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Examining the Effectiveness of BEE Implementation: A Case Study of Eskom Restructuring 1995-2005

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A dissertation submitted in partial fulfillment of the Master of Arts degree in Development Studies, University of the Witwatersrand, Johannesburg.

June 2007

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Abstract

Black Economic Empowerment (BEE) has emerged as the premier policy instrument to redress the socio-economic inequalities created by the apartheid system in South Africa. BEE has evolved from a rudimentary concept that was casually coined outside government in the 1990s to being the policy instrument *du jour* of the post 1994 democratic dispensation. BEE has received critical attention culminating in its institutionalization through a BEE Council, an Act of Parliament, and a policy framework to facilitate its implementation. The institutionalization of this concept across government policy and practice settings, including, in particular, the government's drive to restructure its enterprises, has accentuated BEE's important role in the government's reconstruction and development agenda. However, the evolution of BEE has not been a smooth journey. Its capacity and direction to respond to dire socio-economic demands has raised a deluge of questions and remarks, often negative, from many fronts. The purpose of this study is to critically examine the extent to which BEE produces the targeted results through its implementation via the restructuring of state owned enterprises (SOEs). What is also of significance is that the restructuring of SOEs and the implementation of BEE is occurring against a backdrop of a conspicuous neo-liberal drive. Whilst setting the scene with a theoretical background to the South African economy before and after 1994, the practical focus of this study is limited to the implementation of BEE using Eskom, an SOE, as a case study. Just as this study indicates a successful implementation of BEE through Eskom, questions remain as to how much widespread the benefits have been amongst the targeted previously marginalized black majority.

Keywords: Black economic empowerment, Restructuring of State Owned Enterprises, Neo-liberalism, Eskom, Electricity, Parastatals, Privatisation.

ACKNOWLEDGEMENTS

To my family, oMashukumbela, oNdaleka, oMvula, Tomane, Tatazawela, oMkheshane, oVumezitha. From the smouldering ashes of Mpumalanga Township, when the fires died the phoenix arose in the person of Mabutho Shangase, Induna kaMakhehlane no Abigail, Umfana owawela iJukskei egodle iCV ekhwapheni, waphinda wagadla ezindengezini zolwazi, miles away from Road 2 where the monkeys dwell, wagadla kwelika Queen Elizabeth, waphinda wagadla kwelikaMthaniya.

This work has been quite a journey for me, it has taken me deep into the vaults of scholarship, into the dungeons where the bogus don't make it back as Nas said. I owe a great debt of gratitude to my supervisor Dr Lucien van der Walt for his insight, patience, inspiration and friendship. I am also grateful to my employer the Independent Development Trust for the financial support, I thank you. To all the participants in the study, the suppliers, Eskom management and library staff at Megawatt Park, black community based organisations, NUM, NUMSA and Solidarity, the APF members, you breathe life into the raw and theoretical clay of this study; I'm forever indebted to you all. The Hamms' Underground, the confluence of hip-hop and scholarship!

Declaration

I hereby declare this to be my original work. It is duly submitted for the degree of Master of Arts (by coursework) at the University of the Witwatersrand, Johannesburg. It has not been submitted for any other degree at any other university.

G. Mabutho Shangase, 28 June 07.

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List of Abbreviations and Acronyms

ANC	African National Congress
APF	Anti-Privatisation Forum
BEE	Black Economic Empowerment
BBBEE	Broad-Based Black Economic Empowerment
COSATU	Congress of South African Trade Unions
DTI	Department of Trade and Industry
DME	Department of Minerals and Energy
DPE	Department of Public Enterprises
EE	Employment Equity
ESI	Electricity Supply Industry
Eskom	Electricity Supply Commission
FABCOS	Foundation for African Business and Consumer Services
FBE	Free Basic Electricity
FEDSAL	Federation of South African Labour Unions
HDI	Historically Disadvantaged Individual
HSRC	Humans Sciences Research Council
IEC	Independent Electoral Commission
IMF	International Monetary Fund
kWh	Kilo Watt per hour
MERG	Macro-economic Research Group
MEC	Minerals and Energy Complex
MDGs	Millennium Development Goals
MW	Mega Watt

NACTU	National Council of Trade Unions
NAFCOC	National Federated Chamber of Commerce
NASASA	National Stokvel Association of South Africa
NEF	National Empowerment Fund
NEDLAC	National Economic Development and Labour Council
NERSA	National Energy Regulator of South Africa
NFA	National Framework Agreement
NP	National Party
NPM	New Public Management
NUM	National Union of Mineworkers
NUMSA	National Union of Metal Workers of South Africa
PAC	Pan African Congress
PDI	Previously Disadvantaged Individual
POP	Poorest of the Poor
PPP	Public Private Partnerships
PPPFA	Preferential Procurement Policy Framework Act
PPM	Prepaid Meters
REDs	Regional Electricity Distributor
RDP	Reconstruction and Development Programme
SANCO	South African National Civic Organisation
SAPs	Structural Adjustment Programme
SAPP	Southern African Power Pool
SAP	System Application Protocol
SCA	Soshanguve Civic Association
SCC	Soweto City Council

SEDA	Small Enterprise Development Agency
SEP	Soweto Electrification Project
SOE	State Owned Enterprises
SACP	South African Communist Party
TPA	Transvaal Provincial Administration
UMS	Utility Management Services
VFP	Victoria Falls Power Company
WCCC	Working Class Community Coordinating Committee
WTO	World Trade Organisation

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Chapter One

Introduction

1.1 INTRODUCTION AND OVERVIEW

With the advent of a democratic system in 1994, the new South African government was faced with the huge and challenging task of reconstructing the country after years of institutionalized racism, apartheid, mated with a legacy of colonial rule. The aftermath of the apartheid system was characterized by very high levels of uneven and racially based development, visible across all sectors of the social, political and economic landscape of the country, through *inter alia,* indicators like education, health, unemployment, and infrastructure.

> "In all aspects of our society there is great inequality; in schooling, health, welfare, transport, housing and employment. Some people have all they need while many have nothing at all. We are one of the most unequal countries in the world"
>
> (ANC, 1994 p.2).

Apartheid as a system purposefully restricted the black majority of South Africans from participation in the upper echelons of the economy, in terms of acting as more than just a pool of cheap labour to sustain a racialised economy (DTI, 2003).

Many an observer has cried foul to the fact that whilst the struggle to eradicate the legacy of apartheid misery was intensifying ten years into the new dispensation, the ANC government adopted neo-liberal policies. These have been criticized by some as apartheid's replacement, - 'class apartheid'- that was doing more socio-economic and environmental damage to poor and working-class South Africans (Bond, 2002).

Black Economic Empowerment (BEE) has emerged as one of the foremost policy and development instruments to effect change in the social and economic landscape of South Africa. Government defines BEE as an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the numbers of black people that manage, own and control the country's economy,

it is as well meant to contribute to decreases in income inequalities (DTI, 2003). Transformation is here defined and understood as an underlying philosophy or principle that aims at opening up opportunities for the black majority, and the removal of all discriminatory barriers against black people's participation in all sectors of the social, political, and economic arenas. Some of its major thrusts and tenets include, but are not limited to, representation and reflection of the demographics of the country in all the aforementioned spheres of socio-economic activity. Government asserts that the BEE project will include elements of human resource development, preferential procurement, as well as investment, ownership and control of enterprises and economic assets (ibid.). BEE is also imperative due to the fact that the economic growth attained since 1994 has not necessarily translated into a reduction of inequalities and income discrepancies which exist in the country or the deracialisation of inequality (author unknown, BBQ, 2004).

After 1994, the new democratically elected government embarked on a major task of dismantling the apartheid apparatus through obliterating all major policy and institutional mechanisms that had sustained the previous regime. A new dispensation, characterized by new policy and institutional mechanisms aimed at responding significantly to the demands of the majority and reconstruction and development imperatives, was introduced. However, as early as 1994 these noble ideals and integrity of domestic policy formulation were already being undermined by reconnaissance missions from the Washington-based institutions like the IMF and World Bank, promoting the interests of international financial and corporate capital (Bond, 2001). South Africa's transition from apartheid to a democratic dispensation was a result of a compromise between big capital and the leaders of the ANC meaning that the price for the non-violent revolution was preservation of the capitalist system (Bikisha Media Collective, 2006). The transition to democracy as led by the ANC was accompanied by the transition to neo-liberalism (Desai, 2003). Whilst neo-liberal moves towards privatizing state owned assets in South Africa date back to 1979 under the National Party, their impact had never been as much felt by the marginalized majority as after 1994.

As a response to the crisis that faced the South African economy before 1994, the Reconstruction and Development Programme (RDP) was an attempt to guide government policies towards the elimination of poverty, low wages and extreme inequalities in wages and wealth generated by the apartheid system (RDP, 1994). It meant the meeting of all basic

needs, and thus ensuring a decent living standard and economic security for all (RDP, op cit.). The RDP was influenced by Keynesian economics.

As part of the process of 'normalization' after years of apartheid, in 1996 the government formulated the Growth, Employment and Redistribution (GEAR) economic policy. The market bias of this policy meant , *inter alia*, a fundamental shift away from the 'statist' service delivery models of the past where the state subsidized and delivered municipal services (albeit in a racially-biased manner), towards a more neo-liberal service delivery model where the private sector (and private sector principles) dominate (Desai, ibid.).

Indeed, government asserts that the extent to which the majority of black people participate meaningfully in the economy remains far too limited and thus it was necessary to introduce a coherent and focused strategy for Broad-Based Black Economic Empowerment (BBBEE) (DTI, 2003). Meaningful participation of black people in the economy is here defined as active participation in the economy beyond serving as a pool for cheap labour. It includes but is not limited to, ownership and control of the major means of economic production across all sectors, acquisition of appropriate skills for effective employment and entrepreneurship at all levels of the economy. Moreover, borrowing from Verhoef (Undated), meaningful participation entails unlimited and effective access to economic power as owners and co-owners of factors of production, i.e. land, capital, entrepreneurship and natural resources. Whilst the concept of BBBEE is explained in much more detail under the forthcoming literature review section, in a nutshell BBBEE can be summed up as an approach that aims at having BEE processes effectively benefiting the majority of the previously marginalized people, which is black people in general, as well as other subgroups of black people such as women, youth and those with disabilities.

Government argues that promotion of BBBEE is one of the key components of government's policy of restructuring state-owned enterprises (SOEs) (DTI, 2003). SOEs are government established and owned enterprises operational across most of the economic sectors. The new South African government inherited over 300 state owned entities of which four accounted for 86 percent turnover, 94 percent total income, 77 percent of all employment and 91 percent of the total assets of these enterprises (Melvin, 2002,). The "big four" are considered 'key enterprises' and include Eskom (energy), Transnet (transport), Telkom (telecommunications) and Denel (defense) (Melvin, op cit). Preferential procurement, employment equity, sub-

contracting, and management development by SOEs, are all identified as other means through which the restructuring of SOEs will contribute towards achieving BEE objectives (DTI, 2003).

The restructuring of SOEs will serve as an implementation vehicle of BEE (DPE, 2001). The Department of Minerals and Energy (DPE) envisaged an array of options in through which BEE could be factored into the restructuring of SOEs including, *inter alia*, ownership by black investors, managerial control by previously marginalized groups, and sourcing of goods and services from small and medium black enterprises. Since BEE is a racially tinged policy instrument, it may be construed as an interference with market forces as it accentuates race representation before participation in the economy in its quest for racial redress. This is one indicator that the South African adoption of neo-liberalism has not been purist. The implementation of BEE through the restructuring of SOEs would presumably require a neo-liberal context to be realized. The creation of a neo-liberal context does not necessarily advocate outright privatisation or total selling off of the parastatal but creation of an enabling pro-market environment where the utility could be corporatised, where privatisation or outsourcing of certain aspects of Eskom are feasible, where there is transformation in managerial control, and participation of black enterprises in the procurement of goods and services.

There is a conspicuous linkage between BEE, the restructuring of SOEs and the neo-liberal agenda. One fundamental tenet of neo-liberalism has been its advocacy of a free market, free trade, minimal government spending, minimal taxation, minimal regulation, and minimal state involvement in the economy (United Church, undated[1]). According to neo-liberals, government intervention is more likely to make things worse than better. The economy and all social activities should therefore be left to market forces (Smith and Todaro, 2003). Poverty (and this is a major legacy of pre-1994 racial capitalism) would be taken care of by economic growth and is not a major obstacle to growth and development (Smith and Todaro, op cit.). Thus, according to neo-liberals, SOEs should be privatised and sold off to market actors or corporatised and commercialised.

The restructuring of SOEs is ambitiously seen as a vehicle to effect the implementation of BEE. However, it bears noting that restructuring is founded on a neo-liberal philosophy which

[1]Article quoted from http://www.united-church.ca/economicjustice/globalization/pdf/report.pdf

sanctifies the power of markets in the name of economic efficiency, which requires the elimination of administrative and political barriers capable of inconveniencing owners of capital in their individual quest for the maximization of individual profit (Bourdieu, 1998). Furthermore, neo-liberals preach the subordination of nation-states to the requirements of economic freedom for the masters of the economy, with the suppression of any regulation of any market, beginning with the labour market, the prohibition of deficits and inflation, the general privatisation of public services, and the reduction of public and social expenses (Bourdieu, op cit.). South Africa has visibly not been able to escape this fate that has been suffered by many a nation. The South African government therefore has two somehow contradictory projects and rationales for SOE restructuring.

The restructuring of SOEs is thus seen as one of the objects of BEE as it is earmarked as a tool for providing an opportunity for widely dispersed ownership, redistribution of wealth, a boost for the small and medium enterprise sector, and a driver for sustainable affirmative action and facilitator for genuine black economic empowerment (DPE, 2001). The underlying neo-liberal motif driving the restructuring of SOEs should not be overlooked as it is founded on the central value that the public sector must be brutally downsized because it does not and cannot obey the basic law of competing for profits or for market share (George, 1999). The noble intentions of redistribution of wealth, promotion of enterprise and affirmative action are viewed as a smokescreen for transferring public money to big capital. George (op cit) argues that under neo-liberalism, the whole point of privatisation of SOEs is neither economic efficiency nor improved services to the consumer but simply the transfer of wealth from the public purse to private hands. Goerge's analysis is focused on common pro-market arguments that stubbornly discount government's ability to deliver optimal services.

Early moves towards outright privatisation after 1994 met grave censure from many fronts to the extent that government had to reconsider its position on privatisation; this began slightly before the adoption of GEAR. The South African government, whilst embarking on a neo-liberal drive, then cautiously avoided unbridled and fully-fledged neo-liberalism, adopting checks and balances to appease the poor majority albeit with limited success. The corporatisation of SOEs and services was of huge significance in this regard as it meant that whilst government could toy around with other business practices in the management of SOEs, a buffer had been created between state ownership and outright privatisation of some SOEs. Moreover, the state

introduced the concept of universal access to services where for essential services such as water and electricity, a minimal subsidy was to be provided by government where there were sufficient resources. Government was not in a position to pursue neo-liberalism in manner that could enfeeble BEE. The idea was to balance or combine the implementation of the two concepts although this was not always effective.

In 2001 Cabinet instructed the DPE to give priority to the restructuring of the four largest SOEs, Eskom, Transnet, Telkom and Denel (DPE, op cit.). Whilst all the latter four utilities are of significance due to their economic contribution, Eskom is especially useful in examining the effectiveness of BEE implementation in this study. Electricity is a basic necessity whose importance relatively goes beyond its financial contribution to the economy. Electricity's availability and usage has a significant and direct impact on households and people's social and economic progress. In South Africa's recent history, particularly since 1994, access to electricity has emerged as a very important and contentious issue, creating major debates around equity and social justice. Moreover, electricity is arguably very critical to economic growth. Eskom is a huge employer as well as supplier of electricity throughout Southern Africa.

By 2001 Eskom had already developed a policy framework on BEE and had it approved by its management board (Eskom, 2001). In 2003 Eskom and the National Federated Chamber of Commerce (Nafcoc), a body founded by and representing interests of black business, deliberated on a memorandum of understanding on empowerment and procurement to ensure that BEE companies benefit from opportunities arising from Eskom operations (Sunday Times, May 25, 2003).

1.2 PROJECT AIM

The aim of this research project is twofold. Firstly, this study shall look at BEE from a conceptual and theoretical perspective making use of development theories. Secondly, this study will critically investigate the extent to which BEE implementation is effective in as far as meeting its delivery imperatives and objectives as articulated in the BBBEE strategy of government. The state electricity utility Eskom, shall be used as a case study with its ownership and control, procurement, enterprise development and skills development policies being the focal point of analysis. The study shall be limited to the implementation of BEE within

Eskom during the first decade of a democratically elected government in South Africa, 1995-2005, a period where BEE policies were first officially introduced by government.

1.3 PROJECT OBJECTIVES

This research paper examines two key objectives, it is meant to:

- Contextualize BEE in South Africa as an economic development tool by utilizing economic development theories as lenses to view and understand it;
- Use Eskom as a case study to assess effectiveness in attaining policy objectives of BEE in the areas of;
    - **Ownership and control** of new and existing enterprises by black people
    - Increasing the number of new black **enterprises, black empowered enterprises and black-engendered enterprises**
    - Increasing the number of black people in **executive and senior management of enterprises**
    - Increased proportion of the ownership and management of economic activities vested in **community and broad-based enterprises** (such as trade unions, employee trusts, and other collective enterprises) and **co-operatives**

The case study will be assessed through the application of a balanced scorecard[2] to measure, *inter alia*, the three core elements of BEE, namely;

- Direct empowerment through ownership and control in enterprises and assets
- Human Resource Development and Employment Equity, and
- Indirect empowerment through preferential procurement and enterprise development.

[2] The balanced scorecard is a management system (not only a measurement system) that enables organisations to clarify their vision and strategy and translate them into action (Balanced Scorecard Institute [BSI], website www.balancedscorecard.org). Developed in the 1990s primarily for private sector use by Harvard scholars Kaplan and Norton, the balanced scorecard has transcended boundaries and found popular usage in many other sectors not least in the public sector (BSI, op cit). The South African public service has also adopted this popular management tool.

1.4 RATIONALE

The concept of BEE has emerged as one of the most important in the South African development and public policy discourse in recent history. Whilst relatively new in the South African political and economic lexicon, BEE can arguably be amongst the most popular concepts in South Africa today together with "transformation" and "service delivery". Due to its infancy as a concept within the development and public policy spheres, BEE remains a contentious and slippery idea on whose definition many interpretations emerge depending on what background an observer comes from or what ideological tradition one leans to. This study has been prompted by the numerous anecdotal accounts that are present in South Africa today aimed creating the best understanding of BEE, both as a public policy instrument and as an implementation strategy of government.

At present, the BEE concept could be viewed as divisive and obfuscating, straddled between the two interpretations of "narrow/elitist" and "broad based" (Nzimande, 2003). " Narrow BEE" is defined as elitist, equating it with the development of a black capitalist class (Werkmans Attorneys, 2003) whilst "broad based" is understood as all encompassing entailing the economic empowerment of all black people including women, workers, youth, people with disabilities and people living in rural areas through diverse but integrated socio-economic strategies (Msomi, City Press 2005). ("Black people" refers to Africans, Coloureds and Indians as dictated by the South African Constitution [Act 108, 1996]). The latter definition of broad based BEE makes it difficult for one to distinguish between the concept of BEE and the RDP. Broad-based BEE (BBBEE) tends to bear significant similarities with the RDP when it talks about general improvement in the standard of living of black people in general and access to basic services and improved household incomes which are aspirations that essentially resonate with the RDP as an integrated and coherent policy framework aimed at mobilizing resources for the eradication of apartheid across all sectors of the economy (ANC, 1993).

If BEE is understood to be aimed at a broader socio-economic development and transformation of society with attention being paid to the previously disadvantaged black majority (Nzimande, 2004) on one hand, whilst others view it as just one policy instrument that was never meant to

cure all societal ills and is bound to produce elitist consequences since after all it operates within a capitalist economic system and cannot be expected to produce socialist results (Macozoma, 2004), there is a clear tension and contradictions in this understanding of the concept. Whilst not aiming at developing a consensus on the BEE concept, this study will to some extent attempt to unpack the various opposing views on BEE, use theoretical lenses to try and understand the concept and lastly establish linkages, if there are any, between views on the concept and the actual implementation thereof. Lastly the implementation of BEE begs the question, can be it be equitably applied and operate fairly?

1.5 CONTEXT

1.5.1 The Socio-Economic Context of South Africa and BEE.

BBBEE Strategy is viewed by government as a necessary intervention to address the systematic exclusion of the majority of South Africans from meaningful participation in the economy (DTI, 2003). The apartheid system regulated all aspects of the economy and society, and the majority of black people were systematically excluded from any meaningful participation in the economy in terms of land ownership, access to skills development and viable business opportunities, self-employment and entrepreneurship (DTI, op cit.). BBBEE policy is a direct response to the discrepancies of uneven and racialised economic development that were created by the apartheid system and the segregationist colonial order.

In South Africa, racial oppression and capitalist exploitation tended to feed and reinforce each other (Gelb and Saul, 1986). The rise of the capitalist mode of production was associated with the obliteration of the peasant economies of indigenous peoples (Saunders, 1988, Legassick, 1979). South African capitalism was distinguished from other capitalist economies by the ubiquitous and perverse racial differentiation, characterized by the 'ultra-exploitation' of blacks through 'extra-economic' coercion that could be explained in terms of race rather than class alone (Legassick, op cit.). The key moment was the rapid development of the mining industry which institutionalised the political and economic links between race, cheap labour, the migrant labour system, and the tight control over freedom of activity of Africans (Gelb and Saul, ibid). The economic position of the whites was strengthened by legal measures such as reservation

of particular jobs, the restriction of black trade union rights, and controls on the rights of blacks to operate businesses (Nattrass, 1981).

Initial segregationist policies were followed by the more systematic institutionalisation of segregation through apartheid from 1948 (Gelb and Saul, ibid). Whilst certain commentators argued that segregation and apartheid were in contradiction to capitalism, there is no doubt that that for a long period major industries (e.g. mining and agriculture) benefited from "ultra-exploitation" and "extra-economic coercion" which contributed to rapid economic growth (Gelb and Saul, 1986, Saunders, 1988).

The African National Congress (ANC), the major political opposition group before 1994 and the ruling party thereafter, has long maintained that with respect to the economy, "the people shall share in the country's wealth" (Motlantle, 2004). The ANC government's approach to BEE, guided by the Freedom Charter (1955), claimed for all South Africans the restoration of their economic heritage. It equated 300 years of colonialism and apartheid with a systematic campaign of dispossession, expropriation and confiscation of all forms of productive wealth in the hands of Africans in particular, and black people in general (Motlantle, op cit). This did not necessarily imply removing capitalism: typically, the Freedom Charter has been interpreted as favouring a deracialised and socially just capitalism in place of racial capitalism.

Bond (2001) has alleged that whilst the ANC has openly spoken about the threat of international capitalism, this is a case of 'talking left, acting right'. BEE is testimony that government wants to reengineer capitalism in South Africa, and remove its racist aspects from the past. The challenge for the ANC is balancing speaking for the impoverished majority whilst not alienating the interests of big business. Turok (1999) asserts that the ANC remains a mass-based movement with a strong commitment to the disadvantaged, especially the poor. But due to the legacy of a highly skewed economy and because of the negotiated character of the transition, and the agreements reached with these holders of power, implicit or explicit, the government remains constrained in its actions (Turok, op cit.), even with regard to BEE.

In 1996 another policy document GEAR was introduced, ostensibly to meet the goals of the RDP (GEAR, 1996). The overarching objective of this strategy was to bring about macroeconomic stability and engender credibility in the South African economy (Abedian,

2005) whilst also accentuating a stronger role of capital through minimization of the state's hold on public enterprises. One major thrust of GEAR was its assertion that economic growth and employment performance could be improved through an integrated liberalisation package. This entailed, *inter alia*, the implementation of a public sector asset restructuring programme, including guidelines for the governance, regulation and financing of public corporations, leading off with the sale of non-strategic assets and the creation of public private partnerships (GEAR, op cit). The latter element of GEAR together with other aspects of the document (including its thrust on trade liberalization) led many to critique the government for embarking upon a neo-liberal policy that would emasculate the goal of redressing the gross inequalities of the apartheid period (Weeks, 1999). Opponents of GEAR and neo-liberalism were of the view that it was inappropriate to assume a pro-market direction in the midst of poverty and socio-economic inequalities.

There has been a mounting wave of criticism of the post-1994 South African government's neo-liberal trajectory; these disapproving sentiments have come from many fronts not least from the labour movement. Neo-liberalism has been defined as a system of reproduction based primarily on the principles of the market (Teeple, 1995) and a deep skepticism on the capacity of state administration to play a developmental role under any circumstances (Friedman, 1962, cited in Desai and Potter, 1992). Proponents of the neo-liberal view argued that development was blocked by inflated public sectors, distorting economic controls and overemphasis on capital formation (Leys, 1996). This rejection of state intervention in the economy swept the world after the world economic crisis in the 1970s culminating in the dismantling of welfare states during the era of Thatcher, Reagan, and World Bank and IMF's assault on governments in the developing world (Teeple, ibid).

In South Africa the promulgation of GEAR was viewed by many as a shift from the RDP as well as the Freedom Charter (1955), which had laid a strong emphasis on the issue of social justice (Khoza, 1997). The Freedom Charter, which had been written at the Congress of the People included substantial redistributive and state interventionist elements, and advocated a mixed economy (Khoza, op cit.). From the perspective of the labour movement and the South African Communist Party (SACP), GEAR was not viewed as an implementing instrument of the RDP as its opening passages claimed, but rather a direct assault on the RDP and its welfarist and Keynesian bias. Turok (1999) has argued that with the advent of GEAR critics asserted that the

primacy of development had been undermined. With GEAR, there was an emphasis on focused fiscal discipline and reduction of budget deficit (Turok, op cit.) rather than redistribution.

However, it is tad simplistic to regard the ANC as nothing but a neo-liberal party indistinguishable from those existing elsewhere. (BB)BEE has, despite the adoption of GEAR, remained central.

Against the backdrop of a racially divided economy, characterized by a dichotomy of two economies, i.e. the division between a First Economy, which is globally integrated and fast growing, and a Second Economy, which remains mired in poverty and underdevelopment and which is incapable of self-generating growth (Motlante, 2004), BEE has been seen as a means of development and transformation (Nzimande, 2004)[3].

The legitimacy of BEE is unquestionable, alleges Macozoma (2004), as there is no other practical and effective instrument for South Africa to deracialise the economy within a reasonable time. Macozoma (op cit.) further asserts that there is no greater danger to the progress and stability of our (sic) society than the notion that a democratic society can be built on the shaky foundations of white citizens owning and controlling the economy along the patterns of apartheid, and black people controlling political power. Thus the ANC seeks to simultaneously bayonet and balance two somewhat difficult policy commitments of BEE and neo-liberalism.

1.5.2 The Nature of State Owned Enterprises (SOEs)

The SOEs provide an excellent example of the way in which the two imperatives of BEE and neo-liberalism work out in practice. The SOEs were first conceived as an extension of the activities of government before the apartheid era. The segregationist and apartheid regimes, in

[3] It bears highlighting that there is no clear or generally agreed definition of the "First and Second Economy" thesis. According to President Thabo Mbeki (2003); "the First Economy is modern, produces the bulk of our country's wealth, and is integrated within the global economy, whilst the Second or Marginalized Economy is characterized by underdevelopment, contributes little to the Gross Domestic Product (GDP), contains a big percentage of our (sic) population, incorporates the poorest of our rural and urban poor, is structurally disconnected from both the First and the global economy, and is incapable of self-generated growth and development."

spite of their anti-socialist stance, created a large public enterprise sector, beginning in the 1920s with the establishment of the Electricity Supply Commission (Eskom) and the South African Iron and Steel Corporation (Iscor) (Jerome and Rangata, 2003). In 1940, the Industrial Development Corporation (IDC) was established. The IDC subsequently facilitated the founding of other state corporations including the Phosphate Development Corporation (Foskor); the South African Coal, Oil, and Gas Corporation (Sasol); the Southern Oil Exploration Corporation (Soekor); and the Arms Corporation (Armscor), after 1948 (Jerome and Rangata, op cit).

The SOEs were primarily used to promote industrialisation. In addition, state institutions were used to entrench white privilege and were also utilized as white affirmative action employers (COSATU and Fedsal, 1996). The SOEs were a microcosm of racist practices in the country's socio-economic landscape. Service delivery by SOEs exhibited the same methodical discriminatory practices (COSATU and Fedsal, op cit.). If SOEs were partly established to strengthen import substitution which had started to grow during World War I, they also formed a platform for white employment and social benefits, as well as creating a support base among the white working class and Afrikaner business owners (Jerome and Rangata, ibid.).With South Africa economically developing, and the need for self-sufficiency increasing due to growing isolation, government had to increase its grip on resources.

After 1994, the new South African government through its DPE saw restructuring of SOEs as a means of reaching goals such as reducing government debt, attracting foreign direct investment (FDI), promoting black economic empowerment (BEE), and encouraging access to basic services such as electricity and water (Njobeni, 2003). Government had put economic and social development goals at the heart of SOE restructuring hoping to use their enormous financial, technology, and infrastructure resources (Njobeni, op cit). Government was of the view that SOEs could be utilized as enablers of reconstruction and development of the country. Eskom, the subject of this study, is South Africa's dominant electricity utility and ranks amongst the world's top five utilities in terms of capacity and sales (DPE, 2001).

1.5.3 The Case of Eskom as a Subject of Study for BEE

This study will investigate the effectiveness of BEE implementation using Eskom as a case study. In terms of geographical focus on Eskom, this study will be national as far as investigating broad policy deliverables and any specific regional focus will be guided by actual

BEE developments within Eskom and their relevance to a specific objective of this research study. Eskom, identified as one of the implementation instruments of BEE (DPE, 2001), was integral to the apartheid government's racial policies. Eskom, established in the early 1920s was together with ISCOR, the IDC, Armscor, and SASOL one of the key SOEs utilized by the apartheid government for its Afrikanerization (the concentrated effort by government to populate the civil service with Afrikaners) of public institutions drive, and, development and consolidation of Afrikaner capital (Gelb and Saul, 1986).

According to Lazar (1987, cited in Fine and Rumstojee, 1996), Afrikaner and white farmers, financial capitalists, small traders and workers all received massive direct and indirect handouts from government after 1948. Eskom also formed part of apartheid's reliance on and oversupply of coal-generated electricity; lack of equitable access amongst households on class/race lines (with severe gender implications); and the inefficiency associated with apartheid's geographical segregation and urban sprawl (Hallowes, 2002).

After 1994, the SOEs have been gradually restructured with both BEE and neo-liberal aims. Eskom has been central to government aims of situating BEE as a broader national empowerment strategy focused on historically disadvantaged people, particularly black people, women, youth, the disabled and rural communities (DTI, 2001). Thus, Eskom has been seen as a means of creating wider ownership in the South African economy by providing an opportunity for widely dispersed ownership and to redistribute wealth, boost Small and Medium Enterprise (SMMEs) sector, facilitate for effective and measurable BEE (DTI, 2001). This would unfold in the business of Eskom; looking at the level of BEE implementation via participation of black business in the different ventures of Eskom, including ownership, procurement and business support. Eskom has therefore been instrumental in effecting government's neo-liberal agenda.

An important step was restructuring of Eskom's regulated into three main groups, each of which is a ring-fenced business, by the Eskom Conversion Act (Act13 of 2001), which converted Eskom into a public company with the state as the sole shareholder, (DPE, 2001). The three areas are Generation, whose function is to generate electricity; Transmission, with the aim to transmit electricity across the country via transmission lines; and Distribution, which distributes the energy to its customers (op cit.). In each of the three areas, Eskom accelerated the participation of black enterprises as service providers e.g. in the provision of parts and in

maintenance as well as in other areas of the electricity supply value chain. Whereas the restructuring did not bring about any selling of equity at Eskom, the outsourcing for parts and services meant strict sanctioning of participation of black enterprises across areas of the utility's operations.

At the same time the neo-liberal restructuring of Eskom was envisaged in the Policy Framework of government (DPE, 2001) in terms of the generation component of electricity. The following restructuring was foreseen:

- Eskom to retain no less than 70% generation capacity, and remain owned by government
- Introduction of private sector participation up to 30%,
- The private sector participation of 30% to include BEE of 10%,
- The commissioning of a 10% BEE stake to commence between 2002 and 2003.

1.6 HYPOTHESIS PRESENTATION

This study is premised on a set of three hypotheses. The hypotheses will be tested through the literature study and field research. The hypotheses are as a follows:

A. Government requires the use of parastatals in order to implement BEE.
B. A parastatal such as Eskom needs to be restructured in order for BEE implementation to take place.
C. The implementation of BEE is shaped by a neo-liberal economic context.

1.7 CHAPTER SUMMARY

This chapter sets the scene for the study. The project objectives, rationale and hypotheses of this study are presented in order to highlight the need for investigating the phenomenon of BEE implementation. Secondly, the chapter presents the socio-economic environment under which BEE has been conceptualized, the nature of SOEs in South Africa and how their restructuring through parastatals has been envisaged by government. The chapter lays the foundation for asking all the necessary questions about BEE implementation and the vehicles through which that will transpire.

Chapter Two

Literature Review

2.1 INTRODUCTION

The object of this literature study is to conduct an in-depth analysis of the key issues examined in this research undertaking: BEE, neo-liberalism, development and the restructuring of SOEs. This literature review is meant to assist in the testing of the hypotheses of this study. An attempt is herein made to employ development theories to understand the South African socio political /economic landscape. Most of the literature on BEE emanates from government and the tripartite alliance of the ANC, SACP and COSATU. However, over the last decade or so there has been a growing interest in the concept from academia, media, business and social movements. There are varying definitions of BEE, and on what its implementation should involve. The concept can be vague and fraught with ambiguities. This chapter will try to pin the concept down as a basis for its own examination of issues. It will also point out why this research is important for the understanding of BEE, neo-liberalism and restructuring of SOEs.

Moreover, this chapter moves a step further to investigate how BEE relates to the neo liberal agenda. With a particular reference to Eskom, attention is paid to the restructuring of SOEs as a vehicle of implementing BEE and neo-liberalism. The linkages, or lack thereof, between BEE, the restructuring of SOEs and neo-liberalism need to be clearly delineated.

The literature review is structured as follows:

1. Black Economic Empowerment (BEE)
2. Economic Development Theory
3. Restructuring of State Owned Enterprises (SOEs)

2.2 BLACK ECONOMIC EMPOWERMENT (BEE)

2.2.1 Genealogy

BEE as a concept found much popular usage in the South African economic and political environment in the 1990s. According to Browning (1989), in the middle of 1988 the term 'black economic empowerment' first became widely used, appearing to indicate a new way in which the apartheid system could be dismantled and a new social and political order developed. Furthermore, Nzimande asserts (op cit) that whilst BEE is new in the vocabulary of the Congress and the movement (i.e. SACP, ANC and COSATU), it is not new in South Africa and its origins can be traced back to the aftermath of the 1976 student uprisings and the murder of Steve Biko. The latter events precipitated increased international pressure for the isolation of apartheid where one major response by American corporations who were resisting the disinvestment lobby, was to train and promote black managers in the corporations under the rubric of what became known in the late 1970s as 'Black Advancement' (Nzimande, op cit.). Nzimande concludes that today there are strong continuities between the practice of 'Black Advancement' and BEE (op cit.).

The notion of economic empowerment is not simply about the promotion of dignified and prosperous lives amongst the previously marginalized groupings, more importantly it is generally understood to effect such within a capitalist framework.

The phenomenon of economic empowerment is not new in South Africa, argues Sishi (1998) referring to "empowerment" of the Afrikaner under apartheid. Southall (2006) notes the direct financial assistance to Afrikaner companies via such entities as the IDC, the switching of government accounts and the allocation of government contracts to Afrikaner run banks and businesses, alongside the expansion of the parastatals under Afrikaner control, all served to ensure integration of Afrikaner capital on favourable terms into emerging corporate capitalism. Verhoef (Undated) compares the frustration of blacks in economic participation, such as in ownership and control of the means of production, to the Afrikaner economic marginalization (by the British) during the first half of the twentieth century. With black people immersed in the

political struggle, whilst visiting the United States around 1989, Lawrence Mavundla president of the Council of Hawkers and Informal Businesses (Achib) strongly stressed that the need to develop black economic power was complementary to the political struggle (Browning, ibid). In defining BEE, Sono (1991; cited in Edigheji,1999) describes BEE as "a corrective mechanism for the redistribution of justice involving the shifting of power, politically, commercially, economically, and educationally from the traditional centres to the new demand sectors…the black population" (p.9).

The concept of empowerment has been debated in other parts of the world when a certain quarter of society had been deprived or denied access to opportunities that allow them to lead dignified and prosperous lives. Friedman (1992, cited in Edigheji 1999) defines empowerment as a type of development, which emphasizes the improvement in the conditions of life and livelihood of the excluded majority. Friedman (op cit, p.3) unpacks his conceptualization of empowerment further by asserting the following;

> "Empowerment is an alternative development because it aims to redress the historical process of systematic disempowerment or exclusion of the vast majority of people from economic and political power. Disempowerment denies the majority of 'human flourishment' as their lives are characterized by 'hunger, poor health, poor education, a life of backbreaking labour, a constant fear of dispossession, and chaotic relations. Empowerment aims to humanize the system that has shut out the majority and its long term aim is to fundamentally transform the whole of society including the structures of power."

Empowerment can be viewed as a phenomenon within capitalism where an attempt is made to facilitate economic participation of formerly excluded groupings. Nevertheless, even if "economic empowerment" has a history in South Africa and a wide legitimacy, the concept is remarkably ambiguous. Nzimande (2004) posits that concepts do not inherently and always imply particular courses of action, or a particular evolution of the phenomenon they describe, however at the same time, concepts are not neutral and are always a subject of (class) contestations and meanings.

Other than general economic upliftment of black people, there are no indications of any intrinsic conceptual linkages or continuities between the early concept of black advancement and BEE as the latter is understood today. There is however, a direct link between BEE and the erstwhile Afrikaner "empowerment". Contemporary BEE arguably originates from the initiative undertaken by Sanlam (Suid Afrikaanse Nasionale Lewens Assuransie Maatskappy) in 1991 through its subsidiary Sankorp adopting a model that entailed increasing black command over the factors of production with a majority black stakeholder profile. A major result of this initiative by Sanlam was the formation of New Africa Investments Limited (NAIL), the first black owned company to be listed on the Johannesburg Stock Exchange in 1994 (Verhoef, undated). Such ownership of equity by black business in major white dominated corporations was unprecedented and marked a major step in the process of empowerment. This was qualitatively distinct from the concept of affirmative action, adopted from the United States and introduced in South Africa via the Sullivan Principles [4]that were applied to American multi-national corporations operating in South Africa (Verhoef, op cit). The upward progression of black professionals or managers into the upper managerial echelons of big corporations lacked the fundamentals of "ownership and control" and "transfer of skills", cornerstones of BEE as it came to be understood in the 1990s and exemplified by the use at NAIL[5].

In addition after 1994 BEE was defined by the ANC government as the process by means of which historically disadvantaged people obtained ownership and control of the country's productive assets (land, labour, capital, entrepreneurship and management) in order to

[4] In 1971 Rev. Leon Sullivan, an African American Baptist minister, joined the Board of Directors at General Motors. Sullivan used his corporate foothold to oppose apartheid policy in South Africa and attempt to end discrimination against black workers. The Sullivan Principles, as originally issued in 1977, advocated;

- Non-segregation of the races in all eating, comfort, and work facilities
- Equal and fair employment practices for all employees
- Equal pay for all employees doing equal or comparable work for the same period of time.
- Initiation of and development of training programs that will prepare, in substantial numbers, black and other non-whites for supervisory, administrative, clerical and technical jobs.
- Increasing the number of blacks and non-whites in management and supervisory positions, and
- Improving the equality of life for blacks and other non-whites outside the work environment in such areas as housing, transportation, school, recreation, and health facilities.

http://www.revleonsullivan.org
http://www.oxy.com/social

[5] Nevertheless, the skills development and management control elements of BEE as defined by government bear some resemblance to 1970s black advancement albeit on a much limited scale as they would not eventually result in blacks being made heads of American corporations based in the country. Moreover, black advancement was conducted on a voluntary basis by American corporations and they were not legally obligated to comply.

participate effectively in the economy without any institutionalized restrictions that are based primarily on race (Mkhwanazi, 1994, cited in Verhoef, undated).

It is useful to divide the timeline of the BEE trajectory into two types, first, the private sector led, unguided and sporadic initiatives of the late 1980s and early 1990s are identified, and second, government led initiatives of the formalization and institutionalization of the concept through public policy and institutional mechanisms such as the establishment of the Black Economic Empowerment Council (BEEC) in May 1998 (Verhoef, Undated).

The first strand of BEE was marked by collective and individual approaches characterized by, first (the collective approach) black- owned finance through *stokvels* (rotating savings and investment in existing and new assets), and second (the individual approach) transfer of some assets from white business to the very small group of established black entrepreneurs (Gelb, 2004). Under the collective approach the acknowledgement of black business development agencies such as, *inter alia*, Nafcoc (National Federated Chamber of Commerce), Fabcos (Foundation for African Business and Consumer Services), Nasasa (National Stokvel Association of South Africa) and Business Challenge is made as they also played a crucial role in the definition of BEE in its inchoate stages (Mabeta, 1991).

The first type BEE can be viewed as a "bottom-up" approach where the goal of black economic empowerment was taken as to assist and accelerate the appearance of a *non-racial representative government* in South Africa (Browning, ibid). According to Browning the commonly accepted theme was that if black people individually and collectively could become *more prosperous*, that very fact would enable the process of political change to take place more quickly. Engdahl and Hauki (2001) argue that in the late 1980s white business regarded black economic empowerment as a mechanism to create a black middle class with interests in the economy. The idea was that by partly re-arranging the racial composition of the ownership structure, the market economy and political stability would be ensured (Engdahl and Hauki, op cit.).

Individual prosperity would enable the black community to increasingly apply economic pressure as part of the political struggle[6] (Browning, ibid.). What can be inferred was that at least some sectors of capital had concluded that apartheid did not make economic sense and was no longer good for business especially with regard to the new prospects brought by the international economy. Black economic empowerment, in this first type, could be viewed as having a 'trickle up' effect, starting at the bottom to transform government from below upwards. After 1994, this approach developed into a means of mollifying the new government. When the ANC came into power, corporate South Africa responded by appointing black non-executive directors and selling businesses to black empowerment groups (Engdahl and Hauki, op cit.). Moreover, financial institutions provided funding to so-called Special Purpose Vehicles (SPVs), which enabled black people without capital to go into business (ibid.) or more importantly it enabled black business is to purchase shares in white companies.

The second type of BEE trickled from the "top-down". It was marked by formalization and institutionalization of the BEE concept through, *inter alia*, the enactment of the BEE Act of 2004 (DTI, 2004) and its provisions such as the Codes of Good Practice and the Empowerment Charters, and the BBBEE Strategy of 2004 (DTI, op cit.). This era is also characterized by the emergence of non-governmental agencies aimed at verifying and evaluating BEE credentials of companies. Southall (2003) argues that following the more Africanist orientation adopted under the presidency of Thabo Mbeki in 1999, the government's approach to BEE became increasingly focused and assertive. It is asserted that the apparent aim of this more coherent and targeted approach to BEE is the creation of a prosperous and prosperity-making black capitalist class capable of working in close harmony with a "developmental state" [7](Southall, ibid.).

The two strands of BEE could be understood along the lines of the minimalist versus the maximalist approach to economic empowerment. According to Edigheji (1999) the minimalist (which could be viewed as "narrow") approach takes the individual black entrepreneurial,

[6] However, this could be viewed as a fallacy and flawed as for decades there had always been prosperous black people under apartheid and many had benefited financially from the Bantustans and there is no evidence that individual economic prosperity accelerated the political struggle in any way. It can be argued that the prosperous would always try to protect their interests and the political struggle was viewed as creating turmoil for businesses especially in the townships after 1976.

[7] The "bottom-up" and "top-down" approaches to BEE simply denote the origins of the empowerment processes, namely; bottom-up: from outside government and mainly led by the private sector, and top-down: formalized and led by government. The two approaches should not necessarily be interpreted as "narrow" versus "broad" BEE.

managerial and professional class as its unit of analysis, where an emphasis on the proportional representation of marginalized groups is made in the public and private sectors. The narrowness of this approach is that it does not seek to alter the conditions that engendered both the privileges for the minority and the marginalization of the majority. Rather it seeks to alter the racial composition of the recipients of privileges and exploitation, and create a new circuit of racial capital accumulation and the development of black-owned businesses or creation of a black business class (Edigheji, op cit. p.5).

On the other hand, the maximalist (which could be interpreted as "Broad") approach to BEE emphasizes a comprehensive restructuring of institutions and society, which would effectively alter power relations in the political and economic spheres, rather than the simple replacement of white individuals with black ones (Edigheji, ibid. p.9). This approach entails the generation and redistribution of resources to the vast majority of people, ranging from skills and educational training to land redistribution, as well as the overall democratization and transformation of institutions and organisational culture, rather than the mere inclusion of a few individuals from the previously disadvantaged communities into the narrow and privileged ownership and management structures of the economy (ibid. p.9). As Nzimande (ibid.) argues that concepts are subject to class interpretations, it is possible that there could be quarters of society who have found nothing wrong with narrow BEE.

The ANC government has been grappling with defining BEE as a distinct policy instrument that is geared to benefit the previously disadvantaged majority as a whole and not just the black elite. The formalization of BBBEE was thus government's effort to do away with narrow BEE and come up with a strategy to benefit the previously marginalized majority in its entirety.

2.2.2 Empowerment Comparisons

As already illustrated, the concept of "empowerment" is not new, and more interestingly it is not a phenomenon peculiar to South Africa. Policies of empowerment have been applied in Namibia, Malaysia and the United States. The degrees and shapes of these empowerment initiatives have however varied subject to indigenous conditions on the driving seat. The following examples will illustrate this point and help provide background for this study.

- ***Namibia***

In the case of Namibia, the empowerment drive is very similar to South Africa's in the sense that, to some extent, the two countries experienced apartheid which resulted in the exclusion of black people from equitable participation in the economy. Whilst Namibia attained independence earlier than South Africa (1990), compared to the latter, Namibia has lagged behind in formally rolling out black economic empowerment. Nevertheless, Namibian BEE does bear a high degree of resemblance to South Africa's. Mihe Gaomab II, the president of the Namibian Economic Society (NES) asserts that the need for BEE stems from the marginalization and exclusion of the majority of Namibian people from participating and benefiting from the economy without any race based barriers (2005)[8].

The implementation of BEE in Namibia has suffered the same fate as other empowerment experiences worldwide. Namibian BEE has been admonished for benefiting a few members of the politically connected elite. Melber (2007 p.1) proffers the following account:

> "in the absence of a meaningful, profit-generating industrial sector, in which capital would be accumulated through surplus production based on the exploitation of value-adding labour (which implies employment for a majority of people), the creation of individual wealth relies on the privatisation of natural resources (mainly in fishing, mining, agriculture and tourism) or benefits linked to privileges in the public sector or SOEs. Those occupying the commanding heights of state agencies turn 'affirmative action' and BEE into self-rewarding schemes among loyal members of the erstwhile liberation movement."

Thus Namibia has apparently gone the narrow BEE route where empowerment continues to cultivate human and natural exploitation for the benefit of a few, at the expense of far too many (Melber, op cit.).

- ***United States***

[8] The strategic thrust of BEE in Namibia is centred around six key pillars (Gaomab II, op cit.), viz;

- ◊ Direct ownership, management, control of enterprises and productive assets
- ◊ Small and medium size enterprise development
- ◊ Human resource and skills development,
- ◊ Achieving employment equity
- ◊ Preferential procurement or balanced tendering, and
- ◊ Corporate social investment in HIV/Aids prevention programmes and community development initiatives.

In the case of the United States empowerment was directed at the minority African American community which had been grossly marginalized from all socio-economic activities dating back to slavery and the colonial era. According to Engdahl and Hauki (ibid.), in the early 1970s, shortly after the Civil Rights movement, there was a conscious decision by the government of the United States to create a class of black capitalists. The Civil Rights Act of 1964 gave federal courts powers to act against discriminating companies, unions, and other institutions (Stanford University online, 2005). Opportunities were created for blacks in employment, education, housing and business. Government made an effort at facilitating black business development through special structures set up for the delivery of loans, grants, and technical assistance to black entrepreneurs (Engdahl and Hauki, loc cit.).

Empowerment of African Americans was also characterized by Affirmative Action (AA). After 1965 federal contractors had been subject to President Lyndon Johnson's Executive Order 11246 requiring them to take "affirmative action" to make sure they were not discriminating (Stanford University on-line, ibid.). Affirmative Action meant positive steps taken to increase the representation of women and minorities in areas of employment, education, and business from which they had been historically excluded (Stanford University online, op cit.). Engdahl and Hauki (ibid.) argue that these efforts had material effect as from 1972 to 1992 the number of black owned businesses grew from 188,000 to 621, 000.

AA has received ambivalent assessments. Scholars and commentators remain in disagreement about its merits and demerits. For example preferential hiring seen as compensation looked perverse, it was contended, since it benefited individuals (blacks and women possessing good educational credentials) least likely harmed by past wrongs while it harmed individuals (younger white male applicants) least likely to be responsible for past wrongs (Stanford Encyclopedia, ibid.)[9]. Engdahl and Hauki (ibid.) posit that the economic position of black and whites in the United States still, after some 30 years of various initiatives, remains unequal, whilst on the other hand A A has now been stigmatized as reverse racism. As Engdahl and Hauki state, South Africa has a lot to learn from the American experience: specifically measures beyond AA are required for real empowerment to occur.

[9] There have been similar grievances against AA in South Africa where young whites feel they are being penalised for the past they have no dealings with. This has been interpreted by many as reverse racism against the younger generation of white people especially those who grew up after 1994.

- ***Malaysia***

The Malaysian empowerment experience is, given the population statistics and income, arguably the most relevant example to South Africa (Engdahl and Hauki, Ibid.). Amid the criticism that it had adopted free market economic policies, the ANC leadership borrowed a lot from and remained entranced by the Malaysian model of empowerment (Southall, 2003). Malaysia's high economic growth in the 1970s had been combined with a significant redistribution of assets by an interventionist (yet investment friendly) state from the minority Chinese to indigenous Malays (Southall, op cit.).

The New Economic Plan (NEP) launched by the Malaysian government in 1969 aimed at eliminating poverty and promoting greater economic equality between the different racial groups (Engdahl and Hauki, 2001). The Bumiputra, the majority indigenous groups composed principally of Malays, were the disadvantaged group targeted for empowerment through expanded educational opportunities, employment quotas and incentives for corporate restructuring, contracts and licenses (Engdahl and Hauki, loc cit.).In cases where non-Malay companies wanted to bid for government contracts or become public companies, they were required to restructure the company and sell 30% of their stock to Bumiputras at a discount. This empowerment process is hailed as a success; in 1970 the Bumiputras' share of corporate equity ownership was 2.4%; this grew to 20.3% twenty years later. Moreover, this process is credited by Malaysians from all ethnic groups for helping the country avoid racial turmoil (Engdahl and Hauki, op cit.).

The NEP has received similar criticisms as BEE in South Africa. The Malay elite is seen to have benefited disproportionately from the process in comparison with the majority of indigenous Malay population, whilst the Chinese and Indians the most successful ethnic minorities have felt the playing field is stacked unreasonably against them (Engdahl and Hauki,ibid.).

- ***Zambia***

Following the country's attainment of independence on 24 October 1964, the United National Independence Party (UNIP) government embarked on a long and protracted process of transforming the economy to break from the country's colonial past. The reforms in the economy and the country at large were characterised by the intensification of state regulation,

the creation of major parastatals. President Kaunda's government proposed reforms which would direct available capital to development to ensure that Zambians individually and collectively share in the commercial and industrial life of the country (Turok, 1989).

To some substantial degree, the UNIP government managed to achieve progress to the economic benefit of most Zambians both individually and as a collective. One of the first priorities of the new government was "Africanisation" to rapidly place Zambians in top positions and by 1965 almost all the ministries and the Zambia Police were headed by Zambians (Turok, ibid.). Turok (op cit.) argues that the UNIP government managed to advance the interests of Zambians individually and as a nation without outright nationalization which was in any case not legally possible under Zambian laws. The method chosen by the government was to acquire shares in foreign companies virtually by compulsion such as to give it a major or controlling interest. The method was tentative and calculated to cause the least possible concern among foreign investors where the government acquired 'derived control' by the means of the Articles of Association of the relevant companies (1999, p.46). The Zambian government inherited a number of statutory bodies dealing with the economy and also created new ones. In 1968 statutory bodies were brought together into larger units covering entire fields of activity with the object of expanding production and retailing in both rural and urban areas not previously effectively catered for (Turok, ibid. p.51).

With the Mulungushi reforms of 1968 the Zambian government bought out, to the extent of 51%, 24 large private companies including one Zambian owned firm. The Matero reforms that followed saw the state acquire 51% controlling interest in the giant copper mining companies, Anglo American Corporation and Roan Selection Trust which were main pillars of the economy (Turok, ibid. p.42). Overall state intervention resulted in one obvious consequence, there was considerable increase in the size of the upper layers of this state bureaucracy itself e.g. the Mwanakatwe Commission reported in 1975 that over the whole public sector the number of super-scale posts rose from 184 in 1962 to 573 in 1967 to 1116 in 1974 respectively (Turok, ibid.p.43).

The economy flourished, large public investments were made in power, transport and roads; employment in manufacturing grew by 77% over the period 1964-69; output in money terms grew by 192% or, in real terms, by 60% between 1965 and 1970; gross fixed capital formation

grew by 472% between 1964 and 1968 (Turok, ibid. p.44). The Zambian government made serious strides which private capital could not achieve on its own; the state sector became increasingly dominant not primarily because of a socialist predilection among Zambia's rulers, but as a nationalistic and pragmatic response to the behaviour of private capital (Turok, 1999, p.47).

The latter experiences of economic empowerment demonstrate that despite their primary ideal of uplifting previously marginalized groupings, empowerment interventions commonly yield a number of unintended consequences. In all the cited accounts, empowerment efforts have invariably exhibited an elitist guise where the already privileged sections of the targeted beneficiary groupings such as the educated and the politically connected tend to stand a better chance of exploiting opportunities than those with limited education or from lower class background. Class struggle embedded in the capitalist cannot be circumvented even by these empowerment attempts.

2.2.3 Definition

As noted, the idea of BEE can be quite elusive. Since, however this study aims at assessing the effectiveness of BEE implementation by the government; it makes sense to use its (Government's) official definition of BEE. Government defines BEE as an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the numbers of black people that manage, own and control the country's economy, as well as significant decreases in income inequalities (DTI, 2003).

This understanding of BEE has been viewed as problematic by COSATU and the SACP, who insist that BEE definition should also include increased household incomes, extension of basic services, expansion of literacy and skills development and an increase in the levels of employment in the formal economy (COSATU, 2003). In addition COSATU (op cit. p. 8) claims that the government definition runs contrary to the ANC's explicit policy , expressed primarily through the definition of BEE adopted at the ANC's 51ST National Conference of December 2002 where it was resolved that;

> "BEE is defined in its broadest sense as integrated and coherent socio-economic process located in the context of the Reconstruction and Development Programme (RDP). Its benefits must be shared across society and impact as widely as possible. The indicators of success are overall equity in incomes, wealth, increasing levels of black participation –including black women and youth – in ownership, the extent to which there is operational participation and control of the economy and the extent to which there has been transfer and possession of skills and retention of assets by the BEE beneficiaries"

Clearly the ANC itself has been somehow ambiguous on the definition of BEE. To compound the problem even further, the government also speaks of a formal commitment to BBBEE and its strategy for BBBEE is quite amorphous;

"The challenge in defining BEE is to find the appropriate balance between a very broad definition and a narrow one. To define BEE to broadly equates BEE with economic development and transformation in general. The strategy is then commensurate with the totality of government's programme of reconstruction and development. To define BEE too narrowly limits it to a set of transactions transferring corporate assets from white to black ownership"

(DTI, p.12 2003).

The latter assertion founders in assisting to establish what BEE route the government is pursuing as matter of policy and principle. It is also worth noting that Broad-Based BEE has on its own emerged distinctly as a strong variant of the BEE concept with the abbreviation "BBBEE" becoming increasingly popular in the lexicon within a short space of time.

According to the Broad-Based Black Economic Empowerment Act (Act No. 53 of 2003, p.4), commonly known as the "broad-based BEE Act", or "BEE Act", "broad-based black economic empowerment" 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 socio-economic strategies[10].

10 The strategies include, but are not limited to;

a) Increasing the number of black people that manage, own and control enterprises and productive assets;
b) Facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises;
c) Human resource and skills development;

As legislation supersedes any other documentation, from this point onwards, this study is going to use the latter definition of BBBEE from the Act as the prime definition for all its purposes. That is, BEE is defined in terms of the DTI definition (2003), therefore BBBEE is defined in terms of the Act of 2003.

2.3 THE COMPONENTS AND ELEMENTS OF BROAD-BASED BLACK ECONOMIC EMPOWERMENT

2.3.1 Components: The Three Pillars of BBBEE

BEE then is measured as a norm according to three pillars comprised ownership and control, management, and community development. These three components have been further refined to fit with the idea of BBBEE. The eight key elements of BBBEE are sub-areas of the three components[11]; moreover, the components together with the elements form the focal areas of the BBBEE scorecard. This is illustrated as follows (DTI, 2004):

Pillars	***Beneficiary***	***Elements***
a) Direct Empowerment	Equity holders, executives and other owners and managers of economic resources	**1. Ownership**
		2. Management
b) Human Resource Development	Employees and job seekers	**3. Employment Equity**
		4. Skills Development
c) Indirect Empowerment	Suppliers, communities and other relevant stakeholders	**5.Preferential Procurement**
		6.Enterprise Development
		7.Socio-Economic Development
		8.Qualifying Small Enterprise

Table 1. BBBEE Scorecard and its elements. Source: DTI (2007).

d) Achieving equitable representation in all occupational categories and levels in the workforce;

e) Preferential procurement; and

f) Investment enterprises that are owned or managed by black people.

11 The BEE codes were first issued out by the DTI in April 2004.In February 2007 the DTI issued revised codes of good practice. With the revised codes certain elements of BEE implementation had been reviewed. Initially there had been seven elements or codes, with the 2007 issue the codes had been reduced to eight with the "residual factor" (former code 700) code being replaced by the "socio-economic development" code (the new code 700) and a "Qualifying Small Enterprises" being changed to code 800 (former code 1000) .

2.3.2 Elements: The Eight Key Elements of BBBEE

The eight key elements of BBBEE provide a common basis for measuring the impact of policy objectives of BBBEE across different entities and sectors within the economy (DTI, op cit. p17). According to the DTI, these elements are as follows:

CODE	Element	Objective	Weighting	Compliance Targets
000	**Conceptual Framework of BBBEE**	General Principles and Generic Scorecard		
100	**Ownership**	Measures effective **ownership** of enterprises by black people	**20 points**	**25% +1**
200	**Management Control**	Measures effective **control** of enterprises by black people	**10 points**	**40-50%**
300	**Employment Equity**	Measures initiatives intended to achieve **equity** in the workplace	**15 points**	**43%-80%**
400	**Skills Development**	Measures the extent that employers carry out initiatives designed to develop the **competencies** of black employees	**15 points**	**3% of payroll**
500	**Preferential Procurement**	Measures the extent that enterprises buy goods and services from **BEE compliant suppliers as well as black owned entities**	**20 points**	**70%**
600	**Enterprise Development**	Measures the extent to which enterprises carry out initiatives contributing to **Enterprises Development**	**15 points**	**3% (NPAT)**
700	**Socio-Economic Development**	Measures the extent to which enterprises carry out initiatives contributing to socio-economic development	**5 points**	**1% (NPAT)**
800	**Qualifying Small Enterprise**	Measures the extent to which enterprises carry out contributions made by Qualifying Small Enterprises.		
Total Points			**100 points**	

Table 2. The eight elements of the BBBEE Scorecard. Source: DTI (2007).

This model allows achievements of BEE to be carefully monitored. In addition, the BEE Act (2003) provides implementation instruments for BBBEE. The implementation instruments are; the codes of good practice, the BBBEE Strategy, the Advisory Council, and the Charters.

2.4 CRITIQUE OF BEE IMPLEMENTATION

The implementation of BEE, as indicated earlier, has received much negative appraisal from various fronts. As in the case of the empowerment process in Malaysia, where the Malay elite have been lambasted for being the only beneficiaries of the process (Engdahl and Hauki, 2001), negative sentiments have been echoed about the black elite and its relationship to BEE in South Africa. It is argued by many that a few relatively educated black, or more importantly politically connected people, have benefited greatly from new opportunities as a result of democracy (Makgetla, 2004). Additionally, Makgetla (op cit.) argues that outside the big parastatals, the restructuring of capital has done little to open new opportunities for black entrepreneurs. According to Makgetla (ibid.), there has been a growing demand from the black upper class that government do more to help them penetrate big business[12]. This is an interesting assertion considering that looking at the origins of BEE, as described in the first strand of BEE, comprised of private sector initiated processes with companies such as SANLAM that proactively spearheaded the process.

Observing the rise of the black elite in Zambia, Turok (1989, p.56) described it as;
"An emergent bourgeoisie located largely in the state apparatuses which exercises considerable control over the commanding heights of the economy and the political system, and displaces foreign capital while also collaborating with it, and tolerates the operation of a business bourgeoisie in the private sector." In the case of Zambia there was no acquisition of shareholding in corporations by individuals, the state took over industries.

Whilst similarities could be drawn between the Zambian scenario and South Africa, as far as control of the political system goes, the same cannot be argued about state control of the economy in the case of South Africa. A good indicator to corroborate the latter line of argument is the Johannesburg Stock Exchange which has long been dominated by four major groups namely Anglo-American, the South African National Life Association Co. Ltd (SANLAM), South African Mutual Life Assurance Society Ltd, and the Rembrandt Group, comprising 80 per cent

[12] The black elite or upper class according to Makgetla (loc cit., p. 278), effectively comprises;

- Leaders and managers in the public sector, including the national and provincial public service, local government and parastatals;
- Senior black management in the dominant private companies. While this group has grown rapidly in the past eight years, it remains small and largely concentrated in public relations and personnel;
- Various independent entrepreneurs, especially in the financial sector, many of whom have taken advantage of union investment companies and pension investments;
- Black professionals in the media, academia and other occupations.

of shares on the Exchange (Brynard, undated). None of the aforementioned conglomerates or their successors is black owned. The main difference between the two countries is that Zambia achieved control of the economy courtesy of majority equity holding by the state, whilst South Africa abandoned intentions of nationalizing industries after 1994 and the ANC government has sought to balance BEE with a commitment to neo-liberalism.

Thus despite an attempt by government to highlight its focus on 'broad-based' BEE with all the policy and institutional instruments, the visibility and presence of the minimalist approach to BEE continues unabated. Pallo Jordan, an ANC Member of Parliament (MP), argued that the emerging black bourgeoisie had been perceived as the prime hope for setting "a new agenda of corporate social and civil responsibility" (Edhigeji, 1999). Others have labelled them the "patriotic bourgeoisie" (Edhigeji, op cit.) or "comrades in business' as Southall (2006) alleged. Edhigeji (ibid.p.7) contends that for proponents of the minimalist BEE approach, the success of the black elite or black business would give a psychological boost to the black community, giving inspiration to all black people and dispel the illusion that business success is a white-only phenomenon[13].

Adam Habib a political analyst with the Humans Sciences Research Council (HSRC) argues that "the designers of the macroeconomic strategy had expected that all the rich people that would emerge would use that money to build factories and jobs; in fact, they have just accumulated more wealth for themselves" (Sunday Times, 09 May 2004). With empowerment deals mushrooming all over the economy, one criticism has been that it benefits a few and the same names keep coming up. Stober and Robinson (Mail & Guardian, July 16 to 22, 2004) observed that companies have shown a preference for well known names as they to transform their make-up while not risking their value by taking on unknown partners with little business experience.

Southall (2006) argued that the black elite or black business is not merely black professionals or business people: in most cases they are people with strong political connections within the ANC or former struggle activists such as Saki Macozoma and Tokyo Sexwale; even the

[13] One may argue the success of black business has long been know amongst blacks: even during apartheid there was a thriving business sector in both the townships and the homelands; the existence of renowned businessmen such as Richard Maponya and Dr Nthato Motlana and many others bear testimony to this hence there were also established black business bodies and chambers of commerce in the past.

atypical Patrice Motsepe cannot be exonerated as his sister, the mining magnate Bridget Radebe, is married to the Minister of Transport Jeff Radebe (formerly with Public Enterprises).

2.5 ECONOMIC DEVELOPMENT THEORY

Most development theories have been either conceived with the global economic environment in mind or a specific economic region which sometimes, depending on the country in perspective, makes their application into different regional settings, not least in South Africa, a daunting exercise as they normally hardly have a grasp of fundamentals and intricacies peculiar to local conditions. In the case of South Africa in particular, any theory that attempts to assess the local environment without a clear comprehension of the profundity of race must be fundamentally flawed.

Attention shall be given to two economic development theories; namely dependency theory and neo-liberalism. Can development theory aid our understanding of South Africa's history and post-1994 BEE? Development theories are divided according to their different intellectual roots. Dependency theory has its beginnings in Marxism and theories of imperialism (Graaff, 2000). Neo-liberalism, on the other hand, originates from structural-functionalist social theory and neo-classical economic theory (Graaff, op cit.).

Whilst these two development theories are always seen to be at loggerheads, both are in agreement that progress and development are positive end goals (Graaff, op cit.). They differ on how best to achieve those goals. Each of these theories has got its own strengths and weaknesses. It is also worth mentioning that these theories have been critiqued vigorously, dissected, with the dependency theory being presumed inadequate and subsequently presumed dead and buried (Peet and Hartwick, 1999). Nonetheless, Marxist scholars have achieved progress in their commentary and thus introduced better explanatory theories (e.g. world systems theory); whilst on the other hand neo-liberalism is seen to be running at full steam as a *modus operandi* in most economies (Peet and Hartwick, op cit).

The South African economy has long been characterized by racial inequality: the country was dichotomized into an economically developed section comprised mostly of whites, and an underdeveloped section made up of Africans on the other. This duality shaped people's participation in the economy, as well as their levels of accessing education and other crucial enablers for earning a living. The exclusion of the majority of Africans from accessing opportunities critical for their effective participation in the economy resulted in their playing a very marginal role in the centres of power in the economy plunging many into poverty.

Aliber (2005) argues that from the beginning, European mercantile interests took precedence as the settlement expanded, primarily through agriculture. Property rights at odds with existing customs were imposed on indigenous peoples. During the colonial era, there was competition and conflict of interest between settlers and local producers especially of agricultural products. Subsequently as the colonial power expanded to exploit South Africa's rich natural and mineral resources, racist ideology conspired with economic self-interest to turn the country's black majority into a pool of cheap labour (Aliber, op cit. p.3). Aliber concludes that a massive apparatus of control and repression was created, attaining its highest form in the apartheid state (op cit, p.3).

The dualism in the South African economy has long been chronicled (Wolpe, 1972; Legassick, 1974; Bundy, 1979). Arguments about dualism and the relationship between the mainstream of the economy and the periphery have characterized much of the South African historiography (Devey, et al, 2006). In the debates of the early 1970s about the relationship between apartheid and capitalism in South Africa, liberals argued that capitalism would ultimately diminish apartheid as more and more of the African periphery came to be incorporated into the mainstream of the economy (Lipton, 1985; O'Dowd, 1978; cited in Devey, et al 2006 p.225). Marxist arguments alleged that there was in fact a close exploitative relationship between the mainstream and the periphery (Wolpe, 1972; Legassick, 1974; cited in Devey et al 2006).

Nevertheless, the notion of the bifurcation in the South African economy was reignited and took a new turn fermenting into a broader socio economic debate by the turn of the 21st century. First, Thabo Mbeki (1998, p.1) then Deputy President of South Africa, made the following remark whilst addressing the National Assembly (29 May 1998) on "Reconciliation and Nation Building";

> A major component part of the issue of reconciliation and nation building is defined by and derives from the material conditions in our society which have divided our country into two nations, the one black and the other white. We therefore make bold to say that South Africa is a country of two nations. One of these nations is white, relatively prosperous, regardless of gender or geographic dispersal. It has ready access to a developed economic, physical, educational, communication and other infrastructure. The second and larger nation of South Africa is black and poor, with the worst affected being women in the rural areas, the black rural population in general and the disabled. This nation lives under conditions of a grossly underdeveloped economic, physical, educational, communication and other infrastructure. It has virtually no possibility to exercise what in reality amounts to a theoretical right to equal opportunity with that right being equal with this black nation only to the extent that is equally incapable of realization".

A comparison could be made between Mbeki's two nations conception and the dependency theory's notion of development and underdevelopment as two sides of the same coin in the sense that the two nations (white and black) had a close and interdependent relationship though exploitative as Legassick (ibid) argued. Aliber (2005) claims that Mbeki refocused the debate around the stubborn persistence of poverty and underdevelopment in South Africa in 2003, when he reintroduced the concept of the two economies into the policy discussion. Since then, Aliber (op cit) argues, policy makers and practitioners in the development field have debated the existence of the two economies: is the concept an apt description of the South African reality, or is it merely a metaphor, and if so, what is its value? One may interrogate the two economies thesis if it makes any sense technically, structurally is it possible to have two economies within one country?

In November 2003 Mbeki addressed the National Council of Provinces (NCOP) where he stated:

> The second economy (or the marginalized economy) is characterized by underdevelopment, contributes little to GDP, contains a big percentage of our population, incorporates the poorest of our rural and urban poor, is structurally disconnected from both the first and the global economy and is incapable of self-generated growth and development.

One major problem with this formulation of Mbeki's is the idea of a structural disconnection between the two economies. The idea of structural disconnection is not that innovative and actually echoes the older liberal view on the relationship between apartheid and capitalism.

One may argue that it is understandable and common to have development and underdevelopment within a single economic system. To build upon Aliber's claim, one may argue that the two economies thesis makes sense in as far as it makes a metaphoric depiction of Mbeki's two nations conception in the sense that the racial divide is, and has always been, conspicuous in South Africa. However as far as the economy is concerned there is a single economic system where whites are mostly dominating the core or mainstream whilst the majority of blacks occupy the periphery.

Nevertheless, the idea of a 'second economy' is increasingly part of policy rhetoric at all levels of state (Devey, et al, ibid). The agitprop of the two economies is not abating and there are concerns that the metaphor, if one opts to view it that way, may lend itself to simplistic prescriptions along the lines of "how to bridge the gap between the two economies" (Aliber, ibid). One may argue that the usefulness of the metaphor only goes as far as stimulating a debate on addressing poverty and underdevelopment in the country. Literal perception of the two economies thesis is misleading as there is technically a single economy.

The debate on the two economies is compounded by the ANC's throwing in of the 'formal' and 'informal' economy concepts into the argument. The ANC (*ANC Today*, 2004, p. 47) argued that:

> "The first and second economies in our country are separated from each other by a structural fault….Accordingly, what we now have is the reality…of a 'mainly informal, marginalized, unskilled economy, populated by the unemployed and those unemployable in the formal sector".

According to the latter ANC argument the 'informal' economy is located in the 'second' economy whilst the 'formal' economy is in the 'first' economy. Devey et al. (2005) argue that the ANC's conceptualization of the two economies brings about the re-emergence of the liberal's

dual view of the economy. Devey et al. (op cit. p.225) point out some important implications from this line of thought (two economies and formal/informal economy):

> "1st The conceptualisation tacitly acknowledges the failure of the trickle-down economic growth policies so central to the post 1996 era of the Growth Employment and Redistribution (GEAR) strategy of government;
>
> 2nd The dualism suggested by the arguments about 'structural' break between the 'first' and the 'second' economy allow government to argue that its economic policies have been successful for the 'first' economy; and
>
> 3rd Government policy for the 'second' economy is either absent, or where it does exist, piecemeal and ineffective."

The two economies perspective is weak. Noting the close relationship between the 'two economies' and the nature of the informal economy in South Africa, Devey (ibid.) argues that "contrary to the views of the President and the ANC, there are in fact fairly close linkages between the formal economy and informal economy" (ibid.p.226). Castells and Portes (1989, cited in Devey et al.p.226) describe the informal economy as a 'common sense' notion that cannot be captured by a strict definition. Devey at al. argue that the two are integrally linked, especially through supply or customer networks, the usage of the term 'economy' instead of 'sector' indicates a greater range of activities than a 'sector'.

This except is an illustration of how much the line between the two economies or formal and informal economies are blurred if not non-existent. With the government's mandatory registration of domestic workers for unemployment insurance fund, organized labour across sectors, and formalization of the taxi industry, to mention but a few, the linkages between the two economies are even more solidified nullifying the arguments of a structural disconnection between the two economies. The problem of pursuing a strict definition of the two economies is also compounded by usage of concepts; e.g. sometimes poverty is used as an indicator of the second economy whilst under other circumstances lack of regulation is used. Therefore the two economies thesis does not assist in determining what direction BEE implementation should take.

2.5.1 The Concept of Development

One of the major targeted outcomes of BEE is its impact on economic development of the previously disadvantaged majority of black people (DPE, 2001, DTI, 2003). The concept of development may be subject to many interpretations. In broad terms development carries with it the connotation of a favourable change: moving from worse to better, evolving from simple to complex, or advancing away from the inferior (Coetzee, 2000). However, it has been argued that development goes beyond simply good change; it can be a highly contested concept and is inherently ambiguous (Thomas, 2000). Its complexity entails the following (Thomas, op cit);

- Development means an all-encompassing change, not just an improvement in one aspect.
- It is not a once off process of change but implies a process that builds on itself where change is continuous and improvements build on improvements
- Development is not always seen positively, what is seen as improvements can have winners and losers.

Whilst the ANC government highlights development challenges in a number of documents, it does not offer a single agreed definition of what they conceive to be development. For the purposes of this study it is here argued that development should at least comprise of the following three objectives (Smith and Todaro, p.23 2003);

1. *To increase the availability and widen the distribution of basic life-sustaining goods* such as food, shelter, health, and protection.
2. *To raise levels of living,* including, in addition to higher incomes, the provision of more jobs, better education, and greater attention to cultural and human values, all of which will serve not only to enhance material well-being but also to generate greater individual and national self-esteem.
3. *To expand the range of economic and social choices* available to individuals and nations by freeing them from servitude and dependence not only in relation to other people and nation-states but also to the forces of ignorance and human misery.

2.5.2 Development and the South African Economy

It has already been established that South Africa assumed a capitalist mode of economic production (Legassick, 1979, Gelb and Saul, 1986, Saunders, 1988) following the landing of white settlers in the Cape Colony and the subsequent discoveries of gold and diamonds in years that followed. The main outcome of the BEE process is expected to be a transformed

and economically developed society, a move away from the apartheid created racial capitalism of uneven development. Capitalism as a system will remain, but the racial aspect will be removed. Capitalism, a system characterized by private ownership and regulation via self-regulating markets, had its grip on the global economy with the take-off of industrial capitalism during the first half of the nineteenth century (Thomas, ibid.). Todaro (1977, p.16) identifies four characteristics of market capitalism:

I. The institution of private ownership backed up by legal guarantees;
II. The pervasiveness of free enterprise and competition;
III. The preponderance of commercial production for sale in these competitive markets (as opposed to subsistence production which could include private ownership); and
IV. The overriding behavioural objective of maximization of profits and satisfaction of consumers.

In addition to the above characteristics, it may be useful to look at Marx's interpretation of capitalism in Western Europe and North America during his time. Marx (Sanderson, 1969, p.44) observed that capitalism was characterized by single-minded and competitive pursuit of private profit by those who owned the means of production, where they purchased labour power or work potential of the working class. The modern doctrine of development, though presumably infantile at the time, is said to have developed alongside capitalism precisely to control the social disruptions caused by the unchecked development of capitalism (Cowen and Shanton, 1996, cited in Allen and Thomas, 2000). The impact of social disruptions created by racial capitalism in South Africa before 1994 and the legacy of apartheid that is still very much conspicuous across the country today have been widely documented.

2.5.3 Dependency Theory

Dependency theory first emerged in the 1950s, advocated by Paul Prebisch whose research found that the wealth of poor nations tended to decrease when the wealth of rich nations increased (United Church, undated). Whilst the theory quickly divided into diverse schools, the most notable of its strands was its adaptation to Marxism by Andre Gunder Frank and its refinement from a Marxist perspective by the American Sociologist Immanuel Wallerstein into the "World System" Theory (United Church, op cit.). Dependency theory emanates from Latin America (*Dependicia School, dependentistas)* and whilst there were numerous proponents of this Marxist sub-tradition, it was notably propounded in the English-speaking world by Andre

Gunder Frank (Graaff and Venter, 2000, Clarke, 2002, Hettne, 2002). The premise of dependency theory was that economic development and underdevelopment were the opposite faces of the same coin, both a necessary result and contemporary manifestation of the world capitalist system (Clarke, ibid).

The key principles of dependency according to Frank were that the spread of capitalism from the First World (sic) countries had a destructive influence on Third World (sic) countries: capitalism in the wealthier or core countries actively "underdeveloped poorer", or periphery countries (it was *metropolis* [core] against *satellite* [periphery] as Frank argued) (Graaff and Venter, ibid.). Dependency expressed power dimensions in the system which resulted in exploitation through unequal terms of trade. Underdevelopment varied over time (e.g. mercantile, colonial, postcolonial periods) with its basis remaining "surplus extraction" through the market (peripheral countries exported cheaper primary products but imported expensive manufactured goods resulting in chronic balance of payments problems particularly when prices of primary goods fell) (Graff and Venter, ibid.)

From an economic development perspective, the South African socio-economic landscape could be understood as a microcosm of this international economic system, with the North-South divide, core-periphery relationship translated along racial lines, where the white minority in the apartheid system represents 'the privileged north" whilst the marginalised black majority represents the "underdeveloped south". This interpretation of South Africa's racial capitalism is along the same thinking with "Colonialism of a Special Type (CST)" thesis which proffered the argument that South Africa was characterised by "internal colonialism" where there was no spatial separation between the colonising power (the white minority state) and the colonised black people (ANC, 1977).

Whilst dependency theory in its basic form made no major points about the race factor, race was the fulcrum of the South African economy in the sense that internal colonialism was characterised by an exploitative relationship between white and black, with blacks selling their cheap labour and being assimilated and forced into a western capitalist life. Dependency theory extended its argument to country-to-country relationships, and to rural urban relations (Graaff and Venter, ibid) but South Africa was not a part of Frank's analysis.

Nonetheless dependency theory has been applied to the South African situation: borrowing from it assists a great deal to elucidate on the situation. According to Bundy (1977, cited in Coetzee *et al* 2000) modernization theory floundered in its assertion that underdevelopment was a result of tradition or backwardness of pre-capitalist economies. This was in agreement with Frank's argument (1969, cited in Peet and Hartwick, 1999) that attributing underdevelopment to traditionalism (or feudalism) rather than capitalism was a historical and political mistake as world capitalism destroyed or transformed earlier social systems even as it came into existence, converting them into sources of its own further development. In contrast, Bundy (op cit) asserted, in a Marxist fashion, that exposure of Africans to capitalism in South Africa resulted in the destruction of wealthy peasant African farmers and creation of a wage labour force.

On a global scale, dependency theory states that the poverty of countries in the periphery is not because they are not integrated into the world system, or not 'fully' integrated as it is often argued by free market economists, but it is because of *'how'* they are integrated into the system (United Church, undated). This emphasis on the approach of integration into the economy was thus evident in the manner in which Africans, as early as the 19th century, were integrated into the domestic system in a skewed manner based on race. The rise of wealthy African peasant farmers in the 1830s and their subsequent prosperity later as a result of their trade with gold and diamond fields' settler communities was circumscribed by racist segregationist laws (Graaff and Venter, ibid). With the usage of extra-economic coercive measures (Legassick, ibid) wealthy African farmers were eventually destroyed culminating in the proletarianisation of all Africans (Graaff and Venter, ibid.). White mine owners and farmers desperate for labour triggered the introduction of the extra-economic measures by petitioning parliament to intervene with far reaching consequences including taxation, location laws, pass laws, vagrancy laws and restriction of Africans access to land culminating in the 1913 Land Act. (Gelb and Saul, 1986, Graaff and Venter, 2001.). On the world scale according to the Neo-colonial Dependence model" (Todaro and Smith, 2003, p 124);

> "Unequal power relationships between the centre (developed nations [or "white minority"]) and the periphery (Least Developed Countries [or "black majority"]) render attempts by poor nations to be self-reliant and independent difficult and sometimes even possible."

The latter translation was evident in the suppression of expression through strikes (Post World Two strikes, the 1972 strikes, the June 1976 uprisings, the violent 1980s strikes and subsequent state of emergency) of black people prior to and through most of the apartheid era (Gelb and Saul, ibid) The approach pursued by the BEE strategy of government is aimed at redress or undoing the imbalances created by the apartheid system where elevation of the living standards of the previously marginalised black majority is paramount. From the Marxist tradition and its subsequent approaches to planning it could be understood and interpreted as 'equity planning' (Krumholz and Forester, 1990, cited in Fainstein and Fainstein [undated work] p. 270).

> "Public programmes create winners and losers, and all too often the typical losers are those who already are suffering from social and economic disadvantages. Rather than attempting to plan for society as a whole, the equity planner would 'promote a wider range of choices for those residents who have few".

2.5.4 Neo-Liberalism

As already elucidated in the preceding section on the South African socio-economic context, this neo-liberal form of capitalism is of great importance and relevance to a cogent understanding of post 1994 South Africa. Before delving into the definition of neo-liberalism, first its linkage and relationship with the restructuring of SOEs and BEE needs to be established. Neo-liberalism as a philosophy de-emphasizes or rejects government intervention in the domestic economy. This means that the restructuring of SOEs is arguably more likely to thrive where there is a certain degree of marketisation of the context in which the SOEs operate.

In terms of its roots, according to Peet and Hartwick (1999, p 49), neo-liberal theory originates from three linked sources:

(1) The monetarist economics of Milton Friedman, the Chicago school in the United States, and the Institute of Economic Affairs in Britain, which argued that macro-economic problems like inflation and indebtedness derived from excessive government spending driving up the quantity of money circulating in a society;

(2) The neo classical economists like Friedrich von Hayek, who argued in *The Road to Serfdom* (1956) that even dalliance with "socialist ideas" (like Keynesian planning) would lead to disaster and that classical Smithian and Ricardian economic principles should be relied on instead; and

(3) Conservative political and economic ideas glorifying laissez-faire and rugged individualism, long propagated by authors like Ayn Rand (in *Atlas Shrugged* [1957]) and widely disseminated widely by the American Heritage Foundation and right-wing organisations.

The macro-economic policy GEAR (ibid) does to a very great extent express neo-liberal views, particularly on the issue of stabilizing the economy through reduction of inflation and government deficit. What is of particular interest to this study is government's laissez-faire approach to the market and the minimization of the public service. State involvement in the economy was held to be inefficient, bureaucratic and an unnecessary drain on public coffers, hence by selling off loss-making and inefficient public enterprises and parastatal corporations, restricting the role of the state to regulation and economic facilitation, taxes could be cut substantially (Simon, 2002).

Friedman (1962) one of the founding fathers of the neo-liberal tradition, long postulated that the widespread use of the market reduces the strain on the social fabric by rendering conformity unnecessary with respect to any activities it encompasses. This assertion and promotion of the market over the state resonates with present day arguments proffered by the new public management movement that the state machinery stifles service delivery. In Friedman's own words, the wider the range of activities covered by the market, the fewer are the issues on which explicitly political decisions are required and hence on which it is necessary to achieve agreement (Friedman, loc cit.). Accordingly, the need for government only arises because absolute freedom is impossible (Friedman, ibid.). In Friedman's (1962, p.25 op cit.) view the role of government in a free society is very minimal and could be summarized as follows:

- To provide a means whereby we (sic) can modify the rules,
- To mediate differences among us on the meaning of the rules, and
- To enforce compliance with the rules on the part of those few who would otherwise not play the game.

The simplistic picture painted by Friedman does not really capture the dynamics of the relationships between, society, market and the state: over time the limited state has

disappeared and even the most stridently neo-liberal governments often intervene in the economy far more than neo-liberal theory advises. Caffentzis (2002, p.1) argues that neo-liberal theory is the elaboration of a simple assumption: all human activity is always already a commodity and the best way (leading to the greatest satisfaction possible) is to organize these activities through a market.

The 1980s, with the advent of Thatcherism and Reagonomics, meant that the lines between the private and public domains would be blurred. With the assistance of the New Public Management (NPM), market forces were smuggled into the public sector in the guises of efficiency and effectiveness borne by the public sector reforms. NPM, which has been characterized by pursuit for cost cutting, efficiency, managerial autonomy, and performance appraisal and measurement (Minogue et al, 1998) has been the "Trojan horse" for the free market permeating almost every aspect of the public domain from ownership through restructuring to management principles and the commercialization of service delivery[14].

Many average South Africans, more especially the disadvantaged and the ordinary members of the Tripartite Alliance, could not have dreamt the ANC could pursue pro-market policies so early into democracy. All along, and dating back as the Freedom Charter (p.2, 1955), the general understanding and explicit consensus was, *inter alia*, that;

> "The People Shall Share in the Country's Wealth!
>
> The national wealth of our country, the heritage of South Africans, shall be restored to the people;
>
> The mineral wealth beneath the soil, the Banks and monopoly industry shall be transferred to the ownership of the people as a whole;
>
> All other industry and trade shall be controlled to assist the wellbeing of the people;
>
> All people shall have equal rights to trade where they choose, to manufacture and to enter all trades, crafts and professions.

[14] The overall objective, central to NPM reforms, is to make working practices more efficient, and to obtain 'value for money' by using organisation al and managerial changes to achieve a more efficient use of resources (Walsh et al, 1997, cited in Minogue et al, 1998). See also Osborn, D. and Gaebler, R. (1992) "Reinventing government", Reading, MA: Addison-Wesley.

The Charter goes further to talk about availability of work and access to other opportunities, including land. Whilst the Freedom Charter was regarded as a people's document and not solely a responsibility of any single party, the tacit understanding was that, the ANC in particular was bound to it.

This period was also laden with debate on the destiny of the country from all aspects of governance, political, social, economic etc. The debates and negotiations formed the backdrop to the path the country was going to pursue once a new democratic government was in power. In 1990 the ANC and its allies held two workshops in Harare, Zimbabwe, culminating in the draft economic policy document entitled *'Discussion document on economic policy'* released in September 1990 (Nkadimeng, 1999). According to Nkadimeng (op cit.), this document was a direct response to the very pro-market '*White Paper on Privatisation and Deregulation in the Republic of South Africa*' released by the National Party (NP) government in 1987.

The ANC received negative feedback from the NP and big capital, with the draft document being accused of undertones of socialism and overtones of macroeconomic populism (Marais, 1998, cited in Nkadimeng, ibid.). In essence, the tenets of the draft document are said to have been derived from COSATU's Economic Trends Group which advocated "*growth through redistribution"*. It has been argued that the presence of the World Bank and IMF in South Africa and business sector scenario planning in which the liberation movements participated i.e. primarily the former's interaction with the ANC led to a dramatic shift in the economic policy of the ANC with the 1991 document ANC's draft Resolution on "*Economic Policy for National Conference"* making no mention whatsoever of nationalization (Nkadimeng, ibid.).

In an attempt to address the needs of anti-apartheid economic community in the area of economic policy analysis and formulation, the Canadian Department of External Affairs through the International Development Research Centre (IDRC), facilitated the launch of the Macro-economic Research Group (MERG) in late 1991(Nkadimeng, loc cit.).

The ANC, with the support of the majority, was destined to be the political power expected to carry out the expressions of the Freedom Charter. In its fundamental document "Ready to

Govern" (1992), the ANC asserted that; "The central goal of ANC economic policy was to create a strong, dynamic and balanced economy[15].

Ready to Govern, whilst regarded as putting forward the ANC's stance and direction as an over-arching policy framework, started with a cautionary statement that it;

> "Does not present a rigid ANC blue-print for the future of South Africa, to which our supporters will be expected to rally and our opponents required to submit. Rather, the document represents a set of basic guidelines to policies we intend to pursue. These ideas will be developed through discussion within the ANC, and through consultation with the broadest spectrum of South African public opinion. The policies will be adapted according to these processes and on the basis of experience."(ANC p.1, 1992).

The latter pronouncement essentially indicates that the approach to policy was left open-ended and was subject to prevailing conditions at the point of enactment of a particular policy. Policy was to be incrementally informed by developments and experiences, these developments, as it appeared with GEAR, were clearly not to be restricted to domestic influences[16].

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[15] The economy would be directed towards:

- Eliminating the poverty and the extreme inequalities generated by the apartheid system;
- Democratising the economy and empowering the historically oppressed;
- Creating productive employment opportunities at a living wage for all South Africans;
- Initiating growth and development to improve the quality of life for all South Africans, but especially for the poor;
- Developing a prosperous and balanced regional economy in Southern Africa based on the principles of equity and mutual benefit;
- Giving due regard to the environmental impact of the implementation of the economic policy.

[16] The Ready to Govern document goes further becoming even more nebulous with regard to stipulations pertaining to the approach the ANC was going to take on the economy;

> "In this context, the balance of the evidence will guide the decision for or against various economic-policy measures. Such flexibility means assessing the balance of the evidence in restructuring the public sector to carry out national goals. The democratic state will therefore consider:
> Increasing the public sector in strategic areas through, for example, nationalisation, purchasing a shareholding in companies, establishing new public corporations or joint ventures with the private sector;
> Reducing the public sector in certain areas in ways 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."
>
> (ANC p.18, 1992,)

As it is evident in this document, by 1992, nationalization was still on the agenda of the ANC, albeit very tentatively and with a fine print that 'terms and conditions apply'. The ANC aimed at a mixed economy that would foster a new and constructive relationship between the people, the state, the trade union movement, the private sector and the market (ANC, op cit.). Mandela maintained that nationalization was the only way of addressing the inequalities of apartheid. However, Oliver Tambo, the then President of the ANC, had long been convinced that South Africa should avoid repeating what he saw as the economic mistakes of countries like Tanzania and Zimbabwe, whose statist policies he believed had led them to economic crisis and debt (Southall, 2006). On the other hand Tambo supported Mbeki, who had been highly unimpressed by his personal experiences of the economies in Eastern Europe, in quietly talking to white business, seeking to convince them that the ANC was not the devil it had been made out to be (Southall, p.6, op cit.). The ANC had also been influenced by the fall of the Berlin Wall and the serious lobbying of the IMF and the World Bank.

Within a year after the release of the document, and facing strong opposition from within the ANC and COSATU, Mandela and Mbeki had succeeded in having nationalization virtually expunged from all the movement's policy documents, ruthlessly wrested control of the economic policy within the Tripartite Alliance from COSATU and SACP, and propelled centrists such as Trevor Manuel into key economic positions (Southall, ibid.). Alec Erwin, COSATU's leading economist was lured into cabinet, and thus the way was paved for GEAR in 1996 (Southall, ibid.).

Opening parliament in February 1998, President Mandela could claim that there was no other route to sustainable development other than the market-led policies adopted by his government (Marais, 1998). South Africa had succumbed to the Washington Consensus which despite the economic crisis that hit most middle-income countries after 1995, continued to promote free trade, privatisation, financial liberalization, business deregulation, high real interest rates and flexible labour markets (Bond, 1999).

This is of particular relevance to the object of selling-off SOEs through BEE ventures as advocated by the Accelerated Agenda Towards the Restructuring of State Owned Enterprises Policy Framework (DPE, ibid). GEAR was crudely neo-liberal: with regard to SOEs, it advocated the complete privatisation of "non-essential" state enterprises and the partial

privatisation of some state run utilities (Marais, ibid). Marais (ibid) questioned GEAR's ability to stimulate job creation, create and increase socio-economic equality through its neo-liberal track, and asserted that the verdict is negative. Whilst commentators have already made up their minds on the broad successes and failures of the neo-liberal agenda in South Africa, this study is still faced by the task of investigating its (neo-liberalism) effectiveness through policy instruments such as BEE.

In the case of South Africa the formulation of GEAR was viewed as an adoption of a homegrown Structural Adjustment Programme[17] (SAP) and a direct response to international investor demands (Bond, 2001). GEAR contains some of the key tenets of SAPs including, *inter alia*, that (Shah, ibid);

- They prescribe cut backs, "liberalization" of the economy and resource extraction/export-oriented open markets as part of their structural adjustment
- The role of the state is minimized
- Privatisation is encouraged as well as reduced protection of domestic industries
- To be attractive to foreign investors various regulations and standards are reduced or removed.

Commenting on the environment after 1994, Hallowes (2002) argues that post-apartheid economic policies have generated job losses at an unprecedented level, which in turn are the basis for many urban ecological and health problems associated with lack of affordability of water, sanitation and electricity.

[17] Washington based institutions, the IMF and the World Bank, have since the early 1980s compelled developing countries to adopt the Structural Adjustment Programmes (SAPs). The SAPs were conceived as an antidote to the debt crisis of the 1970s and have been applied to most developing countries ever since (Moreno, 2001). SAPs were originally a macro-economic solution intended to open national economies to the world assuming that sound macro-economic management would help to create conditions for reducing poverty; in the 1990s SAPs were coupled with economic liberalization (Moreno. op cit.). However, SAPs have been very much condemned for conveying a neo-liberal agenda imposed upon developing nations by the IMF and the World Bank to ensure debt repayment and economic restructuring (Shah, 2005). Poor countries have been forced to reduce spending in areas such as health, education, and development, whilst debt repayment and other economic polices have been made the priority. In this regard the IMF and the World Bank have been seen as demanding poor nations to lower the standard of living of their people (Shah, op cit.).

It is important to note that neo-liberalism is marked by a variety of movements[18] away from state control (beginning in the 1970s) or protection of the economy (United Church, op cit.), and these movements have been implemented differently from country to country. The point being made here is that whilst the neo-liberal tenet of minimal government intervention in the economy is commonly shared by implementing countries, pragmatically the versions are much dissimilar. In its United States usage, neo-liberalism is associated with support for free trade and welfare reform but not with opposition to Keynesianism and or environmentalism (United Church, op cit.). In the case of Africa, the object of neo-liberal policies is argued to be commodifying the natural resources, labour and social organisation to make the continent directly productive for the interests of the former colonial powers (Caffentzis, ibid.). This argument is extended to the rationale behind the New Partnership for Africa's Development (NEPAD), adopted by the African Union in Abuja, Nigeria, in October 2001, which is perceived by some to be nothing more and nothing less than a neo-liberal plan by Africa's elite to join with multi-national corporations, the IMF and the World Bank, to plunder Africa's labour force and resources (Anarchist Info News Service, 2004).

As from 1994, the ANC government has been severely criticized for embarking on a neo-liberal path to appease capital and international institutions such as the World Bank and IMF. Ashwin Desai (2003, p.1), a political commentator, community activist, and a renowned fervent opponent of the neo-liberal agenda has taken swipe at the ANC government position on the economy;

> "The transition to democracy led by the African National Congress (ANC) was trumped by the transition to neo-liberalism. The new ruling elite and the beneficiaries of the old apartheid regime had already made common cause after the ANC came to power in 1994. Now they were cementing their alliance with the corporate raiders in the advanced capitalist world."

The government has been accused of having shifted towards neo-liberalism throughout the 1990s as a bourgeois nationalist party (Bikisha Media Collective, 1999). At the celebration of the 50th anniversary of the Freedom Charter, Dennis Brutus, a social activist also lashed out at the ANC government;

[18] The term "neo-liberalism" is not the only one used for this movement away from state control. Many proponents of neo-liberalism argue that it is simply "liberalism". Both its critics and some supporters often label it Thatcherism (United Kingdom), Reaganomics (USA), Economic Rationalism (Australia), Rogernomics (New Zealand) or Manmohanomics (India).

> "My criticism is not the slowness of delivery on the Charter," says Brutus. "I'm saying the ANC has changed direction. At the time of the Freedom Charter it was committed to serving the people, now it is committed to serving the corporations."
>
> (Kavanagh, 2005, p.2)

Some have openly criticized GEAR for being a neo-liberal programme, and argued that the ANC had capitulated to pressure from international banks and bond markets, the IMF and the World Bank (Lehulere, 1997). It was argued by many that it had become clear that the government had abandoned the RDP, and that was the reason why there had been little delivery of jobs and social services (Lehulere, op cit.). GEAR was adjudged as having failed to meet its targets on most of its goals: this includes increased levels of local and foreign investment, as well as employment creation; however, the government for its part continues to hail the success of GEAR based solely on the attainment of two indicators, namely the reduction of the budget deficit, and the reduction in inflation (Frye, 2006).

The criticism leveled against the ANC government has not itself gone unchallenged. For, to quite a remarkable degree, the government has not entirely left the country to the vagaries of the market. Southall (2003) argues that it is quite narrow to regard the ANC government as having uncritically embraced a neo-liberal, capitalist strategy. Whilst GEAR (1996) was overtly neo-liberal, stressing the gradual relaxation of exchange controls; an appropriately structured flexibility within the collective bargaining system; an expansionary infrastructure programme to address service deficiencies and backlogs, it also accepted redistribution of income in favour of the poor and universal access to health, education and other services "in keeping with the goals of the RDP". The latter, it could be argued, is not typically neo-liberal, or simply part of the Washington Consensus.

It is clearly wrong to view the ANC as having a minimal economic role for the state in the proverbial neo-liberal tradition, argues Southall (ibid.), for the ANC is rather leaning towards construction of a pro-capitalist, yet Malaysian-type, interventionist state prepared to use its power, influence divestment of assets to create a black bourgeoisie, expand the black middle class, and generally produce a seismic transfer of wealth from white to black over a ten to twenty year period. In this view, government formulates policies that create an environment for

previously disadvantaged role players to participate and received preferential treatment in both public and private sectors e.g. in sale of SOEs, managerial control of sectors, and business supply.

On numerous occasions, the ANC has highlighted the eradication of poverty and addressing all sorts of socio-economic imbalances of the past as a priority in its agenda. This is where the neo-liberal tradition or the Washington Consensus[19] has less emphasis. What is striking about Washington Consensus advocated strategies is that they make no mention of shared growth, of the central need to focus on eliminating absolute poverty to achieve development in any meaningful sense, or of reducing inequality, as central ends in themselves as well as instruments of economic growth (Smith and Todaro, 2003). The ANC (Development and Underdevelopment, undated, p.5) argues that the Washington Consensus with its ideology of market fundamentalism has narrow assumptions that:

- Development of the poorest countries should largely be financed through private capital rather than public sector funds.
- The conditions for overcoming poverty and underdevelopment can best be established by reliance on the market, and that minimal state intervention is required.
- To secure the benefits of market-led developments, these countries should become fully integrated within the global economies, interacting with all other countries through unfettered free trade and relying on the global capital markets for the investments they require.

The ANC concludes by asserting that the Washington Consensus was designed not primarily with the needs of the less-developed countries in mind, rather, it was a response to the

[19] Neo-liberal policies and the Washington Consensus on development have been viewed in the same light. Smith and Todaro (2003) assert that for much of the 1980s and early 1990s, the "Washington Consensus" held sway. This consensus reflected free market approach to development followed or promoted in those years by the IMF, World Bank, and key U.S. government agencies. The consensus contained 10 points which are as follows;

1. Fiscal discipline
2. Redirection of public expenditure priorities towards health, education, and infrastructure
3. Tax reform, including the broadening of the tax base and cutting marginal tax rates
4. Unified and competitive exchange rates
5. Secure property rights
6. Deregulation
7. Trade liberalisation
8. Privatisation
9. Elimination of barriers to direct foreign investment (DFI)
10. Financial liberalisation.

interests and needs of the developed countries themselves (ANC, op cit). Building on the latter offering by Smith and Todaro, it can be argued that whilst the ANC acknowledges the shortcomings of neo-liberalism, it has been faced by a dilemma of balancing domestic needs of the majority of the people within an open and globally operational economy.

The conclusion is thus that the ANC government's policy could be seen publicly and rhetorically as pitched at the confluence of both leftist and pro-market policies, however, many commentators see it as pragmatically leaning more to the right (Lehulere, 1997, Southall, 2006). It is daunting for most governments today to either totally align themselves with a purely market oriented policy approach or an exclusively leftist or people centred stance. The manner in which the world economy is integrated with a high level of interdependence makes it a challenge for any government to totally disengage itself from the global economy and its demands lest it wants to take an isolationist position which is not very practical. Nevertheless, many governments still strive to assume a position that is most optimal and favourable to their constituents.

The trend of being straddled between the two opposing pro-market and people sensitive positions has led to certain leaders opting for the "Third way". The Third Way, which has also been labeled by some as a "neo-liberal social economic policy," is characterized by fiscal conservatism, government action to replace welfare and other social assistance programs with so called "workfare", and a stronger preference for free markets (United Church, 2006). Moreover, centrists or proponents of the Third Way claim to dissociate themselves from pure laissez-faire economics and other libertarian positions (United Church, loc cit.). The Third Way was the Left's answer to the "crisis of Keynesianism" which afflicted the West in the 1970s, and the free-market "neo-liberalism" of Thatcher and Reagan in the 1980s, argues Browne (2004). The Third Way could be the closest interpretation of the approach followed by the ANC led government than a pure neo-liberal agenda. It (The Third Way) is allegedly pursued by centre left parties worldwide[20].

[20] Centre left parties and left wing parties moderately accept market allocation of resources in a mixed economy with a significant public sector and a thriving private sector. The opposite of the parties are called centre right or right wing parties. Centre left parties include the Labour Party (Britain) and the Democratic Party (United States), whilst centre right parties include the Conservatives (Britain), and the Republican Party (United States). The irony of this ideological divide is that people such as Tony Blair and George W. Bush are close allies on certain major policy matters.

GEAR, with its acute leaning towards the market or the right, seemed to be misplaced ideologically and pragmatically, as well as domestically and internationally, taking into account the imbalances that had to be addressed by the ANC government. The 1990s saw neo-liberal policies under heavy fire internationally, GEAR was at the wrong place at the wrong time, other than big capital, the IMF and the World Bank, GEAR was short of allies (in the open). Marais (1999) argues that 1998 was a year of corners turned, disastrously so for the juggernaut of capitalism, and met hopefully by the European left, and indecisively by the political administrators of the industrialized world. Many economies crashed, smiles edged onto the faces of the South African left as the Washington Consensus collapsed and the ANC's bulwarks of orthodoxy sprung leaks with their leadership no longer able to avoid publicly acknowledging the need for fresh thinking, new leadership and greater flexibility in economic policy-making (Marais, p.1 op cit.).

In the meantime there are claims by some commentators that government reneged from the fundamentals of GEAR. In November 1998, at the Job Summit, macro-economic policy was off the agenda, replaced by a package of welfarist projects that still awaited scrutiny and implementation, and with time- worn dexterity the ANC engineered a truce with its disgruntled allies in the run up to the 1999 elections (Marais, 1999).

In terms of SOEs, in 2004 the government announced change in its position from selling all or part of its equity in major utilities such as Eskom and Transnet, to persuading the private sector to wholly or partly fund investment in new capacity (Boyle, 2004). "The emphasis is on investment into and the efficiency of public enterprises so that they are in a good position to deliver what the economy needs" asserted Alec Erwin, (Boyle, op cit.). Economists and COSATU were convinced otherwise (ibid.). It may be argued that government's change in policy position away from outright privatisation of SOEs does not necessarily signify a major shift in policy. What could be gathered from Erwin's account and utterances on encouraging private investment is that the only fresh significance in the policy direction is that government was in the meantime not prepared to allow any privatisation project at the expense of public coffers. Restructuring continued in other guises such as Public Private Partnerships (PPPs). Additionally, there is not any explicit utterance that government is abandoning outright privatisation or any assurance that it will not resort to it in future.

As early as 1997, the privatisation project had failed to deliver desired results, cases in point being Telkom and SAA. The partial privatisation of Telkom was a disappointment: initially ten percent of shares had been set aside for black investors, but due to lack of finance when the deal was complete 30 percent of what had been a wholly South African owned asset belonged to an American company, SBC as well as Telkom Malaysia for R5.6 billion (Southall, 2006). With regard to Airports Company SA (ACSA), the empowerment stake had also been set at ten percent, but due to high prices being offered by foreign bidders and shortage of black finance, 20 percent was sold to Aeroport di Roma for R819 million with only 4.9 percent going black empowerment groups for R201 million (Southall, op cit.).

In the latter passage, government's meddling with classical neo-liberalism by having equity set aside for BEE investors is of great importance for the relationship between BEE and neo-liberalism. The strongly interventionist nature of the government with regard to giving direction to neo-liberalism means South Africa has come up with its own brand of circumspect neo-liberalism where parameters have been drawn for the market, where government and not capital dictates its shape and form, and is informed by prevailing domestic conditions and policy positions.

2.6 RESTRUCTURING OF STATE OWNED ENTERPRISES (SOES)

The term "restructuring" has been interchangeably used with that of privatisation by some commentators. The South African government has preferred to use the term "restructuring" to avoid the usage of the more "simplistic terms of privatisation " (DPE, 2000)[21]. The government adopted a more assertive posture in favour of privatisation, although the preferred terminology was that of 'restructuring' so as to avoid antagonizing unions and other elements of its constituency (Southall, 2006b, p.207). Thus restructuring is viewed as an overarching term entailing a multiple array of strategies, or mixes of options that are designed to ensure the maximization of shareholder interests defined in economic, social and development terms (DPE, op cit.). This matrix of options includes the redesign of business management principles within enterprises, the attraction of strategic equity partnerships, the divestment of equity either in whole or in part where appropriate, and the employment of various immediate turnaround

[21] Thus there is no expression of any significant policy shift as Marais (ibid.) claimed, only the change in terminology.

initiatives (DPE, op cit.). Nevertheless, the term 'privatisation' has found common usage in reference to either or all of the abovementioned methods.

This study views restructuring as an important instrument for the implementation of black economic empowerment. The different forms of restructuring within a neo-liberal context facilitate for the implementation of BEE as they explicitly promote black participation in the economy. The restructuring of SOEs, often referred to by the narrower term of privatisation, is used by the government as an arena where to enforce its empowerment objectives (Engdahl and Hauki, loc cit.). Restructuring is not confined to the narrow definition of privatisation (Sekgobela, 2003). Close interrogation of the term "restructuring" reveals that a number of strands grow from it making "privatisation" just one of many forms restructuring can take. Whilst the 1987 White Paper (Sekgobela, op cit.) on privatisation in South Africa had defined privatisation as a "transfer of appropriate functions, activities, or property from the public to the private sector", the term "restructuring" makes "privatisation " just one sub-area of neo-liberal asset restructuring amongst a host of others. Nevertheless, privatisation is still often employed to describe a wide range of policy initiatives designed to alter the mix in ownership and management of enterprises away from government in favour of the private sector (Jerome and Rangata, 2003).

According to Brynard (undated), when examining the need for privatisation, it is necessary to first look at the nationalization process, which predated and created that need (i.e. need for privatisation). Brynard's (ibid., Jonker, 1988, Vorhies, 1990) argument on nationalization is presented as follows (Brynard, ibid, p.2);

> "Nationalization was intended to encourage cooperation in society, to encourage social equality, to ensure that the means of production were fully used to the best advantage of all those concerned, and to promote an industrial democracy through community ownership. On the other hand nationalization does not necessarily provide the best stimuli for development, because there are no incentives for good performance due to lack of competition. Nationalization also implies that owning private property is undesirable. Markets will allocate goods incorrectly and income and wealth distribution will be unequal....all this because economic power will be in the hands of those who will also have political power".

Roux [22](cited in Brynard, op cit.) however acknowledges the fact that the process of nationalization can be costly and to the detriment of the state. The disruptive ruptures to the economy as a result of nationalization could not be endured by any reasonable government. The costs of nationalization could include compensation costs to industries as well as hostile international reaction, the outflow of capital, the exodus of skills, the cutback in investments, and the crisis of confidence from the confiscation of the major productive assets (Roux, ibid, p.295).

Whilst not arguing for nationalization of state enterprises, Turok (1989) posits that in Zambia companies were initially nationalized precisely because they were not fulfilling the needs of development as perceived by government. This kind of state intervention appears to be important for most developing countries undergoing transition either from a colonial or an authoritarian past. However, the days of nationalization came to close in the 1970s with the rise of neo-liberalism. Zimbabwe achieved independence in 1980 and did not significantly expand the public sector, and Namibia which became independent in 1990, soon moved to privatisation. The ANC came into power in 1994 in a world where nationalization was no longer a common practice. With the advent of neo-liberalism, state intervention however took a different form and this had major implications for nationalist policies of Africanisation of empowerment. For the ANC, neo-liberalism was the tool for the deracialisation of the ownership and control of the means of production.

Buckus (2000) notes that in the 1980s and 1990s many developing countries were faced with a daunting task of balancing economic restructuring and the consolidation of democracy. This balancing act essentially requires making a choice or compromises between neo-liberal restructuring which involves a negligible role of civil society and on the other hand, civil society

[22] Roux (1992, p.295) states that the case for nationalization can be divided into four broad categories as follows:

- Planning and development: it is commonly felt that public ownership provides the state with additional means of controlling and guiding the economy;
- Market failure: existence of obstacles to the efficient functioning of markets constitutes widely accepted justification for some form of public action with the regulation of private monopolies, for example, being one of the standard ways of dealing with imperfect competition;
- Redistribution: nationalization would enlarge the state and reduce the influence of business as well as facilitate a more equal distribution of wealth and income, improve access to basic goods and services, and strengthen the hand of labour in its bargaining with management; and
- Efficiency gains and growth spin-offs: nationalization would enable the state to rationalize industries, appropriate the surplus, and provide for more rapid accumulation.

participation and democracy in the content for reform (Buckus, op cit.). Neo-liberal restructuring means a push for further integration into the global economy. This has led many critics to argue that the ANC has abandoned its revolutionary principles and abdicated its responsibility to the poor and working class majority (Magubane, 2004 p.661). This has been a problem largely due to the minimalist approach to empowerment and deracialisation of the economy where only a few individuals have been seen to be benefiting.

Nevertheless, proponents of privatisation argue that the overall objectives of privatisation are to increase the performance of the economy by improving utilization of resources, encourage optimal functioning of market forces, facilitate the development of small businesses and create more opportunities for members of all population to groups to participate in the free enterprise system to the full extent of their ability (Jonker, 1988 p.2-4). The South African government hopes that by accelerating privatisation it will improve its credit rating, reduce debt and attract foreign investment (Buckus, 2000). Leach and Vorhies (1989, cited in Buckus 2000) argue that privatisation can broaden share ownership amongst population, thus increasing ordinary people's chance of having a stake in the privatisation process. Makgetla (2004) asserts that government's arguments have underpinned measures to free up markets through deregulation and privatisation, and to encourage foreign investment through conservative fiscal and monetary policies. Deregulation is critical for privatisation as it bring about relaxation of economically inhibiting legal requirements and enables the market economy to function freely without any government interruptions and restrictions (Brynard, undated, Watson, 1988).

Case studies of South Africa's first privatisation initiatives point at failure to broaden ownership to ordinary people, a case in point being the sale of ACSA stakes where previously disadvantaged South Africans failed to raise capital to buy equity (Southall, 2006). There have been vehement arguments against the privatisation of state assets. Adejumobi (cited in Buckus, 2000) concurs with the view that the postulation that privatisation broadens share ownership for ordinary people is flawed. Adejumobi (op cit) posits that in the African context the majority of the people are poor, thus precluding them from acquiring a stake in private enterprises. For COSATU and other opponents of privatisation, the result is not broad share ownership but a narrow BEE where a few benefit. Measures such as the National Empowerment Fund have been established and could help address these concerns. The accessibility of the latter institutions to ordinary people is however questionable. With regard to

the privatisation of social services, opponents of privatisation have contended that the adverse effect of privatizing essential services is that it mainly benefits the rich in terms of better quality and access, at the expense of the poor (Bathily, 1989, cited in Buckus, ibid.)

Fine and Rumstomjee (1996), commenting on privatisation in the context of denationalization, argue that simplifying the whole privatisation and nationalization debate to a variety of theoretical perspectives on the state versus the market is incomplete and misleading. They argue that underlying class interests through both state and market institutions determine the direction of the process, meaning that the very same class interests can potentially be served as much by privatisation as by nationalization, even of the same entity at different times. To illustrate this point further one can assert that when the National Party passed the 'Privatisation and Deregulation Act' in 1987 no black people were in a position to buy any of the assets due to both political and economic reasons hence the vehement opposition by trade unions and fear that foreign capital would buy the assets. After 1994, however, especially following GEAR a number of black owned consortia were ready to bid for purchases of SOEs.

2.6.1 Defining Restructuring

According to the DPE, restructuring can be defined as a matrix of options (DPE, ibid.) or processes of changing ownership, control, or management of public assets from public to private hands. This definition from the DPE proves to be limited as it only defines restructuring as privatisation alone. In addition, restructuring may in certain circumstances entail the employment of business management principles without necessarily changing ownership from public to private hands, case in point is the commercialization of Eskom and other parastatals where the state remains the sole share holder.

Brynard (undated) argues that for a public enterprise to privatize, it needs to go through three phases, first it should be corporatised, then commercialized and then it can be privatised. Weeks (1990, p. 5-233, cited in Brynard, op cit.) defines corporatisation as follows: "the creation of a state owned corporation by legislation and the 'corporatisation' could take the form of registration as a statutory company owned by the state". Brynard (op cit.) stresses that the emphasis stays on the government as it still controls the company. On the other hand 'commercialisation' can be defined as a process directed at establishing private sector

management principles, values, practices and policies within a public sector organisation (Weeks, op cit.).

Scholarly literature on the restructuring of SOEs hardly uses the term 'restructuring'; the term 'privatisation' is rather commonly applied. Privatisation in its crude form is normally understood as the selling off of SOEs to the private sector (Mostert, 2002). The latter definition is limiting and refers to only one form of restructuring that the process can take. In South Africa the term 'privatisation' is mostly used by commentators outside government. As the term happens to bear negative undertones due to its association with the market, within government 'restructuring' is more preferred as the term of choice.

Rondinelli and Iacono (1996, cited in Mostert, 2002) argue that in developing countries and in those in transition from a command to a market economy, a common term that is used for these processes is "structural adjustment programmes". The body of economic theory concerned with privatisation has been categorized into three broad areas; first the relationship between forms of ownership, incentives, and the internal management of the firm; second, the links between market structures, competition, and efficient allocation of resources in the economy as a whole; and lastly the regulation of monopolistic and oligopolistic markets (Adam, et al 1992).

Adam, et al, (op cit.) point out that privatisation is a process that could include the outright, or partial sale of assets by the state, as well as the transfer of assets to the private sector under leasing arrangements and the introduction of management contracting arrangements. Mostert (op cit.) gives a more detailed breakdown on the forms privatisation may take including;

- Contracting/outsourcing: a particular service that has been provided by the state is handed over to a private company. This may be a permanent arrangement or a contract for a given period.
- Public private partnerships[23]: state and business jointly manage the enterprise or provision of the service. Often referred to as PPPs, these partnerships can take various forms.
- The state stops providing a service: the expectation is that the private sector will fill the gap.

[23] The South African government definition of Public Private Partnerships is available at www.treasury.gov.za

- Increasing user charges for services (education, health, transport, etc.): the expectation is that the private sector will fill the gap.
- Taking away restrictions which prevent the private sector from operating in particular sectors of the economy. For instance, regulations which prevent private companies from operating in telecommunications field may be removed so that public and private enterprises compete against each other.

In the case of South Africa there have been many instances of PPPS, outsourcing, as well as increased user fees (ILRIG, 1999). Other scholars have argued (Zarenda, 2002) that privatisation, faced with opposition, has been smuggled into the public arena through masquerade tactics in the form of PPPs. PPPs are therefore the most widely promoted form of privatisation in South Africa in the late 1990s (ILRIG, ibid.).

The following overview illustrates the different types of PPPs that exist.

Contract type	What is contracted out?	Period of contract	Who pays for new contract?	How does company make profit?
Service	Operations and maintenance	Short: 1to 5years	Government pays for new fixed assets (for example buildings, pumps)	Direct payment for service from government
Management	Managing delivery	5 to 25 years	Government pays for new fixed assets	Direct payment from government –no risk for the company
Lease	Operating and managing	10 to 15 years	Government pays for new fixed assets	Company must collect service fees from consumers- some risk for the company
Concession	Operating, managing, maintenance and building new infrastructure	Long: 15-30 years	Private company pays for new fixed assets	The company bears all financial risks for the total operation and development of the service.

Table 3. The Different Types of Public Private Partnerships. Source: ILRIG (1999, p.5).

2.6.2 Period Before 1994

The National Party government is credited for first introducing privatisation in South Africa in 1987 (ILRIG, 1999; Mostert, 2002). Brynard (2003) dates it earlier, arguing that whilst privatisation in South Africa gained momentum when the NP government published its White Paper on Privatisation and Deregulation in 1987, much earlier than that there was one major case of privatisation when the South African Coal, Oil and Gas Corporation (Sasol) was sold in 1979[24]. The National Party government started a process of selling off many SOEs. The global economic crisis that precipitated the demise of the welfare state in the United Kingdom and created a world wide trend of moving towards a lean and mean state especially amongst industrialized countries began to influence the apartheid government leading to the Nationalist government producing a White Paper on Privatisation and Deregulation[25] (ILRIG, ibid.). It is asserted that with the economic sanctions and world wide economic slump, the National Party government was struggling to finance apartheid (ILRIG, ibid.).

The privatisation project of the NP government yielded some success but not without difficulties. The apartheid government embarked on a process of commercializing SOEs such as Eskom, Telkom and the Post Office (ILRIG, loc cit.). "Commercialization meant that these enterprises needed to make efficiency and profit-making a priority. Apart from commercialization the state sold off ISCOR" (ILRIG, p.26 op cit.).

The challenges confronted by the apartheid regime were such that the full aims of the White Paper on privatisation could not be fully exploited. Firstly, with the advent of international

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[24] Brynard (2003) states that Sasol was privatised in 1979. "It comprises three independent enterprises, namely Sasol 1, Sasol 2 and Sasol 3. Since 1950 Sasol 1 has been managed like a private enterprise with a profit motive. All the shares were held by the IDC. The Sasol 2 project was established by the end of 1974. In 1979, after the Iran crisis, a Sasol 3 project was launched that was essentially a duplication of the Sasol 2 project. The potential viability of these projects led to privatisation being considered. In June 1979 Sasol came to an agreement with the IDC, and Sasol 1 was sold for R400 million cash and 112,5 million ordinary shares in Sasol. The public now owns 70 per cent of the shares and the IDC owns 30 per cent. Sasol Limited owns 100 per cent interest in Sasol 1 and 50 per cent interest in both Sasol 2 and Sasol 3. In 1983 Sasol 2 was sold for R2,62 billion. This meant that the state had in effect paid back all its loans and shares capital and that had been compensated for its favourable loans".

[25] The White Paper (1987) stated its case for privatisation and deregulation highlighting that:

- 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 develop and grow without state intervention and with minimum regulation
- Cutbacks on state spending and money raised by selling off state assets could provide much-needed funds for government.

sanctions many transnational companies were not prepared to buy South African SOEs, and secondly there was strong opposition to the privatisation move with trade unions and anti-apartheid organisations against the 'unilateral restructuring of state assets (ILRIG, loc cit.). There was mass action to block the privatisation of SOEs and the ANC was at the forefront of this anti-privatisation struggle.

2.6.3 Period after 1994

The period following the ANC government's assumption of power was followed by a protracted process of negotiations with regard to the restructuring of SOEs. The NFA was a negotiated concurrence between the Government of National Unity (GNU) represented by the Ministry of Public Enterprises, the coordinating Ministry of the restructuring process and organised labour comprising COSATU, the Federation of South African Labour Unions (FEDSAL) and the National Council of Trade Unions (NACTU) (www.polity.org.za). The agreement was signed on 07 February 1996.

The rationale for the NFA was outlined as follows (Polity, op cit. p.1);

> "The purpose of restructuring state assets is to re-orientate and enhance the public sector's ability to meet the challenges and requirements identified by the RDP. In this context, it is the role which the enterprise can play in achieving transformation and transition goals as set out in the RDP which should inform decision-making. This requires new structures, new mandates and change management"

Labour and government both agreed on the following objectives;

"Labour and Government are committed to the provision of affordable, good quality basic services to all South Africans.

- The initiative to restructure State Assets is part of the process of implementing the RDP.
- Government has concretised (sic) some of these objectives in its so called "six pack" programme namely: belt tightening: reprioritisation (sic) of state expenditure; restructuring of state assets and enterprises; restructuring of the public service; building new inter-governmental relations; developing an internal monitoring capacity for the above programmes.

- Government and Labour recognise the legitimacy of the state playing a role in productive sectors of the economy. Therefore, restructuring is not necessarily geared towards reducing state economic involvement in any economic activity.

When the GEAR document was released in June 1996 there was a huge outcry from many fronts with labour in particular accusing government to have reneged from the NFA. It bears noting that as party to the NFA, COSATU had in principle agreed to the privatisation of SOEs. With regard to GEAR, government could only be accused of not consulting with labour but the latter had in principle agreed to the privatisation of SOEs as outlined in the NFA. COSATU could have thus been sidelined in the formulation of GEAR but they had long been aware of the privatisation intentions of government as discussed in the NFA and these were finally espoused in GEAR.

2.7 CHAPTER SUMMARY

This chapter has argued that there is a close and integral relationship between BEE and the restructuring of SOEs. The neo-liberal restructuring of SOEs, such as Eskom the case study for this research project, to some extent serves as an implementation instrument for BEE. This has been conceived in a number of ways, for instance privatisation including selling off state assets to black investors is one route that could be exploited. Secondly in cases where state assets are not sold to the private sector other aspects of BEE such as, *inter alia*, managerial control, skills development, and procurement of goods and services could be utilized by the state to the benefit of previously disadvantaged groupings.

The restructuring of SOEs can, of course, take place outside of the neo-liberal context. The case of 1960s Zambia, for example, illustrates that a government has the ability to facilitate full or partial ownership of SOEs via acquisition of shares or entire buy-out of corporations whilst the context remains capitalist and with no explicit nationalisation. Thus SOE restructuring has taken a number of forms depending on the global and domestic context at the particular period of implementation, in current circumstances, however “restructuring” of SOEs generally refers to neo-liberal restructuring. In the case of South Africa, the BEE project is reshaping ownership of the means of production, procurement and enterprise development; this qualifies the extent to which the ANC can adopt a “purist” neo-liberal approach.

Chapter Three

Research Methodology

3.1 INTRODUCTION

Different kinds of information about man and society are gathered most fully and economically in different ways, and the problem under investigation properly dictates the method of investigation (Gill and Johnson, 2000). Firstly, this study is an attempt to create a balanced account on the underpinnings of the BEE concept; it will rummage around for both theoretical and practical dimensions of BEE through investigating existing literature on the subject of BEE and development theory. Secondly, this study shall delve into actual implementation of BEE through the case study of Eskom. The methods recommended to the traditional academic researchers embrace documentary research of existing written material together with field studies in which survey techniques are deployed to acquire empirical data (Gummesson, 2000).

The research instruments of this project will comprise both documentary research and field research entailing key informant interviews. Whilst quantifiable data could be collected through the Eskom case study, this research study is predominantly a qualitative one. Qualitative studies generally generate non-numerical data or data that have not been quantified using qualitative interviews (semi-structured and unstructured interviews besides the secondary data collected through documentary research) as a method of data collection (Saunders et al, 2003). Gummesson (ibid. p.35) asserts that preferably the researcher should start out with a set of hypotheses, which are tested by means of empirical data. As indicated in Chapter 1, this study is premised on three hypotheses which are tested in the forthcoming chapters. Saunders et al, (op cit. p.384) argue that it is important to test the hypotheses that inductively emerge from the data by seeking alternative examples that do not conform to the pattern or relationship being tested.

In order to test the hypotheses, this study observes, collects and analyses data to establish theory. It is based on the principle of developing theory, namely grounded theory on the implementation of BEE after the data have been collected (the *inductive* approach) (Saunders, et al. ibid). Grounded theory is said to be grounded in phenomena and not data (Haig, 1996).

Haig (op cit. p.4) points out that phenomena are relatively stable, recurrent general features of the world that we seek to explain. Thus phenomena are the proper objects of explanation and prediction.

The analysis of data was conducted through, *inter alia*, data analysis spiral (Creswell, 1998) and analytic reflection. Analytic reflection is a process of enquiry that entails encouraging key informants to reflect analytically on the processes in which they are involved, where applicable (Saunders, et al, ibid).

3.2 DOCUMENTARY RESEARCH

Secondary data on this study was gathered through investigating literature on the aforementioned concept of BEE. This study thus relies mostly on *documentary secondary data*. Documentary secondary data includes written documents such as notices correspondence, minutes of meetings, and transcripts of speeches, public records, books, journal and magazine articles and newspapers (Saunders, et al. op cit). The following institutions were utilized to provide additional material through actual site visits, where necessary, and Internet searches, identified institutions were namely:

- Eskom Resource Centre,
- Department of Minerals and Energy
- Department of Public Enterprises
- Department of Trade and Industry
- Wits University Government Papers

The latter institutions have been selected based on their relevant experience and authority (particularly government departments) with regard to the development and provision of material on the concept of BEE and implementation through state machinery.

Documentary secondary data was used primarily to provide background literature on the case study Eskom, and to support the theoretical framework of this study which is comprised of, *inter alia*, the BEE concept, neo-liberalism, development theory, and the restructuring of SOEs. Documentary data generally provided literature on existing works as part of the literature review which is important to the study. As earlier indicated, a range of documentary holdings have

been used as sources for the literature, for example Wits University Libraries were readily available to provide a number of publications such as books, journals and master's dissertations and doctoral theses on a number of subjects not least BEE and restructuring of SOEs. Government documents and a number of scholarly journals were predominantly acquired through the internet, most government departments have their publications and speeches ready for public consumption on their respective websites. Other material was obtained through the interview subjects e.g. Eskom annual reports, data on black enterprises and reports on the unions and electricity restructuring.

As it is indicated on the findings chapters, a methodical approach has been used to analyse the data into similar themes. The BEE scorecard as designed by was primarily used as a template for the structuring of questions into themes. The analysis of the data also followed the scorecard format with additional questions that do not follow the latter being specifically contrived as new themes to cater for other types of information.

3.3 FIELD RESEARCH

As already indicated, this research project uses Eskom as a case study. Case studies can be viewed from a variety of ways such as whether they want to derive *general conclusions* on the subject or *specific conclusions* (Gummesson, ibid.) The use of Eskom as a case of the implementation of BEE seeks general conclusions about the subject of BEE. Case study research can be divided into three types, namely, *exploratory* (piloting), *descriptive* (observation and reporting), and *explanatory* (deductive) (Gummesson, ibid.) The case study of Eskom could be described as both descriptive and explanatory as it aims at investigating the application of the BEE phenomenon on a given scenario (Eskom) and arriving at both case specific (Eskom) and general (BEE) conclusions through the interpretation of generated data.

Structured questionnaires interrogating the actual implementation of BEE within Eskom and the general understanding of the BEE concept were employed. Both the BEE objectives and the balanced scorecard were used to guide the questionnaire design. Structured questionnaires and interviews are quite useful because they are wide-ranging comprising of a set of interview themes (designed according to BEE objectives) but prepared to vary the order in which questions are asked and allow the interviewer to ask new questions in the context of the

research situation (Saunders, et al, ibid). This questionnaire was aimed at key informants such as managers responsible for the implementation of BEE. An attempt was herein made to come up with a balanced array of respondents in the neighbourhood of twenty people ranging from Eskom management, to unions, black enterprises, social movements, municipalities, and other civil society organisations. It should be highlighted that due to time constraints this study did not aim at extending the number of informants to more than the specified figure of twenty (see the matrix below). In summary, structured questionnaires were utilized to conduct in-depth interviews with the following parties listed in the table:

Government	**Focus**	**No of Informants**
➢ Tshwane Local government councilors	1. the approach pursued in the provision of electricity with a particular focus on poor communities.	1 Councilor
Eskom	**Focus**	
➢ Management responsible for the implementation of BEE internally ➢ Management of the Eskom Development Foundation ➢ Labour Unions operating within Eskom or the energy sector	1. The approach pursued by the company in BEE implementation 2. Corporate Social Responsibility programmes and how they benefit previously disadvantaged communities 3. For unions, their general reflection on BEE implementation within the sector	6 Managers from Eskom 3 Union representatives
Business	**Focus**	**No of Informants**
➢ Companies that have benefited directly through Eskom procurement	General reflection on BEE implementation and its effectiveness, attention to be paid to the energy sector	6 Black supplier respondents

Civil Society Movements and Community projects	Focus	No of Informants
➢ Anti-Privatisation Forum ➢ Community projects and individuals that are beneficiaries of Eskom CSR initiatives	General reflection on BEE implementation and its effectiveness	2 Social movement representatives 5 Community based organisations
		Total No of Informants: 20

Table 4. Interview Informants. Source: Researcher's Original Compilation (2007).

3.3.1 Key Informant Interviews

Using structured questionnaires (appendix 1) a total number of 20 respondents were interviewed over a period of two months beginning in mid June 2006 up until mid August 2006 and again during the first half of 2007. Generally each interview would take no more than an hour (1hour) on average.

A total of three interviews were held with union representatives. The three unions active within Eskom are Solidarity, the National Union of Mineworkers (NUM) and the National Union of Metal Workers of South Africa (NUMSA). All three representatives interviewed were shop stewards with an average of about 12 years service with Eskom. Solidarity is a predominantly white union within Eskom whilst NUM and NUMSA are largely African unions respectively. Unions are important stakeholders within SOEs. Organised labour has been very vocal about BEE and restructuring of SOEs. A lot of material on the restructuring of electricity has focused on townships such as Soweto in the Johannesburg Metro. This study attempts to come up with new data from townships around Tshwane hence the municipality and social movements active within this area have been involved in the research.

A total of five interviews were held with Eskom senior managers. Managers interviewed came from the Commercial Department and Supply Chain Management and Procurement divisions. Five interviews were held with black companies that have benefited from Eskom procurement as directed at enterprises owned by historically disadvantaged individuals. Companies

interviewed ranged from service providers of Information Technology, cable supply and engineering services, to stationery supply and security services. Secondly, with regard to communities and provision of electricity, representatives from two organisations, the Working Class Community Coordinating Committee (WCCC) and the Soshanguve Civic Association (SCA), both affiliated to the Anti-Privatisation Forum (APF), were interviewed. The WCCC largely operates in the Vaal area but has links in the Tshwane region (Atteridgeville), whilst the SCA operates around Soshanguve in the North of Tshwane. The Anti-Privatisation Forum (APF) is a lobby group advocating against privatisation of public services such as electricity. One councilor from the Tshwane Metro, Member of the Mayoral Council (MMC) responsible for electricity, was interviewed. Five interviews were held with projects or individuals that have benefited from the programmes of the Eskom Foundation.

Each questionnaire opened with a biographical data section. This section was optional for respondents in case they wanted to remain anonymous. All informants had no problem with disclosing their names, positions, and years they had been with their respective organisations or companies. The questionnaire targeted at Eskom management, the unions, the social movements and the municipality, consisted of three main sections: first economic development, second restructuring of SOEs, and lastly BEE. With the black enterprises, the questionnaire was abbreviated having only the biographical section and a rigorous focus on BEE. The economic development section was made up of generic questions on provision of electricity; delving into issues of human rights and access to electricity and affordability by poor communities. The questionnaire targeting community based organisations was largely similar to that of black suppliers.

The restructuring section probed informants about their views on the restructuring of Eskom as to whether various market principles should be applied in the provision of electricity such as outright privatisation, commercialization of services, outsourcing and other aspects of the role the private sector might play in the generation, transmission and distribution of electricity. The BEE related questions were borrowed mostly from the balanced scorecard beginning with generic questions about the policy and institutional framework for the implementation of BEE and employment equity. Then there were questions on ownership and management control, human resources development, preferential procurement and enterprise development.

All interviews were recorded by hand and no electronic devices were used. In the researcher's opinion, not using electronic devices provided a relaxed atmosphere and increased comfort levels amongst respondents.

3.4 DATA COLLECTION PROCESSES

Data collected assisted in developing the case study and having an inside look from both a managerial perspective as well as an employee perspective through union representatives. Interviews with other informants especially outsiders such as social movements and municipalities assisted in balancing information collated.

Key informants in the study were identified through a number of ways. For Eskom management informants, the researcher approached the corporation where he was referred to the relevant departments where people in charge and knowledgeable with the BEE subject and procurement matters were requested to partake in the study. The selection of other informants such as union shop stewards and black suppliers was aided by *purposive or judgemental sampling.* This research technique enables the researcher to use their judgement to select cases that will best enable them to answer the research question and meet the study objectives (Saunders et al, 2003). This form of sample is often used when working with very small samples such as in case study research and when one wishes to select cases that are particularly informative (Neuman, 200 cited in Saunders et al, 2003, p. 171). In the case of this research study, two techniques of purposive sampling (Saunders et al, op cit, p.171) were applied;

- *Heterogeneous* or *maximum variation* sampling, this enables the researcher to collect data to describe and explain the key themes that can be observed. Any patterns that do emerge are likely to be of particular interest and value and represent the key themes. This is evident in the selection of the various respondents e.g. the unions, management, black suppliers etc.
- *Critical case* sampling enables the researcher to select critical cases on the basis that they can make a point dramatic or because they are important. The focus of data collection is to understand what is happening in each critical case so that logical generalizations can be made. Once again this is evident in the selection of various respondents such the social movements and the municipal councilor.

The key informants were earmarked for their relevance and usefulness to the study due to their intimacy with the utility and its various services in case of beneficiaries.

Documents and other records studied assist in comparing the data emanating from the interviews with documented material for determining consistency, conflict, and areas of common interest. Documents were obtained from sources such as the Eskom resource centre, managers and unions. Looking at the case of cited statistics from the key informants, it is very useful to have the quoted figures compared with the official records as documented for instance in the Eskom annual reports. Moreover, testimonies from beneficiaries could be compared with the actual records of Eskom components as in the case of the Eskom Foundation, the veracity of both the figures and the services rendered or received could be tested.

3.5 CODING AND ANALYSIS

From the very early stages of interviews and studying of documents issues that required further probing were emerging. Preliminary analysis of issues created a need for more exploration and challenges abound as there was no continuous flow of supply of data, the process was always marred by hiccups and truncations as too much time lapsed between the attainments of different kinds of information.

Leedy and Ormrod (2001) argue that there is usually no single right way to analyse the data in a qualitative study. The researcher begins with a large body of information and must, through inductive reasoning, sort and categorise it and gradually boil it down to a small set of abstract and underlying themes (Leedy and Ormrod, op cit p.160). One major challenge that faced the researcher in this study has been that of analyzing, interpreting and giving meaning to the data collected. The categorizing or 'theming' of the data did not pose a challenge as this was guided by both the questionnaire structure and scorecard.

One tool that the researcher found useful for the analysis of data in this study is the data analysis spiral (Creswell, 1998; cited in Leedy and Ormrod, ibid.). The data analysis spiral

approach (p.161) allows the researcher to go through the data several times using the following steps:

I. Organize the data, perhaps using index, manila folders, or a computer database. You may also break large bodies of text down into smaller units, perhaps in the form of stories, sentences, or individual words.

II. Peruse the entire data set several times to get sense of what it contains as a whole. In the process, you should jot down "memos to self" (e.g. writing in the margins or using post-it notes) that suggest possible categories or interpretations.

III. Identify general categories or themes, and perhaps subcategories or sub themes as well, and then classify each piece of data accordingly. At this point, you should be getting a general sense of patterns- *a sense of what the data mean*.

IV. Integrate and summarise the data for your readers. This step might include offering propositions or hypotheses that describe relationships among categories. It might also involve packaging the data into an organisation al scheme such as a table, figure, matrix, or hierarchical diagram.

The data analysis spiral could be illustrated as follows:

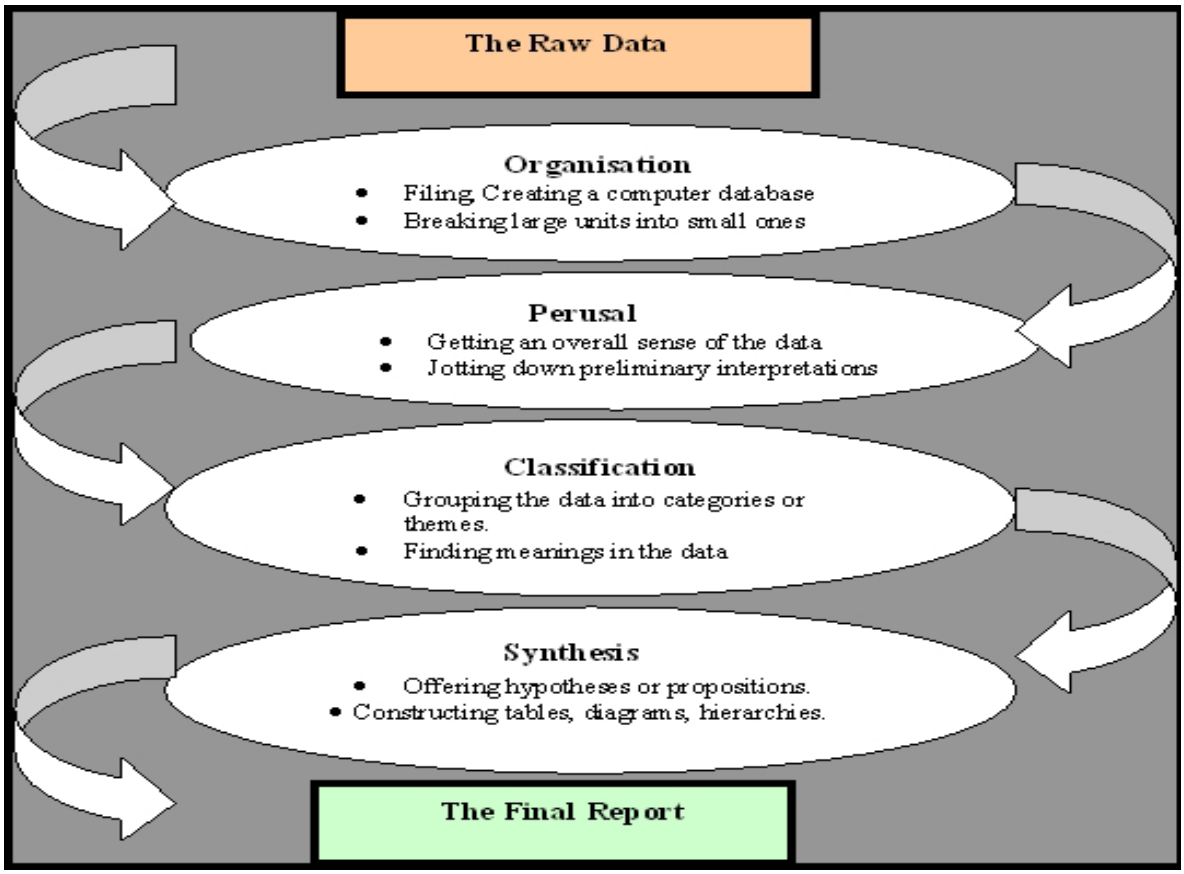

Figure 1. The Data Analysis Spiral. Source: Creswell (1998).

3.6 ETHICAL IMPLICATIONS OF THE STUDY

This research project has been designed and conducted based on ethical principles. Throughout the study and particularly at field research stage, participants or suppliers of information have been alerted about every aspect of the project. This research study followed a code of ethics as presented by Saunders, et al (Saunders, Lewis, and Thornhill, 2003 p.135) detailing;

- the nature of the research (purpose, who participates, whether the study is funded or not, progress on the study)
- the requirements of taking part (type of data required, methodology, timeframe)
- the implications of taking part and participants' rights (voluntary participation, right to decline answering certain questions or withdraw from participation, assurances for anonymity and confidentiality), and
- usage data collected and the way it will be reported (who will access data, dissemination of results, safeguarding of data).

3.7 LIMITATIONS OF THE STUDY

This study does not claim or aim to be an exhaustive account investigating every aspect of public policy as well as development theories that might be able to explain and create a better understanding of BEE and neo-liberalism. This study limits its focus on a few theories and models in its endeavor of investigating the implementation of BEE. Already highlighted tools of BEE such as its policy objectives as well as the scorecard will be used to assess the implementation of BEE through the case study of Eskom. In instances where there is a need to cite actual practical cases of BEE implementation, this study shall be limited to activities within the Gauteng province.

3.8 IMPORTANCE OF THE STUDY

BEE has become the premier policy instrument in facilitating for the participation of the black majority in the mainstream South African economy. Whilst BEE implementation is already taking place and surging forth in full steam, little theoretical enquiry has been conducted to mate its practice with theories from the development and public policy fields of study that could elucidate as how this particular policy approach has been implemented to effect development

in the new South Africa. Moreover, it is equally important to locate BEE implementation within a neo-liberal context as the various guises of economic empowerment have necessitated the creation of a complimentary environment where they can flourish. It is thus of importance that an attempt to bridge the theory and practice divide is made from both a public policy and a development perspective with Eskom serving as a case study. It is aimed that, whilst not that much exhaustive, this study will contribute to the already established body of knowledge that seeks to create a better understanding of the BEE phenomenon.

3.9 CHAPTER SUMMARY

This chapter presents the research methodology employed in the study. It outlines the research instruments that are utilized in the study, namely, documentary research and field research. The chapter also presents tools such as questionnaires that are used in key informant interviews and resources centres such as libraries that provide most documentary research data. A list of informants who partake in the study is presented as well as a detailed account of field research. Lastly, the paper presents the methods of analyzing and interpreting data that is employed in assessing the emerging themes from the study.

Chapter Four

Research Findings: BEE and Neo-liberal Restructuring at Eskom

4.1 INTRODUCTION

This chapter establishes the background to the case study subject Eskom, and how the company has attempted to effect restructuring in general and BEE and in particular in its post apartheid reforms. It will also identify gaps in our knowledge of Eskom. Eskom as a public utility has been integral to the economic history of South Africa. It was with the leadership and effort of government in close cooperation with the private sector that Eskom became a fully fledged entity conceptualized to enhance the economic well being of the country. This study of examining the effectiveness of BEE implementation through Eskom has to be located within the history of the entity and its pivotal economic role in the context of the economic history of the country, with apartheid bearing much mentioning in particular.

The indispensable role Eskom played in providing cheap electricity for industry during its early years and throughout the apartheid era has been part of the bedrock of the growth and development of South Africa as a country. Today that critical role Eskom plays transcends borders of South Africa and has had the public entity making its mark across the continent, a phenomenon that dates back to apartheid years. Some may argue that Eskom powered apartheid, as Greenberg and Fiil-Flynn (2002) avow that Eskom not just strengthened apartheid but apartheid-capitalism in particular. It is yet to be seen how much Eskom will power the new dispensation and the BEE project in particular.

4.2 BACKGROUND

Electricity has been present in South Africa for almost 200 years making this country a trailblazer in power generation and supply long before many western countries. An unnamed "electric device" was recorded by the Encyclopaedia of South Africa to be in use in the country by 1809 (Eskom, 2006). It is further recorded that the first electric telegraph system operated between Cape Town and Simon's Town was introduced in 1860, the local railway station in Cape Town electrically illuminated and Port Elizabeth opening the country's first telephone

exchange, respectively, in 1881 (Eskom, op cit.). A year later, on 02 September 1882, Kimberley switched on the first electric street lights, first in the entire African continent, around the very same time London still relied on illumination by gas lamps (Eskom, op cit.). With the discovery of gold in the Transvaal in 1886, a demand for electricity increased with many steam engine powered stations being erected around the country. Johannesburg installed an electricity reticulation system in 1891, Pretoria followed in 1892, Cape Town and Durban 1893, Pietermaritzburg 1895, East London 1899, Bloemfontein 1900, Kimberley 1904 and Port Elizabeth in 1906 (Eskom, op cit). From the very outset, there was a close relationship between electricity generation and supply, and mining in South Africa: first through gold mining; secondly, the cornucopia of cheap coal made this relationship even stronger.

Private electricity companies took the lead and were instrumental to the proliferation of power generation and supply[26]. In 1894, Siemens and Halske, a private company was granted the concession to transmit electricity to the mines of the Witwatersrand and in 1889, they received the concession for Johannesburg and Pretoria (A year later this concession was ceded to another company the Rand Central Electric Works) (Eskom, op cit.). Many other electricity companies operated around the same time (e.g. the General Electric Power Company, not to be confused with the US appliance and technology giant). Business men convened to deliberate on the idea of central electricity undertaking resulting in the establishment of the Victoria Falls Power Company Limited (VFP)[27] on 17 October 1906. Many thermal power stations developed around the Transvaal with mergers and acquisitions amongst companies.

Private electric companies were formed when it was realized that the gold mining industry would be demanding huge amounts of energy in the future. Mining companies realised that far more power than they had available from their own generating plants would be required; they

[26] Veck (2000, p.34) points out that as the South African economy began to develop as a consequence of the gold and the diamond finds, four categories of electricity supply came about, these were as follows:

1. Municipal undertakings which largely supplied electricity for lighting purposes, public transport and small industrial developments;
2. Privately owned electric companies, which supplied electricity mainly in bulk to the gold mining industry and also to certain municipalities;
3. Privately owned mining companies which generated electricity for their own use; and
4. The railways, which generated electricity for their own use prior to 1910.

[27] The Victoria Falls Power (VFP) Company was founded as the Victoria Falls and Transvaal Power Company Ltd and registered in Southern Rhodesia on the 17th of October 1906 by a group of entrepreneurs the African Concession Syndicate Ltd (Formed in 1901). The VFP established another company the Rand Mines Power Supply Company Ltd (RMPS) which was registered in the Transvaal. VFP later bought the Rand Central Electric Works Ltd (RCEW) which had been established by the German firm of Siemens and Halske in 1895 (Veck, 2000).

wanted to concentrate on their gold mining activities and did not want to enter the electricity supply business hence they left this to private electricity companies (Veck, 2000). Greenberg and Fiil-Flynn (2002, p.303) posit that until the 1920s electricity supply was a function of local authorities and private companies; there was limited regulation, and, as demand grew, supply became fragmented between many suppliers each with their own tariffs and standards.

The Power Act introduced on 28 May 1910 by the Transvaal colonial government limited the future existence of VFP (the largest private electricity company in the whole British empire at the time) and provided for state appropriation of the company and other electricity undertakings after a period of 35 years (Eskom, ibid.). Shortly after World War I, Hersterman Merz, a consulting engineer from London, and an expert in power station design and railway electrification, conducted an assessment of the country's electricity prospects and issued a report. After studying the implications of the Merz report, the government passed the Electricity Act in September 1922 (Eskom, op cit.). The Government Gazette of 6 March 1923 announced the establishment of the Electricity Supply Commission (Escom), effective from 1 March 1923 (Eskom 1923-1929, p1.). The Commission was responsible for establishing and maintaining electricity supply undertakings on a regional basis, with electricity to be supplied efficiently, cheaply and abundantly to government departments, railways and harbours, local authorities and industry (Eskom, 1923-1929, op cit.).

The Electricity Act of 1922 (Act No. 42) was modelled on the Transvaal Power Act of 1910, and drew heavily on the experience of Britain's Central Power Generating Authority (Veck, 2000). The Act dealt with two principal matters; first, it was concerned with the establishment of an Electricity Supply Commission to effect, maintain, and manage electricity supply undertakings throughout South Africa and coordinate existing electricity supply entities; secondly, it provided for an Electricity Control Board which would exercise control over the supply of electricity by the Commission (Veck, op cit. p.45). Eskom was empowered to raise loans to acquire or extend any electricity undertaking, Eskom was also entitled to advances from the National Treasury to enable it to perform its duties during the first four years of existence (Veck, loc cit).

Veck (ibid.) argues that one of the most important principles entrenched in the Act was that Eskom had to sell electricity at cost, meaning it could not make a profit. The advantage that accrued for Eskom from this principle was that the corporation was exempt from paying tax.

This principle was to change later. Until 1948 Eskom operated in parallel with private companies and municipalities, remaining in a subordinate position in relation to the privately owned VFP which served the lucrative mining contracts (Greenberg and Fiil-Flynn, 2002 p.303). In 1948 the VFP was expropriated at a cost of 14.5 million: this meant that Eskom would take over all the assets of VFP. This event was of significance in South African history as it spelled out the biggest merger in memory at the time and brought about the end of electricity supply to the Orange Free State and the Transvaal gold mines by a private electric utility (Veck, op cit.).

Today the electricity industry in South Africa is almost entirely in the public sector, with Eskom as a state-owned parastatal producing 95.6% of electricity in the country and 4.5% being produced by municipal and private producers (Conteh, 2003, p.3). South Africa has a total number of 54 licensed power stations with a total nominal capacity of 50 657 MW (Megawatts). The breakdown is as follows: Eskom owns 24, municipalities own 20, and private groups own 8 (Conteh, op cit.p.3). Eskom is vertically integrated, from generation to transmission to distribution, and operates the national grid with a total length of 539 558 km of transmission, distribution and reticulation cables (Conteh, op cit.). According to the Eskom Act of 1987 (Conteh, op cit), Eskom has the power to generate or supply or generate and supply electricity within the Republic of South Africa. It is this Act that grants Eskom the mandate to generate, transmit and supply electricity within South Africa. This Act also brought about the name change from “Escom” to “Eskom” in 1987, this appellation having no association with either the English or the Afrikaans abbreviations (Veck, ibid.). As it will be elaborated in more detail in the forthcoming passages, Eskom’s generating capacity is mainly fired by coal. The country has limited hydro-electric resources and Koeberg, established in 1984, is the country’s only nuclear installation (MBendi, 2001).

Eskom generates around two thirds of the electricity produced in the whole of Africa, and is extending its transmission grid north into neighbouring sub-Saharan countries (MBendi, op cit. p1.). Eskom supplies electricity to Lesotho, Swaziland, Botswana, and Namibia as well as to Mozambique and Zimbabwe (MBendi, op cit.). Moreover, Eskom imports electricity, from and exports to, neighbouring Southern African countries through the Southern African Power Pool (SAPP) (Conteh, ibid.).

Domestically, South Africa's population is 43, 325, 016 with 10 770 975 households (Conteh, loc cit. p.4) with regard to access to electricity, nationally 70.44% have access to electricity and 29.56% are without. The urban and rural electrification is 74.2% and 45.7% respectively. According to the National Electricity Regulator Journal, the net generating capacity of the country is 43 082 MW and the national maximum electricity peak demand is 30 863 MW leaving about 12 000 MW of surplus power (NER Journal, 2001 cited in Conteh, op cit.).

4.3 THE NATIONAL ELECTRICITY REGULATOR (NER)

The National Electricity Regulator (NER) was established in 1995. The mandate of the NER is to regulate pricing, national tariff systems, and national service and technical standards (Mostert, 2002). As of 2005 the NER has been rechristened the National Energy Regulator of South Africa (NERSA) widening its focal scope to cover energy areas beyond electricity including gas and other energy sources. Literature on regulation recognizes that industries commonly known as public utilities, in which competition is not fully effective, must be regulated by government to protect the public interest (Philips, 1988, p.3 cited in Veck, 2000). For an industry to be considered a public utility the industry must be of some public significance (Veck, op cit.).

NERSA is a regulatory authority established in terms of the National Energy Regulator Act, 2004 (Act No. 40 of 2004) with the mandate to undertake the functions of the Gas Regulator as set out in the Gas Act of 2001, the Petroleum Pipelines Regulatory Authority as set out in the Petroleum Pipelines Act of 2003 and the National Electricity Regulator as set out in the Electricity Act of 1987 as amended (www.ner.org.za).

4.4 ESKOM AND THE SOUTH AFRICAN SOCIAL, ECONOMIC, AND POLITICAL CONTEXT

The establishment of electricity generation and supply in South Africa has been integral to the social, economic and political development of the country. The country's energy use patterns have always reflected the dualistic structure of its economy, society and polity (IDRC, 1995). Due to the history of apartheid, the country had and still has great inequities with respect to access to electricity, with the commodity being under-priced for certain industrial users, which creates distortion in the economy in the sense that there was interference with market forces (IDRC, op cit.). The latter distortion is indicated by the scenario where developed sectors of the economy and society: mines; large scale industry; commerce; transport; commercial agriculture; and wealthier residential suburbs, have enjoyed abundant, convenient and cheap commercial energy (IDRC, op cit.). The same privileges could not be quoted for the majority of the black community.

The economy is argued to be centred on a closely integrated "mineral-energy industrial complex" (MEC) for domestic consumption as well as for export (IDRC, op cit.). According to Fine and Rumstojee (1996), the MEC, which stands for Minerals-Energy Complex in their terms, can be defined as the linkages which include the mining and energy sectors and a number of associated sub-sectors of manufacturing, which have constituted and continue to denote the core site of accumulation in the South African economy. The MEC, as posited, lies at the epicenter of the South African economy, not only by virtue of its weight in economic activity but also through its determining role throughout the rest of the economy (Fine and Rustomjee, op cit.). Eskom, as a provider of relatively cheap electricity as compared to utilities in other countries, is the nub of the MEC, with almost all of its electricity generated from coal. On the other hand industrial development in South Africa would not have prospered and attained its strides without the major contribution of Eskom as an energy supplier.

The other side of the coin of the "developed country "of South Africa are the poor rural and urban households of the townships and former homelands that make up the "developing country" part of South Africa, generally marred by lack of access to convenient and affordable energy services, being dependent on inferior, expensive, and (or) unhealthy fuels (IDRC, ibid.)

The MEC has been of biased benefit towards the white minority and capital due to the apartheid system despite its immense potential of equitably transforming the South African socio-economic landscape. Fine and Rumstojee (ibid.) demonstrate the importance of Eskom and electricity in the MEC equation. Veck (2000) posits that electricity was fundamental to the industrial take off in South Africa. Industrial development in the twentieth century saw the composition of energy supply move towards electricity and liquid fuels thus removing some of the constraints of other energy forms to economic growth (Veck, op cit.). Electricity generation and consumption had and continues to have far reaching positive spin-offs across industries.

Electricity revolutionized industry. Landes (1972, cited in Veck, 2000, p.29) paints a picture that "electricity freed the machine and the tool from bondage of place….it made power ubiquitous and placed it within reach of everyone….by its flexibility and convenience electricity transformed the factory". Mining enterprises benefited with electric power enabling deeper and deeper ore bodies being discovered, whilst not substituting other factors of production such as capital and labor (for both mining and manufacturing).

Electricity produced results that could not have been achieved by mining and other businesses and labour alone (Veck, op cit.). Developments resulting from electricity usage in the manufacturing and mining sectors were necessary preconditions for economic "take off" in the country [28](Veck, ibid.).

With the advent of further developments in the electricity industry such as nuclear power, the MEC relationship continued in the sense that nuclear stations sourced their feed from uranium mining, an electricity-intensive enrichment (Fine and Rumstojee, loc cit.). About 21.6 per cent of electricity output is consumed in the coal, gold, diamond and other mining sectors, whilst an additional 21.3 per cent output is consumed in the energy-intensive smelting and refining processes in just three sub-sectors of manufacturing, namely, other non-metallic mineral

[28] These preconditions according to Kock (1924) as cited in Veck (ibid.) were;

- ◊ The provisions of better and cheaper transport facilities to the interior of the country,
- ◊ More capital being made available for railway development and communication systems such as telephones and telegraph,
- ◊ Export products, in addition to wool, being developed which could absorb the high transportation costs from the interior to their final markets so that foreign exchange could be earned,
- ◊ A market for agricultural products in the interior being established, and
- ◊ Sources of revenue, other than import duties, being found for the treasuries of the two Boer republics of the Orange Free State and the Transvaal and the two British coastal colonies of the Cape and Natal.

products, iron and steel basic industries and non-ferrous metal basic industries (Fine and Rumstojee, ibid.). The chemicals and petroleum production activities are also very much linked to the mining sector through the coal mining industry on which the South Africa economy is very much reliant (Fine and Rumstomjee, ibid.). Fine and Rumstojee state that the production of fertilizers, plastics, chemicals ad petroleum depend on energy-intensive processes which consume large quantities of electricity generated from coal.

The energy and mining sectors have enjoyed a long established symbiotic relationship. Existing statistics categorise 'electricity' as an economic activity separate from mining, quarrying and manufacturing yet there are extensive linkages between these (Fine and Rumstojee, ibid.). The country is endowed with large deposits of coal, and it is almost exclusively used to produce amongst the cheapest electricity (8c/kwh= 8 cents a kilowatt per hour) in the world (Conteh, ibid.). For example, of the 175.6 million tonnes of coal mined in South Africa in 1989, 46.8 million tonnes was exported, with the remaining local sales of 128.8 million tonnes, 70.0 million tonnes was used by Eskom to produce electricity, 35.0 million tonnes was consumed by three Sasol plants to produce synthetic fuels and chemicals, and 1.1.million tonnes was used by the African Explosives and Chemical Industries (AECI) to produce ammonia, explosives and methanol (Fine and Rumstomjee, loc cit.).

Mafereka (1996, p.12) points out that by the beginning of the 1970s Eskom was supplying electricity to a number of neighbouring states through its national transmission system (Lesotho from 1967; Swaziland from 1973; Namibia from 1972; and Mozambique from 1968). In 1972[29] an amendment was made to the Electricity Act, as pointed out earlier, with the 1922Act Eskom was not permitted to earn a profit, thus did not pay taxes and prices were set with a purpose of covering costs and nothing more (Veck, 2000, Greenberg and Fiil-Flynn,2002). The amendment to the Act resulted in Eskom being permitted to generate capital for development purposes from surpluses on sales. With its expanded investment programme Eskom was responsible for up to 15% of South Africa's foreign debt by the 1980s (Greenberg and Fiil-Flynn, op cit.).

[29] Mafereka's (1996) account states that the Act was amended in 1971, which is a different date from both the accounts of Veck and Greenberg and Fiil-Flynn which cite 1972. Mafereka goes further as to say that the Act gave Eskom authority to establish a Capital Development Fund which was for providing capital from surpluses to compensate for expensive borrowing (p.12).

4.5 THE ELECTRIFICATION OF BLACK COMMUNITIES

4.5.1 The 1980s

The electrification of black communities by the apartheid state was not pre-determined; it came as an indirect result of economic growth and the politics of the 1980s. It has been established that before the 1970s black households generally did not receive electricity supply although in some areas white local councils provided a supply to neighbouring townships (AIDC, 2005). Veck's (2000, p. 67) detailed investigation into the history of electrification of black areas reveals that prior to 1980 electricity supply in South Africa had been concerned with the provision of power to the mining and manufacturing sectors of the economy and white municipalities, black household electrification scarcely featured at all. It is worth pointing out that one major politically motivated undertaking that preceded the move to electrify black households was the electrification of white farms by the apartheid regime[30]. The electrification of black households was faced by two major obstacles (Veck, ibid. p. 145) viz;

- The costs involved in bringing electricity to potential users; and
- The shortage of manpower needed to build the required reticulation networks.

Veck (op cit.) goes further as to say that the electrification of black areas was a major hurdle as local authorities had neither the money nor the manpower to help undertake the electrification project. Additionally, electrification of black areas would be an undue incentive to black urbanization and would have been unacceptable to the white voting public especially at municipal level.

Whilst not trying to be exhaustive, the next passages will focus on aspects of the work of Veck on the electrification of black households citing only the key events that are of significance to this study[31]. Citing the Eskom annual report of 1980, Veck (op cit.) states that growth in electricity demand after 1980 came from three sources, viz.

I. The increasing industrialization of South Africa;
II. The swing from oil-based energies to electricity ; and

[30] According to Veck (2000, p.118-120) farm electrification was precipitated by two key factors; 1.)Security; following the independence of the Portuguese colonies in 1974 (Angola and Mozambique) and later Zimbabwe, the country was vulnerable to attacks from the liberation movements as the buffer of sympathetic colonial regimes had been removed. A lot of border farms had been abandoned. 2.) Economic issues; from 1976 onwards the price of diesel oil had increased above the rate of inflation. Diesel oil was important for agricultural production and was used for generating electricity.

[31] For the complete account on the history of electrification of white farms and black households in South Africa, see Veck 2000, "The Politics of Power in an Economy in Transition: Eskom and the electrification of South Africa 1980-1995".

III. The increasing economically active black population and the electrification of black townships.

In 1984 government assigned a commission of inquiry to look into the supply of electricity in the country. This followed Eskom's continued power station construction programme which caused significant price increases resulting in dissatisfaction amongst consumers (Mafereka, 1996). The De Villiers Commision (Veck, ibid. p. 107-108), as the commission of inquiry was commonly known, made a number of recommendations but two of those tended to be of direct importance to the electrification of black households[32]. First, Eskom was required to discard the principle of operating at neither a profit nor a loss in favour of a "sound assets and income structure"; i.e., Eskom had to then be managed along "business lines". A two-tier control structure replaced the existing structure, with a board of directors (stakeholder board) seeing to it that the business was run properly, and a management board to run the business properly (Mafereka, op cit. p.16). Secondly, Eskom was prohibited from cross-subsidizing electrification projects. This is important to denote that similar neo-liberal practices were already being considered in South Africa in the 1980s during the same period as Thatcher's rule in Britain.

Before delving into Eskom's efforts of electrifying black communities, a picture of the entire South African Electricity Supply Industry (ESI) should be highlighted. The next passage (Mafereka, 1996, p. 13-14; Veck op cit. p.154-155) brings forth the magnitude of the fragmentation of the ESI domain emanating from the late 1970s. The apartheid regime created ethnically-based "independent states" and "self-governing" territories which were legally separate from South Africa, the so-called "Bantustans" (Mafereka, 1996). Whilst the self-governing territories had limited legislative competency, they were however given powers over electricity supply (Mafereka, op cit.). In the 1980s a number of the Bantustans passed legislation and established their own electricity utilities resulting in the following fragmentation:

a. Transkei: an electric utility called TESCOR was established in terms of the Transkei Corporation Act of 1985. TESCOR operated a small hydro-power station (Colywobbles) but bought most of its electricity in bulk from Eskom;

[32] The recommendations of the De Villiers Commission were phased in gradually over a period of approximately three years. The Electricity Act of 1958 was amended in 1985 and 1986 respectively to give effect to some of the recommendations, and in 1987 a new Electricity Act and separate Eskom Act were passed to finally implement further recommendations (Mafereka, 1996). The Eskom Act, 1987 was to a large extent a consolidation of existing measures applicable to Eskom in the legislation (Mafereka, op cit).

b. Ciskei: electricity was supplied by the Department of Works and purchased in bulk from Eskom;
c. Bophuthatswana: an electricity utility called BECOR was established in terms of the Bophuthatswana Electricity Act of 1985 which purchased bulk electricity from Eskom and distributed it within the territory;
d. Venda: an electricity division of the Venda National Development Corporation was established called VEC which purchased electricity in bulk from Eskom and distributed it throughout Venda;
e. KaNgwane: initially electricity was supplied by the Department of Public Works but in 1980 the government of KaNgwane and Eskom entered into a joint venture arrangement and KESCOR (Pty) Ltd., was established to distribute electricity bought in bulk from Eskom throughout the territory;
f. Gazankulu: like KaNgwane electricity bought in bulk from Eskom was distributed initially by the Department of Works, then a government owned company named GEZCOR (Pty) Ltd., was established as a vehicle for forming a joint venture with Eskom, thereafter Eskom took over the distribution of electricity in the territory;
g. Lebowa: initially electricity bought in bulk from Eskom was distributed by the Department of Public Works but during the late 1980's Eskom began distributing electricity to new consumers in the area direct;
h. KwaNdebele: again in this case electricity bought in bulk from Eskom was distributed by the Department of Public Works but in the late 1980's Eskom began to distribute electricity to parts of the territory;
i. Qwa-Qwa: also in this case electricity bought in bulk from Eskom was distributed by the Department of Public Works;
j. KwaZulu: initially electricity bought in bulk from Eskom was distributed by the Department of Public Works but from 1990 Eskom began distributing electricity to rural areas of the territory in conjunction with the Durban Municipality.

One of the key reforms introduced by the apartheid government in the 1980s was the Black Local Authorities Act of 1982[33]. This legislation effectively allowed black municipalities to run their own affairs including the supply of electricity (Veck, op cit. p.84). The already fragmented ESI was further complicated by the establishment of different local government structures for Indian and Coloured areas, mainly as a result of the tri-cameral parliamentary system; and the establishment of the Regional Service Councils in 1985, and later Joint Services Boards in KwaZulu/Natal, with the objective of redistributing resources to disadvantaged areas (in the main) (Mafereka, ibid. p.14-15).

Following the passing of the legislation a number of black local authorities started buying electricity in bulk from Eskom and distributing it in their territories (Veck, op cit. p.155). The downside of this progressive intervention was that the new black administrative structures were to be self-supporting: the required revenue had to be sourced from the townships themselves. The main hiccup with regard to revenue generation for electricity and other services, according to Veck (op cit.), was that most townships had a low level of industrial and commercial development, meaning the tax base required to run the townships was generally insufficient to meet the running expenses let alone accommodating the supply of electricity. The Township Revolt (September 1984-September 1985) exacerbated matters for the township administrative structures. Beginning in the Vaal Triangle on September 3 1984 and spreading countrywide, the uprising was largely driven by discontent over local issues such as rent or bus fare increases or shack demolition; it represented material grievances and focused anger on the township councilors and Bantustan authorities (Seekings, 2000). The revolt was a watershed in the South African political landscape with township communities and affiliates of the United Democratic Front (UDF) rising in solidarity against increases in bus fares, rents and utilities (Lodge and Nasson, 1991). This rendered townships ungovernable, with massive loss of life, and electricity supply and revenue collection were bound to suffer.

Mafereka (ibid. p.15) portrays the consequences of the fragmented ESI as follows:

> The result was that industrial; commercial and mining consumers were well served with electricity (mainly by Eskom); almost all white domestic consumers and most Coloured and Indian consumers were receiving electricity (generally) from their local authorities; the farming community was being connected at a rapid rate by Eskom (as a result of

[33] Mafereka (1996) states that up until the passing of this Act, black urban areas were administered mainly by provincial and central government administrators in terms of the Black Administration Act of 1927.

> the politically inspired decision to electrify farms); black consumers in the independent and self-governing territories were very poorly served with electricity (where electrification had not taken off) and, in black urban areas, a small (but growing) percentage of consumers had electricity supplied to their houses.

Eskom also undertook a clandestine and experimental project of electrifying black households in the Eastern Transvaal area of Elandskraal. The Elandskraal Project commenced in 1987 and continued up to around 1992. The project was clandestine and controversial in the sense that it was funded by a regional office of Eskom without knowledge of the head office in Johannesburg (Veck, op cit.p.156). Nevertheless, a study conducted by the South African Development Trust revealed to Eskom, and the country at large, that electrification had contributed significantly to the economic and social upliftment of the township (Veck, op cit. p.160).

The electrification of Greater Soweto[34] was a milestone in the history of South Africa for both political and economic reasons. The Greater Soweto Electrification Project (SEP) was a government initiative. Eskom was not involved in the infrastructural development connected with the SEP but was responsible for supplying nearly 90% of the bulk electricity required by the project (Veck, ibid.). After the uprisings of 1976 the state felt it necessary to make concessions to trouble spots. The SEP commenced in June 1979, consulting engineers had planned its duration to be four years until the end of 1983.

The SEP was not the first electricity scheme for Greater Soweto. Approximately 20% of the township houses had some form of electrical power prior to the SEP in Soweto, Diepmeadow (the latter two sourced power from Orlando Power Station owned by the Johannesburg Municipality) and Dobsonville (sourced power from the Roodepoort Municipality) (Veck, ibid.).

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[34] Greater Soweto refers to the townships of old Soweto, Diepmeadow and Dobsonville all grouped together (Veck, 2000). On the other hand Greater Johannesburg refers to old Johannesburg and it's surrounding formerly white southern and northern suburbs as well as Greater Soweto, Alexander Township and other new developments forming part of this urban sprawl. In 1995 Soweto became part of the Southern Metropolitan Transitional Local Council, and in 2002 was incorporated into the City of Johannesburg (Beavon, 1997). By 2003 the Greater Soweto area consisted of 87 townships grouped together into Administrative Regions 6 and 10 of the City of Johannesburg Regional Spatial Development Framework. Other townships forming part of Greater Johannesburg are Lenasia and Eldorado Park, both in the south of Johannesburg and adjoining Soweto.

After 1980 the SEP, supplied in bulk by Eskom, thus existed alongside the other schemes of power supply from the aforementioned two municipalities. The SEP was eventually completed in 1986. Thenceforth over 95% of formal dwellings in the township had an electricity supply making Soweto much better served than any other black residential area at the time (Veck, ibid.).

The electrification of Greater Soweto was of strategic, economic and political significance for the country and Eskom for a number of reasons. The provision of efficient services to Soweto was important because (Veck, op cit. p.169):

I. Greater Soweto was the biggest supplier of labour in the PWV area (Pretoria, Witwatersrand, Vaal Triangle) which had a population in excess of 7 million people and which produced more than 41% of South Africa's Gross Domestic Product (GDP);
II. The leadership of the most influential black political groups and trade unions lived in Greater Soweto. This meant that the area was effectively the centre of such organisation s as COSATU and black political thinking in South Africa. Whatever action such people took regarding the acceptance or non-acceptance of essential services delivery could be expected to be copied in other black townships;
III. Greater Soweto was an area in which some of the most sophisticated black people in South Africa resided and they demanded a service comparable with that which was provided to their white counterparts in Johannesburg. They purchased a range of electric appliances and had acquired so-called first-world tastes in this regard.

In the period 1985 to 1989 payment for electricity got entangled in the quagmire of the rent boycott that ensued and engulfed Soweto. The role of Eskom was to be very critical in the manner in which the boycott was handled. In essence, the rent boycott entailed non-payment of house rents, municipal rates and taxes and all municipal service charges, amongst which were charges for electricity (Veck, op cit. p. 171). Electricity's role in the boycott was quite pivotal. Electricity charges amounted to about 60-70 % of the total services bill for each resident (Veck, op cit. p.172). Then Chief Executive Officer of Eskom, Dr. I.C. McRae argued (Veck, op cit. p.173) that the involvement of Eskom in the attempts to resolve the problems related to the boycott and the management of electricity supply to the area was of strategic importance for the following reasons:

a. Eskom could gain experience by becoming involved in the management of electricity supply in Greater Soweto and this experience could be applied to other black townships in South Africa;
b. Failure to find a solution to Greater Soweto's electricity problems would damage Eskom's credibility and impair the Corporation's efforts to manage the electricity supply to other black townships, which may be electrified in future;
c. The solving of electricity supply problems in Greater Soweto would also involve for the first time a parastatal negotiating with black extra parliamentary groups. Such negotiations would give Eskom national and international exposure and credibility. Eskom's international credibility would become important at the end of the 80's when joint ventures between foreign countries offering aid for social upliftment in South Africa, and Eskom, would be attempted; and
d. Furthermore, if the electricity supply could not be managed well in an almost completely electrified area like Greater Soweto, how could it work in lesser developed black areas?

In trying to salvage the situation Eskom had a number of protracted deliberations[35] with the Transvaal Provincial Administration (TPA), the Soweto City Council (SCC) and the Soweto Peoples Delegation (SPD). Eskom attempted taking over the management of Greater Soweto through a proposal to form an independent electricity supply company Econolec. The TPA was opposed to this approach: whilst Eskom failed to establish such an entity, up until 1990 the TPA ensured that Eskom was paid for the bulk electricity supplied to the township. One key discrepancy with electricity tariffs in Greater Soweto was that they were uneven. Following the conference held to resolve the rent boycott, the so-called "D'Nyala Beraad" of 25-27 November 1988 comprised of the SCC, TPA, Eskom and other parties, a steering committee was appointed.

[35] For a full account of the rent boycott and negotiations in which Eskom was involved again see Veck 2000, chapter 6.

The investigations of the Steering Committee revealed the following incongruity with the electricity tariffs:

	Soweto	**Diepmeadow**	**Dobsonville**
Approximate number of consumers	90 000	30 000	5 300
Average monthly consumption per consumer (kWh including 25% loss factor)	600	500	500
Average tariff structure: Charge per kWh	10,5c	9c	6,6c
Average cost of bulk electricity to City Councils (per kWh)	8,5c	8,5c	8,5c
Average level of non-payment.	80%	77%	49%

Table 5. Status of electricity supply in Greater Soweto, December 1988. Source: Veck (2000).

The debt for Greater Soweto accumulated resulting in the costs being carried by other electricity users who effectively cross-subsidised electricity consumers in Greater Soweto, contravening the recommendations of the De Villiers Commission (Veck, ibid. p.194). According to Mafereka (1996) the boycott of payment for services was across black townships resulting in the deterioration of the supply of services including electricity. As indicated earlier in the case of Greater Soweto, Eskom had been reimbursed by the TPA for non-payment. Mafereka (ibid.) again asserts that this was the norm across the country where government reimbursed Eskom and white local governments for losses incurred for supplying electricity to black townships during the late 1980s. However, the government advised the latter suppliers that in future it was no longer going to continue recompensing them for the losses. This situation necessitated a change in strategy for Eskom; the corporation could no longer remain the bulk supplier of electricity to black townships but had to take over the supply as a distributor to the townships including Soweto (Mafereka, op cit. p. 17).

4.5.2 The 1990s

The NP, under President F.W De Klerk who had taken over from President P.W. Botha in 1989, accelerated reforms that resonated across the entire socio-political landscape of South Africa. On 2 February 1990 De Klerk announced that his government was going to release Nelson

Mandela and other political prisoners as well as unban political parties such as the ANC, SACP and the Pan Africanist Congress (PAC). A number of other reforms followed including the repeal of apartheid legislation such as the Group Areas Act (Veck, ibid.).

From the late 1980s Eskom had been advocating a mass electrification programme as a national priority (Mafereka, 1996). The idea was that supplying electricity to all South Africans would play a key role in promoting business development; health care; education and entertainment (Mafereka, op cit.). From 1988 Eskom began its electrification programme when approximately 25 000 connections were made, this increasing to 204 000 by 1993: the impetus was further aided by local authorities such as Durban, Bloemfontein, Port Elizabeth and other areas which commenced with the electrification of neighbouring black areas (Mafereka, op cit. p.17).

> "A programme to electrify black households in South Africa fitted nicely into the government's reform initiatives. Such a programme could be an important and obvious force for aiding social upliftment. Eskom could once again be used as an instrument to aid government policies, the corporation avidly sought to put an electrification programme into force". (Veck, ibid. p.197).

Between 1990 and 1995 Eskom undertook a nation-wide electrification project, the so-called "Electricity for All" initiative (Veck, op cit.). Eskom had by 1990 moved from being a wholesaler of electricity to a distributor, covering even rural areas where it became the key supplier of electricity (Mafereka, ibid.).

4.6 ESKOM AND THE RESTRUCTURING OF SOEs

BEE is a relatively new concept in South Africa and there is paucity of knowledge on the assessment of its effectiveness within Eskom and other SOEs. Moreover, the interplay between neo-liberalism and BEE within Eskom, at least as far as this research could establish, has never been investigated. Following the recommendations of the De Villiers Commission of 1984, Eskom had to be cost conscious, have closer contact with the needs of consumers and be governed by sound business principles (Mafereka, 1996; Veck, ibid. p. 108). By January 1986 Eskom had a new corporate structure and talks of privatisation commenced. At the

pinnacle of apartheid rule in 1986, the White Paper on Energy Policy set the framework for the marketisation of the electricity sector calling for 'the highest measure of freedom for the operation of market forces'; the involvement of the private sector, a shift to a market-oriented system with a minimum of state control and involvement, and a rational deregulation in energy pricing, marketing and production (Greenberg and Fiil-Flynn, 2002, p.306).

Greenberg (2006, p.27) signals that in the late 1980s a municipal electricity privatisation pilot was carried out in Kwanobuhle outside Uitenhage in the Eastern Cape. This initiative orchestrated jointly by Eskom, the Development Bank of Southern Africa (DBSA) and Volkswagen introduced prepayment meters to the township evoking objections from COSATU and the community where only 350 out of 17000 households received power through the scheme leading to the demise of the project (Greenberg, op cit.). Veck (2000) proffers a totally different testimony to this project. Veck (op cit.) argues that the project was regarded by all parties concerned a success both financially and socially and this takes into consideration the views of the community where 11 000 consumers were supplied with subsidized electricity. The downside of this project, according to Veck (op cit. p.153), was that it compounded the fragmented ESI problem in South Africa by introducing yet another separate electricity supplier into a market already having 400 different suppliers in the country (including so-called independent states and homelands).

The 1998 White Paper on Energy Policy (DME[36], 1998) set the background to the restructuring of Eskom under the new ANC government post 1994. As illustrated in the preceding chapters, out of the four major SOEs (Eskom, Telkom, Transnet, Denel), only Telkom has had substantial restructuring resulting in outright privatisation to date, with 30% (valued at about R 750 million) of its equity being sold to an international consortium or strategic equity partner of a US company, South Western Bell, and Malaysia Berhard (ILRIG, 1999). It has been argued that government planned to restructure Eskom in order to improve efficiency and accountability within the company (MBendi, 2001). Other commentators have suggested, however, that aspects of Eskom restructuring have already had adverse effects on poor communities with its policies and processes not taking into account the legacy of apartheid as regards access to electricity (see the Soweto electricity crisis) for black communities (AIDC, 2005).

[36] Department of Minerals and Energy

The White Paper on Energy Policy (DME, op cit.) presented the following vision for the electricity supply industry in South Africa:

The industry objectives must;

- improve social equity by specifically addressing the energy requirements of the poor;
- enhance the efficiency and competitiveness of the South African economy by providing low-cost and high quality energy inputs to industrial, mining and other sectors; and
- achieve environmental sustainability in both the short and long term usage of our natural resources.

Electricity restructuring has received much attention since 1994, with the matter being discussed at numerous fora and committees; this has included the National Electricity Forum, Electricity Working Group, and Electricity Restructuring Interdepartmental Committee (ERIC) (FFC[37], 2002). The government's position on restructuring was formulated by the ERIC which compiled a report and made recommendations to the DME, these deliberations subsequently informed the 1998 White Paper on Energy (FFC, op cit.)

The White Paper went on to say that various developments will have to be considered by government overtime (DME, p. 48 loc cit.), namely:

- giving customers the right to choose their electricity supplier;
- introducing competition into the industry, especially the generation sector;
- permitting open, non-discriminatory access to the transmission system; and
- encouraging private sector participation in the industry.

The latter extract is important for the restructuring of Eskom as it points directly towards the introduction of new private players in the industry. The downside of it, though, is the fact that it is non-committal, "various developments will have to be considered by government", (op cit. p.48) and does not outline any timeframes. However, the paper does lucidly assert that government supports gradual steps towards a competitive electricity market, whilst investigating the desired form of competition (DME, ibid.). Greenberg and Fiil-Fynn (2002) observe that the neo-liberal path proposed by the Energy White Paper is a stark contrast to the ambitious period of the early 1920s, when the Electricity Act established Eskom to fix an industry that the private sector could not run properly on its own.

[37] Financial and Fiscal Commission, 2002.

The reasons behind electricity reform vary from country to country. In agreement with the 1998 White Paper, Conteh (2003) echoes that power sector reform's main aim is to improve efficiency, both operational and economic, within the electricity sector. Whilst the target aims for reform could be similar amongst countries, the causes usually vary and may include (Conteh, p1. op cit.), *inter alia*;

- poor performance of state-owned and state run utilities in terms of unreliable supply and inadequate expansion of access to electricity services.
- Inability of the state to finance the building of new capacities and maintenance
- The need to remove subsidies to the sector for other pressing public needs; and
- The need for the state to raise immediate revenue through the sale of assets from the sector.

In concrete terms the restructuring of the electricity industry in South Africa would involve (Conteh, ibid.);

- To introduce competition in the industry so as to enhance efficiency and effectiveness;
- To attract foreign direct investment (FDI);
- To facilitate black economic empowerment (BEE); and
- Strategic equity participation.

The corporatisation of Eskom was consolidated with the enactment of the Eskom Conversion Act (Act No. 13 of 2001) which converted the public utility into a public company according to the Companies Act (Act. No. 61 of 1973), with its entire share capital held by the state. The government was pronounced as the sole or majority shareholder (The Presidency, 2003). This approach to commercialization of parastatals could be likened to state capitalism as practiced in Zambia after independence in 1964 (Turok, 1989). According to Turok (op cit.), unlike outright nationalization of entities or industries which generally involves some legislative statute or government decree, the Zambian government acquired 'derived control' by means of Articles of Association (the founding documents of companies) giving government a legitimated and permanent existence often with 100 percent share ownership.

As stated in the preceding chapters, and of importance to this study, the facilitation of BEE is the nucleus of this investigation. There is a linkage between this facilitation of BEE and embarking on a neo-liberal trajectory in the sense that commercialization of certain aspects of Eskom without outright privatisation is one guise of neo-liberalism. Dugard (2006) points out that there is a lot of outsourcing of electricity functions, including meter reading; meter installation; and infrastructure installation and maintenance; but electricity services per se have not yet been privatised. Thus regardless of the commercialization of Eskom and municipal electricity entities such as City Power, electricity remains a public service that is 100% state owned (Dugard, op cit. p.5). The outsourcing of electricity functions by Eskom whilst acutely symbolizing the commercialization of services within the utility also establish a direct link between BEE and neo-liberalism as Eskom strictly tenders out to black companies making them primary recipients of BEE policies.

It has been categorically stated by the DME that Eskom will be restructured into separate generation and transmission companies and that government supports the development of the Southern African Power Pool (DME, ibid.). The corporatisation of Eskom added major impetus into the restructuring process of the electricity industry[38], with generation, transmission and distribution becoming separate entities (Conteh, ibid.). Corporatisation means that Eskom is founded as a state owned corporation registered as a statutory company whilst commercialization can be defined as a process directed at establishing private sector management principles, values, practices and policies within a public sector organisation (Weeks, 1990, cited in Brynard, undated).

Generally, the rationale behind electricity restructuring has been the government's notion that, as part of the national political process, government determines, with broad stakeholder participation, the forms of utility ownership and sector management in a transparent, open, and participatory manner (Clark and Philpott, 2002). As illustrated in the preceding chapters, the South African government has, however, strongly gravitated towards market leaning policies after 1994. It is argued that the market-oriented approach in GEAR has complemented, if not superseded, the RDP as South Africa's macro-economic strategy (Clark and Philpott, op cit.). It has also been suggested that privatisation or restructuring can only be beneficial only if assets are sold or outsourced the appropriate people such as black empowerment consortia to

[38] The corporatisation built upon earlier recommendations on commercialisation as recommended by the De Villiers Commission as indicated earlier in this chapter.

redress inequities of the past (ILRIG, ibid.). This however is a very parochial view of restructuring as it does not spell out how change in ownership to black consortia would be translated into efficient delivering of services particularly to poor communities.

Government states that currently there is a generation oligopoly, a transmission monopoly, whilst distribution is fragmented (DPE, 2001). With restructuring, the vertical integration of Eskom's power supply would be unbundled and its other subsidiary businesses would also be affected (Conteh, 2003).

4.7 BLACK ECONOMIC EMPOWERMENT

Eskom has attempted to come up with a well rounded approach to the upliftment of previously disadvantaged groups while pursuing neo-liberal economic restructuring. As it will be demonstrated, Eskom has a two pronged manner of contributing to BEE. First, there is an internal focus where BEE in the utility is applied through demographic transformation characterized by affirmative action, employment equity, skills development, and training and bursary schemes, all with a strong bias towards previously excluded black groups. Secondly, Eskom's external focus centres on development and promotion of small and medium sized enterprises led by black business people through sourcing goods and services from black suppliers as prescribed in Eskom's procurement programmes. Another aspect of the external focus is the corporate social responsibility wing of Eskom, which is aimed at assisting black community based organisations that work for the social development of poor communities.

The 1995 Eskom annual report presents ten commitments to support the aims and objectives of the Reconstruction and Development Programme (RDP)[39]. Eskom states (1995, Annual Report, p.53) that it had initiated these activities prior to the establishment of the RDP. Eskom took a proactive stance as a parastatal and positioned itself as an instrument of development. It is stated in the report that between 1994 and 2000 (1995 Annual Report, p.4-5) Eskom committed to the following:

I. **Reduce The Real Price Of Electricity By 15%**

   To reduce the real price of electricity by 15% by the year 2000.

II. **Electrify An Additional 1 750 000 Homes**

[39] This is said to have been first published in 1994 according to the 1995 Annual Report) (said to have been first published in 1994 according to the 1995 Annual Report.

During the year 313 179 new residential connections were achieved against a target of 300 000.

III. **Change Staff Profile So That 50% Of Management, Professional And Supervisory Staff Shall Be Black South Africans**

Black representation at management, professional and supervisory levels moved 9% in 1994 to 16% in December 1995. There are policies in place to support all related initiatives such as space creation, recruitment, bursaries, training, and skills development for future purposes.

IV. **Educate, Train, Upgrade Sufficient Numbers Of People To Meet Eskom's Future Needs**

Literacy and numeracy training through the Adult Basic Development (ABD) programme.

V. **Maintain Transparency And Worker Consultation In Decision-Making**

Developing a collaborative and productive relationship with trade unions through various structures including the Electricity Council, strategic forum, and Eskom central national forum, group forums, business unit forums, work team sessions and the Unfolding Vision Agreement.

VI. **Contribute R50 Million Per Year To The Electrification Of Schools And Clinics And Other Community Development Activities**

To support projects that underpin the aims of the RDP, during 1995 a total numbers of 289 community development projects were supported and 893 schools and 37 clinics were electrified.

VII. **Enabling All Employees To Own A Home**

Eskom Finance Company (Pty) Ltd and Eskom housing loans cater for house ownership needs of employees. Out of 39 952 employees 21 504 had already been assisted with loans by 1995.

VIII. **Encouraging Small And Medium Enterprise Development**

By 1995 Eskom had already facilitated the establishment of 502 viable small, medium, and micro enterprises providing training and development of new entrepreneurs.

IX. **Protecting The Environment**

A system and programmes to protect the environment are in place. An Environment Annual Report is released separately.

X. **Financing the commitments from the South African and own resources and from overseas development funding**

> RDP commitments are financed from Eskom's own resources and loans raised. There is also an allocation of R86 million from the RDP office of which R56 million was used for non-grid and R30 million for grid electrification of schools. The Norwegian government provided R15, 2 million for the electrification of schools and clinics.

As far back as 1995 (1995, Annual Report) Eskom had started sourcing goods and services from black suppliers albeit on a small scale. Lunsche (2005) states that Eskom procurement to black suppliers started out with a small R500 000 initiative in 1994, with the aim of giving a few black women the contract to make half of Eskom's protective clothing. Targets and expenditure on black suppliers have increased over the decade[40]. In 2001 Eskom issued a corporate directive aimed at maximizing purchases from black women-owned supplies (Eskom, 2001)[41]. The purpose of the latter policy is promotion of entrepreneurship amongst women in black communities and increasing their access to the mainstream of business opportunity (p.2). The directive forms the basis for a programme of procurement from black women-owned suppliers implemented and managed by each Eskom Group. Lunsche (ibid.) argues that Eskom's BEE strategy and affirmative procurement spending is the most powerful among the country's public-sector corporations, having spent more than R27bn with BEE companies over the past seven years, much of this with 9 000 small and medium-sized enterprises (SMEs). Last year affirmative procurement totalled R7, 9bn[42]. The programmes stated as commercially oriented, having a differentiation from programmes for Black Economic Empowerment which have a social upliftment orientation (Eskom, op cit. p.2).

The key performance indicators for the programme are listed as (ibid.p.2):

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[40] Lunsche's account details that;

> "It was a slog," recalls Eskom commercial GM Reuben Mamorare, who was involved in setting up the programme, and who now oversees the utility's procurement spending. He faced resistance from some Eskom managers, who were worried about the quality of the clothing delivered by the black suppliers. Eskom's traditional contractors were obviously not pleased and bought up most of the material from the material suppliers to make it difficult for the black operators to meet schedules.

[41] Eskom Corporate Directive Reference ESKADABK7 REV 0.

[42] Lunsche states that some of the world's largest industrial companies have been persuaded to sell part of their SA operations' equity to BEE firms to remain suppliers to Eskom. These include Germany's Siemens; ABB, a Swiss-Swedish engineering group; and France's Alstom. "Eskom's procurement spending is an effective tool for change" is the conclusion.

- Amount spent procuring goods or services from black women-owned suppliers
- Money spent with black women-owned suppliers
- The proportion of women-owned suppliers who get repeat contracts while being developed.

In June 2002 Eskom issued another directive (ESKADAAT 6), with the aim to maximise purchases from Black or Black Empowering Enterprises, whether Black Women-owned, Small or Large Black or Black Empowering Suppliers. The purpose of this policy is to promote entrepreneurship in Black communities and to give Black businesses access to the mainstream of business opportunity (Eskom, 2002, p.1). Eskom states that they will support all black enterprises whilst concentrating their developmental efforts on black suppliers in the manufacturing, construction and mining/extraction sectors of the economy and providers of professional consulting services. Another directive, called Eskom's Purchasing Pact with suppliers, was issued in 2004 with similar developmental aims for black suppliers but with a tone of a memorandum of understanding.

In order to advance their implementation of BEE, in March 2004 Eskom signed a memorandum of understanding (MOU) with the black business association NAFCOC. The MOU outlined a cooperation framework for BEE and business unity (Clemence, Njobeni, 2004). The Chief executive of Eskom Thulani Gcabashe and NAFCOC President Patrice Motsepe signed the memorandum, which commits the two organisations to promote business development and opportunities for small, medium and black-owned enterprises (Clemence, op cit.). In line with the memorandum, Eskom, as well as other business organisations, will provide NAFCOC with information on their procurement database.

At the time of the agreement Eskom was quoted to be procuring goods and services worth more than R5-billionayear, from BEE companies[43].

In an attempt to make a bolstered effort to assist previously disadvantaged communities to overcome imbalances that accrued through apartheid and the history of inequality in South

[43] The leaders of the two organisations were quoted during the event in Johannesburg: "Eskom is committed to supporting the formation of a unified body within the business community," Gcabashe said at the signing ceremony. "Both entities will benefit from the memorandum, as we will now act as BEE vehicles in order to assist small businesses," he elaborated. On the other hand Sipho Mseleku, CEO of NAFCOC, stated, "This is how aggressive we are about BEE". (Government Communication Information System, 2004).

Africa, Eskom established its own specialized company to attend to historical challenges in the country. On 12 December 1998 the Eskom Development Foundation was incorporated as an independent Section 21 Company (a not-for-profit entity) to integrate Eskom's social responsibility initiatives (Eskom Development Foundation Website, 2007). The work of the foundation began in earnest on 1 January 1999 when it was tasked with providing grants for economic development as well as donations for social programmes/projects (Eskom Development Foundation, op cit.). According to the Foundation, payments may be to beneficiaries, suppliers, service providers and/or partners. The mission of the Foundation is "to contribute towards the improvement of the quality of life of previously disadvantaged South African citizens through integrated, efficient, and effective social investment programme" (Eskom Development Foundation, ibid).

The Foundation has developed strategies which they define as the mechanisms or means of achieving the strategic goals that they have set. These strategies are as follows (ibid.);

I. Job creation
II. Women development
III. Building of development capacity
IV. Development of educational programs
V. Health and Welfare.

A number of community based projects and individuals are said to have benefited since the Foundation's inception.

This study will now focus on each of the three important areas of Eskom operations.

4.8 ESKOM ELECTRICITY DIVISIONS

4.8.1 Generation

It has been asserted that the introduction of competition into the generation market is a necessity that would result in greater market efficiencies (DPE, ibid.). Competition would be introduced by creating independent competing companies.

Government has not devised the appropriate model for the introduction of competition (DPE, ibid.) However, certain municipalities, as already stated, do generate their own electricity with

Johannesburg being a classic example for this. The Kelvin Power Station which supplies the City of Johannesburg with Electricity is said to be the only privately owned station. In 2001, AES Corporation of America purchased 50% of the station in a deal with the Johannesburg Metropolitan Council and a black empowerment partner Global African Power (Mbendi, 2001). The power station has since been acquired by CDC Globeleq which purchased AES's 95 per cent economic interest in Kelvin, a 600 megawatt coal fired power station, 5 per cent economic interest is till held by Global African Power (www.act.is) The power station supplies low price electricity to the 270 000 customers of City Power Johannesburg.

Whilst government had projected that 10% of Eskom's generation capacity would be privatised by 2004, this had not occurred (MBendi, 2001). As it will be illustrated in the forthcoming passages on distribution, it appears that government ownership of the entire electricity industry, albeit corporatised and 100% government owned, has been consolidated with no indications that private role players would soon be introduced in the industry. In the case of Johannesburg, where City Power was founded as an establishment wholly owned by the city council, plans are underway to merge the utility into a joint venture with Eskom (City of Johannesburg, 2006).

Johannesburg as a city and its surrounding townships, have experienced numerous electricity problems, including power outages and cut-offs. The area is demarcated into central areas (old Johannesburg pre-1994) and peri-urban areas (townships) (City of Johannesburg, ibid.). The central areas receive their electricity directly from City Power whilst the north and south areas are served by the national electricity supplier Eskom. In 1993 Eskom took over electricity provision from the municipality (Khunou, 2002). In April 2001 Eskom embarked on a crude cost-recovery project in Soweto, Johannesburg's major black township, characterized by massive cut-offs (Khunou, op cit.). These strict measures by Eskom adversely affected a number of residents with the poor, the unemployed, and pensioners bearing the brunt most. The majority of studies on electricity cut-offs and the impact on poor households have cited the case study of Soweto. It is not clear however as to what extent the Soweto (and Johannesburg) case is representative of the experiences of poor households across the country. Nevertheless, the case has brought the plight of the poor and the shortcomings of neo-liberal policies in South Africa into the spotlight well beyond the shores of the country.

The severe cost-recovery drive by Eskom and strict adherence to business principles has been the root of controversy and is arguably the marker of neo-liberalism in the electricity supply industry in South Africa. Dugard's (ibid, p.2) analysis of the ESI from the perspective of low-income households highlighted five of the most problematic aspects of commercialization of electricity services viz:

- Inappropriate tariffs;
- Insufficient Free Basic Electricity (FBE);
- Disconnections due to inability to afford electricity services;
- Imposition of Pre-Paid Meters (PPMs); and
- Unequal customer services.

As indicated in the preceding chapters, the 1990s were marked by erratic policy shifts within the ANC. For example the RDP document had proposed the extension of electricity and water services to address infrastructure discrepancies created by apartheid (Egan and Wafer, 2004).Dugard (ibid.) observes that the RDP had urged future energy policy to concentrate on the provision of energy to meet the basic needs of poor households. Moreover, the DME states that the aim of electricity basic services support tariff (FBE) is to alleviate the negative impacts of poverty on communities (DME, 2003 cited in Dugard, 2006).

The pendulum swung a different direction after the inception of GEAR. Policies became more growth-oriented, seeking to balance social development, the demands of a competitive global market and conflicting stakeholder interests of the ANC support base (Friedman, 2001 cited in Egan and Wafer op cit.). In the case of Johannesburg the policy shift was manifested in Igoli 2002 where service delivery was reorganized into self-contained utilities such as City Power that were expected to be financially viable. Local government service provision shifted to a policy of cost recovery and this was backed by the threat and exercise of disconnection of defaulters (Egan and Wafer, op cit. p. 6). The shift was characterized by the emphasis on cost recovery which seemed premature as nothing much had changed with regard to poverty and poor communities. RDP imperatives to address backlogs on services such as water and electricity were still valid and communities appeared not ready for a rigorous cost recovery approach. The neo-liberal approach to economic growth and revenue generation had utter disregard for the prevailing economic conditions in the poor communities.

Observing the energy crisis in Soweto the 1990s, Fiil-Flynn posits that about 89% of households were in arrears, and that electricity cut-offs reached 20 000 households per month in 2001, leading to health, safety and human risks and damage to small businesses, the ANC had failed on its commitments of free electricity (Egan and Wafer, ibid.). Against a backdrop of unemployment, poverty, and families dependent on pensioners electricity is beyond reach for many South Africans. In 2001 Soweto residents and the Soweto Electricity Crisis Committee (SECC) suggested a flat rate of R50 per month; this was before Eskom came with a moratorium on disconnections. Most studies agreed that for many South Africans defaulting was far from a culture of non-payment, many citizens simply could not afford to pay for water and electricity (Egan and Wafer, op cit.). The Free Basic Electricity (FBE) of 50 kWh provided by government has proven to be insufficient for many households[44]. Dugard (ibid.) points out that it was only in 2005 that the provision of FBE was equalized between the residents of Soweto and the residents of the rest of Johannesburg[45]. The broader object of BEE is to uplift communities and improve household conditions through facilitating optimal incomes for the poor. FBE is supposed to be an enabler for economic growth as many people in poor communities dependent on electricity for most aspects of their economic lives. The inadequacy of FBE is not consistent with BEE broadly defined, and the RDP commitments Eskom made (1995, Annual Report).

Dugard (ibid. p.14) estimates that since 1994 the actual number of people affected by disconnections range from 5.5 million to as high as 9.7 million, this is versus 3.15 million homes that have been electrified between 1994 and 2004. The commercialized electricity industry, cost recovery and "cost reflectivity" in Eskom terms, which is described as the reflection of full cost recovery of economic cost of supplying electricity to a customer (Dugard, ibid.), has failed ordinary South Africans. The cost recovery methods (the billing process) has also been found by communities to be incorrect and inconsistent, and this has accelerated protests against electricity cut-offs.

[44] Fiil-Flynn (2001, p.12) observed that in Soweto low income households, with an average combined income of around R1000 per month typically consume approximately 500kWh of electricity per month. Eskom's estimation is 600kWh for average households including the wealthy residents (Dugard, 2004, p.13).

[45] Dugard (2006, p.12) states that prior to the equalisation of the FBE households in the historically white suburbs of Johannesburg could qualify for 50kWh FBE from City Power if they chose "tariff option B", which provided FBE if they consumed less than 1020 kWh per month. Soweto households, in contrast, with Eskom as the provider only receive 50kWh FBE amount if they consumed less than 150 kWh per month which is almost ten times less than the City Power qualifying threshold.

Developing alongside the aggressive approach of cost recovery undertaken by Eskom has been the rise in disgruntled social movements comprised of the poor. According to Egan and Wafer (ibid.) it is within this context of the electricity crisis noted by protest actions and illegal re-connections that movements such as the Soweto Electricity Crisis Committee (SECC) affiliated to the Anti-Privatisation Forum (APF) emerged. These social movements have been at loggerheads with government, labeled as 'ultra left' and a manifestation of a 'criminal culture' due to illegal reconnections[46].

Dugard (ibid.) has highlighted the energy crisis as a human rights issue as her interpretation of the Constitution is that access to electricity is a right for all citizens. Moreover, in the city of Johannesburg, the heart of the crisis, the fragmented ESI remains a serious issue as the efficiently managed City Power distributes electricity to the northern suburbs while Soweto is served by Eskom with all the discrepancies in the cost management process.

4.8.2 Transmission

It has been accepted by government that transmission is a natural monopoly; this function is envisaged to remain in state hands (DPE, 2001). The introduction of private sector players into this area is still ill-defined although there have been suggestions of either another separate transmission company or of a strategic equity partner or initial public offering (IPO) (Conteh, 2003, DPE, op cit.). Other commentators have argued that all activities of Eskom would be privatised except for transmission (MBendi, 2001). According to the latter views, transmission would thus remain state-owned whilst operated by a separate corporate company (Conteh, op cit.).

4.8.3 Distribution

The notion that the electricity distribution industry is fundamentally fragmented as expressed by the DPE (2001) is also shared by the Financial and Fiscal Commission (FFC). The FFC (2002) asserts that a significant restructuring initiative is the rationalization of the distribution industry. Accordingly, municipal distribution is said to differ greatly in terms of customer density, size and type of customer base, geographic spread, financial base, and effectiveness. The result of the fragmentation has been the following subsequent problems (FFC, op cit. p.1);

[46] For the complete account on the social movements in South Africa and the background to the SECC see Egan and Wafer 'The Soweto Electricity Crisis Committee' (2004).

- The present structure of the distribution industry has led to a wide disparity in cost, tariff and service levels;
- Quality of supply is poor in many cases;
- Economies of scale, skill and specialization are not being captured by many of the small distributors; and
- Current funding mechanisms, whereby electrification and a major contribution to other municipal services are funded out of current electricity tariffs, has led to an industry that is unable to meet its total financial obligations in the long term.
- Indeed, it has been estimated that if the industry is not restructured, electricity tariffs will rise 40% in real terms in the next ten years (sic).

In October 2000 the DME compiled and released the Electricity Distribution Industry Restructuring Committee (EDIRC) Blueprint report (DME, 2000). The Blueprint was prepared by the EDIRC drawing on the work of the technical advisor consortium led by Price Waterhouse Coopers (PWC) (DME, op cit.). The report cited problems with the Electricity Distribution Industry (EDI) in the country almost similarly to the aforementioned challenges articulated by the FFC (2002). One critical rationale for EDI reform stated by the report was the restructuring of distribution into Regional Electricity Distributors (REDs) that would allow development of a more efficient industry that is better able to implement the electrification programme while not compromising the ability of the EDI to support the funding of local government or to offer subsidized electricity tariffs for poor communities (DME, ibid. p4).

The objectives of the EDI reform in South Africa were outlined as follows (DME, ibid. p.4);

- To provide low cost electricity to customers and to introduce a tariff structure for each RED which is broadly reflective, but which does not embody unacceptable high tariff levels or differences between REDs, while maintaining a subsidy to poor customers;
- To create financially viable independent REDs with the capacity to cover all operating and investment costs, including a reasonable return on capital, without the need for financial transfers between REDs;
- To provide a platform that will allow the implementation of the electrification programme and support the economic development of the country;

- To promote high and improving levels of customer service and increased operating efficiency; and
- To support the development of retail competition.

Following the Blueprint report, in 2003 government established a holding company, Electricity Distribution Industry (EDI) Holdings, as an agent of the DME with a 100% ownership by government, tasked with the facilitation of the restructuring of the industry and to who municipalities' and Eskom's distribution would be transferred (EMN, 2003, Dlamini, 2006).

According to government plans REDs would distribute electricity to customers, most of whom would be municipalities (DPE, 2001). For large customers it would be possible to purchase electricity directly from transmission companies without going via REDs (DPE, 2001, Mostert 2002). Initially government had proposed from six to fifteen REDs but definitely not less than five (DME, 2000). Eventually government settled for six REDs. Conteh (2003) affirms that municipal distributors have been consolidated into six REDS and already approved by cabinet. The demarcation of the REDs has been as follows: RED one- Cape Town; RED two- Ekurhuleni; RED three-Nelson Mandela; RED four Johannesburg; RED five-eThekwini; and RED six-Tshwane (Dlamini, ibid). These REDs are anchored in the metropolitan municipalities and do not include the rest of the country. Dlamini (ibid.) assets that a 2005 cabinet decision states that RED four (Johannesburg) would form part of the metro REDs and National RED that would be primarily based on Eskom's distribution operations outside the six metro areas. On 1 July 2005 the first RED began operating in Cape Town (Dlamini, loc cit.) The REDs would be joint-venture companies formed by Eskom and local authorities (MBendi, 2001).

The REDs (Mostert, 2002) would:

- Compete to buy electricity from generators;
- Permit private generation of up to 30% electricity;
- Separate Eskom into competing groups of power plants and move toward market prices for electricity, whilst maintaining cross subsidization of poor households by rich ones; and
- Distribute electricity to the customers, most of whom would be municipalities.

The REDS would thus purchase electricity from generators (Eskom and Independent Power Producers [IPPs]) on the basis of wholesale purchase tariffs established by the NER (MBendi, ibid.).

4.9 ORGANIZED LABOUR AND RESTRUCTURING

The neo-liberal reform within the power industry has not been seen as desirable or necessary by organized labour (Clark and Philpott, ibid.) Labour does not agree that restructuring will result in the improvement in people's lives and livelihoods (Clark and Philpot, loc cit.). The Eskom Conversion Bill tabled by the DPE in 2001 was vehemently opposed by labour interests; COSATU, particularly, argued that the implementation of the bill would result in job losses (Clark and Philpott, loc cit.). In general COSATU has opposed restructuring of any public entities involving job losses.

Organized labour has been living by the dictum "if it ain't broke don't fix it" (EMN[47], 2003). This position is informed by the fact that Eskom is regarded as one of the most successful utilities in the country, offering the best prices consumers can find in the world with excess capacity to last four more years, as of 2003 (EMN, op cit.). The success of Eskom in meeting their targets of electrifying poor communities long before their deadline is a further affirmation that there is no need to invite private players driven by a competitive urge. Organised labour argues that with restructuring Eskom's universal service obligations and cross-subsidisation across customers would be compromised, moreover, with the introduction of competition it is envisaged that price increases would be triggered in the sector and lead to the proverbial fear of job losses (EMN, ibid.).

COSATU heavily criticized current restructuring noting that with the introduction of commercialization the budget for electricity decreased from R 1billion to R600 million for profit maximization instead of "universal service delivery" (Khunoe, 2002). Business Day (4 July 2001) reported that Pretoria government has placed the partial privatisation of Eskom on the back burner in favour of increased competition in the power sector and the introduction of independent power producers only after 2007.

[47] Energy Management News, (2003).

4.10 CHAPTER SUMMARY

This chapter presents a genealogical background to the electricity industry in South Africa. It follows the entire timeline of electricity supply in South Africa from when it was discovered as a commodity by private companies supplying power to the mines to the period the state started showing interest in the industry culminating in the founding of Eskom. The chapter then zeros into Eskom examining it in more detail on its technical foundations. Lastly, the chapter interrogated how restructuring and BEE have transpired within the ambit of Eskom. The opinions of organised labour on the restructuring of SOEs are also examined.

Chapter Five

Further Research Findings: Eskom, BEE and Neo-liberalism in Tshwane

5.1 INTRODUCTION

The preceding chapters have established that the ruling ANC pursues both BEE and neo-liberalism in their approach to reconstruction and development of the country. BEE is being implemented within a neo-liberal context. SOEs are amongst the key zones where the two processes interact. Eskom has been chosen as a case study to showcase, first, how the interaction of the two processes plays out and, secondly, the examination of the effectiveness of BEE. There is paucity of literature on how these two phenomena interact and thus this paper examines that convergence intimately. This chapter will present findings that shed light on the interaction of BEE and neo-liberalism and the efficacy of BEE implementation. Additionally, this chapter introduces a case study of the Tshwane Metropolitan Municipality[48] where a field account of how restructuring has unfolded at local government level is presented.

This penultimate chapter is the culmination of the study; it integrates literature review and primary data collated from fieldwork. It determines and highlights phenomena emerging from the study. The field research data presented herein compliment the literature review and are used to test the hypotheses of this research study. This chapter mainly presents and condenses the findings emanating primarily from the interview sessions with key informants, Eskom annual reports and other documents obtained from Eskom and respondents. The presentation of findings has largely been structured along the BEE scorecard; however there are areas where there has been a deviation from that format in order to accommodate questions falling outside the structure of the scorecard. The usage of a broad set of questions has assisted this study to come up with a comprehensive look at Eskom assessing the parastatal both from an internal perspective as well as from the outside highlighting various dynamics from employee to community dimension.

[48] Pretoria, today also known as Tshwane albeit still being debated, was founded in 1855 and declared the capital of the Zuid Afrikaansche Republic (ZAR), which was a Boer republic in the then Transvaal. Present day Tshwane Metropolitan Municipality is comprised of the city of Pretoria, the surrounding suburbs and the black townships of Atteridgeville, Saulsville and Mamelodi as well as other numerous new developments. The Metropolitan area also includes Soshanguve and Centurion (formerly Verwoerdburg), and several other constituent administrations that had previously formed part of Greater Pretoria.

The chapter is comprised of subheadings that combine two parts. Part one is the first level analysis made of open coding of the findings where the data is presented as raw material and is largely **descriptive**, outlining responses as they actually transpired based on the interview questions. It is in essence what is viewed as "a priori codes" (Lewins, Celia and Gibbs, 2005). Part two is the second level analysis of findings where the data is **interpreted** and **analytically** and **theoretically** synthesized into themes that have emerged throughout the paper, the so-called "grounded codes" (Lewins, Celia and Gibbs, op cit.).

5.2 INTERVIEW SUBSECTIONS: DESCRIPTIVE AND ANALYTICAL CODING

5.2.1 Economic Development

Electricity Provision

The ANC government has formulated policies that create free universal access to electricity provision. The electrification of every household can be interpreted as a "broad" approach to the empowerment of all citizens of South Africa, targeting previously marginalized communities in particular. The ANC's policy of universal access coupled with free basic electricity can be read as "welfarist" and contradictory to neo-liberalism, which advocates commodification of most, if not all, human activities. On the other hand, the ANC's pursuit of neo-liberal policies through restructuring of SOEs, is an enabler or facilitator of BEE with regard to the participation of small black enterprises in the electrification of households and the reading of meters used in electricity provision.

This section answers questions on access and provision of electricity. Electricity plays a vital role in economic development. As already demonstrated in preceding chapters, electricity assisted a great deal in accelerating economic development in South Africa; the MEC bears testimony to this. Greenberg (2006) posits and paints a lucid picture on the importance of electricity for economic wellbeing and survival of individuals and communities.

All three unions active within Eskom are in agreement that access to electricity is a basic right for all citizens of the country. One representative (Solidarity[49]) stressed that everyone must at

[49] Solidarity was represented by Mr. Eric Sommers. Sommers is a shop steward with 26 years experience at Eskom. The interview was conducted at Eskom Letabo power station, Vanderbijl Park, Vaal Triangle, 15-Aug-2006.

least have a minimum of 80 kWh a month of electricity for free. Another informant (NUM[50]) argued categorically that access was not the issue for debate as the electrification of households programme already covered this. The major issue for all three unions is affordability of electricity, especially for the poor and the unemployed.

'Whether access to electricity should be determined by affordability or not, the answer is both yes and no. The indigent policy should be a basis for qualification. Those that can afford should pay; the poor should be covered by the policy' (NUMSA[51]).
'Payment should be based on income level and not race, the unemployed should not pay. The focus should be on the poor irrespective of colour' (Solidarity).

These pronouncements by the union informants indicate that stakeholders within Eskom understand the plight of the poor and marginalized South Africans. Moreover, these stakeholders come from such communities. Their members, who are mostly working class, are part of communities and they comprehend the importance of adequate electricity for human activities. As part of Eskom, these informants technically understand how far on a monthly basis free basic electricity can take people especially the poor with large families.

One union avowed that affordability is a big issue as electricity is very expensive due to high unemployment and the general state of the economy. 'Electricity is expensive, it is not affordable, Eskom claims it is cheap' (NUM). It appears that all unions are concerned about the state of the poor and the unemployed. One informant (NUM) argued that there should be subsidies for low income earners and the unemployed. The approach currently employed by Eskom where all users are expected to pay the same amount leads to illegal connections argued one informant (NUM).

The issue of high unemployment and poverty suggests that even if South Africa has one of the cheapest electricity supply in the world, the macro economic context confound that reality for many poor people who cannot afford to pay. If South Africa produces some of the cheapest electricity in the world, one may conclude that the so called high price of electricity is a misnomer created by other structural matters in the economy.

[50] NUM's representative Mr. Ndlela Radebe has 15 years with Eskom. He currently serves as a shop steward. The interview was conducted NUMSA offices, Braamfontein, Johannesburg, 01-Aug-2006.
[51] NUMSA was represented by Mr. Phutas Tseke. Tseke has 11 years with Eskom. He has been a shop steward for 10 years. The interview was conducted at Eskom, Gemiston, Johannesburg, 03-Aug-2006.

The issue of FBE seemed to be a puzzle for at least one union that claimed it was not clear how this works (NUM). The union suggested that workshops should be conducted to educate the public on universal access. Moreover, the union stated that Eskom had just reported to be busy with a study on universal access, and how this may affect the company. The union contends that it has received reports that FBE is available in some parts of Soweto and workshops have been conducted. However it was still unclear to this union how the roll out is going to pen out. Additionally, municipalities are said to have poor credit management and that this impacts on how they deal with the poor and also results in a paltry and ineffective implementation of the indigent policy. Unions also proved to be in agreement on the electrification of households, stating that electrification should be a responsibility of government. However one representative (NUMSA) stated that there should not be a blanket approach on all new households: only the poor should have universal electrification.

It appears that the credit management and billing problems, as they occurred in Soweto leading to the crisis around 2001, and as they were reported in Tshwane albeit to a lesser extent, were a once-off and passing problem. It is safe to conclude that most communities do adjust to the prepaid system; apparently it cultivates a culture of self-management amongst residents where they are more or less in charge of what they consume as long as they can afford to pay. However, the problem of poverty and high unemployment is never addressed by the prepaid system as inability to pay for services leaves many of the poor cut-off from the system, meaning once they are disconnected they cannot even access the FBE that is due to them as a basic right. The issue of alternative forms of energy needs more attention as it has a potential of plugging the gap created by poverty and unemployment if it could be dovetailed with FBE. Alternative energy does not yet seem to have been fully examined or explored by government and municipalities as a viable source for domestic usage.

One representative (NUM) maintained that there are a number of discrepancies that have not been corrected; he noted that the previous government catered for Eskom employees where the company owned houses and employees paid only R13 monthly for water and lights. His argument revolved around special treatment for Eskom employees or employees in any industry where they produce a commodity stating that such employees should consume such a product e.g. electricity or water cheaper than other users. Apparently such benefits have been

scrapped in the new dispensation. One may argue that dealing with a small number of white employees, the apartheid government could afford such subsidies.

Most parties seem to agree that the 50 kWh FBE is not sufficient; in Tshwane for instance the Councilor responsible for electricity indicated that they were pondering increasing FBE to 80kWh[52]. Looking at the indigent policy, one discovers that it has been structured to cater for all kinds of customers. The issue to consider for Eskom and the municipalities is the ability to strike a balance and accommodate payment issues, poverty and unemployment.

Five informants from Eskom management partook in the study. With regard to the question of access to electricity, all five argued that access to electricity is a basic right. One of the managers expressed the view that "access to electricity is a basic right but not its provision, it is unfortunate that we are in a third world country with all economic problems but people must pay for something e.g. for the first R50 worth of electricity" (Eskom management[53]).

All five respondents agreed that access should not be based on affordability. Four of the five managers were of the view that low income or poor households should have preferential treatment when it comes to payment for electricity, "Due to their socio-economic status the majority of these people are of a lower standard of education, do not earn sufficient money to afford a better quality of life, it should be made easy for them to access electricity" (Eskom management). Another informant stated that "they should even pay a lesser amount; everybody should contribute for the better growth of the economy even if it's a drop in the ocean. People must be allowed to make a difference for their own pride" (Eskom management). Only one respondent had a drastically differing view, "there should be no preferential treatment for anyone, that would have been okay five years ago, but not after ten years since 1994, the resources and capacity have been put in place. However, the idea of free basic electricity is the right direction" (Eskom management).

[52] The Tshwane Metropolitan Municipality was represented by Mr. Subesh Pillay, Member of the Mayoral Council (MMC) responsible for electricity. The interview took place at municipal offices, Noordvaal Building, Vermeulen Street, Pretoria, 24 April 2007.

[53] Interviews with Eskom managers took place at Megawatt Park, Sunninghill, Johannesburg. The representatives indicated that they were free to partake in the interviews but do not have a mandate to speak on behalf of the company, therefore their names have been withheld. The interviews were held between August and October 2006.

All management respondents agreed that electrification of every household should be undertaken by government. "This should be the case as long as the area is designated as a settlement" (Eskom management). This is a confirmation that most parties agree that due to macro economic problems in the country FBE is not sufficient for poor households.

Representatives from the social movements the WCCC and the SCA[54] both argued that access to electricity is a basic right and the commodity should not be based on affordability, " although it is not explicit in the Constitution it should be a right, it is important for health and the environment" (WCCC). The Councilor responsible for electricity asserted that access is a basic right "it is about providing access at a basic level, the city offers 50kWh a month enough for lighting and a stove. On any new low cost house the city grants 10 amps. The city wants to increase from 10 to 20 amps, the DME standard is 5 amps, and the city's is higher. Everyone gets 50kWh irrespective of affordability. With the new policy there will be no more FBE for people who can afford".

With regard to payment for electricity the social movements were of the view that disadvantaged communities should receive preferential treatment, "due to the dual development in the South African economy the imbalance has not been removed, most of historically disadvantaged individuals are unemployed, and they are income-less, poorest of the poor. Giving them preferential treatment would be an attempt to remove the imbalance" (op cit.). The Councilor (op cit.) argued that "preferential treatment should be only on access, communities must pay for what they consume beyond FBE. There is a step-up tariff, the more you use the more you pay.

The social movements and the Councilor concurred that government should make it their obligation to electrify every household. One social movement informant stated that "government must electrify every house, although they come with excuses about budgetary constraints, they have the money" (SCA). The Councilor (ibid.) revealed that government has already made electrification of households its responsibility with 2011 being the target year for the electrification of every household.

[54] The WCCC was represented by Mr. Phineas Malapela. Malapela serves a General Secretary. He has been with the organisation since 1998. The interview took place at APF offices in Braamfontein, Johannesburg, 12 April 2007. The SCA was represented by Mr. Nkosinathi Khoza who serves as a Secretary General. The interview took place at a restaurant in the Tramshed Shopping Mall, Pretoria, 10 April 2007.

The legacy of apartheid and its direct impact on poverty and high unemployment as experienced in South Africa today has been widely documented. The adversities of apartheid have manifested themselves in various ways since 1994 not least in the affordability of electricity. The arguments of the social movements especially the APF seem oblivious to the macro economic problems and the magnitude of poverty, when they simply attribute the inability of the poor in communities to pay for electricity to Eskom and commercialization. As testimonies from Eskom managers attest, the legacy of apartheid and the plight of the poor are too evident for any person to be entirely insensitive to the needs of the poor. Despite favouring commercialization the majority of the managers interviewed advocate preferential treatment of the poor and the increase in FBE.

The APF fails to acknowledge the strides already attained in electrification and universal access: their focus has solely been on cut-offs. The inability to pay for electricity has arguably more to do with the macro economic problems in the country generally, than merely with commercialization of electricity by Eskom. The case of Eskom and electricity disconnections in Soweto and other parts of the country has been in the spotlight. Whilst cases of incorrect billing and discrepancies in tariffs have received a lot of attention, it appears there are bigger issues that have not been investigated thoroughly. The problem of inability to afford electricity cannot be associated with Eskom alone: it is worth highlighting that a decent standard of living in South Africa has become beyond reach for many of the poor and low income earners; even many of those that are employed feel the pinch. It is this critical linkage, between poverty and inability to afford commodities in general, which does not come out clearly and well understood by the social movements. To demonstrate how much bigger than electricity the problem of poverty is, during the last stages of this study the APF was busy working on the problem of those that have been evicted from houses by banks due to inability to pay, something that has nothing to do with Eskom and electricity.

The 1995 Eskom Annual Report states that (op cit. p.9.) the parastatal has continued to pursue its three main aims , namely to run the business more efficiently so as to reduce the real price of electricity, to bring electricity to more and more people and to stay reflective of the changing environment in which it operates. Eskom argued (ibid. p.10) that research reveals that for every 100 homes electrified, between 10 and 20 new economic activities are started, which is a direct by-product of the electrification programme. The electrification programme was further

accelerated with the target of electrifying 300 000 new household in 1995 a slight increase from the 1994 target of 250 000 new connections (ibid.p.9). Moreover, Eskom continued failing to achieve one of its three aforementioned main aims, i.e. reducing the real price of electricity. The price increase for 1995 is said to have been 4% against an inflation rate of 8.7%, which is claimed to be a real reduction of 4.7 percentage points (ibid.p.9).

Eskom asserts (op cit.p.54) that of the 1.75 million homes that had to be electrified by the year 2000 it had already connected 567 562 as of 1 January 1994. In 1995 (op cit. p.54) a total of 313 179 new residential connections were made against a target of 300 000[55]. By 2005 Eskom had electrified 3 210 557 million households since the inception of the electrification programme in 1991 (2005, Annual Report p.114). The DME is credited for commencing funding of the National Electrification Programme in April 2001 (op cit). Eskom bears the responsibility for the implementation of the programme in its licensed areas of supply on behalf of the DME, whilst the operating costs are said to be the responsibility of licensed distributors (ibid.).

It is stated (1995, Annual Report) that as from 2002 the electrification of schools and clinics has been fully funded by the DME through the National Electrification Fund[56]. For 2005 alone, Eskom made a total of 222 314 (2003: 175 396) household connections against a target of 211 529 (op cit. p. 114).

In July 2003 the National Electricity Basic Services Support Tariff Policy was gazetted by government (2005, Annual Report; DME, 2007) with the aim of bringing relief, through government intervention, to low income households and to ensure optimal socioeconomic benefits from the INEP (Integrated National Electrification Programme). Qualifying customers are eligible for 50 kWh of free electricity a month: by providing this basic service government hopes to offer social relief to those who earn less than the minimum wage levels (DME, op cit.). Eskom provides FBE in its areas of supply where payment for the supply is recoverable from municipalities at a standard tariff (2005, Annual Report).

[55] It is highlighted that since the inception of Eskom's electrification programme in January 1991, a total number of 952 473 homes had been electrified by 1995 (1995 Annual Report, p.54). Capital expenditure on electrification amounted to R 1 055 million (1994: R808 million) (op cit.). Eskom capital cost per connection was R 3 370 (1994: R 3 176) against a target of R 3 372. It is alleged that a further 74 180 (1994: 123 788) new residential connections were made by other electricity suppliers in South Africa (op cit.). Sales to customers serviced by prepayment meters (PPMs) averaged 78 kWh (1994:80 kWh) per customer per month (ibid. p.54).

[56] Funds applied to the electrification of grid schools and clinics coming from the DME totaled R 1 286 790, 84 in 2005 (2003:114 570,62) (2005 Annual Report, p.114).

Eskom (2005 Annual Report, p.115) asserts that by 31 March 2005, 88% (2003:35%) of the 238 municipalities in the country representing 750 000 (2003:425 000) customers, had contracted with Eskom to provide FBE. Of the 750 000 customers qualifying to receive FBE from the municipalities, 585 000 customers were, according to their meter software, configured by Eskom to receive FBE (op cit. p.115). Eskom states that on average 57% of the 585 000 customers configured to receive FBE had had consumed their free electricity allocation during the 15 month period (2004/05) (ibid.).

Neo-liberalism tends to be good for BEE implementation. However, the contradiction and shortcoming of BEE implementation in this case is that whilst a sizeable number of small black enterprises might have benefited from contracts for electrification, meter installation and reading, as well as on other areas of supply, this aspect of BEE might look "narrow" as the successes of black suppliers can be perceived as only improving the lives of individuals and not the previously disadvantaged communities as a collective. Successes seem to contrast sharply in this "massive cut-offs" experienced by many of the poor. Additionally, individual contracts as received by the black suppliers do not seem to result in massive employment of poor communities. Again another contradiction in this implementation of BEE is that the creation of universal access and FBE could be interpreted as "broad" as electrification is directed at all communities and not based on affordability. For the masses the "narrowness" and neo-liberal aspect of it rears its head again when there are electricity cut-offs for those who cannot afford. Notwithstanding the shortcomings and contradictions, it appears that Eskom has managed to play its role on the success of BEE implementation and the other challenges could mostly be attributed to macro-economic problems facing the country.

5.3 RESTRUCTURING OF SOEs

This section answers questions on the restructuring of parastatals with Eskom receiving focus. Moreover, Eskom's views on the matter are also highlighted as presented in the annual reports.

All three unions declared that there should be no outright privatisation of Eskom through the sale of shareholding, or outsourcing of services. "Eskom should remain a parastatal in the hands of government, we are still a third world country. Once the country is developed we can

look at commercialization, with privatisation a few would benefit, the majority would suffer" (Solidarity). " Instead of privatising Eskom there should be more participation of all stakeholders in the affairs of Eskom e.g. unions, communities, private sector and government, Eskom is doing well in terms of BEE" (NUMSA). The latter informant argued that the private sector can play a role as consumers in terms of participation in policy formulation but should not have any share holding. One union representative (NUM) elaborated further stating that "electricity is an important commodity. At present there are no private companies (locally) that can generate quality power better than Eskom. For example City Power in Johannesburg cannot afford to provide a service of good quality like Eskom, their service is not satisfactory, it is of poor quality. There are too many black outs, thus with many private providers there would be more of such problems".

The advent of restructuring within Eskom was highlighted by one representative (NUM, op cit) where certain services were outsourced using clusters for creating competition between units. Additionally, the informant argued that with the outsourcing of services most beneficiaries have been white due to "fronting". Accordingly black people still need to be empowered as whites continue to benefit, thus until conditions change there should be no new private sector providers. This indicates that neo-liberalism does not address issues of race and class, BEE only addresses issues of race. The issue of lack of skills amongst blacks means it might take some time for BEE to make a difference as many blacks still need to be empowered in terms of skills acquisition. In the meantime whites are better prepared in terms of skills. The NUM concluded by saying that Eskom was preparing for privatisation and there have been too many fatalities due to outsourcing[57].

The informant (NUM, ibid.) concluded by arguing that Eskom, as opposed to any potential private supplier, has the capacity because it has skills and financial resources. Thus there should be a long process of developing potential service providers, where the providers get used to the industry, e.g. through skills development as Eskom is a monopoly with all the

[57] The following picture was painted with regard to labour brokers:

- Their qualifications are not checked;
- They are not properly qualified ;
- Their work is not monitored;
- Safety standards are not followed;
- They are not aware of safety standards; and
- There are disabling injuries and fatalities.

resources and a good track record. City Power was said to be worst off today (sic) whilst it had acquired experienced personnel from Eskom (NUM). Therefore private companies will have to acquire resources similar to Eskom's in order to compete but the timing is not currently right for them to enter because of the disparities. Another informant (Solidarity) argued differently stating that if private providers could be introduced it must be at generation, in distribution to a lesser extent, and in new infrastructure at the development stages.

Four of the five managers interviewed thought that Eskom should not be privatised in terms of being sold off outright to private hands. The majority were of the view that parastatals should be partially restructured only by being corporatised and commercialized. "SOEs are already privatised in the way they are run. They should run like business not like socialist business. Centralized control doesn't work, capitalism doesn't work but it is a bit better" (Eskom management). The latter view was seconded by another respondent who stated that, "they should be restructured but only corporatised just to make sure that they are run properly, with proper structures of governance and be accountable to the shareholder, government" (Eskom management). Only one respondent felt SOEs should be privatised outright "there should be competition, there should be other players, at all levels of electricity provision" (Eskom management). Another informant argued that "SOEs should remain with the state because of the government's commitment to the people; you cannot shift your commitment to someone else. Restructuring has different connotations. Eskom has a social responsibility, private companies run a business. Government has made promises to people, we are building a country." (Eskom management).

Four of the management respondents were of the view that it is still premature to introduce private sector players in any of the three areas (generation, transmission, distribution). However, there were views that private role players could be introduced perhaps later especially after 2010. There were three views for introduction of private sector role players into each area of electricity provision. One informant opined that "it is almost impossible to introduce private sector players because of barriers of entry; the state has done it artificially so that it would be expensive for private players to build new power stations. It is not practical to introduce new private players, they would not be competitive. Their rate of return would be artificially higher" (Eskom management).

It appears that any privatisation of Eskom would most likely lead to the perpetuation of inequalities as well continued dominance of established white companies, or a scenario where foreign companies stand a better chance of benefiting if they are sufficiently resourced to take advantage opportunities that may arise. Again the issue of the lack of skills and capacity comes to the fore as in most cases black companies still encounter such challenges. This takes the study back to the work of Southall (2006) where he points out that when SOEs such as SAA and Sun Air were sold off local black consortia were not able to raise capital hence foreign companies fared better and bought the assets. It is very likely that black consortia would again struggle to raise capital and would be forced to joint-venture with international companies. All informants were much in favour of corporatisation and commercialization of services[58]. Eskom and government's social responsibility imperatives for reconstruction and development of the country appeared to be a priority in most informants' opinion.

One social movement informant (WCCC) argued that parastatals should not be commercialized at all. Government has come up with corporatisation which the community does not understand; the state becomes capitalist, offering the same services at a profit, not considering human life. Government must control parastatals so that they can deliver on their mandate. Once commercialized there are retrenchments, people become income-less, lose buying power, goods become stagnant in the market and companies retrench more people, it is self-defeating" the informant stated. The Tshwane Councilor (ibid.) pointed out that "complete privatisation is not an option; it (parastatals) should not be for profit. It should be for social upliftment. They must be restructured such that they can meet the requirements of providing basic supply, parastatals should remain with government. In 2004 government made a commitment to provide free basic services. Eskom is lagging behind by 3 years in the Eskom supply areas, there is only 70% FBE in these areas. Tshwane has a dual electricity supply, there is both Eskom and municipality supply. In the municipality areas FBE is 100%".

One may argue that the capitalist system is too deeply entrenched across the globe for any other system to come and challenge it. As many commentators on capitalism and neo-liberalism say, "there is no alternative" (T.I.N.A) (George, ibid). The only thing that can be done is to find or devise ways in which the system can be made compatible with indigenous conditions and be friendly to the poor. It seems unrealistic to assert that the commercialization

[58] The informant who thought privatisation was feasible did not demonstrate any profound knowledge of the process.

of SOEs can be reversed and a socialist system employed in the provision of electricity and other services. Perhaps the point of departure for movements such as the APF should be advocating an increase in FBE, and a different approach to the management of prepaid electricity in such a way that where people have defaulted they should continue receiving their FBE as it is their basic right.

The Councilor and the social movements were in agreement that there should be no privatisation . "The private sector has no capacity, no assets, prices will go up, and they want to use the resources (parastatals) of the community at the expense of the community. If the private sector wants to start their own thing, they should go into alternative fuels rather than take the people's assets, they want to take state resources and enrich themselves" (WCCC). Another social movement informant stated "if they (private sector) are allowed prices will go up annually, poor people won't be able to afford" (SCA). The Councilor (ibid.) argued "restructuring yes, privatisation no. REDs are a good example of maintaining social responsibility versus commercial interests, it is a good balance, and the desire of providing basic electricity is covered. You could have private sector providers, it is not absolute, but government should retain regulation, tariff policy and access policy, it is not a yes or no answer". The sentiments expressed by the WCCC respondent are somehow similar to what Alec Erwin stated when announcing that privatisation of Eskom was being put on the back burner and that any new private sector players would only participate in the development of new capacity as opposed to purchasing existing power stations from Eskom.

All parties seem to agree that parastatals are valued national assets and should not be privatised. The state fulfills this preference through corporatisation. Whilst the unions and social movements disagree with the consequences of commercialization, they do not provide alternatives that can yield effectiveness and efficiency that corporatisation brings. It should be noted that corporatisation does not automatically lead to efficiency and effectiveness as there are cases such as that of SAA where the state had to salvage the parastatal by injecting more capital when losses were made. In the case of Telkom the challenge has been satisfying commercial and investor interests and meeting social development imperatives at the same time. The Eskom case represents state involvement in the economy as expressed in the NFA when the state and the unions agreed on the manner in which restructuring should be practically translated in South Africa.

Around 1995 the then Department of Finance indicated a serious consideration of taxing Eskom, such that dividends would be payable (1995, Annual Report). This proposal was long before corporatisation came into effect in 2001 with the Eskom Conversion Act. The latter proposal received in-depth consideration as it was thought that any new financial arrangements such as a different tax and dividend dispensation would adversely affect Eskom's commitments to the RDP in particular the real reduction in price of electricity and the company's ability to finance the electrification programme (op cit. Annual Report).

5.4 BLACK ECONOMIC EMPOWERMENT

5.4.1 BEE Policies

The three unions argued that there are BEE policies that were enacted in the 1990s within Eskom; however there was inconsistency in the unions' understanding of the policies. One informant asserted that Eskom was very upfront with the introduction of BEE policies very early in the 1990s (Solidarity). Another informant (NUM) however, stated that the policies were vague and developed without consultation with the unions, and it is not clear as to what informs BEE policy.

Two unions seemed impressed with the implementation of BEE policies. One informant (Solidarity) claimed that the policies were effective in attaining more than their aimed targets: this was said to have been the trend over the decade. The informant (op cit.) went further submitting that;

> "As part of its procurement policies and managerial support programmes, Eskom continues to support small, medium, and micro enterprises and large black businesses for the supply of goods and services, thereby contributing to BEE. The amounts reported include expenditure on both coal and demand side management. In 2005/6 Eskom procured 67% of discretionary expenditure from BEE against a target of 65%". This explicitly illustrates how BEE and neo-liberalism converge within Eskom. Black suppliers are assisted to improve their service provision to the parastatal and then Eskom sources goods and services from those suppliers providing both training and direct empowerment as well as a market for the small companies."

In addition the Solidarity informant (op cit), stated that:" in line with Eskom's policy framework for the economic empowerment of women, there is an increased focus on the promotion and empowerment of black women entrepreneurs to facilitate their participation in the mainstream economy. In 2005 Eskom exceeded its target of 15% of discretionary expenditure from BEE by procuring 17% from black women owned businesses".

Another informant (NUMSA) also acquiesced that from the side of procurement BEE has been very successful with black businesses spanning from security, cleaning, maintenance, overhauling power stations buying of machinery, joint venturing with BEE partners, being executed by Eskom. The only challenge cited in BEE implementation was "Fronting".
Eskom BEE, argued one union representative (NUM), pertains to sourcing supplies from black companies, which is according to them as a union very narrow. This respondent argued that Eskom has been receiving awards, e.g. a Silver Award in 2004, whilst the union was not aware of any BEE policies. "Eskom only made a presentation on BEE policy in 2006 after they had received awards, Eskom cannot claim to be champions of BEE without involving organized labour" (NUM, op cit.). The union argued that their concern was also with the tendering process as it is not clear how people are evaluated for tenders.

The NUM informant (op cit.) went on arguing:
"Their focus on procurement is on coal, it is confined to a specific environment which is purchase and transportation of coal. It was difficult for us to access BEE policy. We want to be party to BEE policy formulation. We are not aware who wins tenders and how. BEE policy has been there for sometime since 1995. These issues will be discussed at the Central Consultative Forum (CCF)."

One of the informants (NUMSA) who had concurred that BEE implementation within Eskom was a success, also confirmed that "fronting" was a major challenge for executing BEE. The informant (op cit.) advanced that Eskom attempts to address the problem of "fronting" by immediately removing guilty companies from the database when a case of fronting is discovered. According to him removal from database is not sufficient for rooting out the problem: people should also be exposed nationally. Moreover, the problem is compounded by that "Eskom does not screen companies very well, for instance for delivery capacity, payment of employees, in this they fail. Eskom should deploy project managers to monitor these black

companies. All this gives BEE a bad name" (NUMSA, op cit.). This illustrates that whilst Eskom might be successful in rolling out BEE to the benefit of many black enterprises, the behaviour of the black companies as capitalist establishments (despite the fact the employer and the employee are the of the same race) created real resentments. The union (NUMSA) testimony could be challenged by some black suppliers who have asserted that Eskom does investigate internal conditions within suppliers in terms of providing good conditions for workers and sourcing goods and services from other suppliers (Cable supplier).

On the overall success of implementation of BEE policies, two of the unions concurred that the policies were a resounding success in as far as reaching targets set every year. One union (NUM) was however vehement that the policies have not been effective:
" there are no people known to the union that have been empowered by the company. Eskom has used people's names, these black people don't own any resources. They depend on white companies for all the resources, and white people are more visible. Big contracts use specialized machinery, transport etc. Eskom disposes company resources cheaply, these are bought by a black person for fronting, white employees use blacks to buy such equipment, there is corruption in the awarding of these contracts".

All five Eskom managers unanimously pointed that Eskom has a BEE policy aimed at procurement of services from black suppliers. The BEE policy is said to have been formulated in the early 1990s or around 1994 (there was no agreed date amongst the informants on the enactment of the policy). One testimony (Eskom management) was that "in April 1995 BEE policy titled 'Procurement from Black Suppliers' was approved by the Eskom Council.

The BEE policy is said to have been quite a success. Besides reference to the annual reports, one informant from management stated that "success is measured on a monthly basis as part of the key performance indicators (KPIs) on a balanced scorecard. Eskom corporate gives targets against which divisions are measured" (Eskom management).

The concerns raised by the union on lack of consultation or being uninformed about the procurement and tendering processes begs the question "how far should the involvement of unions go in as far as the main business of a parastatal is concerned?" Indeed Eskom needs to revisit the manner in which procurement is managed, especially the role of buyers in the

selection of suppliers as issues of lack of transparency, fronting, and other problems have been raised with the tendering process.

BEE policy implementation has been hailed as a success by all parties within Eskom, even suppliers and other recipients of assistance from Eskom concur that there is tangible progress on the parastatals endeavour to deliver on BEE. Unions, especially the black ones, offer a highly confusing and conflicting account on the conception and implementation of BEE policies; their testimonies are overly ambivalent and confusing. It is apparent from the accounts that there needs to be more visibility of black women-owned enterprises. From the parties interviewed there was no single 100% black women-owned enterprise, this could be attributed to lack of skills and general underperformance in black women empowerment. Notwithstanding the challenges, there have been cases of women empowerment that were chronicled where concerns were raised on the stature of beneficiaries. For instance the case of the so-called 'already empowered' black women behind Peotona, a company that was about to acquire 9% of Africa Cables was criticized.

5.4.2 Ownership

The 2005 Annual Report (p.40) in the Chairman's statement highlights that there has been shift in policy from the government's view of entertaining the possibility of employing privatisation of SOE's as a way of attracting investment and heightening efficiency. According to the Chairman, Reuel Khoza, the shift in policy away from outright privatisation means government considers Eskom and other SOE's a key locomotives for growth, redistribution and global expansion (op cit.). In the new context Eskom is behoved to continue on its path as a catalyst for economic and social change. Unions were not clear about the status of restructuring as far as selling of share holding to BEE companies is concerned. As already illustrated, the case of Eskom has proven that parastatals can fare very well as vehicles of reconstruction and economic growth whilst they remain in state hands.

The shift in policy is a major deviation from the 2001 policy framework on restructuring of SOEs (DPE, 2001). Commentators (Singh, 2004) have argued that privatisation is definitely on the backburner. Government had earmarked 30% of Eskom's assets, valued at R18bn, for privatisation but the market's lack of appetite for energy stocks and uncertainty over government policy has put Eskom's privatisation on hold (Singh, op cit.). Singh maintains that more likely is the sale of 10% of Eskom generation; perhaps with one or two of the mothballed

plants could go to black economic empowerment parties. However, whilst privatisation in the sense of cut-offs may be on the back burner, other types of privatisation like concessions and public-private partnerships will influence the future structure of SOEs, concludes Singh (op cit.). This illustrates that whatever direction that government policy might take with regard to the restructuring of SOEs, it will occur within a neo-liberal context. There might be variations in the rolling out of restructuring, but the backdrop will remain neo-liberal.

5.4.3 Management Control

All three unions were in agreement that major progress had been made in effecting BEE in the management of the company. When asked how much of the company's senior management were historically disadvantaged individuals (PDI or HDI), the respondents gave varying figures, all pointing towards the majority nonetheless.

The responses could be illustrated as follows:

Management Control	Solidarity	NUM	NUMSA
3.2.3 What percentage of your senior management is made up of PDI/HDI?	60%	75%	56%
3.2.4 How much of senior management is made up of PDI/HDI women?	32%	No figure	25-30%
3.2.5 How much of senior management is made up of PDI/HDI people with disability?	2.5%	No figure	2%

Table 6. Union Responses on Management Control at Eskom. Source: Researcher's Original Compilation (2007).

There was consensus amongst the unions that substantial progress had been attained in the representation of Africans at senior management at Eskom. Moreover, in terms of racial breakdown of the black group, it was reflected that Africans comprised about 83% of senior management whilst Coloureds and Indians were at about 12% each (Eskom management).

One informant (NUM) strongly argued that "the fact that they (Eskom) have exceeded their transformation targets in terms of effecting black senior management is misleading because it does not take into consideration transformation at lower levels". These lower levels according

to the respondent are A band, B Band and C lower, which comprise of utility workers, Human Resources practitioners, clerks, artisans, operators and technicians. The respondent (NUM, op cit.) also vehemently contended that women empowerment was a farce:

> "Empowerment of women is window dressing. They get dismissed easily because of performance and insubordination. There is no empowerment, and no structured process for it. There was once a programme for empowering women managers but the environment is not good for the empowerment of black women. In terms of upward mobility they come in numbers, but value add is a different story, they have no influence on the business of Eskom, it's just a numbers game".

The observation made by the NUM respondent could be read as saying that BEE implementation at Eskom has taken the "narrow" route in terms of employment of blacks which seems to occur more at management level and not much at the lower levels. The expectation from the union's perspective could be the mass employment of workers with minimal skills at lower levels, which in the union's opinion would translate to "broad" BEE as it would cater for their constituency.

With regard to the employment of people with disability, one respondent (NUM) stated that there was no structured approach to it. The argument was that Eskom takes people who have been injured on duty and use them as statistics for people with disability, there is no disability policy, the informant concluded:
"the union has challenged the statistics at divisional level, at generation level they have 2.84 employees with disability, there is no upward mobility, their duties change and there is no empowerment programme, they also include people who disclosed their HIV status under disability".

One informant (Eskom management) stated that in distribution 56% of senior managers (called E-band) who are at the level of the executive committee are from the previously disadvantaged groups. From the level of supervisor upwards the number is said to be in the region of 63-64.5%. Women are said to comprise 24% of senior management whilst at supervisory level they are at 33%. People with disability form 3.1 % are according to the respondent from management.

5.5 HUMAN RESOURCES DEVELOPMENT

5.5.1 Employment Equity

Employment equity in South Africa is governed by the Employment Equity Act (Act No. 55 of 1998). The object of the Act is to promote equity in the workplace by encouraging equal opportunity amongst all workers (Department of Labour, 2007). The Act applies to all employers (excluding, *inter alia*, the Defence Force and Intelligence agencies) and job applicants and provides a framework for implementing affirmative action. This particularly applies to employers with 50 or more workers such as, *inter alia*, municipalities, organs of state and private employers who are ordered to comply with the provisions of the Act (DoL, ibid.).

Two thirds of the unions pointed out that there is an Employment Equity (EE) policy of which affirmative action is an integral component. The company has an EE Committee. The aim of the policy is to remove all barriers created by the apartheid system in employment and give previously disadvantaged individuals (PDIs) opportunities at senior management (NUMSA and Solidarity). The policy has been hailed as successful in as far as reaching the set targets, the success rate is said to be in the neighbourhood of 70 to 80% (op cit.).

The implementation of the policy has however been criticized for its skewed success. Unions argue that the policy is biased towards attaining targeted figures and EE audits without any provisions for support and development of the candidates. One informant (Solidarity) pointed out that "if we speak to the beneficiaries there is not enough support, because they are chasing targets and not the actual removal of barriers. For EE positions they get people with qualifications but there is no good mentorship programme and support". For people at ESKOM another informant (NUMSA) argued that the screening in interviews is not effective as people only perform well in interviews; there are also incidents of nepotism and corruption. Lastly, the latter informant claimed that in fields such as finance and engineering targets have not been met, concluding that the company lags behind in specialized areas (NUMSA, op cit.).

Some of the management respondents either referred all human resources related questions to HR or to the annual reports. One of the informants stated " there is an affirmative action policy for black groups whilst Employment Equity is expanded, generic for all women including whites and people with disability, the EE Act comes first but Eskom would have to narrow it" (Eskom

Management). On the contrary, two informants indicated that Eskom has an Employment Equity policy but there is no affirmative action policy: "there is no policy on affirmative action, we don't do affirmative action" (Eskom management). The aims of the Employment Equity policy are understood as "to redress the previous imbalances in the managerial area, take advantage of the diversified managerial teams; there is more productivity with diversified teams" (Eskom management). Whilst the latter informant insisted that there is no affirmative action, that assertion is repudiated by the annual report which states that AA is practiced within Eskom. This passage illustrates some contradictions amongst expressions of Eskom management respondents (contradictions have also been established amongst unions). This confusion over affirmative action can be read as an attempt by some managers to avoid the usage of the word affirmative action as it might sound politically incorrect particularly to those that are against the practice.

The EE policy (Eskom management) has been very effective with targets being achieved, "targets have added value to the benefit of the organisation, and there has been very substantial and visible changes. Eskom has improved productivity, bottom line, global competitiveness and the results have been good. The triple bottom line is a very good measure, it was the first time it was used, skeptics were proven wrong, and with PDIs more results have yielded. With a black CEO Eskom won global company of the year in 2001, it was the top utility of the year in the world competing with other global companies". (Eskom management).

As indicated earlier, under affirmative action, the 1995 Eskom Annual Report had set the target for 50% black professional, managerial and supervisory staff for the year 2000 (ibid.). Eskom (2005, Annual Report) points out that they continue having a focus on affirmative action and the active promotion of women and disability equity. Employment equity policies have been implemented to ensure inclusivity of race, gender, and people with disabilities to ensure Eskom builds an organisation that is representative of all people in South Africa (op cit, p.107).

The table below demonstrates progress attained by 2005.

Employment Equity	Target December 2004	Actual March 2005	Actual December 2004	Actual December 2003
Eskom				
Race: Black staff at managerial level	57,9%	57,9%	58,5%	56,3%
Black staff at all levels	No target set	69,1%	69,7%	69,3%
Gender: Women at managerial level	29,1%	28,9%	30,0%	27,8%
Women at all levels	No target set	23,3%	22,9%	21,6%
People with disabilities	1,9%	2,0%	1,9%	1,4%
Internal Promotions: Black staff at all levels	No target set	75,3%	91,7%	82,5%
Women at all levels	No target set	44,4%	16,7%	26,9%
Eskom Enterprises				
Race: Black staff at managerial level	50,0%	39,6%	49,5%	49,4%
Black staff at all levels	No target set	52,6%	53,0%	53,0%
Gender: Women at managerial level	18,0%	14,4%	18,1%	17,5%
Women at all levels	No target set	14,9%	19,6%	24,8%

Table 7. Employment Equity at Eskom by 2005. Source: Eskom Annual Report 2005.

The Eskom target for blacks holding professional, managerial and supervisory posts had been 50% by the year 2000 (1995, Annual Report, p.54). The figure for the latter black groups stood at 16% by 1995 (1994:9%) (op cit.). The figure of black professionals was around 60% in 2005 which is significant progress. However, the intricacies such as the significance of the role played by women and people with disability as raised by the union cannot be overlooked. The 2005 Chairman's report states substantial progress on the empowerment of women and a programme for the acquisition of additional qualifications at masters level is said to be one of the chairman's projects.

5.5.2 Skills Development

Skills development in South Africa is governed by the Skills Development Act (Act No. of 1998). The object of the Act is to develop and improve skills of the South African workforce (DoL,).
Eskom is said to provide skills training for PDIs as a matter of compliance with the Skills Development Act; a workplace skills plan (WSP) is submitted annually to the Department of Labour and the Energy SETA (Sector Education Training Authority). The company sets targets for learnerships, bursaries and scholarships. One union representative (Solidarity) argued that the major challenge for the provision of skills is the quality of training that employees receive. The aim of skills development is to respond to the skills need in the country and to enable PDIs to be productive, to lead and manage Eskom and get improved remuneration (NUMSA).

Two thirds of the unions argued that there is no evidence for the effectiveness of skills development programmes within the company. One informant (NUMSA) claimed "Human Resources does not track and monitor the implementation of policies, and people who have acquired new qualifications do not progress to new posts". Another respondent (Solidarity) submitted that 543 million has been spent on training but there is no documentation of how effective the training has been: "there are still many engineering vacancies as the company cannot acquire those scarce skills". The unions happen to interpret BEE implementation as "narrow" as there is not much evidence on how it has benefited their constituencies comprised of working class employees who are at lower levels.

Management respondents indicated that Eskom has measures for skills development. These measures are firstly, internal, as Eskom's own initiatives for effectiveness, and secondly external, initiated as a response to the requirements of the Skills Development Act. "The aim is to upskill the PDIs and have them as part of strategic leadership to ensure that they equipped enough for those positions" (Eskom management). "We have for instance an ABET programme, scholarship schemes for employees' children and others, assistance for employees to study, the Rapid Development Programme, a programme for 50 unemployed graduates and a programme for blacks and women to do MScs and MBAs" (Eskom management). Another informant highlighted that " we have training programmes for the community at large, training local suppliers basic business skills and other skills programmes outside the organisation" (Eskom management).

Eskom has a dedicated budget towards skills development not only for its employees but also for their children and previously marginalized communities in general. This stance of Eskom's is not a typical practice of profit maximization in a neo-liberal context where some money generated goes into the coffers of private shareholders. Government is the sole shareholder within Eskom, money generated is arguably used for the upliftment of the previously marginalized communities. This investment in employees and communities is separate and in addition to other activities of Eskom in Corporate Social Responsibility.

The success of the training programmes as asserted by the informants is corroborated by the admissions in the annual reports. However, the claim that there is training for local suppliers was confirmed only by one black supplier out of five, with the rest stating that they do not receive any training or business support from Eskom other than contracts for the procurement of goods and services.

Management informants believed that the programmes have been quite a success. They cited the number of female managers that have benefited (e.g. the Managing Director for HR is a female) and the general increase in skills that people have acquired through the programmes. One informant stated that "Eskom programmes are quite effective, the Skills Development Act is just a whitewash" (Eskom management). Eskom is regarded as a learning organisation, and the impact of the programmes is said to be measured in various ways including: number of employees going on training, the number of days spent in training, the extent to which people have acquired skills, improved productivity and the increase in people's willingness to go on training (Eskom management).

The 1995 Annual Report (p.54) had indicated that since the conception of the skills and development programme 4 141 employees had undergone literacy and numeracy training against the 1997 target of 11 000. It is stated that in 1995 alone 1 481 employees had successfully completed the Adult Basic Development programme at a cost of R 25.9 million (op cit.p.54)[59]. The annual report also states (op cit.p.55) that in 1995 Eskom had 1990 bursars and trainees of which 59% (1994:7%) were black[60].

[59] A further 2318 employees are said to have been in training around the same period (op cit.p.54).
[60] The report goes further as to say that Eskom has a target of training 370 full-time trainees and bursars per year (op cit.p55). During 1995 a total number of 266 (1994:303), excluding 80 bridging students previously reported successfully completing their training (ibid. p.55).

Ten years into the new dispensation growing progress has been registered by the utility in terms of human resources. The 2005 Annual Report (p.89) states that Eskom utilizes a human resources sustainability index (HSRI) to measure the company's ability to achieve its human resources objectives. The HSRI is said to comprise 26 (2003:25) measures in the areas of employee satisfaction, competence, equity, and health and wellness. With regard to skills management Eskom claims to have a system to identify and retain critical, core and scarce skills that has been populated with profiles for all management and professional levels, this has enabled management and human resources practitioners to identify current and future skills availability and requirements (op cit. p.90). As of 2005, 908 of the 2600 managers and professionals were involved in Vision E, a transformational leadership development programme using a concept of African leadership to develop the competences of managers and professionals (op cit.). Training, learnerships and bursaries are used to develop the skills of all employees and the country in general.

The expenditure and number of trainees in the latter is demonstrated in the table below:

Training and Learnerships	**Actual 2005 (15 months)**	**Actual 2004 (12 months)**	**Actual 2003 (2003)**
Training			
Total training cost, Rm[61]	654	518	505
Average training cost per employee, R'000	22	18	17
Learnerships			
Bursary-holders and trainees, number	1 568	1 447	1 850
Black bursary-holders and trainees, %	85	86	87
Women bursary holders and trainees, %	55	54	50

Table 8. Training Expenditure at Eskom by 2005. Source: Eskom Annual Report 2005.

[61] Rands in millions.

Despite all the achievements in skills development, one of the unions questioned the quality of skills provided. The concern raised by the union is difficult to comprehend as most of the training is undertaken by South African universities of high repute.

5.6 STATUS OF WORKERS

5.6.1 Restructuring and Workers

Eskom restructuring does not involve outright privatisation. However, there are areas where there has been outsourcing of goods and services that were previously provided in-house. One respondent (Solidarity) stated that Eskom has a Restructuring Committee (RC) which is comprised of top management and labour, and the committee meets on an ad hoc basis. Government also has a representative on the committee. The informant argued that the committee is not effective as decisions on matters discussed would already have been taken at a higher level by the Eskom Board (op cit.).

When asked how the restructuring had affected the workers, unions expressed varying viewpoints. First, unions believed that there was consultation where they deliberated with Eskom on how retrenchment should be managed. It was revealed that COSATU, NUM, NUMSA and Solidarity were involved in the process especially at NEDLAC level (NUMSA). It was through the NFA that workers participated, they reported. However, one informant argued that the consultation was limited by the nature of how Eskom's RC works (Solidarity). It was also mentioned by Solidarity that Eskom had a social plan in place to cater for employees in the event of retrenchment, but this plan had never been implemented. Contrary to the latter assertion, one union representative argued that the social plan was implemented and reinforced but without agreement with the unions (NUM). The unions had proffered an option of what they call a 'surplus staff model' (SSM). However the unions' inability to challenge Eskom's social plan for a very long period resulted in a grievance being lodged (NUM, op cit.).

In the case of power stations such as Grootvlei, Camden and Komati, the involvement of the unions is said to have come very late in the process. Secondly the involvement really meant Eskom engaged with lower levels of the union (NUM). Some workers had continued working in the mothballed stations. However, certain employee bands such as general workers were phased out whilst others lower bands were awaiting going on pension. Nevertheless, the

unions and Eskom looked at means to avoid retrenchments. These included transfers and voluntary packages. It was also argued that the packages could not be viewed as optional, as people did not have much of a choice. For some people transfers were difficult as they were old and this meant relocating families which is what many were not prepared to do at that late stage of their lives. For some people, also their skills were said to be no longer relevant to the business of the company (op cit.). The consequence was a loss of jobs.

Looking at the annual reports there is resounding silence on the issue of retrenchments as reported by the unions. All unions had expressed some experiences of job losses for their members but formal Eskom reports make no explicit mention of this, nevertheless the figures (in the annual reports) do point towards reduction in the number of employees at Eskom e.g. between 1995 and 2005. As unions, especially the black ones appear to largely represent the lower ranking workers, they make no acknowledgement of the progress attained at senior levels for black managerial and professional employees. Unions generally seem ambivalent on the success of restructuring as they do acknowledge achievements and the change in numbers for senior black employees. However, the unions also state the lack of influence of black employees especially women in the direction of the company. This lack of clout seems inconceivable as the majority of senior managers are black.

As a consequence of restructuring, some workers have been laid off. These effects have invariably negatively impacted on workers across racial lines. One respondent pointed out that a 'separation package' was issued to recompense some of the workers (NUMSA). In the latter instance mostly white workers and old workers (black and white) were laid off as a measure to create space for a few new black employees (NUMSA, op cit.). This has been generally viewed by all unions as a problem for workers as jobs could not be saved. The only positive spin-offs have been recorded on the side of Eskom in terms of increased profits due to reduced expenditure on salaries as well as from people who gained business from the outsourcing of the non-core services (NUMSA). The outsourced business included the visual media department. As a consequence, workers were idling with nothing to do eventually leading to the selling off of the equipment (Solidarity). The latter selling off of equipments was conducted through auctioning where only bidders with the adequate money could partake, this lead to complaints from those who did not have the means. The unions claim to have challenged and

defeated management in the parastatal's attempt to outsource Eskom College (Solidarity, op cit.).

One may argue that under certain circumstances there seems to be discernible racial biases in the manner in which unions approach matters [62]but generally the responses indicate consensus in most issues. All unions are in agreement that restructuring has no positive benefits for the workers in terms of jobs and conditions. Job losses indicate that from about 80 000 employees at its height in the early 1980s, Eskom employee numbers are now around a mere 30 000 (Solidarity). Based on the latter observation one may assert that whilst Eskom has been transformed when it comes to its racial composition, the overall numbers of its staff have declined over years translating the progress made to "narrow" BEE in as far as employment is concerned. What emerges from the figures as corroborated by the annual reports is that the intake of new black employees has occurred mostly at senior levels, the managerial and professional echelons. Based on the figures as expressed by the unions Eskom has massively retrenched. One may argue that the working class has lost in the process whilst the black middle class has benefited.

It has also been argued that changes in the conditions of employment and retrenchments are likely to continue (NUMSA):
"The REDS are going to have a negative impact on workers, almost half of all employees are in distribution which means a few workers will remain in Eskom mainstream, and many will go to municipalities according to the Act. Generally workers have never taken restructuring positively, workers have been skeptical of losing jobs, about private ownership, negative conditions of employment such as when Eskom Transport was privatised to Rotek, it resulted in a big change in the conditions of employment. It has all been negative from the side of the union".

Union testimonies are fraught with ambiguities which at times tend to have racial undertones for instance transformation is viewed by the white union as government agenda to get rid of

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One respondent (Solidarity) argued "the objective of restructuring is to get rid of white males, looking at the targets each year this has been effective for the employment equity drive as targets increase each year". Another respondent (NUM) quipped "Eskom skills plan benefits only whites, only Solidarity has signed it, not NUM, not NUMSA".

white males. On the other hand one black union alleges that training at Eskom only benefit whites. There are also fears that the introduction of REDs will result in retrenchments. The latter concern was also raised by the Tshwane Councilor responsible for electricity.

5.7 INDIRECT EMPOWERMENT

5.7.1 Preferential Procurement

Eskom has a preferential procurement policy which has been in existence since early 1990s. The main aim of the procurement policy is to promote and support black enterprises by sourcing goods and services as well as providing them with necessary business skills. According to one union informant (Solidarity), 65% or R10 billion of procurement expenditure had been spent on black suppliers in the past ten years beginning in 1995. All respondents were in consensus that Eskom does comply with the Preferential Procurement Policy Framework Act[63]. These policies have been hailed as a success in terms of money spent in sourcing goods and services from black suppliers.

Eskom's commitment to advancing black economic empowerment in South Africa was underscored during the period (1995-2005) when the company allocated more than R11billion of discretionary expenditure to small and medium BEE enterprises including those owned by women (R1,1 billion) (Solidarity). Moreover, the union representative (op cit.) argued that in 1998 Eskom adopted a model similar to the current balanced scorecard that is outlined in the BBBEE Act (Act No. 53 of 2003) to form part of the Eskom BEE policy. This model is used to assess and accredit all companies with an annual turnover equal to or exceeding R25 million which are listed on Eskom's supplier database as black empowered suppliers. The union informant (Solidarity) further argued that: "the Eskom integrated strategy for BEE is executed mainly through procurement, community development, poverty alleviation and rural development programmes"

Again the success of these policies has been measured against set targets which are often exceeded by the company. This study only managed to get hold of only small black suppliers, attempts to interview larger suppliers such Eyesizwe Coal were fruitless as their senior

[63] Eskom has been accused of violating section 217 of the Constitution on its procurement policies. The parastatal has been accused of discriminating against white companies in its procurement policies (van der Walt, 2004). It is not clear how far the case went nor how the matter was resolved.

managers appeared to be extremely busy. As reported in the literature study, in 2004 Eskom signed a memorandum of agreement with NAFCOC where they formally agreed that the parastatal would increase the volume of business procured to black suppliers.

Management informants also concurred that the company has a preferential procurement policy for black suppliers. One informant (Eskom management) indicated that the policy has been in existence since 1992 whilst other two informants quoted 1995 (Eskom management). The aim of this policy is to ensure Eskom does business with black companies to correct the wrongs of the past (Eskom management). Another informant (Eskom management) highlighted an array of objectives behind the policy which include RDP commitments, a sincere desire by management to empower black business driven from the top down as there were already senior black managers before 1994, and the two legs comprised of procurement and the Eskom Foundation.

Eskom is said to be complying with the PPPFA and its policies are said to be aligned to the Act (Eskom management). Nevertheless, one informant (Eskom management) stated that the provisions of the PPPFA are not directly applicable to Eskom as a Schedule 2 public entity and that the Act is horribly rigid and came five years after they had their own policy as Eskom. Another informant (Eskom management) indicated that Eskom does not comply with the PPPFA in its entirety: "Eskom selected certain areas of the Act to enhance its procurement policy, the company applied for exemption from the Act and it was granted and then asked for the decision to be reversed but that has not been publicized. Eskom was against payment of a premium to black and women owned businesses[64]".

Eskom allocates 60% of business to black companies (Eskom management). The targets are set around controllable spend where the net value after subtracting all other costs is allocated to black business (this was 67% for 2006, 18% of which was for black women owned companies) (Eskom management). The policy has been hailed as a success with targets being exceeded for each passing year. Eskom has also forced overseas companies with whom it does business to sell equity to local black companies (op cit.). Business is set aside for black companies and therefore they do not have to compete. Moreover price- matching is said to

[64] It is not quite clear as to how this system of premiums worked but the respondent stated that it had to do with having a number of companies tendering where a black company would be given a contract whilst the company has not come up with a market related price. The company would be paid a difference as a premium simply because it is black not based on price. This is still not cogent enough to explain the system.

apply when a black company tenders with competing white companies where they are assisted to bid at the same price (Eskom management). In case a white company wins a bid, it is required to sub-contract 25% to a black company (op cit.).

Eskom (2005, Annual Report) highlights that as part of its procurement policies and managerial support progammes, it continues to support small, medium, and micro enterprises and large black business for the supply of good and services thereby contributing to BEE. Moreover, Eskom claims that in line with their policy framework for the economic empowerment of women, there is an increased focus on the promotion and empowerment of women entrepreneurs to facilitate their participation in the mainstream economy (op cit. p. 108).

As for 2005, Eskom BEE (2005 Annual Report, p.108) expenditure demonstrated the following results:

BEE expenditure	**Target 2005 (15 months) Rm[65]**	**Actual 2005 [66](15 months) Rm**	**Actual 2004 (12 months) Rm**	**Actual 2003 (12 months) Rm**
Total BEE expenditure	9 652	10 334	8 323 (target 7 465)	6 861
Black women owned businesses[67]	695	1086	840 (target 521)	517

Table 9. BEE Expenditure at Eskom by 2005. Source: Eskom Annual Report 2005.

5.7.2 Enterprise Development

Management informants pointed out that Eskom supports black owned and controlled small and medium enterprises. The support given to the companies is said to vary from division to division with the Commercial Division supporting them by buying from them (Eskom management). One informant (Eskom management) stated that their support is not in terms of money but through other means such as giving advice in terms of contracts, break up purchasing, set-asides, as well as empowerment price matching. Another manager indicated

[65] Rands in millions.
[66] All amounts include Value Added Tax.
[67] included in total BEE expenditure.

that they support black companies through seminars, training courses and conferences. There are also courses for starting businesses, tendering and on job-training for maximizing profits (op cit.). The Eskom Foundation was also quoted as providing technical assistance and money for poverty alleviation and employment creation (Eskom management).

5.7.3 Black Business and Eskom

As indicated, five black enterprises responded when they were approached to participate in this study[68]. Initially contact was made with about ten black service providers to Eskom but unfortunately only five eventually made themselves available for interviews. Four 100% black owned companies and one black empowering company (minimum 25% black owned historically white company) were interviewed. The 1995 Annual Report (p.55) revealed that as part of Eskom's buying policies and managerial support programme, 17 (1994:8) contracts with a recorded value of 15.2 million (1994:R6.8 million) were allocated to 26 small, medium and micro enterprises. The interviews with black suppliers indicate a huge increase and spread in expenditure amongst few companies from the 1995 figures allocated to a group of small companies.

5.7.4 Company Ownership

Out of the five companies interviewed, four were 100% black owned with an aggregate annual turnover of around R75 million. One of the companies denoted it was 100% black owned with all its shareholding held by one black male. The other three companies indicated shareholding comprised of both black males and females with women holding majority ownership in two of the entities whilst one had males in the high proportion. The only black-empowering company interviewed quoted an annual turnover of over R 1 billion rand. This company has shareholding of 25.1% owned by a black consortium. In addition to the black shareholding owned by the consortium, the black-empowering company stated that it had recently completed another empowerment deal where an additional 6% was sold to a black female owned company.

[68] The names of the representatives for black companies have been withheld as anonymity was requested. Some representatives indicated that they would need to consult with all shareholders if their company names were to appear in this report.

5.7.5 Human Resources Development amongst Black Companies

Companies were asked about the size of their staff compliment as well as the demographic breakdown. The results were as follows:

Company	Number of Staff	Males	Females	Management	Shareholding
A	15 permanent 14 on contract (all black)	60%	40%		100% male
B	50 permanent	70%	30%	70% female 30% male	60% female 40% male
C	48 permanent (over 65% black)	70%	30%	25% female 75% male	54% female 46% male
D	208 permanent (all black)	70%	30%	100% male	70% male 30% female
E	687 (519 black +168 white) permanent	76%	34%	9.75% female 90.25% male	69.9 white 31.1% black

Table 10. Profiles of Black Enterprises Interviewed for the Study. Source: Researcher's Original Compilation (2007).

Company E was the only black-empowering company. Whilst blacks comprised majority of staff, of the 71 black males in management (junior, middle and senior) only one was in senior management, with 5 in middle and 65 in junior management respectively. There were no females of whatever origin in senior management, middle management had one black female of all females in management whilst junior management comprised of 7 black and 38 white females respectively.

5.7.6 Service Provision

Services provided by black companies to Eskom could be grouped into two categories: core services that directly contribute to the generation of electricity; and support services (non-core) that assist in the general management of the company.

Four of the companies in the study provide non-core services to support the general operations within Eskom. Services rendered were as follows:

I. Software and hardware computer supplies and maintenance of printers
II. Physical security on Eskom premises

III. Hard and software computer procurement and professional services or consulting
IV. Office consumables; stationery supply, audio-visual equipment, and computer consumables e.g. cartridges.

Only one company in the study is procuring a service to the core business of Eskom. The historically white black-empowering company supplies cables, technical assistance, and labour contract on high voltage, installation and maintenance.

Companies were asked how they got to qualify for service provision to Eskom. One supplier indicated that they qualified simply because they were black whereas another company stated that they applied and registered with Eskom as a vendor with credentials of being a BEE company, black-women owned and in possession of a track record with other companies. One company stated that Eskom issued a tender on the newspapers and they applied, and that secondly they approached Eskom and they were put on the database. Another supplier indicated that they approached Eskom, applied and registered and after an evaluation they qualified as a service provider. The only black-empowering company approached pointed out that they had been a supplier to Eskom for more than 30 years and that they were the only cable supplier to Eskom in the past.

When asked how they made their initial contact with Eskom, companies revealed various means. One supplier stated that his previous employer had a business relationship with Eskom and that is how he made contact. Another company pointed that their marketing strategy entails registering with parastatals, and submitting company profile, following that they were approached by Eskom when the latter was educating vendors.

With regard to the number of years the black companies had been in business with Eskom, their combined duration comes to an average of 6 years and this is excluding the black-empowering company, which has been with Eskom for more than 30 years. One company however indicated that from its experience the contracts are seasonal and intermittent. During the time of the interview the latter company had no currently running contract with Eskom despite the fact Eskom had provided their contacts for the study.

Companies cited a number of benefits or positive spin-offs that they had realized since they started procuring to Eskom. One computer company attributed 30-40% of its growth to Eskom, citing expansion of the company, increase in its staff compliment and physical expansion. The latter company stated that "the biggest value-add from the relationship with Eskom has been knowledge on management gained from sitting with managerial staff of Eskom, it is informed knowledge more than monetary value" (op cit.). A similar sentiment was shared by the stationery supplier who stated that in addition to business growth more capital had been injected to business "banks will recognize you if you have contracts with companies such as Eskom, the company is able to negotiate better terms with suppliers because of consumption and discounts. There has been a lot of learning such as doing business with big companies. Eskom advices you to put systems in place when you work with them, proper accounting systems, invoicing systems, logistics, they give you schedule. Quality is critical. They force you to have quality systems and supply good quality products" (op cit.).

All the companies agreed that Eskom was a good reference and that the relationship had given them more credibility. Whilst the major black-empowering company has been around for a longer period, it also stated that "before if you were a black empowering company, Eskom would ask other companies to price-match. The company would use black agents who did not add any value and the company would tender through the agent and the agent would do nothing but charge commission, the agent had no employees, it was a front. Eskom gave the company two years to change their status to a black-empowering company. Eskom ensured there would be black management at senior levels, they used the scorecard to make the company qualify and this has made a lot of change. The company was pressured to buy from black companies and it now out-sources to 100% black and black-women owned companies, there are three divisions totally out-sourced to the latter companies[69]".

By and large black suppliers expressed similar positive experiences from their relationship with Eskom, and these constitute; growth and expansion, business knowledge, capital injection, and other indirect benefits such as a reputable track record. Eskom was also commended for being profoundly involved as an instrument of BEE beyond its mandate and remit where it compelled

[69] The three divisions are:
- Dispatch department
- Scrap Recovery (black-women owned company)
- Maintenance and Tooling

companies to transform their own shareholding and managerial staff in favour of previously disadvantaged groups, as well as sourcing goods and services from other black suppliers

5.7.7 Business Support

Only one company testified it had received business support from Eskom. The security company reflected that Eskom identifies areas of weakness in their business and then provides refreshment on training for instance in firearms handling and other areas where they have identified a need for assistance. The black-empowering cable supplier indicated that in fact it gives advice to Eskom in electrical engineering, technical specifications and high voltage, areas in which Eskom has no expertise (Security company).

All companies were in consensus that Eskom supports black business in general. This is said to be reflected in both Eskom's business practice in procuring services and products from black companies and in their policy on BEE (Software Company). One informant added that "Eskom does support black business but unfortunately they sometimes support white companies due to fronting but Eskom goes all way out to support black companies but they have no reach-out programmes and there is still lack of knowledge amongst black companies, information is not accessible and money is misdirected" (Security company). To demonstrate Eskom support for black business, the black-empowering company (ibid.) reflected that "after you have submitted your submission Eskom will send their BEE evaluators to verify shareholding of black people and also ensure that the people you have said serve in management and the board actually do that and that it is not fronting. Eskom wants proof of payment for the money used to buy shares, if you cannot provide that you are disqualified immediately". In the main the majority of informants concurred that their relationship with Eskom is adding a lot of value.

5.7.8 Business Development

Suppliers were asked if there was growth potential for their businesses outside working with Eskom. All informants highlighted that they had other clients to whom they were providing their respective services besides Eskom. Moreover, they stated that there is room for growth outside working with Eskom. One informant (Software company) indicated that "we can definitely do business outside working with Eskom, the skills (they have) can be applied to other companies, when you tender companies want references, working with companies such as Eskom will give you competitive advantage".

Apparently there is an array of companies providing similar services to Eskom, "Eskom does not commit to one black company" (op cit.) stated one supplier. Four informants indicated that they would be able to sustain their companies in the absence of Eskom. However, it was indicated by one informant (Security) that conducting business without Eskom would be daunting for them as a company since the latter was a substantial source of their revenue, "we cannot sustain ourselves without Eskom, 30% (of R1 billion revenue) of turnover comes from Eskom, should we lose that we would not be able to continue, it would jeopardize employment statistics, we'd be forced to retrench, we have certain machinery that is solely dedicated Eskom. Without the 30% the company would not be able to operate in its full capacity, it would affect profits severely". Lastly, one respondent stated "we would survive without Eskom, but with them around we can do better" (Stationery company).

5.7.9 Additional Input outside Structured Questionnaires

In addition to the formal interview questions, informants made other general input that they thought would be advantageous to the study. One informant argued that if it was not for Eskom policies many black suppliers would struggle to access lucrative contracts (Stationery company). According to this black supplier, Eskom is the only parastatal with BEE policies that are visibly efficacious "if other parastatals followed similar policies (such as Eskom's), there wouldn't be any problems for black suppliers. With the other parastatals we don't see their policies working. Eskom would even pay more for black companies to work. They have mandated staff to take decisions when they want to work with black companies".

However, black supplier stated that "there are opportunities within Eskom but their tendering does not give opportunities to very small business because the buyers (procurement staff at Eskom) have power to select who ever they want to participate, they select companies to give business to, they don't advertise on the internet, e.g. they select 10 companies and ask them to tender. Telkom has a website that is accessible to all, Eskom hand picks their own people to supply business. If you are on the Eskom database and the buyer does not know you, they won't pick you. They use the same people and do not allow competition in the true sense. The Independent Electoral Commission (IEC) uses e-procurement[70], you register on-line and then

[70] The entire electronic procurement registration process was demonstrated to the researcher.

submit hard copies, they send you e-mails all the time, it's a transparent process, they told me to use ADSL [71]on the internet in order to be quick "(Stationery company).

"Eskom is doing their part for BEE, the challenge for small companies is getting bigger deals e.g. companies such as Accenture and Deloitte still get bigger deals. Eskom must show more confidence in small black companies" this was proffered by another black supplier (Software Company). Another supplier argued though that "things are going to be tough for black suppliers in the future, Eskom has introduced a new project called Sisonke where they have invited international companies from India and China to come and compete with local suppliers. The companies have not been technically evaluated by Eskom, they have no BEE credentials. These companies are subsidized by their governments'. For South African companies price matching will be difficult. Local companies will retrench massively" (Cable company).

5.8 RESTRUCTURING AND COMMUNITIES

The Councilor and the social movement representatives were asked questions pertaining to restructuring and its impact on communities. The informant from the WCCC indicated that "they (the municipality) introduced prepaid meters in Tshwane. There is not much resistance, they are paying even though people bridge the meters in Soulsville, Mshenguville and Atteridgeville". The informant (op cit) added that there is no active resistance around Tshwane as it is the case in Soweto. There is "silent resistance, they keep quiet and bridge the meters. The municipality and Eskom are not aggressive, they continually get into the townships and cut off electricity. Eskom and the municipality have not provoked the community. The approach in Tshwane is different as compared to Soweto probably because the Mayors, Mkhatshwa and Ramogopa are originally from community organisation s, they understand and talk to the community. They are unlike Masondo (Johannesburg Mayor) who closes the doors. Duma Nkosi (Ekurhuleni Mayor) also talks and does not use force" (ibid.).

One may argue that it is possible that the lack of resistance around Tshwane could be the result of various factors, which may include a perception that since there are no massive cut-offs that affect everyone in the community any disconnections are treated as sporadic and

[71] ADSL is internet access software that enables speedy access. **Asymmetric Digital Subscriber Line** (**ADSL**) is a form of DSL, a data communications technology that enables faster data transmission over copper telephone lines than a conventional voice band modem can provide(www.webopedia.com).

isolated cases pertaining to those households concerned, and not the entire community. Thus there is no sense of collective suffering on the matter that might induce cohesion amongst community members. The incidents of illegal connections, the so called 'silent resistance to PPMs' by some residents could be viewed as acts of mischief or common crime by some residents with which some community members do not identify as they may be considered an ignoble thing to do.

The other social movement informant (SCA) also highlighted that "as from 2001 there have been prepaid meters in Soshanguve. From 2000 they (the municipality) introduced 'binding agreements' the arrangements are based on affordability. There is the 'poorest of the poor' (POP) category and the 'agreement category'. In the POP you state that you cannot afford to pay. The municipality restricts services e.g. water and electricity[72]. In the 'agreement' category you pay all your outstanding debts, current and previous, concurrently".

The Councilor mentioned that restructuring has taken form on the generation side, where there are two power plants in Pretoria West, Rooivaal, north east of the city and in Hammanskraal, and with the introduction of the REDs . The city looks at Public Private Partnerships (PPPs) for both power stations to maximize generation capacity, the city cannot afford this on its own. Secondly, we are part of RED Six, this will restructure the distribution in essence".

The WCCC (ibid.) representative indicated that the restructuring measures were the initiative of the municipality and private companies through the PPPs[73]. The other social movement (SCA)

[72] In the POP category it is alleged that a person cannot buy electricity worth more than R80, otherwise a person will be regarded as affording to pay more. The municipality is said to send inspectors to check household appliances, in case a person has a substantial number of appliances s/he is regarded as affording and has to fall into the 'agreement' category. If a person owes a lot, s/he is disconnected. A company called Utility Management Services (UMS), a private company to whom the municipality has outsourced this role, won a tender for connecting and disconnecting electricity in case of defaulting. The UMS covers both water and electricity. It is claimed that UMS disconnects electricity from the pole if a person owes more than R5000. In the case of water, UMS will restrict the supply to the defaulting household. The owner is charged R450 for each case of disconnection and another R450 for reconnection. It is alleged that in case a person is unable to pay a law firm sends letters stating that your property will be seized by the municipality and sol in 'execution'. The amount and procedure for disconnection and reconnection is said to be the same for both water and electricity (SCA representative, 18-04-07).

[73] The WCCC (12-04-07) informant asserted that the municipality controls electricity in Tshwane. The councillor indicated that Tshwane has a dual electricity supply system with both Eskom and the Metro providing power. Secondly the WCCC informant stated that Tshwane has not been targeted for the REDs, on the other hand the councillor indicated that Tshwane will be part of RED six. Literature on REDs points that every municipal area in the country will fall under a certain RED. The WCCC informant also stated that in Ekurhhuleni the community has resisted the establishment of a RED. Duma Nkosi is said to be pro-RED against the will of the community. Lastly, the WCCC representative indicated that in Johannesburg City Power and private companies sell PPMs.

informant (ibid.) stated that it was the municipality that initiated the restructuring measures, "the prepaid meter is like an animal that doesn't give you options. If you cannot afford you go dark and without water". The Councilor (ibid.) indicated that "REDs are an initiative of national government, whilst the idea of the two power stations came from the Metro. Because of interdependence and regulation you cannot do without the DME".

The informants proffered incompatible views on the impact of restructuring. The WCCC informant (ibid.) argued that PPMs block access to electricity for the poor. Moreover, the informant generally asserted," the FBE subsidy comes from the municipality and is supposed to go to Eskom but the money does not reach Eskom and as a result the indigent policy does not work for the poor because the municipality owes Eskom". The Councilor (ibid.) argued that, for now, the impact caused by restructuring has not yet been felt by the community: for example when there are controlled outages by Eskom, the municipality is able to augment electricity from its two power stations.

Informants offered varying views on whether or not the community was involved or consulted in the restructuring process. The WCCC representative (ibid.) argued that "communities were not involved or consulted per se but the South African National Civic Organisation (SANCO), which claims to represent the people was involved. SANCO members get jobs, they are employed by the private companies that sell PPMs[74]". The SCA informant (ibid.) asserted that there was no consultation over the installation of PPMs, the change is said to have been introduced during the period of municipal integration. The Councilor (ibid.) argued that both the processes of restructuring and community consultation are governed by legislation: "the processes are regulated by the Municipal Finance Management Act (Act No.56 of 2003) and the Municipal Systems Act (Act No. 32 of 2000). Both Acts prescribe public participation. With the REDs all the wards have been engaged. The process of the two power stations has not been workshopped, the two are old power stations".

[74] The WCCC informant (12-04-07) further argued that local government think they cut costs by using private companies. The private companies are said to have subcontracted from the community through SANCO. It is alleged that this creates conflict in the community as there is no tendering process, this is said to have occurred in all areas including Atteridgeville where ordinary electricians who are not members of SANCO or the ANC do not get jobs or business. It is claimed that for a person to acquire business s/he must be in possession of an ANC or SANCO membership card, which has been given the moniker "smartcard".

Informants were asked about the merits and demerits of restructuring. The WCCC representative (ibid.) argued that there were no merits from the process except for the temporary employment for some people. Moreover, he asserted "electricity has been put beyond affordability level, if you have no money you switch yourself off. Without the prepaid meter card people cannot even access FBE". The other social movement (SCA, ibid.) informant also asserted that there are no merits in the processes: "people are complaining on a daily basis. For example there is an elderly couple that does not yet qualify for pension, they have been restricted water and electricity, and they cook outside using firewood". On the contrary the Councilor (ibid.) asserted that "households will benefit from REDs through tariff harmonization. Currently Metro buys from Eskom and determines the price, NERSA regulates the price. In some areas tariffs will go down, for others they will go up through harmonization. Secondly, restructuring will ensure sustainability; the city makes huge profits from electricity and uses that somewhere else. With the REDs power money will go to maintenance and repairs for infrastructure. The money will be ring-fenced for electricity matters. The demerits are that prices will go up for some areas and a slight demerit with REDs is that the service will be provided far from the community". Lastly respondents were asked if restructuring was generally a positive intervention. The social movements gave a resounding "No" [75]whilst the Councilor said the community would be the judge as the beneficiaries.

There were no tangible data for the measurement of the success of electricity restructuring. The WCCC (ibid.) informant quoted the case of Johannesburg where it is alleged that Mayor Masondo states that customer satisfaction surveys are a proof that restructuring has been a success. The Councilor (ibid.) stated that they can only tell in the future if restructuring has been a success or not. With regard to outsourced functions, the social movements stated that the installation of PPMs had been outsourced whereas the Councilor only cited streetlight maintenance.

Community members and the social movements do not appear to be in a position to clearly comprehend where the restructuring process originates. The installation of prepaid meters is part of bigger government drive to transform the Electricity Supply Industry (ESI) led by the

[75] The social movements repeatedly said restructuring was not a positive intervention. They cited cases of 'bridging' electricity as proof of that and also spoke of corruption amongst municipal officials where people are promised debt cancellation in return for bribes (e.g. R500 to write off R3000). It is alleged that three moths after paying he bribe the person would find himself with the same original debt and the bribing official becomes difficult to trace.

DME. For social movements and other community members they simply attribute the existence of the prepaid meters to the municipalities alone which is actually incorrect.

5.8.1 Electricity Supply and Communities

This section is concerned with electricity supply. Informants were asked questions that pertain to the affordability of electricity. The WCCC informant argued that electricity was not affordable to all quarters of the community hence there is an indigent policy. The informant further claimed that there are no measures to make electricity affordable and the government is not willing to introduce environmentally friendly sources of power (e.g. wind, solar etc.). The SCA informant stated that electricity is not affordable "As people in squatter areas have no access at all, electricity, no water. There are illegal connections, in the townships it is partially affordable, 50% can afford, 50% cannot. They introduced POP but it has loopholes. If you cannot afford to pay for 3 months they cut you off totally, it is very much based on affordability".

The Councilor asserted that affordability is relative "we supply a basic level service to 70% of the metro, there is 30% without access. The basic 10 Amp is provided for free, so yes, there is affordable electricity". The Councilor stated that they have introduced measures to make electricity affordable to the poor, "there is FBE, and there is a step up tariff, the lesser you consume, the lesser you pay. It is not absolute, poor people do not always use less electricity, the city advocates that people should fall within the lower band. Another measure we have is the prepaid meter to ensure that people use what they can afford".

The informants were further asked questions on FBE. FBE is 50 kWh per month for all communities. The WCCC representative argued that FBE is translates to R26 in monetary terms whilst the Councilor quoted R 30. The WCCC informant (ibid.) declared that FBE is not adequate citing that in winter it is finished quickly "it is adequate for lighting hence people keep the coal and paraffin stoves. But it is not adequate for cooking, heating the house and the geyser". The SCA representative (ibid.) claimed that "FBE is not sufficient if you have a stove, kettle, iron, you finish it within 14 days". The Councilor (ibid.) stated "the city wants to increase the threshold. Technical people will argue that 50kWh is sufficient for basics, stove, lighting, TV, may be fridge. It is a case of either for example stove, lighting, TV or radio".

All three informants (SCA, WCCC and Tshwane Councilor) pointed out that the municipality does have an indigent policy. "Tshwane applies the indigent policy better than other municipalities[76]. In Tshwane electricity is controlled by the municipality so the indigent policy is applied fully" (WCCC, ibid). The POP system is said to originate from the indigent policy (SCA, ibid.). The Councilor(ibid.) stated that the indigent policy "is aimed at people with an income of less than two state pensions (R1600) a month, such people qualify for PPM, its free installation (PPM cost over R1000 for the consumer but without subsidy its about R3000) and they also qualify for a write off of any accumulated debt on their account, if the property value is less than R10 000 they do not pay property rates, the house is not ratable".

The policy on electricity cut-offs is said to apply when the FBE is finished. "The municipality gives you free credits meaning the person will have a PPM but still receive an electricity bill" (WCCC, ibid.). "The policy on electricity cut-offs has not been shared with the community but we know what happens with cut-offs" (SCA, ibid.). The Councilor (ibid.) elucidated that if a person is not registered as an indigent if they do not pay within 45 days their supply is suspended. With regard to the installation of the PPMs, the WCCC (ibid.) stated that "Some areas have conventional meters and PPMs are optional but in the new areas PPMs are automatically installed". "In the townships 2% is conventional, 98% is PPM, which is all over Tshwane" (SCA. Ibid.). The Councilor (ibid.) indicated that there are two levels: "if you are a registered indigent, the PPM is installed free of charge. For those not registered it is installed at a R1000 charge. PPM is by choice if you are not an indigent, if you cannot afford you can pay it in 3 installments".

When asked about the revenue management system used in the city the social movement respondents did demonstrate a clear understanding of the system. The Councilor (ibid.) stated that "the city collects in-house (one of its divisions), the municipality charges directly. Eskom areas pay directly to Eskom". Since there is a dual electricity supply system, all parties indicated that the system is not standard across the municipality. Eskom supply has a different tariff structure from that of the areas supplied by the municipality "there is no big differentiation between the tariffs, the difference is a step-up approach, and units might be different. Eskom areas are entirely on prepaid meters" (Councilor, ibid.).

[76] It is alleged (WCCC, ibid.) that in the Vaal area (where is dual electricity supply) the indigent policy works for areas under the municipality but for Eskom served areas it does not work as Eskom waits for the municipality to pay them first before they can provide FBE to those on the indigent list.

5.8.2 Additional Input outside Structured Questionnaires

The Tshwane Councilor stated that the problem with the electricity crisis in Johannesburg has to do with the billing system. There have been similar problems in Tshwane when a new billing system was introduced, the System Application Protocol (SAP) an operating system like Windows[77] was adopted. The SAP system was used when 3 old billing systems were phased out and the city migrated to a new system-SAP. Things went wrong; there were wrong numbers, wrong capturing, and some people got ridiculously high bills. The incidents were major but not to the extent of Johannesburg. They affected 5% of the city, which is about 25 000 households. The Councilor (ibid.) further highlighted that there are no strong social movements in Tshwane "before the 2006 local elections there was an attempt to establish the APF in Soshanguve but it failed. It was about people trying to get elected".

5.9 ESKOM AND CORPORATE SOCIAL RESPONSIBILITY

As indicated in chapter 4, the Eskom Development Foundation was only founded in 1999. Before the establishment of the Foundation and its community development programmes, Eskom used to report on "community relations" in its annual reports (for instance in the 1995 annual report). A distinction was made between electrification for residential users and that for schools and clinics. The electrification of schools and clinics and other development activities were therefore all reported under the banner of "community relations". Eskom set a target of spending R50 million per year until 1999 on the electrification of schools and clinics and other development activities (1995 Annual Report, p.55). The report (op cit.p.55) states that funds were allocated as follows:

Activity	**Funding**
Electrification of schools and clinics[78]	R15 million
Small Business Development	R15 million
Other Community Development Activities	R20 million

Table 11. Corporate Social Responsibility Expenditure at Eskom by 1995. Source: Eskom Annual Report 1995.

[77] Windows is a registered trade mark of the Microsoft Corporation.
[78] An additional R15.2 million was donated by the Norwegian government for the electrification of schools and clinics (1995 Annual Report, p.55).

It is stated (op cit. p.55) that during 1995 a total number of 893 (1994:562) schools and 37 (1994:21) clinics were electrified against a target of 900 institutions (both schools and clinics). The cost for the latter was R29 million (1994:R10.8 million) for schools and R0.6 million (1994:R0.4million) for clinics excluding research and other costs respectively[79]. In 1995, Eskom (op cit.p.55) further reveals that a total of R19.8 million (1994:19.2 million) was spent on 289 community development projects[80]. In the same year, Eskom claims to have directly assisted in the establishment of 502 (1994:534) small and medium enterprises at a cost of R1.5 million (ibid.p.55). Through the Eskom Finance Company, Eskom assisted 21 504 (1994:21 171) to own a home by allocating housing loans.

With the establishment of the Eskom Development Foundation in 1999, by 2001 the parastatal was able to report substantial progress on its programmes. According to the 2001 Annual Report[81] a total of 127 community development and small business development projects are said to have been approved across the nine provinces including two national projects and the Eskom Mathematics and Science College Education (EMSCE) Project. A total of 2 185 jobs are reported to have been created through the small business development grants for projects, 1 906 beneficiaries in the community development projects and 174 donations made to philanthropic and welfare organisations and strategic projects (Annual Report, 2001, p.6).

Other projects include grants for electricity supply where 267 schools with 2 581 classrooms benefited, and the Medical Research Council receiving a grant for a second year for the South African AIDS Vaccine Initiative (SAAVI) (ibid. p.7).

A total number of five Eskom Development Foundation beneficiary organisations were interviewed around Gauteng province. The focus areas of the beneficiaries ranged from fresh milk production, a HIV/AIDS hospice, a women's skills development project (sewing and upholstery), bed and breakfast accommodation service provider, to a disability day care centre. Assistance varied from an erection of a building to purchase of operational equipment. It is

[79] Eskom asserts that during 1995 it took the full responsibility for the electrification of all schools whilst the Independent Development Trust (IDT) took responsibility for the management of the clinic electrification programme (op cit.p.55). It is further highlighted that from the RDP funds allocated, 97 grid schools at a cost of R3.7 million and 67 non-grid schools at a cost of R2.8 million were electrified (op cit.).

[80] The breakdown for this expenditure was; R11.4 million for education, R5 million for community development and R3.4 million for capital projects (op cit.p.55).

[81] The Annual Report solely looks at the work of the Eskom Foundation and is separate from the Eskom Holdings one.

worth noting that the beneficiaries comprised of non-profit social development initiatives as well as pure business enterprises. The guest house and the milk producer are essentially private initiatives aiming on economic growth and expansion as businesses. The women's skills development project also aspires to grow and become a fully fledged factory supplying clothing and upholstery to different markets.

All of the five partaking entities were 100% black owned even though for the hospice, the day care centre and the women's skills development project shareholding was not a concern as they regarded themselves as non-profit organisations. The guest house was 100% women owned whereas the milk production was 50% male and 50 female owned respectively.

Informants presented a number of services that they offer[82]. The non-profit organisations cited services such as home-based care and day care (Emily Jordaan Hospice[83]) and welfare services such as protective workshop for the mentally challenged where employment opportunities are created for the people with disability to complement the disability grant (Harvey Cohen Centre). The women's skills development centre (Tshwaranang) provides training for unemployed women in areas such as; dress-making, design, patchwork, quilting, curtaining, craft (hospice patients) and upholstery. The milk production company (Egoli Farm Fresh Milk) produces and sells; milk, amasi (sour milk) and fruit juices. The guest house (the View Guest House) provides bed and breakfast accommodation as well as catering services. The guest house also provides in-service training for young people in the hospitality industry.

When asked how they made they initial contact with Eskom, four of the informants stated that they approached the parastatal with proposals and received positive feedback. One informant (Bed and Breakfast) revealed that Eskom had advertised their sponsorship on the papers and they submitted their proposal and thereafter the parastatal sent their representatives to inspect

[82] The interviews with the Eskom Foundation beneficiaries were as follows:

1. The interview with Egoli Farms took place on 12 May 2007, at Mentoor Stores, Section O, D2, Mamelodi Township, Tshwane Metro. The organisation was represented by Mr and Mrs Tollman, its co founders and owners.
2. The Emily Jordaan Hospice was represented by Mr Champ Marobe, manager. The interview was conducted in Kagiso Township, West Rand, Johannesburg, 22 May 2007.
3. The Harvey Cohen Centre was represented by Mr Patrick Mafalo, centre manager. The interview was held at the organisation's offices, Eldorado Park, Soweto, Johannesburg, 22 May 2007
4. Ms Dorris Fakude, chairperson of Tshwaranang Skills Development Co-operative participated in the interview. The interview took place at the organisation's offices, Kliptown, Soweto, Johannesburg, 22 May 2007.
5. The View Guest House was represented by Mr Veli Bokaba, manager. The interview was conducted during an exhibition at Gallagher Estate, Midrand, Johannesburg, 23 May 2007.

the site and the proposal was approved. Most projects asserted that they qualified for funding due to the commitment each had displayed in their various fields. "We have commitment to the hospitality industry; we have passion for what we do". Another informant proffered, " the project has a long history, since 1981, its been 26 years of existence more than any other project established during apartheid, others don't exist anymore, project has trained over 4000 women who are now successful as entrepreneurs" (Tshwaranang).

The recipients have been offered different kinds of assistance. The milk producer received equipment to the value of R200 000. The hospice had their building extended at the value of R200 000. On the other hand the women's skills project received machines to the value of R350 000 as well as skills training provided by the Department of Labour. The day care centre for people with disability received various therapy equipment to the value of R118 000. Lastly the guest house received air-conditioners and an intercom system which improved their business dramatically.

For most beneficiaries the relationship with Eskom has added significant value. "It has opened many doors, we are waiting for Social Services for an opportunity to supply uniforms to HIV/AIDS orphans. All other networks that we have are due to Eskom" (Tshwaranang). The guest house manager revealed that "we can now communicate directly with our guests through the intercom. The company is more effective. We can now host events in the conference centre even in winter, the standard has been uplifted" (Bed and Breakfast). "It added a lot of value, with the equipment the students get everything at the centre, physiotherapy and other therapeutic services are now offered in-house, there are no more trips to the hospital, therapy is done weekly for clients before it was done once a month at the hospital or any other venue" (Harvey Cohen Centre). One beneficiary stated that even though they had state of the art equipment, the business was not moving. "we live from hand to mouth, the Eskom representative has promised further funding" (Egoli Farm Fresh Milk). The recipients felt Eskom was a caring company as they cited other cases of other recipients that they either have had of or met through networks. Most beneficiaries stated that they are able to acquire additional assistance from other sources and that they would be able to sustain themselves outside the relationship with Eskom.

The catalogue of programmes and beneficiaries seems to have increased and diversified in the period 2001-2005. The table below illustrates expenditure during the five year period.

2001 Programmes

Programmes	Budget 2001 Rm	Actual 2001 Rm	Actual 2000 Rm
Community development	10,0	9,1	22,7
EMSCEP	5,0	5,3	4,0
Donations	3,5	3,4	5,9
Small business development	10,0	6,0	8,7
Electrification of schools and clinics	8,5	9,6	13,9
SAAVI	15,0	15,0	15,0
TOTAL	**52,0**	**48,4**	**70,2**

Table 12. Corporate Social Responsibility Expenditure at Eskom by 2001. Source: Eskom Development Foundation Annual Report 2001.

2005 Programmes

Programmes	15 months 2004/5 Rm	12 months 2003 Rm
Education (EMSCEP)	4,3	4,5
Donations	8,3	7,4
Economic and Social development	30,9	23,0
Strategic Projects (later called Legacy)	6,8	9,2
TOTAL	**50,3**	**44,1**

Table 13. Corporate Social Responsibility Expenditure at Eskom by 2005. Source: Eskom Development Foundation Annual Report 2005.

5.10 CHAPTER SUMMARY

This chapter is the presentation of findings from both field research and documentation such as Eskom annual report. It offers findings as both descriptive and analytical codes where the actual raw data is presented and then synthesized into emerging themes. The chapter analyses interview material with Eskom managers and all other external stakeholders such as unions, suppliers, social movements, municipalities and community based organizations as well uses documentary analysis. It indicates that class plays a major role in shaping impact of Eskom's BEE policies.

Chapter Six

Conclusion

6.1 INTRODUCTION

This chapter is the pinnacle of the study, summarizing the major themes and hypotheses that have emerged from the paper. The chapter is completed by a set of recommendations of which some are specifically directed at Eskom as a parastatal and a case study whereas the rest are on BEE and the socio-economic context expansively.

6.2 TECHNICAL DISCUSSION

This study is an attempt to interrogate the concept of BEE and its implementation using a parastatal Eskom. The BEE concept has been scrutinized against a socio-economic backdrop characterized by the advent of neo-liberalism and the restructuring of SOEs. Eskom as a case study has been examined from a comprehensive perspective both internally and externally, examining its undertakings on BEE implementation. From an internal perspective at Eskom, the study looks at issues such as employment equity, skills development, training, and human resources development, whilst externally the focus is on the parastatal's work on its outer environment looking at areas such as electrification, procurement and corporate social responsibility.

In an attempt to answer the main research question of this paper, the researcher has tracked the objectives of the study through each of the chapters. The study objectives were;

- To contextualize BEE in South Africa as an economic development tool by utilizing economic development theories (neo-liberalism in particular) as lenses to view and understand it; and
- To use Eskom as a case study to assess progress in attaining policy objectives of BEE.

From a shortsighted perspective, answering the question "Examining the effectiveness of BEE implementation: A Case study of Eskom restructuring: 1995-2005" could have easily yielded the answer "Eskom has not sold any equity to the private sector, thus it has not been restructured". However, the literature study and the chapter on Eskom have disaggregated the

concept of restructuring, demonstrating its intricacies through explaining, privatisation, corporatisation and commercialization and the nature of SOEs.

The case study of Eskom has pointed that BEE can be successfully implemented within a neo-liberal context provided government has a clear and structured 'developmental agenda' that is biased towards the previously disadvantaged. Unbridled neo-liberalism, especially hinged on outright privatisation of SOEs, is what raises ire amongst opponents of pro-market policies. Through targeted policy instruments, government can utilize parastatals as enablers of economic development. With the case study of Eskom, government has been able to partially fulfill its transformation agenda and meet some of the objectives of the RDP.

By abandoning the outright privatisation of Eskom government has been successful in utilizing the parastatal as a vehicle for economic development and transformation. Veck (2000, p.197) observes the foresight the ANC had in 1990 on the role of parastatals with regard to economic development:
"Public corporations operating in such areas as electricity supply all provide major inputs to development through an infrastructural base a future government will need to transform the public sector into a vehicle for development"[84].

It bears pointing out that in the early 1990s it was inconceivable to envision parastatals being used as vehicles of economic development for the poor majority of South Africa without having them nationalised. The Eskom case study has demonstrated the reality of what could have been viewed as impossible, namely, utilizing parastatals to empower the previously disadvantaged black majority within a neo-liberal context. The case study highlights how government has used Eskom as means to a number of quintessential development ends within its agenda. By peopling the parastatal with previously disadvantaged groupings particularly Africans, between 1995 and 2005 government has transformed the demographics of Eskom at senior management to about 60% blacks and replicating that phenomenon across levels within the utility. Secondly, government has served the purpose of reconstruction and development within Eskom by creating programmes geared at providing skills and training, bursaries and even housing loans for employees.

[84] Statement released at ANC Economic Debate in Harare, 1990 (Veck, 2000).

Employment equity targets and skills development efforts within Eskom demonstrate quantifiable progress. From the policy front Eskom has managed to institutionalize BEE through its targeted and explicit policy instruments. To a large degree BEE policy implementation has been quite effective at Eskom. Accounts such as that of Southall (2006) expressed a skewed manifestation of BEE where blacks have mostly occupied non-specialised or general portfolios in corporations with core areas such as specialised production (engineering and other technical fields), finance and strategy remaining white. Eskom has to a remarkable extent demonstrated a balance and spread of black professionals across both core and support dimensions of the parastatal and in executive roles.

Criticism has however been raised on the significance of women and people with disability within the corporation where some of the unions still maintain that women remain inconspicuous at the upper echelons and do not register convincingly outside the periphery. The demographic transformation within Eskom has indeed mirrored Afrikanerisation of parastatals as driven by the National Party in the apartheid past except that this time around the motive is corrective and developmental as opposed to racist and oppressive. The concept of AA continues being applied at Eskom alongside newer concepts such as employment equity and BEE. In addition to recruitment based on skills, a convincing and conscious effort is made by Eskom to increase the numbers of previously disadvantaged groups such as blacks in general and women in particular in the staff complement.

In the external environment, Eskom has contributed to BEE by sourcing goods and services from black suppliers. According to some black suppliers Eskom is viewed as premier facilitator of BEE amongst parastatals where the black suppliers (especially small) claim to have benefited more from Eskom than from any other SOE. Nevertheless, some have questioned access and transparency of the tendering process with 'fronting' being cited in some instances. Community based individuals and groups have seen the benefits of social and economic programmes under the auspices of the Eskom Development Foundation, the Corporate Social Responsibility wing of Eskom.

The early strand (the first type) of BEE occurring in the 1990s was characterized by the selling off of equity from historically white corporations to black business individuals. This strand was heavily lambasted as narrow and inaccessible to general public and not contributing to

economic growth and development of the poor majority. The second strand of BEE the so-called "broad based" black empowerment was and continues to be an attempt redistribute and spread BEE gains across a wider spectrum of the previously disadvantaged majority. Through its sourcing of goods and services from black suppliers and social development programmes of the Foundation, Eskom has arguably made some inroads in addressing the loopholes of narrow BEE. Eskom BEE can be perceived as broad-based due to its accessibility to small black entrepreneurs and community based organisations. Testimonies from black suppliers and civil society beneficiaries of Eskom programmes attest that in most instances the applicants simply approached the utility and received a positive response.

Overall, Eskom has proven to be a facilitator of reconstruction and development in many areas beyond its mandate and remit as a power utility. Eskom has been commended by most organizations that have benefited from their community or social development programmes. However, the assistance received has in most cases been found wanting in terms of coming with a well-rounded strategy to assist non-governmental organizations: for example, most recipients proved to be in need of technical assistance in most areas of managing their entities beyond receiving grants, equipment or having a building erected. A comprehensive strategy would assist organizations to manage this take-off off stage where they worry less about water and lights and the general upkeep of their organisations and focus more on their core business.

At the height of apartheid, and especially before the 1980s, access to electricity in South Africa had been the privilege of white people and industry. Eskom has been instrumental in transforming the infrastructure and landscape of the black areas through the national electrification programme. The universal access undertaking has seen black residential areas and schools and clinics being connected to either a grid or non-grid system through Eskom's efforts. The story of the electrification of black areas would not be complete without discussing electricity cut-offs. The massive cut-offs in the early 2000s especially around Johannesburg with Soweto in the spotlight, point at two critical factors, one of the billing system and secondly, the plight of poverty and high unemployment in the affected communities. Again one may argue that the electrification programme and universal access represent "broad" BEE whilst on the other hand the disconnections represent "narrow" BEE as they were based on affordability which was a privilege of a few.

As highlighted in the preceding chapter, the electricity crisis was primarily characterized by inefficiency in the billing system where people were over charged or their efforts to pay were not registered and this was compounded by cases of corruption of officials and unlawful reconnections. Moreover, people in the townships could not handle the price hikes. The same billing problem was experienced in the case of Tshwane Municipality when there was migration from one billing system to another and people's bills were inflated creating havoc. Beyond the mishaps of the billing system, most accounts on the electricity crisis had focused on the evolution of social movements and their central role in the crisis and those studies finger government and Eskom as responsible for the catastrophe and the plight of the poor.

It is also worth noting that the impact of restructuring has had varying results across communities. One may compare and contrast the highly publicized case of power cuts in Soweto, whilst no crisis was reported in the neighbouring Tshwane area as well as in Ekurhuleni. Existing literature has dwelled much on the case of Soweto whereas there is not much mention of the nearby municipalities as well as other distant metros such as Cape Town and eThekwini.

What comes out of this study is that the electricity crisis occurred within an ambit of a society mired in poverty and high unemployment. People's inability to pay can be largely attributed to the macro economic problems and the general cost of living in South Africa today than merely on affordability and the price of electricity. Poverty is endemic in the country and it is beyond a single parastatal's efforts or municipality interventions such as free basic electricity, free water and prepaid meters to remedy macro economic problems. Structural economic problems such as high unemployment and poverty have amplified the household electricity problem beyond its role in the country. Improved indigent policies, increased FBE and prepaid meters would seem ineffective in a sea of poverty and high unemployment. Nevertheless, denial of access to an essential commodity such as electricity will always raise eyebrows as it is considered vital to every human activity and for many South Africans highlighting the macro economic problems by no means exonerates the government and is seen as betrayal of struggle efforts.

The misgivings and disapproval pronounced by the unions on Eskom particularly on the quandary of workers need close scrutiny. Unions have proven to be ambivalent about restructuring and progress attained at Eskom in the past decade. On one hand they have

commended the parastatal on the effectiveness of BEE and demographic transformation of the utility; on the other hand there is disagreement with the manner in which transformation had transpired with lacks of consultation and transparency often being cited. For some unions there has been disapproval of both the means and the ends of the process, whilst some have only stated disagreement with only the means. Union accounts have also proven to be tinged by racial and class undertones as it was demonstrated in the findings, it can be argued that class and racial stance had a strong bearing on how unions responded to the questions.

What can be concluded from the various accounts is that despite the negative expressions on Eskom in general, the benefits of restructuring and transformation seem by all means to outweigh the criticism leveled at the parastatal[85]. Two scenarios deserve pointing out; the predicament of black workers who have been laid off due to restructuring seems to be, inter alia, a result of macro socio-economic problems prevalent across society and not just a problem at Eskom. These macro problems could be spelt out as *inter alia*, limited education amongst some of the workers and possession of skills that are no longer in much demand resulting in inability to take advantage of new opportunities in various fields within the parastatal[86]. Secondly, there seem to be alienation of some of the unions due to demographic transformation as it was felt by one union that the goal of restructuring is to dispose of white male employees from the parastatal. For many employees in possession of mostly manual skills or limited education there has been common inability to take advantage of opportunities and no luxury of alternatives when faced by looming retrenchment.

[85] Nota Bene: The mentioning of macro economic problems is not contrived to exonerate Eskom and downplay their responsibility and commitments to workers, it is only meant to bring the bigger picture to the fore. This positive reflection does not aim at discounting the depositions made by the unions on job losses. The issue of lost employment and its adverse impact on the well being of the affected employees is herein acknowledged. Greenberg (2006) points out that Eskom employment went down from about 65 000 employees in 1985 to just around 30 000 in 2005. Hallowes (2002) has also berated South Africa's post 1994 economic policies as leading to massive job losses. This observation is corroborated by an analysis of key statistics in Eskom's annual reports where the downward pattern is evidenced on the numbers of staff employed:

- 39 952 (Eskom Annual Report, 1995)
- 34 027 (Eskom Annual Report, 1999)
- 33 032 (Eskom Annual Report, 2001)
- 31 972 (Eskom Annual Report, 2003)
- 31 475 (Eskom Annual Report, 2005).

[86] It was expressed by NUMSA that due to old age some of the workers, especially those at low levels and with minimal or no qualifications, are not able to upgrade their skills or relocate to areas where there is still some demand for their skills as they have families and are long settled in their residential areas.

The accounts of commentators such as Bond (2001, 2002), Greenberg (2006), Magubane (2004) and Desai (2003), amongst others, have largely demonstrated wholesale criticism of neo-liberalism in South Africa. The ANC is construed as having betrayed the people and the objectives of the RDP. The critique has generally failed to zero into the intricacies of each case of restructuring: in most instances the poor have been portrayed as homogenous, equally and adversely affected by restructuring. The merits and demerits of restructuring have not been equally examined and presented. The criticism has mostly been a one sided affair with the predicament of the poor being overly sensationalized and government being painted as a villain.

The ANC's handling of neo-liberalism cannot be compared to other cases where the market has triumphed over the will of the people such as in Chile under Pinochet, or the United States and Britain. Whilst in the latter three countries neo-liberalism was initiated and spearheaded by local capital in a then dominantly 'welfarist' global context, the ANC and many other governments in developing countries were compelled to embrace neo-liberalism due to the international context at the time and some pressures, especially from Washington institutions, that they could not repel. Under the ANC the unions have enjoyed a relatively high degree of freedom and have amassed substantial triumphs through legislation. In Chile, Pinochet with the support of the United States, all social movements and political movements on the left were violently repressed (Harvey, p.3, undated). In the case of Britain and the United States it was not possible to exercise violence similar to Pinochet's and so consent had to be constructed before the neo-liberal revolution.

Thatcher, a self-proclaimed revolutionary did it by the textbook: like Gramsci had conceived, she also observed that consent and hegemony must be organized ahead of a revolution (Harvey, op cit.). In Britain consent was between capital and the middle class at the expense of union power and the bloated welfare state apparatus that was unceremoniously dismantled (Harvey, op cit.). All forms of social solidarity were to be dissolved in favour of individualism, private property, personal responsibility and family values (Harvey, op cit.). In the United States consent was between capital, the Christian right, and sections of the white working class at the expense of consumer protection and labour law reforms (Harvey, op cit). To a great extent the latter cases cannot be compared to the ANC government's handling of neo-liberalism during the heydays of global market capitalism.

The ANC as a nationalist party has set parameters for neo-liberalism. Government has been quite interventionist dictating terms through legislation on how all sectors should transform and factor in BEE whilst still allowing private enterprise to thrive. A similar comparison can be drawn between South Africa and Zambia where Kaunda "Africanised" the economy by removing foreign domination through acquiring control of most major means of production and services whilst at the same time establishing a firm foundation for the genuine development of Zambian business (Turok, 1989, p.43). Of course, Kaunda made it a point that whilst the way was open for Zambian businessmen, there would be limits to the development of private enterprise in order to prevent the creation of business barons. The ANC has many business barons amongst its rank and file and thus has not shown any serious opposition to their rise.

In the case of Eskom, for instance, not much has been expressed in the literature on the overall merits of corporatising the parastatal and retaining it in government hands and the marked success of commercialization in as far as efficiency of the parastatal is concerned. The accounts again have fallen short in cogently delineating between structural and macro economic problems and those peculiar to individual restructuring of concerned entities. In the case of electricity for example, the focus has been on cut-offs and the inadequacy of FBE. In many townships people appear to have acclimatized to the usage of prepaid meters, where, in addition to FBE, those who can afford can plan and take responsibility for their consumption. Failure to provide solutions to the macro-economic problems mean that even if levels of FBE and free water could be increased for many poor people with limited skills and low levels of education, problems of poverty and high unemployment would be left unresolved and people would not be in a position to take advantage of the opportunities in the economy.

The general criticism of BEE implementation in the country has been mostly focused on narrow BEE where only a few politically connected members of the elite are said to have benefited. In comparing the Eskom case to many others reported by the media especially those on implementation of BEE in the private sector, one may conclude that private sector BEE does not give a picture of well thought application of empowerment[87]. Private sector BEE has mostly been abbreviated to selling of equity to a few blacks who mostly already possess shareholding

[87] Other recent accounts (Makgetla, 2007, Mail and Guardian, May 25-31) also concur that equity transactions as they occur in the private sector are generally slow to create wealth that is associated with empowerment and whites still dominate management echelons in the private sector. Moreover, it has been asserted that there has been a distinct emergence of a black middle class.

of some kind in other companies. The latter cases are an epiphany of the shortcomings of overly accentuating the ownership element of BEE at the deficit of other aspects of the BEE process. As compared to Eskom, the private sector cases demonstrate limitation and no further coherent and conscious efforts to visibly pursue other elements of BEE such as skills development, employment equity, management control and others directed at developing and procuring to small black enterprises.

The ownership element of BEE has been portrayed as a hallmark or sine qua non of empowerment. The case study of Eskom has revealed a few important points in favour of discarding the ownership element in the restructuring of SOEs for BEE and understanding the BEE trajectory. The preceding chapters have closely examined the evolution of the BEE concept from the initial private sector lead initiatives to its institutionalization when government established formal measures to embrace BEE through legislation and other efforts. Ownership of the means of production became the linchpin of empowerment and a defining measure of the new epoch when contrasted with its predecessor of black advancement.

In the case of Eskom and black enterprises, BEE could be regarded as comprised of both broad and narrow elements. First, in the case of procurement, Eskom BEE is "broad" based on the fact that it is open to all black enterprises who want to do business with the parastatal. Thus Eskom facilitates for the creation of black enterprises and allows "broad" access for procurement of goods and services. Secondly, Eskom BEE could be interpreted as "narrow" in the sense that only a few blacks in possession of the right skills and business acumen are able to take advantage of the opportunities in the parastatal. Many other blacks who have limited skills are not in a position to set up companies and take advantage of the opportunities, but that as earlier indicated, is due to macro socio-economic problems bigger than Eskom.

The significance of the ownership of means of production by the previously marginalized black majority cannot be over-emphasized; indeed the ownership element of BEE will remain the cornerstone of empowerment. By retaining ownership of SOEs (through corporatisation) and putting outright privatisation in abeyance, especially with Eskom in this instance, government has nonetheless promoted ownership via the creation of new means of production through the establishment of small and medium sized black enterprises procuring goods and services to

various entities including SOEs[88]. The newly created means of production have resulted in new black owned companies and employment creation which arguably leads to economic growth and development. This is a nod to BEE and bodes well with economic development for the black majority as opposed to mere mergers and acquisitions or selling off of equity. There is a rationalization that selling off equity and outright privatisation is more likely to lead to retrenchments and contributes less to economic growth as compared to creation of new enterprises.

The polarization of South African society along class lines bears serious mentioning; it appears that the role of social class has been downplayed in most commentary. The initiation of PPMs versus conventional meters on electricity supply may be understood as an illustration of the divide in income levels. For instance affluent quarters of society in most municipalities arguably still maintain the conventional meters whereas for many poor households prepaid meters are a matter of course. For new houses built in the townships PPMs come standard, which is not the case with new up market residential developments. There are class and racial undertones to the approach. For new houses built in the townships it is black people who predominantly inhabit them whilst for new residential areas in up market suburbs race is insignificant but affordability and income dictate who stays where. Nevertheless, one may argue that whilst there could be an increase in the number of affluent blacks, white people are less likely to experience the usage of prepaid meters as they still have more propensities to afford up market residential areas than most black people.

The racial interpretation of the dependency theory means that in the case of Eskom there has been an increase in the number of blacks migrating from the periphery to the core of economic activity through skills and training, managerial and professional positions and income levels. For those who able to partake in the movement from the periphery to the core clearly more effort should be made in increasing enablers for them to progress and realize their potential.

[88] In this instance the objective of the ownership element of BEE is not at totally discarded but is carried out from the outside of SOEs through small and medium black enterprises.

6.3 HYPOTHESES TESTING

Hypothesis A: Government requires the use of Parastatals in order to implement BEE.

This study has indicated that, to a great extent, government stands a good chance of garnering mileage in its usage of parastatals to effect BEE implementation and other aspects of socio-economic transformation. Relative to the private sector, the state has a better ability to exert control, influence and management of parastatals, compared to the limited hold it has over private sector entities. Whilst the state can legislate various aspects of transformation and empowerment processes across both private and public spheres, there are obvious limitations to what the state can compel private entities to do within a free market system. If one would use the BEE scorecard measure the performance of Eskom on BEE implementation, sans the ownership element, the parastatal would attain a high score in the process.

Hypothesis B: A Parastatal Such As Eskom Needs To Be Restructured In Order For BEE Implementation To Take Place.

The state needs to establish and enforce unambiguous policy and institutional mechanisms to effectively implement BEE. The different elements of BEE will require various forms of restructuring for them to be effectively implemented within parastatals. The variants of restructuring as already discussed in the literature review provide a shopping list of options for the state to pursue. Contrary to the dominant opinion that was in vogue in the 1990s and largely expressed through the GEAR document, the outright privatisation type of restructuring is but one option that a state may pursue in the neo-liberal restructuring of SOEs. Informed by the prevailing conditions of poverty and high unemployment, avoiding selling off equity in entities such as Eskom is a prudent move by the state. By abandoning the ownership element of BEE, the state in fact stands a better chance of playing its developmental role and implementing social justice through parastatals in a way that benefits PDIs.

Implementing the ownership element of BEE through parastatals is clearly not necessary. If SOEs have to be restructured to implement BEE, the other elements of BEE such as employment equity, management control, enterprise development and skills development can still be effectively implemented without selling off equity to private hands. With the restructuring of Eskom through the Conversion Act that brought about corporatisation of the parastatal, the

state has been able deliver on some of its development imperatives. BEE thus happens to occur well within a restructured environment.

Hypothesis C: The Implementation Of BEE Requires A Neo-Liberal Economic Context.

The neo-liberal context has provided an enabling environment for BEE implementation. BEE in South Africa came at a time when neo-liberalism had triumphed within the global context. BEE and neo-liberalism have dovetailed and worked well in South Africa. This study has also demonstrated that the implementation of BEE does not necessitate a neo-liberal economic context to be realized. Drawing from the cases of "Africanisation" in Zambia and the experience of Afrikaner empowerment under apartheid, both herein viewed as targeted empowerment processes, it is safe to conclude that contrary to the ambitions of GEAR, BEE as it is currently understood can be implemented without pursuing neo-liberal policies. Again the case of the nationalization of copper mines in Zambia where the private sector was unwilling to increase production and expand the mines (and thus maintain as well as increase employment) resulting in government's move to nationalize (Coleman, 1991), demonstrate that "Africanisation" and BEE have shared similar developmental aims, *inter alia*, employment creation. The difference between the two has been the context, BEE occurs within the age of globalization and neo-liberalism whilst the other empowerment process occurred at during the Cold War where capitalism and socialism were both dominant. Therefore neo-liberalism has presumably been central.

The ownership element of BEE is a purely neo-liberal conception as it is premised on the transfer of SOE equity from public to private hands. However, the other elements of BEE such as management control, employment equity etc. can arguably be executed within a generic mixed economy setting. Additionally, one may argue that any policy instrument that interferes with the market in terms of dictating terms as to who should buy goods from whom, who should be trained, who should form part of management, particularly based on race, is in direct conflict with capitalism and its offshoot neo-liberalism and therefore BEE is not compatible with purist neo-liberalism and capitalism. Southall has argued that neo-liberalism can be socially responsible and it is that version that, he claims, is being implemented in the United States (2006, p.42). The same could be argued about the brand of neo-liberalism practiced in South Africa.

6.4 EMERGING GRAND THEMES: NEO-LIBERALISM, CLASS AND BEE

A number of commentators have posited that neo-liberalism is here to stay, implying that instead of trying to fight it, society must learn to live within its context. In short as George (1999) put it "there is no alternative, T.I.N.A". Despite their developmental and social justice imperatives, countries such as South Africa must determine how they are going to position themselves in a neo-liberal global context as led by the Washington based institutions.

Today neo-liberalism is regarded as the dominant ideology permeating the public policies of many governments in developed and developing countries and of international agencies such as the World Bank, IMF, World Trade Organization (WTO), and many technical agencies of the United Nations (Navarro, 2007). This ideology postulates that the reduction of state interventions in economic and social activities and the deregulation of labor and financial markets, as well as of commerce and investments, have liberated the enormous potential of capitalism to create an unprecedented era of social well-being in the world's population (op cit.). Navarro (op cit.) and numerous other commentators, argue that neo-liberalism has been responsible for a substantial growth of social inequalities within the countries where such policies have been applied, as well as among countries. The major beneficiaries of these policies are the dominant classes of both the developed and the developing countries, which have established worldwide class alliances that are primarily responsible for the promotion of neo-liberalism (Navarro, ibid.).

Looking at South Africa and the results from the case study of this project, one may argue that despite the noble intentions of ANC policies from the RDP, sans GEAR, to BEE and other interventions aimed at reconstruction and development, social inequalities are far from being totally eradicated. Government policies and their objectives of creating a better life for all, coupled with the global agenda of millennium development goals (MDGs) of halving poverty and unemployment by 2015, are all faced by a formidable challenge in the form of the neo-liberal global context. South Africa has been described as a society characterized by extreme high levels of inequality, following both race and class lines (Bikisha Media On-line, undated). Moreover, the almost three quarters of total inequality can be ascribed to inequality within population groups irrespective of race (Bikisha Media, op cit.).

Poverty, high unemployment and inequality have mostly been explained against a backdrop of apartheid, its legacy and that of racial capitalism. Post-apartheid South Africa has been characterized by rising inequality which has been attributed to GEAR and neo-liberalism. Theories that argue that creating a black elite will result in the trickle down of wealth to the poor have proven to be flawed (Habib, 2004). The findings of this study reveal that as much as interventions such as BEE in all their aspects are aimed at improving the lives of previously marginalized Africans, not all poor and unemployed people view or are aware of the opportunities presented by the new dispensation. From unions, black suppliers, community based organization, to social movements, perceptions of the new dispensation seem to differ and vary to large degrees depending on individual or group viewpoint. Beneficiaries from Eskom programmes mostly indicated that besides Eskom, they are very aware of other similar avenues where they could source and secure business or funding. On the other hand, whilst acknowledging strides that have been made on BEE within Eskom, unions proved ambivalent about the overall experience of BEE implementation. Social movements seemed too immersed in their negative view of government to realize anything good in the existence of the current dispensation. It is also important to note that unions do not merely represent workers based on race, they represent a certain class of workers amongst the races.

From the latter account, it appears that whilst the implementation of BEE purports to be accessible to all, with opportunities availed equally, the outcomes of its execution will continue being unequal. The big question is why? Baskin (1996) has argued that tackling inequality is a condition for growth, rather than a consequence. The answer to tackling inequality seems to be lying in the Marxist analysis of social class, class structures and changes in those structures: “the history of all hitherto existing society is the history of class struggles” (Bottomore, 1983, p.75).

Most opponents of neo-liberalism and narrow BEE have largely attributed their failures of tackling poverty and unemployment to the legacy of racial capitalism. Other than talking about the ‘poors’ and the politically connected black elite, most accounts have treated black Africans as one homogenous stock, a somewhat “classless society”. Whilst the legacy of apartheid and racial capitalism lingers on, over and above race, understanding the importance of social class amongst blacks is crucial. To say that “class counts” then, is to claim that the distribution of rights and powers over the basic productive resources of the society has significant systematic

consequences (Wright, 1999, p.9). Development and public programmes create winners and losers (Kromholz and Forester, 1990; Thomas, 2000) and all too often the typical losers are those who already are suffering from social and economic disadvantages. In the case of South Africa class losers are likely to be largely come from the poor black majority. The case of affirmative action in America demonstrated that empowerment processes tend to benefit individuals (blacks and women possessing good educational credentials) relatively harmed less by past wrongs, treating them the same as the most adversely affected by past injustices (Engdahl and Hauki, 2001).

President Mbeki has created a huge debate on the two economies thesis. This flawed concept sadly fails to highlight and explain the relationship between race, social class and inequality. Defective as it is, the thesis has become entrenched in South African lexicon, yet it ignores class entirely, with serious consequences. BEE can to some extent address race, but not class and its accompanying inequalities. If not planned properly it will result in the triumph of the higher income classes over the poor and the working class. BEE is thus likely to create its own winners and losers based on class: even apartheid could not prevent that amongst whites. Whilst BEE is meant to redress past imbalances, the government might in future be faced by the problem of poor whites that are not designated to benefit from the current development interventions aimed at blacks.

Putting the working class in perspective, lumping it together with all the unemployed masses, the social movements, unionized labour, and the survivalist self-employed, one may argue that by and large they are all the most affected by the legacy of apartheid and racial capitalism as well as by neo-liberalism. Baskin (1996) asserts that the historic strength of South Africa's union movement has allowed it to win unprecedented rights in the post-apartheid period (p.21). The unions now have an institutionalized role in policy-making and the democratic government recognizes them, along with business as social partners (Baskin, op cit. p.21). It is however ironic that the labour movement is struggling to make the most out of these dramatic gains: the challenge for them is to revitalize and sustain themselves and use their power in a new context (op cit.). Why is that the case?

In South Africa today, simplistic race based arguments on their own are now a bit emasculated and somehow outdated and cannot provide a sufficiently answer questions of power relations

to the ownership of the means of production. Within the context of neo-liberalism, racial arguments are inadequate and obscure some key issues. Harvey (undated) argues that neo-liberalism was from the very beginning a project to achieve the restoration of class power to the richest strata in the population (p.4). Moreover, as Hart (2006, p.1) argues, what is 'new' about neo-liberalism is a return to market capitalism, this time deploying the resources of powerful states for coercive purposes (wars, prisons etc.) in support of corporate monopolies ("Keynesianism for the rich") resulting in more economic inequality at every level of world society in marked contrast to the welfare-state capitalism that preceded it from the 1940s to the 1970s. Neo-liberalism is thus the defining political economic paradigm of our time, it refers to the policies and processes whereby a relative handful of private interests are permitted control as much as possible of social life in order to maximize their profit (Chesney, 1999, p.1.).

To respond to the questions why the unions and other quarters of the working class or perhaps black society in general, have not been able to make use of the gains from democracy[89], the answer lies in the Marxist analysis of social class. Wright (1999) provides an account that assists a great deal in explaining the phenomenon of class. Unequal access to the means of production can be understood on the basis of class relations. "when some people have greater rights or powers with respect to specific kinds of productive resources than do others, the phenomenon can be described as class relations" (Wright, op cit.p.5). The causal processes embedded in class relations help to explain two kinds of proximate effects: what people *get*, and what they have *to do* to get what they get. Thus according to Wright (p.9), the first of these concerns, above all is the distribution of *income*, the rights and powers people have over productive assets is a systematic and significant determinant of their standard of living: *what you have determines what you get*. Secondly, the distribution of economic *activities* is another concern in the causal processes. The rights and powers over productive assets is again a systematic and significant determinant of the strategies and practices in which people engage in order to acquire their income: *what you have determines what you have to do to get what you get.* The complexity of class structure and class relations amongst blacks has not received the attention it richly deserves. Thus due to inequalities embedded in society in terms of levels of education, access to resources and other socio-economic factors (institutionalized racism has been deliberately omitted as it has been much covered in this and other papers), class has

[89] Even in the case of apartheid, white people did not equally take advantage of the privileges offered by the system.

a systematic bearing on how black people take advantage of opportunities in South Africa today.

However, one must mention that the adoption of neo-liberalism in South Africa has not been unadulterated. The South African state has been to a noticeable degree quite interventionist and has curbed neo-liberalism where it can. But the escalation of class differences does not seem within the radar of government. Judging from the findings of this study, government can only do as much to restrict class inequalities emanating from BEE implementation. As long as there is a capitalist economic system in South Africa, "class apartheid" to use Patrick Bond's words, will prevail and social inequalities are a by-product of the system. To answer the question "can BEE be equitably applied in South Africa?" the answer is yes, but there will be unequal outcomes due to the already mentioned class relations of rights and powers.

6.5 RECOMMENDATIONS

A few propositions specific to Eskom can be made with regard to the management of the procurement process. Whilst the system appears to be functioning well, extra measures need to be introduced in order to ensure that the tendering process is transparent and guarantees equal access for all black suppliers. E-procurement systems, if they are not already in operation, with a sound supplier database need to be introduced to effect efficiency and more transparency in the advertising and awarding of tenders. In order to prevent corruption and signs of narrow BEE, the role of Eskom 'buyers', i.e. the procurement staff needs to be revisited, the approach should be structured such that the warding of tenders to the same service providers repeatedly is prevented.

Contracts must be spread across suppliers and the holding of multiple contracts by a single supplier must be avoided. The training of small enterprises on the tendering processes needs to be strengthened through the dissemination of information and training workshops.

The capacity of unions to engage with all process also needs to be strengthened. The unions should be seen as partners and where they indicate weaknesses interventions to bolster their capacity should be introduced.

With regard to the provision of electricity it is abundantly clear that the 50 kWh FBE is not adequate for most poor households[90]. The suggestion is thus that the DME, having considered all resource and financial implications, makes a concerted effort of exploring the notion of increasing FBE across all municipalities.

Again the case study of Eskom has demonstrated the capacity of parastatals to making a difference in the reconstruction and development of the country. There is a need to replicate the Eskom model, if it is the most effective, across SOEs in the implementation of BEE. Intensifying BEE implementation through parastatals can make a resounding impact in the socio-economic landscape of the country.

The problem of class inequality which is very much likely to rise means that the ANC government instead of attempting to uplift the black society as a whole, should rather structure BEE such that it is able promote a wider range of choices for those members of society who have few, that is the poor (Krumholz and Forester, ibid.). Extra effort should be made to assist the poor leverage resources and opportunities. Failure to restructure BEE will result in the process reinforcing and perpetuating class and economic inequalities, with the well-off classes amongst Africans, Indians and Coloureds benefiting more from the process to the detriment of the development of the black poor.

6.6 CONCLUDING NOTE

This study has by and large demonstrated that BEE implementation if conducted shrewdly has a tremendous potential of transforming society and contributing to the reconstruction and development agenda of government. Eskom as a parastatal is a convincing illustration that SOEs have a critical role to play in the economic development of the country and the development of previously disadvantaged communities. The case of BEE implementation at Eskom surpasses most other accounts whether public or private. Notwithstanding the grip neo-liberalism has over the world, an interventionist state can still pursue its developmental agenda and attend to domestic imperatives when it makes it a priority that the welfare of its people is paramount irrespective of global trends and pressures. The South African government has

[90] Eskom management respondents were in agreement with the unions and the social movements that 50kWh is inadequate. The Tshwane Councilor also articulated that they were considering increasing FBE. It has been reported recently (Mail & Guardian, June 07) that the Tshwane Metro Council has increased FBE from 50 to 100 kWh subject to the recipient's registration as an indigent.

already cautiously attempted to strike a balance between domestic needs and global trends dictated by a neo-liberal agenda. Thus, South Africa has a peculiar brand of restricted neo-liberalism.

6.7 POST SCRIPT

Whilst there is still a debate in the country about whether white women and white people with disability should benefit from BEE, Eskom has been a trailblazer in accommodating those groups in their employment equity programmes. Proponents of the inclusion of white women in BEE advocates cite the gender imbalances that remain within ownership of companies and representation at board and executive management level (Jeffe, 2006). The opposing view to the inclusion is on the basis that white women were not discriminated against through any specific legislation whilst black women on the contrast were discriminated against through the enactment of specific legislation such as the Jobs Reservation Act of 1954, which prevented them from owning any real assets, from being trained within certain professions, and from participating in certain types of jobs (Jeffe, op cit.).

As the debate is still raging, time will judge whether Eskom made an intelligent move or simply acted prematurely on this matter. Going back to Mbeki's 1998 two nations speech, the President outlined that "One of these nations is white, relatively prosperous, regardless of gender or geographic dispersal" (p.1). This means white women were not viewed as having been oppressed. The debate has also been compounded by arguments that people of Chinese descent should also be accommodated within the BEE processes as they were also oppressed by the apartheid system. The Chinese Association of South Africa (Casa) wants to seek a declaratory order for South African Chinese to be treated as coloured and benefit from the Employment Equity Act and the BBBEE Act (Terblanche, 2006).

6.8 CHAPTER SUMMARY

This chapter is the summit of the study. Herein major themes and sub-themes emerging from the study are closely interrogated. All-in-all, BEE implementation through Eskom has been summed up as a success notwithstanding the hiccups expressed by some of the parties involved but that success had a class character. The hypotheses are presented and tested

where it is demonstrated that an interventionist state does not necessarily require a neo-liberal context to execute empowerment or reconstruction and development processes. A brief comparison between South Africa and Zambia is made. There a protracted interrogation of neo-liberalism and class in South Africa culminating in the conclusion that due to the nature of capitalism and class relations within, government does not stand a chance in totally eradicating class inequalities.

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APPENDIX 1: Sample Questionnaires

1. Questionnaire for Black Suppliers

Graduate School of Humanities and Social Sciences University of the Witwatersrand, Johannesburg P/Bag 3 Wits 2050	**Mabutho Shangase Student No.93-01226F M.A. Development Studies 2007**
Name of Study: Examining the Effectiveness of BEE implementation; Case Study of Eskom Restructuring 1995-2005	
Research conducted as a requirement for M.A. (Development Studies) degree by course work	
1. Biographical Data	
1.1 Name of respondent	
Company/organisation	
1.2 Position	

Name of Study: Examining the Effectiveness of BEE implementation; Case Study of Eskom Restructuring 1995-2005			
Research conducted as a requirement for M.A. (Development Studies) degree by course work			
4. Black Economic Empowerment Section			
4.1 Company Ownership			
Questions	**Options**	**Put X**	**Elaborate**
4.1.1 Is your company black owned?			
4.1.2 If yes, how much shareholding is black owned?			
4.1.3 How much shareholding is owned by any of the following groups, women, people with disability, youth?			
4.1.4 What is the company's annual turn over?			
Human Resources Development			
4.2.1 How big is your staff establishment?			
4.2.2 What is the demographic breakdown of the company in terms of: ▪ Race ▪ Gender			
4.2.3 What is the demographic breakdown in terms of management positions?			
Service Provision			
4.3.4 What kind of service(s) does your company provide to Eskom?			
4.3.5 What made your company qualify for service provision to Eskom?			

4.3.6 How did your company get involved with Eskom?			
4.3.7 For how long has your company been providing services to Eskom?			
4.3.8 In the period since your company got involved with ESKOM what benefits have you realised?			
4.3.9 What kind of value, if any, has the relationship with Eskom added to your company?			
Business Support			
4.4.1 Does your company receive any business support from Eskom?			
4.4.2 If yes above, what kind of support does your company receive?			
4.4.3 If yes (to 4.1.9), what kind of value has the support added to you company?			
4.4.4 Do you believe Eskom supports black business in general?			
4.4.5 If yes above, how does Eskom support black business in your opinion?			
Business Development			
4.5.1 Does your company provide a similar service to any other businesses besides Eskom?			
4.5.2 Is there room for growth outside working with Eskom?			
4.5.3 Will the company be able to sustain itself outside working with Eskom?			
P.S. Any other information that you feel might be useful to this study that has not been covered in this interview e.g. reports with data or any other documents, is most welcome. It will be highly appreciated if you could furnish me with any information that is relevant to the questions above.			

Thank you very much for your time. Your cooperation is very much appreciated.

2. Questionnaire for Eskom Management

Graduate School of Humanities and Social Sciences University of the Witwatersrand, Johannesburg P/Bag 3 Wits 2050	**Mabutho Shangase Student No.93-01226F M.A. Development Studies 2006**
Name of Study: Examining the Effectiveness of BEE implementation; Case Study of Eskom Restructuring 1995-2005	
Research conducted as a requirement for M.A. (Development Studies) degree by course work	
1. Biographical Data	
1.1 Name of respondent (optional)	
1.3 Company/organisation	
1.4 Position (optional)	
2. Economic Development Section	
Electricity Provision	

Question	**Options**	**Put a X**	**Elaborate**
2.1 What is your opinion on access to electricity?			
Is it a basic right?	Yes or No		
Is it a commodity whose access should be determined by affordability?	Yes or No		
	Other (please elaborate)		
2.2 Do you think previously disadvantaged communities should have preferential treatment on payment for electricity?	Yes		
	No		

	Other (please elaborate)		
2.3 Should electrification of every household be a basic undertaking by government?	Yes		
	No		

3. Restructuring of State Owned Enterprises (SOEs) Section					
Questions	**Options**	**Put X**	**Elaborate**		
3.1 Should parastatals that provide basic services such as Eskom be restructured (commercialised, corporatised, or privatised)?	Yes				
	No				
3.2 If yes to restructuring, what form should it take (commercialisation, corporatisation, or full privatisation)?					
3.3 Should new private sector role players be introduced in the provision of electricity?	Yes				
	No				
3.4 If yes above, where should they be introduced, generation, transmission or distribution?					

4. Black Economic Empowerment Section			
4.1 Black Economic Empowerment Policies			
Questions	**Options**	**Put X**	**Elaborate**
4.1.1 Does your company have a BEE policy or policies?	Yes		

	No		
4.1.2 Which BEE policies are there?			
4.1.3 When were the policies enacted?			
4.1.4 How effective has each of the policies been?			
4.1.5 How has the success of the policies been measured?			
4.2 Community Development			
Policy/Strategy			
4.2.1 Does your company have a policy/strategy for the development of previously disadvantaged communities?			
4.2.2 If yes, what approach does your company take in community development?			
Programmatic Intervention			
4.2.3 What kind of programmes/projects aimed at community development does your company have?			
4.2.4 When were the programmes/projects first implemented?			
4.2.5 Who is the target audience or societal groupings that your programmes/projects aim at?			
4.2.6 How effective have the programmes/projects been?			
4.2.7 How has the success of the programmes/projects been measured?			
4.2.8 What other interventions aimed at community development does your company			

have?		

P.S. Any other information that you feel might be useful to this study that has not been covered in this interview e.g. reports with data or any other documents, is most welcome. It will be highly appreciated if you could furnish me with any information that is relevant to the questions above.

Thank you very much for your time. Your cooperation is very much appreciated.

Eskom Sponsored Community Projects. Gauteng Province.





Project A.

- **Project A is the Emily Jordan House, Riverside Section, Kagiso Township. The Eskom logo is displayed on the Hospice's signage by the entrance. On the right is the structure that was built with the Eskom donation. N.B. The upper story with the balcony was built with the donation whilst the ground structure was built with the assistance of South African Breweries.**

Eskom Sponsored Community Projects. Gauteng Province. *Conti'd.*



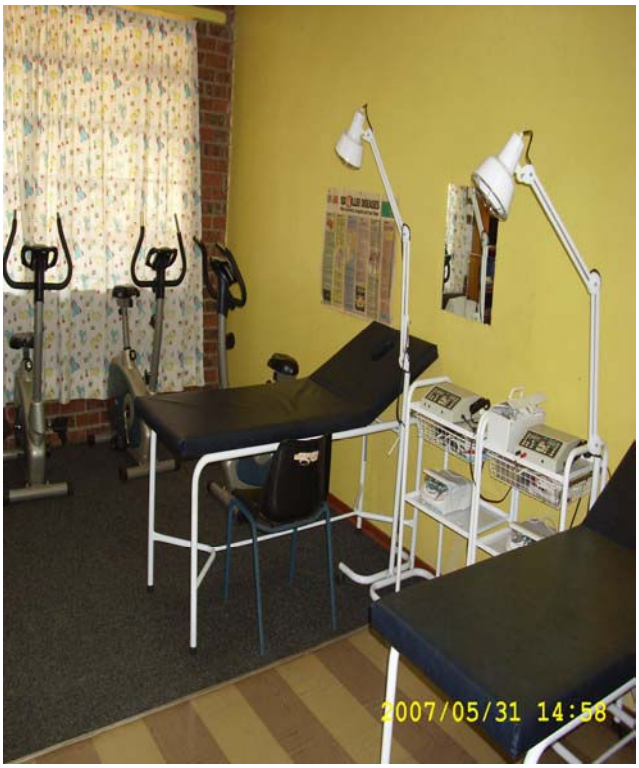


Project B.

- **Project B is the eGoli Farms Milk Project, Mentoor Stores, Mamelodi Township, Tshwane. On the left is a milk storage tank. Shown on the right is a milk tank with a tap used for packing milk into sachets.**

Eskom Sponsored Community Projects. Gauteng Province. *Conti'd.*





Project C.

- **Project C is the Harvey Cohen Centre for youth with disabilities, Eldorado Park, Johannesburg. The entrance displays signage with the Eskom logo. On the right is some of the equipment that has been purchased with the financial assistance from Eskom. Displayed are stationary bikes for exercise and beds with testing equipment, this means that the centre is able to conduct its own health tests whereas in the past they were compelled to take the youths to nearby hospitals.**

Eskom Sponsored Community Projects. Gauteng Province. *Conti'd.*





Project D.

- **Project D is the Tshwaranang Skills Development Co-operative, Kliptown, Soweto, Johannesburg. Displayed are some of the industrial sewing machines purchased with the assistance of the Eskom Foundation. Shown on the right are products from the upholstery venture of the organisation.**

Eskom Sponsored Community Projects.

Gauteng Province. *Conti'd.*







Project E is the Guest View House. Top left, staff of the guest house display the companies various services at an exhibition held at Gallagher Estate, Midrand, Johannesburg. Various accolades received by the guest house were displayed including, top right, a recognition award from the Eskom Development Foundation and, bottom left, a tourism sector recognition award from the Gauteng Provincial Government.