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Economy & Business

PRIVATISATION

ONE SIZE DOES NOT FIT ALL

Government has to work out strategies for many enterprises

The trade unions' vociferous opposition to privatisation of State assets has tended to overshadow a more complex issue; one with which government is already grappling, even as it beats off the unions' populist campaign: how it should go about restructuring and privatising 312 parastatal enterprises of vastly different functions and importance to SA society.

There is no single privatisation blueprint. Most of the enterprises are small and obscure; others are among the largest, most visible businesses in the country. It is one thing to privatise an Aventura leisure resort, quite another to break up and sell electricity utility Eskom to outsiders who may place profit ahead of service in power generation and distribution. The State plans to sell about 30% of Eskom by 2008, when the utility will no longer have an overcapacity.

The decline of Britain's rail service since privatisation amply illustrates how ownership without responsibility for maintenance or incentive to run less profitable lines brings ruin. The death of four passengers in a derailment near Hatfield, north of London, last October was attributed to criminal negligence and mismanagement; operator Railtrack confessed that most of the national network was perilously close to collapse. Its share price has slumped to one-fifth of what it was.

For these and other reasons, the SA government prefers a mixed-economy approach to restructuring that gives the State a say in improving efficiencies and providing sustainable and better services at affordable rates.

Wholesale selling of State-owned assets in developing countries, as the World Bank once advocated, will not work in SA, says Public Enterprises director-general Sivi Gounden. Government has obligations such as extending electricity, transportation and postal services across the country. This calls for some State involvement in the economy.

Critics accused Public Enterprises Minister Jeff Radebe of recidivism when he shied away from the term "privatisation", preferring to speak of "restructuring". Such criticism is unwarranted, says Gounden. Government has invited minority strategic equity partners into ailing State-owned enterprises, such as core asset Telkom, to inject new technology and expertise.

But Gounden is caught between two stools. He has a hard time assuring the unions of a need for such partnerships, as they are instinctively opposed to any measures that decrease the State's role in such entities. And the private sector wants the State to withdraw completely.

The theory goes that open markets bring more competition and hence lower prices and better services. There is no dispute about this; government has accepted the ideal as integral to the restructuring. But government has a broader responsibility to ensure social services are provided; it does not want competition to be an end in itself but a means to achieving development and better efficiencies. Balancing the liberalisation of the economy with development needs, including black economic empowerment, slows the pace of restructuring and makes the challenge harder than a quick sale of assets.

Then there is the question of the proceeds of privatisation. There is considerable pressure on State officials to deliver to the treasury rather than reinvest in the utilities. Finance Minister Trevor Manuel may want more funds for government, but Ministries responsible for the utilities may feel reluctant to make quick money the object of the exercise.

Government's handling of the privatisation proceeds makes sense, says Standard Bank economist Goolam Ballim. The gains made from debt reduction will pave the way for lower taxes and more infrastructural development. Where recapitalisation was necessary, he points out, Manuel supported it. Telkom, for instance, got R700m for recapitalisation from the R961m acquired by selling 30% equity to private partner Thintana.

To date, more than R12bn of restructuring proceeds has gone into servicing the national debt. Manuel is expecting a further R18bn next year, mainly from the Telkom listing and the sale of M-Cell shares. Because of devaluations of M-Cell and Telkom, he may not get the full amount from that package, but may cover the shortfall with the R3bn from its short-term risk insurer, Sasria.

The restructuring programme has had a rocky ride, with spectacular failures such as the collapse of Sunair, the failed attempt to sell State forestry assets, costly turnaround experts who did more harm than good and management contracts that have not performed as promised. More recently, the confusion over telecommunications policy has raised doubts over the listing of fixed-line operator Telkom, and devalued JSE-listed M-Cell, which wants to bid for the licence to compete with Telkom, by R6bn.

Gounden acknowledges the setbacks but says government is back on track. Despite the hitches, he says, Telkom will be listed this financial year. Denel, Eskom and Transnet have also made substantial progress.

Denel's restructuring is proceeding well and 25%-30% may be sold to preferred bidder British Aerospace. The foreign partner may buy directly into the Denel Group or into Denel Ordnance. But the British company may not be interested in the Rooivalk attack helicopter; government may have to consider washing its hands of the project. Negotiations will begin soon and are expected to last six months.

French company Turbomeca has been identified as the strategic equity partner for Denel Aerospace's Airmotive Division. This deal, too, is expected to be in the bag this financial year.

As already indicated, Eskom's privatisation will not take place soon. Gounden says it makes more sense to bring in the private sector when capital will be needed to build more power plants. Eskom's overcapacity will run out in 2007 and there will then be a need for more power stations. The process to dispose of 30% is expected to start in two years.

Meanwhile, Eskom will continue as a comfortable monopoly. Its performance has been good and it is one of the cheapest suppliers of electricity in the world. It is not a drain on government resources, like many other utilities, so there is no urgent need for a fix. Furthermore, Eskom's corporatisation, approved in June, will make it more responsive to fiscal demands. It will start paying dividends and taxes to government from this year.

Transnet, on the other hand, may be set back by subsidiary SA Airways (SAA), which is expected to post a loss. On the positive side, its pre-1994 pension fund debt, which was an obstacle to restructuring, has been reduced. But though former SAA CEO Coleman Andrews walked away with R232m, his promised turnaround may not arrive. The true state of the airline may be revealed only when the results are released, perhaps within the next few weeks. Meanwhile, government has put on hold its plan for an initial public offering in September 2002.

Portnet has kept within the restructuring timeframe. It has split into two separate entities, a Port Authority, which will serve a regulatory function, and a Port Operator. The previous structure was unwieldy and inefficient. Port users were angered by high wharfage costs and slow turnaround times. A new tariff regime will be produced next year and a ports policy being finalised now would open the space for private-sector involvement in operations.

Spoornet, the passenger rail and freight utility, has come back from the brink of disaster. Government sees it differently from a year ago, when it was loss-making and efficiencies were poor. The previous management wanted to axe 27 000 jobs, which government could not stomach. The new management has, with union cooperation, posted a R605m profit and carried out a turnaround plan that looks sound and shows hope for further efficiency gains. A restructuring plan, which government is working on with the union, will be finalised within days. Initially government was toying with the idea of granting concessions on Spoornet's most profitable assets. The move would have killed the General Freight Business and Mainline Passenger Services (now called Shosholoza Mail) and neither management nor the unions would have it. But Spoornet's progress has impressed Radebe; he is more likely to have confidence in the utility's future with less private-sector involvement. He will also have to consider subsidising passenger rail, a common practice in most of Europe.

The Airports Company (Acsa) is one of government's jewels; it should restructure faster, analysts complain. Not much has happened since it sold a 20% stake to Aeroporti di Roma. But Transport Minister Dullah Omar says delays in securing black economic empowerment are the snag. He says Acsa needs to transform and promote empowerment internally. It should be floated and soon, analysts say. A listing is being considered.

After a wobbly two years, with government battling to sell State-owned forests under Safcol and the Department of Water Affairs & Forestry, the first disposal was made in the Eastern Cape to a consortium involving the local community. A second batch in KwaZulu-Natal will be sold next month. Out of concerns for job losses, government negotiated deals with the buyers that put a moratorium on retrenchments for three years. This may have devalued the forests but it was a necessary trade-off.

Among the disappointments are entities that were placed under management contracts but have not performed, prompting a change in strategy. These include diamond mining company Alexcor and the Post Office. Aventura, too, shows no sign of a turnaround and it will be sold sooner than initially planned. Whether it will be sold as a whole unit or in clusters is being decided. Tenders for offers to purchase will be out this year. **Shareen Singh**