Foreign Direct Investment through Privatisation of State-Owned Enterprises: A Comparative Analysis of South Africa and Zambia

Assignment presented in partial fulfilment of the requirements for the degree of Master of Arts (International Studies) at the University of Stellenbosch

by

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DECLARATION

I, Ntungufhadzeni Austin Masindi hereby declare that this assignment is my own original work and that all sources have been accurately reported and acknowledged, and that this document has not previously, in its entirety or in part, been submitted at any university in order to obtain an academic qualification.

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ABSTRACT

This assignment seeks to explore the role of privatisation in attracting foreign direct investment (FDI) to South Africa and Zambia. In doing this, literature review method based on primary and secondary documentary sources have been utilised. In order to attract FDI, the study revealed that it is necessary to get the policy environment right. Creating an investor-friendly environment which promises good return on investment in line with the international "regulatory" framework - the World Bank's International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA) and the World Association of Investment Promotion Agencies (WAIPA) requirements - is therefore significantly important.

The World Bank regards Zambia's privatisation programme as the model for Africa. South Africa finds itself in a contradictory position. On the one hand it is the leading economic power in Africa, while on the other hand it still lags behind in terms of restructuring its parastatals. Privatisation programme in South Africa has been very slow. However, the government and other stakeholders, particularly in 1997, have been trying to get privatisation off the ground.

The conclusion is that both South Africa and Zambia succeeded in attracting FDI through their processes of privatisation. In both countries major FDI inflows have been an outcome of privatisation. FDI is important for creating employment, debt reduction, empowerment, transfer of technology and managerial skills. However, these countries follow different approaches to privatisation. Due to the slow privatisation pace in South Africa, it is recommended that South Africa learn from Zambia's approach and experience. This would enable South Africa to fully explore some of the benefits of privatisation.

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OPSOMMING

Hierdie opdrag ondersoek die rol van privatisering in die trek van direkte buitelandse beleggings (DBB) in Suid-Afrika en Zambië. Ten einde hierdie doelstelling te kon bereik is 'n literêre oorsig van primêre en sekondêre bronne gedoen. Hierdie studie het bevind dat 'n gunstige beleidsomgewing DBB sal trek. Die skep van 'n beleggings-vriendelike omgewing wat goeie dividende beloof en in lyn is met die internasionale "regulerende" raamwerk – die Wêreldbank se International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA) en World Association of Investment Promotion Agencies (WAIPA) – se vereistes is van kardinale belang.

Die Wêreld Bank beskou Zambië se privatiseringsprogram as die model program vir Afrika. Suid-Afrika bevind haarself in 'n teenstrydige posisie. Aan die een kant is sy Afrika se voorste ekonomiese moondheid, en aan die anderkant is die programme om haar staatsondernemings te herstruktureer nog in hul kinderskoene. Privatiseringsprogramme in Suid Afrika het tot dusver baie stadig verloop. In 1997 het die regering en ander belanghebbende partye egter privatisering van die grond af probeer kry.

Die konklusie is dat beide Suid-Afrika en Zambië daarin geslaag het om DBB te lok met hul privatiseringsprogramme. In beide lande was groot DBB die uitkoms van privatisering. DBB is belangrik om werk te skep, skuld vereffening, bemagtiging, en die oordrag van tegnologie en bestuursvaardighede. Hierdie lande volg egter verskillende benaderings tot die privatiseringsproses. Vanweë die stadige privatiseringsproses in Suid Afrika word die voorstel gemaak dat Suid-Afrika by Zambië leer in hul benadering en ervaring. Dit sal Suid-Afrika toelaat om al die voordele van privatisering te ontdek.

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ACKNOWLEDGEMENTS

I would particularly like to express my gratitude to my supervisor, Prof. Willie Breytenbach, for his invaluable advice, support and expertise. He was a pillar of my strength. And for that I am proud to say it was through his guidance and enthusiasm that I gained insight in the increasingly important role that privatisation programmes in Africa play in attracting Foreign Direct Investment.

A special thank you to my close friends for their continued encouragement, their friendship and their unfailing moral support.

In addition, I would like to express my deep gratitude to the members of my family for the sacrifice they made for me, in good and in bad times. I have to admit that I am indebted to them. Their patience, moral support and encouragement, where the fundamental determinants of my success.

Lastly, this work is dedicated to my parents, Edison and Martha Masindi, who taught me how to be responsible and have trust in God. I feel blessed for being their son.

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LIST OF TABLES

		Page
Table 1:	Host Country Determinants of Foreign Direct Investment (FDI)	2
Table 2:	Net long-term flows to Developing Countries, 1990-1999	21
Table 3:	Preliminary Categorisation of SOEs	65
Table 4:	Key Objectives from Various Policy Documents	66
Table 5:	International Finance Corporation in South Africa	81
Table 6:	International Finance Corporation Sectoral Distribution of Investment Projects in Zambia	98

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LIST OF SELECTED ACRONYMS

ANC	African National Congress
COSATU	Congress of South African Trade Unions
EPZ	Export Processing Zone
FDI	Foreign Direct Investment
FEDUSA	Federation of Unions of South Africa
GDP	Gross Domestic Products
GEAR	Growth, Employment and Redistribution Strategy
GSP	Global Strategic Partnerships
IFC	International Finance Corporation
IMCC	Interministerial Cabinet Committee on the Restructuring of State Assets
IMF	International Monetary Fund
IPA	Investment Promotion Agency
MAI	Multilateral Agreement on Investment
MFN	Most Favoured Nation
MIGA	Multilateral Investment Guarantee Agency
MNC	Multinational Corporation
MTEF	Medium-Term Expenditure Framework
NACTU	National Council of Trade Unions
NALEDI	National Labour and Economic Development Institute
NEDLAC	National Economic Development and Labour Council
NEF	National Empowerment Fund
NFA	National Framework Agreement
NIE	Newly Industrialised Economies
PPP	Public Private Partnerships
PRT	Property Rights Theory
PTF	Privatisation Trust Fund
RDP	Reconstruction and Development Programme
SACOB	South African Chamber of Business
SACU	Southern African Customs Union
SADC	Southern African Development Community
SAP	Structural Adjustment Programme
SOE	State Owned Enterprise

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SSA	Sub Saharan Africa
TNC	Transnational Corporation
TRIM	Trade Related Investment Measure
UNCTAD	United Nations Conference on Trade and Development
WAIPA	World Association of Investment Promotion Agencies
WTO	World Trade Organisation
ZCCM	Zambia Consolidated Copper Mines
ZIC	Zambia Investment Centre
ZPA	Zambia Privatisation Agency

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TABLE OF CONTENTS

Page

Declaration ii
Abstract iii
Opsomming iv
Acknowledgements v
List of Tables vi
List of Selected Acronyms vii

CHAPTER ONE: INTRODUCTION

1.1. Problem Statement 1
1.1.1. Policy Framework 3
1.1.2. Business Facilitation 4
1.1.3. Economic Determinants 5
1.2. Purpose of the Study 5
1.3. Significance of the Study 6
1.4. Theoretical Framework and Conceptualisation of Key Concepts 7
1.4.1. Theoretical Framework 7
1.4.2. Conceptualisation of Key Concepts 10
1.4.2.1. Public Corporations 10
1.4.2.2. Privatisation 11
1.4.2.3. Commercialisation 12
1.4.2.4. FDI 12
1.4.2.5. Divestiture 13
1.5. Methods of Research 13

CHAPTER TWO: FDI and PRIVATISATION

2.1. Reasons for and Against Privatisation 15
2.1.1. Capital Inflow 20
2.1.2. Transfer of Technology 22
2.1.3. Debt Reduction 24

Stellenbosch University http://scholar.sun.ac.za

Page

2.1.4. Management Expertise 27
2.1.5. Empowerment 27
2.2. The Policy Environment 30
2.2.1. The Role of the World Bank: the IFC and MIGA 30
2.2.1.1. International Finance Corporation (IFC) 30
2.2.1.2. Multilateral Investment Guarantee Agency (MIGA) 32
2.2.2. World Association of Investment Promotion Agencies (WAIPA) 34
2.2.3. WTO: Rules of Origin and TRIMs 35
2.2.3.1. The WTO's Rules of Origin 35
2.2.3.2. Trade-Related Investment Measures (TRIMs) 36
2.2.4. MNCs Preferences 37
2.3. Host Country Policies 39
2.3.1. Resources Control 39
2.3.2. Taxation of MNCs 40
2.3.3. Export Processing Zones 41
2.3.4. Repatriation of Profits 42
2.3.5. Other Investment Incentives 43
2.3.5.1. Distributional Considerations 44
2.3.5.2. Knowledge Considerations 44
2.3.5.3. Political Economy Considerations 45
2.3.5.4. Introducing New Distortions 45
2.4. Assessment 46

CHAPTER THREE: MAKING PRIVATISATION WORK

3.1. The Role of Privatisation Agencies and Advisers 48
3.2. Divestiture Process 48
3.3. Techniques of Privatisation 50
3.3.1. Public Offering of Shares 51
3.3.2. Private Offering of Shares 52
3.3.3. Management and Employees Buy-outs 52
3.4. Strategic Partnerships and Alliances 54
3.4.1. Introduction 54
3.4.2. Public-Private Partnerships 55

Stellenbosch University http://scholar.sun.ac.za

Page

3.4.3. Foreign Partners and Alliances 57
3.4.3.1. Franchises & Leasing 57
3.4.3.2. Management Contracts 58
3.4.3.3. Transfer of Ownership: Minority & Majority Shareholding 58
3.4.3.3.1. The British Model 59
3.4.3.3.2. The Finnish Model 59
3.4.3.3.3. The French Model 60
3.5. Assessment 61

CHAPTER FOUR: PRIVATISATION IN SOUTH AFRICA

4.1. Introduction 63
4.2. Growth, Employment and Redistribution (GEAR) 67
4.2.1. Finance and Public Sector Inefficiency 69
4.2.2. Black Empowerment 69
4.2.3. Corporate Governance 70
4.2.4. Foreign Direct Investment (FDI) 70
4.3. The National Framework Agreement (NFA) 71
4.3.1. Re-orientate and Enhance Public Sector Efficiency 73
4.3.2. Labour 73
4.3.3. Historically Disadvantaged Groups 74
4.3.4. Transparency in Participation 74
4.4. Restructuring Policy Framework 75
4.5. The Role of the Ministry for Public Enterprises 78
4.6. Privatisation Advisers 79
4.7. IFC in South Africa 80
4.8. Assessment 83

CHAPTER FIVE: PRIVATISATION IN ZAMBIA

5.1. Introduction 85
5.2. Structural Adjustment Programmes (SAPs) 88
5.3. Institutional Framework for Privatisation 92
5.4. The Divestiture Process 94

Stellenbosch University http://scholar.sun.ac.za

	Page
5.5. The Role of Zambia Privatisation Agency	96
5.6. The Role of Zambia Investment Centre (ZIC)	97
5.7. IFC in Zambia	97
5.8. Assessment	98
CHAPTER SIX: CONCLUSION	
6.1. Was the Purpose of this Study Fulfilled?	101
6.2. Significance of the Results	102
6.3. Were the Concepts Useful?	105
6.4. South Africa and Zambia Compared	106
6.5. Recommendations	109
BIBLIOGRAHY	111

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CHAPTER ONE: INTRODUCTION

1.1. Problem Statement

Foreign direct investment (FDI) has grown at a phenomenal rate since the early 1980s, and the world market for it has become more competitive. Developing countries are becoming increasingly attractive investment destinations, in part because they can offer investors a range of "created" assets (Mallampally and Sauvant, 1999:1). Nevertheless, among developing countries, though, the distribution of world FDI inflows is uneven. In 1997, for example, developing Asia received 22 percent; Latin America and the Caribbean, 14 percent; and Africa, 1 percent (Mallampally and Sauvant, 1999:3).

FDI has become an important source of private external finance for developing countries. This is simply because it is different from other major types of external private capital inflows in that it is motivated largely by investors' long-term prospects for making profits in production activities that they directly control. While FDI represents investment in production facilities, its significance for developing countries is much greater. Not only can FDI add to investible resources and capital formation, but, perhaps more important, it is also a means of transferring production technology, skills, innovative capacity, and organisational and managerial practices between locations, as well as of accessing international marketing networks (Grosse, 1996).

Transnational Corporations (TNCs), consisting of parent firms and affiliates, are the first to benefit from these assets or networks, however, domestic firms which are directly linked to such systems, for example, nonequity arrangements (these may take many forms, including joint ventures; management contracts; public-private partnerships; etc) may also benefit tremendously when these assets are transferred and, so will the wider economy of the host country if the environment is conducive.

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Mallampally and Sauvant (1999:3-4) state that the greater the supply and distribution links between foreign affiliates and domestic firms, and the stronger the capabilities of domestic firms to capture spillovers from the presence of and competition from foreign firms, the more likely it is that the attributes of FDI that enhance productivity and competiveness will spread. In these respects, as well as in inducing transnational corporations to locate their activities in particular country in the first place, policies matter.

The trends in developing countries is that given the potential role of FDI can play in accelerating growth and economic transformation, developing countries are strongly interested in attracting more of it. They are taking steps to improve the principal determinants influencing the locational choices of foreign direct investors (Table 1).

Table 1: Host Country Determinants of Foreign Direct Investment (FDI)

Host country determinants	Type of FDI classified by motives of firms	Principal economic determinants in host countries
Policy framework for FDI •Economic, political, and social stability •Rules regarding entry and operations •Standards of treatment of foreign affiliates •Policies on functioning and structure of markets (especially competition and policies governing mergers and acquisitions) •International agreements on FDI •Privatisation policy •Trade policy (tariffs and nontariff barriers) and coherence of FDI and trade policies •Tax policy **Economic determinants** (see table on the right) **Business facilitation** •Investment promotion (including image-building and investment-generating activities and investment-•facilitation services) •Investment incentives •Hassle costs (related to corruption and administrative efficiency) •Social amenities (for example, bilingual schools, quality of life) •After-investment services	**Market-seeking**	•Market size and per capita income •Market growth •Access to regional and global markets •Country-specific consumer preferences •Structure of markets
	Resource/asset-seeking	•Raw materials •Low-cost unskilled labour •Skilled labour •Technological, innovative, and other created assets (for example, brand names), including as embodied in individuals, firms, and clusters •Physical infrastructure (ports, roads, power, telecommunications)
	Efficiency seeking	•Cost of resources and assets listed above, adjusted for labour productivity •Other input costs, such as transport and communication costs to/from and within host economy and other intermediate products •Membership of a regional integration agreement conducive to the establishment of regional corporate networks

Source: UNCTAD, *World Investment Report 1998: Trends and Determinants*, Table IV.1, p. 91.

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1.1.1. Policy Framework

Developing countries have, during the past decade or so, begun liberalising their national policies to establish a hospitable regulatory framework for FDI by relaxing rules regarding market entry and foreign ownership, improving the standards of treatment accorded to foreign firms, and improving the functioning of markets. These "core" policies are important because FDI will simply not take place where it is forbidden or strongly impeded (UNCTAD, 1998:92).

However, changes in policies have an asymmetric effect on the location of FDI: changes in the direction of greater openness allow firms to establish themselves in a particular location, but do not guarantee that they will do so. In contrast, changes in the direction of less openness (for example, nationalisation or closure to entry) will ensure a reduction in FDI.

Other related policies may include privatisation policies and policies determined by international agreements a country has signed. UNCTAD World Investment Report of 1997 defines "privatisation as a special case of acquisition, as it involves purchases of firms from the state" (UNCTAD, 1998:92).

Furthermore, the report is of the view that privatisation has two dimensions: an FDI-policy dimension and a competition-policy dimension. If privatisation welcomes foreign investors, it broadens the scope of FDI. The competition-policy dimension becomes relevant if, in industries characterised as natural or near-natural monopolies, the sale of a privatised company of a domestic or foreign investor only means the transfer of a monopoly from the state to a private agent.

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Moreover, international investment agreements provide an international dimension to national FDI policies. Some of them focus on insurance and protection, for example the Multilateral Investment Guarantee Agency (MIGA) of the World Bank, while others deal with broader issues specific to a liberalised FDI.

FDI policy frameworks are only one determinant of the location of investment among host countries. Countries must also pay attention to other factors that influence investors' locational decisions. For example, countries should emphasise coherence between the various policies that can affect FDI, in particular, between core FDI policies and trade policies.

1.1.2. Business Facilitation

With FDI policy frameworks becoming more similar, countries interested in encouraging investment inflows are focusing on measures that facilitate business. These include investment promotion, investment incentives, after-investment services, improvements in amenities, and measures that reduce the "hassle" costs of doing business.

While by no means new, these measures have proliferated and are becoming more sophisticated, targeting individual investors and investments in particular industries. After-investment services are noteworthy because they can encourage reinvestment by existing investors, who, if satisfied, provide publicity for the host country, sparking further investment. Financial or fiscal incentives are also used to attract investors, even though they typically figure into investors' location decisions only when the economic determinants are in place.

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1.1.3. Economic Determinants

The most important determinants for the location of FDI are economic considerations, which come into full play once an enabling FDI policy framework is in place. They may be divided into three groups: those related to the availability of location-bound resources or assets; those related to the size of markets for goods and services; and those related to cost advantages in production.

The challenge for developing countries (e.g. South Africa and Zambia, which are the gist of this study) is to develop a well-calibrated and, preferably, unique combination of factors determining FDI location and to match those determinants with corporations' strategies. Policies intended to strengthen national innovation systems and encourage the spread of technology are central because they underpin the ability to create assets.

1.2. Purpose of the Study

The primary purposes of this study are:

i. to investigate the role that the privatisation of state owned enterprises play in attracting FDI, with special reference to South Africa and Zambia;

ii. to assess how successful privatisation of state owned enterprises has been in attracting FDI;

iii. to compare the political economy of privatisation in South Africa and Zambia; and

iv. to furnish recommendations on the way forward.

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1.3. Significance of the Study

International experience shows that FDI is one of the major forces that drive economic growth. The reason being that there are extras that flow in along with foreign capital, as FDI brings in equity financing, which helps increase production and growth, which in turn increases employment opportunities, and bring in new technology and skills.

Thus, in examining and analysing the role of privatisation to FDI, the study follows the reasoning that when countries embark upon privatisation, they liberalise their economies thereby implementing market-friendly policies to foreign investors. This is so because for a number of cost-cutting, market opportunity and networking reasons, transnational corporations have actively sought to participate in the privatisation process (Odle, 1993:7). Odle goes on to say that host countries, for their part, have sought to involve foreign investors in order to tap their vast capital resources and to gain access to their considerable technological, management and marketing skills. This study will show that:

i. a major factor behind the FDI growth is the continued trend towards privatisation (UNCTAD, 1998:8);

ii. South Africa will have to speed up its privatisation programme if it wants to attract more FDI;

iii. the consolidation of the South African economy might facilitate its developmental role in the Southern African region; and

iv. there are lessons to be learned by South Africa from Zambia's privatisation approach and experience. Zambia was a country where previously nationalisation dominated its major sectors of the economy and today is cited by the World Bank as the leader of privatisation in Africa (African Development Report, 1997:42).

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1.4. Theoretical Framework and Conceptualisation of Key Concepts

1.4.1. Theoretical Framework

Privatisation has become a global phenomenon in the past few years. Regions that have contributed most to this trend are Latin America, Eastern Europe and East Asia and the Pacific Rim. Up to 1993, the extent of privatisation activity in sub-Saharan Africa had been relatively limited although, since then several African countries have also embarked on economic reforms involving privatisation (Gist and Laidlaw, 1996:8).

On a global scale, the bulk of privatisation took off after the fall of Berlin Wall. The term "privatisation" was given wide currency by the sale of British Telecom in 1984, and since then many developing countries have launched privatisation programmes, and many more are in the process of joining the club. The dimensions of the privatisation have been huge. The most profound change of all has been in the Eastern Europe and the countries of former Soviet Union after the fall of Communism, which adopted a variety of techniques to transfer ownership rapidly to private hands (Donaldson and Wagle, 1995:1). One of the techniques they used was "voucher privatisation" as to spread shares to everyone in the country.

Privatisation has typically been one policy among a set of structural reform policy measures. These measures include trade liberalisation, deregulation, financial sector restructuring, and opening to foreign direct investment (Sheshinski and López-Calva, 1998, p.13). Business Times (1998/11/15), Business Day (1999/06/09), Sigcau (1999/02/16), Financial Mail (1998/06/12), Pfeffermann (1996), Tanyi (1997), and Udemans (1996) contend that privatisation facilitates foreign direct investment and the transfer of technologies since it opens up opportunities for private sector to manoeuvre. Odle (1993:7) maintains that privatisation accounts for a significant share of FDI that is occurring during the current phase of rapid globalisation of the world economy.

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Since the late 1980s, few would deny that most African governments have played their own part in paying lip-service to privatisation (African Business, 1996:36). As a result, FDI flows in the region remain low – only equal to a mere 3 percent of the total FDI flows in the developing countries, comparable, for example, to those of a single Asian developing economy, Malaysia – but they have risen since the early 1990s, and some countries are doing better than previously in terms of inward FDI (UNCTAD, 1998:163).

In most African countries today, private sector is increasingly present by the virtue of market liberalisation. Privatisation in Africa is becoming an increasingly important, although far from fully explored, avenue for foreign investment. Consequently, more and more African countries are cementing their intentions to establish a private sector base, and as a result of these initiatives, opportunities for FDI have been created by steadily expanding privatisation programmes in countries such as Angola, Cape Verde, Côte d'Ivoire, Egypt, Ghana, Kenya, Morocco, Mozambique, Nigeria, Senegal, South Africa, Tunisia, Uganda and Zambia, and the recent introduction of similar programmes in Botswana, Burkina Faso, Eritrea, Madagascar, Namibia and Zimbabwe (UNCTAD, 1998:170).

In the past, African States deterred foreign direct investors through barriers that include the exclusion of foreign investors from land ownership, restrictions on the use of expatriate labour, and requirements for sundry permits and approvals (Weigel, Gregory and Wagle, 1997:3). In most cases, restrictions have been imposed for many reasons, including concerns over excessive foreign influence and loss of national wealth, desire to promote indigenous entrepreneurship and workers, and desire to achieve transfer of technology and management techniques. A large state role in the economy also deterred FDI, whether through price controls, methods of capturing rents from natural resource exploitation and monopolies, or through the presence of a large state enterprise sector (Ibid.).

In reversing the barriers of the past to FDI, privatisation of state-owned enterprises proves to have an indirect effect on FDI. Cross-national evidence

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also show that countries that are open to foreign investment stand a share in the rising global prosperity that globalisation brings (UNCTAD, 1997). Privatisation methods such as direct sales and the sales process thereof proves to stimulate openness to foreign investment (Weigel et al, 1997).

Clearly, in developing countries the economic benefits of privatisation are now widely accepted because of the symbiotic link between privatisation and capital markets development since faster rates of privatisation are associated with the broadening and deepening the supply of domestic and international capital. This link is also supported by Pfeffermann (1996), he maintains that privatisation has been a major magnet for FDI in the transition countries. For example, in Latin America a high proportion of FDI has consisted of purchases of formerly State-Owned Enterprises (SOEs). Pfeffermann (1989:5) showed that, typically, this was followed by modernisation and expansion which the former state enterprise was unable to finance of which fifty percent of privatisation FDI was in infrastructure, including telecommunications, electric power, ports, toll high ways and so on.

According to UNCTAD *World Investment Report* (1999) the slow pace of privatisation in Africa is the reason why the continent has not been an attractive FDI destination despite the high reported FDI profitability in the region. The report furnishes that the rate of return on Africa operations of US transnational Corporations in 1997 was 25% compared with the average US affiliate of 12%. African Business (1999:5) maintains that Japan firms scored average returns of 6% on FDI in Africa in 1995 compared with a world average of 2%.

Despite the setbacks, African governments are still eager to maximise the benefits from FDI and minimise harmful side effects. They realise that restrictive economic policies have reduced the benefits and increased the costs of FDI through deadweight costs of regulation, economic costs of protection, inefficient project structures, encouragement of the use of transfer pricing to repatriate profits, and fiscal losses from tax incentives. Recently, countries that have liberalised have benefited more from FDI. This process is

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expected to be sustained without major reversals, as more and more countries see the benefits of more liberal policies toward FDI.

Global integration will continue to drive FDI flows, wherever the economic environment is open to it. Globalisation will increasingly blur the distinction between foreign and domestically owned enterprises, and between developed and developing countries. Countries that are open to foreign investment stand to share in the rising global prosperity that globalisation bring. Nevertheless, to create an enabling environment for FDI, a large unfinished agenda of policy reform remains. Some of the countries that have made progress in reducing restrictions, including some already receiving large amounts of FDI, still have some way to go toward providing a fully open environment for FDI.

Furthermore, many more countries have only begun to re-examine their policies toward FDI or the impact of their general economic policies on FDI flows. Yet these countries have not missed their chance to participate in global FDI flows. The rapid increase in FDI volumes in recent years has shown that this is not a zero sum game. As more countries open up to FDI, global integration will increase, leading to an increase in overall FDI flows. The challenge for the future is therefore to open more economies and sectors to foreign direct investment, thereby bringing opportunities for economic development to a larger part of the developing world.

1.4.2. Conceptualisation of Key Concepts

1.4.2.1. Public Corporations

A public corporation can be described as a semi-independent body established by an Act of Parliament and entrusted with the task of providing some public utility or trading or manufacturing service for, and on behalf of the state. Hanson (1963:18) identified the characteristics of public corporations follows:

i. They are wholly state-owned.

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ii. They are not subject to parliamentary financial scrutiny such as that to which government departments are subjected.

iii. They are statutorily created and outside the ambit of ordinary company law.

iv. They have corporate status and thus can be sued, hold property and enter into contracts.

v. In theory, at least, they are independently financed through their revenue and also capital borrowing powers.

vi. Employees of public corporations are not civil servants but are employed directly by, and subject to, conditions of the corporations.

Easy to note in the above discussion is that public corporations are viewed in terms of a working definition as public production for private consumption. Such public production, according to Jacobs (1999:17), refers to the ownership, or international managerial control if the enterprise is in government hands. Jacobs maintains that often public enterprises produce or distribute goods or services, and then sell them to either producers or consumers at a price which may not cover costs.

1.4.2.2. Privatisation

There is no officially stated position on the concept of privatisation and certainly no universal definition. The word has been used in many different senses within South Africa and in a large number of other countries and the meaning of the concept gained many different tinges and variations. According to Peacock (1994:3) privatisation is commonly defined as the transfer of government-owned industries to the private sector, implying that the predominate share in the ownership of assets on transfer lies with private shareholders.

Brynard (1995:30); Donaldson (1995:13); Dunleavy (1986:1); and Hanke (1987:14), are of the opinion that privatisation is strictly the permanent transferring of service or goods production activities previously carried out by

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public service bureaucracies to private firms or to other groups of non-public organisations, such as voluntary groups.

Mahadea (1988:143) states that there are various methods of privatisation and maintains that the important ones are: denationalisation (the sale of publicly owned assets to the private sector), contracting out (the franchising to the private sector of the production of state-financed goods and services), and management and staff buy-outs (managers and workers buying out the enterprise where they have been working).

1.4.2.3. Commercialisation

Commercialisation is defined as a process directed at establishing private sector management principles, values, practices and policies within the public sector organisation (Brynard, 1995:30). It is important to note that here the private sector will deliver service while the company remains under the management of the public sector (Van Rooyen, 1994:8). Thus, the ultimate objective of commercialising public enterprises is to make them commercially viable so that they can eventually be transferred to the private sector with minimum or no government shareholding.

1.4.2.4. FDI

There are two distinct types of foreign investment - portfolio investment and direct investment. The portfolio investment involves the purchase of stocks and bonds in specialised funds (i.e. emerging market/commodities) and this is a return driven financial transactions. Important to note is that no jobs or infrastructure creation. This kind of investment strictly flows to where the markets are highly attractive and thus, highly liquid (volatile). On the other hand the FDI involves spending on capital goods. Clearly, this investment requires a permanent interest in the enterprise, long-term commitment and investment in human capital. And unlike portfolio investment, it creates jobs and infrastructure, the reason why it is perceived as the engine of economic growth.

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FDI according to Keegan (1997) & Bartlett and Ghoshal (2000) occur when an investor based in one country invest or acquires assets in another country with the intent to manage those assets. For example, Sappi Limited, a South African paper company acquired SD Warren, an American paper company in 1994 with the intent to upgrade the mills and manage them. In such cases, Jacobs (1999:9) states that the investor is typically referred to as the "parent company" and the asset as the "affiliate" or "subsidiary".

1.4.2.5. Divestiture

Divestiture refers to the process of transferring SOEs to private investors. The divestiture programme is an ambitious attempt to unlock the economic potential of the country by permitting resources of people, money and technology to be put to their best use, thereby increasing efficiency to achieve better living standards for all (GHANA, 2000). Essentially, the programme is intended to reduce the size of the public sector and improve the performance of SOEs by mobilising private sector management and capital, thereby reducing the financial and managerial burden on government. To this end, the state will be able, more efficiently, to manage the business of government, using the proceeds from sale of SOEs to improve infrastructure, health services and education.

1.5. Methods of Research

This study takes a qualitative approach to research. In doing this, literature review method based on primary and secondary documentary sources have been utilised. Consulted literature includes: i) academic journals, magazines, newspaper and electronic reports; ii) official government documents which entails legislation, working and discussion papers and annual reports; and iii) publications and working papers particularly of IFC, World Bank, IMF, MIGA, and the WTO.

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As a qualitative researcher, caution has been exercised in utilising particularly unrefined primary sources. Because of this, the degree of reliability has not been compromised. However, some of the evidence utilised to validate and substantiate arguments has been relied on in part of their expert opinion weight.

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CHAPTER TWO: FDI AND PRIVATISATION

2.1. Reasons for and Against Privatisation

Advocates of privatisation argue that most activities at local and national government levels could be provided more efficiently by the private sector The logic behind privatisation originates from a neo-classical perspective of allocative efficiency which promotes market competition. Hildyard (1997) argues that market competition serves "public interest" because individuals express their choices through the market, which translates into individual freedom and prosperity. And these are maximised when funds are allocated efficiently since in market competition people can purchase what they want at prices determined by the laws of demand and supply which leads to the wealth generated by private effort trickling down to the benefit of all.

Clearly, the general notion of privatisation is that the role of the market in the economy should be enhanced *vis-à-vis* that of the state and that the share of the private sector should increase, with a corresponding reduction in government involvement in the economy (Kirkpatrick, 1987:235). The idea that private ownership has advantages over public ownership in terms of being inherently more efficient, as well as that it induces a better public sector financial health is not new. In 1776, Adam Smith wrote:

> "In every great monarchy in Europe the sale of the crown lands would produce a very large sum of money which, if applied to the payments of the public debts, would deliver from mortgage a much greater revenue than any which those lands have ever afforded to the crown ... When the crown lands had become private property, they would, in the course of a few years, become well improved and well cultivated" (Smith, 1976 in Tanyi, 1997).

In the same vein, Bouton and Sumlinski (1997), Sheshinski and López-Calva (1998) also contend that the transfer of assets from public hands to private

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hands through privatisation of SOEs yields both efficiency and welfare gains since performance induced by the private property rights is increased. To this is the assumption that private property induces greater efforts to the making of profits.

The reasoning that privatisation raises the efficiency of enterprises partly rests on the neo-classical theory of the firm. According to this theory, competition prompts economic agents to pursue maximising behaviour (Mahadea, 1995:89). Firms are encouraged to produce in a technically efficient manner in order to minimise costs or maximise profits. Furthermore, competition among producers ensures that only the efficient firms survive in the long run. This way the welfare is maximised as consumers pay the lowest possible price for goods and services.

However, owing to various market imperfections such as public goods, externalities and information asymmetries, some form of government intervention is often called for to provide some goods and services via state-enterprises (Ingham, 1995). To this effect, the neo-classical theory assumes that the state should play a minimalist role in the economy. This is because Utilitarians know that every state intervenes in its economy regardless of whether the economy is laissez-faire or not. They contend that whenever laissez-faire is unable to ensure the best possible outcomes, state intervention is justified (Biersteker, 1990).

Another widespread opinion about privatisation comes from Property Rights Theory (PRT). This theory attempts to explain differing levels of efficiency between private and public enterprises in terms of the principal-agent relationship. The typical large private firm is owned by shareholders (principals) but operated by professional salaried managers (agents). Owners have the power to censure or sack the management if they are unhappy with their performance.

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Public enterprises in contrast with private enterprises, taxpayers who in principle own state assets have no formal property rights to the enterprise and as a result, management can perform extremely poor and continue do to so without any threat of take-overs. To this is the thinking that the attenuation of property rights in the public sector contributes to a lower efficiency level than in the private sector.

However, Joseph E. Stiglitz, a World Bank Senior Vice President, Development Economics and Chief Economist do not necessarily agree with this view. He argues that in large Western private enterprises, separation of ownership and control does not clearly define private property rights since,

> "The owners of shares, like the ownership of bonds, is indeed clearly defined; the shareholder can buy and sell, or hold those rights. But those rights do not "add up" to a real ownership-based control of the company when those shareholders are atomised and dispersed" (Stiglitz, 1999:10).

Nevertheless, the historical experience shows that privatisation can transform inefficient SOEs and boost economies through creating a better environment for FDI. However, this is a complex business and each country has to determine the approach that best suits its circumstances. Thus, in developing countries, policymakers should clearly understand their primary goal: the transfer of SOEs to the private sector, while not compromising the their efficiency.

To this end, it is important to restructure before privatising, since SOEs tend to be outdated, to be inefficient and to be overstaffed. Thus, practices must be modernised like in the case of France whereby costs had to be trimmed and the labour force had to be reduced (Breytenbach, 1999a). But it is often better to let the new owners make these commercial decisions.

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Important to note is that privatisation can be a political agenda like in the case of South Africa whereby trade unions are opposed to it due to the perceived job losses associated with privatising SOEs. Therefore, it is important to identify groups which are likely to be affected most with this. For example, in the case of South Africa, thousands of workers were set to be retrenched in the process of restructuring (Business Times, 1999/10/17).

Clearly in this case, it is politically necessary to incorporate special measures to elicit these workers to support privatisation. Some of the measures may encompass employee share options (ESOPs), which are found to be very effective in times such as these (Finnemore, 1997). Failure to implement appropriate measures is likely to fuel oppositions against privatisation and thereby hampering the success of the whole programme.

Moreover, those on the left of privatisation, although questioning its transformative role, their main concern is also the one of protecting the "family silver". One of the proponents of the "family silver" argument is Brendan Martin - an author and consultant working with trade unions on public sector reform issues. Martin argues that the New Right has cleverly, even cynically, exploited peoples' aspirations and the sluggish response to them within conservative public sector management; the Right has seized the language of 'choice' and 'empowerment' and attached it to their idea of marketising the public service (Hildyard, 1997:3).

Martin continues however to say that the effects of commercialisation have generally been the opposite of the rhetoric, to strengthen the power of service providers and allow them to choose who they serve, rather than transferring power and options to users. Two or more tiers of service have emerged as a result, with power and choice increasingly a function of how much money people have rather than being based on equal citizenship. Ownership has not been significantly diversified to workers, individual shareholders or small businesses, as big companies have gained most from divestitures. The

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majority (and the most valuable) of the privatised companies are now controlled by transnational corporations (Ibid.).

Consequently, Martin argues, the privatisation of state-owned or provided assets and services has turned many of the Third World's most valuable assets or resources - from state oil companies to television networks, from banks to roads, railways and airlines - over to a small privileged group of local and foreign buyers, the vast majority of state enterprises being sold to a domestic or foreign purchaser, or to a joint-venture consortium, often at prices far below their real value. In Mexico, a group of 37 businessmen, who between them controlled 22 per cent of the country's gross national product, were the major buyers in all but one of the country's large public sector sell-offs (Hildyard, 1997:4).

Furthermore, many workers and poorer people, particularly in the South, have had their situation further undermined by the privatisation of essential utilities and services. Southern governments, in a vulnerable position because of their indebtedness and their reliance on development agencies for investment funds, have been pressured by the World Bank and the IMF to sell state owned enterprises or to transfer their management to the private sector.

Privatising water and sewage utilities, for example, can be justified on the grounds that years of neglect by governments unable or unwilling to fund investment had led to decaying water mains and sewers, whilst unpaid bills and other inefficiencies raised prices; in addition subsidies did not reach those they were intended to.

Thus, it can be argued that private capital and expertise are needed. But raising private capital, especially foreign, can be a very expensive process and where capital is successfully raised, the growing inequalities to access the water can undermine the programme.

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Those on the left of privatisation also argue that the processes of liberalisation do not only deny workers, poorer people and communities the access to affordable services, however, they also remove the democratic accountability of service providers from the people who use and depend on them. Thus, the neo-liberal development model does not only constrict what can be decided, but rather it also shifts who decides.

This is partly because the institutional and economic power is now concentrated in the hands of transnational business and bodies such as the World Bank, the IMF and WTO, which operate with few or none of the principles or processes of democratic government, such as elections, accountability or transparency. And as a result, the ability of nation states to manage their countries' affairs on behalf of all their citizens has been significantly undermined.

2.1.1. Capital Inflow

According to the Global Development Finance 2000, a new study by the World Bank, FDI was the single largest source of private capital and the most stable source of capital flows to emerging markets in 1999 (Global Development Finance, 2000:2). The study further reveal that overall, net long-term flows in 1999 from international capital markets to developing countries continued to fall from the low levels reached in 1998 to levels last seen in the early 1990s.

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Table 2: Net long-term flows to Developing Countries, 1990-1999

(billions of US dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total	98.5	124	153.7	219.2	220.4	257.2	313.1	343.7	318.3	290.7
Official flows	55.9	62.3	54	53.4	45.9	53.9	31	39.9	50.6	52
Private flows	42.6	61.6	99.7	165.8	174.5	203.3	282.1	303.9	267.7	238.7
International capital markets	18.5	26.4	52.2	99.8	85.7	98.3	151.3	133.6	96.8	46.7
Debt flows	15.7	18.8	38.1	48.8	50.5	62.2	102.1	103.4	81.2	19.1
Bank lending	3.2	5	16.4	3.5	8.8	30.4	37.5	51.6	44.6	-11.4
Bond financing	1.2	10.9	11.1	36.6	38.2	30.8	62.4	48.9	39.7	25
Other	11.3	2.8	10.7	8.7	3.5	1	2.2	3	-3.1	5.5
Equity flows	2.8	7.6	14.1	51	35.2	36.1	49.2	30.2	15.6	27.6
Foreign direct investment	24.1	35.6	47.5	66	88.8	105	130.8	170.3	170.9	192

Source: *Global Development Finance, 2000, p.36.*

Table 2 shows that FDI flows to emerging markets rose by US$24.1 billion to US$192 billion in 1999. This increase was at a slower rate than in earlier years, despite a spate of privatisation and mergers and acquisitions activity in the developing world, especially in the crisis-afflicted countries. The greater resilience in FDI flows in the face of financial crises reflects the tendency for FDI to be more responsive to long-term growth trends than to short-term changes in financial returns.

Important to note is that FDI policies and privatisation policies will not guarantee the inflow of capital to the host economy. Capital inflows will only prevail if the host country's capital account is liberalised. In practice, international financial liberalisation increases capital flows to developing countries and helps domestic firms in these countries fulfil their needs for credit. Private flows are also regarded as a way to provide developing countries with resources for investment at a time of shrinking development assistance.

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However, witnessing from the financial crises that struck Thailand, Indonesia, and Korea during the period 1997-1998; and Russia and Brazil during the period 1998–99 it is clear that international financial markets are subjected to unpredictable swings, costly crises that drives away investors thereby worsening the economic instability.

This is because in developing countries the pacing of capital account liberalisation is mainly influenced and guided by the World Bank and the IMF, the two international financial institutions that, to a greater extent, still hold and believe in the Washington Consensus, in terms of policy advises, who stresses avoiding policy trade-offs that utilise external measures, arguing that the free flow of capital, goods, and services between nations essentially result in the increase of both economic growth at home and global economic prosperity (Isaak, 1995:98). Against this view, Isaak maintains that national policies involving some mix of internal, external, and financing measures must be implemented in adjusting a country's balance of payment.

However, the domestic markets and financial infrastructure for portfolio investments in equities and debt instruments are not well developed in many emerging market countries. And creating the domestic infrastructure before these markets can be opened internationally may take a long time. Lee (1997) maintains that since FDI flows are less prone to sudden reversals in a panic than bank loans and debt financing, liberalising inward direct investment should generally be an attractive component of a broader programme of developing countries liberalisation.

2.1.2. Transfer of Technology

There is no denying that technology forms a fundamental competitive advantage of firms today. From the creation of new products to knowledge of markets or industrial processes, technology plays a major role in the success

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of both domestic and transnational firms (Grosse, 1996:781). Likewise technology is an important base for economic growth and development. As a result, governments pursue policies that optimise its creation and use.

According to Grosse (1996:782), the business literature generally refers to at least three types of technology: product, process and management. Product technology is the knowledge used to produce any product – the information that specifies the product characteristics and uses. Secondly, process technology is the knowledge used in production to organise the inputs and operate the machinery – it relates to the process by which a given product or service is produced.

Finally, management technology is the knowledge used in operating a business – the managerial skills that enable a firm to compete by using its resources effectively. Grosse goes on to say that each of these types of technology can create a competitive advantage for the firm that possesses it. That is, although all firms posses each type of technology, an advantage accrues to firms that are able to obtain and deploy superior technology better than their competitors.

Thus, technology enables any business operation to gain a competitive advantage. Enterprises that cannot keep up with technological advancement will not be able to compete both in domestic and global markets. Governments in developing countries have come to realise the importance of technology as a machinery to competitiveness and faced with unprofitable parastatals sought to attract and keep up with technology by engaging in ambitious privatisation programmes.

Through this, governments facilitate technology transfer by selling state assets in full or in part (through forming foreign partnerships and alliances to

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which partners and/or allies agree to mutually use the technology, as a joint venture or a cross-licensing agreement).

Brooke (1985:62) identifies and maintains that the following are means of transferring technology: hardware (machinery); software; people transfer; people training; documentation; communication; and agreements (permissions). However, these means are not mutually exclusive simply because their usage could be in varying combinations in different industries and at different stages of the value-added chain.

Vehicles or arrangements for technology transfer, according to Grosse (1996:790), includes: FDI; licensing; technical assistance contracts; training contracts; turnkey contracts; representation contracts; exporting; franchising; management contracts; R&D contracts; co-production contracts; and subcontracting. In principle, every one of the transfer arrangements can be used between affiliates of a TNC, and all except FDI, which can be used between TNC affiliate and also in an unrelated company.

Consequently, FDI can be a major driving force behind the economic development of a developing country since it tends to combine capital with technology. This has been shown indisputably by the experience of the Newly Industrialised Economies (NIEs) of Asia (e.g. Hong Kong, Republic of Korea, Singapore and Taiwan). According to the United Nations and Joint ECA/UNCTAD Unit (1997), these countries records suggest that, contrary to the view commonly held by Third World policy-makers, the host economy can develop indigenous technological and marketing capabilities and thereby outgrow dependence on TNCs from richer countries fairly rapidly, if a massive inflow of FDI continues over a sufficiently long period and if the government acts properly in all relevant policy areas especially in market friendly policies that favours and promote private ownership.

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2.1.3. Debt Reduction

Accumulated budget deficits over time lead to public debt and public debt management is one of the central tasks that many developing countries face in order to attract foreign investment, particularly FDI because it is associated with MNCs long-term commitment to a specific sector of the host economy. The relative significance of public debt is commonly measured via its share of the GDP (Abedian and Abraham, 1997:1-2).

According to the Keynesian theory budget deficits can be good for growth in two ways. Firstly, it increases aggregate demand (i.e. the sum of demands in the economy within certain parameters). This brings previously unutilised resources into the production process, which then increases output, Keynesians would argue. Secondly, deficits allow government spending to increase, which could 'crowd in' private investment. What this means is that if government spending is directed towards the maintenance of social stability, good infrastructure and skilled labour force, private investors' expectations of profitability would also increase.

Furthermore, when the levels of return increase, private investment would also increase, which has a positive spillover to economic growth. However, deficits can also be bad for growth depending, in part, on how they are financed. For example, if local borrowing finances deficits, a peril of putting up pressure on interest rates and 'crowding out' local investment can be expected. Furthermore, if the increased interest rates cause capital inflows, this would result in the exchange rate appreciating – which in turn reduces the host economy's export competitiveness (Nattrass, 1997:207-208).

The debt situation is however reversible. Governments can ease the debt problem in three ways: 1) restructuring the fiscus, 2) monetise the debt, and 3) privatisation of SOEs. Most developing countries prefer the last option.

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South Africa for example considers privatisation proceeds to be essential for the debt reduction. The manifestation of this can be seen in the Finance Minister's - Trevor Manuel - Budget speech in February 2000 saying that: "privatisation proceeds were expected to contribute to a debt reduction of R15-billion over the next three years" (Department of Finance, 2000/02).

In the same vein the South African Chamber of Business (SACOB) also maintains that "the fact that the government expects to receive at least R40 billion from the privatisation of state assets over the next 3 years is positive for the economy in the longer term because it will leave some room for further tax reforms as government will reduce its debt-servicing costs" (SACOB, 2000:5-6). This is essentially because part of the debt through the years has been accumulated by unprofitable SOEs. Consequently, privatising them will relief the debt burden on the taxpayers. Furthermore, creditors can acquire assets in privatising as a write-off.

In contrast to privatisation, the other two options to debt reduction are short-term solutions and do not necessarily solve the debt problem. Fiscal restructuring (by running a surplus) is likely to result in social hardships when social expenditures are cut (South African government also follow this debt reduction strategy which is in line with its Medium-Term Expenditure Framework [MTEF]).

Thus, fiscal restructuring can carry service delivery costs. Monetising the deficit too can lead to problems related to inflation. This is the case since monetising means that the government should redeem bonds by printing money thereby increasing prices as money circulation increases which would lead to rapid inflation.

Because of the problems related with the other two debt reduction options, the privatisation option seems to be a better one. However, its success in

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reducing the debt burden depends on the amount of revenue raised and if creditors acquired assets, on their willingness to perform to the intended standards. Certain SOEs perform a redistributory role, for example, the railways might provide basic transport for the lower income groups, and this service might run at a loss. Privatising such an enterprise could mean that taxpayers would no longer have to fund these losses, but the poor community would lose their only means of transport. Therefore, the debt burden indirectly shifts to the shoulders of the poor. These could prove to be a 'creative destruction'.

There is no one perfect solution to the debt problem. SOEs can be sold to raise revenue, but the efficiency and distributional implications of such assets sales must be borne in mind. If fiscal discipline is to be maintained, and future interest rates are expected to exceed economic growth rates, a primary surplus must be run. And monetising the deficit could provide a short-term solution at the cost of long-term macroeconomic stability.

2.1.4. Management Expertise

Faced with the high pace of globalisation, developing nations are confronted with the ever-increasing need to attract foreign companies with competencies to enable them to compete in global markets. FDI is one way of importing foreign expertise. When MNCs invest in a country, they come with their staff (this could be from their home country or any of their subsidiaries worldwide). Furthermore, MNCs import their expertise to the host economy through their corporate culture (this is part of their business strategy).

Similarly, for domestic firms to achieve a sustainable competitive advantage, they need to develop, at one and the same time, global-scale efficiency, multinational flexibility, and the ability to develop innovations and leverage knowledge on worldwide basis (Bartlett and Ghoshal, 2000:241). These can

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be developed through acquiring foreign expertise through venturing with foreign firms. Venturing ensures competitive advantages to pass across the firms, although, according to (Bartlett and Ghoshal, 2000), the level of sharing knowledge depends on the management of the interface. Through these arrangements, domestic firms will gain access to their foreign partners' expertise and ways of doing things in general.

2.1.5. Empowerment

In mixed economies, such as South Africa and Zambia, the well being of individuals is dependent on the disposition of the state towards its inhabitants (Shleifer, 1998). However, poor finance; poor identification of public-goods aspects and inefficient regulatory control in SOEs results in the deterioration of living standards. Faced with this dilemma, developing countries tend to seek solutions to their problems, with the World Bank Group playing a pivotal advisory role, by privatising. According to this view, privatisation can be beneficial if assets are sold or services are outsourced to less empowered citizens in the economy.

Many in South Africa believe that black empowerment is essential. This view is expressed by SACOB showing its disappointment in April noting that Public Enterprises Minister - Jeff Radebe - announced nothing substantive on South Africa's privatisation plans in terms of black empowerment. SACOB has these to say:

> "Meaningful privatisation is necessary both for black economic empowerment and for the attraction of much-needed foreign direct investment. We would like to see government back up its privatisation rhetoric by giving investors, both local and foreign, a clear idea of how it saw privatisation in this country unfolding" (SACOB, 2000:5).

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Although moderate, however, when the Department of Public Enterprises released the government's restructuring policy framework in August 2000, a multi-faceted approach to empowerment has been proposed through three kinds of intervention in SOEs restructuring processes:

i. SOE ownership can be broadened through the National Empowerment Fund and other kinds of unit trust structures, in ways that address the problems in existing empowerment-related financial engineering. These new approaches can take the best lessons (and avoid the most serious drawbacks) of international experiences of collective investment vehicles, to provide a range of equity schemes for those previously excluded from mainstream economic participation.

ii. Operational empowerment strategies should be improved to ensure that beneficiaries are not merely absentee owners. They should be able to gain meaningful access to state-regulated activities, through training and skills development, affirmative action in management, and entrepreneurial opportunities through outsourcing, partnerships, affirmative procurement and easier access to finance.

iii. Combining the first two strategies, alternative vehicles for empowerment, such as employee share ownership plans and community trusts should be piloted. It is believed that this will improve enterprise self-management and community involvement, and in the process raise investment in and take advantage of social capital (Department of Public Enterprises, 2000).

However, the document is criticised for emphasising that government must ensure that unskilled workers, most of whom are African, receive the training needed to benefit from employee ownership. COSATU has warned that if implemented without further reflection and analysis, the restructuring policy framework will result in growing inequalities of income and wealth, and large-scale job losses (WOZA, 2000/08/11).

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The situation in Zambia is different from that of South Africa. Instead, a temporary Privatisation Trust Fund (PTF) wherein shares of newly privatised enterprises for the subsequent sale to investors by a way of public offering with the aim of achieving a wide distribution among citizens of Zambia, has been established (Zambia Privatisation Agency, 2000a). Other ways of assisting potential Zambian buyers without any funds to participate in the privatisation programme includes: deferred payment schemes, public flotations, and ZPA mortgage scheme for houses and deferral of payment for houses (Ibid.).

2.2. The Policy Environment

In order for developing countries to attract FDI, it is necessary to get the policy environment right. Creating an investor-friendly environment, which promises good return on investment in line with the international "regulatory" framework - the World Bank's International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA) and the World Association of Investment Promotion Agencies (WAIPA) requirements - is of crucial importance. And furthermore, as a policy to attract FDI, host countries deliberately privatise their SOEs, implement supply-side trade policies, and offer tax holidays to foreign firms and other incentives.

2.2.1. The Role of the World Bank: the IFC and MIGA

2.2.1.1. International Finance Corporation (IFC)

The World Bank has two subgroups dealing with investments in Africa – the IFC and MIGA. The IFC plays an important matchmaking and technical advice role. Itself never becomes the owner, but often the source of funding for take-over companies willing to buy shares in the ownership for privatised state-owned enterprises (Breytenbach, 1999a). Today IFC is the largest multilateral

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source of loan and equity financing for private sector projects in the developing world.

Forming partnerships with private investors facilitates the above. And through its advisory work, IFC assists host governments to create conditions that stimulate the flow of both domestic and foreign private savings and investment. Thus, IFC's particular focus is to promote economic development by encouraging the growth of productive enterprise and efficient capital markets in member countries (International Finance Corporation, 1999a).

In Africa, IFC spearheads the trends towards greater restructuring, which is intended by the IFC to be straightforward privatisation as in Britain, Czech Republic, and initially in Mexico and Argentina. However, in Africa, the problems of restructuring are quite unique because states and their domestic sector are weak (Breytenbach, 1999b:1).

As a result, the IFC has been targeting six priority areas in this region, aimed at: i) assisting the region to receive its attractive industries; ii) help to develop small- and medium sized enterprises; iii) assisting in deepening financial markets; iv) help to make assets more productive through privatisation; v) helping to develop the region's physical infrastructure and vi) leveraging IFC's transaction experience through joint policy work with the World Bank (International Finance Corporation, 2000b) and (Pfeffermann, 1998:6).

In the light of these circumstances, the IFC has tried to develop an appropriate model for African conditions based on policy-based lending, including privatisation. This model consists of four components: the IFC (as a facilitator), the restructuring parastatals (as privatising entities), the private buyers (mainly foreign direct investors), and private financial institutions (as funders).

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Consequently, the IFC plays the role of matchmaker, promoting private equity participation by private firms through private capital. It also considers the issue of project appraisals, guarantees, risk-sharing, underwriting securities, co-financing and even equity participation when risks involved are too high for private firms (as buyers) or private banks (as lenders).

The IFC is not prescriptive on private equity ownership, but is of the opinion that foreign direct investors are better placed than domestic firms to buy state assets. In this sense, the IFC model is one of ownership transfers from public to private hands, although minority equity partnerships are also encouraged. The last component of this model is private banking sector. The IFC believes that transactions, whether equity partnership or the sale of assets, ought to be funded by private banks.

Over the years the IFC has established financial relationships with Barclays, Chase Manhattan, Chemical Bank, Hong Kong and Shangai Bank, the Dutch ING Bank, Morgan Stanley Bank, the Swiss Banking Corporation and Sumitomo Bank. The role of these banks is to finance the acquisition of equity partnerships or the sale of assets by states or SOEs to private or private investors (Breytenbach, 1999b:2).

Pfeffermann (1998) provides few recent examples, which illustrate the variety of IFC's activities during the first half of 1998 in Africa:

i. IFC organised a syndication loan with 15 banks that could be worth up to $250 million for additional developments by Pecten Cameroon, with Elf Serepca as partner, including resumptions of work on existing oil wells, new wells and various additional installations.

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ii. IFC and a number of other official creditors promised to provide $63 million toward the construction of the Azito thermal power in Côte d'Ivoire, which was aimed at using gas from offshore fields.

iii. IFC approved a $950,000 loan to support Tesinma SC, an Eritrean company assembling buses, trucks and commercial vehicles using imported chassis.

iv. IFC announced plans to invest $12 million in support of medium-sized coffee and cocoa producers in Ghana.

v. IFC signed a $4.2 million investment deal in the first new private commercial bank in Mauritania.

vi. IFC invested in Namibia's first fully-fledged local life insurance company.

vii. IFC's Board approved a $20 million investment for pre-privatisation capital expenditures of Tanzania's national telephone company.

However, the IFC still has more challenges in Africa in the future. These include building financial infrastructure, developing indigenous entrepreneurship and developing physical infrastructure through privatisation and by mobilising domestic and foreign capital. As a result, it is expected that the IFC's involvement in the region should increase substantially in order to make a difference in terms of investment.

2.2.1.2. Multilateral Investment Guarantee Agency (MIGA)

In September 1985 the Bank's Board of Governors began the process of creating a new investment insurance affiliate by endorsing the MIGA Convention that defined its core mission as,

"To enhance the flow of capital and technology to developing countries for productive purposes under conditions consistent with their developmental needs, policies and

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objectives, on the basis of fair and stable standards for the treatment of foreign investment." (Multilateral Investment Guarantee Agency, 2000).

MIGA promotes private foreign investment in less-developed countries by reducing the political risk of investment projects. It also advises developing country members on the promotion of foreign investment. It currently has 125 member countries, and 147 signatories. Because MIGA is a voluntary association of developed and developing countries, the support by MIGA of a project in itself improves the assurance that investor's rights will be protected.

Furthermore, MIGA promotes development by providing investment guarantees and coverage against the risks of: currency transfer; expropriation; war and civil disturbance; and breach of contract by host government. Coverage may be obtained for each type of risk separately or in combination. The scope of coverage is determined before the guarantee is issued. The term of cover is 15 years, however, it is probable to increase the term to 20 years if the nature of the project requires extended cover (DANZIGERFDI, 2000a).

The following kinds of investments are insured from a member country into a host member country: investment for the carrying out of a new project; expansion, modernisation, or financial restructuring of an existing project; acquisition of assets under a programme to privatise state; acquisition of equity in a project; provision of shareholder loans or loan guarantees issued by shareholders for a project, provided the term of the loan is at least 3 years; loans to third-party borrowers, if equity in the project is concurrently insured by MIGA; and technical assistance and management contracts, and franchise and license agreements, if the contract term is at least 3 years and the investor's remuneration is conditional on the operating results of the project (Ibid.).

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Recent political and economic reforms in many African countries have made the continent more attractive to foreign investors. Because of this, MIGA has been able to play an important role in encouraging foreign investors through providing insurance against certain political risks, providing legal advice to members to help them create favourable legal regimes for foreign investment and offering investment promotion assistance for specific sectors.

The following evidence shows that MIGA has focused its substantial efforts on encouraging the flow of FDI into the continent. Since 1991, when MIGA signed its first guarantee for a project in Africa, it has issued more than US$120 million in coverage for approximately US$900 million of foreign investments in eight African countries (Multilateral Investment Guarantee Agency, 2000).

The role of MIGA in Africa is an essential one because FDI plays an important role in stimulating economic growth. Economic growth translates into job creation, which in turn increases demand for goods and services. As mentioned before, besides bringing foreign capital to a country, FDI also bring in additional benefits through technology transfer, managerial expertise.

2.2.2. World Association of Investment Promotion Agencies (WAIPA)

WAIPA is an NGO that was established in April 1995, under the auspices of UNCTAD. The Association aims to promote the exchange of best practices in investment promotion and worldwide networking among investment promotion agencies (IPAs). Since its inception, IPAs from 104 countries have become WAIPA members (UNCTAD, 2000). The following are WAIPA objectives:

i. to strengthen information gathering systems and information exchange amongst IPAs;

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ii. to share country and regional experiences in attracting investment;

iii. to assist IPAs in gaining access to technical assistance and training through referrals to relevant agencies;

iv. to facilitate access to funding and other assistance, through referrals to relevant bilateral and multilateral agencies, for the development and implementation of investment promotion programmes; and

v. to assist IPAs in advising their respective governments in the formulation of appropriate investment promotion policies and strategies (Jacobs, 1999:35).

Furthermore, WAIPA has ten requirements for an ideal investment environment. These are: political stability; economic strength, a welcoming attitude; foreign equity ownership; exchange control liberalisation, a trainable labour force; an efficient banking system; an efficient bureaucracy; sound infrastructure; and quality of life (Breytenbach, 1999a). IPAs strive to facilitate their governments to meet these ten requirements in promoting investment. Thus, the role played by IPAs in developing countries is an important. Direct foreign investors before investing in a country are likely to assess the role played by the host country's IPA.

2.2.3. WTO: Rules of Origin and TRIMs

2.2.3.1. The WTO's Rules of Origin

Desperately in need of foreign investment and favourable trade conditions in order to advance, many developing countries joined the World Trade Organisation (WTO). Given the current state of affairs in the world system, a claim can be made that the 21st century will witness more harmonisation of

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trade and investment measures within the WTO. These take two lags – rules of origin and Trade-related Investment Measures (TRIMs).

Rules of origin are used to implement measures and instruments of commercial policy such as anti-dumping duties and safeguard measures; to determine whether imported products shall receive most-favoured-nation (MFN) treatment or preferential treatment; for the purpose of trade statistics; for the application of labelling and marking requirements; and for government procurement (World Trade Organisation, 1999a).

For the sake of simplicity, rules of origin seek to address minimum requirements with regard to the local content. This is important in order to qualify for duty-free status within a free trade agreement (Breytenbach, 1999a). The importance of rules of origin is derived from the fact that duties and restrictions in several cases depend upon the source of imports. A tight regulation of local content within a free trade agreement such as the Southern African Customs Union (SACU) is precipitated by the variation in the practice of governments with regard to the rules of origin.

SACOB commenting in relation to the protocol on the reduction of tariffs between Southern African Development Community (SADC) pointed out that rules of origin would be of absolute importance in the impending lowering of tariffs given that almost all SADC members, including South Africa, have poor customs control (Agro-Economic Week, 1998/06/03).

Clearly, the substantial transformation of rules of origin requirement within SADC is necessary. This is a worldwide complexity since some governments apply the criterion of change of tariff classification, others the *ad valorem* percentage criterion and yet others the criterion of manufacturing or processing operation. In a globalising world it has become even more important that a degree of harmonisation is achieved in these practices of

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members in implementing such a requirement (World Trade Organisation, 1999a).

2.2.3.2. Trade-Related Investment Measures (TRIMs)

Similarly to the rules of origin, TRIMs outlaws excessive local content rules made by some governments. Breytenbach (1999a) maintains that for TRIMs, excessive local content distorts and/or restricts international trade. Protectionist rules are therefore outlawed, but developing countries have been given seven years to phase out (or limit within the rules) local content requirements. The importance of TRIMs, as defined in its preamble include, "the expansion and progressive liberalisation of world trade and to facilitate investment across international frontiers so as to increase the economic growth of all trading partners, particularly developing country members, while ensuring free competition" (World Trade Organisation, 1999b).

However, these pose a problem in defining what is a "trade-related investment measure". According to the World Trade Organisation (1999b), the term "TRIMs" is not defined in the main provision (1) of the TRIMs Agreement. Furthermore, another problem with the main provision (1) is that TRIMs Agreement is not concerned with the regulation of foreign investment. Instead, it focuses mainly on the discriminatory treatment of imported and exported products (Ibid.).

As a result, the local content requirement imposed in a non-discriminatory manner on domestic and foreign enterprises will be inconsistent with the TRIMs Agreement because it involves discriminatory treatment of imported products in favour of domestic products. The fact that there is no discrimination between domestic and foreign investors in the imposition of the requirement is irrelevant under the TRIMs Agreement.

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It is therefore necessary that, through the Multilateral Agreements on Investment (MAI), countries call TRIMs Agreement for consideration in order to complement it with the provisions on investment policy and competition policy (Schwanen, 1996:20). This is essential because the current TRIMs Agreement distorts trade.

2.2.4. MNCs Preferences

Direct foreign investors have certain preferences that suit their investment needs. These preferences can be divided into three categories, namely: resource seeking (e.g. oil and minerals); market seeking (e.g. access to trade blocks); and finally, efficiency seeking (such as the market itself, transport, electricity, water supply and other important utilities). In Africa, direct foreign investors seek to extract natural resources. UNCTAD (1998:185) provides that FDI frontrunners in Africa are countries with economies dominated by primary products (particularly mineral resources).

Overall, Africa has lost in attractiveness as a market, as compared to the markets of other developing regions, during the past two decades. However, as many governments restructure their economies, African market has more to offer to MNCs. Custom unions such as SACU are also removing trade barriers to outsiders (UNCTAD, 1998:187). According to UNCTAD (1998:188), except for Tunisia, none of the frontrunner countries has received efficiency-seeking FDI on large scale. Efficiency-seeking MNCs require good infrastructure, multi-skilled workforce, liberalised policies and easy access to the markets of industrialised countries. This combination of factors necessary to attract MNCs efficiency-seekers is difficult to achieve for many African countries.

Furthermore, there are sets of requirements that make a country attractive to MNCs, which according to Michalet (2000:7) institutional background is a

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prerequisite. As part of WAIPA requirements, ideally such background includes - political stability; economic strength; foreign equity ownership; repatriation of profits; efficient banking system; efficient bureaucracy; and a non-discriminatory legal and regulatory environment.

Michalet goes on to say that requirements more directly related to doing business are less than prerequisites. However, this does not mean that there are not important. These requirements include a big and growing market; efficient communication system; efficient local support industries; trainable labour force and to lesser extent, depending on the individual MNC preferences - fiscal incentives (e.g. tax holidays).

2.3. Host Country Policies

2.3.1. Resources Control

Resource-seekers MNCs are mostly concerned with the accessibility of resources in the host country. As a result, excessive restrictions put on resources will limit potential foreign direct investors. In host economies where natural resources, particularly minerals and/or raw materials of any kind, are the main export earnings, the restriction of resources will have detrimental effects to those economies.

However, where the host economy is resource rich, the host government may be tempted to restrict resources to foreign investors. In some cases local firms may put pressure on the government for protection, while trade unions on the same vein voicing against the privatisation of resources and/or giving away of those resources arguing that they are "silver family" which passes from one generation to the other.

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In cases such as these, Gomes-Casseres (1990) provides that some foreign firms opt to venture with local firms. However, if a foreign firm prefers full ownership above everything, it will not invest. If reverse is the case, the firm is likely to accept the type of ownership offered by the host government. Consequently, where competition to invest in the restrictive host economy is high, the bargaining power of firms that prefer full ownership is invariably reduced.

Nevertheless, many African countries do not have the bargaining power enough to force MNCs to give-in to their country's demands. In desperate need for FDI, which MNCs are well aware of, it is difficult for host governments in the continent to strategise favourable conditions that suit best their country's needs.

2.3.2. Taxation of MNCs

As a result of the complexities surrounding tax treaties, Schwanen (1996:17) argues that MAI should carefully examine how tax liability is assigned in a world of global production. This is because the methods by which international activities (of either domestic- or foreign-owned MNCs) are taxed may come to have an inordinate effect on the location of investment. As well, difficulty in assigning tax liability could easily become a negotiating stumbling block on the road to greater investment and trade liberalisation.

The complexities surrounding the assignment of tax liability through MAI with no doubt influences the flow of FDI more than other types of investment. As FDI is mostly affected by governments' decision on corporate tax, many countries tend to harmonise their tax regimes by entering into tax treaties (double taxation agreements). Tax treaties are inter-governmental agreements to eliminate or reduce the incidence of double taxation on foreign direct investment, as well as to enable governments to give mutual assistance

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to their treaty partners in collecting taxes and obtaining information about persons who are resident for tax purposes in their territory (DANZIGERFDI, 2000b).

Double taxation relief can take three forms. The capital exporting country may allow for either a deduction of taxes paid in the host country, or a credit up to that amount which would have been incurred under pure domestic taxation, or completely exempt from taxation (Janeba, 1993:313). However, the capital-exporting country would prefer less capital outflow when the host country taxes foreign investment income. This reduces the exporting country's tax rate down to zero, such that the form of double taxation relief becomes irrelevant (Ibid.).

Furthermore, the credit method has the smallest requirement for a *Pareto-improvement* (probability density function to agreement) since neither a compensatory payment nor fully harmonised tax rates are necessary. The exception method requires harmonised tax rates, whereas under the deduction method an efficient capital allocation is compatible with a Pareto-improvement only when a side payment is made (Ibid.). Clearly this suggests that in double taxation treaties, the credit and exemption methods are almost invariably agreed on. In choosing the tax method, increasingly governments realise that tax competition leads to an inefficient allocation of world's capital stock, which raises the issue of cooperation. Thus, double taxation treaties can be understood as a form of cooperation.

2.3.3. Export Processing Zones (EPZs)

EPZ programmes are frequently an integral part of strategies for increasing the export orientation of national economies (Nel, 1994:106). EPZ incorporates a free trade zone (also called as a specialised version of the free trade zone), which is a geographically defined, enclosed and policed area in

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or near an international seaport or airport. With regard to customs, the EPZ is like a free trade zone, and is treated as falling outside the host country's domestic customs area (DANZIGERFDI, 2000c) & (Nel, 1994:101).

Consequently, custom duties, import controls and export taxes do not apply in the EPZ, but other host country laws do apply in its area. This is because EPZ is a demarcated area which has the physical characteristics of an industrial estate, in which a range of host country domestic laws do not apply and in which the host country government can implement policies designed to enable firms to invest profitably on the basis of the host country's comparative locational advantage (Ibid.). EPZ helps, particularly developing countries that cannot otherwise compete for FDI through other investment incentives. Thus, EPZs are usually very pertinent in developing countries.

2.3.4. Repatriation of Profits

According to Itagaki (1988:376) uncertainty about restrictions on profit repatriation is what constraints MNCs to invest overseas, particularly in developing countries where macroeconomic policies are mostly unpredictable. Many, if not most, governments recognise the need to protect foreign investors against the limits on the transfer of investment income out of the country. Schwanen (1996:9) maintains that the availability of such protection is a basic requirement for attracting global FDI flows.

As a general practice, MNCs desire to repatriate their profits from the host country to their home country. In this case, the inherent conflict of interests between MNCs and the host government is inevitable. The host government would prefer otherwise that profits be reinvested in the economy. However, developing countries realise MNCs reluctance to take their capital to where repatriation is restricted and consequently, they offer free repatriation of profits. To this, small economies that lack the capacity to effectively compete

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for FDI are left with no other option but to offer free profit repatriation among other incentives to make their economies competitively attractive for FDI.

Although it is clear that increasingly MNCs are becoming more independent from the influence of states, nevertheless their affiliation with their home country is still evident. As a result, free repatriation of profits escalates the imbalance between developed and developing countries. This however makes the lagging behind forever behind. Furthermore, where the host government resort to attract FDI through EPZ and tax exemptions, free profit repatriation policy has a harmful effect in terms of the long-term economic growth. Hence if the small economy wants to attract FDI, there are fewer options available but not to restrict the repatriation of profits.

2.3.5. Other Investment Incentives

An appreciation of the benefits that FDI can bring, together with the widespread adoption of development strategies based on increased integration in the world economy, have resulted in most countries actively seeking FDI, often with the use of incentives. As competition for FDI intensifies, some host governments find it increasingly difficult to offer less favourable conditions for FDI than those offered by other competing nations.

Investment incentives can be classified three ways: 1) financial; 2) fiscal and 3) indirect incentives. Financial incentives involve the provision of funds directly to the foreign investor by the host government, for example, in the form of investment grants and subsidised credits. Secondly, fiscal incentives are designed to reduce the overall tax burden to foreign investors. This category includes such items as tax holidays, and exemptions from import duties on raw materials, intermediate inputs and capital goods.

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Finally, indirect incentives are designed to enhance the profitability of FDI in various indirect ways. For example, the government may provide land and designated infrastructure at less-than-commercial prices. Alternatively, the government may grant the foreign firm a privileged market position, in the form of preferential access to government contracts, a monopoly position, a closing of the market for further entry, and protection from import competition or special regulatory treatment.

A number of governments have voiced concern with the proliferation of investment incentives perceived to distort investment patterns in favour of countries with "deep pockets". The complaint is about the unjust spillovers that incentives give to MNCs. According to the WTO secretariat report issued in 1996 there are three considerations to these: distributional, knowledge and political economy considerations (World Trade Organisation, 1996).

2.3.5.1. Distributional Considerations

In terms of distributional considerations, investment incentives transfer part of the value of FDI-related spillovers from the host countries to MNCs. The more intense the competition among potential hosts, the greater is the proportion of potential gains that are transferred to the MNCs. If the total stock of FDI available for investment in a region is largely insensitive to the amount of incentives being offered, host countries may find themselves providing incentives that simply neutralise other countries' incentives without actually increasing the amount of FDI they obtain. Such incentives are nothing more than a transfer of income from these countries to the investing firms.

2.3.5.2. Knowledge Considerations

Arguments in favour of incentives rely heavily on the assumption that governments have detailed knowledge of the value/size of the positive

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externalities associated with each FDI project. In practice, it would be an almost impossible task to calculate these effects with any accuracy, even with the aid of well-trained specialists. In reality, getting drawn into competitive bidding for an FDI project is like sending government officials to an auction to bid on an item whose actual value to the country is largely a mystery.

As the winning host country generally is the one with the most optimistic assessment of the project's value to the country, incentive competition can give rise to over-bidding, the so-called "winner's curse". For example, if a country offers $185 million in incentives to obtain an FDI project that brings $135 million in total benefits, the country as a whole is $50 million worse off with the FDI project.

2.3.5.3. Political Economy Considerations

Lack of knowledge is not the only reason a government might offer an amount of incentives that exceeds the benefits of FDI. The benefits from a particular FDI project are likely to accrue to certain groups within the economy, for example, to a particular region or to workers fortunate enough to get jobs with the affiliate while the costs of the investment incentives are likely to be spread more equally across the society.

This different incidence of benefits and costs among groups in the host country opens the door for politically influential special interest groups to lobby the government to provide investment incentives which primarily benefit them, but which are largely paid for by other groups. The previously mentioned knowledge limitations simply open this door even wider.

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2.3.5.4. Introducing New Distortions

The discussion has assumed that the cost to a host country of providing a million dollars worth of incentives is just a million dollars. This is overly optimistic. Financial incentives must be financed, and taxes create their own inefficiencies. Fiscal incentives are no better, and non-pecuniary (indirect) incentives can be even worse. For example, granting a monopoly position to a foreign firm allows the host government to escape direct budgetary outlays by shifting the cost onto consumers in the form of higher than necessary prices.

Developing countries, in particular, may for budgetary or balance-of-payment reasons feel compelled to utilise highly distorting incentives, such as monopoly rights and guarantees against import competition to foreign investment projects. In contrast, developed countries with "deeper pockets" may offer straightforward financial grants with less distorting effects. This asymmetry puts developing countries at an extra disadvantage when competing for FDI, beyond a simple lack of deep pockets.

In summary, once the realities of using investment incentives to compete for FDI are taken into account, it is very difficult not to conclude that the world economy and the vast majority of individual countries would be better off with a multilateral agreement that included limitations on the use of investment incentives. Such incentives are no different from any other kind of subsidy programmes and, as with most other kinds of subsidies, developed countries (and in this case the largest developing countries) can out-spend the vast majority of other countries.

Under very stringent conditions, investment incentives can correct for market imperfections. But the reality is that the necessary knowledge is missing. The programmes are very vulnerable to political capture by special interest groups, and there is considerable scope not only for introducing new

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distortions, but also for redistributing income in a regressive way. The latter effect is a particular concern since developing countries as a group are net recipients of FDI.

2.4. Assessment

The performance of the developing economies is increasingly depending on the quantity of the linkages between their economies and those of the outside world (developed). A set of policies aimed at improving these linkages would achieve a better investment relationship between host governments and MNCs. It would harness the linkages' beneficial effects and contain the problems they create.

Thus for the relationship between governments and MNCs to be a harmonious one, governments should pursue investment policies which are widely applicable and transparent to MNCs. The starting point to transparency is privatisation, however other liberalisations pertinent. Needless to say, privatisation increases and ensures private sector participation, which in turn increases private investors' base. This increase would lead to capital inflow, technology transfer and management expertise to the host country.

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CHAPTER THREE: MAKING PRIVATISATION WORK

3.1. The Role of Privatisation Agencies and Advisers

Privatisation agencies play an important role in the administration of privatisation programmes (e.g. divestiture). Thus, governments establish these agencies in order to: 1) maintain a complete registry of the social and state capital available for privatisation, 2) to organise the sale of aggregated shares representing the capital available for sale; and 3) to identify potential strategic investors, negotiates and conclude contracts with strategic investors (however, in some cases, the contract is subjected to Cabinet approval). Generally, privatisation agencies assist potential buyers or investors through:

i. offering advice on specific investment opportunities, including company profiles;
ii. furnishing information on the existing legislation;
iii. helping potential investors with identifying companies seeking investment and arranging contacts with potential partners;
iv. providing information on the blocks of shares which will be available for sale through the Stock Exchange; and
v. conducting direct negotiations with strategic investors.

However, where privatisation agencies lack the capacity to execute certain privatisation transactions, external advisers could be hired. In most cases this will be an accounting firm, a bank or an advisory body to design specific outreach and information activities.

3.2. Divestiture Process

Ideally, in the process of divestiture, investors enter bids to purchase the state assets or simply SOEs, with the winner being selected based on, among other things, evaluation of management skills; financial resources and business

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plans. Usually successful bidders are expected to build the enterprise into a profitable and productive venture which would contribute to tax revenue and employment (in this regard, post divestiture regulation becomes crucial). Furthermore, successful bidders pay a negotiated price to become new owners and assume business. This frees up the government money formerly spent supporting the company to be used more productively.

However, not all divestiture are without problems and dissatisfactions. In countries where privatisation is seen as nothing but giving away national assets (e.g. voucher privatisation in Russia), widespread distortions and mixed feelings about divestiture usually arise (Stiglitz, 1999). Thus, to avoid these, divestiture processes should be well planned and paced. Consequently, the sequencing of divestiture is an important one because it is, after all, the mode of divestiture which adds value to privatisation.

Furthermore, it is important that those in charge of divestiture document the information on each SOE listed for divestiture. Once that has been done, the mode of divestiture should be selected (e.g. competitive tenders). However, which form the divestiture process take depends on the technique preferred for a particular SOE. The techniques may take many forms, namely: the sale of shares, either publicly or privately; and the formation of strategic partnerships and alliances between the state and private sector investors where venturing is necessary. It is important, however, that where the SOE is moribund, be liquidated instead of being divested to private investors.

Upon the completion of divestiture, the employment of some workers will usually be terminated, with government paying the applicable end-of-service benefits. This permits investors to start with a clean slate and, most importantly, to decide their own levels of staffing. However, the effects of liabilities and retrenchments should be minimised in order to have less trade offs.

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African countries' experience of divestiture has been a good one despite their ailing economies and SOEs' heavy deficits. Seeking strategic partners with abundant benefits facilitated this. Also setting a clear objective and transparency in divesting SOEs made the process of divestiture less cumbersome. Ghana for one has been very successful in doing this (GHANA, 2000). Zambia is one of African countries that have managed to divest its SOE transparently and with minimised costs (Zambia Privatisation Agency, 2000a).

3.3. Techniques of Privatisation

The principal strategies for divestiture include public offerings, private offerings and management and employees buy-outs. Public offerings are appropriate for large privatisation. This technique is attractive because it increases the local investor base and provides government with much-needed funds in the short-term (Tanyi, 1997:79). However, due to acute asymmetries of information, the absence of an appropriate mechanism for corporate valuation, and the lack of stock exchanges in most African countries, this technique can be found difficult to implement.

Private offerings are most appropriate for small and loss-making enterprises. Because it involves private negotiations between the government and potential buyers, it is susceptible to abuse. Consequently, a deliberate and conscious effort towards transparency must be pursued. Without such transparency, a new government, claiming that the *ancien regime* had misappropriated the crown jewels, might feel inclined to reverse the privatisation process (Ibid.).

Management and employee buy-outs involve offering tranches of stock to eligible managers and employees. By owning a stake in the enterprise, managers and employees are likely to align their personal interests with the

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long-term interest of the enterprise. Whereas employee participation should be encouraged, the complete transfer of the enterprise to employees should be exercised, if at all, with caution. To this, a wise option is to devote most of the stock to managers and less to employees because managers know more about the enterprise than employees do. And equally so, managers tend to have a better financial base than employees.

3.3.1. Public Offering of Shares

Through public offerings the government invites applications for the shares at a set price. Where the issue is oversubscribed, the shares are allocated according to a rationing scheme that is determined by the government and the underwriters (company that guarantees and sell shares on behalf of the enterprise). Public offerings are attractive because they increase the local investor base and generate revenue for the government in the short term. However, in order for this technique to be effective, an efficient system of corporate valuation should be in place. Both the selling government and prospective investors must be in a position to ascertain the true market value of the enterprise (Tanyi, 1997:80).

The absence of an efficient system of valuation limits the effectiveness of public offerings. In Africa, for example, there are acute asymmetries of information because of the unavailability financial and other price-sensitive information about SOEs. Since some of these SOEs do not keep regular and consistence financial records, independent evaluators should be hired for valuation. However, although the enlisting of accounting firms to carry out valuations is necessary, the market remains the most efficient indicator of corporate behaviour and value (Tanyi, 1997:81). Therefore, an expert in valuations should not only look at the accounting value but also to the economic value of the assets.

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3.3.2. Private Offering of Shares

Private offerings differ from public offerings because the government negotiates directly with a single investor or a group of investors. Private sales are usually dependent on the factors of the individual SOE; government preferences and interests on the SOE, and the judgement of the market for the specific product. According to Tanyi (1997:83), the buyer's identity and investment plan are critical for private sales. In terms of achieving equity ownership among its diverse citizens, the government may consider such attributes as race and ethnic dimension to ensure that buyers from a single ethnic group do not acquire lucrative enterprises and not others.

Similarly, the government may want to ensure that buyers with the best investment plan (i.e. capable of maintaining or creating jobs and boosting development) prevail. Furthermore, it is important in private sales that the government stipulates a minimum holding period for the shares acquired in order to allow for proper performance evaluations. This is to avoid ill performance and to a certain extent, the "crony capitalism syndrome".

It makes little sense that the privileged class is allowed to acquire shares and pass them over outside the privileged class for profit or for corruption purposes. Although such arbitrage activities can eventually lead to efficiency in the secondary market, they validate the initial policy of selective redistribution. Given that this method of divestiture is essentially private and susceptible to abuse, a strong need for transparency is necessary.

3.3.3. Management and Employees Buy-outs

On the one hand, a management buy-out is when incumbent managers acquire a controlling interest in the SOE. On the other hand, an employee buy-out is when employees (outside the management) acquire a controlling

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interest in the company. Management and employee buy-outs can also be combined. This has occurred in Zambia to fulfil privatisation objectives mainly in small and medium sized enterprises (Zambia Privatisation Agency, 2000a).

According to theory of the firm, control without ownership is typically the hallmark of managers. Managers are simply nothing but agents of shareholders. To this, management buy-out reduces the agency problem. The agency problem is inherent in the nature of principal-manager relationship. The Agency Problem Theory (APT) assumes that managers do not always act on the best interests of their principals (henceforth shareholders), but instead seek to maximise their interests. Management buy-out therefore provides a catalyst for reuniting ownership and control (Green, 1997:119). Personal stake encourages managers to be more committed to common goals, to work harder and to be more innovative.

The rationale of management and employee buy-outs lies with, according to Green (1997:125), the four motivating factors linking ownership to personal and organisational effectiveness, these includes:

i. self-interest, which provides the rationale for referring to ownership as an incentive. Personal remuneration is more closely tied to profits, which are affected by one's own actions and those of one's colleagues;
ii. mutuality, which gives one a sense of belonging and therefore, increases staff cohesiveness;
iii. responsibility, which is more attached to personal visibility, personal job responsibility and personal accountability; and
iv. control, which makes one not to feel as being subjected to the whims of parental control. This factor gives more intrinsic satisfaction to managers than it does to employees, because of the level of control employees may exercise as participant owners.

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Both management and employee buy-outs are important divestiture methods which eliminate problems related to passing over the assets from public to private hands. However, in order to optimise their effectiveness, they should be well planned and assessed accordingly. Clearly, management buy-out is likely to be more successful because managers generally would be in a better financial position to buy stocks than would the employees. And also managers possess detailed knowledge more than employees about the workings of the enterprise.

3.4. Strategic Partnerships and Alliances

3.4.1. Introduction

The terminology used to describe the forms of co-operation strategies varies widely. Keegan (1997:240) maintains that phrases such as collaborative agreements, strategic alliances, strategic international alliances, and global strategic partnerships (GSPs) are frequently used to refer to linkages between enterprises to jointly pursue a common goal. As a result an alliance can take a variety of forms, ranging from arm's-length contract to a joint venture.

Simply because of this varied interpretations of the term, it is necessary to define a strategic alliance in terms of three characteristics it possesses. A strategic alliance is therefore seen as two or more firms working together to pursue a set of agreed upon goals but remain independent subsequent to the formation of the alliance. Secondly, the partner firms share the benefits of the alliance and control over the performance of assigned tasks. And finally, the partner firms contribute on a continuing basis in one or more key strategic areas [e.g. technology and products (Yoshino and Rangan, 1995:5)]. Thus, strategic alliances are of a cooperative nature.

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Governments worldwide encourage and stimulate strategic alliances. According to Mockler (1999:4), in cooperation with MNCs, governments use strategic alliances in many ways: 1) to privatise SOEs while continuing to profit from and to some degree control the business; 2) to attract capital while nurturing local business; 3) to bring technology to their country, governments like companies do not always have the technology they need (Freidheim, 1998:43); and 4) to improve overall economic performance quickly, especially in developing countries, without entirely relinquishing control of SOEs to foreigners.

Considering the rate at which marriages are taking place in the form of alliances worldwide today, needless to say is that there is a growing euphoria about alliances as a panacea to all efficiency problems both in public and private enterprises. Given the ailing state of SOEs in developing countries, many governments see foreign partnerships and alliances as feasible ways to restructure their SOEs to become more productive and efficient parallel to private enterprises. In the same vein, MNCs see partnerships and alliances with governments giving them the opportunity to access foreign markets and resources with fewer restrictions.

3.4.2. Public-Private Partnerships (PPPs)

Partnerships between public sector and private sector are increasingly becoming the marriages of the future. They promise abundant benefits and yet, amicable and harmonious relationship between the two. PPPs can be defined as contractual relationships between governments and private sector operators to share and divide responsibilities and risks in delivering a service or developing infrastructure (Heymans and Schur, 1999:608). The enthusiasm for PPPs rest on the idea that public sector is incapable of delivering alone, and that PPPs would assist in realising resources from private sector in the implementation of major development objectives (Hemson, 1998:1).

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The PPP concentrate on 'direct private-sector' involvement through equity investment in, and/or the management and operation of, infrastructure facilities such as water, roads, power and so on. A range of different forms of PPP may be identified along a spectrum of limited involvement (e.g. a management contract) through full privately owned utilities (Department of Finance, 1996:2). Furthermore, various PPP options move beyond the contractual range whereby ownership of assets remains with the government, to an ownership range where assets move into the private sector such as in the case of franchises and leases (Kotze, Ferguson and Leigland, 1999:627).

Increasingly in PPPs, the emphasis on the private component and involves a private contractor being responsible for various combinations of feasibility studies, project financing, project construction, operation and management and ownership. Thus, PPPs represent, to a greater extent, innovative approaches to the problems of inertia and traditional methods used by governments. Although privatisation in the sense of the sale of public assets represents the most visible aspect of the commercialisation process, a profound challenge to the conception of direct service delivery comes in the field of government by contract.

According to Hemson (1998:17) the commercialisation and privatisation of government operations were not initially targeted as conservative governments prioritised the large national state enterprises. Now they are being organised around the slogan of 'value for money'. Privatisation of utilities in the form of PPPs, as manifested by the British experience, can therefore be very effective (Hemson, 1998).

In summary, creating efficient and effective PPPs requires deployed of resources to the best use. However, placing service delivery on a commercial footing may require considerable investment in human resources – developing skills, introducing new management system and incentives, changing the culture of the organisation and creating a sense of purpose and

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responsibility. Furthermore, a service provider must understand the market in which it operates. A commercial approach is essential. This means a better understanding of consumer needs, managing relationships and getting the pricing and the product right. If there is an incentive of higher profits for higher levels of service, then the service provider will be keen to develop the market further, provided it is affordable to the consumers. Thus careful attention to cost recovery is essential (Jackson and Hlahla, 1999:562).

3.4.3. Foreign Partners and Alliances

In instances where it is not acceptable to transfer an existing state enterprise in its entirety to the private sector or where the nature or extent of a new enterprise would require the involvement of the state, such an enterprise can be managed by a partnership between the state and the private sector. A partnership of this nature may have the benefit of reconciling private sector approach to management with public sector strategic interest in such an undertaking.

3.4.3.1. Franchises & Leasing

In this form of privatisation, the public corporation remains responsible for the provision of specific goods and services, under specified contractual obligations. The public corporation grants the private sector an exclusive supply in a particular defined locality and retains control of the prices of goods or services. The contract is granted for a specific time period. This gives the public corporation the opportunity to review undertakers' performance. And this way, better service delivery at low prices can be ensured, simply because private undertakers operate at market rates which induces more market entry and therefore competition.

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3.4.3.2. Management Contracts

In this form of privatisation, the SOE remains responsible for the prevision of specific goods and services, but contracts with one or more private undertakings to provide the goods or services, under specified conditions, and at an agreed price. Such contracting can be justified if the public sector is not able to undertake the service or activity or if the private sector can perform it as or more efficiently or economically.

3.4.3.3. Transfer of Ownership: Minority & Majority Shareholding

The transfer of ownership depends on the motivation of governments. Some governments privatise more than 51% SOE stake while others restrict the transfer of SOE stake to 49% in order to retain control of the SOE. Privatising 51% of SOE stake to foreigners means giving effective control to outsiders and this is found to be unacceptable to some governments.

However, many governments do not seem to be concerned about applying one policy across the board. In the case of the former, governments may decide to give away effective control to foreigners simply because it is necessary for the efficiency of the enterprise. This would be the case with highly indebted SOEs.

In the latter, partial privatisation may be warranted due to structural necessity. That is, not to give up effective control because venturing and other forms of partnerships may get the enterprise out of distress. To this end, three main models of transfer of ownership motivations are identified: The British Model, the Finnish Model, and the French Model.

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3.4.3.3.1. The British Model

This model is driven primarily by ideological reasons. It sought to rid the state of the responsibility for the enterprise to be privatised at almost any cost. The preferred mechanism is market floatation. It has also been part of a policy of "popular capitalism". As such, the privatisation has generally been priced attractively in order to tempt the small shareholder to invest (African Finance and Investment, 1997).

Governments who follow this model are likely to own less than majority shares. Zambia has also followed the same model in order to assist potential Zambian buyers with no funds to participate in the privatisation programme by providing: deferred payment schemes, public flotations and ZPA Mortgage Scheme for houses and deferral of payment for houses (Zambia Privatisation Agency, 2000a).

3.4.3.3.2. The Finnish Model

This model is driven primarily by necessity. Following the collapse of the former USSR, Finland faced a severe economic crisis. Unemployment rose sharply, enterprises collapsed, the government deficit soared under the burden of social security payment. The national banking system was in severe difficulty. And the Finnish government was unable to bail out its troubled industries.

Instead the Finnish government foresaw a need to attract sufficient capital to enable the survival of the enterprises and sold all the SOEs interests (African Finance and Investment, 1997). Clearly, this model aims at mobilising private sector to takeover troubled SOEs. However, bidders should prove themselves to have the capacity to reengineer these enterprises into viable profit making business actors. The Finnish government has left the legacy. And like any

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other government faced with the same dilemma, giving up all the interests to bail out its SOEs is inevitable.

3.4.3.3.3. The French Model

This model is driven not by the ideology or necessity. The pragmatic motivation is one of a series of policy measures aimed at reaching the economic goals. To this, the French government primarily wished to raise capital to reduce the government-borrowing requirement (Ibid.). Thus, this model essentially keeps one's cake in order to eating it latter. Prior to privatisation, core blocks of shareholders are put in place and then SOEs can be sold to investors (particularly foreign investors). The purpose of this is to ostensibly ensure that bidders have long-term commitment to the industry in order to avoid problems related to the Anglo-Saxon malady of short-termism.

Due to the close, indeed incestuous, relationship between the French political and business elite, the core shareholders ensure not only the security of management, but also that the enterprises continued to follow French government social objectives. South Africa follows the same model in the privatisation plans for Denel; Eskom; Telkom and Transnet. The reason behind the partial privatisation of these enterprises emanates from the trade unions pressure to the government not to privatise more than 49% (to keep the “silver family” at home).

In summary, the transfer of ownership is situational and will vary from country-to-country. Some countries’ enterprises can still perform better under the state control and therefore a need to privatise the whole enterprise is neither necessary nor desirable depending on the political atmosphere. Government who follows the French model would do so in order to exercise effective control of the enterprise by keeping majority shares.

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3.5. Assessment

To make privatisation work, each stage of privatisation should involve the balancing of both economic and political goals. What is possible is also shaped by the specifics of the business involved, and other country economic circumstances, particularly those relating to the stage of development of domestic financial markets. This panoply of factors determines the institutional framework approach to the whole programme, that is, how to structure each particular divestiture; the steps that need to be taken in preparation for sale; and how to manage the sale and negotiations.

Some countries with unsophisticated capital markets have problems to pursue privatisation by conventional equity sales. Selling SOEs to foreign buyers in this case should be facilitated. This way, more FDI follow from the involvement of foreign investors when they bring modern technology, marketing and management skills.

Managing the sale process involves balancing two factors. The first is the nature of the business in question, in particular its size and complexity, and, not often appreciated, its attractiveness to potential buyers. The second is the need of governments to be seen to have been fair, and, especially, not to have undersold the "crown jewels".

Ensuring that the buyer is properly qualified may be important if the future development of the company is a concern. In some cases, many aspects of complex sales cannot be simplified to a cash price and for some business there may be only one or even no buyers. Thus, pre-qualification of buyers, pre-negotiation of tender conditions or simultaneous negotiation after tender submission with more than one bidder offer solutions to combining a measure of transparency with getting the best deal.

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CHAPTER FOUR: PRIVATISATION IN SOUTH AFRICA

4.1. Introduction

In South Africa, privatisation was initiated in the 1980s but this programme could not be widely implemented by the former government. In the post 1980s era, however, a resurgence of interest in privatisation came about as a structural response to rapid population growth and low economic growth. These conditions created "an invidious fiscal problem", whereby the economy's capacity to yield tax revenue was out of step with the rise in demand for public goods. Truu (1992:103) argues that as some way of resuscitating the national economy, privatisation policy in South Africa seeks to make a virtue out of necessity.

Since 1994, the goals of restructuring have been broadly defined to address the economic, social and political objectives of government, and have been redefined from time to time. A discussion document by the Department of Public Enterprises, which records the decisions arising from a Cabinet in January 1995, lists the objectives of restructuring as follows:

i. to facilitate economic growth ("restructuring should be used to increase competition and guard against monopolistic behaviour");

ii. to fund the RDP ("through carefully targeted expenditure on infrastructure ... [however] a situation of funding short-term current expenditure out of the liquidation of assets ... must be avoided");

iii. to create wider ownership in the South African economy ("restructuring provides an opportunity for widely dispersed ownership ... restructuring must redistribute wealth, boost the small and medium enterprise sector, have sustainable affirmative action implications and facilitate genuine black economic empowerment");

iv. to mobilise private sector capital ("international firms operating in association with local companies ... bring to bear not only the

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management expertise and technology but also the credit standing and ability to finance investment");'

v. To reduce state debt ("restructuring and privatisation proceeds may be used to reduce state debt");

vi. to enhance the competitiveness of state enterprises ("individual state enterprises should be ... positioned to access global resources and markets, particularly in Southern Africa");

vii. to promote fair competition ("fair competition at factor and product markets will promote new entrepreneurial activities and better economic performance in the country"); and

viii. to finance growth and requirements for competitiveness ["there is an inescapable demand for new financing through different forms of domestic and foreign partnerships to promote the infusion of new equity capital and especially technology ... it should be emphasised that growing enterprises are essential to ensure job security for the employed and to generate new employment opportunities for the unemployed"] (Department of Public Enterprises, 1995).

On the issue of implementation, the government identified four processes, which are:

Process 1: Assessment of various SOEs using a matrix and putting each of them into one of three categories: Category 1, those that have an explicit public policy (RDP or socially sensitive); Category 2, those that have public policy dimensions (strategic, but not socially sensitive); and Category 3, those that have no public policy dimensions (privatisation may be considered). This category was subdivided between 'unprofitable' and 'profitable'. These categories are summarised in table 3 overleaf.

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Table 3: Preliminary Categorisation of SOEs

Category 1 Clear Public Policy	**Category 2** Public Policy: Strategic	**Category 3** Non-public Policy
Eskom	Denel	**Profitable**
Telkom	Petronet	Sun Air
Spoornet	Atomic Energy Board	Autonet
SA Post Office	Armsco	Safcol
SABC	Mossgas	Alexkor
Portnet	SAA	**Non-profitable**
SARCC	Strategic Fuel Fund	Transkei Airways
Airports Co.	Assoc	Aventura
Air Traffic	Soekor (Pty) Ltd	Parcel Express (PX)
Navigational Services		Abakor

Source: *Restructuring Discussion Document, 1995, p.13, January.*

Process 2: Consists of policy development in terms of sectors.

Process 3: Consists of reviewing such factors as: composition of Board of Directors, vision and mission, performance and other factors of SOEs.

Process 4: Decisions affecting ownership, accountability, functions and location in the public sector.

This initial restructuring approach was too limited, although the government displayed commitment. Major SOEs were classified under category 1 and category 2. Category 3 only had few, small and insignificant SOEs. Thus, because of these limitations, this approach could not meet government objectives which were to: facilitate economic growth; fund RDP; create wider ownership (empowerment); mobilise private sector capital; reduce state debt;

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enhance the competitiveness of state enterprises; promote fair competition; and finance growth and requirements for competitiveness.

Since the publication of the restructuring discussion document of 1995, there have been a number of further elaborations of its objectives: the 1996 Growth Employment and Redistribution (GEAR) strategy, the 1996 National Framework Agreement (NFA) and the 1999 Interministerial Cabinet Committee on the Restructuring of State Assets (IMCC). Some objectives may have been prioritised differently in the various documents, but little difference exists in the overall statement of objectives, as shown in Table 4.

Table 4: Key Objectives from Various Policy Documents

GEAR (1996)	NFA (1996)	IMCC (1999)
Introducing budget reform to strengthen the redistribution of expenditure	Increasing economic growth and employment	Mobilising private sector capital and expertise
Effecting a faster reduction in the fiscal deficit	Meeting basic needs	Ensuring wider participation in the South African economy
Encouraging a competitive and stable currency	Redeploying assets for growth	Creating effective market structures in the sectors currently dominated by SOEs
Ensuring monetary consistency to limit inflation	Facilitating infrastructural development by mobilising and redirecting private sector capital	Attracting foreign direct investment
Reducing tariffs to complement industrial restructuring	Reducing state debt	Reducing the public sector borrowing requirement
Introducing tax incentives for new competitive investment and labour absorption	Enhancing competitiveness and efficiency of state enterprises	Enhancing the efficiency and effectiveness of SOEs
Accelerating the restructuring of state assets to optimise investment resources	Financing growth and requirements for competitiveness	Financing growth and requirements for competitiveness
Expanding infrastructure investment to address service deficiencies and backlogs	Developing human resources	Accessing globally competitive technology
Ensuring appropriate flexibility in labour markets		
Funding skills training commensurate with needs		
Expanding trade and investment in Southern Africa		
Implementing stable and co-ordinated policies		

Source*: Department of Public Enterprises, 2000, 10 August.*

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Table 4 shows a remarkable consistency among the main objectives of restructuring and other state industrial and economic policies. The more recent objectives have become more specific about the manner in which the competitiveness and growth of the South African economy can be promoted, in particular the references to attracting FDI, creating effective market structures and accessing globally competitive technology. While these latter concerns reflect the changing perceptions of government's overall strategic needs, the government has not abandoned or in any way de-emphasised its earlier objectives.

4.2. Growth, Employment and Redistribution (GEAR)

In June 1996 the South African government released GEAR strategy, which set out its macroeconomic plan. GEAR addresses the role of the state in the economy *vis-à-vis* that of private sector. Easy to notice in GEAR is the attempt to shift the state more towards to a lean and mean model. GEAR also stresses that government should not focus on owning assets or manufacturing enterprises. Rather, the government should focus on regulating the economy, instead of being an owner or producer; encouraging foreign investment by providing an investor friendly climate; and cutting back on fiscal expenditure [see table 4] (Polity, 1996a).

GEAR advocates that privatisation should be part of the macroeconomic policy. This is quite simply because the success of the plan depends, largely, on the sound partnership between the government and the private sector (Ibid.). Without this combine drive, Flint (1997) maintains that South Africa will remain vulnerable to adrift towards a bureaucratic and corrupt form of government, which characterised most of Africa's post-colonial experience.

Realising the peril of Africa's post-colonial experience, GEAR prepares the South African economy in the 21st century to become: a competitive fast-growing economy, which creates sufficient jobs for all work seekers; a redistribution of income and opportunities in favour of the poor; a society in which sound health, education and other services are available to all; and an

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environment in which homes are secure and places of work are productive. To this end, it is believed that this integrated economic strategy will successfully confront the challenges of meeting basic needs, developing human resources, and increasing participation in the democratic institutions of civil society and implementing RDP in all its facets (Polity, 1996a).

The strategy projects that a growth rate of 6 percent per annum and job creation of 400,000 per annum will be achieved by the year 2000 with more concentration on capacity building to meet the demands of international competitiveness. To achieve these, several inter-related developments are called for: accelerated growth of non-gold exports; a brisk expansion in private sector capital formation; an acceleration in public sector investment; an improvement in the employment intensity of investment and output growth; and an increase in infrastructural development and service delivery making intensive use of labour-based techniques (Ibid.).

However, the expansion envisaged in the above aggregates is substantial and entails a major transformation in the environment and behaviour of both the private and the public sectors if, at all, we are to get there in the near future. With no doubt, this would require rigorous steps to implement enabling structures for a competitive platform in order to attain a powerful expansion by the tradable goods sector; a stable environment for confidence and a profitable surge in private investment; a restructured public sector to increase the efficiency of both capital expenditure and service delivery; new sectoral and regional emphases in industrial and infrastructural development; greater labour market flexibility; and enhanced human resource development (Ibid.).

Against this background, it is clear that the success of the strategy to sustain growth on a higher plane requires transformation towards a competitive outward-oriented economy. The South African government already is trying tirelessly to accomplish this. Worldwide evidence shows that economically, successful countries have allowed the private sector to be at the forefront of economic activity while the government's participation is limited to providing collective goods and services. The restructuring of state assets through

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privatisation and outsourcing therefore becomes an important factor of economic management to lessen the extent to which government absorbs funds that can be applied more optimally in the private sector.

There is no doubt that investment in social and economic infrastructure also plays an important role in increasing the productivity of labour and business in this regard, which would be the drive to the attainment of a higher growth. However, at present, South Africa faces a backlog in infrastructure exacerbated by inefficient and highly indebted state enterprises. This, in itself is a hindrance to growth. To confront these problems, privatisation is seen by the government as a better and viable option. The government motivated that privatisation would ease problems in the public sector of: finance, inefficiency, and black empowerment.

4.2.1. Finance and Public Sector Inefficiency

The government argued that there is no enough money to build and maintain the infrastructure that is needed. Therefore, by privatising, the government seeks to invite private sector fund for building the needed infrastructure. And by selling off state assets the government hopes to cut back on annual expenditure and raise money to pay off past debts (ILRIG, 1999:32). The government is also of the position that because of problems related to waste; corruption and lack of efficiency in the public sector, to continue operating state enterprises efficiently with maximum economic use of resources and delivering effective services will be difficult.

4.2.2. Black Empowerment

In terms of black empowerment a number of proposals have been put forward. One of the government's proposals has been to ensure that any sales of state assets go to black owners such as empowerment consortiums, wherein between 5% to 10% of any state parastatal is to be allocated to the National Empowerment Fund (NEF), which excludes Cosatu's investment company, Kopano stake and black empowerment investment companies

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(Sigcau, 1999/02/16). This way, privatisation is supposed to redress the inequalities of apartheid.

A second proposal is to outsource or sell off SOEs to workers. Outsourcing services to workers is a good method of privatisation intertwined with empowerment. Alternatively, workers can acquire shares in the form of employee share option programmes (ESOPs). With these shares, workers gain more control over the enterprise since this allow them to participate directly both as employees and owners.

Another way of empowering black workers proposed is the selling off SOEs to trade unions investment companies (e.g. Cosatu's investment company). This process of privatisation is intended both to empower workers through investment companies while at the same time promoting a harmonious relationship between employers and employees.

4.2.3. Corporate Governance

Enshrined in GEAR is that state entities should have appropriate regulatory policies or proper corporate governance of all state entities to ensure decisive leadership by government, which includes: a formulation of dividend policies, together with clear indications of the objectives and performance appraisal norms for all agencies; a revised policy regarding government guarantees; and appropriate regulatory policies, aimed at ensuring that pricing policies are fair and fully recover operating costs, while also promoting competition or protecting consumers against monopolistic practices.

4.2.4. Foreign Direct Investment (FDI)

GEAR must be seen within the ambit of attracting foreign invest since real growth, as projected in GEAR, will be stimulated by a broad private sector investment (Polity, 1996a). The architectures of GEAR realised that increased

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openness to international trade and capital flows is one of the hallmarks of the more rapidly growing developing economies worldwide.

And behind this trendy massive growth are the benefits FDI brings in the economy. As mentioned before, FDI may come in several ways, among others, modern technology transferred through investment flows; management expertise and high level training in the company of international investment projects; access to international sources of finance; and access to global markets (Polity, 1996a: appendix 12).

4.3. The National Framework Agreement (NFA)

The debates over economic policy between government, labour and business culminated in the general agreement that the state needed to be restructured. The debates were mainly around and often touching key issues such as when the restructuring of the state would take place and who would make the decision about the restructuring? Business wanted the state to step aside and provide more opportunities for the private sector. Unsurprisingly though as business generally prefers a lean and mean state role in the economy.

Labour on the other hand, preferred a developmental state with increased service provision. This is in line with labour needs, as quite often rank and file prefers better service delivery that cost less in order to retain more disposable income, which also mean more personal savings. However, in South Africa, the concern goes deeper than that. Slogans about service provision also call onto the government to redress apartheid backlogs in areas such as housing, health, education and welfare.

Endlessly, some groupings with labour still continue to promote the policy of nationalisation of certain privately owned companies and industries. Congress of South African Trade Unions (COSATU) and its affiliates perpetually hold demonstrations and other actions in response to privatisation proposals.

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In 1995 the conflicts and debates between government and labour on the issue of privatisation ended up with finalising the National Framework Agreement. This was signed through National Economic Development and Labour Council (NEDLAC) by COSATU, the Federation of Unions of South Africa (FEDUSA), and the National Council of Trade Unions (NACTU) as well as the Government of National Unity.

Under the terms of the NFA, all restructuring plans are debated by representatives from government, the relevant union and the company itself. The NFA facilitates the setting up of a number of joint structures of government and labour, and discussions on the plans of restructuring. Thus, the purpose of NFA is to facilitate a negotiated restructuring through a collective bargaining process in terms of the Labour Relations Act of 1995.

Important to note, considering the controversy over privatisation, is that NFA was the first occasion on which the government and organised labour successfully negotiated around the policy of privatisation. Given the volatility of South African organised labour opposition to the policies of privatisation, this was a great achievement in terms of government-labour negotiation about privatisation. This was quite simply due to government efforts to concede to labour needs while at the same time attempting not undermine the effectiveness of the privatisation programme and its potential vast contribution to the economy.

To this end, government concretised some of the objectives in its so called "six pack" programme, namely: belt tightening; reprioritisation of state expenditure; restructuring of state assets and enterprises; restructuring of the public service; building new inter-governmental relations; and developing an internal monitoring capacity for this programme (Umanyano, 1996). This move manifests government commitment, which in many ways satisfies labour, to the continuation of its effective role in productive sectors of the economy. This also shows that restructuring is not necessarily geared towards reducing state involvement in any economic activity.

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Therefore, the NFA can therefore be seen in the context of achieving common consensus on the agreed mode of restructuring based on the following principles:

4.3.1. Re-orientate and Enhance Public Sector Efficiency

The purpose of restructuring state assets is to re-orientate and enhance the public sector's ability to meet the challenges and requirements identified by the RDP. In this context, the enterprise can play an important role in achieving transformation and transition goals as set out in the RDP, which should inform decision-making. (Polity, 1996b).

4.3.2. Labour

Organised labour in general and employees of the relevant public enterprises should participate in policy formulation processes. Since the ultimate aim of restructuring is to improve the quality of life of all South Africans, NFA ensures that the underlying approach of restructuring does not occur at the expense of the workers in state enterprises. Thus, every effort should be made to retain employment. Furthermore, it is in the core of NFA that where restructuring potentially has negative consequences for workers, a social plan must be negotiated with the relevant unions at the enterprise level, which would take account of the worker's interests.

Workers who may be redeployed within or between state enterprises shall therefore enjoy equivalent benefits and conditions of employment as they enjoyed in their previous employment. Furthermore, a coherent and common set of principles need to be developed and applied by government to the structuring of pension and provident funds which are already undergoing massive restructuring. These principles take into account the fundamental changes to SOEs configuration, which would follow the restructuring.

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4.3.3. Historically Disadvantaged Groups

Restructuring must redistribute wealth, boost the small and medium enterprise sector, have sustainable affirmative action implications and facilitate genuine black economic empowerment. The capacity of the historically disadvantaged communities to participate and benefit fully in the restructuring programmes should be ascertained and enhanced. NFA also pays special attention to the needs of entrepreneurs, and the role, which pension and provident funds could play in broadening ownership. In addition investment decisions and asset dispensation of SOEs in the context of overall economic policy rather than piecemeal equity transfers are key elements in achieving the restructuring elements above.

4.3.4. Transparency in Participation

All key stakeholders should be full participants in the policy formulation process, Boards of Directors and other appropriate decision making structures at an agreed level. It was agreed that the policy formulation process should be transparent in all respects. And the agreement should be reached on the procedures for the conveying and protection of commercially sensitive information and operations.

The structure of the NFA is based upon a three-tired structure, with each tier serving a specific function or task.

Tier 1: Provides that government and labour should recognise each other's right to establish its own structures. The government has established Sectoral Task Teams to examine the restructuring options. The Task Teams (TTs) prevail until their reports are produced. Thereafter, the Sectoral Minister's Sub-Committee will take over.

Tier 2: Provides that the set up of the strategic implementation level in terms of the NFA. The composition will comprise a core of 6-a-side from labour and government but others will be drawn in as and when required. Appropriate

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sub-committees and ad hoc committees will be formed as and when necessary. This NFA structure will continue to prevail until the NFA terminates as envisaged.

Tier 3: This is comprised of the Boards of Directors as mandated by the Cabinet and a Labour/Management Committee (Polity, 1996b).

4.4. Restructuring Policy Framework

At a Lekgotla on 29 November 1999, IMCC directed that a policy framework be prepared to guide the restructuring process into the 21st century. On 10 August 2000, the restructuring policy framework was launched. It provides a more comprehensive framework than has existed to date, in order to ensure a consistent approach to restructuring across government and to address perceived market uncertainties about government's restructuring priorities. To this end, the policy framework address these requirements by focusing on:

i. government's vision for restructuring;

ii. the economic and social effects of restructuring;

iii. promoting appropriate regulatory and competitive frameworks;

iv. promoting empowerment and broadening participation in restructuring;

v. improving corporate governance and ensuring improved ethics and probity;

vi. improving the restructuring process; and

vii. the four key enterprises (Department of Public enterprises, 2000).

Significant to this policy framework is its aim to provide government, SOEs and stakeholders with a common frame of reference, integrating and

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reconciling the various objectives for restructuring as championed by the different stakeholders concerned with SOEs. Although the policy framework seeks to reconcile the different objectives, it remains true that different stakeholders will seek to emphasise different objectives at the expense of others.

In this case, trade unions and the wider society may be discontent because management and boards are usually more concerned with improving business efficiency and effectiveness, which will undoubtedly ensure better service delivery and better investment values, thus also meeting macro-economic and social objectives. Nevertheless, other stakeholders who value the latter objectives more highly, may be less enthusiastic about realising improved business performance, especially if they believe that this will occur at the expense of realising their priorities.

The policy framework has managed to gather a general agreement about how the restructuring process should be improved in order to ensure that the accelerated agenda could be achieved. The department has been consulting participants involved in previous and current restructuring initiatives to gather suggestions, which include the following: arrangements to improve stakeholder involvement could take advantage of the LRA and Social Plan and the NFA to address high-level political engagement; the Department of Public Enterprises would lead the restructuring of SOEs and co-ordinate the activities of policy departments and finance through a number of sector-specific programme officers; and the roles and responsibilities of government and the boards and management of SOEs in the restructuring process should be identified and then clarified by the proposed shareholder compact and a revised protocol on corporate governance.

It is envisaged in the policy framework that the majority of the restructuring activities will be completed by 2004. Cabinet has instructed the Department of

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Public Enterprises to give priority to the restructuring of the four largest SOEs, namely: Eskom, Transnet, Telkom and Denel. These SOEs comprise approximately 91 per cent of estimated total assets, provide 86 per cent of turnover and 94 per cent of net income and employ 77 per cent of all employees in the top 30 SOEs. While it can be expected that the estimated 300 other public enterprises can obviously contribute to meeting government objectives on restructuring, these four companies will have the greatest impact.

With the exception of the four large SOEs, the Post Office and Sapekoe, which also have large employee complements (making up 91 per cent of the top 30 companies), the number of employees affected by the restructuring of the other SOEs is not particularly significant. Given that the proportion of employees in SOEs only accounts for approximately 5 per cent of non-agricultural employment, apart from the six large employers identified in the table above, the restructuring of SOEs is unlikely to have a major impact on overall employment trends. It should be noted, however, that enterprises such as Eskom, Transnet and Telkom have a developmental role to play in addition to promoting economic growth. Other restructuring initiatives includes:

i. Safcol: The sale of three packages is being concluded; the remainder will be consolidated and re-offered.

ii. Information technology consolidation: Options for the consolidation of the information technology capabilities of Datavia, Ariel Technology and Eskom are being assessed.

iii. Alexkor: A turnaround strategy is being effected with a strategic management partner.

iv. Aventura: A turnaround strategy is being effected with a strategic management partner; this will be followed by the sale of the entity.

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v. Post Office: A turnaround strategy is being effected with a strategic management partner.

vi. Sentech Signal Distribution: The Department of Communications is undertaking a study into a restructuring strategy for the entity.

vii. SOE property portfolio: The property portfolios of Denel, Eskom and Propnet are being studied with a view to identifying restructuring options (Department of Public Enterprises, 2000).

These restructuring initiatives will enable the government to maximise the effects of the restructuring programme. As it has been showed above, other SOEs will be restructured concurrently with the major four enterprises. All restructuring proposals are, however, subject to Cabinet approval.

4.5. The Role of the Ministry for Public Enterprises

The Department of Public Enterprises is responsible with co-ordinating and leading the restructuring process, while the Minister reports to Cabinet on restructuring. Its programme officers for specific sectors, however, work with the primary policy departments. Government noted that policy, regulation and shareholder functions are intertwined and that there is also a need for integration of key issues.

Thus, before the restructuring of any SOE, a strategic analysis is conducted. Strategic analysis involves developing a list of restructuring priorities from an analysis of the SOE information collected in the SOE database maintained by the monitoring unit. This list is also defined through reference to an SOE operating environment report (comprising macroeconomic, sectoral and legislative and regulatory reviews).

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Once the set of restructuring priorities has been defined, the Department requests a restructuring plan from the SOE concerned. This plan is assessed against the SOE operating environment report and updated by the SOE where necessary. Stakeholder engagement takes place around the restructuring plan and once an acceptable plan has been developed, Cabinet approval is sought.

The Department receives the high-level restructuring plan after Cabinet approval and appoints advisers who prepare a detailed restructuring plan. This process will largely involve due diligence research and the identification of appropriate restructuring mechanisms. There will also be stakeholder involvement around the detailed restructuring plan, which is then approved by Cabinet.

After receiving Cabinet approval for the detailed restructuring plan, a detailed work plan is formulated. The Department then moves into the transaction management phase where it largely project manages the process. Cabinet approval is sought for the portfolio of potential bidders, the portfolio of potential buyers and, finally, the selected purchasers, after which the deal is concluded and then proceeds are collected.

4.6. Privatisation Advisers

Privatisation advisers play an important role in the privatisation process of South Africa. Since the Department of Public Enterprises is responsible with co-ordinating and leading the restructuring process, it also appoints privatisation advisers who prepare a detailed SOE's restructuring plan. This process involves, as mentioned before, due diligence research and the identification of appropriate restructuring mechanisms.

The aim of the government is to utilise advisers in restructuring the restructuring of SOEs in a cohesive manner. As the Department of Public

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Enterprises' representative, Zaid Nordien, said: "we need to be able to assess whether the advice is in our best interests. We will get specialists where we need external advice, but we also need the capacity to investigate options placed before us" (Mail & Guardian, 1999/11/10).

This can be seen in a move aimed at speeding up the privatisation and restructuring of state assets. In November 1999, the Department of Public Enterprises decided not to renew its contract with the banking group HSBC Simpson McKie, the government's adviser on privatisation for three years. The reason being that the department wants to expand its own internal brains trust on privatisation and recruit separate advisers for specific sell-off transactions rather than have a single catch-all adviser (Ibid.).

The Department maintained that HSBC's departure fitted in with the government's plans to step up its privatisation drive, which was likely to include the sale of R170-billion in state assets by 2004. HSBC SA remains predominantly a securities business. It has good corporate finance and improving mergers and acquisitions businesses, as well as its fledgling asset management business (Financial Mail, 2000/06/16).

Regardless of HSBC's reputation, the government realised that relying on one adviser would not be in line with its needs for restructuring because the adviser could serve a number of different clients. HSBC was appointed under the former Minister of Public Enterprises, Stella Sigcau, on a R12-million a year contract in 1996 after much debate over whether the Department of Public Enterprises needed a catch-all adviser or separate sectoral advisers.

4.7. The IFC in South Africa

The International Finance Corporation is notorious for its pro-development programmes with the prime aim of fostering economic growth in the developing countries by financing private sector investments, mobilising capital in international financial markets, and providing technical assistance and advice to governments and businesses. In partnership with private

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investors, IFC provides loan and equity finances for business ventures in developing countries and helps them to stimulate the flow of savings and investment. IFC plays a catalytic role by demonstrating the profitability of investments in developing countries. And it further promotes economic development by working to build efficient capital markets.

In South Africa IFC is focusing its financial and advisory activities in four important areas. First, it supports job creation through the financing of greenfield investment projects, restructuring and modernisation of small and medium scale enterprises, providing ready access to finance and, in general, supporting entrepreneurship. Secondly, IFC invests in the establishment or expansion of venture capital and private equity funds particularly geared to the needs of the small business sector, including in particular businesses owned by previously disadvantaged groups. Thirdly, IFC provides advisory and financial support for private provision of infrastructure in townships and former homelands. And lastly, it supports projects with a strong regional integration impact (International Finance Corporation, 1999).

Since resuming activities in South Africa in 1994, IFC has invested in 25 projects, approving $118.7 million in financing. The cumulative cost of these projects is around $809 million. Fifteen of these investments have been less than $1.5 million or equivalent. Through small project programme, IFC has financed the creation of new businesses as well as the expansion, modernisation, and diversification of existing ones. These financing sources are illustrated in table 5.

Table 5: International Finance Corporation in South Africa

FINANCING SOURCE	$US MILLIONS
IFC Loan	15.19
IFC Equity	88.15
IFC Quasi-equity	12.12
IFC	**115.46**
IFC Loan Syndication Programme	**3.30**
TOTAL	**118.76**

Source*: International Finance Corporation, 1999c, p.1, January.*

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Other recent noteworthy investments in South Africa include a $35 million stake in a $290 million Private Equity Fund and, at the other end of the scale, a $1 million investment in a joint venture with Business Partners to create a new Business Incubation Centre which will help very small companies by providing secure workspaces and service facilities. After maintaining a low profile in SA for the past four years, head of the SA regional office, Vincent Rague in 1998 maintained, "the initial thrust was to support the transformation. But now our investment philosophy is it must be seen to bring in direct investment" (Financial Mail, 1998/10/30).

It is clear that IFC is significantly expanding its programme in South Africa to support the government's nascent economic recovery programme. The IFC maintains that despite a stagnant economy, South African still offers a good opportunity for investors ranging from direct and portfolio investors. As shown by the figures in the table previously, IFC has invested in technical assistance trust funds for new investments in sugar processing, prefabricated housing, paper, printing, and equity funds (International Financial Corporation Annual Report, 1999:5).

However, the IFC will not offer advice to South Africa on issues concerning privatisation and huge projects despite the fact that South Africa's privatisation approach is supported by the IFC (Udemans, 1996:101). South Africa favours a top-down approach as opposed to a bottom-up approach, which, according to Donaldson (1995:1) is favoured by governments that appear to be suspicious about the ideas and philosophies of privatisation and its benefits.

In many ways, South African thinking is more akin to the French thinking, namely that the state should remain a majority shareholder when foreign partners are involved, and a private majority only in cases where partners are domestic. However, unlike the French model which prefers domestic restructuring, the South African model, in line with IFC thinking, instead prefers foreign investors, but then only as majority partners, apparently to forestall the possibility of some private sector monopolies increasing in size.

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Another similarity to the IFC model is the preference of foreign, rather than domestic financing (Breytenbach, 1999b:2).

One of the reasons why the South African government does not prefer the IFC in its privatisation is because of the internal complexities related to restructuring. The rationale quite simply being that the IFC would ignore important issues that matter to the majority of South Africa such as: poverty alleviation, black empowerment, job losses and other social macroeconomic issues of value to the country (Bond, 1997).

4.8. Assessment

Privatisation in South Africa has changed dramatically in few years. But the government has largely failed to sell itself as a success story to international investors. This is due in part to the fact that privatisation has not been the driver of positive sentiment that it should have. Contradictory objectives, the lack of a comprehensive policy framework and the poor handling of the process has left investors confused and increasingly uninterested.

The only three successful privatisations were also only partial privatisations. The only three medium-sized full privatisations - Sun Air, Alexkor and Aventura - were disasters. The last two ended up back in state hands and another state enterprise nailed Sun Air, the full story of which we have yet to hear. Other attempts such as Mossgas just simply disappeared from the radar screen with not a bleep being heard again. Basically South Africa has seen a lot of the pain in the restructuring process and very little of the benefits. Job losses, uncertainty, and broken promises (WOZA, 2000/08/16).

But not everything the state-owned enterprises have done have been costly to the economy. Some of the benefits have in recent years been social in nature such as the millions of people who got electricity and water for the first time. Nonetheless the benefits could be greater if by the sale of parastatals South

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Africa were to reduce state debt and the resulting savings can be put to use via better state services such as better policing, hospitals and lower taxes. Privatisation must not be seen as a panacea to South Africa's structural problems, but as a saleable commodity that can bring swift economic benefits through the more efficient management of key parastatals (Opinion & Analysis, 1999/12/13).

Privatisation of significant assets as set in the policy framework is the best way to draw in more FDI - funds that go into building factories, buying machinery or increasing, in some other way, South Africa's ability to produce goods and services. In addition, privatisation can do a lot to pull in real investment from abroad - as opposed to portfolio investment, which comes and goes.

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CHAPTER FIVE: PRIVATISATION IN ZAMBIA

5.1. Introduction

Zambia was one of the heavily state-run economies in Africa and by the late 1980s most SOEs were over staffed and draining money from the Treasury. Gedeon Njoko, a representative for the World Bank in Zambia, says:

> "People used to joke that in Zambia there's a parastatal for everything, and if you're not careful they will set up for you to breathe. They were like day care centres for adults. It wouldn't have made a difference to the economy if the staff didn't turn up for work" (Zambia Privatisation Agency, 1999:1).

In 1991, the Zambian government embarked on a massive privatisation programme, at a time when over 80 percent of the country's economy was comprised of parastatals (Mail & Guardian, 1998/02/13). A special agency, Zambia Privatisation Agency, was established under the Privatisation Act in 1992 to plan, implement and control the privatisation of SOEs. The creation of the agency can be viewed as the most important aspects of the institutional set-up required to start the programme, there were a number of other measures that had to be taken before the programme could start (Fundanga and Mwaba, 1997:10). The parastatals were a huge burden on the government in terms of subsidies, and consequently privatisation has become one of the priority areas of government policy. The process is regulated by the Privatisation Act (1992).

The second wave of privatisation began in early 1998, involving the privatisation of telecommunications, utilities, energy, postal services, mines and properties. Smaller entities were privatised first to gain experience and by March 1998, 215 companies (out of a portfolio of 321) and 198 commercial properties had been sold. Early in 1998, the President of Zambia made a reaffirmation on the sale of SOEs in the sectors of transport (e.g. National Airports Corporation), energy and utilities (e.g. Zambia Electricity Supply Corporation), property (e.g. ZIMCO properties), finance (Zambia National

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Commercial Bank) and others including the Zambia Telecommunications Company, Ndola Lime and the gemstone industry (Zambia Investment Centre, 2000:6).

The privatisation of the huge Zambia Consolidated Copper Mines (ZCCM) has been a success. The parastatal has been unbundled into nine operating packages. ZCCM retains a minority shareholding plus a golden share that ensures that the government has a strategic interest in the various mines. ZCCM is listed on the London Stock Exchange and has a market capitalisation of USD400m. The privatisation of mines alone was scheduled to generate USD2.8bn over the period of five years (Zambia Privatisation Agency, 2000a).

In September 2000, Zambia has managed to privatise 244 of its 312 SOEs (Zambia Privatisation Agency, 2000c). And more impressively, at the time, the ZPA is currently working on the privatisation of the following nine companies:

i. Kariba Minerals Limited, a main large scale amethyst producing and exporting company in Zambia. ZPA is inviting offers for the immediate sale of 87% GRZ and LONHRO Africa shareholding in one of the world's largest amethyst deposits;
ii. Kafue Textiles of Zambia (KTZ), a large and versatile textile manufacturing complex. ZPA is inviting offers for the immediate sale of KTZ;
iii. Lundazi Castle, the only castle hotel in the country, built between 1949 and 1952 and is now a national monument. The hotel is to be privatised by way of a fixed term concession;
iv. Nitrogen Chemicals of Zambia (NCZ), a large fertiliser manufacturing company, also engaged in trading of manufactured products;
v. Zambia State Insurance Corporation (ZSIC) Zambia's premier insurance company engaged in providing all types of insurance - both

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life and non life. ZSIC is undergoing a restructuring programme and will be available for privatisation once restructuring is completed;

vi. Mukuba Hotel a private owned hotel based on the Copperbelt of Zambia, with a minority government shareholding. Government is to divest its entire shareholding of 24% whilst the private shareholder will also be offering 24% shares for sale;

vii. Zambia Telecommunications Company (ZAMTEL). Zambia's national telecommunications services provider. A minority stake, with management rights is to be offered;

viii. Zambia Railways (ZR), serves as an important mode of transportation in a landlocked country. ZR is to be privatised by way of concessioning; and

ix. National Airports Corporation (NAC), manages Lusaka International Airport, Ndola, Livingstone and Mfuwe Airports. NAC's airports in Livingstone, Ndola and Mfuwe are to be recapitalised and their terminal operations will be offered for lease to the private sector (Zambia Privatisation Agency, 2000d).

ZPA also wants to privatise the following SOEs in future:

i. Indeni Petroleum Refinery, the company's principal activity is the processing of crude petroleum feedstock. A study is soon to be commissioned on the options for sale of the Government's shareholding.

ii. Zambia Postal Services Corporation (ZAMPOST), the largest provider of traditional and modern postal services in Zambia. A study is soon to be commissioned on the options for private sector involvement.

iii. Zambia Electricity Supply Corporation (ZESCO), the state owned electricity utility involved in generation, transmission and distribution of electricity. Privatisation options study soon to be commissioned.

iv. Zambia National Commercial Bank (ZANACO), is one of the most significant players in the Zambian banking market and has played a major role in the market. 10 % of shares to be offered to the public through the Stock Exchange (Ibid.).

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The success of Zambia's privatisation programme can be attributed to government commitment. The government is committed to invest its resources in careful programme design and preparation. Privatisation Act, legal authority vested in the ZPA which enables it to undertake its work with minimum political interference and decisive steps to deal with constraints, notably by addressing the weak capital market and eliminating the influences of holding companies.

5.2. Structural Adjustment Programmes (SAPs)

The deepening of the development crisis in sub-Saharan Africa (SSA), which began in the 1970s and intensified in the 1980s, presented a difficult challenge to the political leadership, policy advisers, and the development community (Hope and Kayira, 1997:258). This challenge required new policy measures to reverse the declining trends and place those economies on a path of sustainable growth and development. Hope and Kayira go on to say that there was a need to, among other things, arrest the deepening of poverty, reduce the socio-economic inequalities, lighten the external debt burden, reverse the brain drain, create new employment opportunities, improve the efficiency of the physical infrastructure, narrow down the fiscal deficits, and improve the balance of payment.

The policy response of this crisis emerged in the form of structural adjustment programmes (SAPs). According to Riddell and Cockcroft (1991:2), the long-term objective of SAPs is to raise the productivity capacity of the economy through macroeconomic and institutional intervention to create an environment in which both domestic and foreign investment flourish. Policies to create this environment have included low and deregulated wages and the labour market and a deregulated (the withdrawal of the state from ownership of firms, in pricing and marketing) and liberal policy environment (removing bottlenecks to the entry and operation of goods, services and capital), in order to attract FDI inflows into these countries (Abugre, 2000:4-5).

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These programmes were mainly formulated by and with the support of the International Monetary Fund (IMF) and the World Bank in the early 1980s. The reason why the policy response to the crisis came from the IMF and the World Bank and not from the experiencing countries is quite simply that for more than over a decade the IMF and the World Bank changed the form of their aid for less developed countries from project driven to programme driven (Strydom and Fiser, 1995:321). What this means is that instead of funding particular development projects, they introduced lending programmes, which were to be supported by policy and institutional reforms in less developed countries.

And the reason why SAPs are prevalent in most SSA and not so much in other developing countries is quite simply that on average, the economic growth of SSA has been slower over the past thirty years than that of comparable developing countries elsewhere (Engberg-Pedersen et al, 1996:4). Many developmentalists attribute slow economic growth to a more extensively and heavily state-controlled development process in SSA than in other parts of the Third World. Consequently, this attribution is normally an evaluation of piecemeal private business participation in most African economies.

However, there are controversies regarding the prime reasons for the need to implement SAPs in SSA. According to Coetzee (1993:79-80) some observers regard the domestic economic woes and economic mismanagement of these countries as the main problems underlying the economic crisis. Others regard the external economic shocks as the main cause of their economic predicament. Furthermore, others are of the opinion that Africa's economic problems are the result of both external and internal problems, but that the internal problems seem to predominate. Lastly, pre-eminent African scholars increasingly support a view that Africa has very deep-seated socio-economic and political problems and that nothing short of a total transformation will elevate Africa to higher levels of development.

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SAPs initiated by the IMF and the World Bank since early 1980s are based on three considerations. First, the supply side of the economy is emphasised. Supply is to be expanded through economic liberalisation. Economic liberalisation is linked to reducing the government's share in economic activity through privatisation of state assets. Fiscal policy follows the fixed rules of a balanced budget or a budget deficit maintained at a fixed percentage of GDP. Secondly, foreign trade is believed to drive growth. The economy is developed through outward looking export growth rather than inward looking import substitution. Thirdly, it is assumed that economic resources are allocated through relative price changes. Thus in order to secure these allocative effects markets have to be liberalised and the economy deregulated (Strydom and Fiser, 1995:322).

From the above it is clear that the philosophy underlying SAPs is the free play of market forces with minimal or no participation by the state in economic activities (Mensah, 1993:74). This is the belief of the IMF and the World Bank in their conditionality for their lending programmes. "Because SAPs are market oriented, their implementation brought an end to medium economic planning. Annual budgets therefore become the only plan document. Market orientation also means privatisation and/or commercialisation of public enterprises and public sector services" (Mensah, 1993:75).

Clearly, structural adjustment lending of the IMF and the World Bank in this case is non-project lending aimed at bringing about policy and institutional change to modify the structure of the economy so that it can promote sustained growth and maintain favourable balance of payments (Coetzee, 1993:80).

Against this background, why did Zambia implement SAP? It should be realised that during the time of Kenneth Kaunda's regime, the first leader of independent Zambia, huge investments were directed towards building a strong public sector, which Kaunda believed was an important means of improving the lives of the people. The Zambia economy is largely dependent on cooper production. Throughout the 1960s, cooper prices remained high.

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As a result of this, the Zambian government was able to use the profits from cooper to subsidise the expansion of schools, clinics and other services (ILRIG, 1999:21).

But in the mid-1970s, the price of cooper fell on the world market. Zambia was forced to borrow in order to continue to finance the developmental state. However, when the price of cooper failed to rise again on the world market, Zambia could not escape a serious debt crisis. With more that 90% export income flowing from cooper, the extensive developmental state could not be sustained. The problem was made worse by considerable corruption and inefficiency in many of the state enterprises (Ibid).

Eventually, Zambia had no choice but to borrow from the IMF. This loan was conditional. The condition was that the Zambian government should implement SAP. Furthermore, one of the key conditions of the SAP was to reduce the size of the public sector that has been built for about three decades by Kaunda. This was to be done largely through privatisation.

Since the inception of SAP in the late 1991, a far-reaching structural reforms have been implemented, including: the decontrol of agricultural prices and the liberalisation of maize marketing; substantial progress on a comprehensive parastatal reform and privatisation programme; the decontrol of interest rates, the removal of exchange controls and the floating of the kwacha; the liberalisation of the banking sector; and the removal of quantitative restrictions on imports and exports, as well as the reduction of the level and dispersion of customs tariffs (International Monetary Fund, 1999).

These reforms, coupled with efforts to pursue stable financial policies, have somewhat improved Zambia's economic outlook considerably. Nonetheless, economic performance was uneven, as several droughts and falling copper production caused negative economic growth during 1991–95. As a result of adverse weather conditions, the sharp decline in copper exports, and the weakening of the financial position of the copper parastatal, real GDP contracted by an estimated 2 percent in 1998 (Ibid.).

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The sharp decline of cooper exports is also related to the fact that cooper mines are largely government owned and therefore very inefficient. Zambia had more than 300 state-owned enterprises mostly cooper mines. Furthermore, these also included most producers of goods such as sugar, beer, cement, cigarettes, crushed stones, dairy goods, elevators, and fabrics as well as providers of services such as transport, hostels, and cold storage (IRIG, 1999:22).

The initiative by the Zambian government to privatise parastatals is therefore seen in the light of attempting to improve and stimulate economic growth. Today Zambia's privatisation programme is viewed as Africa's model. As noted above, the SAP imposed by the IMF largely drove privatisation in Zambia. In advancing privatisation, the IMF and its supporters had a number of motivations. It was argued that private sector in Zambia was too big, inefficient and corrupt. And that the only way to make these parastatals efficient is if private sector motive of profit is instilled following privatisation. The IMF and its supporters argued that Zambia could raise finance to tackle its debt problem from privatisation.

5.3. Institutional Framework for Privatisation

Following the announcement of the policy on privatisation in May 1990, the government in September 1990, set up a Task Force on privatisation. The Task Force which submitted its report to the Minister of Finance in January 1991, recommended the creation of two organs: Steering Committee on Privatisation; and Technical Committee on Privatisation. The Steering Committee was to be responsible for policy issues on Privatisation while the Technical Committee was to be responsible for the actual privatisation activities. The Technical Committee was drawn from within the parastatal sector.

To facilitate the process, the government moved quickly to pass the necessary legislation. In July, 1992, the Privatisation Act (No:21 of 1992) was

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passed by Parliament. This Act established the ZPA as the sole institution responsible for the divestiture of state enterprises. ZPA was to be governed by a Board of Directors to be drawn from the Public and Private Sectors. The agency was granted autonomy to determine how enterprises were to be privatised and the prices to be paid for them. Cabinets' role was confined to approval of the divestiture sequence. The Zambia Privatisation Act lists the following, as modes of privatisation that can be employed in the divestiture process:

i. public offering of shares;
ii. private sale via negotiated and competitive bids;
iii. dilution of government holding;
iv. sale of assets;
v. re-organisation of State-owned enterprises before sale of whole or part;
vi. management/employee buy out;
vii. lease and management contracts; and
viii. any other method the agency many consider.

Following the enactment of the Act, the ZPA Board was appointed and it set itself to work by appointing officers to run the agency. The old technical committee was disbanded. The first task for ZPA was to draw up a long-term Divestiture Sequencing Plan for approval by Cabinet. This comprised seven tranches, the first of which comprised 20 mainly small companies which could be easily analysed and disposed of through trade sales.

While the Zambia Privatisation Act and the creation of the agency can be viewed as the most important aspects of the institutional set-up required to start the programme, there were a number of other measures that had to be taken before the programme could start. Most importantly, a large number of legislative amendments were made in order to make it possible to sell some of the state-owned enterprises, most of which also owned other assets including land and residential properties. From 1995, things moved quickly so

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that by 1996 the World Bank was able to comment on the programme as follows: "Zambia has the most successful privatisation programme to date and the experience there offers many examples of best practice" (World Bank, 1995).

5.4. The Divestiture Process

Once the ZPA had started to work the first step in the privatisation process was tranching. A tranche is defined as a group of companies selected to be privatised within a given period of time. The selection of companies to various tranches in Zambia has not been without controversy, and there has been a shifting of companies between tranches over time. The first tranche as already noted, consisted of very small companies that were selected mainly for a test run (i.e. to test how the process of privatisation can be implemented). Given that privatisation was being attempted for the first time and the privatisation agency had not yet assembled a cadre of experts in evaluation, this may have been a prudent action on the part of the government. Although the tranches were proposed by ZPA, they were ultimately approved by Cabinet, as required by the Privatisation Act. The process of privatisation follows these steps:

i. tranching - approved by Cabinet;

ii. technical and financial evaluation of company to fix the price and recommend the mode of divestiture - done by Consultants;

iii. ZPA decision on price and mode of divestiture;

iv. advertising and opening up of competitive bidding - by ZPA;

v. evaluation and short-listing of bidders - done by ZPA;

vi. negotiations - done by independent teams; and

vii. signing of Heads of Agreement/Memorandum of sale by the Minister of Finance.

Once a tranche of companies becomes eligible for privatisation the ZPA undertakes detailed evaluation of all aspects of the company with the assistance of independent consultants. These studies look at the state of equipment and buildings, the production process, the work force, the industry and the financial standing of the company. These studies establish the value of the company which ZPA can use as a bench-mark against bids to be submitted by intending buyers.

In the interest of transparency, the privatisation process involves extensive public information work and ZPA spends substantially on advertisements to call for consultants, advertise companies ready for sale, and inform the public of the progress of the program. In its evaluation, ZPA ranks bidders on the basis of the business development plans being proposed for the company, as well as the price being offered. In reality, the business plan carries more weight because the overall benefits to the nation can only be realised if a company is sold to someone who is able to sustain its operations as well as expand it.

ZPA uses independent negotiators mainly drawn from the Zambian public, but are usually people of an appreciable level of competence in matters relating to business and finance. Each team is composed of a chairman, a lawyer and an official from ZPA whose main role is to record the proceedings of the meetings. A negotiating team could be larger than the three people mentioned depending on the complexity of the company to be sold. A representative of ZIMCO, the holding company, was also usually a member of the negotiating team.

Another important issue in the privatisation programme in Zambia has been how to increase public participation in ownership of the enterprises. In order to

address this issue, the Privatisation Act provided for the creation of the Zambia Privatisation Trust Fund. The Trust Fund was established in 1994 and its function is to warehouse shares reserved for flotation to the general public. Other measures to assist potential Zambian buyers without any funds to participate in the privatisation programme include: deferred payment schemes, public flotations and ZPA Mortgage Scheme for houses and deferral of payment for houses.

5.5. The Role of Zambia Privatisation Agency (ZPA)

ZPA has been established in 1992 through the Privatisation Act No.21 (1992). Section 8 of Privatisation Act provides that it is the function of the Agency to plan, implement and control the privatisation of SOEs in Zambia, in cooperation with the government, by selling them off to those who are more competent to run them and who have the required capital to do so.

But notwithstanding the generality of this statement it should be noted that by law the functions of the Agency include the foregoing, that is to say:

i. recommending policy guidelines to the Cabinet; implementing the privatisation programme according to the policy guidelines by the Cabinet;
ii. overseeing all aspects of the implementation of the privatisation programme in Zambia;
iii. monitoring progress of the privatisation programme;
iv. preparing the long-term divestiture sequence plan and submitting such plan to the Cabinet for approval;
v. recommending to the Cabinet the most appropriate method of sale for each SOE to be privatised;
vi. carrying out or causing to be carried out a valuation of a SOE that is to be privatised; and
vii. setting pre-qualification criteria for the selection of potential buyers or investors of a SOE to be privatised.

In summary, the role of ZPA is to privatise identified SOEs in a transparent, efficient and effective manner, in order to contribute to the stimulation of economic growth; acceleration of development; facilitation of transformation of the economy with broad participation; and generation of capital for the government and long-term potential for employment.

5.6. The Role of Zambia Investment Centre (ZIC)

Zambia Investment Centre was established in 1992 to promote, implement, coordinate and facilitate investment programmes and policies. The centre provides information on the investment climate and identifies and promotes opportunities for investment. The ZIC is also there to ensure that the investment process is a smooth one for the investor, for example by assisting the investor to secure any permit, licence, land etc. that he or she might need (Zambia Investment Centre, 2000:7-8).

Other functions include the provision of consultancy services for the investor, undertaking economic and sector studies with a view to identifying investment opportunities, and facilitating joint venture arrangements between foreign and domestic entrepreneurs. The ZIC also provides a wide range of fee and non-fee based business services to the investor, including use of office equipment such as fax machines, word processors and photocopiers, recruitment of personnel on behalf of clients, undertaking of market surveys, and so on (Zambia Investment Centre, 2000:8).

5.7. Then IFC in Zambia

As of June 30, 1996, Zambia retained 0.06% of IFC's capital stock. IFC has approved 17 investment projects in Zambia since 1972, providing US$86 million in loans and US$2 million in equity financing for the Corporation's own account. Seventy independent firms, half of which are from Zambia itself, have provided an additional US$80 million loan, equity and quasi-equity

funding. The total cost of these projects is more than US$585 million (International Finance Corporation, 1997).

Table 6: International Finance Corporation Sectoral Distribution of Investment Projects in Zambia

SECTOR	No. of PROJECTS
Manufacturing	4
Food and Agribusiness	4
Hotels and Tourism	3
Textiles	2
Mining and Extraction	2
Industrial and Consumer Services	1
Financial Services	1
TOTAL	**17**

Source: *International Finance Corporation, 1997, p.1, February.*

One IFC investment was approved in Zambia during FY96 through the Corporation's Africa Enterprise Fund, which focuses on smaller investments [US$100.000 to US$1.5 million] that contribute to broadening a country's export base. Sunblest Milling Limited Company benefited from a US$700.000 loan for IFC's own account to purchase and install a wheat flour milling plant (IFC, 1997). Another major investment worth noting is IFC investment worth US$400,000 in NICO Insurance Zambia Limited (NICOZAM) in Lusaka to establish a general insurance company providing short-term property and casualty insurance signed in Lusaka, Zambia on the 27th of August 1998 (Joseph, 1998).

5.8. Assessment

Evaluating the direct impacts of privatisation usually poses a problem in that the measures related to the privatisation of public enterprises usually take place at the same time as economy wide liberalisation measures (Adam, 1993). Evaluating the impact of privatisation in Zambia poses a similar problem of trying to dissociate the effects of market liberalization and the change of ownership itself. The assessment of the privatisation programme

will focus on a number of key indicators including the impact on the government resources, divestiture timing, and the extent of participation by foreign investors.

Privatisation has certainly been the driving force behind the changes and increased flow of investments into the country. The sell-off such as those of Chilanga Cement, Zambia Breweries and Zambia Sugar Company can be used to illustrate these developments. In the Chilanga Cement Privatisation, Commonwealth Development Corporation (CDC) increased their shareholding and the company was the first to be listed on the Zambia Stock Exchange. Chilanga has since received substantial new investments. The privatisation of Zambia Breweries has also proved a successful operation. Both these companies have also gone to the higher phase of offering shares to the Public, the latest being Zambia Breweries through the Zambia Privatisation Trust Fund (Fundanga and Mwaba, 1997).

In analysing the divestiture sequence, it is important to observe that Zambia started with the small parastatal companies in tranche 1, and hoped to work up into the larger ones in later trenches. The rationale for this approach was that the privatisation agency would accumulate experience from the sale of smaller companies which would be valuable in handling bigger and more complex privatisation exercises. While this approach has its merits, it has the disadvantage of starting the process of privatisation on a low note.

In a big privatisation programme such as the one in Zambia, one is interested in knowing how much foreign investment is coming into the country, in what sectors these investments are going and the origins of the foreign investors. The overall picture that emerges is that foreign investors are moving into all aspects of the Zambian business. The Zambian privatisation programme has attracted a cross section of investors from the USA, UK, India, South Africa, Germany, including companies such as Tate & Lyle, Unilever, Anglo American Corporation, Lonhro, Phelps Dodge, Clark Cotton, among others, however this has only been modest given the impetus of Zambia's privatisation programme (Zambia Privatisation Agency, 2000e).

The major foreign investors so far have come from the United Kingdom mainly CDC (mostly through conversion of debt to equity and exercise of pre-emptive rights) and LONRHO, and South Africa mainly through Anglo American Corporation. It is significant to note that these three companies have had a presence in Zambia for a long time.

However, the success of the programme tangible enough to be felt by the average Zambian will depend largely on the stimulation of both domestic and foreign investment which are now modest. The need to encourage share ownership and giving economic power to the people will also play an important role in this regard.

Experience has shown that the most successful privatisation programmes have been those involving private sales via competitive bidding and acquisition by use of preemptive rights. Companies that have been privatised in this manner have attracted considerable interest from local as well as international investors and have gained substantially from the infusion of new resources in terms of capital and management. As acknowledged by Chilipamushi (1994), private sales through competitive and negotiated bids have been used successfully, especially in cases where the bidding firm buys whole or part of the state enterprise being sold.

It is apparent that the other options for the modalities of sale available have not been pursued much more rigorously. The ZPA could have considered adopting any of the following: leasing of state owned enterprises; dilution of shares i.e. where the government increased the subscribed share capital of an SOE to be privatised with eventual aim; and subcontracting, this takes several variations - supply of goods and services, management contracts and even leasing.

CHAPTER SIX: CONCLUSION

6.1. Was the Purpose of this Study Fulfilled?

The purpose of this study was described in Chapter 1 as follows:

i. to investigate the role privatisation of state owned enterprises play in attracting FDI, with special reference to South Africa and Zambia;
ii. to assess how successful privatisation of state owned enterprises has been in attracting FDI;
iii. to compare the political economy of privatisation in South Africa and Zambia; and
iv. to furnish recommendations on the way forward.

This study revealed that both South Africa and Zambia succeeded in attracting FDI through their processes of privatisation. In both countries major FDI inflows have been an outcome of privatisation. Although proportionally South Africa has been a major benefactor of FDI following Angola in Africa, its potential to benefit more is higher than that of its competitors. The performance of Zambia in this segment has also been an impressive one. Chapter 5 has shown that the Zambian privatisation programme managed to attract a cross section of investors from the USA, UK, India, South Africa, Germany, including companies such as Tate & Lyle, Unilever, Anglo American Corporation, Lonhro, Phelps Dodge, Clark Cotton among others.

The political economies of South Africa and Zambia have been favourable to foreign investors. Chapter 2 revealed that getting the policy environment right is what determines FDI inflow. Privatisation, among others, is one of them. South Africa and Zambia managed to liberalise their economies. And with no doubt, the two political economies are the most market-friendly in Africa.

6.2. Significance of the Results

In this concluding Chapter, it is important to restate the importance of the study. As mentioned in Chapter 1 the value of this study lies in the following aspects:

i. it showed that a major factor behind the FDI growth is the continued trend towards privatisation;

ii. South Africa will have to speed up its privatisation programme if it wants to attract more FDI;

iii. the consolidation of the South African economy might facilitate its developmental role in the Southern African region; and

iv. there are lessons to be learned by South Africa from Zambia's privatisation approach and experience.

Throughout this study reference was made that FDI is one of the major forces that drive economic growth. The study has been carried out bearing in mind that privatisation in developing economies plays an important role in attracting FDI with a special reference to South Africa and Zambia. The reasoning behind this being that there are extras that flow in along with foreign capital, as FDI brings in equity financing, which helps increase production and growth, which in turn:

i. creates employment;

ii. lead to a transfer of technology and managerial skills;

iii. provides valuable sources of foreign currency;

iv. raises income levels; and

v. generally results in economic growth.

Thus, in examining and analysing the role of privatisation to FDI, the study followed the reasoning that when countries embark upon privatisation, they liberalise their economies thereby implementing market-friendly policies to foreign investors. This is so because for a number of cost-cutting, market opportunity and networking reasons, transnational corporations have actively sought to participate in the privatisation process (Odle, 1993:7). To this, host countries, for their part, have sought to involve foreign investors in order to tap their vast capital resources and to gain access to their considerable technological, management and marketing skills.

In Chapter 2, it was revealed that privatisation would help South Africa and Zambia to better deal with their debt restructuring and empowerment problems. Both South African and Zambian economies have been characterised by high state involvement. And because of public sector inefficiency inherent from lack of competition, fiscal spending, and corruption; SOEs have deepened the borrowing burden and debt servicing as a result.

This study revealed that privatisation proceeds could play an important role in servicing or even repaying the debt. This would be most helpful because this way highly indebted SOEs indirectly repay their debts which reduces the burden on the tax payers while the restructuring may even rescue these SOEs from sinking.

In terms of empowerment, both South Africa and Zambia have been impressive. In its empowerment plans South Africa has proposed three kinds of intervention in SOEs restructuring processes:

i. SOE ownership can be broadened through the National Empowerment Fund and other kinds of unit trust structures, in ways that address the problems in existing empowerment-related financial engineering. These new approaches can take the best lessons (and avoid the most serious drawbacks) of international experiences of collective investment vehicles, to provide a range of

equity schemes for those previously excluded from mainstream economic participation.

ii. Operational empowerment strategies should be improved to ensure that beneficiaries are not merely absentee owners. They should be able to gain meaningful access to state-regulated activities, through training and skills development, affirmative action in management, and entrepreneurial opportunities through outsourcing, partnerships, affirmative procurement and easier access to finance.

iii. Combining the first two strategies, alternative vehicles for empowerment, such as employee share ownership plans and community trusts should be piloted. It is believed that this will improve enterprise self-management and community involvement, and in the process raise investment in and take advantage of social capital.

Zambia in its restructuring process has established a temporary Privatisation Trust Fund (PTF) wherein shares of newly privatised enterprises for the subsequent sale to investors by a way of public offering with the aim of achieving a wide distribution among citizens of Zambia. Other ways of assisting potential Zambian buyers without any funds to participate in the privatisation programme are: deferred payment schemes, public flotations, and ZPA mortgage scheme for houses and deferral of payment for houses.

Privatisation programmes both in South Africa and Zambia are being used to achieve many goals. These structural adjustments are aimed at addressing major economic, political and social problems in the two economies. To this end, it is apparent that privatisation is not only good for creating competitive markets; bringing in foreign capital; and technology transfers and managerial skills, but also to address political and social issues alike.

6.3. Were the Concepts Useful?

The following concepts were conceptualised: public corporations, privatisation, commercialisation, FDI, and divestiture. Reasons why these concepts were selected for conceptualisation are:

i. they are core reference to this study;
ii. they are often confused with other related concepts to them; and
iii. they are often taken for granted by readers.

In understanding the debate around privatisation of SOEs to become private enterprises, for example, the starting point is to understand the basic, but often taken for granted, operational definition of a public corporation and its characteristics. The characteristics of a public corporation as mentioned in Chapter 1 are as follows:

i. They are wholly state-owned.
ii. They are not subject to parliamentary financial scrutiny such as that to which government departments are subjected.
iii. They are statutorily created and outside the ambit of ordinary company law.
iv. They have corporate status and thus can be sued, hold property and enter into contracts.
v. In theory, at least, they are independently financed through their revenue and also capital borrowing powers.
vi. Employees of public corporations are not civil servants but are employed directly by, and subject to, conditions of the corporations.

Other concepts as defined in Chapter 1 have been conceptualised in the same way in order to remove misconceptions about them and create a better understanding of what the study argues, prescribes and fails to clarify. This study is aimed at stimulating further research on the topic and leaves a room for improvement and therefore the audience must be able to judge with ease where the loopholes are.

6.4. South Africa and Zambia Compared

As indicated in Chapters 4 and 5, both South Africa and Zambia have offered comprehensive packages to attract and steer FDI. The success of the privatisation programmes depends on the nature of institution tasked with the process. In South Africa, the Ministry of Public Enterprises leads the process of privatisation, whereas in Zambia the legal authority driving the process is the ZPA. The ZPA has managed to privatise 244 of its 312 SOEs earmarked for privatisation.

In Chapter 4 reference was made that the privatisation programme in South Africa is a very new phenomenon, which started in 1994. Since the publication of the restructuring discussion document of 1995, there have been a number of further elaborations of its objectives: the 1996 Growth Employment and Redistribution (GEAR) strategy, the 1996 National Framework Agreement (NFA) and the 1999 Interministerial Cabinet Committee on the Restructuring of State Assets (IMCC).

Some objectives may have been prioritised differently in the various documents, but little difference exists in the overall statement of objectives. However, it was GEAR strategy which provided direction for privatisation. The government motivated that privatisation would ease problems in the public sector of: finance, inefficiency, and black empowerment.

The reason why GEAR provided a direction for privatisation in the presence of the Ministry of Public Enterprises was that the Ministry was delaying the process of privatisation. The reason why in the same year of GEAR, the NFA had to be introduced in order to speed up the privatisation process. This was due to the complexities of the privatisation process of certain entities, particularly those with clear public policy.

This slowed the privatisation process. Another way had to be found to speed up the privatisation process. In 1999, the IMCC directed that a policy framework be prepared to guide the restructuring process into the 21st century. On 10 August 2000, the restructuring policy framework was launched in order to provide a more comprehensive framework than has existed to date, and to ensure a consistent approach to restructuring across government and to address perceived market uncertainties about government's restructuring priorities.

The policy framework has managed to gather a general agreement about how the restructuring process should be improved in order to ensure that the accelerated agenda could be achieved. The department has been consulting participants involved in previous and current restructuring initiatives to gather suggestions, which include the following: arrangements to improve stakeholder involvement could take advantage of the LRA and Social Plan and the NFA to address high-level political engagement; the Department of Public Enterprises would lead the restructuring of SOEs and co-ordinate the activities of policy departments and finance through a number of sector-specific programme officers; and the roles and responsibilities of government and the boards and management of SOEs in the restructuring process should be identified and then clarified by the proposed shareholder compact and a revised protocol on corporate governance.

As discussed in Chapter 5, compared to South Africa's privatisation programme, major lessons are drawn from Zambia's privatisation programme.

The government's commitment is both a measure of and the most important factor in the success of Zambia's programme. This is reflected in the resources invested in careful programme design and preparation. Following the announcement of the policy on privatisation in May 1990, the government in September 1990, set up a Task Force on privatisation. The Task Force which submitted its report to the Minister of Finance in January 1991, recommended the creation of two organs: Steering Committee on Privatisation; and Technical Committee on Privatisation.

The Steering Committee was to be responsible for policy issues on Privatisation while the Technical Committee was to be responsible for the actual privatisation activities. The Technical Committee was drawn from within the parastatal sector. And to facilitate the process, the government moved quickly to pass the necessary legislation. In July, 1992, the Privatisation Act (No:21 of 1992) was passed by Parliament. This Act established the ZPA as the sole institution responsible for the divestiture of state enterprises.

A noteworthy feature of the programme's success is the involvement and oversight of the divestiture process through the ZPA. Constantly reinventing its approach to fit its needs, the ZPA has used a variety of methods for sell-offs. It is ranged from public tender and public flotation to management buy-outs.

In order to broaden ownership the Privatisation Trust Fund was established in June 1994 temporarily to warehouse shares, which are later to be sold through public flotation. Other measures to assist potential Zambian buyers without any funds to participate in the privatisation programme include: deferred payment schemes, public flotations and ZPA Mortgage Scheme for houses and deferral of payment for houses.

As far as FDI trends are concern, the main impetus for FDI in Zambia has come from privatisation programme. In South Africa privatisation has become

increasingly important for attracting FDI, although it is far from being explored. Both South Africa and Zambia are competing for few FDI flows in the world. The Zambian privatisation programme has attracted a cross section of investors from the USA, UK, India, South Africa, Germany, including companies such as Tate & Lyle, Unilever, Anglo American Corporation, Lonhro, Phelps Dodge, Clark Cotton, among others.

Most of the FDI in South Africa came from five countries: the UK, Malaysia, the USA, Germany and Japan. In 1998 FDI flows continued to be driven by privatisation. This year witnessed FDI through privatisation from Malaysia (Telkom), the USA (Telkom) and Italy (Airpots Company).

Apart from South Africa receiving FDI from other countries, it has also played a role in investing directly in African countries, particularly SADC member states. One country that benefited heavily from South Africa's investment is Zambia (Shoprite Checkers and Anglo American which a major investor in ZCCM). South Africa has the resources that the African region desires desperately. And it has the potential to better the economies of African states. Thus, South Africa must be seen as a 'flying geese' (growth pole) of Africa.

6.5. Recommendations

Zambia's privatisation programme is leading in Africa. South Africa finds itself in a contradictory position. On the one hand it is the leading economic power in Africa, while on the other hand it still lags behind in terms of restructuring its parastatals.

In September 2000, Zambia already managed to privatise 244 of its 312 SOEs and more impressively, at the time, the ZPA is currently working on the privatisation of the following nine companies and other four major SOEs, these are: Indeni Petroleum Refinery, Zambia Postal Services Corporation,

Zambia Electricity Supply Corporation and Zambia National Commercial Bank.

In South Africa, the current stage of development necessitates a mixed economy model, with both the state and the market playing key roles; this sets the context for the restructuring of SOEs. Therefore, the restructuring programme should take into consideration a range of models, choosing a model that, on the balance of evidence, would best meet the overall objectives and strategy for restructuring. While it draws on Zambia practice and experience, the approach should be primarily in response to the internal and external factors that affect the South African economy.

The restructuring plans for individual enterprises should be developed in line with the Zambian experience, while at the same time considering the individual attributes of each enterprise. The government should use this model to achieve its privatisation objectives. While each individual restructuring may not achieve all the stated objectives, the overall restructuring programme should enable the government to achieve its aims.

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