THE IMPACT OF PRIVATISATION ON SMMEs AND THE COMMUNITIES OF MAFIKENG AREAS IN THE NORTH-WEST PROVINCE

by

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DECLARATION

I, Charles Mpopodi Raseala hereby declare that the dissertation for the degree of master of Business Administration (MBA) with the university of the Northwest is submitted, has not previously been submitted by me for any degree at this or any other university, that it is my own work in design and execution and all material contained in this research has been acknowledged.

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Signed: Raseala C.M

ABSTRACT

The restructuring of state assets was expected to contribute towards black economic empowerment and a broader redistribution of wealth to those who were previously excluded from participating actively in the economy of this country. However, there have been several accusations leveled at government. Some people believe that privatization of state assets has benefited a few. This has led to the enactment of the Broad based black economic empowerment act. There is also a concern from the communities and unions that privatization of state assets will result in poor service delivery and unemployment.

The study was conducted through a quantitative methodology. The final questionnaire was administered to 40 taxi owners, 20 government employees, 20 contractors, 20 business owners and 40 local residents. Out of the 140 people, 110 responded, thus a 79 % response rate, all was used for data analyses. The various variables (responses to individual questions) in the questionnaire were arranged to obtain a rating for each dimension covered. This procedure assumes equality of interval of the Likert scale and therefore the data is regarded as the least interval data (rather than ordinary data).

The findings on the study showed that majority of the respondents were not in favour of privatisation. Recommendations made were as follows, the government through its education programmes in schools and in Adult Basic Education and Training (ABET) centers must educate citizens about socio-economic and political issues as well as familiarizing them with the government's macro – economic policy, in particular the GEAR policy. The government should only make partial privatization, and not complete/ whole privatization.

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CHAPTER ONE: ORIENTATION

1.1 Introduction

Privatisation of state-owned enterprises has become a key component of the structural reform process and globalisation strategy in many economies. Several developing and transition economies have embarked upon extensive privatisation programmes in the last decade or more, as means of fostering economic growth; attaining macro-economic stability and reducing public sector borrowing requirements arising from corruption, subsidies and subventions attributable to unprofitable State-Owned Enterprises. At the beginning of 1990, a dozen of African countries had undertaken some form of privatisation. By 1998, only nine countries in Africa were yet to initiate the privatisation programme. Even war-torn countries like Liberia, Rwanda and Sierra-Leone had begun to privatize some of their state enterprises (White and Batia, 1998:71).

The 1994 democratic elections in South Africa ushered in a government that was faced with among others, the challenge of reversing the apartheid economic legacy which benefited a small section of the South African population. In 1996 the new government introduced a new macro economic policy called Growth employment and redistribution (GEAR). Through this policy, government announced its intention to privatize certain state owned assets.

The intention was met with a mixture of reactions. Some civil organizations and trade unions objected to this move. The Congress of South African Unions (COSATU), in its July 2001 Campaigns Bulletin, criticized the privatisation of state assets and essential services. The trade union federation noted that privatisation would lead to the enrichment of the already rich elite and further exacerbate the poverty of the majority who were already trapped in abject poverty. COSATU further argued that, this would lead to restricted access to basic services by the poor, lowly paid, pensioners and the unemployed.

The business sector on the other hand, generally embraced government's pronouncement on the privatisation of state owned assets. They hailed government for this brave move, indicating that this will unlock the potential of the economy and lead to competitiveness. South Africa will be able to move towards integration into the world economy, after years of economic isolation.

The government defended the GEAR policy, arguing that it will address issues such as the economic and social effects of restructuring. It further stated that privatisation will lead to job creation and increased employment opportunities for communities. The major reasons advanced by government, as contained in the GEAR document are in the following areas:

- **Finance**: The government indicates that it does not have enough money to build and maintain the infrastructure needs of the country, given the serious infrastructure backlog it inherited from the apartheid government. Therefore by privatizing it wants to access private sector funding for building infrastructure. Furthermore by selling state assets, it hopes to cut back on annual expenditure and raise money to pay off apartheid debts.
- **Public sector inefficiency**: The government argued that it needed to look for mechanisms to leverage service delivery, given the huge and inefficient public service. For the purpose of developing an efficient service delivery vehicle as well as ensuring economic utilization of resources, developing effective private ownership was seen as necessary option.
- **Black economic empowerment (BEE)**: The government also argued that privatisation can be used to promote and accelerate black economic empowerment. It also argued that this can happen through mechanisms such as the National Empowerment fund (NEF). All state assets which were privatized would have to sell up to 10% of their shares to this fund. The money will be used to help small black manufacturing businesses. It would also give historically disadvantaged communities the opportunity to own shares and, in this way encourage them to think of themselves as having a stake in the economy. All state enterprises which restructure would also be encouraged to offer some shares to

their employees. This was meant to encourage the employees to work harder and be more committed to the company because they would now have a stake in how well the company does (Van Niekerk et al 1999:31-32).

Privatisation is about the liberalization of a country's economy. Certain companies are totally owned and controlled by their boards of directors, whereas in other companies, the state has shares. This enables the state to have a word in decisions taken.

1.2 Objectives of the study

The restructuring of state assets was not limited to assets at the national sphere. Provinces also seized the opportunity presented by the national policy to also restructure provincial state owned assets inherited from the previous Bantustan regimes.

The restructuring of state assets was expected to contribute towards black economic empowerment and a broader redistribution of wealth to those who were previously excluded from participating actively in the economy of this country. However, there have been several accusations leveled at government. Some people believe that privatisation of state assets has benefited a few. This has led to the enactment of the Broad based black economic empowerment act.

The North West province (NW) is sixty five (65) percent rural (htt.www.tourismnorthwest.co.za/about/index.html). The province is also rated one of the poorest provinces, which poses a challenge to government to empower emerging businesses. One way of doing so, is through selling of state assets to small and emerging businesses. The above problem of privatisation gives rise to the following questions:

- Do the SMMEs have the capacity to deliver quality service to the communities?
- Does the privatisation of state assets lead to job creation or job losses?
- Does privatisation of state assets benefit SMMEs broadly, or only a few individuals?

This study is intended to enquire into the impact of privatisation of state assets on the small micro and medium enterprises (SMMEs) in the North West province. In order to achieve this, the following objectives were pursued:

- To investigate to what extent did SMMEs/Communities benefit from the privatisation of state assets.
- To identify factors that contributed negatively or positively to the empowerment of SMMEs during the process of the privatisation of state assets.
- To evaluate service delivery to communities

1.3 Significance of the study

The significance of the study is that it is important for policy makers to understand the impact of pursuing a policy like GEAR in a developing country such as South Africa. Secondly the findings of the study, intend to give senior managers in the North West provincial government strategies they can use to broaden the participation of small enterprises in the economy of the province. According to the policy framework on "An accelerated agenda towards the restructuring of state-owned enterprises" (August 2001), government supports the concept of privatisation. The restructuring programme was and remains designed around a multiple array of strategies, or mixes of options that are designed to ensure the maximization of shareholder's interests defined in economic, social and development terms. At an enterprise and sector level, restructuring involves improving the efficiency and effectiveness of an entity, accessing globally competitive technologies where appropriate, mobilising private sector capital and expertise, and assisting the creation of effective market structures in sectors currently dominated by state-owned enterprises.

The policy framework outlines that the growth employment and redistribution (GEAR) strategy notes that restructuring may involve the total sale of the state assets, and/ or partial sale of government assets to strategic equity partners, retaining a strategic interest. The government's restructuring strategy of privatisation will affect employment. There will be some direct job losses in the short to medium term, but these should offset by new employment opportunities in the medium to longer term resulting from additional investment and growth in other sectors (An accelerated agenda towards the state owned enterprises, August, 2001 www.politics.org.za).

1.4 Delimitation of the study

This study falls within the field of public sector policy development and private sector collaboration. It relates specifically to the management of the implementation of a macro economic policy and its impact on the intended beneficiaries. The enquiry was limited to small businesses in the Mafikeng area of the North West province.

1.5 Clarification of concepts

Capitalism: A method of organising the economy to produce goods and services by individuals and privately owned firms. The economic system is based on private ownership of the means of production, in which personal profit can be acquired through investment of capital and employment of labour. Capitalism is grounded in the concept of free enterprise, which argues that government intervention in the economy should be restricted and that a free market, based on supply and demand, will ultimately maximise consumer welfare. These principles were most notably articulated in Adam Smith's treatise, *The Wealth of Nations* (1776), in which he opposed the prevailing theory of mercantilism (Kantor 2005).

Employment: The use of labour as a factor input in the production of goods and services means service performed for wages under a contract of hire, written or oral, expressed or implied, including service in interstate commerce. Included are services performed by: any officer of a corporation; or any individual who, under the usual common law rules applicable in determining the employer-employee relationship, has the status of an employee; or any individual other than an individual who is an employee who performs services for remuneration for any employing unit (King 2004).

GEAR : The growth employment and redistribution policy of the South African Government (Beautement 2004).

SMME: Small medium and macro enterprises (Coega Development Corporation 2003).

BBBEE: Broad based black economic empowerment (BBBEE) means the economic empowerment of all black people including women, workers, youth, people with disabilities and people living in rural areas through diverse but integrated strategies (bbee.stumbleupon.com/).

1.8 Organisation of chapters

This study is divided into seven chapters. In chapter 1 the reader is orientated and introduced to the study objectives. Chapter 2 focuses on the theoretical foundation of the study while chapter 3 reflects the literature reviewed for the study. The research problem is stated in Chapter 4. Chapter 5 outlines the research methodology used in the study. The results of the study are reflected in Chapter 6. In chapter 7 the outcomes of the study is discussed, with cross references to other relevant studies, as well as the underlying theory.

The following chapter focuses on theories that had a bearing on this study.

CHAPTER TWO: THEORETICAL FRAME-WORK

1. Introduction

In this chapter the theories related to the study are presented. Privatisation of state-owned enterprises has become a key component of the structural reform processes and the globalization strategy in many economies. Several developing and transition economies have embarked upon extensive privatisation programmes in the last decade or more, as a means of fostering economic growth, attaining macro-economic stability and reducing public sector borrowing requirements arising from corruption, subsidies and subventions attributable to unprofitable State-owned enterprises.(White and Batia,1998).

Kikeri and Kolo, (World bank, 2006) argue that while privatisation has helped reduce the state's role in some developing countries and regions, in most others the stock of state enterprises remains relatively large. In sub-Saharan African countries state enterprises still operate in virtually all sectors, including manufacturing and service sectors long designated for privatisation.

2. 2 The History of privatisation

2.2.1 Privatisation under the apartheid government

After the National Party (NP) of South Africa came into power in 1948, it needed to consolidate its support base among the white working class and Afrikaner business owners. The party increased its base of support amongst the white population by making use of its control of the state. The government took the following steps in pursuit of strengthening its support (ANC 1994):

- Providing employment for white workers on railways and post-offices.
- Providing social benefits for whites, these benefits included free education, subsidies on basic services like water and electricity.
- Setting up enterprises to provide the infrastructure needed by developing local industry, these included setting up new state owned enterprises like Iron steel

corporation (ISCOR), South African Sensetic oil SASOL and expanding the existing ones like ESKOM and TELKOM. The state enterprises set-up by government gave the state a very big influence on the economy. The public sector employed many people and was responsible for considerable foreign investment.

Throughout the 1960s and 1970s South Africa was one of the fast growing economies in the world, though such growth only benefited the white section of the population. By the 1980s the NP was feeling the effects of the global economic crisis. The move towards the lean and mean state in the United Kingdom (UK) and other countries began to influence the apartheid government. In 1987 the National Party government produced a white paper on privatisation and deregulation (ANC 1994). The white paper put forward the following motivation for privatisation:

- The size of the public sector and government spending needed to be reduced to open up investment opportunities for the private sector.
- Business must be allowed to grow and develop without state intervention.
- Cutbacks on state spending and money raised by selling off state assets could provide much needed funds for government.
- With the economic sanctions and the general world wide economic slump, the government was struggling to find enough money to carry on paying for apartheid. Then the government started commercialising the State-owned enterprises (SOE's) like ESKOM, TELKOM and the post office. The state also sold-off ISKOR (Van Niekerk et al 1999).

Despite the aims of the white paper, the government was not able to implement the privatisation programme. There are two attributes to such failure:

- International sanctions meant that many transnational companies were not prepared to buy South African State-owned enterprises.
- The trade unions and the anti-apartheid movement were against the unilateral restructuring of the State-owned enterprises.

2.2.2 Post-1994 privatisation

For many years before the 1994 elections, there were heated debates within the African National Congress (ANC) and other political parties over the future of the country's economy. Privatisation had been the key issue in these debates (Van Niekerk et al 1999).

The very first economic program of the post apartheid government was outlined in the Reconstruction and Development Program (RDP) document. The RDP pushed for a developmental type of a state in a mixed economy. It also emphasized the gender implications of the role of the state in delivering affordable services. The RDP is an integrated, coherent socio-economic policy framework which seeks to mobilize all the South African people and the country's resources towards the final eradication of apartheid and the building of a democratic non-racial and non-sexist country. The programme meant to change for the better all aspects of the South African's lives. It was also viewed as a holistic and integrated social development strategy aimed at eradicating poverty and the imbalances espoused and entrenched by the apartheid policies (Forbes, 1995).

The critical and vital elements of the RDP are its people oriented approach and its emphasis on sustainability and economic growth. Its vision for fundamental transformation of the South African sectors includes the following:

- To develop strong and stable democratic institutions.
- To ensure representivity and participation in the economy.
- To ensure that the country becomes fully democratic, non-racial and non-sexist and.
- To create a sustainable and economically friendly growth and development path (White Paper, 1994).

The RDP and the social welfare policy are guided by a combination of six complementary principles, namely integration and sustainability; a people driven process; peace and security; nation building; meeting basic needs and building infrastructure. These principles are in line with the universal principles of social welfare and social work, but represent a fundamental paradigm shift and value orientation in the South African welfare system and social work. They confirm the goal of social work, social policy and social welfare-that is, to improve the quality of life of persons individually and in organizations and communities through social intervention (Garvin and Tropman 1992).According to Forbes (1995) the government intends to work with South Africans to improve the provision of education, health services, housing and all other sectors of the economy. The main challenge is the eradication of poverty through improving the economy and providing more jobs.

The RDP sets out the approach to privatisation arguing that government should decide on the balance of evidence, on whether the public sector should be expanded in strategic areas through nationalization, purchasing a shareholding in companies, establishing a new public corporation or joint ventures with the private sector on the one hand. On the other hand, the state should consider whether it should be reduced in a manner that will enhance efficiency; advance affirmative action and empower the historically disadvantaged while ensuring the protection of both consumers and the rights and employment of workers (RDP Doc, ibid).

One of the objectives of the RDP was to rebuild a public service that would provide an excellent quality of service. The public service is the servant of the people, and must be accessible, transparent, accountable, efficient and free from corruption. The RDP dictates the restructuring of the public sector through, among others, the redeployment of service workers and the creation of the new staffing partners which would be in line with the RDP document (RDP Doc, 1995).

At face value, the achievements of the RDP mitigate claims that it has dropped in the rankings of government priorities, hence the shift to GEAR. According to the Business Day (2 September 2001) the RDP was intended to be people-centred and people driven. Its goals had to determine and shape government policies in general. In the past years, these principles have been, at best, unevenly implemented. The fact that there had been a lack of integrated approach to reconstruction and development had ushered and ensured that GEAR superseded the RDP as the overarching framework for many government policies.

The state's lack of the capacity to deliver services to the poor is certainly a factor in government's greater reliance on the market to generate wealth and resources.

In June 1996 the government released the GEAR macro-economic strategy. One of the main aspects addressed by GEAR was the role of the state in the economy. GEAR shifted the state more towards the lean and mean model. According to GEAR, government should not focus on owning assets or manufacturing enterprises, rather should focus on:

- Regulating the economy, rather than being the owner.
- Encouraging foreign investment by providing a climate which is attractive to investors.
- Cutting back state spending (Van Niekerk et al; 1999).

According to the GEAR strategy, the nature of the restructuring as outlined in the National Framework Agreement (NFA), may involve the total sale of assets, a partial sale to strategic equity partners or the sale of the assets with the government retaining strategic interest. It should be noted that since GEAR became a national policy of the South African government, privatisation has been carried out. Based on the GEAR document, the government has given a number of reasons and motivations for privatisation. These include:

- **Finance**: The government states that it does not have enough money to build and maintain the infrastructure that is needed. Therefore by privatizing it wants to access private sector funding for building that infrastructure. Furthermore by selling state assets, it hopes to cut back on annual expenditure and raise money to pay off past debts.
- **Public sector inefficiency**: For the purpose of developing an efficient and economical use of resources and developing effective services, private ownership was deemed necessary.
- **Black economic empowerment**: The government also argues that privatisation can be used to promote black economic empowerment. It also argues that this can happen through mechanisms such as the National Empowerment Fund (NEF). All state assets which are privatised will have to sell up to 10% of their shares to this fund. The money will be used to help small black manufacturing businesses. It will also give historically disadvantaged communities the opportunity to own shares and, in this way

encourage them to think of themselves as having a stake in the economy. All state enterprises which restructure will also be encouraged to offer some shares to their employees. This is meant to encourage the employees to work harder and be more committed to the company because they now have a stake in how well it does (Van Niekerk et al 1999).

The GEAR strategy seeks to get the South African economy onto a new path, one that will ensure a competitive and fast growing economy which creates enough jobs for all, a redistribution of income and opportunities in favour of the poor. GEAR is more concerned about economic development and puts little emphasis on the social development and wellness side of the country.

According to Africa Recovery (2001), the main focus of GEAR is to develop a competitive fast growing economy through fiscal and monetary disciplines, significantly increasing foreign and domestic investment. The approach of GEAR seeks to achieve economic development at the expense of the country's citizens, especially the poor, illiterate and low-paid labourers, in that the achievement of economic growth through the increase of foreign investment results in the privatisation of state assets. The GEAR document does acknowledge the need for redistribution of income and opportunity in favour of the poor; however it places the main emphasis on achieving this through high economic growth. Instead of new jobs being created, slow growth has worsened unemployment, thereby contributing to urban and rural poverty.

The economy's lackadaisical performance has spurred divergent reactions towards GEAR. One side argues that the policy has failed and should be abandoned, while the other insists the plan has been half-heartedly implemented. The business sector has urged an accelerated privatisation, more cuts in public spending, wage restraints and the introduction of the two-tier labour market which will remove some labour protection from certain categories of workers (GEAR doc, 2000).But the Congress of South African Trade Unions (COSATU); the South African Communist Party (SACP) and many development oriented organizations have condemned GEAR as a neo-liberal strategy, blaming it for government's alleged retreat from the RDP which hardly featured in government pronouncements. The adherence to GEAR has generated growing tensions between COSATU, SACP and the ANC. These left leaning organisations have castigated the government for elevating efforts to stimulate economic growth over the need to combat poverty (COSATU 2001).

More challenging was the SACPs call for GEAR to be replaced with a new industrial policy, a demand subsequently endorsed by COSATU-affiliated unions. The union later slammed the government for its reluctance to regulate financial markets and for following an economic strategy that did not prioritize the alleviation of poverty. The union also criticized government for cutting public spending without assessing its impact on service delivery. It argued that instead of cutting expenditure, government could reduce the budget deficit by 2% if it is shifted to a "pay as you go" public service pension system (COSATU ibid).GEAR recognizes that privatisation will have to take place within the context of the National framework agreement which government entered into with the labour movement. Privatisation may involve the total sale or a partial sale of the enterprise while the government still holds strategic shares (Mayibuye 1997).

Throughout the debates over economic policy, there was general agreement within government, labour and business that the state needed to be restructured. The essential issues were what form would the restructuring take, and who would take decisions about restructuring. The debates and conflicts over the implementation of the restructuring process between government and labour unions culminated in the National framework agreement (Mostert 2002).

The National frame work agreement (NFA) was the first occasion on which the government and organized labour successfully negotiated around the policy of privatisation. It also highlighted the roles to be played by government. The NFA also acknowledges that the initiative to restructure state assets is part of the process of implementing the RDP.

The NFA outlines the following objectives of privatisation (Teeple, 2004):

- Increased economic growth. The effectiveness, sustainability and viability of State-owned enterprises are vital to the objective of maintaining and generating employment opportunities, which must translate into economic growth.

- Meeting basic needs. Restructuring should be geared towards meeting the basic needs of all South Africans with the focus on the poor and disadvantaged communities. Critical to this objective is the improvement of the quality and delivery of affordable services.
- Redeployment of assets for growth. To be able to enhance growth and employment it is necessary to redeploy assets.
- Infrastructural development by mobilizing and redirecting private sector capital. This is essential to achieving the financing of the development costs of infrastructure required to meet already articulated service expansion goals.
- To reduce state debt. Where appropriate, restructuring proceeds may be used along improved financial management systems to reduce state debt.
- To enhance the competitiveness and efficiency of state enterprises. It is essential that individual state enterprises should be competitive and efficient in the domestic and international markets and should be positioned to access global resources and markets, particularly in Southern Africa, within a proper institutional regulatory framework.
- To finance growth requirements for competitiveness in the utility sector. There is a large demand for development programs which necessitates an increase in the operations of state enterprises in this sector. By and large most of the state enterprises in this sector are already highly geared. Therefore the new financing through different forms of domestic and foreign partnership to promote the infusion of capital and especially technology may be required.
- Develop human resources; privatisation should develop human resources capacities of South Africans through decent employment conditions, efficient use of training and retraining, redressing previous discriminatory practices and enhancing technical and managerial capacities.

2.3 Economic systems in the world

According to Makola (1999), an economic system is a mutual cooperation of a community to satisfy their needs by using the sources at their disposal. Cooperation in the community is aimed at solving the problem of the allocation of scarce resources, the production of goods or services for which there is a need and the mutual division of production. Economic systems consist of institutions that are the accepted mechanisms whereby sources are utilized to satisfy human needs.

Each economic system consists of a number of economic units. An economic unit is a group of individuals such as households; an enterprise; a trade union; a government bureau, which are joined together to achieve common economic objectives. These are systems that are adopted by individual countries to govern their economies. There are four economic systems namely: capitalism, socialism, mixed economies and communism (Makola ibid).

2.3.1 Capitalism or the free market system

Privatisation is practiced in a free-market economic system, where individual are able to run and control their businesses without the state's interference. This economic system is also called capitalism (Campbell, 1987). The system is characterized by an economic approach which is based on private ownership, competition and minimal state control. It is not static and adjusts to changes in the market. If the demand for goods and services changes the producers will adjust their supply of goods and services accordingly. There is an interplay of demand and supply which determines what, how, when and for whom goods and services are produced. In such economic systems each participant is motivated by his or her own selfish interests. Each economic unit seeks to maximise its income through individual decision-making.

Advocates of capitalism argue that such an economy is conducive to efficiency in the use of resources, output and employment stability and rapid economic growth; hence there is no need for government planning, government control or intervention. The reason is that such intervention will disturb the efficiency with which the market system functions. Capitalism is an economic system used in countries such as the United States of America, the United Kingdom and Australia (Campbell, ibid).

2.3.1.1 Advantages of capitalism

Makola (1999:53) outlines the advantages of capitalism in the following manner:

- **It is a market driven economy and more effective in the allocation of resources and optimal distribution of goods and services.**
- **Individuals are motivated in a capitalist economy to be creative and to supply entrepreneurship, labour, and investment power as opposed to a command economy. The profit motive encourages the performance of individuals.**
- Capitalism has been successful in improving the standard of living of citizens.
- Capitalism is dynamic and flexible, therefore its institutions and processes can adapt relatively quickly to environmental and other changes.

2.3.1.2 Disadvantages of capitalism

Makola (ibid) states the following as disadvantages of capitalism:

- Individualism has an adverse effect on an economic system. The freedom of choice of individuals or enterprises may result in the pursuit of profits rather than the pursuit of the interests of a community.
- An unequal distribution of wealth and income is possible in capitalism, which in turn may result in an imbalance of political or economic power.

2.3.2 Communism or the command system

Campbell (1987) defines communism as a system that is characterised by public ownership. In this kind of an economic system, virtually the allocation of all resources and the collective determination of economic decisions are done through central economic planning. It is a socio-economic system in which all factors of production, except entrepreneurship, belong to the state. According to Makola (1999), a communist economy is planned centrally and the state distributes income based on the needs of the people. The consumer's preferences of what and how much will be produced play no role at all. Because the state determines what and how much will be produced.

All major planning concerning the level of resource use, the composition and distribution of output and the organization of production are determined by a central planning board. Businesses and firms are government owned and produce according to state directives. The division of output between capital and consumer goods is centrally decided, as is the allocation of consumer goods among the citizens. Capital goods are allocated among industries in terms of central planning boards` long-term priorities (Makola, ibid).

The command economic system does not accommodate privatisation as it emphasizes private ownership and profit maximization for individual companies but not the state. The communist system is a direct contrast to the capitalist system. Countries such as China, Russia and some Eastern European Countries practise this type of economic system.

2.3.2.1 Advantages of Communism

According to Makola, (1999: 56) the main advantages of communism are:

- Income distribution is more equal. It expected that there should neither be a poor nor a rich individual where this economic system is practiced.
- Fluctuations in the economy are eliminated: there is consistency as far as distribution of resources as well as revenue is concerned.
- Relative certainty as to what and how much will be produced.

2.3.2.2 Disadvantage of communism

Makola (ibid) identifies four major disadvantages of communism. These are:

- Central planning leads to authoritarian bureaucracies and the implementation of central plans is difficult and artificial. Central planning does not allow citizens to explore their innovative skills for the betterment of the economy.
- The internal balance between supply and demand is difficult to achieve without price mechanisms.
- The needs of consumers are not taken into consideration at all. Production is not informed by what consumers want, it is informed by what a government can afford to produce, based on available resources.

- Maximum productivity is difficult to accomplish without the profit motive. The producer will struggle to accomplish maximum productivity because there will be no incentive to recognize hard work.

2.3.2 The mixed economic system

According to (Makola 1999: 58), a mixed economy has both a private and a public sector. It is a combination of capitalism and socialism. Examples of countries that have adopted this economic system are Sweden, South Africa and China. Although many industries are being privatized, the Republic of South Africa intends to keep control of infrastructure used for the benefit of the public.

2.3.2.1 Characteristics of a mixed economy

Makola (ibid) outlines four major features of a mixed economy. These are:

- In a mixed economy a commitment to full employment is a fundamental economic goal. Various control measures are used to accomplish full employment, for example monetary control as wêll as fiscal control measures.
- Large scale transfer payments in the form of social security programmes have been developed to ensure the effective rendering of the collective services by the state to all its citizens. These social security programmes such as state pension, disability insurance, unemployment insurance, contribute to increased government spending and increase the role that the state plays in the economy.
- The point of departure in a mixed economy is to achieve the objectives of full employment, social security and economic planning without nationalising industries.
- Basically a mixed economy depends on free entrepreneurship and the market mechanism. Factors of production and distribution facilities are mainly owned privately.

However, the authorities do play a large role by taking monetary and fiscal measures and distributing income more equally, combating monopolies and retaining the motivation of the profit motive at the same time. Mixed economies still experience problems.

3.3.3 Socialism

Socialism refers to an economic system that is essentially collective. Collectivism supports state planning of the economy and public ownership of all means of production. This means that factors of production belong to the communities and the state controls these factors of production on behalf of the communities. There are various degrees of socialism, a certain degree of private ownership is allowed. Economic activities are planned centrally, although the market mechanism is allowed to operate to a certain extent (COSATU campaign bulletin 2000).

2.4 The current economic system in South Africa

In South Africa the economic system of the country is mixed. Country has adopted both the capitalism and socialism systems as there is free entrepreneurship, on the other hand, the state still has control in the running of state-owned companies. For example, there are hospitals that are both privately and publicly owned, which means that the public section is catered for and financed by the government. The Victoria Hospital in Mafikeng is an example of such a hospital. Currently the country has manufacturing and financial services which contribute a large share towards the country's Gross Domestic Product (GDP). Mining, nevertheless, remains an important foreign exchange earner (Teeple, 2002).

The main products mined in the country include manganese, chrome, platinum, gold, coal and diamonds. South Africa produces nearly half of the world's gold and is ranked among the top ten producers of a dozen other valuable minerals. The mining industry provides the foundation for the strongest economy on the continent. The country's main resource deficiency is oil and as a result, many industries rely on coal rather than on imported fuel. Agriculture together with mining continues to be important providers of both direct and indirect employment (Emmanuel on budget speech 2002/2003).

The government's strong role in shaping the economy was especially evident in the large number of parastatals or state corporations that it established. Its primary goal was to strengthen import substitution industries that had started to grow. Private individuals were allowed to purchase shares in many state-owned corporations. The issue of privatisation is not a new concept since the former president of South Africa P. W. Botha, initiated it in February 1978. He announced plans to privatize several state-controlled enterprises including ESKOM, ISCOR, as well as state-operated transport, postal and telecommunications services. His reasons were that privatisation would reduce public criticism of the government's role in these enterprises and that these parastatals were no longer profitable to the government. At that time, the then government senior opponents, the ANC vigorously opposed privatisation and viewed it as a ploy to maintain white control in preparation for majority rule (http://w.w.w.memory.loc.gove/cgi-bin).

However, in 1995 the Government of National Unity (GNU) began to develop its own privatisation programme. An announcement by the then deputy president Thabo Mbeki was made that the government would seek equity partners in TELKOM and in the South African Airways (SAA) and that it would sell several smaller parastatals outright. The announcements provoked strong protests from labour's exclusion from the policy decision-making processes (http://memory.loc/cgi-bin).According to the government budget for 2001/2002 the minister of finance in his budget presentation indicated that the country's economy had shown growth by 3, 4% in 2000 and about 2, 2% rising to 3, 3% in 2001/2002. Against the background of an unexpected depreciation of the rand in the second half of 2001/2002, the government was expecting inflation to pick up moderately in the financial year 2002/2003.

The 2005 government budget directed more resources towards reducing poverty and vulnerability among the people. The government aimed at educating children, training and developing skills among youth, building and enhancing physical infrastructure and basic municipality services and making communities safe places. The government is empowering the youth to help them to create jobs for others with their acquired skills and to alleviate poverty amongst communities.

The outstanding revenue performance for 2002/2003 was largely the outcome of a sharp improvement in company tax receipt. The main budget provided for expenditure of R287, 9 billion in 2002/2003 rising to R334, 6 billion in 2004/2005. Revenue increased from R265, 2 billion to R313, 2 billion over the same period (Budget Speech 2002/2003)

3.5 Conclusion

This chapter provides a theoretical foundation for the study and reflects the history of privatisation in South Africa is addressed, economic systems of the world reviewed and the current economic system in South Africa. The next chapter provides an overview of the relevant literature reviewed for this study.

CHAPTER THREE: LITERATURE REVIEW

3.1 Introduction

This chapter focuses on the literature that was reviewed for this study. Various studies are analysed and evaluated and a detailed analysis of the concept of privatisation is also discussed in this chapter.

3.2 Definition of privatisation

According to Adam (2001), privatisation has become a central feature of the economic policies of a variety of nations in the developed and under-developed countries, in capitalist and socialist states. The author states that, privatisation embraces de-nationalisation or selling of state owned assets, deregulation (liberalisation), competitive tendering, together with the introduction of private ownership. Other companies sell pubic sector assets to the private sector through share issue management buy-outs. Privatisation encourages private ownership, profit incentives and competition.

According to Van der Waldt (2002: 257) it is not easy to define privatisation, since various perspectives or approaches exist regarding the phenomenon. Some of the approaches to privatisation may entail the following:

- A municipality working hand-in-hand with private business, sharing the risks and opportunities through joint ventures (PPPs).
- A build-own-operate-transfer relationship with the private sector.
- Long-term leasing, where the government retains ownership of the asset, but leases its use to the private sector.
- Franchising, where the private sector obtains, for fair value, a responsibility to deliver a service within a clear operating framework.
- The sale of assets, either in whole or in part, to the private sector.
- Sale to a not-for-profit entity.

- The private sector is given the opportunity to develop and grow optimally and with minimum state intervention and regulation
- An analysis of a definition of the concept or phenomenon becomes an imperative starting point in order to gain a better understanding of such a concept or phenomenon, especially if that concept or phenomenon is complex. A definition intends to give the reader an idea of what the concept or phenomenon is all about. Privatisation is one of those tom concepts that has proved difficult to define. What further makes the concept privatisation more difficult to define is the subjective manner in which people treat the concept. According to Gildenhuys (1993: 4) privatisation is seen as a *'rationalizing process and an important facet of a government's policy for advancing private initiative and a market-oriented economy'*. The author argues that privatisation is directed at reducing excessive government spending as government spending does not have the same positive effect on economic development and growth as does private spending and investments. The British White Paper on privatisation (August, 1987), as quoted by Craythorne (1993: 499), states that privatisation is the transfer of appropriate *functions, activities or property from the public to the private sector, where services, production and consumption can be regulated more effectively by the market and price mechanisms*

Mahadea (1988: 143) defines and describes privatisation as a combination of changes in the relationship between the government and the private sector in the areas of ownership, control, production and finance, the net effect of which is to reduce or alter the functions and size of government activities in the economy. Savas, as quoted by Nigro and Nigro (2004: 18), sees privatisation as the progressive reliance of government on the private sector in order to satisfy social needs of the communities that are normally or traditionally provided by government institutions.

The implications of privatisation are that there will be relational changes between the government and the private sector in the areas of ownership, production, finance, function delivery and control. This will then result in the reduction in the size and functions of government activities. Privatisation, according to its proponents, assumes that the private sector is inherently more efficient than the public sector. Many economists believe that private ownership in a competitive environment leads to more efficient use of resources than when an activity is under government control (Brynard, 1995: 27; Mahadea, 1995: 87).

3.2.1 Purpose of privatisation

According to the ministry of Public Enterprises, (Sowetan, 2000), restructuring has potential economic as well as social benefits. Many of the benefits of restructuring arise from improved corporate governance and market discipline in state owned enterprise environments. Private equity can provide the finance, expertise, and technology, as well as market access SOEs need for a competitive edge. Private equity also brings more incentives. The introduction of market-orientated pricing and product development combined with transparent regulations of access to public goods, will significantly improve infrastructure delivery. The transparent allocation of subsidies for the provision of social services and infrastructure makes it possible to evaluate the performance of individual sate-owned enterprises in terms of services and public goods targets. South Africa expresses a long-run vision in its Growth, Employment and Distribution Policy(GEAR), intending to address issues such as the following:

- Privatisation as embraced in the government GEAR strategy was expected to encourage growth through investments from other countries. This would then bring stability to the country. The fast growing economy would create sufficient jobs for all job seekers and improve their lives.
- Privatisation would bring better services for all, rich and poor, through the redistribution of resources such as income and better opportunities.
- Where there is privatisation, services such as health and education will be made available and there will be quality service supplied.
- Once such basic needs are supplied, through the policy of GEAR, which embraces privatisation, crime and poverty would then be minimized.

According to the policy framework on "An accelerated agenda towards the restructuring of state-owned enterprises", (August 2001), government supports the concept of privatisation. The restructuring programme was and remains designed around a multiple array of strategies, or mixes of options that are designed to ensure the maximization of shareholder's interests defined in economic; social and development terms. At an enterprise and sector level, restructuring involves improving the efficiency and effectiveness of an entity, accessing globally competitive technologies where appropriate, mobilizing private sector capital and expertise, and assisting the creation of effective market structures in sectors currently dominated by state-owned enterprises.

The policy framework continues to outline that the Growth Employment and Redistribution (GEAR) strategy notes that restructuring may involve the total sale of the state assets, and/ or partial sale of government assets to strategic equity partners, retaining a strategic interest. The government's restructuring strategy of privatisation will affect employment. There will be some direct job losses in the short to medium term, but these should be offset by new employment opportunities in the medium to longer term resulting from additional investment and growth in other sectors, (An accelerated agenda towards the state-owned enterprise, August, 2001).

Sigcau (2001), states that privatisation is but one element within the overall process encompassing the restructuring of the state assets and public enterprises. The author further indicates that privatisation is viewed as one of the available strategic instruments to be used to achieve the country's social, economic, political and technological developmental needs. Its usefulness will be evaluated against all other available strategic instruments.

Privatisation requires strong political commitment, it is intensely political since transactions produce winners as well as losers and gains are usually diffused over the longer term. It thus requires careful handling by political and administrative leadership to explain alternatives, build coalitions for change and deal with the disaffected (Bala, 2005). The purpose of privatisation is to improve the performance of the economy in the following manner (South Africa, Act 200 of 1993):

- Effective use of production factors. In order to create an effective economic climate in South Africa, the available capital, manpower, material and facilities must be utilised optimally to achieve maximum economic growth and development. The use of these factors by the public sector must therefore be limited to what is essential in order that the greatest possible proportion can be made available for the development of productive segments of the private sector.

- Optimal functioning of market forces. Because the provision of services and products by the public sector is not subject to self-regulatory demand and supply to the same extent as in the private sector, the provision of as many services and products as possible should be left to the private sector. In the way it will be left to the market to determine both the demand for and the supply of such services and products to the benefit of the country's economy.
- Increasing the percentage of net fixed investment in the private sector. In terms of monetary values, the public sector was responsible for 63,7 percent of all net fixed investments made during the period from 1970 to *1984*, whereas only 36,3 percent was invested in the private sector. Because investment in the private sector must be increased in order to achieve economic growth, it is an objective of privatisation to change this investment trend to one in which there will be a greater percentage of private sectors and a smaller percentage of public sector investment.

3.4 Dimensions of privatisation

Privatisation efforts are taking place in several different regions, nations, and industries. Although some patterns have emerged, there are many different forms and variations of privatisation. It should be noted that the privatisation of an industry does not always mean that the government may implement a deregulatory policy, which allows an industry only a marginal amount of greater autonomy (Business Times 2002).

3.4.1. Methods of privatisation

According to Van der Waldt (2003: 257-259), there are a variety of methods to privatize public functions. Each method has its own advantages and disadvantages and each method has its own rate of success. Some privatisation methods are more applicable to privatize a certain public function, such as sport and recreation, than another's. Some methods increase or maximize efficiency and increase service quality, while others create monopolies, which is not always the ideal situation when it comes to service delivery. To overcome the disadvantages of certain methods, a combination of methods of privatisation may be implemented in order to secure effective and efficient services to the public and thus to minimize disadvantages.

According to Craythorne (2003: 461-464), the following methods of privatisation exist:

- **Transfers**. A function, together with its assets, liabilities and personnel, whose consent have been obtained, are sold as a going concern to private enterprise. Municipal enterprises that could be considered for this method of privatisation are caravan parks, abattoirs, markets or restaurants. The sport and recreation function of a municipality can also be transferred to a private company, as it falls in the same category as a caravan park.

- **Partnership or joint undertakings**. The municipality has a fixed shareholding in a private concern or in a body set up in partnership with a private concern to supply a specific product or service. The arrangement may be permanent or limited to a specific time. This method would be suitable for large-scale developments such as mass housing areas, large townships or large new industrial developments or cleansing services. The sport and recreation function of a municipality can be managed as a joint undertaking with the private sector to supply the sport and recreation function. The municipality can, for instance, privatise the planning and management function of sport and recreation to the public sector, but stays responsible for the maintenance of the sport and recreation infrastructure.

- **Concession**. A private undertaking is authorized to satisfy a need on a concession basis and for its own profit, for instance to provide and manage new swimming pools, sports complexes or caravan sites for profit. The sport and recreation function of a municipality can also be transferred to a private company as it falls in the same category as a caravan park. Under a concession a private company can raise funds through letting the public pay for the service.

- **Joint use of facilities or leasing of business rights**. A private concern could use underused capacity in facilities under public ownership, temporarily or on a permanent basis, even though both sectors are providing the same type of service, such as hospitals and education. Alternatively, underused public facilities or property could be leased out for any business use. The sport and recreation function and specifically the infrastructures of a municipality can be delivered as a joint use facility

- **Withdrawal or discontinuation**. The municipality either ceases to provide a particular service, or maintains it at a specific level, thereby creating an opportunity for the private sector to move in if the service can be provided at a profit. This method would not be suitable in respect of services relating to sport and recreation, but can be applicable for services such as public safety, e.g. clinics, fire services or building control.

- **Contracting or farming out.** The public sector body remains responsible for providing a particular service but contracts with one or more private concerns to do the work for it at a specific price. For example, a municipality may remain responsible for providing suburban streets, street lighting, street horticulture, storm water etc, but does not employ any staff or do the work. Instead it employs consultants to do the planning of the work and the letting and supervision of contracts to operators. This method is the one most people have in mind when they talk of privatisation, and may be implemented completely, as described above, or partly, by acquiring equipment and supplies by tender and letting out contracts for maintenance, etc. The sport and recreation function of a municipality can be contracted out.

Different methods of privatisation

Various methods of privatisation can be identified and the most common are schematically represented in figure 3.2

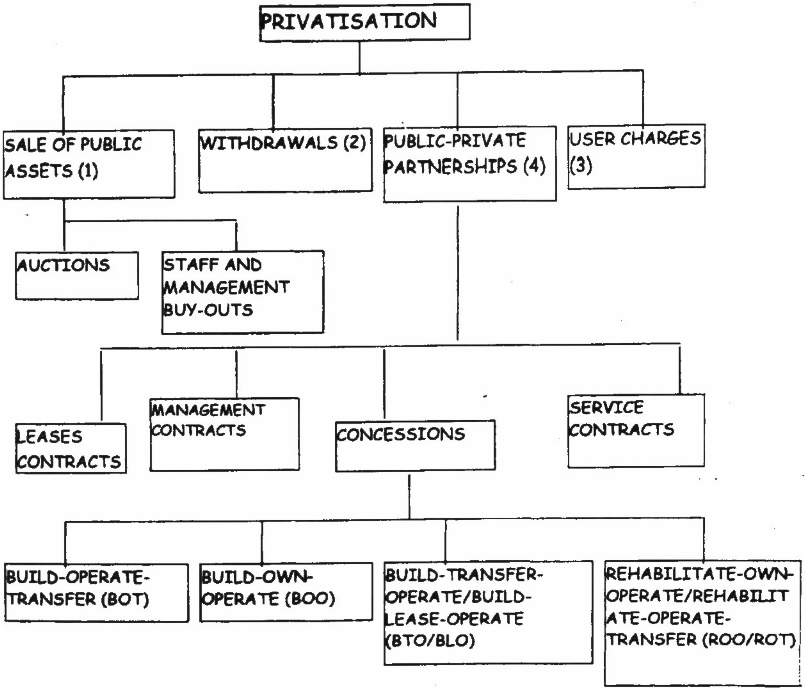

FIGURE 3.2: Schematic representation of different methods of privatisation by local governments (Craythorne 2003 :98).

Figure 3.2 represents some of the most important and different methods and forms of privatisation, and how they are related. Seen along a continuum, privatisation can operate in many forms. The introduction of business principles and practices in a public enterprise, through use of consultants and other private concerns may, on the one hand, be seen or regarded as the lowest form of privatisation. The total sale of assets may, on the other hand, be seen as the highest form of privatisation. In the latter case the government has no special powers over the service sold to the private concern. It must, however, be noted that there is no smooth continuum in explaining various methods of privatisation. There can be a combination of measures relating to control, management, ownership, production and financing of services (Craythorne 2003: 120).

3.4.2 The evolution of privatisation

The roots of privatisation stem from the decline of socialism as well as from a growing conviction that free enterprise advances the wealth of nations better than rationalized industries and planned economics. Although privatisation efforts differ substantially from county to country, there is a strong common economic rationale underlying the various decisions to privatize state energy resources. In general nations have privatized state-owned energy industries to achieve one or more of several objectives (Beesley 1989).

3.5 The Objectives of privatisation

According to Beesley (1989: 120), most privatisation has the following objectives:

- To raise investment capital for the industry or company being privatized.
- To reduce state debt and its role in the economy.
- To promote wider share ownership.
- To introduce greater competition.
- To expose firms to market discipline.

- To increase the availability of financial and skills resources to meet socio-economic requirements of the country.

3.6 Experiences from other countries

The following discussion focuses on some countries that have experienced privatisation and their perception about privatisation.

3.6.1 Poland

According to the COSATU campaign bulletin (2000) since 1989, Poland has undergone several changes in all government spheres. Poland finally took the first serious step to privatize major state-owned enterprises by launching their long-awaited mass privatisation initiative. Perhaps privatisation has encouraged foreign investment in the country. But for the people of Poland it meant:

- **Job losses**: New bosses put pressure on workers to go for voluntary retrenchment packages and gave five months salary for each completed year of service.
- **Service cost more**: The cost of petrol, gas and electricity increased. Private companies wanted a return on their investment as quickly as possible.
- **Inequalities increased**: Access to primary education and health services became expensive and almost impossible for many people to afford, so the division between the rich, i.e. those who can afford to pay private hospitals and better education, and the poor, those who must struggle day to day to survive, widened.

3.6.2 The origin of privatisation in Africa

African countries with the exception of Ethiopia lived under the colonial rule of the West European powers, mainly Britain, Portugal and France. Production and consumptions structures of African economies were structured to fit the interests of the colonial powers. The colonial years had adversely affected the development of entrepreneurial talent in Africa. While indigenous labour was used extensively in the colonial establishment, potential entrepreneurs were not cultivated to learn the tools of the trade. For the most part, colonial powers used their own people for enterprise management and did not share their knowledge and skills of commerce and finance with native Africans. The political and economic environment of the world at the time of independence played an important role in determining the development path many African countries chose. Africans entered a world community divided along competing ideological lines of capitalism and communism (Udoji, 1970 and Human 1981).

In socialist counties like Tanzania, Mozambique and Ethiopia, the State controlled virtually all aspects of economic life with little or no appreciable private initiatives. As a result in many African countries, state-owned enterprises commonly known as parastatals proliferated after independence (Rangata and Afeikhena, 2003).

3.6.2.1 Zambia

Like many countries in the region, Zambia embarked on privatisation with among other objectives, a desire to broaden ownership and develop the capital market. The securities and exchange commissions were established to regulate all participants in the stock markets with the purpose of protecting investors, on the privatisation programme. The Privatisation Trust Fund was established to temporarily warehouse shares which were later to be sold though public flotation (Hasokins, 1991).

According to Hasonkins (ibid), Zambia had the most successful privatisation programme to date and the experience there offered many examples of best practice. Hasokins (ibid), furthers argues that there are various factors that have brought the success of privatisation in Zambia:

- The extent of divestitures. The government willingly exists totally from equity ownership of enterprises.
- The level of foreign direct investment attracted to the country as a result of the openness of the Zambian economy.

- Enterprise post-privatisation performance.

The government's commitment was seen as both a measure of and the most important factor in the success of Zambia's programme of privatisation. Commitment is what gave prominence to the private sector's role in the process. The following were the effects of privatisation on the Zambian economy (Joskow 2000:124).

- Privatisation has had a serious detrimental effect on the industrial development of Zambia. It is argued that devaluation not only encourages cheap imports, which in turn harms investment, but also works against the interest of those companies that outsource their inputs. With interest rates of 30% to 33%, small business owners could not afford credit for domestic purposes. Thus with limited Kwacha reserves and not being able to obtain bank loans, small entrepreneurs were unable to bid for foreign exchange. The liberation virtually destroyed some small businesses, which the World Bank, IMF model was relying on for industrial adjustment.

- Privatisation also had an effect on the capital markets. Where a country does not have a capital market, such a market is weak; privatisation is conducted through direct sale of assets. This creates some costs for the government and such costs are also incurred in trying to identify potential buyers. When assets are sold only to those few able to readily purchase them, the negative effect is unevenly spread and concentration of assets ownership in turn creating a monopoly in the private sector. In Zambia foreign participation increased considerably in 1996, as some 48 foreign investors took up more than 40% of the Zambian sugar shares issued buying shares worth 1.4 million, while in the secondary market trading foreigners accounted for 90% of business during 1996, with trades valued around $24 million.

- There is a risk of deterioration of working conditions, which is inherent in any restructuring process because of the priority generally given to financial performance in situations of competition. Workers often bear the brunt of market pressure by having to work more.

- Zambia, because of its fragile economic situations, was not readily attractive to foreign investors, many people lost their jobs, close to 92000 jobs were lost by 1994 and this affected the lives of many citizens of the country.

3.6.3.2 Botswana

Botswana is known as Africa's longest continuous multiparty democracy. Elected governments have ruled the country since it gained independence from Britain in 1966. Economic progress in Botswana has been built on sound fiscal management and low rates of corruption. However privatisation is progressing slowly. Efforts were underway to diversify an economy where diamonds account for 75% of all export earnings in 1969. The country's gross domestic product (GDP) was continuing to rise largely because of diamonds (Udoji, 1970).

Another issue on privatisation concerns the involvement of employer and employee's organisation policies. In almost all African countries employer's organization consult with governments for certain economic reforms advantageous to the private sector. Privatisation is usually undertaken within the ambit of structural adjustment reforms and liberalisation, and employer organizations often do not specifically initiate discussions with governments on the handling over of specific state companies to the private sector. There is however the case in Botswana where the business community did actually put pressure on the government to push ahead with privatisation in order to sustain the driving forces of the private sector for economic expansion. Nevertheless, what private employers usually do demand from government is a level playing field in their activities vis-à-vis state-owned companies in the same sector (Udoji, ibid).

3.7 The relevance of privatisation in Africa

As a result of the deteriorating economic situation in sub-Saharan Africa in the face of enormous efforts at liberalization and restructuring, there are those who doubt the positive effect of the World Bank and IMF prescriptions on the industrialization of Africa. For instance Hasokins (1991) maintains that privatisation is no more a solution to the problems of state-owned enterprises. Gibson (1996) notes that the illusory appeal of privatisation is to provide a single solution for many complex problems, adding that if privatisation has any merit at all, it is to remind everyone that the public-private mix ought not to be considered settled for all times.

Helleiner (1992) is emphatic in his view that the effect of the World Bank or IMF prescription will be to re-industrialize the existing manufacturing base in many African countries without encouraging any significant replacement. The author urges that simply getting the prices right and removing the public sector from influencing the economy in the hope that the private sector will respond, will do little to alter conditions in sub-Saharan Africa. The World Bank (2004) contends that the newly industrializing countries of South-East Asia achieved their economic breakthroughs with the ruthless use of state interventions or subsidies designed to give international advantage to their companies.

Udoji (1970) states that both the European Union and Japan subsidies protect their industries and agriculture when it makes sense to do so, even while lecturing Africa about the benefits of market forces. He further observes that Africa has actually been reindustrializing under IMF pressure.

However, these differing viewpoints on the merits and demerits of privatisation constitute two sides of a coin. Those who express caution and doubt as well as those who are sanguine about its benefits based on practical results achieved thus far have all enriched the understanding of privatisation both as a concept as well as a practical proposition. What is important is the evaluation of privatisation in terms of its contribution to economic efficiency and growth as well as to the wider functioning of society. Studies have shown that production costs for private businesses are between 20% and 40% percent lower than those in the public sector. It is obvious that the market-induced pressure to keep down costs and increase profits is a more effective discipline of the private business than political directives to economize in the public sector (Megginson, 2004).

Gibson (1996) states that one of the effects of privatisation has been the shaking up of the corporate culture thereby turning erstwhile nonchalant public servants with little incentive to serve customers into efficient, profit-propelled and risk-taking managers. The author, however, states that a little point in debating the "boundary" separating the pubic from the private sectors once those in business, whether public or private, realize their duty to be achieving greater efficiency and effectiveness as well as productivity and concentrating on customers as they continue to improve their product and services.

The South African labour unions discourage the introduction of privatisation on the basis of what other countries have experienced, such as Britain and Canada. Unions maintain that workers are the victims of privatisation. Already South Africa is experiencing a high rate of unemployment due to retrenchments, which affect citizens economically and socially. The rate of crime and poverty goes up daily; hence union fee the conditions will increase as a result of privatisation (http://w.w.w.Cosatu.org, 2001).

3.8 The solution

Many capitalism economists argue that globalization with its emphasis on cutting the size of the public sector and allowing more space and greater freedom for the bosses to operate, is the solution to the global problem of poverty and hardship. Globalization encourages competition within companies as well as countries, where only the company with good quality will survive. In cases where no competition is stiff, then monopoly may exist (Moola, 2003).

It is necessary to lock in the gains and prevent backsliding. The piecemeal priorities efforts thus far now need to be replaced by a comprehensive policy structure representative legislative reform to create a robust and transparent investment frame work. The factors in the success of the privatisation programme embrace privatisation totality and not on transitional basis. A more rapid wider privatisation programme especially in infrastructure will stimulate competitive investors (Birdsall, 2005).

3.9 Privatisation of South Africa's state assets

The National Department of Public Enterprises is responsible for redressing the imbalances created by apartheid through the accelerated restructuring of state-owned enterprises (SOEs) in an integrated and coherent manner, to promote economic growth and socio-economic development (SA year book, 2004/5). This is done through a policy framework entitled "An accelerated agenda towards the restructuring of State-owned enterprises". The framework focuses on the following sectors: energy; the electricity supply industry (ESI); telecommunications; public transport and forestry (SA year book, 2004/5). According to the government, the restructuring policy framework aims to achieve the following objectives:

- To coordinate, develop and implement restructuring and transactions plans.
- To promote wider economic participation in the South African economy.
- To realize proceeds from restructuring transactions.
- To enhance the global competitiveness of SOEs.
- The promotion of long term sustainable development.
- To ensure stakeholder support for restructuring plans.
- To safeguard the integrity and transparency of the restructuring process.

According to the COSATU Campaign Bulletin (2001), an outline of the advantages and disadvantages of privatisation is given, but labour unions feel that the disadvantages outweigh the advantages.

2.9.1 Advantages of privatisation

According to the Shop steward (2001) and Burger (2004), the following advantages of privatisation were outlined:

- **Privatisation encourages greater competition**

  When companies such as ESKOM and TELKOM are fully privatized, they will want to deliver quality service so as to beat their competitors and to attract more customers. Competition will result in greater market efficiencies and effectiveness in the sector. In terms of distribution, a number of regional electricity distributions will be created, and the creation of these regional electricity distributions will result in better service delivery to customers and eventually to better prices.

- **Privatisation will raise revenue for the state:** as companies invest in the country, this will help in stabilizing the country's economic status, Privatized companies will pay company tax, which is revenue to the state. Every country needs revenue to improve the life-styles of its citizens. Better infrastructure will be brought into the country.

- **Privatisation will attract more investors:** this will create employment for many South Africans. Private equity will provide expertise and technology needed for a competitive edge to meet the socio-economic requirements of the country.
- Privatisation will bring about the **effective transfer of skills** from the previously advantaged groups to the previously disadvantaged.

3.9.2 Disadvantages of privatisation

In the COSATU position paper on privatisation (2001: 21) and Amenia (2003), various shortcomings of privatisation were identified:

- **Privatisation leads to significant job losses.**
  Privatisation often leads to substantial job losses. Private management quickly closes down less profitable operations, typically those that serve the poor. They do not take political or social responsibility for the survival of the workers who lose their jobs into consideration.

- **Privatized companies do not take the broader economic needs of the county into account**

  Privatisation undermines the ability of the developmental state to fulfill its core function in terms of social protection, industrial strategy, increasing assets for the poor and enhancing democracy.

- **Privatisation leads to decreased and inferior quality services for the poor.**

  Privatisation is especially hostile to the growth of home-based micro-enterprises. Privatized industries will generally seek to serve large, formal enterprise, which will buy in bulk and afford relatively high tariffs. In contrast an expensive task of extending infrastructure to households is less profitable.

- **Privatisation makes it harder to maintain cross-subsidies to benefit the poor.**

  Privatisation makes cross-subsidization to cut costs for the poor more difficult, even impossible. In the case of fully privatized companies, management will not see why it should engage in relatively high cost, low-profit services for the poor. Where government permits competition with parastatals, private companies will pick the most profitable opportunities.

3.10 Government policies on privatisation

Some important government policies related to privatisation are examined below. These include the Budget Review 2005 and the Department of Public Enterprise (DPE) Policy Framework

- **The Budget Review 2005**

  The National Treasury has adopted a particular uncritical approach to privatisation. In the Budget Review 2005, it argues that what it calls restructuring of state-owned assets will broaden economic participation, re-capitalise public enterprise , reduce state debt and create more employment. The National Treasury is persistent on its main motive for pushing privatisation, for example to raise funds so that it can stick to the GEAR targets.

- **The Department of Public Enterprises' policy framework**

In 2001, the Department of Public Enterprises (DPE) published a policy framework on restructuring state-owned enterprises (SOEs). The framework effectively commits government to bringing in private interests wherever possible. In general, the framework favours the sale of assets, arguing that while many forms of restructuring can improve the efficiency with the SOEs, a process that involves a transfer of ownership can have important additional macroeconomic benefits.

The policy framework admits the need for careful analysis of the impact of "restructuring" on society. It states that such an analysis should address the costs and benefits to society both direct (for example, immediate impact on pricing or employment) and indirectly (for example, social costs).

- **Government policy on economic and management science education as a vehicle to educate citizens**

It is important that Government pays more attention to Economic and management sciences (EMS) , in schools because it lays the foundation of SMMEs. Communities will be able to fight poverty by empowering hawkers and helping them to earn their income for survival. Through policies such as Sector Education and Training authorizes (SETA) on small business, government ensures the highest standards of education and training for small business industries. Such programmes also equip the small business sector with skills required to succeed and to create opportunities for self-advancement of individuals and communities, to enable them to play a productive role in society and the country's economy at large. Al these initiatives could be extended to schools through entrepreneurship activities, which are based on a free enterprise system (Viljoen 2000).

Further education and training (FET) in institutions of higher learning will empower people with business skills that will enable them to develop their communities. Also currently the government is engaged in the process of land redistribution through Land reform programmes, to enable them to develop their own communities. Such land is mainly earmarked for agricultural purposes. Through EMS education, learners will be able to manage land properly to earn an income from the land (Viljoen 2000).

- **The changing role of State- owned enterprises in South Africa**

Government has lately reviewed the role of state-owned enterprises through the introduction of the Accelerated and shared growth initiative of South Africa (ASGISA) policy. Addressing parliament, president Taboo Mbeki indicated that government will spend R372 billion, using state-owned enterprises and the public sector as a whole to invest in various sectors to among others: meet the demands for electricity; provide an efficient and competitiveness logistic infrastructure; expand and modernize the telecommunications infrastructure, and satisfy the demand for water (State of the nation address, 2006).

- **Government policy on Small, medium and micro-enterprises (SMMEs)**

According to the state (SA year book, 2004/5), there are about three million small businesses in South Africa. This number includes businesses of an informal nature. The department of trade and industry (DTI) has a Small business programme, which ensures that all sector level development policies incorporate the development, growth and investment measures with regard to maximizing small businesses` total contribution to the entire economy (SA year book, 2004/5). The overall policy direction of government with regard to SMMEs is encapsulated in the National strategy for the development and promotion of Small business in South Africa, as captured in the white paper of the DTI (1995). The strategy espouses to support the development and growth of small businesses, to create an enabling environment for small enterprises, facilitating greater equalization of income, wealth and opportunities for this sector of businesses (White paper, 1995)

3.11 Broader economic impacts of privatisation

The broader economic impacts of privatisation are those impacts that affect the broader economy. These impacts are generally controversial, largely because they reflect some self-evident realities. In most instances, any injection of financial resources (such as tax, dividends or proceeds from equity sales) will result in a reduction of public sector borrowing requirement. This in turn will enable the state to prioritize other expenditure. Most of the proponents of privatisation argue that the greatest economic impact results from privatisation. This is because the latter will provide larger injection of resources to the fiscals than the partial privatisation. An increased scale of privatisation allows for an accelerated reduction in the level of state debt which in turn has a significant impact on the interest costs of the government.

Privatisation is expected to lead to increased capital inflows in the form of both portfolio flows and foreign direct investment (Black, 2004).

3.11.1 Economic benefits of privatisation

Many of the benefits of privatisation are those that impact on the broader economy and as such, arise from improved corporate governance and market discipline in the state enterprise environment. Private equity can provide the finance, expertise, technology and or market access they need for a competitive edge. The potential micro-economic growth and employment benefits from the privatisation process are both direct and indirect. Direct benefits flows from improved efficiency, increased investment, higher capital inflows and lower public sector debt. Indirectly privatisation also brings important, dynamic benefits through improved competitiveness. Privatisation is also likely to lead to a substantial inflows of capital related to equity sales and of private investment into infrastructure expansion. (Policy framework, 2000).

Privatisation program should impart important benefits to the South African economy since foreign capital should be injected into the economy. (ABSA Group Limited 2001) According to ABSA Group Limited, developing countries received $28.6 billion in foreign exchange from the privatisation program in 1998 alone. In addition, privatisation may improve the investment grade rating of South Africa by international credit rating agencies, whereas the borrowing requirements of the government should be reduced, which exert downwards pressure on long term interest rates boosting the investment spending.

The macro-economic benefits of a successful privatisation drive could herald higher economic growth rate in South Africa from 2002 onwards. At an enterprise level, privatized companies tend to be more efficient, more attractive to costumer desires, focus more closely on corporate governance, enjoy better access to capital and be better able to benefit from the transfer of foreign skills. Privatized companies also facilitate a greater spread of share ownership amongst the public and a wider distribution of wealth. According to ABSA Group Limited the key aim of the planned TELKOM's listing is to widen ownership of shares in South Africa by offering shares at substantial discount to the poor and previously disadvantaged. The wide array of potential benefits from the privatisation program is shown in Table 1.

Table 1: Potential benefits of privatisation (ABSA Group Limited) 2003

Microeconomic benefits	**Macroeconomic benefits**	**Benefits for investors**	**Benefits for consumers**
-More investment capital	-Improved fiscal position	-Access to new market	-Wider variety of goods & services of higher quality at low costs.
- Improved efficiency & productivity	-Increased competition	-Low risk than establishing new infrastructure	-Opportunity of share ownership
- New and motivated management	-Capital market development	-Low barriers to entry	-A wider distribution of wealth
-New technology	-Better utilization of economic resources	-High return on investment	- Higher return on investment
-Human resource development	-Attracting foreign investment		
-Higher profitability	-Higher economic growth		

The data in Table 1 indicate some of the possible economic benefits of privatisation to South Africa as illustrated by the ABSA Group Limited.

Privatisation can send a clear message of the type economy the country wants to create. A successful privatisation programme could attract new foreign investment to the JSE (Johannesburg Stock Exchange) Securities Exchange, and would compensate the latter for the market capitalization lost through the London Primary Offshore listings of certain South African companies (www.absa.co.za).

3.11.2 Possible impacts of privatisation on the South African equity market.

The inflows of foreign capital into South Africa may soon receive a boost from a new quarter. The foreign inflows will strengthen the capital account of the balance payment, all things remaining equal. By fostering lower interest's rates, privatisation could precipitate higher economic growth in South Africa, which could be beneficial for local share price. A vigorous privatisation program, by attracting new foreign investment would help to strengthen the Rand. This would reduce the risk that the authorities would continue to incur losses on the forward exchange account. More over a privatisation programme, by stimulating foreign inflows would make it easier for the Reserve Bank to buy dollars in foreign exchange market. Privatisation should furnish a new focal point on interest in South African on the part of foreign investors and broader economic development (Van der waldt 2002).

3.13 Social impacts of privatisation

3.13.1 Impact on employment levels

The introduction of market oriented pricing and products development, combined with transparent regulations of access to public goods, will significantly improve infrastructure delivery. Separating regulatory from service provision responsibilities will free State enterprises to compete effectively, while meeting the developmental goals of government transparently and effectively. (ANC 1992:11)

Dealing with the most controversial impacts first, it is universally agreed that the immediate impact of restructuring involves employment losses. However, what is not always clear is whether the longer-term benefits of the restructuring in the form of more efficient firms and more competitive firms, does result in the creation of employment than it was prior to the restructuring process. There is also the question of empowerment, which in its most general sense involves the greater participation of those historically disadvantaged in the economy by race, gender or disability at all forms. Of the prime importance, is that, the form in which restructuring takes place will determine the effectiveness of empowerment? (Policy Framework 2000:11)

The South African government, through the process of restructuring hopes and envisages a better future for all, but realistically the restructuring process adversely affects the country's social landscape. However through an optimistic approach one might view an impact on social and political prospects. In as much as the researcher acknowledges the fact that privatisation will boost our economic conditions, it is also important to highlight that privatisation is doing injustice to the rural poor and destitute people who constitute the highest percentage of our population. The two major social impacts referred to in the international literature are employment (including wage and salary level) implications and the implications of restructuring on the quality of pricing of services. Whilst the impact of these two aspects has been negative in some countries, the opposite can be said about Mexico. La Porta and Lopez-de-Silanes argue that instead the profitability of privatised companies accrues partly from their newly found efficient performance as well as an increase in sales (World bank, note no.117, 1997)

The unemployment rate in South Africa is exceptionally high and arguably the most pressing concern that faces policymakers. According to the official definition, unemployment was estimated at 26 percent in 1998 and rose to 29.5 percent in 2001 (Labour Force Survey, 2001). The broad definition, which includes the non-searching unemployed, is even higher and increased by 39 percent in 1999 to 41.5 percent in 2002. The causes of unemployment in South Africa are largely believed to be structural in nature. This includes individuals who lack the relevant skills or qualifications, poverty, illiteracy, and of late privatisation. Apart from the fact that 52% of black women and 42.5% of men in South Africa were not employed, many of those employed were in the informal sector, in sectors where there is virtually no provision of social security (UNDP 2001).

14. Arguments for and against privatisation

As stated in the preceded discussion, r, privatisation in South African local government has become one of the most contentious issues and has, in numerous occasions, pitted employers against employees and labour organisations. It has resulted in unstable labour relations in various sections as labour organisations have reacted strongly against privatisation of local services.

An issue that is still debatable is whether, or not, arguments for and against privatisation of services are centred on firmly-held ideological positions. Are proponents and opponents of privatisation guided by pragmatic approaches in their analysis of the necessity for privatisation? Do firmly-held ideological positions impair debates around privatisation? Clearly, by studying the positions of some organizations in South Africa on privatisation, one can sense some ideological tones (SAMWU, March 1998; Anon (b), 12 June 1997).

The South African Municipal Workers Union (SAMWU) claims that there is an attempt to co-opt workers and unions to accept privatisation and the neo-liberal agenda. The union, i.e. SAMWU, is openly showing its pursuance of socialism. *'We are committed to socialism, the basis for workers to transform society in their interests. The strength of this vision will unite all working people in the struggle to improve their lives'* (SAMWU, March 1998). This view by SAMWU clearly demonstrates the ideological tones that influence their opposition to privatisation. Privatisation is seen as enhancing the capitalist agenda. SAMWU says that there is pressure from financial institutions, big businesses and the media to privatize local and national assets and basic services in an attempt to resolve the global economic crisis of capitalism. This argument has ideological undertones that are largely economic (Martin, 1996: 11).

The South African Chamber of Business (SACOB), in their turn, calls for more privatisation of services and production by government. They further call for business representatives to be co-opted to serve on local councils in an advisory capacity so that they can be run along business lines. According to the South African Chamber of Business, government managers should be appointed by a market process (Anon (b), 12 June 1997). Business has been vocal in its call for the introduction of market forces as they are regarded as healthy by them, for they encourage competition. These, in essence, are calls for important cornerstones of liberalism.

The following sections will look at arguments for and against privatisation

Arguments for privatisation

By looking at various arguments for privatisation, a clearer understanding of factors that urge local governments to privatize is gained. There are numerous reasons that are forwarded by proponents of privatisation. Brynard (1995) makes an interesting division or grouping of intentions to privatize by governments into different dimensions. He identified three dimensions:

- The ideological and/or political dimension which, for example, calls for the reduction of governments involvement in commercial activities, and an increase in citizen participation in the economy;
- The economic and financial dimension which include, for example, the encouragement and introduction of competition, the reduction of the public sector borrowing from the market, and increasing efficiency; and
- The administrative dimension which include, for example, limiting and reducing the size of the public bureaucracy.

15 Summary

This chapter presented the literature review of the study. The concept of privatisation of state-owned enterprises was discussed in detail. Privatisation implies the transference of services or functions by government through various methods to the private sector in an attempt to satisfy social and/or economic needs, resulting in relational changes in areas of control, ownership, production and finance. This is done with the expectation that such services and functions will be effectively and efficiently delivered as the private sector operates in a competitive environment motivated by profits and market forces.

The following chapter deals with the statement of the problem.

CHAPTER FOUR: PROBLEM STATEMENT

4.1 Introduction

The previous two chapters dealt with the theoretical foundation of the study and literature review as a basis for the research problem and research. This chapter presents the research problem.

Privatisation in other countries

In the 1980s developing countries were confronted with fiscal crises that put considerable constraints on the capacity of the State to invest on SOE's. This had negative repercussions at the macroeconomic level that in turn adversely affected firms in both the pubic and private sectors. Often reforms were part and parcel of structural adjustment programmes that emphasized speedy privatisation, not necessarily privatisation that would promote efficiency and equity. Given these set of circumstances, considerations for efficiency have been less important for many governments than the need to overcome resource constraints. For those countries where pūblic enterprises represented a substantial drag on the fiscal balance, the outcome of privatisation can be deemed positive if it shifted the weight of financing investment from public to private sector. The research on the impact of privatisation on socio-economic and political impacts of privatisation confirms the view that privatisation can be beneficial for firms and economic boost while on the other hand affecting the socio-economic landscape in many countries. An important lacuna in many of the privatisation studies is that the performance measures used tend to be effected by factors other than privatisation, giving rise to significant attribution problems. Thus, the effects of restructuring and pre-privatisation clean-up of enterprises are often confounded with the effects of privatisation (Hirsch, 2000 and Ariyo and Jerome, 2003).

The two most important sets of condition for the success of privatisation are country conditions and market conditions. A country condition that helps successful privatisation includes an open trade regime, a stable and predictable environment for investment and well-developed institutional and regulatory capacity. Market conditions are also an important determinant of successful privatisation. Privatizing enterprises that produce tradable or operate in competitive or potentially competitive markets should lead to improved efficiency, provided that divestiture can be conducted transparently. Privatisation of SOE's that operates as monopolies is more complex and the regulatory capabilities of the country become a crucial factor. Again, privatizing utilities and natural monopolies is most difficult in least developed countries, where institutional and regulatory capacities are weakest (Nellis and Shirley, 1994)

For low-income countries, a precondition for successful privatisation is to create an enabling environment in which private sector can effectively operate. Those includes macroeconomic reforms, improving regulatory framework, strengthening the financial system, reducing barriers to competition, deregulation product and factor markets and improved governance. It is widely perceived that government failure is one of the powerful reasons for adopting privatisation programmes. In general, any reform that increases the competitiveness of the economy helps to reduce corrupt incentives. Political interference with regard to the operation of public enterprises is a strong motive for divesting, but it is also true that the privatisation process itself can create economic opportunities for corruption. Instead of bribing SOEs to obtain contracts and favourable treatment, bidders can bribe officials involved with privatisation or regulatory institutions (Ackerman 1996).

The impacts of privatisation can be best understood when reflecting on the international experiences. In a far-ranging assessment, the former World Bank Chief Economist acknowledges that "not only were state enterprises inefficient, but their losses contributed to the government budget deficit, contributing to macro instability. Privatisation would kill two birds with one stone: it would improve economic efficiency and reduce fiscal deficits

The above statement reflects positively on the economic benefits of privatisation, which actually are very important for the growth and the economic development of the third world countries. It should be noted that on the economic part privatisation helps the third world countries to be able to pay up their debts with the IMF and the World Bank, hence the recorded successful privatisation programme in numerous countries around the globe.

4.3 Privatisation in Britain

In Britain, unlike in South Africa, most people had access to the basic necessities of life before privatisation began in the early 1980's. The government owned utilities like electricity. Manufacturing enterprises and they kept a vast of social welfare system going-like employment insurance, free health care and schooling. Today the government has sold off most of the enterprises it owned. They have cut back on the social welfare system. They have contracted out most of the local authorities services.

The British privatisation programme tried to advance the notion of the popular capitalism. In this process, the Conservative government moved slowly-sector by sector. They began to privatize by selling state owned enterprises to shareholders. In many cases, the workers themselves became shareholders. Another key initiative from the government which tried to build support for privatisation was the selling of the council houses. In the process of selling the houses, tenants were first given options to buy them. Since tenants were the working class, this built some base for support for privatisation among the workers.

By the mid 1980, the Thatcher Government was rapidly expanding its privatisation activities. While productive companies has been the major targets for the first round privatisation, the government eventually sold off public utilities; water, gas and electricity. By the mid-1990's major business employing 1 million people had been privatized. Apart from privatizing state owned enterprises, the British government also embraced the cutting of public services like closing of hospitals and other basic social services in its privatisation process. Trade unions did try to resist privatisation and succeeded in numerous occasions. (Mosert 2002:50)

The effects of the privatisation programme were job losses and work intensification, worsening work conditions, quality services being cutback, trade unions rights were minimized, and women were always first to be retrenched.

The government and the people of Britain have paid a high price of privatisation. State assets were sold at a lower price than their real value and ended up paying high unemployment insurances for people who were retrenched. The environment has also become worse because of privatisation.

4.4 Privatisation in Hungary

The Hungarian government consulted with the trade unions before and during the privatisation of the energy sector. As a result, clear protections for employees were built intro the contracts form the outset. The government has embarked on a programme of privatisation of parts of their energy industry in 1994. The programme proved politically controversial and was delayed for a number of reasons. The first being the resignations of ministers responsible for the programme and the second being the labour unions protesting over the likelihood of the impacts of privatisation towards the labour force.

The first stage was finally introduced in 1995. The privatisation agency sold shares in regional electricity distribution companies, gas distribution companies and some electrical generating companies. In each case, the shares sold represented less than 50% of the companies' share capital. Shares were sold to a number of foreign energy companies (Van Zyl et al 2005).

4.5 Privatisation in other parts of Africa

Privatisation of state-owned enterprises (SOE's) has become a key component of the structural reform process and globalization strategy in many economies. Several developing and transition economies have embarked upon extensive privatisation programmers in the last decade or more as a means of fostering economic growth, attaining macroeconomic stability and reducing public sector borrowing requirements arising from corruption, subsidies and subventions attributable to unprofitable Sue's. At the beginning of 1990, about a dozen African countries had undertaken some form of privatisation. By 1993 that number had doubled and by the end of 1996 all but five countries laid divested some public enterprises within the framework of macroeconomic reform and liberalization (White and Bhatia, 1998). Namibia is perhaps one of the very few with no plans to privatize, largely because its state enterprises are generally well run (Hirsch, 2000 and Ariyo and Jerome, 2003).

While privatisation in Africa remains highly controversial and risky, there have been numerous strikes against the proposed sell-off of state assets as unions fear for job loss or reduced benefits. Student activities and academics have equally condemned the theory of privatisation. Some indigenous business groups have criticized the prominent role of foreign companies in the privatisation process. Even high-level government officials such as Gabon, have denounced privatisation as form of economic recolonization. In few countries, opposition to privatisation has been cited as one factor in the ouster of incumbent governments, either through election or military. (Harsh 2002)

Until 2002, African governments did little to counter such public views, even as the direct economic benefits of privatisation were minimal or not very evident. Privatisation attracted limited accounts of new investment, frequently failed to foster genuine competition and had few linkages to any broader developmental goals. While acknowledging some of these shortcomings, Mr. Oliver Campbell, a senior public enterprise specialist at the World Bank, argues that "by and large, privatisation has been really a great success. Unfortunately, people don't know enough about it". (Mail & Guardian August 2002).

Telecommunication has become a particularly dynamic sector for privatisation. Many African phone systems are antiquated and unable to reach more than a small minority of the population. African governments found that selling shares of their telecommunications enterprises to establish foreign companies was an easy way to gain access to new technologies and investment resources to modernise and expand their systems. Between 1995 and 1997, portions of telecommunications enterprises in six sub-Saharan countries were sold for a total of more than $1.7 billion and the new owners or partners announced ambitions for additional investment, which is a good move in boosting the country's economy. Currently, Eritrea, Cameroon, Gabon, Kenya, Mali, Mozambique, Niger, South Africa and Nigeria are also in the process of privatizing their telecommunication systems. (Harsh2001:6)

From the beginning, the most publicly persistent and organized opposition to privatisation in Africa came from the labour movement. Most recently in 1999, there were strike against privatisation in several countries including Bernin, Cape Verde, Gabon and Niger. Sometimes workers succeeded in blocking or slowing down the privatisation of specific enterprises or influencing negotiations for a privatisation agreement. Usually workers were reacting against threats for job loss or the possibility that benefits might be jeopardized under new management. Fears where heightened by the fact that most of the early privatisation ended up with job losses.

To many ordinary Africans, privatisation is a very distant process in which they have no hope of participating. The fact that foreign investors are the once that mostly buy shares in the process of privatisation, just but fuel the later perception. Even when national investors do take a leading role in a privatized company, there is a public resentment that businessmen from certain ethnic groups have an undue advantage. Moreover, the frequent secrecy or lack of public information about how buyers are selected lends credence to press reports that some privatisation programmes are riddled with corruption or tend to favour political insiders. Nevertheless, only scattered efforts have been made so far in Africa to give local people greater ownership in privatized firms.

Many privatisation programmes have suffered from poor design, inadequate preparation, and weak or fragmented implementation. This is clearly portrayed by the long average time to complete transactions, by the number of incomplete transactions; many of which has been under way for several years and apparently lack transparency. Fragmented institutional arrangements are common. Most privatisation agencies are poorly staffed and they are not empowered. Agencies in Ghana, Madagascar, Nigeria and Togo were set up or given a legal mandate after the programme had commenced. Sometimes, transactions are handled outside the. Central Agency such as Ashanti Goldfields, Africa's largest transaction. Only in Zambia does the privatisation agency have the authority to conclude deals (Van Zyl, et al 2005),

The missing link appears to be the institutional framework. Privatisation or restructuring got under way with no clearly defined 'frames' or 'waves'. Various government departments were involved depending on the industry concerned. The lack of clarity about the different roles both within government and between government and SOE's and other stakeholders has created significant problems to our socio-economic and political environment.

4.6. Problem statement

In South Africa the restructuring of state assets is not limited to assets at the national sphere. Provinces also seized the opportunity presented by the national policy to also restructure provincial state owned assets inherited from the previous Bantustan regimes.

The restructuring of state assets was expected to contribute towards black economic empowerment and a broader redistribution of wealth to those who were previously excluded from participating actively in the economy of this country. However, there have been several accusations leveled at government. Some people believe that privatisation of state assets has benefited a few. This has led to the enactment of the Broad based Black Economic Empowerment Act.

The North West province is 65 percent rural therefore also rated one of the poorest provinces. This poses a challenge to and it is government to empower emerging businesses. One way of doing so, is through selling of state assets to small and emerging businesses. This problem gives rise to the following questions:

- Do the SMMEs have the capacity to deliver quality service to the community?
- Does the privatisation of state assets lead to job creation or job losses?

- Does privatisation of state assets benefit SMMEs broadly, or only a few individuals?

This study was intended to enquire into the impact of privatisation of state assets to the Small Micro and Medium Enterprises (SMMEs) in the North West province. In order to achieve this, the following objectives were pursued:

- To investigate to what extent did SMMEs benefit from the privatisation of state assets
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While privatisation in Africa remains highly controversial and risky, there have been numerous strikes against the proposed sell-off of state assets as unions fear for job loss or reduced benefits. Student activities and academics have equally condemned the theory of privatisation. Some indigenous business groups have criticized the prominent role of foreign companies in the privatisation process. Even high-level government officials such as Gabon, have denounced privatisation as form of economic recolonization. In few countries, opposition to privatisation has been cited as one factor in the ouster of incumbent governments, either through election or military. (Harsh 2002)

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The restructuring of state assets was expected to contribute towards black economic empowerment and a broader redistribution of wealth to those who were previously excluded from participating actively in the economy of this country. However, there have been several accusations leveled at government. Some people believe that privatisation of state assets has benefited a few. This has led to the enactment of the Broad based Black Economic Empowerment Act.

The North West province is 65 percent rural therefore also rated one of the poorest provinces. This poses a challenge to and it is government to empower emerging businesses. One way of doing so, is through selling of state assets to small and emerging businesses. This problem gives rise to the following questions:

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- **Does privatisation of state assets benefit SMMEs broadly, or only a few individuals?**

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- To identify factors that contributed negatively or positively to the empowerment of SMMEs during the process of the privatisation of state assets
- To evaluate service delivery to the communities.

CHAPTER FIVE: RESEACH DESIGN AND ANALYSIS

5.1 Introduction

This chapter focuses on the survey methods and sampling techniques used in this study. This study is intended to evaluate the impact of privatisation on SMMEs and communities of the Mafikeng areas.

5.2 Measuring instrument

A questionnaire was used as the primary measuring instrument in this study. The questionnaire is the most important device that enables respondents to answer questions. It is a means of communication between the respondents and the researcher (Legotlo 1996 and Murray 2003). It is mostly used in surveys. It contains a selected group of questions chosen due to their relevance. Thus, the questionnaire is carefully worded for clarity. The questions that are asked should be able to produce the data required for the study. A good questionnaire must create a feeling of importance on the part of the respondents, a sense of relevance and that their co-operation is of significance (Teu 1997). A carefully planned and properly planned measuring instrument is essential for the collection of the required data (Agaze, 2006).

5.2.1 Advantages of a questionnaire

In comparison with the use of an interview procedure, the advantages of using a questionnaire include the following (Babbie 1983:03):

- Distribution of a questionnaire is cost effective in terms of time, money and travelling.
- A broader sample of people can be reached, in a way ensuring an extensive spectrum of views, thus minimising generalisation of the study.
- Standardised instructions are given to all respondents and the appearance and mode of conduct of the investigator do not influence the result.
- Confidentiality of information given can be maintained since in the questionnaire, the identity of the respondent is anonymous.

5.2.2 Disadvantages of a questionnaire

In comparison with the use of an interview procedure, the disadvantages of using a questionnaire include the following (Teu 1997:32):

- Since questionnaires are commonly used in research, some respondents could have a negative attitude towards them, thus contributing to a high rate of non- response.
- Respondents may not respond to important points or emphasized aspects, which are of importance to the investigator.
- The danger of misinterpretation of questions exists, as it is very difficult to formulate questions, which convey almost the same meaning to all respondents.
- Contents of the questionnaire should be arranged in a way that it will maximise co-operation from the respondents.
- The language must be accessible and clear, bearing in mind that what may be clear to you, may be a jargon to another person.

5.2.3 Questionnaire construction

5.2.3.1 Development of questionnaire items

According to Molale (1999:83), an ideal questionnaire possesses the same properties as a good law. It is clear, unambiguous and uniformly workable. Legotlo (1996) also states that the questionnaire as a measuring instrument used to collect data has the greatest influence on the reliability of the collected data. It is of significance that care must be taken when designing a questionnaire because questionnaires which are not properly constructed can lead to respondents missing questions and confusing them. Gill & Johnson (1991) and Agaze (2006) identify the following steps in questionnaire construction as important:

- Writing a first draft of questionnaire.
- Deciding what the problem really is and what information is required to provide answers.
- Deciding what type of questions to use: fixed or open.
- Piloting the draft questionnaire with a sample of respondents.
- Revising the questionnaire on the basis if criticism.
- Administering the questionnaire.
- Analysing and interpreting the returned questionnaire and
- Writing the final report of the inquiry.

There are several pitfalls that Moroane (2000) has identified that need to be considered, these are:

- Questions ought to be clearly worded and in simple language.
- Questions should not be too long as it may bore the respondents.
- Avoid loading questions or items as these will tend to produce biased responses.

- **Ensure that fixed responses, alternative answers are balanced.**
- **Ensure that the items follow a natural logic order.**

Cooper and Schindler (2006) spell out some criteria for the wording of questions:

- Is the question stated in terms of a shared vocabulary?
- Does the question contain vocabulary with a single meaning?
- Does the question contain unsupported assumptions?
- Is the question correctly personalized?
- Are adequate alternatives presented within the question?

5.2.3.2 Content and format of the questionnaire

According to Cooper and Schindler (2006) a good measuring instrument must meet the criteria of reliability, validity and practicality. Reliability has to do with the accuracy and precision of a measurement procedure. In other words, does the measuring instrument measure consistent over time. Validity refers to the extent to which the instrument measures what it intends to measure. Practicality is concerned with a wide range of factors, including economy, convenience and interpretability.

The questionnaire used in this study consisted of five parts, namely:
Part A (Questions 1.1 - 5.5): the purpose of these questions was to gather biographical and demographic information of the respondents. The information was essential to understand the background information of the respondents.

Part B (Questions 6.1-6.5), Part C (Question 7.1-7.8), Part D (8.1-8.7) and Part E (9.1-9.5): The purpose of these questions was to evaluate the impact of privatisation on SMMEs. Refer to questionnaire in appendix A.

5.2.3 Pre- testing of the questionnaire

Even though much care is taken into consideration when designing data collection instruments (the questionnaire in this particular case), there is always a possibility of error. It is therefore imperative to avoid making mistakes such as an ambiguous question or one that respondents cannot answer and consequently there is a need to pre-test the questionnaire in full and /or in part (Babbie, 1983).

According to Teu (2002), a pilot study is a small-scale preliminary investigation designed to acquaint the researcher with the flaws and problems that needed attention before the major study. It offers the researcher an opportunity to pre-test the instrument. The primary purpose of a pilot study is to detect the problems that must be solved before the major study is conducted.

With the view to determining any flaws, problems and ambiguity, the questionnaire was pre-tested using a sample of six educators. The respondents were asked to complete the questionnaire and to indicate items or points that might need to be considered to improve the instrument (Teu, 2002). The pre-test results were checked and the suggestions made by respondents were taken into consideration to improve the questionnaire.

5.2.4 Final questionnaire

The final questionnaire was administered to 40 taxi owners, 20 government employees, 20 contractors, 20 business owners and 40 local residents.

5.2.5 Covering letter

The covering letter is a tool employed to introduce the questionnaire to the respondents. This letter should be carefully and thoughtfully structured and it should also address the concerns of the receiver of the letter. Cohen and Manion (1985) suggest that the letter should indicate the aim of the survey in order to convey its importance to respondents, assure them of the confidentiality of their responses and encourage their participation.

5.3 Administrative procedures

Most of the participants in the study were contacted physically at shopping malls, government buildings, taxi ranks and tuck shops.

5.4 Follow-ups

Follow-ups were made to people who were requested to complete forms later that day. In some cases, the forms were collected on the sport after they were filled in front of the field worker.

5.5 Sample

According to Cooper and Schindler (2006) the test of a sample design is how well it represents the characteristics of the population it purports to represent. In measurement terms the sample must be valid. The authors give an overview of various sampling methods and indicate that although a convenience sample has no control to ensure precision, it may still be a useful procedure. Practical reasons, like cost and time considerations did not allow for a large sample, and therefore a convenience sample of 140 was used for this study. The limitations of using this method were born in mind when conclusions were drawn.

The final questionnaire was administered to 40 taxi owners, 20 government employees, 20 contractors, 20 business owners and 40 local residents. Out of the 140 people, 110 responded, rendering a 79 % response rate.

5.6 Data analysis

Data collection is the gathering of data that may range from a simple observation at one location to a grandiose survey of multinational corporations in different parts of the world (Cooper and Schindler 2004). For the purpose of this study a questionnaire was used to collect data. The data was analysed using frequency, percentage and distribution tables.

5.7 Ethical consideration

The questionnaire distributed was only meant for research purposes. The responses were not to be distributed to any one else. The confidentiality was kept in that respondents were not asked to put their names or any identification ways on their responses.

5.8 Limitation

Previous research: literature related to the study was a limitation.

5.9 Conclusion

This chapter dealt with the research methodology that was used for the study. The next chapter reflects the results of the study.

CHAPTER SIX: RESULTS

6.1 Introduction

In the previous chapter an overview is provided of the research design and how the data were analysed. This chapter reflects the results of the present study. The first section of the analysis examines the statistical fit of the data. The second part looks at the presentation the results obtained from the study.

6.2 Presentation of results

The final questionnaire was administered to 40 taxi owners, 20 government employees, 20 contractors, 20 business owners and 40 local residents. Out of the 140 people, 110 responded, thus a 79 % response rate. All the questionnaires were used for data analyses. This procedure assumed equality of interval of the Likert scale and therefore the data were regarded as of interval strength.

6.2.1 Distribution of data

The data set for the questionnaire were tested to determine if the data were distributed normally. The result of this is reflected in Table 6.1. It is concluded that 95% of the data points for each of the data series does fit at a normal distribution.

Table 6.1 ANOVA test for normal distribution of data

Source of Variation	SS	DF	MS	F	p-value	F crit
Between the groups	486.4037901	20	24.32018951	17.66956697	1.77585E 55	1.57785606
Within the groups	1976.493945	1436	1.376388541			

6.2.2 Demographic characteristics of the respondents

Tables 6.2 to 6.4 reflect the demographical characteristics of the respondents.

Table 6.2: Location of the business

Category	Frequency	Percentage
Urban	40	36.36
Suburban	16	14.55
Rural	30	27.27
Government /resident	20	18.18
TOTAL	110	100

Table 6.1 reflects that 40 (36.36%) of the respondents were in urban areas, 16 (14, 55%) of the respondents were in suburban areas and 30 (27.27%) and 54 (49, 09%) of the respondents were in rural areas.

Table 6.3: Working/ business experience in years

Category	Frequency	Percentage
0 – 5 years	2	1.18%
6 – 10 years	12	10.91%
11 - 15 years	70	63.63%
16 – 20 years	20	18.18%
21 and above	6	5.45%
Total	**110**	**100**

Table 6.3 shows that the experience of the respondents. Two (1.18%) had between zero and five years experience, 12 (10.91%) of the respondents had between 6 and 10 years working experience, 70 (63,63%) of the respondents had between 11 and 15 years working experience, 20 (18,18%) of the respondents had between 16 and 20 years of working experience, 6 (5,45%) had 21 years and above in working experience. Table 6.3 indicates that the majority of respondents had between 11 and 15 years of working experience.

6.2.3 Extent to which SMMEs benefit from privatization

Table 6.4: Business establishment

Category	Frequency	Percentage
Emerging	65	59.09
Big and profitable	12	10.9
Struggling	30	27.27
Lack resources	03	2.72
no respond	00	00
TOTAL	110	100

Table 6.4 shows how established was the business, emerging businesses were 65 (59.09%), Profitable businesses were 12 (10.9) of the respondents, struggling 30 (27.27%) of the respondents, lacking resources were 03 (2.27%) of the respondents.

Table 6.5: Main source of the business

Category	Frequency	Percentage
Government	46	41.81
Private individual	52	47.27
Parastatals	10	9.09
NGO's	02	1.81
TOTAL	110	100

Table 6.5 shows that the main source of business, 46 (41.81%) of the respondents use the government as their main source of business. 52 (47.27%) of the respondents get their main business from private individual, only 10 (9.09) of the respondent make use parastatals to get business, only 02 (1.81%) of the respondents uses NGO's as their main source of incomes.

Table 6.6: Basic services such as electricity and water

Category	Frequency	Percentage
Government	79	71.82
Private company	18	16.36
No opinion	13	11.81
TOTAL	110	100

Table 6.6 shows that of the 110 respondents 13 (11, 82%) did not respond to the question, 18 (16.36%) that that basic service will best serve by private companies, 79 (71.82%) indicated that basic services would best supplied by the government.

Table 6.7: Assets should be owned by government or private company?

Category	Frequency	Percentage
Government	20	18.18
Private company	90	81.81
No opinion	00	00
TOTAL	110	100

Table 6.7 indicates 20 (18.18%) of the respondents stated that that the assets should be owned by the states, 90 (81.81%) of the respondents stated that that the assets should be owned by private companies.

Table 6.8: Who provides the best service?

Category	Frequency	Percentage
Government	10	9.09
Private company	100	90.9
No opinion	00	00
TOTAL	110	100

Table 6.8 shows that of the 110 respondents 10(9.09%) stated that the government provides the best service, 100 (90.09%) of the respondents stated that private companies are providing the best service.

6.2.4 Factors that contribute negatively or positively to empowerment of SMMEs

Table 6.9: Who should own the country`s assets

Category	Frequency	Percentage
Government	15	13.63
Private company	95	86.36
No opinion	00	00
TOTAL	110	100

Table 6.9 shows that of the 110 respondents 15 (13.63%) of the respondents stated that the government should own the country`s assets. 95 (86.36%) of the respondents stated that that assets should be owned the private companies.

Table 6.10: Who should provide jobs to the community?

Category	Frequency	Percentage
Government	62	56.36
Private company	48	43.63
No opinion	00	00
TOTAL	110	100

Table 6.10 shows that of the 110 of the respondents 62 (56.36%) stated that government should provide jobs to community, 48 (43.63%) of the respondents stated that private companies should provide jobs to the communities. The confusion now is that how will the government provide jobs without owning the country`s assets.

Table 6.11: Sale of states assets, improve economy of the country

Category	Frequency	Percentage
Yes	89	80.90
No	21	19.09
TOTAL	110	100

Table 6.11 shows that out of 110, 89 (80.90%) of the respondents agrees that to improve the economy of the country assets should be sold to private companies, while 21 (19.09%) of the remaining respondents stated they should remain with the states

Table 6.12: Positive economy and delivery of the services?

Category	Frequency	Percentage
YES	73	66.36
NO	34	30.90
NO opinion	03	2.27
TOTAL	110	100

Table 6.12 shows that of the 110 of the respondents, 73 (66.36%) stated that, they are in agreement with the motion of positive impact, and 34 (30.09%) disagree with the sentiment that privatisation has a positive impact.

Table 6.13: Escalating of crime influenced by job loses

Category	Frequency	Percentage
YES	87	79.09
NO	23	20.90
NO opinion	00	00
TOTAL	110	100

Table 6.13 shows that of the 110 of the respondents, 87 (79.09%) of the respondents stated yes to the statement and 23 (20.9%) stated no, the implication is that job looses have an effect to crime.

Table 6.14: Privatisation of assets and wealth of the local business?

Category	Frequency	Percentage
YES	84	76.36
NO	26	23.63
NO opinion	00	00
TOTAL	110	100

Table 6.14 shows that of the 110 respondents 84 (76.36%) stated yes the question and 26 (23.63%) of the respondents stated no, the implication is that majority of the respondents agrees that privatisation of assets has improved the wealth of the local business.

Table 6.15: Government has improved service delivery through privatisation

Category	Frequency	Percentage
YES	91	82.72
NO	19	17.27
NO opinion	00	00
TOTAL	110	100

Table 6.15 shows that the 91 (82.72%) of the 110 respondents stated that that the government has improved services through privatisation and 19 (17.27%) of the respondents are against the statement .Which means that majority of the respondents stated that privatisation improves service delivery.

6.2.5 Evaluate service delivery to the community

Table 6.16: Do SMMEs have capacity?

Category	Frequency	Percentage
YES	76	69.09
NO	33	30
Did not answer	01	0.9
TOTAL	110	100

Table 6.16 shows that of the 110 of the respondents, 76 (69.09%) stated that, they are in agreement with the motion that SMMEs have capacity to deliver quality services, and 33 (30%) are not agreeing with the statement. This implies that majority of the respondents stated that that SMMEs have capacity to deliver quality services to the community.

Table 6.17: Government is doing its outmost to provide best service.

Category	Frequency	Percentage
No response	00	00
Strongly disagree	00	00
Disagree	00	00
Agree	16	14.54
Strongly agree	94	85.46
TOTAL	110	100

Table 6.17 reflects that 16 (14.54%) of the respondents agrees that the government is doing its outmost to provide best service, 94 (85, 46%) strongly agreed with the statement.

Table 6.18: Process of privatisation will benefit SMMEs

Category	Frequency	Percentage
No response	00	00
Strongly disagree	00	00
Disagree	02	1.81
Agree	20	18.18
Strongly agree	88	80
TOTAL	110	100

Table 6.18 reflects that 02 (1.18%) of the respondents disagree with the statement, and 108 (98.18%) agrees with the statement which implied that majority of the respondents stated that that SMMEs will benefit more from privatisation.

Table 6.19: Lack of training in government procurement

Category	Frequency	Percentage
No response	00	00
Strongly disagree	05	5.45
Disagree	12	10.9
Agree	45	40.9
Strongly agree	48	43.63
TOTAL	110	100

Table 6.19 reflects that 05(5.45%) of the respondents strongly disagree with the statement, and 45(40.9) agrees with the statement, and 48 (43.63%) strongly agree with the statement, this means that majority of the respondents stated that that lack of training in government procurement procedures fails the SMMEs to access the privatised assets.

Table 6.20: Lack of funds by SMMEs

Category	Frequency	Percentage
No response	00	00
Strongly disagree	00	00
Disagree	00	00
Agree	56	50.9
Strongly agree	54	49.1
TOTAL	110	100

Table 6.20 reflects that of the 110 respondents 56 (50.9%) stated that, they are in agreement with the statement, 54 (49.1%) strongly agrees with the statement, this means that all respondents stated that that lack of funds plays a negative role in accessing the privatised assets.

Table 6.21: State preferential procurement benefited SMMEs.

Category	Frequency	Percentage
No response	00	00
Strongly disagree	21	19.09
Disagree	56	50.9
Agree	23	20.9
Strongly agree	10	9.09
TOTAL	110	100

Table 6.21 reflects that of the 110 respondents 21 (19.09%) are strongly disagreeing with the statement, while 56 (50.9%) are disagreeing with the statement, 23 (20.9%), agrees and 10 (9.09%) are strongly agreeing. The implication is that majority did not favour privatisation, as has not benefited the SMMEs.

6.4. Summary

The respondents had different expectation regarding the introduction of privatisation. Some respondent stated that, they had no confidence in the process of privatization, whereas others indicated that they still hoped that privatization would bring some economic growth of the country. Most of the respondents, who are currently in business, were in favour of privatisation, they stated that the future expectation of SMMEs from the government is that, the state should offer SMMEs more business and support by means of finance.

The majority of government employees did not favour of privatisation of state assets as it have a negative impact on employment, since private business are not obliged to provide employment to the community. The respondents felt that private business was more worried about profit maximisation that employment. They highlighted that it is evident from most companies that employees were be targeted when businesses needed to save costs.

The majority of the respondents were uncertain whether the government had policies that will provide a proper guidance to sale the state assets. They were also uncertain as to whether privatised services will be performed well under the private sector. They however agree with privatisation. They also stated that privatisation is necessary because of poor service delivery and empowerment of SMMEs. They highlighted that SMMEs given a chance they can provide effective and efficient services to the community.

Most of the respondents are suggesting that instead of total privatisation the government should empower the SMMEs through introduction of private-public partnership and user charge should used as the method of privatisation. They also stated that parastatals kind of formation should encouraged, as this will assist in service delivery and give SMMEs better chance to gain momentum in terms of finances and expertise. They also argues that private business should be more involved in privatisation processes, they are of the view that private business are not satisfied with the roles that they are playing in privatisation.

In conclusion the responses received from the respondents were carefully analysed and presented through tables. In the next chapter the results of the study are discussed, conclusions are drawn and recommendations are made.

CHAPTER SEVEN: DISCUSSION, CONCLUSION, IMPLICATION AND RECOMMENDATION

7.1 Introduction

In chapter 1 a study orientation was given, followed by a theoretical foundation in chapter 2. The literature review was presented in chapter 3 and thereafter the problem of the study was stated in chapter 4. An exposition of the investigation followed in chapter 5. The results of the study were reflected in chapter 6. In chapter 7 the outcome of the study is discussed. This chapter ends with recommendations and a general conclusion.

7.3 Realisation of the objectives of the study

7.3.1 Extend to which SMMEs benefit from privatization

Table 6.6 shows that of the 110 respondents 13 (11, 82%) did not respond to the question, 18 (16.36%) stated that basic service would best serve by private companies, 79 (71.82%) indicated that basic services would best supplied by the government. The data shows that majority of the respondents stated that basic services should be left to be the competency of the government.

Table 6.8 shows that of the 110 respondents 10(9.09%) stated that the government provides the best service, 100 (90.09%) of the respondents stated that private companies are providing the best service. The implication is that majority of the respondents are of the opinion that private companies provides better service as compared to the government.

Table 6.10 shows that of the 110 of the respondents 62 (56.36%) stated that government should provide jobs to community, 48 (43.63%) of the respondents stated private companies should provide jobs to the communities. The confusion now is that how would the government provide jobs without owning the country's assets. The

implication of the graph is that majority of the respondents stated that the government should provide the jobs to the community.

Table 6.12 shows that of the 110 of the respondents, 73 (66.36%) agreed with the motion of positive impact, and 34 (30.09%) disagree with the sentiment that privatisation has a positive impact, this implies that majority of respondents are in favour of privatisation.

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Table 6.15 shows that the 91 (82.72%) of the 110 respondents stated that the government has improved services through privatisation and 19 (17.27%) of the respondents are against the statement .Which means that majority of the respondents stated privatisation improves service delivery.

7.3.3 Evaluate service delivery to the community

Table 6.17 reflects that 16 (14.54%) of the respondents agreed that the government is doing its outmost to provide best service, 94 (85, 46%) strongly agreed with the statement, the implication is that all respondents agreed that the government is doing its best to offer better services. Respondents are not in favour of the introduction of privatization. Many felt that government should still offer the services it has always offered.

About 65% of the respondents have outlined the following points with regard to privatisation.

- Majority of the respondents has highlighted that privatization would bring in uncertainty with regard to job security, as new employers would make their own choice in terms of who must remain working in the company.
- Privatization is seen as a strategy that would bring about high poverty and crime rate, as many people would not be working.
- It has brought a lot of insecurity. The economy of the country would be shaken by these factors that were brought about by unemployment.

The prices of products or services rendered by private entrepreneurs would be higher as their main aim would be to maximize profit.

7.3.3 Does privatization of state assets benefit SMMEs/communities broadly, or only a few individuals?

Table 6.5 shows it indicates the main source of business, 46 (41.81%) of the respondents use the government as their main source of business. 52 (47.27%) of the respondents get their main business from private individual, only 10 (9.09) of the respondent make use parastatals to get business, only 02 (1.81%) of the respondents uses NGO's as their main source of incomes. Data in this table indicates that the majority of respondents are uses private individual and even government as the source of business.

Table 6.7 indicates 20 (18.18%) of the respondents stated that the assets should be owned by the states, 90 (81.81%) of the respondents stated that the assets should be owned by private companies, the implication is that majority feels that to improve the growth of the country, assets should owned by private companies.

Table 6.9 shows that of the 110 respondents 15 (13.63%) of the respondents stated that the government should own the country's assets. 95 (86.36%) of the respondents stated that assets should be owned the private companies. The implication is that majority of the respondents are of the opinion that the private companies should own the country's assets for the better delivery of the services.

Table 6.10 shows that of the 110 of the respondents 62 (56.36%) stated that government should provide jobs to community, 48 (43.63%) of the respondents stated private companies should provide jobs to the communities. The confusion now is that how would the government provide jobs without owning the country's assets. The implication of the graph is that majority of the respondents stated that the government should provide the jobs to the community.

Table 6.11 shows that out of 110, 89 (80.90%) of the respondents agreed that to improve the economy of the country assets should be sold to private companies, while 21 (19.09%) of the remaining respondents stated they should remain with the states, the implication is that majority of the respondents stated yes to privatisation.

Table 6.14 shows that of the 110 respondents 84 (76.36%) said yes the question and 26 (23.63%) of the respondents said no, the implication is that majority of the respondents agreed that privatisation of assets has improved the wealth of the local business.
Table 6.18 reflects that 02 (1.18%) of the respondents disagree with the statement, and 108 (98.18%) agreed with the statement which implies that majority of the respondents stated that SMMEs would benefit more from privatisation.

7.3.3 To identify factors that contributed negatively or positively to the empowerment of SMMEs/communities during the process of the privatization of state assets

Negative expectations

Many of the respondents said that they could foresee the economy suffering a lot, because many would be unemployed, and many businesses would close down for the simple reason that many would be having no spending power, 62% of the respondents indicated this.

Job losses: 65% of the respondents were concerned about the fact that new employers would determine the numbers they want to keep. They would eliminate certain departments by merging sections and this would results in retrenchments.

Positive expectations

- The study reflected that 63% of the respondents saw privatization as a strategy that would bring wealth to the country economy. It would afford citizens of this country to opportunity to have their own businesses, and create employment.
- The study further reflected that 75% of the respondents supported privatisation and felt that privatisation would encourage a fair competition. This would encourage business to strive to attract more consumers, by producing affordable and quality products. In this way, privatisation would bring improved services.

- Human Resource Development: When companies were privatized, there would be skills development programs, which would look at empowering employees to enable them to produce and offer quality services/ products. 42% of the respondents saw privatization as a tool to bring development to the people.

7.4 Recommendations

Based on the above discussion the following recommendations have been made:

- The government through its education programmes in schools and in ABET (Adult Basic Education and Training) centers must educate citizens around socio-economic and political issues as well as familiarizing them with the government's macro – economic policy, in particular the GEAR policy. The Department of Education, through schools, must introduce the topics on economic polices in the teaching of EMS, for example, the impact of the national budget on the lives of ordinary citizens. This would enable learners to be more conversant with the current debates around them. The government should only make partial privatization, and not complete/ whole privatization. This would enable the government to have a say, if a company does not work according to the regulation as stipulated in an act governing companies. As this would assist the government in service delivery. Basics services such as water and electricity should not be privatized.

- To ensure that the implementation of privatization benefits everybody government must encourage citizens to come in their groups and form small businesses, by buying these state-owned assets from the government. This would ensure that the government would not be the sole employer. The government should also support SMMEs by making sure that they have access to funding.

- The government would have to fund newly emerging businesses, as most of the entrepreneurs would be coming from previously disadvantaged areas. An organisation such as Khula Enterprises has started with the funding process, but most of the SMMEs are having difficulties in accessing this funding, as the process and procedures are long and not user friendly, therefore the government should empower SMMEs in such a way that they would be able to contribute positively to the economic growth of the country.

- The government should make sure that policies that would sustainable economic growth in the country are well implemented and monitored.

7.5 Future research

The impact of privatisation can be explored to the whole province, as the findings in one place cannot be generalized through the province, but it can be used as the basis of future research.

7.6 Conclusion

The main outcomes reveal that privatization will have a negative impact on individuals/ communities; to the SMMEs it will impact positively to the success of their businesses.

Success or failure also depends on the experience of the individual and their expertise. As supported by different theories in the body of this study, the main challenges that government has in the privatisation of state assets is delivery of basic services to communities and sharing the slice between citizens.

The implementation of suggested recommendations will bring a positive outcome with regard to privatisation/ sale of state assets.

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Appendix A

Card no ....

QUESTIONNAIRE

This questionnaire is aimed at learning about the impact of privatisation within the SMME`s. The survey is send to tuck shop owners, emerging business owners, successful business people, and government officials and local residents. The result of the survey will be summarised. The study is to be used to evaluate the effectiveness of privatisation.

The information will be treated confidentially and no direct references will be made to you or your organisation. Respondents are requested to answer all questions and be honest.

Part : A

Kindly answer the following questions by crossing (X) on the appropriate box.

1.	LOCATION OF YOUR BUSINESS	
1.1	Urban	
1.2	Suburban	
1.3	Rural	
1.4	government official / resident	

2.	WORKING EXPERIENCE IN YEARS	
2.1	0 to 5	
2.2	6 to 10	
2.3	11 to 15	
2.4	16 to 20	

2.5	25 and above.	

3	EXPERIENCE IN BUSINESS	
3.2	0 -5 Years	
3.3	6-10 years	
3.4	15-20 years	
3.5	20-25 years	
3.6	Other (specify).	

4	HOW ESTABLISHED IS YOUR BUSINESS ?	
4.1	Emerging	
4.2	Very big and profitable	
4.3	Struggling	
4.4	Lacks resources	
4.5	Other (specify).	

5	WHO IS YOUR MAIN SOURCE OF BUSINESS?	
5.1	Government	
5.2	Private individuals	
5.3	Parastatals	
5.4	Non Governmental Organisations (NGOs)	
5.5	Other (specify)	

PART : B

In this section please tick the alphabet that describes your opinion, please note that : A = Government

B = private companies/ owner

C= No opinion.

No	Item	A	B	C
6.1	In your opinion basic services such water and electricity will be best supplied by whom?			
6.2	To improve the growth of the country, assets should be owned by…..			
6.3	Who provides the best service?			
6.4	Who should own the country's assets so as to have best service			
6.5	Who should provide jobs for the community			

PART : C

The following questions require you to put a cross (X) on the yes or no column, to the answer that best describes your opinion.

No	Item	yes	No
7.1	If the government sells its assets to private/ individual companies, this can improve the economy of the country		
7.2	Privatisation has a positive impact to the growth of the economy and delivery of government services promised in election manifestos		
7.3	Is the escalation of crime influenced amongst others by job losses/ unemployment		
7.4	Privatisation of state assets has improved the wealth of the local businesses		
7.5	Government has improved service delivery through privatisation		
7.6	As a private company did you benefit from the process of privatisation of state assets		
7.7	Do SMMEs have the capacity to deliver quality services to the community		
7.8	In your opinion, does privatisation create more jobs to the community		

PART : D

Listed below are some views on privatisation as revealed by literature. Please read through the list and cross (X) the block that express your view in each item. Use the rating scale to express your view.

Key: Strongly Agree : 4

Agree : 3

Disagree : 2

Strongly disagree : 1

No	Item	4	3	2	1
8.1	Government is doing its best to provide services to communities				
8.2	The process of privatisation will benefit smme`s				
8.3	Privatisation of state assets only benefit few individuals				
8.4	SMMEs fail to access privatised state assets due to lack of training in government procurement procedures				
8.5	SMMEs are not able to benefit from the privatisation of state assets due to lack of funds				
8.6	The state preferential procurement procedures benefited SMMEs by improving their access to state tenders				

PART : E

Briefly answer the following questions by writing short notes in the space provided.

9.1. Kindly provide any future expectations that SMMEs can look forward to with the introduction of the process of selling state assets to private companies/ individuals.

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9.2. Furthermore, if you were to advice government on an alternative growth strategy that will improve the economy what would you suggest.

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9.3. As SMMEs are you benefiting from privatisation, briefly give reasons why

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9.4. To support the principle of "Batho pele" government should provide service to the community not private companies, briefly explain why/why not……………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

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9.5 Any further comment/s

END

THANK FOR YOUR COOPORATION.

YUNIBESITI YA BOKONE-BOPHIRIMA
NORTH WEST UNIVERSITY
NOORDWES UNIVERSITEIT

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The District Manager
Department of Education
Mafikeng

RE: PERMISION TO CONDUCT RESEARCH

This letter serves to request that Mr. C.M. Raseala, a registered student in the MBA/MPA programme at the Graduate School of the North West University, be afforded the full cooperation of the department of Education in the completion of his research project.

Mr. Raseala`s research project is a partial requirement for the fulfillment of his Masters Degree in Business Administration, and his field of study is regarding an extensive but brief enquiry into concerns with the impact of privatisation in the Mafikeng areas.

Mr. Raseala requires permission to distribute research questionnaires to various stakeholders in the Mafikeng area and your assistance in this regard will contribute to the successful completion of his project.

Please forward your written responses directly to Mr Raseala, in order to aid his logistical planning.

Your cooperation is highly appreciated.

Dan Setsetse
Programme Director