costs to them; the parastatal has to compete, and so ends up neglecting the poor as well. As a result, it must also cut prices to the rich and business, and can no longer use those returns to subsidise poor households. That is the main reason for the increased price of local phone calls.

The government plans a similar path for electricity. It plans to sell 30 per cent of Eskom's electricity generating plants to private companies. The initial proposals were that the private generators could sell electricity directly to industry. The result would be that industry would no longer subsidise household use, and electricity tariffs for families would rise between 20 and 50 per cent. Government says it will not let



tariffs rise so much, but it still wants to privatise electricity – and it does not say how it will stop the cost from rising.

5. “Contracting out” or “outsourcing” support services in hospitals, schools and local government. That means that services that used to be provided by government employees are now provided by private employers. Outsourcing moves the workers concerned out of the public-sector bargaining unit. They lose their hard-won rights to decent pay, benefits and job security. Often the service provided gets worse. That is what happened when government outsourced the payment of old-age pensions.
6. It is also a form of privatisation when government makes people pay for services they historically got for free. This is happening in education. School governing bodies charge learners fees, and use the money to hire people, expand buildings and buy computers and other equipment. The schools with rich students get better qualified teachers, better facilities and materials. This perpetuates the inequalities inherited from apartheid, with the poorest schools still in the former homeland areas.
7. The current subsidy system for housing plays into privatisation. Government only gives subsidies to people to build private houses. It does not develop low-cost, government-owned rental housing, which could be more affordable and better quality.



How does privatisation affect working people?

Private companies don't want to serve the poor

Businesses take over government assets or services in order to make a profit. Even if government pays them a subsidy, they often skimp on service provision. After all, they can raise their profits and cut costs by cutting standards, especially for the very poor, who often find it hard to organise to demand better services.

This problem is particularly severe in South Africa, because we have very unequal incomes even compared to other developing countries. Moreover, because of apartheid, infrastructure is worst in the poorest communities – especially in the former homelands. That means that we are trying to improve infrastructure precisely in the areas where the people are least able to pay.

Supporters of privatisation argue that government can set targets for services by regulations or in contract with business. That way, they say, government can make sure private companies serve the poor. But government doesn't have the resources to monitor and regulate the private partner.

Once government has turned over its own delivery systems and staff to the private company, it is hard for government to go back to providing the service itself. It is in a weak bargaining position, and often ends up paying more and accepting worse standards for poor communities.

When government privatised pension payments, it set targets in the contracts, requiring that payments be prompt, with appropriate facilities for old people waiting for them. These targets have simply not been met.



Internationally, many local governments in poor countries, advised by the World Bank, have agreed to turn the supply of water over to foreign, private companies. These cities include Rio de Janeiro in Brazil, Gdansk in Poland and Manila in the Philippines. They signed long-term contracts to ensure the expansion of water services to the poor. In virtually every case, the company has insisted on renegotiating the contract after two or three years to reduce the targets.

In effect, the foreign company sweetens the pill of privatisation by agreeing to high targets initially. Only later, when the city itself can no longer deliver water, does the company say it can't deliver on the targets.

A few years later -

Sorry. We cannot meet the targets for extending water. And we have to increase the cost of water for the poor.

But we CANNOT provide water - the private water company agreed to do it, and our municipality does not have the pipes or the water supply or even the workers to do it ourselves!



WATER IS OUR RIGHT!

STOP

MAYOR

We can't pay for a water supply, and the company won't provide it.



One of the biggest companies involved in this type of negotiations is the Compagnie Lyonnaise d'Eaux (the Lyonnais Water Company), a French business. Despite protests from SAMWU, Johannesburg Metro just signed a long-term contract with this company to manage Johannesburg's water...

And government tells us that its not their business any more.

Privatisation often means retrenchment

Privatisation often leads to retrenchment, as the new owners try to cut costs. Unlike government, they don't take into account the cost of job losses for the economy and the society. Like private management generally, they often see retrenchments as efficient in themselves, even if alternatives could be found that would raise productivity without losing jobs.

Since it was partially privatised, Telkom has lost over 15 000 jobs to retrenchments and outsourcing. Yet in this case, Telkom management even signed an agreement that the partial privatisation would not lead to retrenchment.

Government also proposed leasing Spoornet's two most profitable rail lines, Orex and Coallink, to private companies

– and cutting up to 20 000 jobs in the rest of its system. But research by SATAWU proved that government would actually get higher revenues and maintain services better if it didn't privatise the lines, and now government is reviewing its plans.

Since 1994, the public service has lost over 100 000 positions. Some of these were due to outsourcing and privatisation, especially in the state forests and hospitals.



Last year I lost my job at Telkom. Today I'm hawking tomatoes for a living. This is NOT what I call a QUALITY job.

What happens to development?

Since the RDP, the democratic movement has argued that poverty in itself prevents economic growth and development. Poor people can't afford the basic services they need to get a higher income. These services include water, electricity, healthcare and education. Government must extend these services to working class communities in order to make it possible for people to support themselves. But privatisation makes it harder, not easier, to get services to the poor.



Similarly, rising unemployment makes poverty worse, adding to the problems we already face. Job losses due to privatisation and commercialisation made up a big part of the million jobs South Africa lost in the 1990s.

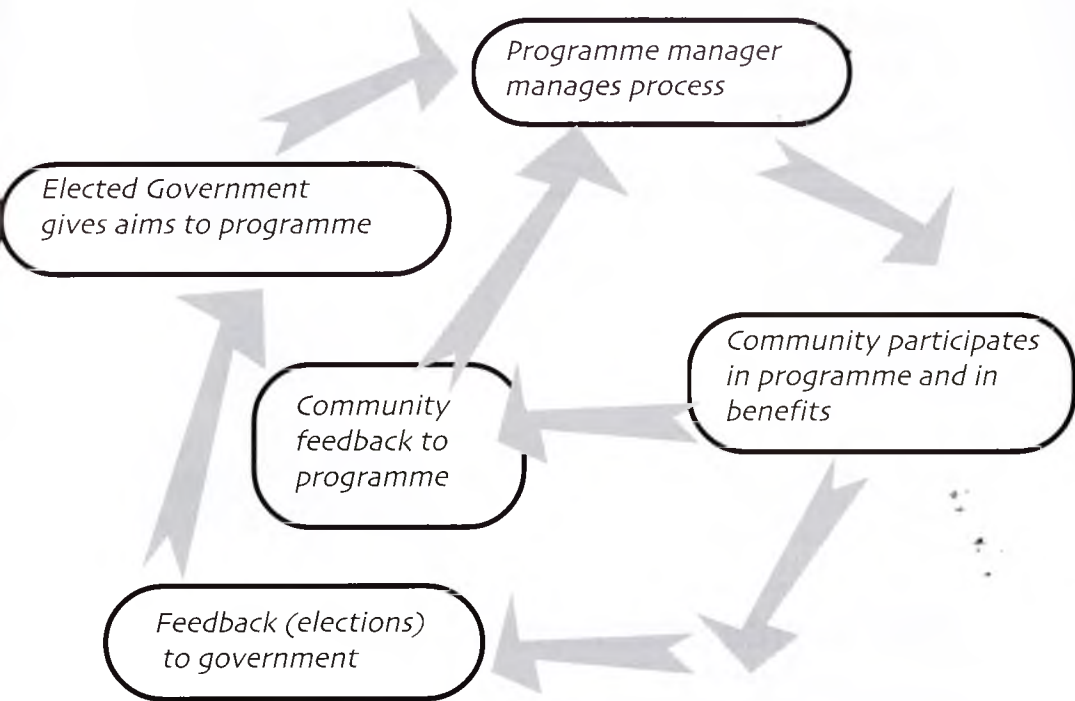
Most of the public-sector job losses affected lower paid workers in rural areas, where jobs are already in short supply. After all, in both the Northern Province and the Eastern Cape, the government is the largest single employer. As a result, the job losses worsened poverty and inequality.

Privatisation blocks participation

In a democratic state, the people give a mandate for what goods and services the state should provide, through elections for the government. Public service managers do not and should not have the power to decide what government will deliver or not. That has to remain a political decision.

Development programme managers must be empowered by government aims; community members must participate in the programme. The community must be able to give feedback to the project management, and to government through democratic elections.






One example of a developmental restructuring approach is the teacher redeployment exercise. This was introduced by the Education Department to equalise teachers, mostly between the previously well-staffed white schools and the neglected black rural and homeland schools. The process was developed through long negotiations between the government and teacher unions, agreeing on criteria for redeployment, and processes for complaints and redress. After several years, the process is now coming to completion, with thousands of employees accepting new positions.






But... if its really so bad, why does our government insist on privatisation?



We must privatise! Business knows how to run things RIGHT for our country! Government is slow and corrupt! Government should just govern - and let us businessmen run the economy!

Who wants privatisation, and why?

Business wants privatisation because it opens up new opportunities to make a profit – at the state’s cost. This is particularly important for big foreign and local companies, which get to buy our public assets cheaply.



As businessmen, we believe that private enterprise is always more efficient than government or state-owned enterprises. This is because private companies have to make profits, so we cut costs if we can, and try to meet customer demands.

Consultants and banks also make a lot of fees out of the privatisation process. For instance, consultants make millions out of advising government on how to privatise; and then the banks make more millions for helping government sell shares and assets. These groups maintain a constant pressure for privatisation.



As consultants, we believe government's job is to ensure that people get water and electricity. But we believe it is not government's job to deliver the services themselves. Government's job is to make sure that business looks after what should be BUSINESS's core job - which is to make sure that the goods and services are delivered. And the business gets a profit.

And thank you, we appreciate being paid millions of rands for that advice.

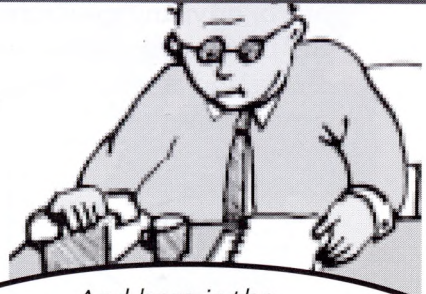
Privatisation is also important for some parts of black business, because it opens up new opportunities. After all, black enterprise is mostly shut out of much of the economy by bigger white companies. To compensate, many proposals for privatisation say they will sell government assets and services to black companies, in the name of black economic empowerment. This strategy undermines support for black economic empowerment. It ignores the fact that parastatals and the public sector now can do far more for black economic empowerment than private business.

As black business, OF COURSE we support privatisation. It gives us a way to become part of the movers and shakers of our economy, to become serious managers of the BIG stuff!



We as government SAVE money by cutting down the amount we need to put into services. Furthermore, private companies will make profits and build the economy by running these services for us. And when this builds the economy, the people we retrenched to make this privatisation work will also make profits. See? Everybody's happy.

National Treasury Official



And here is the consultants cheque (it costs very much more than we hope to save by following his advice..)

Another reason for privatisation is the GEAR economic strategy, which requires cuts in government borrowing and taxes. To make up for the cuts in these areas, the national Treasury wants to sell shares in the big parastatals, which will earn it billions – at the cost of services to the poor. It also pushes for “public-private partnerships” to provide infrastructure for local governments, hoping somehow to get private investors to make up for cuts in local government budgets. This is unrealistic – business won’t give us something for nothing. National government also encourages outsourcing as a way to cut costs – at the expense of workers who lose out on wages and job security.

Stop! I'm not happy!



So how do business people and government officials justify privatisation?



The new managerial approach

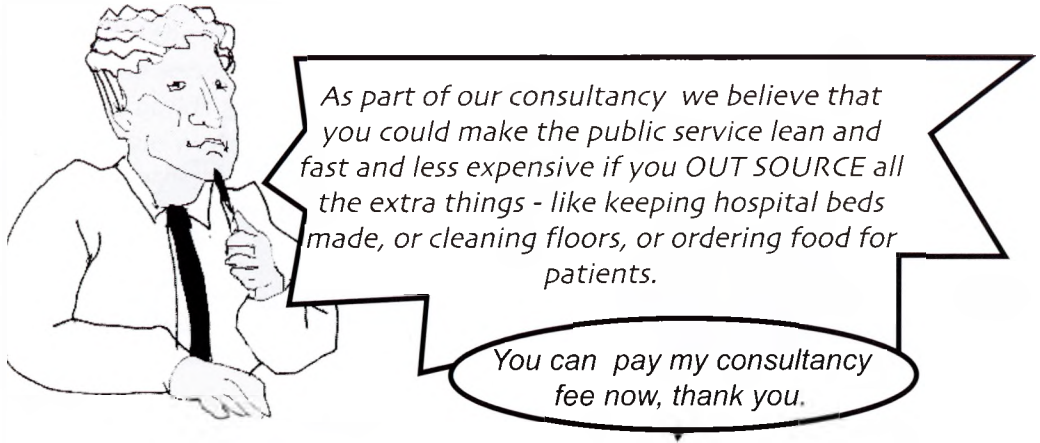
Government officials have adopted the new managerial approach to restructuring government. In this approach, private companies deliver the services and goods that government had committed itself to supply to the people - health, education, security, and basic goods such as water and electricity. The government is expected to only set the standards for the delivery. It can then sign contracts with the private provider to ensure those standards are met.

In South Africa, this approach has been promoted very heavily by consultants such as Price Waterhouse Coopers. If asked to help with public-sector reform, they generally start by defining the "core" requirements - which for government, they say, should be only ensuring people get services, not actually delivering them. They then say all other activities should be outsourced.

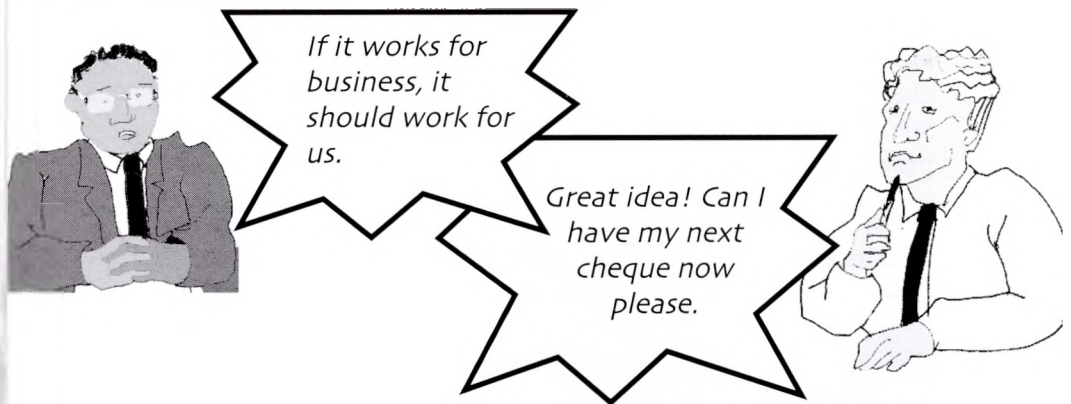
Outsourcing "non-core" services

The differences between "core" and "non-core" activities, and the practice of out-sourcing "non-core" activities, began in

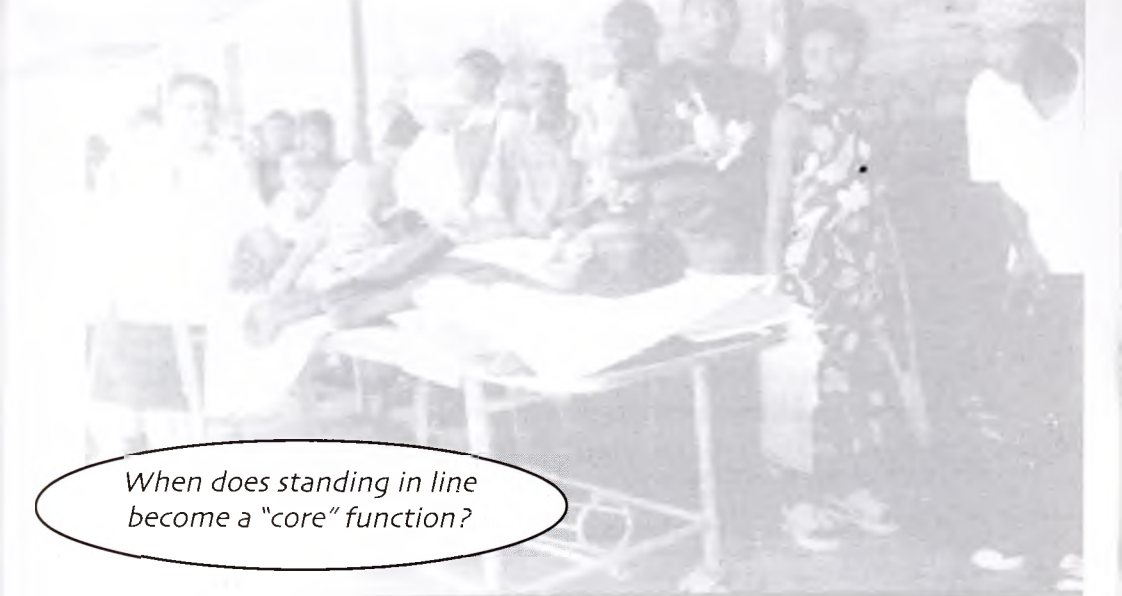
private business. Managers and owners would focus their companies on areas where they could make a profit and develop expertise. Everything else could be hired from outside the core business.



Then managers and consultants then took this idea over to the public service.



In the private sector, hospital owners may say providing good healthcare is the “core” business. They may outsource other services - catering, admissions, or cleaning laundry, for instance - if that will maximise their profits and efficiency by allowing them to concentrate on providing only healthcare.



When does standing in line become a "core" function?

But for a public health care patient, admissions food and laundry are an important part of the services provided by the hospital. These cannot be dismissed as "non-core" and left to the private sector - especially as the patient may then have to pay extra to get an acceptable level of service.

Also, when management defines restructuring in terms of "core" activities, they only define the structures they want in the end. They do not look at how to get there, and what the costs are. They do not find out the burdens for the community or for the workers. For instance, workers in the outsourced jobs may well lose their jobs. The quality of catered food in public hospitals may decline, and people find out they have to pay separately to eat well in hospital.

Very often, the result is that the privatisation and out-sourcing plans run into public opposition, and are never implemented.

For instance, the Northern Province Public Works has had plans to outsource 10 000 jobs for the past four years. Since it cannot do that, it has apparently done nothing to improve the services.

The role of the national Treasury



The national Treasury is one of the main supporters of privatisation. It hopes to make up for not budgeting enough to meet the needs of the people by bringing in private investors. It has called for the sale of shares in all the major parastatals in order to get more money for the budget.

The national Treasury has also pushed privatisation in the form of public private partnerships. In these so-called partnerships, the company helps build infrastructure in return for a profit for operating it – for instance, from rates for water or toll roads. For this reason, it has made some funds for local government dependent on setting up public-private partnerships. The National Treasurer gave Johannesburg R500 million on condition that it push through the iGoli 2002 restructuring plan over labour's objections.

COSATU argues that government must spend more, not by selling off assets, but by borrowing more and putting higher taxes on the rich. Rising living standards and better infrastructure will ultimately lead to more rapid growth, and borrowing and taxes can decline again.

Should basic services be bought and sold?

In essence, privatisation means that government turns much of the basic services over to business. Certainly this allows some business to make a profit. But it does very little to ensure they serve the poor.




After all, private interests are set up to provide services to those who can pay.

A concern for COSATU is that providing basic goods and services through the private sector leads to the “commodification” of basic services. That is, things that society used to provide without cost become traded goods and services, which people must pay for.

Commodification can undermine the commitment to universal provision of basic goods and services. It undermines the kinds of human relations we need to ensure social solidarity. It means that our society ends up, at least to some extent, providing basic needs through the market depending on who can pay.

We can see that already health care and education have been undermined by commodification, as a result of user fees and the increasing use of private sector suppliers in those areas.

STOP PRIVATISATION



Stopping privatisation is not enough by itself.

What we want

COSATU is opposed to privatisation because privatisation makes it impossible for the state to ensure social and economic development. Every state has to ensure administration and security for the people. But a developmental state also has four other functions, which require that it have strong resources and capacity.

1. The developmental state must **provide an adequate social wage** to combat poverty. Poverty in itself imposes great hardship. People cannot get jobs or find other ways to earn an income. The social wage – services that the government provides, like health, education, basic water, electricity and housing, as well as welfare grants – is critical to give people a basis for participating productively in the economy. Parastatals and local government, as well as government departments like health, education, welfare and police, must play a leading role in extending basic services to improve the social wage.
2. The developmental state must **establish a new growth path for the economy**. We need an industrial strategy to drive reconstruction and development. For that, we need good electricity, water, roads and telecommunications for home-based enterprise as well as big companies. It also means we need to strengthen the role of financial parastatals like the Industrial Development Corporation (IDC) in developing new

economic activities. COSATU supports sector job summits to define ways for each industry to create jobs and to develop sectoral strategies. The parastatals must help implement the agreements from the sector summits. They cannot do this well if they are privatised.

3. The developmental state must **ensure more equitable distribution of assets**. Critical programmes include providing infrastructure and housing, land reform, education and training, and support for small and micro enterprise. Again, parastatals and local government have a central role in this process.
4. Finally, the developmental state must **ensure greater democracy in the economy and the state itself**. We need to ensure that the majority of our people have a say in key economic decisions. One of the main ways to do that is to strengthen the role of the state to represent the people and drive development.

Clearly, the developmental state can only fulfil its role if it has enough resources and capacity. That means we do need to restructure many state agencies. But we do not need to weaken them, as privatisation does – rather, we must find ways to make them stronger and better able to meet the needs of our people.

To carry out this kind of restructuring, we need **developmental restructuring**, not the new managerialism.



Developmental restructuring requires;

- First, defining what the state agency should be trying to do, by setting targets, for instance to meet basic needs, and
- Second, broad consultation with those affected, including workers and communities, to determine the best way to achieve those aims.

Consultation takes time – but it leads to solutions that meet people’s needs better, without building in costs for the poor like retrenchment and higher costs for services.

With “developmental restructuring” government continues to own and control the processes of administering social protection. Private firms do not take over programmes previously run by the state. Instead, government brings new ways of management and working into government structures. For example, it brings:

- ways to stop corruption, and



- to make sure programme officials work closely with communities,
- and that communities participate in monitoring the programme's progress.

Front-line workers begin to take decisions that affect their own behaviour, rather than wait for bureaucrats far from the problem to make decisions. The community becomes more involved in the functions of the programme, rather than only accepting hand-outs at the end.

In our Section 77 notice of dispute to NEDLAC, we called for:

- An end to privatisation until a government policy is in place on restructuring the state.
- A policy on restructuring the state that ensures everyone knows about the proposals and has a chance to comment on them.
- A commitment from government to ensure that the relevant democratic structures – national or provincial Parliament, or the local city council – vote on any proposals to privatise government functions.



*If we do not achieve our aims, we cannot hope for development, job creation or growth.
We have developed a*

programme of action to back up our demands. These involve every affiliate and union members.

If conciliation at NEDLAC fails, the campaign will lead to a two-day general strike.



Talk to your union or COSATU local to find out how you can take part!

COSATU has called for a campaign to stop privatisation. But what is privatisation, and why do we oppose it?



This pamphlet discusses:

- Different forms of privatisation, and some examples
- Who wants privatisation, and why
- The arguments for privatisation, and why COSATU rejects them
- What you can do to support the anti-privatisation campaign.