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The Restructuring of State Owned Assets: Does it Pay?

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ABSTRACT

The debate around the privatisation of state owned assets has focused around economic efficiency gains and regulation. Very few studies have considered the fiscal impact of privatisation on the tax-payers. Even the few empirical studies conducted were done in industrialised countries where institutions and markets are well developed. This paper is an attempt to look at the fiscal impact of privatisation of state assets in South Africa. It focuses on the use of proceeds to reduce budget deficits. Telkom is used as a case study since it was recently listed on the JSE Securities Exchange and the New York Stock Exchange. The paper argues that that the privatisation of state assets leaves taxpayers worse off than before.

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1. INTRODUCTION

Since the 1980s governments all over the world are privatising their state assets following the example of Britain. The attraction seems to be the proceeds from the sales and the perceived idea that the private sector is more efficient than the public sector. Despite vast amounts of money involved, privatisation programmes have been adopted with little empirical evidence to support them, South Africa is no exception. In fact privatisation has been accepted as the right thing to do without questioning its motives. Unlike privatisation in industrialised countries, privatisation in African countries is usually prescribed by the World Bank or the IMF as a method of improving the fiscal position of governments who are short of cash. Not everyone agrees on the impact of privatisation of state assets on a country's fiscal position. On the one hand you have economists who argue that privatisation reduces the networth of the fiscus, on the other you have economists who argue that privatisation need not be a raw deal for taxpayers. You also get economists who argue that privatisation has no impact on the governments fiscal position.

The objective of this paper is to consider the implications of restructuring in South Africa from a fiscal perspective. The primary focus of the paper is the policy of using proceeds from the sale of State Owned Assets (SOE) to pay-off debt as this is one of the objectives for privatisation mentioned in South African public policy documents. The restructuring of Telkom will be used as a case study. First we will review literature and give a historical background of restructuring in South Africa, the methods of restructuring will be discussed, this will be followed by an evaluation of the impact of restructuring. The restructuring of Telkom will then be discussed this will be followed by concluding remarks and policy recommendations.

2. Literature review on restructuring/ privatisation

The (1987:8) White Paper defined privatisation as 'a transfer of appropriate functions, activities or property from the public to the private sector'. In South Africa the government prefers to use the concept of restructuring as opposed to privatisation as it refers to 'the matrix of options, that include the redesign of business management principles within enterprises, the attraction of strategic equity partnerships, the divestment of equity either in whole or in part where appropriate, and the employment of various immediate, turnaround initiatives', (DPE* 2000:4).

* DPE, Department of Public Enterprises

As such restructuring is not confined to the narrow definition of privatisation. At the enterprise level restructuring involves improving the efficiency and effectiveness of the entity, accessing globally competitive expertise, and assisting the creation of effective market structures in sectors currently dominated by SOEs. These include increased efficiency, enhanced service delivery, mobilisation of private sector capital, employment, human resource development and Black economic empowerment. The "Economic Focus" (1989) clarifies the concept of privatisation, and focuses attention on the issue of denationalisation of state assets in South Africa. It also analyses the aims behind such privatisations as well as the potential for success in this respect.

Brand (1988) suggests that privatisation in the US and the UK arose from fiscal pressures experienced by governments. This was the same motivation for the South African government in the 80's. At that time the government was faced with the worst financial and economic crisis in its history. The government needed money to pay back foreign loans, and also to finance the expensive upgrading project which was an important aspect of its reform process. The government also needed the money to provide more resources for Black councillors to improve on its credibility. Brand deals with different aspects of privatisation, from aims, to methods and constraints. He argues that privatisation could play a significant role in improving performance of the South African economy. He is opposed to the use of such proceeds to pay for current expenditure, although he recognises that governments that are short of cash can be tempted to indulge in such practices. He explores the possibility of using the proceeds from the sale of state assets to finance the provision of infrastructure and services in development. He argues that in order for the government to realise such potential benefits of privatisation it will require a careful choice and privatisation actions.

Truu (1988) deals briefly with the background against which the concept of privatisation acquired its popularity and the aims that are set by its proponents. The paper also discusses with the various forms which privatisation can take, some conditions for and side effects of privatisation, and some issues related to the use of the financial proceeds which governments obtain from privatisation. Maasdorp (2003) discusses privatisation, competition and regulation in the South African context. He focuses on regulatory reform, globalisation, technological change, economic efficiencies and the distributional impact of privatisation. He argues that the government will need to make the expansion of services to the poor an explicit political objective of restructuring.

Black and Baird (1997) are of the opinion that the sale of state assets will broaden the tax base and may help governments to break out of their fiscal deadlocks and improve the government's ability to provide goods and services. They further argue that the sale of big assets of the size of Telkom may generate huge funds which can be invested in wide range of basic services.

Butcher (2003) considers the rationale for privatisation and argues that private companies depend on customers for their income. They will try to improve their service as dissatisfied customers have a choice and can possibly take their business away, exposing the firm to the possibility of bankruptcy. Because there is no implicit government guarantee to private firms, the incentive to perform is strong. Privatisation can also improve the incentive to manage resources better. Butcher also discusses fallacies about restructuring and gives conditions for successful privatisation.

The literature available does not cover much on the impact of privatisation on the fiscal position of the government. Even the empirical studies conducted by Shirley and Walsh (2002) does not cover the case of developing countries. Their article surveys empirical literature on the performance of private and public enterprises. Boubarki and Cosset (1999) in their paper survey literature on privatisation with particular emphasis on the developing countries (DC). The article summarises empirical evidence of newly privatised firms in DCs, and provides new evidence for a subset of privatised firms in Africa. They sample 16 privatised firms in Africa, and the preliminary results suggests that privatisation improved the profitability of the firm, though not significantly. Efficiency decreased slightly but not significantly while capital expenditure rose significantly in the post privatisation period.

Some economists like Forysth (1994), Quiggin (1995) and Dombegger (1995) discuss the impact of privatisation on the public sector's networth. Forysth (1994) argues that privatisation will have no impact on the fiscal position of the government while Quiggin (1995) argues that privatisation reduces the networth of the public sector. He evaluates the fiscal effect on the following issues, poor implementation of the privatisation policies in the past, the equity premium, underpricing, fiscal illusion and the sovereign risk problem. He considers case studies in New Zealand, Australia and Britain. He finds that the savings in public debt interest associated with privatisation are insufficient to offset the loss to the public sector of the earnings of the enterprise concerned. Quiggin suggests a method to measure the impact of privatisation on the public's networth. In reply, Dombegger (1995) argues that privatisation can benefit the community. However, much depends on how the privatisation process is carried out.

Most of the empirical research is based on first world experience where capital markets are advanced and institutions are strong. Whereas the situation is different in South Africa because of its dual economy. Quiggin (1995) acknowledges this weakness in his paper and cautions against using the studies conducted industrialised countries in other developing countries. Most studies focus on the efficiency gains of privatisation, and not on its fiscal impact on taxpayers.

3. Historical background

The privatisation process in South Africa which started in 1987 was motivated by the financial pressures experienced by the government due to sanctions in the 80's, and the increasing burden of debt repayment, as opposed to efficiency gains. Trade unions at that time argued that privatisation was there to preserve apartheid, (SALB 1989:69). However, privatisation took a slow start. Restructuring started only earnest after the release of the macroeconomic policy document by the government in 1996 entitled, "Growth, Employment and Redistribution". The document closely follows the advise of the Washington Consensus. The main objective of the policy document was to grow the economy and create jobs. The document argued that this could only be done by reforming the economy through trade liberalisation, reducing the role of the state in the economy and applying tight fiscal and monetary policies. The rationale was that if the economic fundamentals were right, there would be an inflow of foreign investments due to the positive credit ratings. Restructuring of state assets was one of the major strategies used to reform the economy and to redistribute wealth.

This was followed by the release of the policy framework on Restructuring in August 2000, entitled "An Accelerated Agenda Towards Restructuring of State Owned Enterprises". The framework sets out the government's restructuring policy, strategy and objectives. The policy document cites some of its goals as improving on allocative efficiency, *budgetary relief*, and others. The minister of Public Enterprises made it clear that Government's strategy on restructuring is focused on the "big four" namely Telkom, Denel, Transnet and Eskom. As they comprise 91% of estimated total assets, provide 86% of turnover and employ 77% of all employees their restructuring will have a major impact on the economy, refer to table 4 in the appendix.

For the past nine years the government has implemented these macroeconomic policies, however, despite these changes the SA economic structure still excludes the majority from ownership of fixed assets. In the past the government focused its efforts on stabilising the economy and improving the efficiency of State Owned Enterprises (SOEs) through corporatisation. Now of late, more attention is being paid to promoting Black Economic Empowerment (BEE) in the overall economic strategy.

Restructuring in South Africa has been either partial or full or gradually staggered where successive SOEs were sold (table). However, the restructuring process has not gone without problems. The Congress of South African Unions is opposed to the privatisation process because of the inevitable jobs losses in the face of high unemployment rates. On the other hand business is complaining that privatisation is taking place at a slow rate.

4. Methods of restructuring SOEs

1. The public offering of sales of shares in SOEs
2. The private sale of shares in SOEs
3. Incorporating new, private investment into SOEs
4. The selling of shares of SOEs by liquidating the enterprise and thereby wiping out the outstanding debt
5. The fragmentation, or breaking up and/ or restructuring of SOEs into smaller companies and selling them separately
6. Management and / or employee buy-outs of SOEs
7. The leasing of SOEs to the private sector,
8. The partial contracting out to private sector of certain government activities
9. The distribution of vouchers to the public for buying shares in SOEs targeted for privatisation (Absa 2001).

In South Africa, no single method was followed in the process of restructuring. However, method 2, 7 and 9 have not been used as yet in South Africa. Restructuring has been dealt with an a case by case basis and has been gradual. Refer to table 9 in the appendix.

5. Telkom

Telkom is a dominant wireline operator in South Africa with 4,3 million access lines. It currently employs 35 000 workers, and has 16,752 fewer workers than it had in 1997 as at September 2002. See table 7. It is expected to shed more workers per year between the financial years 2003 and 2007, at which point Telkom should reach 158 employees per access line which is within the management target of 150 to 170[1] (Morgan 2003). Telkom SA Limited provides mobile and fixed line services throughout South Africa and other African states. It holds 50% of Vodacom's (mobile company) shares. It also has investments in Telkom directory services, its yellow and white pages business, Swiftnet, its wireless data application business.

Who owns what in Telkom	
Thintana	30%
Ucingo	3%
Staff	2%
IPO offering	27,7%
Government	39,3%

Source: Business Map

Currently the government is a major shareholder with 39,3% of the stake, 30% was sold in 1997 to Thintana Communications LLC (a consortium comprising of SBC Communications and Telkom Malaysia, and Vodacom's 31,5% equity shareholder Vodafone plc). In 1999, the sold a further 10% of Telkom to NEF (5%), 3% went to Ucingo (Investments representing 20% empowerment groups from all 9 provinces), and 2% was sold to staff and unions. In 2003, 27,7% was sold by free float. Ucingo was expected to deliver 360 telecentres over five years at a cost of R100 million. These centres would include telephones, photocopiers, computers, faxes and internet access. It was expected that the establishment of the telecentres by Ucingo and Telkom will make it possible to deliver on the provision of 2,8 million lines to the previously disadvantaged South Africans, (Morgan 2001).

Telkom was corporatised in 1995 and in 1997 the first sale took place to Thintana. Telkom and Thintana were assured of a five-year monopoly which expired in May 2002. The argument at that time was that Telkom needed its monopoly to spread its services to those whom apartheid had marginalized. One could ask the question that if those areas were profitable, and Thintana aimed to maximise its profits why would they have not expanded to those areas anyway. If it was realised that the areas were not profitable, the government should have subsidised them openly, instead of cross subsidising them secretly. Some economists have argued that the guaranteed Telkom monopoly, and the concomitant rise in costs, hindered the growth of

[1] The government was concerned that Telkom's productivity per employee was relatively low. At figures below operators in the OECD and Asian area, at 120 lines per employee.

Internet use in South Africa, thereby increasing costs for doing business unnecessarily, (Sunday Times 2001).

Initially it was planned that the Initial Public Offering (IPO) of Telkom would take place in the middle of 2000. However, at that the telecommunications market was weak, the listing of Telkom was then postponed. Despite fierce opposition from Cosatu, the war on Iraq and volatile markets, on 4 March 2003, Telkom listed on JSE Securities Exchange and the New York Stock Exchange, becoming the first Government enterprise to do so. 1,5 million South Africans registered for Telkom 's Initial Public Offering (IPO), however, only 127 000 private investors exercised that option. There was a Khulisa offer specifically aimed at increasing BEE participation offered at a 20% discount (R22.40), and other shares were offered at 5% discount (R26.20). Of the 139 million ordinary Telkom shares sold in the IPO, 9% went to SA retail investors. Of the 127 000 investors, 60% were on the Khulisa offer. This is a drop in the ocean if one considers the fact that 1,5 million registered to buy the shares, and the South African population of 42million. Cosatu may be justified in saying that the IPO will benefit only the wealthy people and not the poor.

6. The impact of restructuring Telkom

Once a state owned asset is sold, the budget deficit is immediately reduced. However, that asset is no longer there. Implying that there is short-term gain from the sale of shares, but a long-term loss from reduced profits. However, if these industries become more profitable by privatisation, the extra company tax will off set this long-term loss. This is not the case with Telkom as it was already paying corporate taxes.

Telkom is of interest because the first stage of sales in 1997 was to a foreign telecommunications company, Thintana, and not offered to the public. One would expect that the sale would fetch a higher price. However, the public sector suffered a loss as the shares were discounted and Telkom was allowed to remain a monopoly for five years. The losses are even higher because the gains do not accrue to the domestic private sector, which could possibly offset the losses.

If we take the case of Telkom, R4,5 million was realised from its floatation. At that time it was valued at R25 billion. If we assume that all the proceeds were transferred to national treasury to reduce interest, the bond rates are 10,6%, a saving of 477 million. The future value of Telkom is estimated at R45 per share, implying that a loss of more than 50% was incurred with the sale of

Telkom. However, this does not take into account the expenses incurred in floating Telkom, the retained earnings, the loss of future earnings. Telkom was a profit making entity over the past five years, and paid corporate taxes. There will be no significant gain by the government from its privatisation in terms of taxes. The future earnings of Telkom are more than the savings of interest payments to the government.

Telkom prices have since gone up, however, analysts caution against being over-optimistic as it is still early to evaluate the future performance of Telkom shares. Telkom still had much to prove to current and future investors that they can reduce their huge debt, and whether they can still grow their profits in an open competitive local market.

7. Under pricing

When a new company is floated the shares are sold at a discount. One is reason is to make sure that the flotation does not fail and the difficulty by the government to predict the market price of shares before their sale. If the price of shares is set too high, they may be unattractive to shareholders. Thus government is often criticised for pricing shares too low thus giving buyers a windfall gain. However, cheaper shares may encourage buyers to become first time shareholders, as in the South African case, at the expense of government revenues and taxpayers.

Quiggin (2002:4) argues that the problem with undepricing is the failure to evaluate SOEs properly. SOEs are evaluated at a their historical cost, retained earnings are not taken into account, and the cost is almost zero. When these assets are sold, even at a very low price, they produce illusory improvements of the governments' networth. The correct procedure would be to do a cost-benefit analysis to determine their value if they were to remain in the hands of the public.

When Telkom was floated, shares were sold at a discount at R28,00 relative to their market price of R45,00 (Morgan 2003) giving a discount of 38% to buyers. The shares were meant attract first time buyers, and to encourage BEE parties to buy them. The price of the shares has since gone up to R41,90 as at 12th of August. The people who benefited are wealthy buyers as they could easily sell the shares at a higher price the next day and make a profit. Poor people wouldn't have afforded them. The fact the Telkom shares were sold at such a huge discount reflects the fact that investors were risk averse. In order for investors to buy these shares they needed a higher return above the return on bonds. JP Morgan (2003) estimated the equity premium to have been 4 per cent for Telkom, while the R153 bond rate in April was 10,6%. Quiggin (1995) argues that underpricing the shares is a loss to taxpayers. However, Dombegger (1995) argues that it is unlikely that such a 'risk aversion' will occur again because the second round of shares will be sold at more realistic prices once privatisation becomes common. The valuation of new shares is always unpredictable and can be sometimes be affected by events outside the control of the government. A case in point in South Africa is the floating of Telkom during the Iraq war, the decline in the market for telecommunications globally and the negative image of emerging markets like South Africa.

9. Applying the proceeds of restructuring

In South Africa most of the proceeds are transferred to the treasury and used to reduce budget deficits or dissaving. The problem with this is that the proceeds from selling state assets are non-recurrent in nature and they commonly used to pay for expenses that recur. A recent example is the recent sale of Aventura resorts. The first three Aventura resorts were sold for55 million in 2001 and the proceeds were used to pay the company's overdraft with ABSA. Governments are aware of this weakness, however, when they are in desperate need of cash they are unlikely to avoid such unsound practices (Truu1988:244). Such a sale could result in a transfer of public debt to the private sector. Truu suggests that proceeds could be used to finance infrastructure and support of small businesses and can be more beneficial to the economy as a whole if they are put to proper use. However the conditions of their use will have to be put in writing.

One of the government's objectives for restructuring state assets as stated in the Accelerated Agenda and GEAR is to reduce budget deficits and Public Sector Borrowing. The argument is that "privatisation will free up resources into the capital markets to aid infrastructure investment. The government borrowed heavily leaving no room for the private sector to raise money on the capital market. The private sector has to rely on equity and bank financing. privatisation would result in the crowding in of private sector investment", (National Treasury 2001). Reducing Public Sector Borrowing Requirements by privatisation should make more finance available to be lent to the private sector, and this should stimulate investment and growth. However, it does not do this, since the money released is simply being used to but the privatisation shares and is not being diverted to the rest of the industry.

Forsyth (1994) argues that selling state assets will not reduce the public sector's networth. The argument is based on the equivalence hypothesis. If we assume that the profits of the enterprise are unaffected by privatisation, and investors discount returns at the real government bond rate, the sale price of the enterprise will be exactly equal to the expected present value of the flow of profits it generates. However, in real life investors use discount rate well above the bond rate, because of the perceived risks resulting in SOEs being sold at a huge discount.

Privatising SOEs directly reduces PSBR however, the problems is that the nation's capital assets are being sold to finance *current expenditure.* This creates fiscal illusion. According to Quiggin (2002:4) "fiscal illusions arise when government accounting conventions make privatisation appear beneficial to government even though the asset is sold for less than its true value. There are two main sources of fiscal illusion:

(i) In traditional Government Financial Statistics account systems; the proceeds of asset sales are treated as revenue (or negative expenditure) for the year in which the sale takes place. This is inconsistent since the earnings stream from the asset is foregone indefinitely into the future

(ii) In modified systems, interest savings from the repayment of debt may be compared with dividends foregone. The problem here is that it is earnings that are foregone, including retained earnings as well as dividends".

Because the budget is a cash flow implies that capital and current expenditures are not differentiated. Thus when assets are sold they are treated as current income, which is incorrect. In conventional accounting, the sale of a fixed asset is recorded as an extraordinary item in the income statement, and not as income for that period. The appropriate comparison would be the flow of savings in interest on debt arising from privatisation and the flow of earnings, this would include capital gains that would have accrued in the absence of privatisation.

The problem of treating proceeds from the sale of SOE as current income, has since been recognised by governments in the UK and Australia, and now use the accrual system. However, when the benefits of the accrual system appear to be unfavourable to the politicians, the method is abandoned for the cash flow system. South Africa is still using the cash flow system and proceeds are recorded as a reduction to budget deficits. According to (Quiggin 1995:24) the budget deficit is simply a measure of cash flow and is confined to the 'budget sector'.

In South Africa budget deficits have already been reduced from 5% of gross domestic product (GDP) in 1996/97 to 0,8% of GDP in 2002/03 and public sector borrowing requirements has fallen from 5,9% in 1996/97 to 1,4% in 2002/03. PSBR is expected to rise to 3,1% in 2003/04. The reduction of budget deficits and reduction in PSBR is said to have improved South Africa's country risk premium. There is no pressure to sell SOEs in order to reduce budget deficits. The level of budget deficits is already below the 3% (see table) prescribed by the European Union for its member countries, far below what some of the EU members countries are able to keep. Another aspect is the lack of absorptive capacity of government departments at a provincial and local level. Budgets remain unspent for a long time, and the following year more is allocated for spending irrespective of the spending history. Luckily the government is looking at ways to improve on capacity to spend by provincial departments and local government. Besides, the collection rate of taxes has improved vastly in the last few years thus improving the fiscal position without proceeds from selling SOEs, refer to tables 1 and 2.

Table 1: Budget deficits as a percentage of GDP

Year	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03	¾
B/D as a % of GDP	-4,5	-4,7	-4,9	-3,8	-3,7	-2,0	-2,0	-1,5	-1,4	-2,4

Source Budget Review, and the Quarterly Bulletin various issues

Table 2: Public sector borrowing requirement (PSBR) as a percentage of GDP

Year	97/98	98/99	99/00	00/01	01/02	02/03	'03/04
PBSR	4,5	3,5	1,0	1,3	0,7	1,4	2,7

Source Budget review 2003

10. Risk

Now that Telkom is privatised, it will be exposed to some risks that did not exist before as a monopoly. It is exposed regulatory risk, sovereign risk, the risk of litigation and the risk from competition from the Second Network Operator (SNO) and Sentech. Mobile telephones also pose a problem as they can also replace fixed lines.

When the government restructures an SOE it cannot transfer all the risk to the new owner, especially for utilities that offer essential services. It would not allow such an enterprise to go under because of it provides essential services, thus the risk is internalised. A case in point is the recent announcement by the government that it would guarantee the debt of the national airliner, South African Airways (SAA), as it is technically bankrupt. This is not the first time that SAA has been in financial trouble, and there is no guarantee that it would not be in trouble in the future. The government is hoping to privatise it in the future. Some of the losses experienced by SAA were beyond its control. Some of them were due to currency flactuations. Experience shows that private entities are not good at dealing with macro risks. If the government decides turn SAA around to be profitable again and then sell it, it would be to the benefit of taxpayers, (Quiggin 1995).

Sovereign risk relates to the possibility that there can be a change in policy in the future. Because of the low price that investors paid, investors may be concerned about the possibility of renationalisation. It is not clear how much losses investors would incur under renationalisation, however the losses could be huge. The government could buy back the shares at a price that they were sold at and not their market value. This is not an improbable situation in South Africa as the country is still a new democracy and initially the ANC had threatened to nationalise the mines and other strategic businesses. The government is also in an alliance with COSATU and the South African Communist Party (SACP). It is possible that with the elections coming in 2004, the new government could decide to be more socialistic in order to alleviate the massive poverty, and to redistribute more to the poor. However, Forysth (1993) argues that sovereign risk and regulation can sometimes be exaggerated.

Regulation risk refers to the fact that a privatised enterprise may still be subject to regulation. The government may promise to allow the enterprise to draw generous profits when it purchases the enterprise. However, with time the government may tighten regulation in response to high profits due to a windfall, and leave shareholders to deal with losses in difficult times. The government cannot promise to commit to such an agreement as it may reduce the social welfare of consumers. Regulation risk can be very huge and needs to be taken into account before an entity can be purchased. The government may have an incentive to tighten regulation to protect consumers against huge profits in response to favourable shocks in the economy, and may turn ignore losses due to unfavourable shocks thus leaving shareholders to bear the loss.

Telkom is expected to deliver the essential service of telecommunication. The government cannot absolve its duty to regulate it; hence private bidders offered a low price for the sale of Telkom. However, the fact that Telkom is now privatised does not imply that government risk is significantly reduced since Telkom is regarded s too important to be permitted to fail. The implication of this is that taxpayers have lost twice in this deal. First when Telkom assets were sold at a discount, and the government is still left with the large contingent risk exposures.

11. The performance of Telkom

Since Telkom was listed the share prices have gone up. Despite the improvement in the price of Telkom shares, foreign investors may not be keen on investing in the South African market due to the poor environment for emerging markets investments. The rapid slowdown in world economy is also not appealing to foreign investors. More importantly the demand for telecommunication shares could have reached a saturation point.

Telkom was corporatised in 1995 and 30 per cent was sold in 1997 to Thintana. The time lapse between corporatisation and privatisation was very brief. The profits that were realised by Telkom since corporatisation suggest that it could have realised higher profits even if it continued as an SOE. It is impossible that Telkom could have been turned around in two years, see table 9 in the appendix.

The privatisation of Telkom can be followed by a decline in safety and reliability of infrastructure services. The cost reductions have concentrated on overstaffing in areas such as maintenance and the elimination of redundant capital capacity, commonly referred to as ‘gold plating’. Usually cost savings achieved in this way involve losses of reliability and in some cases safety, as was shown in the case of the failure of the privatised British Railtrack, where 4 passengers were killed. In fact the government is considering renationalising them. In South Africa, the political costs of such failures can be huge. No wonder the South African government is delaying the privatisation of Spoornet after recent fatal accidents in the rail system.

11. The case for renationalisation and nationalisation

There is also a growing disillusion with the performance of some of the privatised firms, which could further dampen the interest in privatisation. Britain is a leader in privatisation, however, its record of privatisation in creating shareholder value is very poor. Initially the investments appeared to be good as they were underpriced, however, with time, when they were compared to other investments they have been found to be a poor investment, (ABSA 2001).

This concept of nationalisation seems impossible and unheard of. However, the poor perfomance of some privatised entities has made governments to reconsider not to privatise or to renationalised previously privatised entities. Nationalisation and renationalisation has taken place on a significant scale in the US with nationalisation of the airport security, the railway system owner Railtrack in the United Kingdom and the establishment of a new publicly owned bank in New Zealand, electricity in California. In Australia there is a suggestion that the government may re-enter the insurance business following the collapse of HIH insurance and United Medical Protection.

If institutions like regulatory bodies like ICASA and the government are not well developed, and there is market failure, this could lead to costly failures under privatisation. “The decline of Britain’s rail service since privatisation illustrates how ownership without responsibility for maintenance or incentive to run less profitable lines brings ruin. The death of 4 passengers in a derailment was attributed to criminal negligence and mismanagement; the operator Railtrack confessed that the national network was close to collapse”, (Absa 2001).

12. POLICY RECOMMENDATIONS

Any future restructuring of public sector services will need to be preceded by a cost benefit analysis of its impact on the fiscus and the poor.

In the case of South Africa if we assumed that SOEs were not profitable and hence the need to restructure them. The available option for the government would be to:

(i) reform the enterprises to increase profitability, for example by reducing excess employment or increase the production capacity as Cosatu (2001) suggests.

(ii) privatise

(iii) close the enterprise down

(iv) give explicit budget subsidies for community service obligations, but do so transparently, not as it was done in the case Telkoms’ sale to Thintana. However, we suggests that (i) should be tried first before the other methods of restructuring can be effected.

13. CONCLUDING REMARKS

The debate on privatisation or restructuring in industrial countries has shifted more towards regulation, competition and occasionally to renationalisation. Whereas in developing countries, like South Africa, we are still grappling with issue of the benefits of privatisation. Despite the fact that we are still lagging behind industrialised countries in privatisation issues, there are lessons to be learnt still from the experience of industrial countries like New Zealand, Australia, Britain and transformation countries like Russia and China.

The fiscal impact of privatisation has been downplayed, instead arguments that favour privatisation emphasise the fact efficiency is increased for the enterprise and the country as a whole. We do not doubt the superior performance of privatised and private enterprise as compared to the performance of SOEs. However, we argue that restructuring may be conducted for the wrong reasons or may be poorly informed. In fact we agree with Stiglitz (1999) when he says that the benefits of privatisation may have been exaggerated, and the political costs underestimated. In fact if a public enterprise were to be reformed and be exposed to competition and be privately managed, the differences between a privatised and a public entity may be minimal. We argue that you do not necessarily need to privatise an entity to realise its efficiency gains. There are other avenues are available that can yield the same results as privatised or private enterprises. We are not convinced that selling of state owned assets improves the networth of the public sector.

The fact that BEE was specifically an aim of listing increases the possibility of further skewing the income distribution amongst Blacks themselves. A case in point is the controversy around the Komatiland forestry privatisation. Cosatu argued that offering BEE companies' stakes in the privatised entities only enriched a few black businessmen and the whole process itself will, lead to corruption. In South Africa too much emphasis is placed on ownership in the form of BEE at the expense of other social goals. Change of ownership can have a significant impact on performance, however, ownership alone won't make an SOE more efficient without competition.

"The challenge is to liberalise while at the same time overcoming the developmental difficulties of delivering basic services to the majority, (Sowetan May 28 2002).

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APPENDIX

Table 4: State-Owned Enterprises

Enterprise	Assets (Rm)	Turnover (Rm)	Income (Rm)	No. of employees	Status	Year to end	Return on Assets
Acsa	3,157	1,335	410	1,778	Partially privatised	March-01	13.0%
Alexkor	132	269	**-45**	691	Fully owned	June-01	**-34.1%**
Armscor	462	629	13	935	Fully owned	March-02	2.8%
Freight-dynamics	355	589	**-124**	2,800	Transnet subsidiary	March-01	**-34.9%**
Aventura	132	152	**-17**	2,100	Fully owned	June-01	**-12.9%**
DBSA?	18,010	920	593	430	Fully owned	March-02	3.3%
Denel	4,001	3,953	**-363**	10,768	Fully owned	March-02	**-9.1%**
Eskom	76,909	26,112	2,561	33,032	Fully owned	December-01	3.3%
Findevco	3,148	339	140		IDC subsidiary	June-01	4.4%
Foskor	2,409	1,129	276	2,079	IDC subsidiary	June-01	11.5%
Konoil	6,483	228	228		IDC subsidiary	June-01	3.5%
IDC	27,965	3,679	**-258**	424	Fully owned	June-01	**-0.9%**
Impofin	2,147	160	57		IDC subsidiary	June-01	2.7%
Land Bank	18,353	2,259	344	944	Fully owned	December-01	1.9%
Metrorail	119	1,884	79	9,668	Fully owned	March-01	66.4%
Petronet	3,389	685	261	614	Transnet subsidiary	March-01	7.7%
Portnet	13,319	5,021	1,825	10,800	Transnet subsidiary	March-01	13.7%
SA Post Office	2,237	3,377	**-866**	25,943	Fully owned	March-01	**-38.7%**
Rand Water	4,762	2,180	86	3,249	Fully owned	June-01	1.8%
SAA	10,736	10,839	408‡	10,546	Renationalised	March-01	3.8%
SABC	1,676	2,173	7	3,097	Fully owned	March-01	0.4%
Safcol	734	645	35	4,043*	Fully owned	June-01	4.8%
Sasria	1,084	425	234	12	Fully owned	December-01	21.6%
Spoornet	14,969	10,302	309	36,148	Fully owned	March-01	2.1%
Telkom	**55,014**	**33,970**	**1,972**	**43,797**	**62,3% private**	**March-03**	**3.6%**
Transnet	58,526	31,740	3,287	86,100	Fully owned	March-01	5.6%
Total	**330,228**	**144,994**	**11,452**	**289,998**			**3.5%**

** Permanent staff. 7753 in total with temporary staff* *‡ As stated in Transnet annual report*

? The Development Bank of Southern Africa

[Source: The BusinessMap Foundation]

Table 5: SOEs excluding financing institutions

Enterprise	Assets (Rm)	Turnover (Rm)	Income (Rm)	No. of employees
Acsa	3,157	1,335	410	1,778
Alexkor	132	269	-45	691
Armscor	462	629	13	935
Freightdynamics	355	589	-124	2,800
Aventura	132	152	-17	2,100
Denel	4,001	3,953	-363	10,768
Eskom	76,909	26,112	2,561	33,032
Foskor	2,409	1,129	276	2,079
Konoil	6,483	228	228	
Metrorail	119	1,884	79	9,668
Petronet	3,389	685	261	614
Portnet	13,319	5,021	1,825	10,800
SA Post Office	2,237	3,377	-866	25,943
Rand Water	4,762	2,180	86	3,249
SAA	10,736	10,839	408	10,546
SABC	1,676	2,173	7	3,097
Safcol	734	645	35	4,043
Spoornet	14,969	10,302	309	36,148
Telkom	**55,014**	**33,970**	**1,972**	**43,797**
Transnet	58,526	31,740	3,287	86,100
Total	**259,521**	**137,212**	**10,342**	**288,188**

[Source: The BusinessMap Foundation]

Table 6: Main SOEs ranked by assets

	Enterprise	Assets (Rm)	Turnover (Rm)	Income (Rm)	No. of employees
1	Eskom	76,909	26,112	2,561	33,032
2	Transnet	58,526	31,740	3,287	86,100
3	Telkom	55,014	33,970	1,972	43,797
4	Rand Water	4,762	2,180	86	3,249
5	Denel	4,001	3,953	-363	10,768
6	Acsa	3,157	1,335	410	1,778
7	SA Post Office	2,237	3,377	-866	25,943
8	SABC	1,676	2,173	7	3,097
9	Aventura	132	152	-17	2,100
10	Alexkor	132	269	-45	691
	Total	**206,546**	**105,261**	**7,032**	**210,555**

[Source: The BusinessMap Foundation]

Table 7: Parastatal Jobs 2000-2001

Enterprise	2001	2000	Jobs gained/lost
Acsa	1,778	1,710	68
Alexkor	691	666	25
Armscor	935	958	**-23**
Aventura	2,100	2,100	0
DBSA	430	425	5
Denel	10,768	11,090	**-322**
Eskom	33,032	35,707	**-2,675**
IDC	424	391	33
Land Bank	944	900	44
Metrorail	9,668	9,706	**-38**
SA Post Office	25,943	28,633	**-2,690**
Rand Water	3,249	3,235	14
SABC	3,097	3,140	**-43**
Safcol	4,043	5,362	**-1,319**
Telkom	43,797	49,128	**-5,331**
Transnet	86,100	90,514	**-4,414**
Total	**226,999**	**243,665**	**-16,666**

[Source: The BusinessMap Foundation]

Five-year financial review

For the year ended March 31,	1999 ZAR	2000 ZAR	2001 ZAR	2002 ZAR	2003 ZAR	2003 US$[1]
Amounts in accordance with IFRS	*(unaudited)*					
Income statement data						
(in millions, except per share amounts)						
Operating revenue	23,029	27,113	31,352	34,197	37,600	4,759
Operating profit	3,436	3,908	4,984	4,191	6,514	824
Profit before tax	2,565	2,041	2,405	2,153	2,784	352
Profit after tax	1,908	1,540	1,690	1,280	1,735	219
Net profit	1,853	1,527	1,622	1,221	1,630	206
Number of ordinary shares outstanding (millions)	557	557	557	557	557	557
Basic earnings per share (cents)	332.7	274.1	291.2	219.2	292.6	37.0
Dividends per share (cents)	98.1	59.6	–	–	–	–
Balance sheet data						
Total assets	37,420	47,276	53,537	55,208	53,154	6,729
Current assets	7,580	11,010	12,674	10,997	9,921	1,256
Non-current assets	29,840	36,266	40,863	44,211	43,233	5,473
Total liabilities	24,496	33,879	38,449	38,243	34,612	4,381
Current liabilities	12,985	14,371	15,303	12,646	14,108	1,786
Non-current liabilities	11,511	19,508	23,146	25,597	20,504	2,595
Minority interests	84	47	116	133	194	25
Shareholders' equity	12,840	13,350	14,972	16,832	18,348	2,323
Cash flow data						
Cash flow from operating activities	6,123	4,917	6,165	8,171	9,748	1,234
Cash flow used in investing activities	(12,658)	(9,107)	(9,964)	(9,250)	(5,731)	(725)
Cash flow from/(used in) financing activities	6,383	5,051	3,439	66	(3,026)	(383)
Other data						
Headline earnings per share	n/a	199.9	341.8	299.3	314.0	39.7
Net asset value per share (cents)	2,305.1	2,396.6	2,687.8	3,021.7	3,293.9	416.9
EBITDA	6,387	8,082	10,036	9,599	12,807	1,621
Total debt	n/a	21,974	26,268	25,401	22,417	2,838
Capital expenditures excluding intangibles	12,690	9,461	9,889	9,004	5,712	723
EBITDA margin (%)	27.7	29.8	32.0	28.1	34.1	34.1
Operating profit margin (%)	14.9	14.4	15.9	12.3	17.3	17.3
Net debt to equity (%)	n/a	141.1	144.3	129.9	109.5	109.5
Capital expenditure to revenue (%)	55.1	34.9	31.5	26.3	15.2	15.2

1. Convenience translation at a rate of R7,90 = US$1.

TABLE 9

Proceeds from the restructuring of state owned enterprises as at 4 March 2003

State Owned Enterprises (SOEs)	Date of transaction	Stake sold (%)	Total proceeds R million	Proceeds paid to exchequer R million	Type of rest
SABC radio stations	March 1997	100	510	510	SEP/BEE
Telkom	May 1997	30	5 631	1 165	SEP/BEE
Sun Air	Nov. 1997	100	42	21	BEE
Airports Company	June 1998	25	1 035	1 035	SEP/BEE/E
South African Airways	July 1999	20	1 400	611	SEP
Connex	August 1999	100	15	-	SEP/BEE
Sasria[2]	February 2000	Special restructuring dividend (SRD)	7100	7 100	Restructurin
Sasria	April 2001	SRD	3 200	2 200	Restructurin
MTN[1]	June 2000	6	2 400	2 000	BEE
Transwerk Perway	September 2000	65	19	-	SEP
SAFCOL					
Kwazulu Natal	October 2000	75	100	75	SEP/BEE
Eastern Cape North	October 2000	75	45	-	SEP/BEE
Telkom: Ucingo	March 2001	3	565	565	SEP/BEE
Transnet: MTN[1]	January 2002	20	5 300	2 000	SMP
	August 2002	-	-	1 100	
Denel	July 2002	51	50	-	SEP
Apron Services	October 2002	51	117	-	
Aventura	January 2003	-	29	-	BEE
Telkom	March 2003	27,7	4 300	4 300	BEE
Total			**31 858**	**23 132**	

Sources: Budget Review, JP Morgan and Telkom SA , [3](BEE) Black Economic Empowerment, (SEP) Strategic Equity Partner, (ESOP) Equity Share Ownership Programs

[2] Inclusive of Secondary Tax on Companies

[3] BE