# MULTINATIONAL CORPORATIONS AND WORKFORCE EMPOWERMENT:

***an examination of the labour dimensions of a water privatisation venture in contemporary South Africa***

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# MULTINATIONAL CORPORATIONS AND WORKFORCE EMPOWERMENT:

***an examination of the labour dimensions of a water privatisation venture in contemporary South Africa***

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## ABSTRACT

"FDI has become the largest and most stable source of external finance for developing countries."
(*World Investment Report* 2000: 58)

As private funds increasingly replace foreign aid as the main mode of defining North-South economic relations in the early 21$^{st}$ century, the debate over the impact of multinational corporations (MNCs) on host developing countries has become ever more alive. On the one hand, proponents view MNCs as conducive for development as they bring with them much needed capital, technology and skills without which developing country economies are deemed to be stagnant. Opponents, on the other hand, regard MNCs as exploitative of developing country resources and cultures, thereby being detrimental to the development of host developing countries.

This thesis attempts to examine this debate more closely. It examines foreign direct investment (FDI) in the form of water privatisation involving public-private partnerships (PPPs). It takes a close look at the operations of one water MNC, Waterco, acting as main shareholder and operator of the concession company South African Water Company (SAWCO) in the north-eastern part of South Africa. As customary of MNC operations worldwide, particularly concessions, Waterco operated in joint-partnership with a local black empowerment group, Localco, to form SAWCO. As the main driving force behind SAWCO, its operations are assessed through SAWCO's performance.

The objective of the study is to assess the impact of SAWCO on its workforce, in the light of the argument that MNCs arguably empower the workforce of the host country by creating employment, offering better conditions of service and transferring skills. In particular, the study seeks to examine the extent to which SAWCO had led to greater or lesser empowerment of its workforce by the end of its first year of operation. Lessons are then drawn from this examination in order to inform SAWCO's management, government bodies, stakeholders involved in the SAWCO concession, and global/local debates on considering similar concession agreements.

The study discovers that in the case of SAWCO, policies fostering workforce empowerment were in place. However, these policies suffered from lack of long-term foresight. The policies indeed mitigated against the possibility of a short-term erosion in employment quantity (job security) and quality (competitive conditions of service,

workplace democracy and skills upgrading) but lacked long-term prescriptions on these measures.

In practice, no short-term employment losses had occurred, though this result could not be guaranteed for the future, especially given the lack of long-term policy prescriptions. Employment quantity appeared to be mainly hindered by poor communication channels between the workforce and SAWCO's management and inadequate monitoring tools, which had bred numerous problems. These problems included worker discontent and confusion related to workers not knowing their work-related rights and entitlements, as well as company operations. The effectiveness of the training programmes offered by SAWCO were also questionable due to poor worker consultation. At the time of the study, no provisions were being made in terms of skills acquiring, to prepare for public operation of the services at the end of the concession period.

From analysing the type of input labour made in the establishment of SAWCO (labour participation), it became clear that labour never fully supported the privatisation process involving SAWCO. This was due to the fact that labour consultation had not occurred at some of the critical initial stages of the privatisation process. This outcome raises questions relating to the amount of national leverage, and subsequently 'protection', that the South African government is able to grant to its citizens (represented in this case by labour) against MNC interests.

Extrapolating from the SAWCO case study, it is concluded that in the context of South Africa where unemployment is high, labour union movements strong, the economy's labour absorptive capacity and labour's level of skills are low, involving MNCs in PPP arrangements has the *potential* to be beneficial for the empowerment of the local workforce. In order to make this possible however, the government bodies employing an MNC in such arrangements need to have leverage over the MNC by being politically cohesive, set stringent policies (with time-lines) governing the MNC's labour performance, create an environment fostering healthy industrial relations, and tighten monitoring tools to ensure compliance of the MNC with the laws and policies binding it.

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| | |
|---|---|
| ABET | Adult Basic Education and Training |
| BEE | Black economic empowerment |
| BOTT | Build, Own, Train and Transfer |
| CDE | Centre for Development and Enterprise |
| CMU | Committee Monitoring Unit |
| COSATU | Congress of South African Trade Union |
| DCD | Department of Constitutional Development |
| DBSA | Development Bank of South Africa |
| DWAF | Department of Water Affairs and Forestry |
| FDI | Foreign direct investment |
| GEAR | Growth, Employment and Redistribution |
| HRO | SAWCO's human resource officer |
| ICC | International Chamber of Commerce |
| IMATU | Independent Municipal and Allied Trade Union |
| ILO | International Labour Organisation |
| ISA | Trade and Investment South Africa |
| IT | Information Technology |
| LGA | Local government authority |
| M&As | Merger and Acquisitions |
| MNC | Multinational corporation |
| MNE | Multinational enterprise |
| MIIU | Municipal Infrastructure Investment Unit |
| NTLC | Northern Transitional |
| PPI | Public-Private Initiative |

| | |
|---|---|
| PPP | Public-Private Partnership |
| PSI | Public Service International |
| RDP | Reconstruction and Development Programme |
| RFP | Request for Proposals |
| RSDN | Rural Services Development Network |
| SALGA | South African Local Government Association |
| SAMWU | South African Municipal Workers Union |
| SANGOCO | South African Non-Governmental Organisation Coalition |
| SARB | South African Reserve Bank |
| SAWCO | South African Water Company |
| SECTOR | The Department of Sectoral Activities (ILO) |
| SETA | Sectoral Education and Training Authority |
| SLE | Suez-Lyonnaise des Eaux |
| TNC | Transnational corporation |
| TO | SAWCO's training officer |
| WIR | World Investment Report |

# CHAPTER 1: INTRODUCTION AND RESEARCH METHODS

## 1.1. Introduction to the Thesis Subject

The late twentieth and early twenty-first centuries are experiencing changes in the global development paradigm. With the demise of the Cold War, the focus of North-South relations has notably been shifting from development aid to private capital flows. As Gwin asserts,

> Indeed, the declining aid level pales as a feature of the present moment in comparison to the explosion in private finance and investment.... These private flows are not only increasing in volume but are also changing in their composition. While earlier flows were composed largely of commercial bank loans to the public sector, recent flows have seen a sharp increase in the level of private sector portfolio flows and direct investment (1997: 2).

Indeed, as put by the Centre for Development and Enterprise (CDE)(1999), today, the importance of the role of large enterprises and of private sector business in general as the engine of growth for modern economies is no longer seriously questioned. However, in numerous societies, such as South Africa, many people are still ambivalent about the relative costs and benefits of the profit motive and the workings of the market. As a result, there is widespread disagreement over the extent to which governments have to intervene in the market to 'optimise' the contributions of the private sector.

These disagreements fall within the wider debate concerning the impact of foreign direct investment (FDI) and multinational corporations (MNCs) in general, on development, particularly in host developing countries. The debate takes various forms in different sectors. For instance, in the context of infrastructure investment, it assumes the form of privatisation, so that the central question in this debate is, 'do MNCs help or distort development in host developing countries'? Arguments supporting and opposing these views have been debated over many decades as demonstrated by scholars such as Chitrakar (1994), Aliber (1993) and Todaro (1999).

With the current global predominance of the neoliberal paradigm[1], governments in both developing and developed worlds find themselves faced with the

[1] This is the paradigm, espoused by multilateral development banks such as the World Bank, which promotes national development strategies, which include free-market activity, privatisation, trade and price liberalisation and little government intervention in the provision of services. See World Bank (2000) and UNCTAD (1997).

dual challenge of attracting FDI and MNCs into their countries and harnessing MNC capacity to meet their own countries' development goals. This challenge requires careful balancing of foreign investment incentives and stringent national rules governing MNC activities within host countries. Indeed, as empirical evidence will suggest in the later chapters, some countries have managed to strike this balance, while others have failed.

Even more controversial in the context of the debate stated above, is the impact that MNCs have on developing country human resources, for human resources hold the key to development and its sustainability. It is for this reason that this thesis concerns itself with the issue of human resources. Related to this issue, the notion of 'empowerment' becomes very important. Empowerment in this work is defined holistically, incorporating political, as well as economic and socio-cultural factors as inspired by scholars such as Friedmann (1992) and Abrams (1996a). It refers to the process whereby people are given control over their wellbeing through improved access to resources and the acquiring of skills.

### 1.2. Objectives of the Study

This thesis aims to explore the impact of MNCs on the empowerment of host developing country workforce and the various factors enabling such empowerment. It is set within the context of the broader development studies debate, which questions the impact of MNCs on the development of host developing countries. In order to advance this aim, the thesis specifically focuses on one case study involving Waterco[2], a water MNC operating in the north-eastern part of South Africa under a concession agreement. As the operator and main shareholder of the local concession company, South African Water Company (SAWCO), Waterco's performance is assessed through SAWCO's activities[3].

The objective of this case study is to examine and evaluate SAWCO's performance on several qualitative and quantitative measures of workforce

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[2] The names used for the MNC and the concession company are fictitious. In conformity with confidentiality regulations, their real identities as well as their exact locations of operation will not be specified throughout this thesis.

[3] As will be discussed later, a concession is a type of privatisation where the government hires a private company to run and expand its assets for a period of about 25-30 years. In this case, Waterco was hired to operate and expand water and sanitation services in the area under the jurisdiction of the local government, the Northern Transitional Local Council (NTLC).

empowerment, in order to establish the extent to which SAWCO had empowered its workforce by the time of the research. In the process of this examination, the interplay between the various complex factors such as the socio-political environment, corporate and government policies and institutions is observed in order to see how all these factors shaped SAWCO's workforce empowerment performance.

Three measures of workforce empowerment are examined in this case study. These are labour participation, employment quantity and employment quality. Labour participation assesses the role played by labour (workers) representatives in the politics leading to the concession agreement. Here, the question asked is; to what extent did labour participate and have a say in the concession negotiation process and its outcome? It is also asked; what decision-making avenues did the workers have in the continual running of the company? These measures suggest elements of political empowerment.

Employment quantity and quality measures give a feel for the level of economic and socio-cultural empowerment of SAWCO's workers. While employment quantity simply addresses the issue of job loss or job creation, employment quality examines the workers' condition of service. It seeks to understand whether the workers had better or worse working conditions under SAWCO in comparison to the working conditions they had prior to privatisation under the local government, the Northern Transitional Local Council (NTLC). Here, indicators such as wages, annual and sick leave as well as the health and pension allowance of the company's workers are reviewed. Also, safety and workplace democracy issues, as well as training and skills transfer programmes, are analysed. These indicators are analysed at policy level and in practice.

Towards the end of this study, the experiences of this single company (Waterco) are situated back into the larger national context and MNC discussion. With care not to overgeneralise, SAWCO's experience is compared to other similar experiences worldwide. In this process, lessons are extracted informing the wider South African national policy framework and the MNC debate.

### 1.3. Justification for the study

One might rightfully ask, why was the particular company, SAWCO, chosen as case study? Also, why study labour relations in the water sector, which by nature, is not a very large employer? Furthermore, what makes South Africa a useful country of study?

There are several responses to the first question as will be demonstrated in Chapter 5. Firstly, SAWCO is a pioneer[4] in the area of water privatisation in the new South Africa and there are signs that more and more local government authorities (LGAs) in South Africa are likely to follow the same utility privatisation path. Hence, if this assessment is correct, it becomes useful for researchers to keep a close eye on SAWCO's developments, so that lessons can be drawn from it for future policy prescriptions. The second reason has to do with mere logistics – it was the more accessible of the only two companies of its kind operating in South Africa at the time of the research.

The second question about the choice of sector could also be addressed in numerous ways. Firstly, water is undeniably a vital resource for life. Moreover, from a development perspective, there is a strong relationship between poverty and water as demonstrated by scholars such as Bosch *et al.* (2000). However, despite its importance, water is a very precarious resource in most of the developing world. For instance, in South Africa, water is so scarce that it is estimated that the country's fresh water supply will run out within the next 30 years (*Africa News Service* 22/03/2000). Interestingly, the problem with fresh water supply in Africa including South Africa, has more to do with wastage through leakages than shortage (Muzau 2000).

These facts make the water sector of paramount importance to South Africa and evidently, to most of the developing world. As will be shown in later chapters, developing countries are increasingly turning to the private sector involving MNCs for help in not only providing appropriate and effective water management strategies, but also in bridging the massive water service backlogs prevalent in these countries. The water sector may not be a large employer, and perhaps even with the prevalence of water privatisation, it may never be. Nevertheless, it will be shown that labour

[4] Apart from the SAWCO concession, there was only one other similar concession agreement operational in South Africa by December 2000. Though the SAWCO deal was signed second, it is

relations in the water sector are very important since they have greater implications for national development than most other sectors. For instance, most sectors rely on the water sector for operation. Therefore without a productive water sector labour force, the entire economy could suffer. Hence, studies such as this one may be helpful in shedding light on how best to promote labour force productivity and empowerment as more and more governments employ water MNCs for their water needs.

Another reason for studying labour relations in the water sector is supported by scholars such as Alexander and Estache (2000) and Heymans and Thorne-Erasmus (1999). These writers emphasise the importance of infrastructure development in national economic growth. The South African government appears to agree with this view since it is investing great amount of energy in attracting FDI towards its infrastructure development. Therefore, understanding the workings of such infrastructure sectors as water, as well as the performance of MNCs in these sectors is very important. This study will hopefully contribute towards such an understanding.

The last question on the choice South Africa as a case study may be addressed borrowing Jordaan's (2001) views. He describes South Africa as the youngest democracy in Africa, and the economic engine for Sub-Saharan Africa, especially the Southern African Development Community (SADC). Being the youngest democracy, it has the opportunity to learn from the mistakes of its contemporaries as it makes a swift move back to the global community (after years of apartheid isolation). Its economic strength enables it to articulate its way with the global marketplace in a way that its poorer African contemporaries are not able to. Hence, this perspective of South Africa as a 'strong baby' relative to its contemporaries makes South Africa an interesting case for study. It will be intriguing to see if South Africa, with its aforementioned advantages, can succeed as role model for its African contemporaries, and perhaps the developing world as a whole. The appropriate question to ask at this point then becomes, is South Africa going the right way? Is its employment of FDI and its related promotion of MNC activity likely to yield appropriate development benefits? The SAWCO case study will hopefully, even to a modest degree, contribute towards indicating an answer to this question.

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more important because it involves a much larger area and a beneficiary population of roughly five times that of the initial concession deal.

### 1.4. Thesis Study Methods

There were several study methods employed in this thesis. The first one was establishing theory[5]. Yin (1993: 4) asserts that theory is important to case studies in many ways. These include helping select the cases to be studied in the first place; specifying what is being explored; providing definitions for the terms to be explored; stipulating rival theories and generalising results. In this study, theories on MNCs and their impact on workforce empowerment and development as a whole were explored through reviewing relevant literature.

Fieldwork was the second method of study used. By definition, fieldwork is the ground on which to test and apply theory (Yin 1993: 50). Here, the researcher makes actual observations and calculations on the subject being studied. The fieldwork for this study was carried out in the north-eastern part of South Africa, in the area serviced by SAWCO, over a period of four weeks in December 2000 – January 2001. Together, theory and fieldwork make up the research part of this thesis.

As shall be seen towards the end of this thesis, the earlier two study methods (theory and fieldwork) were then married through analysis. At this step, it was established how closely the observations made during fieldwork matched the appropriate theories using the pattern-matching strategy. This strategy, by definition, involves matching observed variables against theorised ones (Yin 1993: 69).

#### 1.4.1. Unit of analysis and research approach in fieldwork

The unit of analysis in this study is the one MNC (SAWCO). A case study approach[6] was used in operationalising this study. This case study had an evaluative objective, seeking to assess the extent to which this one company had empowered its workforce by the end of its first year of operation. By comparing the status of workforce empowerment before the company began operations (when the water and sanitation utility was government-owned and run) to that during the company's operation, the study is able to establish the sort of change in workforce empowerment induced by the MNC.

[5] Yin defines a theory as simply as a priori explanation of why some educational phenomenon might have occurred the way it did (1993: 38).
[6] Yin (1993: 59) defines a case study as an empirical inquiry that investigates a contemporary phenomenon within its real life context.

Though not perfect as a research approach, there are several advantages to using case studies. For instance, Orum *et al.* (1991: 6) contend that though the case study is limited in its ability to generalise, it still has the advantage of allowing for a more holistic study of complex social networks. By permitting observations to be made in their natural settings, the researcher has access to a wide array of sources over time with which to enrich the study.

While Yin (19993: 59) supports the view of Orum *et al.*, he points out some weaknesses of this approach. For instance, he warns that case studies can be difficult to analyse, especially when they involve no statistical evaluation. Furthermore, case studies require more than one source of information, which could be problematic in cases where data sources are rare or difficult to attain. Yin concludes by highlighting one important issue - that distinctive research design and analysis tools necessary for case study work are not yet available, which makes it challenging to successfully employ the case study approach.

Wagenaar and Babbie (1998: 206) elaborate on the problems to be expected when doing evaluative research in general. They point out that evaluative research is often complicated by uncontrollable practical and political considerations, where the researcher needs to work effectively with the people responsible for the program to be evaluated. For instance, administrators may be reluctant to cooperate as they wish to protect their favourite programs and their own names. Moreover, they alert the researcher to the fact that this research mode may stir up ethical issues, especially where the evaluation process and its result may be controversial to people's personal beliefs. Gaining unbiased cooperation under these circumstances can be very difficult.

Despite the challenges mentioned above, the case study approach proved particularly attractive for the purposes of this study given limitations in time and budget. The field research had to be completed within a maximum of two months. It must also be noted at this point that some factors, which will be discussed later on in the chapter, reduced this time frame even further.

1.4.2. Data collection methods

1.4.2.1. Primary data

The primary data collected during the field research was both qualitative and quantitative. Most information was obtained through structured interviews[7] with company representatives, the workers themselves and their representatives and local government officials (NTLC officials and officials from the Department of Water Affairs and Forestry (DWAF)) (see Appendix 1 for sample). Both closed and open-ended questions were used.

Structured interviews were chosen as a data collection method because of the promptness of interviews in general. As explained by Frankfort-Nachmias and Nachmias (1996: 232-235), interviews have the advantage that they are timely and have a high response rate. Such a high response rate is due to the fact that even those people who would not take the time to fill out a more indirect set of questions such as a mail questionnaire, are more likely to respond to face-to-face interaction. Furthermore, the interviewer has better control over the interviewing situation to ensure optimum chances of eliciting answers to questions, while also having the opportunity to collect any necessary supplementary information. The advantage of structuring the interviews was that it made sure that no major relevant questions were omitted in the interviewing process.

Despite these advantages, the interview data collection method has several disadvantages. Firstly, it can be costly as it involves research expenses such as travel and accommodation costs. Secondly, biases such as interviewer bias are difficult to avoid since this method does not involve any standards in data collection. Non-verbal cues (eg. body language) are especially hard to control and these can influence the respondent's answer as the respondent might try to please the interviewer. Even the interviewer's race or gender can influence the way in which the respondent answers the questions (Walsh 1996). Finally, anonymity is more likely to be threatened in an interview as the interviewer may already know the respondent. Alternatively, the respondent may give out their personal details out of conversation etiquette (Frankfort-Nachmias and Nachmias 1996: 232-235).

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[7] These are the interviews, which use a pre-specified set of questions to guide the interview. Major aspects of the study are explained to the respondent but the respondent is given considerable liberty to express his/her definition of the situation at hand (Frankfort-Nachmias and Nachmias 1996: 232).

Two types of non-probability sampling[8] techniques were used in selecting the subjects to be interviewed. These were snowballing and convenience sampling[9]. Snowballing sampling was used in identifying some of the authority figures to be interviewed (eg. company managers and NTLC representatives). Convenience sampling was used more to target the workers interviewed.

1.4.2.2. Secondary data

Secondary data was also used in this study. This is data collected by other investigators and institutions, which relates to the study at hand. In this study, secondary data in the form of desk-top literature was obtained through libraries and other data sources worldwide. Policy documents and progress reports pertaining to the case study were also obtained directly from the company and other relevant bodies. Furthermore, national institutions with the relevant statistics and data, as well as scholars doing similar work were also consulted and interviewed as secondary data sources.

This form of data is very useful in supplementing primary data. As Frankfort-Nachmias and Nachmias (1996: 305) explain, secondary data may be very useful for conceptual, methodological and even economic reasons. For conceptual reasons, in some instances, it may be the only source of data available on the particular aspect to be investigated. It may also contribute to a more holistic understanding of the situation under study by providing a historical or comparative framework for the study.

For methodological reasons, secondary data may offer opportunities for the scope of the independent variable to be expanded and even allow for longitudinal studies and triangulation[10] where it would be difficult or expensive to collect data from scratch (primary data). Lastly, secondary data is quite inexpensive in comparison to primary data. For instance, primary data involves going into the field in

[8] Non-probability sampling is the method used to choose the sample to be studied by simply going with whoever is available in cases where it is difficult to create lists of the elements determining the sample. This method, unlike probability sampling, has no way to estimate the parameters of the chosen sample or check for its representativeness, and is thus weak in that respect (Frankfort-Nachmias and Nachmias 1996: 232).

[9] While convenience sampling literally uses whoever is available for the study without any guidelines, snowballing involves using the target population one is able to find, and asking them for future leads into who else would be suitable to include in the sample (Frankfort-Nachmias and Nachmias 1996: 233).

[10] Triangulation means using a combination of different research methods simultaneously in order to advance the research objectives of one study.

order to gather data first-hand thereby incurring travel, accommodation and other related costs. Secondary data on the other hand, has already been collected and thus costs very little in comparison.

Nonetheless, this kind of data is limited in that often it only approximates the data sought by the researcher. Such approximation occurs since the secondary data collected may have different original intentions than those of the researcher. The researcher then needs to be somewhat careful in extrapolating the relevance of secondary data to his/her work.

### 1.4.3. Troubleshooting during field research

Some factors were experienced during field research, which inevitably, influenced the results of the study. These are grouped by the following sub-topics: those related to a) the unit of analysis and research approach, b) the validity of the measures used, c) data quality. Under each of these sections, a discussion of how these problems were overcome will be given. In addition, the likely implications of these factors to the credibility and overall outcome of the study will be inter-woven into the same discussion.

#### 1.4.3.1. Problems related to the unit of analysis and research approach

The unit of analysis of this study is one MNC. As already mentioned, the fieldwork component of this study adopts a case study approach in studying this company. Without underestimating the advantages that a single case study may have such as its richer depth of analysis, undertaking two or more case studies would have been more ideal. This is because a single case study has very limited generalisation power. Undertaking two or more case studies, on the other hand, would allow for comparison. Harnessing such comparative power could help ascertain observations regarding the concept in question, thereby creating a broader scope for generalisation.

With the lack of such a comparative framework, triangulation was seen as an alternative, which would enhance the depth of the study, even though it would not give it much generalisation power. To this effect, research interviews were coupled with secondary data obtained from relevant institutions. By collaborating with other researchers doing similar work in the field, some of the findings were expanded and verified. Finally, the results of this case study were compared to other similar studies worldwide and drawn into the wider literature on MNC activity.

1.4.3.2. Problems with data quality

The quality of the data is crucial for no accurate depiction of the situation at hand can be drawn from erroneous and poor quality data. With regards to the quality of data, social scientists especially concern themselves with two properties - reliability and validity. By reliability of data, they seek to understand how consistent the data is. In other words, how replicable the data would be if observations were repeated under the same conditions. Applied to this study, one could ask, how true is the information disclosed by the various respondents, say, about the status of the wage levels within the company as compared to before, under government administration?

Validity refers to the question, "am I measuring what I intend to measure?" Frankfort-Nachmias and Nachmias (1996: 165) describe that the problem of validity arises because measurement in the social sciences is, with very few exceptions, indirect. In this manner, researchers are never completely sure that they are measuring the variable for which they designed their measurement procedure.

Applied to this study, the validity of the measures employed may be tested by asking questions such as; do improved wages and other benefits truly measure the degree of empowerment that a company bestows upon its workforce? Equally important is the question; are the observed improvements or worsening of workforce empowerment conditions truly attributable to the company's operations or is it caused by other extraneous factors such as the host country's economic and political conditions?

Social scientists have established some generic ways in which researchers may enhance the reliability and validity of their data. Wagenaar and Babbie (1998: 62) suggest that the researcher could enhance the reliability of his/her data by asking the respondents about things they are likely to know. They also point out that it is equally as important to ask those people who are the most likely to know about the subject. Where respondents do not know the subject very well, they are likely to disclose fabricated or inaccurate information instead of just admitting that they do not know. The researcher may also use the test-retest method (triangulation), where he/she asks different sources for the same information and then compares the findings for consistency. In addition, through simple commonsense, the researcher could use those measures known for reliability and apply the planned research design consistently.

The validity of measures and data may be enhanced by establishing face validity, where the researcher compares his/her measures and data with both the researcher's logical understanding of the concept and other common agreements about the concept of interest. Applying the test of content validity may be another way for the researcher to verify the validity of his/her measures. This test examines the extent to which a measure covers the range of meanings included in a concept. Another validity test is construct validity. Here, a measuring instrument is related to a general theoretical framework in order to determine whether the instrument is tied to the concepts and theoretical assumptions it is employing (Wagenaar and Babbie 1998: 67).

The current discussion on data quality assurance issues will now be moved to the context of this study. Here, the spotlight will be directed to the problems experienced during this study's fieldwork, which weakened the reliability and validity of the data obtained. This discussion will be accompanied by an explanation of how each of these problems were avoided, mitigated, or else dealt with.

1.4.3.2.1. The validity of the variables/measures used

It was previously mentioned that certain variables were used in this study as measures of workforce empowerment. Their validity was established through tests of face and construct validity. These processes involved working with supervisors prior to fieldwork in order to derive these variables (face validity). Literature was also consulted widely, in order to ensure that these variables were tied to the concepts and theoretical assumptions surrounding the issue of workforce empowerment by MNCs (construct validity).

1.4.3.2.2. Limited timing and budget constraints

As already alluded, a maximum of two months was allocated for this study's field research in South Africa. Unfortunately, this period coincided with local government elections and the festive season (the Christmas holiday break). Combined, about a month of potential fieldwork was lost.

Limited finances and other logistical problems (such as the distance of the various information sources from one another) only compounded problems of limited time. Consequently, the necessary data and related information could not be gathered as exhaustively as desired. For instance, some critical institutions such as the

Development Bank of South Africa (DBSA)[11] were not consulted as primary sources. Nevertheless, secondary data in the form of published articles and discussion papers were obtained from some of these institutions as a way to factor in their viewpoints.

1.4.3.2.3. Interview-related problems

Typical problems arising from the use of interviews as a mode of data collection have already been discussed. It was also mentioned earlier that most of the data collected for this study was obtained through personal interviews (structured and non-structured). Hence, several data reliability concerns, typically associated with the use of interviews, may be pertinent to this study's fieldwork experience.

Interview-related biases were an inevitable potential threat to data reliability. As already discussed above, the interviewer's personal characteristics (age, gender and socio-economic) as well as the manner in which he/she phrases questions, may all influence the responses he/she receives.

Race and gender matter a lot in South African society today even after the demise of apartheid and in an era where affirmative action and gender equity concepts are being actively promoted. This research was carried out in a predominantly black male-oriented sector. Though no obstacles in data gathering were experienced due to any of these factors, one might expect that the researcher's presence, as a young, black, female expatriate might have influenced the respondents' level of genuineness in answering some of the questions posed. Aware of such potential biases, verbal and non-verbal cues during the interviewing process were avoided as much as possible.

This sort of interviewer influence was evident when conflicting responses were given to common questions. For instance, two interviewees, both employees of SAWCO working under the same conditions of service, gave different and conflicting answers to the question of whether wages had improved or worsened under SAWCO. This raised questions about who of the two was giving an accurate account of what was really happening under SAWCO. Such discrepancies made data analysis very difficult. However, they were dealt with by comparing obtained responses against one another and also against official documents such as the company's progress reports

[11] The DBSA is responsible for funding all of South Africa's major development projects. It was one of the major stakeholders involved in the privatisation process, which led to Waterco's operation in South Africa. Their input would have been valuable for this study.

and policy documents. In this manner, triangulation was employed as a data quality assurance strategy.

The use of open- and close-ended questions during the interviews were another potential source of biases. While the close-ended questions carried the advantage of being easy to 'read', they were also more likely to overlook alternative answer categories. The open-ended questions on the other hand, provided a wider range of responses but were more open to misinterpretation and yielding irrelevant answers. As a way to avoid these potential problems, the interview questions were structured clearly and carefully so as to avoid ambiguity and confusion. In particular, double-barreled questions and questions which promoted social desirability (that is, those whose answers made people look good) were avoided.

1.4.3.2.4. Sampling problems

The sampling procedure employed in this study's fieldwork is yet another issue of concern related to data quality. As already mentioned, non-probability sampling designs were used in order to select interviewees. Applied to the workers in this case study, the use of these designs implies that only the voices of the most accessible workers were captured in this study. This implication creates a potential bias in the data results obtained.

The problem of access was due to a combination of the sparseness of SAWCO's work-sites where the various worker groups were situated, and the researcher's lack of means with which to get around to most locations[12]. Instead, the various task leaders[13] were relied on for transportation to the various work-sites and organising the worker groups to be interviewed. Such reliance on the task leaders left very little room for random sampling. Data obtained in this manner may raise several concerns.

Firstly, selection bias may be relevant here. The task leaders who picked the worker-sample to be interviewed may have willingly or subconsciously picked them

[12] For instance, in order to get a more representative sample, all of SAWCO's ten work-sites would have to be visited. These sites were between ten to fifty kilometres apart. Without a car or a viable public transport alternative, covering all of them was impossible.

[13] The task leaders referred to here were in one case, a worker union representative and in the other, SAWCO's training officer. It should be noted at this point that both these figures wield a lot of authority over the workers.

for strategic purposes. For instance, they may have chosen only those workers with whom they had affiliations or whom they trusted to represent certain viewpoints well. Such strategic selection would have created an inherent bias in the sorts of responses received[14].

Secondly, the worker-sample size was quite small. The researcher's lack of mobility and the sparseness of the work-sites made it possible for only a few workers to be interviewed. Out of SAWCO's 180 workers, only eleven were interviewed. The smallness of my worker-sample warrants special caution when making generalisations based on this sample. Nevertheless, the credibility of the findings made from this worker-sample was boosted by verifying responses against company progress reports.

The language barrier between the interviewer and the workers interviewed exacerbated the sampling problem. In some cases, the task leaders who had organised the interviews were used to translate and facilitate interviews with the workers. The involvement of task leaders at this level presents a distinctive set of problems.

Firstly, one would expect translation problems to have influenced both the respondents' understanding of what they were being asked to do (and why) and the interviewer's interpretation of the responses given. Secondly, the task leader was an authority-figure over the workers. His authority might have influenced (if not actually intimidated) the workers' responses as the workers might have not wanted to offend or be perceived negatively by the authority figure.

### 1.4.4. Ethical considerations

All the procedures used in collecting data for this study were in compliance with Massey University Ethical Standards requirements. These requirements safeguarded the interviewee's rights to: decline to participate in the study, discontinue their participation at any time during the study, remain anonymous as a source of information throughout the study, and be informed of any publications resulting from this study. The requirements also safeguarded the interviewer's own safety during fieldwork.

[14] For instance, if the union representative only chose union members to be interviewed, the voices of non-union members would subsequently be omitted. This may be of particular concern since one may expect opinions of union-members regarding working conditions to be quite different from those of non-union members.

### 1.5. Thesis Structure

This thesis begins by immersing the study into wider literature, thereby preparing ground for the case study discussion to follow in succeeding chapters. The foregone introductory chapter identifies the thesis subject within contemporary global political economy discourse. It then goes on to set out the objectives and justification for the study. The chapter concludes by discussing the methods employed in advancing these objectives. An account is given of problems encountered during the application of these methods, particularly during fieldwork. The problem-solving techniques used against each of these problems, as well as the wider implications of these problems on the results of the study are discussed.

Chapter 2 is a review of literature examining the various issues surrounding the impact of MNCs on host developing countries' development. It starts by defining the key terms which are central to the study. It then lays out a picture of global MNC activity and FDI historically and today. Finally, it examines the theoretical and empirical arguments surrounding the MNC debate, paying particular attention to workforce empowerment debates. In the process of doing so, it defines empowerment in a holistic manner and subsequently, sets out the measures to be used. The chapter ends on a forward-looking note, discussing the various policy options which governments may use in order to harness MNC workforce empowerment capacity.

Chapter 3 moves the general MNC discussion to the context of the water sector in preparation for the case study ahead. Here, MNC activity translates into various water privatisation options. By reviewing relevant literature, water privatisation options are discussed. A close look is also taken at the extent of private participation of water MNCs worldwide and in developing country utilities. The water privatisation debate, contesting the impact of water multinationals on host developing countries, brings the general MNC debate into the water sector, here too, focusing on employment impacts.

Chapter 4 gives the background of the case study. It situates the case study within the South African context in order to establish the wider national picture surrounding the case study. The discussion includes the following sub-topics; South Africa's macroeconomic policy framework; its status of FDI, MNC activity and water privatisation; the national status of service delivery in South Africa as well as the national employment situation; and changes in local governance structures. Here, it is established that the case study emerged in response to the wider national development dilemmas discussed under each of the sub-topics.

Chapter 5 examines the case study. It reports on SAWCO's labour performance based on the three measures of workforce empowerment – labour participation, employment quantity and employment quality. Performance on each of these measures is explored at policy level and in practice. This dual-level examination seeks to establish the nature of the policies guiding SAWCO's labour practices, as well as how closely SAWCO had come to adhering to these policies.

Chapter 6 is the concluding chapter. Here, the various aspects of the thesis are pulled together. Firstly, the results of the case study are analysed, evaluated and compared to other similar experiences worldwide. In this process, lessons are drawn to inform the various stakeholders involved in the SAWCO concession on how to improve workforce empowerment within SAWCO. More general lessons are also drawn from this experience in order to inform other policy-makers in South Africa and outside considering the same route. Secondly, SAWCO's experiences are extrapolated in order to inform the South African national policy context regarding its employment of FDI for workforce empowerment and other social development purposes. Lastly, SAWCO's experiences are used to inform the wider debate on the impact of MNCs on host developing countries' development. Here, a point is made about the importance of carefully catering for labour aspects in striking a balance between alluring FDI and harnessing its development capacity, because without such a move, the sustainability of any development strategies, including privatisation, may be threatened.

# CHAPTER 2: MULTINATIONALS, THIRD WORLD DEVELOPMENT AND WORKFORCE EMPOWERMENT

## 2.1. Introduction

The impact of multinationals on host developing countries[15] has been controversial for many decades. In fact it appears that this controversy may be at the very heart of the heated 21st century debates surrounding 'globalisation'[16]. While forums such as the World Trade Organisation and the World Economic Summit support the notion of 'globalisation' and multinational activity, anti-globalisation movements[17] such as trade unions and environmental groups hold contrary views.

Proponents of globalisation argue that multinationals foster development in the Third World countries where they operate by creating jobs, improving wages and also by transferring skills, technology and capital to them. Opponents such as those evidenced in Prague, Washington DC, Melbourne and Seattle in late 1999 and throughout 2000 and recently in Genoa, see no such benefits. They see multinationals as powerful, self-interested and profit-driven bodies who perpetuate world injustice and inequality by exploiting Third World countries. They argue that multinationals take advantage of the Third World's cheaper labour conditions and expropriate all profits without benefiting the host economies in any meaningful way.

This study attempts to examine this debate more closely. This chapter, in particular, shall attempt to lay the groundwork for the case study ahead by expounding on the theoretical debate surrounding the question, *do multinationals help development or do they distort it?* It outlines the various sides of this debate in a general way before moving the debate into the context of the water sector[18] in the next chapter. During the discussion of the debate, close attention is paid to the labour

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[15] Throughout this study, the terms 'Third World country' and 'developing country' shall be used interchangeably. Similarly, 'First World' and 'developed country' shall be used interchangeably. Host countries are those countries in which multinationals operate.

[16] There is a wide scope of literature dedicated to simply defining the term 'globalisation'. This study borrows Petrella's (1996: 65) definition. He finds globalisation too vast an idea to express in a single sentence. He thus tries to capture the meaning through a list of related concepts such as political and economic unification of the world, global regulation and governance and even globalisation of perception and consciousness.

[17] It should be noted that these dissident movements represent a wide array of interests and views about what the alternative route to 'globalisation' should be. Nonetheless, they are unified in their discontentment over the current world order.

[18] The water sector is chosen as a way to set the ground for the case study in the chapters ahead. As will be learned, the case study examines the extent to which one water MNC contributed to the empowerment of its workforce.

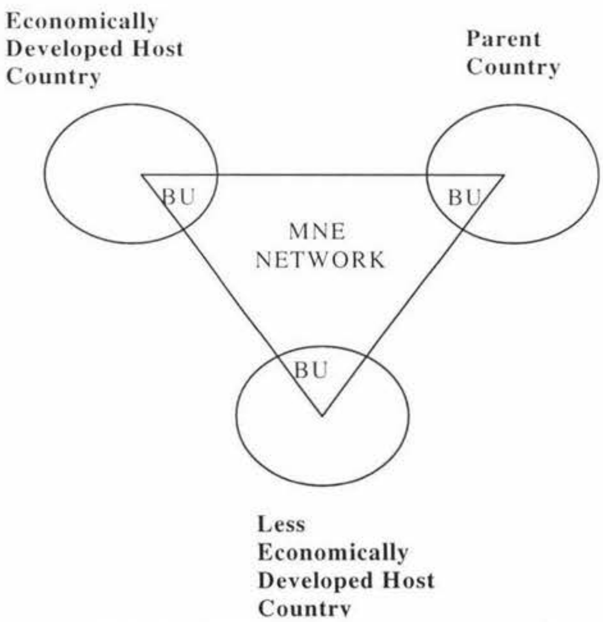
(workforce) empowerment aspect of multinational-induced development, as this aspect is the main variable under investigation in the case study ahead.

The chapter will begin by defining the key terms to be used in this study. Following these definitions, a picture shall be drawn of the current state of FDI and MNC activity worldwide in terms of trends, patterns and other characteristics such as the scope, size and type of MNC activity. The debate over the impact of MNCs on Third World development will then be discussed broadly, before narrowing it down to focus on the labour aspects of multinational-induced development. The chapter will then conclude with a discussion of some policy options which host developing country governments may employ in order to enhance the empowerment of the local workforce using FDI.

## 2.2. Definition of key terms

2.2.1. What are multinationals and Foreign Direct Investment ?

**Figure 2.1: Multinational Enterprise Network**




*Source*: Tavis and Crum (1984: 37)

Buckley (1985:1) asserts that there are whole papers devoted to the question of defining a multinational. He simply defines it as, "a firm which owns outputs of goods and services originating in more than one country." In colloquial language, the terms 'multinationals', multinational enterprises (MNEs), multinational corporations (MNCs) and transnational corporations (TNCs) are used interchangeably to refer to those companies which operate in more than one country. According to the Organisation of Economic Co-operation and Development (OECD) (1997: 5), they could be state-owned, private or mixed but their operations in the various countries are so linked that one or more of them may be able to share knowledge and resources with others. Tavis (1997: 35) summarises the structure of a typical multinational enterprise network and its local host-country activity in Figure 2.1 above.

The MNC in Figure 2.1 operates in three countries: the parent country, a developed host country and a host developing country. The MNC network is depicted as the triangle. The circles are nation states, each with its economic and broader social dimensions. The pie-shaped areas (BU or business units) represent the local multinational activity in a specific country. They could be in the form of branches, wholly owned subsidiaries, joint-ventures or strategic alliances. The foreign affiliates, which will be referred to throughout this study, are those BUs operating in bases other than the parent country[19]. As depicted by the diagram, the BU is a common element of both the MNE and the host country as it is the overlapping set of these two systems. The purpose of the BU is to carry out the overall strategies and objectives of the MNE as well as to participate in the MNE's formulation. At the same time, the BU is subject to the markets and governmental controls of the host country.

As an element of the multinational network, the local BU has informed access to international resources (such as human, material, financial and technical resources) through the multinational network. Such access, together with the strength of the multinational linkages combined, enhance the competitive power of the local BU relative to other local institutions. As shall be discussed in later sections of this

[19] BU entities operating in the parent country are called parent enterprises. A parent enterprise is defined as an enterprise that controls assets of other entities in countries other than its home country, usually by owning a certain equity capital stake. Usually, an equity capital stake of ten percent or more of the ordinary shares or voting power for an incorporated enterprise, or its equivalent for an unincorporated enterprise, is considered as a threshold for the control of assets (*World Investment Report* 1999: 465).

chapter, it is important for BUs to balance the goals and needs of the local society with the goals and needs of the MNE. Otherwise, MNE activity in the host country could indeed be detrimental to the host country's development.

In discussions of MNEs, reference to foreign direct investment (FDI) is often made. Tavis (1997: 29) defines FDI as the acquisition of a physical asset by a MNE in the form of a plant or equipment in a foreign country, which is to be managed by a parent corporation. The asset can be a new construction or a purchase of an existing one. To be classified as FDI, the foreign investor must have sufficient share of the equity in the foreign venture in order to maintain control in it. The percentage share required of the foreign investor varies from country to country and is typically ten percent or more.

Put simply, typically, when a MNC owns ten percent or more of a local company, it is considered to bring FDI to the host country. It is for this reason that in this study, FDI shall be taken to give a rough indication of the amount of capital transmitted by MNCs. However, several points ought to be borne in mind pertaining to the relationship between FDI and MNC activity. Firstly, the FDI figure recorded on a country's balance of payments report underestimates the level of MNC activity since it excludes the capital raised in host economies by MNCs, which is an important source of financing for investment projects in some developing countries (Tavis 1997: 30). Furthermore, FDI data only captures cross-border investment flows involving equity participation and omits non-equity cross-border transactions such as intra-firm flows of goods and services (*World Development Report 1998/99*: 246).

### 2.2.2. What is 'development'?

Similar to the case of defining a MNC, there is massive literature dedicated to attempting to define the term 'development'. One could even argue that the definition of development changes according to its intended use. It could simply be defined as the process of improving people's wellbeing. In the era prior to the 1980s, it was popular to equate development strictly with economic growth. However, today, as seen with the United Nation's *Human Development Reports* and the World Bank's *World Development Reports*, the notion of development has grown to include environmental and social objectives such as health improvements, education and access to water and electricity.

Used in the context of MNCs today, development includes national economic growth as well as technology and labour improvements. As already mentioned in the previous chapter, this study will limit itself to the latter – the contribution that MNCs make to employment and general labour improvements. This labour condition component shall be referred to as 'workforce empowerment'.

2.2.3. What is 'workforce empowerment'?

It has already been established that the words 'labour' and 'workforce' shall be used interchangeably throughout the study, to refer to a company's employees. The term 'empowerment' on the other hand, is not so easy to define. Like 'development' its colloquial meaning varies according to the intensions of the user. For instance, one hears of political, social, economic and even psychological empowerment. The New Zealand Oxford Paperback Dictionary (1998) defines it as "giving power or authority to".

In the context of Development Studies, Friedmann (1992: 31-32) sees an empowering process as one which includes stakeholders as opposed to excluding them from decisions (political, economic, social or otherwise) which affect them. More comprehensively, in his *Preface*, he states,

> The empowerment approach, which is fundamental to an alternative development, places the emphasis on autonomy in the decision-making of territorially organised communities, local self-reliance (but not autarchy), direct (participatory) democracy, and experiential social learning. Its starting point is the locality, because civil society is most readily mobilised around local issues (Friedmann 1992: viii).

Friedmann's definition in the excerpt above, is by far, one of the more comprehensive ones. By this definition, the term 'empowerment' is often associated with the process of 'capacity building' and 'sustainability'. Abrams (1996a: 2) defines these concepts in relation to each other in the following manner:

> Experience throughout the world indicates that where local people are not responsible for local services, sustainability of development is not achievable....To ensure the proper functioning of government, particularly at local level, and efficient delivery of services, the abilities and skills of local people need to be built.... Capacity building is the process whereby a community equips itself to undertake the necessary functions of governance and service provision in a sustainable fashion. The process of capacity building must be aimed at both increasing access to resources and to changing the power relationships between the parties involved. The "community" may be a local government, a village level committee or even a central government department. Capacity building is not only constrained to officials and technicians but must also include the general awareness of the local population regarding their services and development in general.... Capacity building is only ever a process of building on the innate skills and abilities, which exist within the community.

For the purpose of this thesis, the nominal definition[20] for the term empowerment will draw upon both Abrams and Friedmann's insights. 'Empowerment' thus shall mean, **the process of giving local people or the recipients of development, the power to shape their own immediate and future socio-economic, political and cultural destinies through improved access to resources (economic, social and political), as well as improved skills.** By this definition, workforce empowerment shall thus refer to the process of giving employees the kind of power conveyed in the nominal definition given above.

Such power is encapsulated in the measures - labour participation, employment quality and quantity, which accumulatively, indicate the amount of political and economic power that a MNC endows upon its workforce. Labour participation examines how much 'say' or decision-making power labour has in the establishment of a company. Employment quantity simply examines employment numbers in order to establish if a company creates or sheds jobs.

Employment quality entails numerous variables. First it reflects the state of the workers' conditions of service (eg. remuneration measures such as wages and retirement premiums, as well as working conditions such as safety measures and working hours/day). Secondly, it covers variables assessing the level of workplace democracy such as the freedom to unionise, as well as decision-making and dispute resolution avenues, in an attempt to capture in qualitative terms, the nature of political say that workers have in the continued running of a company. Finally, employment quality examines training programmes and other skill transfer mechanisms offered by a company to its employees, in order to establish if these employees acquire useful and employable skills through the workplace[21].

Contemporary Development Studies literature appears to converge on the question of the importance of workforce empowerment. People are inarguably viewed as indispensable for the sustainability of any development endeavours. Anchored in the principles of transparency, accountability and consultation, labour participation is

[20] A nominal definition is the definition assigned to a term in a given study (Wagenaar and Babbie 1998: 62).
[21] It may be noted that these measures are very much in line with the chosen nominal definition of 'empowerment' since they highlight the need for the betterment of the locals' social, economic and political immediate and future wellbeing (in this case, local workers) over that of expatriates or 'experts'.

very important for the success of any company's operations[22]. Indeed, it will be demonstrated in later chapters that without labour participation, workers tend to oppose the company (eg. through strikes) thereby threatening the productivity, hence the sustainability of the company.

The United Nations Centre on Transnational Corporations and Development (UNCTAD)'s publication, the *World Investment Report* (WIR) (1999: 256), persuasively summarises why labour, its quality and quantity are important for development in both developing and developed countries:

> Labour and human resources with skills and knowledge are indispensable factors of production in all economic activity. Increasing the quantity of labour employed in productive activity generally contributes to increasing output and income. If the increase in employment is accompanied by an increase in the quality of employment, and also by investment in human skills and knowledge, there is also an increase in value added per employee, leading to rising wages and improved conditions of work. Furthermore employment creation and upgrading are important means for countries to achieve an equitable distribution of income and minimum standards of welfare for their people. Thus for all countries, developed and developing, reducing unemployment, moving towards full employment, and raising the quality of employment are critical components of development.

Furthermore, in the case of a developing country such as South Africa, where unemployment is already high and waged labour is the predominant mode of earning a living, all these employment dimensions to development are even more critical[23]. In a waged-labour economy, when unemployment is high and the economy's labour-absorptive capacity low, the unemployed have no means of earning a living (at least in the formal sector). In this case, unemployment becomes one of the most direct and major causes of poverty.

Moreover, in most developing countries, public-support mechanisms for the poor and the unemployed are often unavailable, and very few social services (if any at all) such as education and health benefits are provided by the State for free. All these factors, exacerbated by overall ailing economies characterised by sky-rocketing inflation, leave most Third World governments with no other choice but to rank employment creation very highly as a development policy objective.

In these circumstances, the role of work is "not simply as a source of income, but [is] a direct source of well-being and an important factor in generating and maintaining growth" (Bruton and Fairris 1999: 5).

[22] It may be noted that this also applies to development projects in general, where stakeholder participation is indispensable for project success.

To go with employment creation, most developing countries also want, as priority, better quality jobs, ie. higher paid, more secure jobs with better working conditions. These conditions contribute towards the immediate betterment of the workers' standard of living, especially in economies where social services in the form of education and health grants are scarce. The improvement of the workforce's skills-base is also crucial, both from the company's point of view and from the workers'.

In today's age of global competition, a skilled workforce is important for meeting the volatile and technology-driven global market demands. The lack of appropriate skills implies that worker productivity will be low, thereby hindering the company's competitiveness. These conditions could increase unemployment as the company (local or multinational) may be forced to shut down. There are also some benefits of skills upgrading which accrue exclusively to the workforce, which have a high developmental value. These include income security. For instance, in the event of employment loss, the skills acquired at work could enable the workers to find alternative ways of earning a living such as obtaining employment in another sector or company, or even through self-employment. One may even argue that such skills carry innumerable value as they can be employed in other aspects of the workers' lives, boosting the workers' personal self-esteem in the process.

The discussion above signifies that there is scope for MNCs to contribute to the empowerment of their workforce, both from the MNC's own point of view, and from the local workers'. However, as shall be discussed shortly, not all MNCs strive to empower their workforce. It shall be shown in detail later on that factors such as the type and motivation of the investment, the industry in which the MNC invests, the strategies the MNC adopts and host country conditions and policies, all affect MNCs commitment to workforce empowerment.

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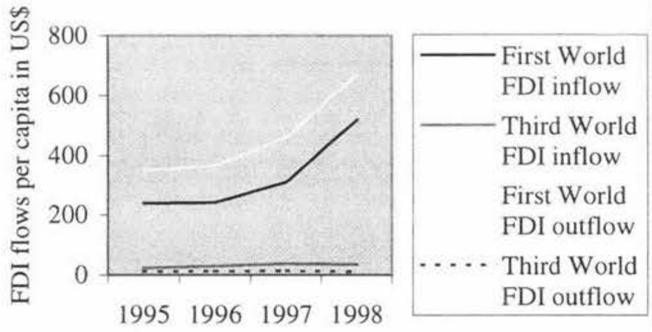
[23] Factors causing such high unemployment vary from context to context and are explored elsewhere by national organisations such as Centre for Development and Enterprise (CDE) http://www.cde.org.za/wwpubs.asp.

## 2.3. The extent and structure of MNC activity globally

2.3.1. MNC and FDI recent trends and patterns

Figure 2. 2: Regional Distribution of FDI inflows and outflows, 1995-1998




*(Source: World Investment Report* 1999: 9)

The WIR (1999:7) estimates that MNCs comprise of over 500,000 foreign affiliates established by some 60,000 parent companies, spanning virtually all countries of the world. The same WIR report states that the number of these affiliates has tripled in the past two decades The UN estimated that in 1997, over 90 percent of MNCs were based in developed countries and just under half of the affiliates were in developing countries. Indeed, MNCs are a major economic force both within their home countries and outside. According to Tavis (1997: 27), 62 percent of their total assets are invested at home. He also states that as much as a third of the world's output is controlled by MNCs. The same author suggests that MNCs employ about 73 million people, making up about three percent of the world's labour force.

Appendix 2 and Figure 2.2 attest to the WIR's assertion that most MNCs are owned in developed countries. They also suggest that most of the world's FDI flows from one developed country to another. According to the WIR (1999: 10), it is the recent developments such as the "intra-investment"[24] which have expedited FDI flows between developed countries. Since World War II, FDI share to developing countries has declined steadily even though the amount has increased.

[24] This kind of investment involves the strategic trade relations between the industrialised countries of North America, Western Europe and Japan, Australia and New Zealand. Trade agreements such as NAFTA and APEC are examples of such triad arrangements.

Taking a closer look at Appendix 2, it can be seen that by the mid- to late 1990s, Germany, Denmark, Sweden, Switzerland, as well as Japan, the Republic of Korea and the US owned most of the MNEs worldwide. These countries had the most number of parent companies. China, on the other hand, led the way in hosting the most number of foreign affiliates, followed in order by Poland, Hungary, the Philippines, Germany, USA and Singapore. Looking at the geographic distribution of MNC activities, Central Asia and Africa owned the least number of MNCs as indicated by their low numbers of parent companies, while South East Asia and Central and Eastern Europe hosted the most number of MNCs.

Figure 2.2 above shows recent trends in international FDI flows, which give a rough indication of the amount of capital transmitted by MNCs worldwide. According to this diagram, total outward[25] and inward[26] FDI in both developing and developed countries have grown steadily in recent years. However, inward and outward FDI in developed countries were higher than those in developing countries, implying a high proportion of MNC activity in developed countries than in developing ones. Taking a closer look at regional distribution of these trends, the WIR (1999) explains that FDI into Latin America and the Carribbean climbed steeply, while flows to central and eastern Europe as well as Africa were quite modest.

The WIR (1999: 10) attributes the noted FDI boom in 1998 to the rapid increase in cross-border mergers and acquisitions (M&As), which include the purchase by foreign investors of privatised state-owned enterprises. This increase occurred despite the 1997 Asian recession. Indeed as shall be demonstrated later, it is this growth in numbers of M&As which continues to fuel global FDI growth into the twenty-first century.

Beyond 1998, the International Chamber of Commerce (ICC) reports on its website that inflows of FDI were likely to exceed US$1,000 billion in the year 2000 as compared to the 1999 figure of US$865 billion or US$58 billion in 1982. FDI flows into developed countries rose to US$636 billion in 1999 from US$481 billion in the previous year, while FDI into developing countries rose to US$208 billion from

[25] The value of financial flows per year (including the flow of in-kind assets) from home countries to foreign affiliates in host countries (WIR 1999: 9).
[26] In principle this should equal outward FDI (WIR 1999: 9).

US$179 billion in the same time frame. After comparing FDI growth with other forms of capital movement such as trade and foreign aid, the WIR (1999: 58) concludes that the noted FDI growth "makes FDI even more important than trade in terms of delivering goods and services to foreign markets". On the same page, the WIR continues, "This growth also means that FDI has become the largest and most stable source of external finance for developing countries".

2.3.2. The scope of MNC and FDI activities

According to the ICC (1986), the size and type of MNC activities are diverse. Some MNCs operate only in two countries while others operate in over a hundred. MNC activities cover a broad array of sectors ranging from mining through to agriculture and manufacturing and even service delivery. The WIR (1999: 420) shows that in the developing world between 1988 and 1997, most of the FDI stock was spent on finance (banks, insurance, securities, and other financial companies) then followed by trade. It also demonstrates that the FDI stock in the primary[27] sector declined worldwide by half, the services[28] sector experienced a corresponding increase, while the manufacturing sector remained constant.

Tavis (1997: 35) points out that MNCs are also structured in several ways. Since World War II, the most common form has been through FDI or privatisation, where MNCs own all or part of the local facility in the host country. In recent years, contractual agreements such as licensing and franchising have become more common. In the late 1990s and today, it is strategic alliances such as private-public partnerships (PPPs)[29] that are an increasingly preferred form of MNC participation.

In spite of the large number of firms and their affiliates, overall, global MNC activities are dominated by relatively few firms. According to the WIR (1999: xvii-xviii), the world's 100 largest non-financial TNCs together held US$1.8 trillion in foreign assets and employed some six million persons in their foreign affiliates in 1997. General Electric was the largest among these TNCs when ranked by foreign assets. Close to 90 percent of the top 100 TNCs were from Triad countries (European

[27] This comprises of activities such as agriculture, hunting, forestry, fishing, mining, quarrying and petroleum.
[28] This comprises of activities such as electricity, gas, water, hotels, restaurants, transport, storage, communications, health and social services.
[29] The case study ahead focuses on this type of MNC activity.

Union, Japan and United States), while only two developing country firms, Petroleos de Venezuela and Daewoo, feature in the list (ibid.: 30-32).

While company rankings may change from year to year, membership in the top 100 list has not changed much since 1990. The top 50 non-financial TNCs based in developing countries held US$105 billion in foreign assets in 1997. These were less transnationalised[30] than the world's 100 largest TNCs. They were domiciled in a handful of countries – Hong Kong, Republic of Korea, China, Venezuela, Mexico and Brazil. The US leads in foreign assets, foreign sales and foreign employment, followed by Japan, while Belgium leads in the degree of transnationalisation. The top 100 MNCs account for between four to seven percent of the world's FDI, all headquartered in developed countries (WIR 1999: 29).

## 2.4. The MNC debate: the contribution of MNCs to Third World Development

Perceptions of the net impact of MNC activity on host developing countries keep changing as MNCs inevitably bring both costs and benefits. As already discussed, MNCs are very diverse and use different production strategies. Based only on that point, the ICC admonishes against making any sweeping generalisations about MNCs and their impact on the development of host economies (1986: 8). With this admonition in mind, the following section should be approached with caution for it approaches the issue of MNC activities in a rather generalised way.

Nevertheless, it would be fair to assert that the two bipolar perceptions pertaining to MNCs and their impact on host developing countries are, on the one hand, that MNCs enhance development, and on the other hand that the MNCs impede development. Other less extreme views may be located somewhere along the spectrum between the two extremes. It is these two extremes which shall be explored in detail next.

[30] The index of transnationality is compiled by UNCTAD and is a composite of ratios between foreign assets/total assets, foreign sales/total sales, foreign employment/total employment (WIR 1999: 82).

2.4.1. Arguments in favour of FDI and MNC activity in developing countries

Todaro (1999: 580-5) gives a good overview of the MNC debate. He states that arguments in favour of MNC activity and FDI grew out of traditional neoclassical and new growth economic models. These models see investment as indispensable for long-term economic growth (and thus development) in both developing and developed countries alike. The problem with developing countries is that they lack the capital with which to make such investment. The Harrod-Domar model[31] in particular, suggests that MNCs can make significant contributions in this regard.

Through FDI, MNCs fill the resource gap between the targeted investment and local savings in the host economy. They do this in numerous ways. First, through greenfield projects[32], they bring in the necessary financial resources (capital). Secondly, they bring in the foreign exchange necessary for boosting the local economy's balance of payments. Thirdly, through taxes, they raise the local government's revenues, which also improve the host economy's balance of payments account. Fourthly and most importantly, they boost the local economy's human capital by creating employment as their productivity improves. They also transfer management, entrepreneurial and technical skills to the local workforce by providing them with useful training programmes geared at enhancing their productivity. Also, MNCs offer higher wages and other work-related benefits as their productivity increases (Weeks 1999: 151).

Fifth, they also help the local economy to better integrate into international markets by utilising their own global networks in order to improve the productivity of their affiliates in the host economy. They also teach local managers skills such as how to make contact with overseas banks and locate alternative sources of input supplies and capital. Lastly, they are believed to bring the latest sophisticated technology and knowledge to the host countries as they attempt to raise productivity in their affiliates in the host country. Chitrakar (1994: 10) cites scholars such as P.T. Bauer, Peter Drucker and Harry Johnson as proponents of this view.

[31] This model states that Economic growth (Y) = National Savings (s) * Investment (I)/Capital (K)
[32] Greenfield projects are new production facilities. They usually involve construction from scratch, ie. building something where there was nothing before. In contrast, one may think of public utility restructuring which involves the transfer of power and resources from one body to the next without making any major new investment.

2.4.2. Arguments against MNC activity in developing countries

Opponents of MNC activity are sceptical of MNC's willingness to bring in development resources to host developing countries. Chitrakar (1994: 12) identifies scholars such as T.D. Santos, F.H. Cardoso, James Weaver and Ronald Muller as supportive of this view[33]. As summarised by Todaro (1999: 584), first of all, they do not believe that MNCs bring much capital to developing countries. They argue that through practices such as transfer pricing and special incentive packages, they expropriate more profits out of the host country than they bring in. Very little of their profits get reinvested into the local economy.

Furthermore, they argue that besides the capital outflow factor, MNCs tend to reduce the very competition they are brought in to improve by crowding out vulnerable local competitors. Such crowding out is detrimental to a country's development as it means that the local entrepreneurs and their employees become jobless. They argue that not only do MNCs simply out-compete their local competitors, they also inhibit the expansion of related local enterprises by importing their intermediate products from affiliates overseas. Moreover, they lower domestic savings and investment rates by generating domestic income for groups with lower savings propensities and charging high interest costs on capital borrowed by host governments.

With regards to foreign exchange earnings, opponents argue that MNCs may be detrimental to host economies in the long-run. As they increasingly import intermediate products and capital goods from their affiliates abroad, more capital outflows occur. Furthermore, opponents argue that MNCs' contribution through taxes is not significant because of the liberal tax concessions, disguised public subsidies and tariff protection, which they receive from the host governments as investment incentives.

[33] It may be noted that some of these authors such as Cardoso are the founders of the Dependency school of thought. This school originated from Latin America and has been instrumental in fuelling anti-MNC sentiments. It views the world order as a dualism, with the rich First World nations forming the core and the poorer developing countries forming the periphery. The core controls and manipulates the periphery for its own economic benefits. In this view, MNCs, being predominantly First World owned, are instruments used by the core to manipulate and exploit developing countries.

Where human capital is concerned, MNC opponents do not see MNCs making much positive contribution. On the contrary, they argue that MNCs 'exploit'[34] cheap labour in an attempt to keep their production costs down and also cut jobs through crowding out local businesses as well as through their own internal 'restructuring' ventures. They are also sceptical of the prospects of skills and technology transfers by MNCs. They argue that MNCs tend to bring in their own expatriate staff, especially to fill in the top-level positions in the running of the foreign affiliates located in the host country. In this manner, the important managerial and entrepreneurial skills are unlikely to be transferred to the host economy. In addition, indigenous entrepreneurial skills could be inhibited as MNCs dominate the local economy.

Another argument made against MNC activities in developing countries is that MNCs encourage income inequalities within host economies as they choose to invest only in those already developed, or otherwise 'promising' sectors, while ignoring the 'needy' sectors[35]. Todaro (1999) gives an example of this practice where the production of necessary food would be undermined and luxury items produced in their place in order to cater for the narrow 'elite' sector. Related to this point, MNCs are also accused of stimulating inappropriate consumption patterns and promoting cultural genocide through powers such as advertising and their monopolistic market advantages. Through such powers, MNCs are thought to shape and define opinions and needs to better suit their own expansionist goals. Also, the 'sophisticated' technology they import from their home countries is sometimes regarded as unsuitable for the local host factor endowments. For instance, they tend to use capital-intensive technology, which cuts down employment in economies where unemployment rates are already high.

Lastly, opponents of FDI and MNC activity view MNCs as a serious threat to democracy in host economies. They are accused of lack of transparency and accountability to the host economy and also using their economic power to influence government policies in directions, which are unfavourable to host country needs.

[34] This is a term popularly used by anti-globalisation movements especially in reference to the 'sweatshop' production line or the 'maquiladoras' in South America. By exploitation, they mean that workers get paid much less than the international market value and work under poor working conditions vis-à-vis company profit.
[35] Bond and Ruiters (2000) espouse to this view which they refer to as 'cherry-picking'.

They are sometimes even accused of bribing political parties and public officials in order to carve out a favourable path for themselves.

Table 2.1 below sums up the MNC debate as applied to 5 key disputed issues.

**Table 2.1: A summary of the MNC debate**

| Key Issue | Argument pro-MNC activity | Argument against MNC activity |
|---|---|---|
| International capital movements | • MNCs bring in substantial capital and improve the balance of payments<br>• They establish positive linkages with the host economy<br>• They generate significant tax revenues | • MNCs do not bring in much capital – they remit 'excessive profits' from host country through ways such as transfer pricing<br>• They do not establish much positive linkages, instead they bring in their own foreign staff and work with own intermediates<br>• They evade taxes and receive incentive packages, which include tax breaks larger than the actual taxes they pay. |
| Displacement of indigenous production | • They strengthen local industries through positive linkages | • They drive out existing local industries through competition |
| Technology transfer | • They transfer 'superior' and latest technology to host country for production in foreign-affiliates | • They keep all R&D in home countries and retain monopoly power over technology<br>• The technology they use is inappropriate for host country factor endowments |
| Patterns of consumption | • They bring in improved lifestyle and cultural changes as well as the latest much desired products | • They perpetuate cultural genocide by fostering alien values, images and lifestyles incompatible with local customs and beliefs<br>• They encourage inappropriate patterns of consumption through elite orientation, advertising, and superior marketing<br>• They increase consumption of their products at the expense of other, perhaps more needed goods |
| Social structure and stratification | • They improve workforce democracy and overall more equitable income distribution through improved wages and job creation. | • They develop allied local groups through higher wages and bribes thereby widening the gap between the rich and the poor. They also manipulate the local political scene to their own advantage<br>• They downsize their workforce and use capital intensive technologies, which only increase unemployment for the host economy. The also keep their production costs down by 'exploiting' cheap labour. |

Having broadly discussed the MNC debate in the manner above, it may now be useful to focus on only one aspect of the debate. Such focus not only fosters a better understanding of the complexities of MNC activities, it also sets the ground for the case study ahead. This aspect is the labour impacts of MNCs in developing countries. Indeed as already alluded to, it is these impacts that will be scrupulously examined in the case study discussion.

### 2.4.3. MNCs and employment generation in host developing countries

It was mentioned earlier on that the net impact of MNCs on host developing countries is contested. There is also mixed empirical evidence supporting both sides of the MNC debate[36]. The picture remains mixed when applied exclusively to the question of employment generation by MNCs.

On the one hand, WIR (1999: 261) sees MNCs, through FDI, generating employment directly and indirectly. Directly, foreign affiliates of MNCs employ people in their mines, plantations, manufacturing plants and service establishments. Through positive linkages, they also create employment in secondary markets such as their suppliers firms and their sub-contractors. Indirectly, foreign affiliates also create employment by furthering investment through increased output and incomes.

On the other hand, MNCs can cause employment losses. For instance, mergers and acquisitions (M&As) tend to shed labour as they restructure their activities in line with the objectives of the new firm. Moreover, as already mentioned, FDI can crowd existing local firms out of business thereby creating unemployment. It may also induce local competitors to shed employees, either by reducing the local firms' production due to a decreased share of the market or because of efforts by local firms to increase their efficiency and competitiveness by downsizing their labour force.

The net impact of MNCs in this regard is hard to assess and is also likely to vary over time. A short-term loss of employment may be offset by longer-term gains related to improved competitiveness and efficiency conducive for the establishment of new local or foreign firms. It is equally possible for the long-term negative employment effects to reverse short-term gains.

[36] For instance, while Lall and Streeten (1977) showed a positive relationship between FDI and national income, Jenkins (1979), Bornschier *et al.* (1978) showed the exact opposite. Also, while Jenkins (1979) found a negative relationship between FDI and the balance of payments problem, Whiting Jr (1991) found a positive one.

The WIR (1999: 265) states that data for the largest 100 TNCs between 1991-1997 demonstrates that employment in developed and developing country foreign affiliates slowly increased by two per cent in 1995-96 and nearly one percent in 1997. It is the manufacturing sector, especially in export processing zones (EPZs) of developing countries, that tends to have the largest employment shares in foreign affiliates. Where FDI is concentrated in industries such as clothing, agro-processing, electronics assembly and certain services, women workers account for most of the employment generated by foreign affiliates in developing countries[37]. This concept is known as the 'feminisation' of manufacturing and exports employment and commands a lot of critical attention in contemporary Development Studies literature.

The WIR (1999: 262) also argues that the direct and indirect impacts of FDI on employment generation depend upon several factors. First is the mode of entry of FDI. As already mentioned, M&As often lead to labour shedding, while greenfield projects generate new demand for workers. Second is the trade and industrial policies of the host economy. These determine the amount of employment generation that can be attained in a given labour market. For instance, the early experience of East and South-East Asia showed that export-oriented trade regimes conducive for FDI can promote significant employment creation by attracting export-oriented activities. The sustainability of such employment then depends on factors such as whether technologies and skills in the export-oriented affiliates are deepened and improved as wages rise.

The third factor identified by the WIR is the pace at which developing country economies can be restructured to face international competition. This also determines their ability to sustain employment in tradeable goods and services. Economies that can support rapid restructuring and efficient new production activities are more likely to see growth in employment resulting from FDI. The last factor is the efficiency of the labour market and the quality of labour market institutions such as labour laws, unionization and industrial relations in the host economy, affect employment generation. Related to this point, the WIR explains that well-functioning institutions and appropriate regulations that ensure a fair, efficient and equitable

[37] The same WIR estimates that the proportion of women in the EPZ production line could be as high as 70 to 80 per cent, showing the industries' preference for young, low wage, semi-skilled workers often perceived as docile and undemanding.

functioning of the labour force are necessary for harnessing FDI to employment generation (ibid.: 262).

2.4.4. MNCs and employment quality in host developing countries

The WIR (1999: 271) discerns that comprehensive data showing the impact of FDI and MNC activities on employment quality[38] is lacking. While studies such as those carried out by Bora and Wooden (1998) suggest that foreign affiliates offer better wages, remuneration packages and working conditions than domestic firms in host countries, other studies suggest the opposite. Nevertheless, the WIR asserts that both governments and unions are increasingly conscious of the benefits that MNCs can bring towards upgrading employment quality provided that institutions for labour representation and collective bargaining[39] are in place.

Still, according to the WIR, the foreign affiliates offering better remuneration and working conditions tend to be the ones concentrated in higher capital-, skill- and marketing intensive industries with higher productivity than national firms[40]. Such industries need a reliable workforce to meet quality control standards and production schedules. They therefore offer attractive inducements such as higher wages, benefits, infrastructure, training and supplier systems. The size and visibility of many TNCs may make them prone to unionisation and union pressure, as well as national and international action concerning labour standards, thereby making them more likely to offer better working packages.

Those foreign affiliates who offer lower remuneration and working conditions than the larger enterprises operating in the host economies tend to be those in low value-added activities based on simple technologies, particularly in labour-intensive Export Processing Zones (EPZs). These may, in some cases, even be exempt from normal wage laws and have no incentive to upgrade the skills and capabilities of

[38] By workforce quality, WIR refers to the level and composition of skills available, the training potential of managers, technicians and workers (1999: 263).
[39] Gernigon *et al.* (2000:35) define collective bargaining as the activity or process leading up to the conclusion of collective agreements. Such agreements are in writing regarding working conditions and terms of employment concluded between an employer, a group of employers and one or more representative workers' organisations.
[40] Bora and Wooden (1998) offer some interesting insights related to this point. Though they undertook their study in a developed country, their findings are interesting nonetheless. Their study looked at the impact of foreign ownership on wages in Australian companies from which they concluded - minority foreign-owned companies (those 50 percent locally owned or more) paid the highest wages to their workforce. Majority foreign-owned ones (those 51 percent and above foreign-owned) still paid their workers higher wages than wholly locally owned ones though.

their workforce. Moreover, as a general rule wages are higher in developed countries than in developing countries because of the excess supply as well as the low level of labour skills (though productivity may not necessarily be lower) found in the latter.

WIR (1999: 271) asserts though that it is in fact the high quality of human capital and not fiscal incentives, infrastructure provision or low labour costs that increasingly determines the quality of inward investment. This is because global competition by developing countries to attract FDI, accompanied by the global production trends towards high-value production[41], undermines the advantages of EPZs as a means of generating employment for low-cost, low skilled labour.

In such competition, developing countries now adopt a number of strategies to ensure that labour productivity is continuously upgraded. These include providing incentives for investors to undertake human resource development, investing in social infrastructure such as roads, housing, on-site meals, health and childcare facilities, and creating a sound political environment with comprehensive policy frameworks. Also, improved literacy and numeracy levels of the workforce attract high value-added FDI as these attributes make it easier for MNCs to upgrade workplace related- and technical skills. These workforce attributes have indeed enabled countries such as Hong Kong, Singapore and Taiwan to attract FDI into higher value-added activities, which, as already mentioned, tend to offer better quality jobs (ibid: 269).

### 2.4.5. MNCs and skills upgrading in developing countries

According to the WIR (1999: 273), all firms, including MNCs, undertake some form of training, at the minimum to ensure that technologies in use are deployed efficiently. The decision whether a MNC invests in more advanced forms of training or not depends on its expected returns, its time horizon, and the extent of competition it is exposed to. The profitability of training also depends upon the skills provided by the education system, the prospects of retaining trained workers or the appropriability of returns to training investments. In other words, where workers already have a strong education base, the firm expects higher economic returns from training them further. Otherwise, the firm will only invest in minimal operational on-the-job training. Also, firms that are shielded from global competition are less inclined to

[41] High-value added production requires sufficiently skilled labour.

invest in advanced training, for they do not have to face the global pressures of high efficiency, productivity and value-adding.

The type of sector, industry and even product line involved, also determine the part that a MNC will play in building the skills of its workforce. While some MNCs may provide more training with increasing wages and more complex technologies, others find it cheaper to relocate to locations with better skill endowment (or education base) as wages rise instead of investing in higher training. This is especially so in EPZs where the host's advantage lies in cheap, low-skilled labour and low technologies. In this case, the host economy may be in a "low-skill trap" where its competitiveness depends on keeping wages low and providing little education to the workforce. A firm investing in this economy has little incentive to invest in skills upgrading because their employees lack the educational base to make training effective. The only way out of the 'trap' for such an economy is for the government to raise basic skill levels and persuade firms to invest more in training their employees.

MNCs tend to be more aware than other firms of the benefits of training and have well-developed routines and systems for training. They can contribute to skills upgrading by investing directly in training their affiliates. They can also do so indirectly by supporting local firms, notably their suppliers and buyers, or inducing their competitors and even unrelated firms to do the same. They can work with training institutions local and abroad in order to set up training programmes, transfer trainers across countries or even send employees to the different parts of the MNC system for training. In some instances, such as in Thailand, MNCs collaborate with the host government in designing and providing training programmes for the local workforce (WIR 1999: 274).

However, as already mentioned, as with other businesses, MNCs are reluctant to invest in training if they cannot earn a sufficient return from it. This is particularly evidenced when employees gain skills from one firm and then use the same skills to move on to work for a different (perhaps better paying) one. MNCs thus resort to incentive techniques such as offering a premium for loyalty whereby wages or other benefits increase more than proportionately when employees can stay with the firm or promotions for successful trainers. They also sometimes offer bonded training where employees contract to stay with the company for a designated period after the completion of the training. Financial support may also be offered to employees for training courses or sabbaticals that employees fund themselves.

The WIR contends that developed country firms have better employee training facilities than those in the developing world as employee skills there have become more significant as competitive assets. Within host developing countries, the picture on the status of employee training is more mixed. For one, foreign affiliates are generally more equipped to provide training than local firms in developing countries. The MNCs utilising their technological advantages, tend to offer better skills upgrading and training than in uni-national and local firms. Those MNCs taking advantage of low labour costs tend to invest very little in further training (ibid: 275).

**2.5. Policy choices for workforce empowerment in host developing countries**

Bearing in mind the factors discussed above, it is clear that good policies are crucial if governments are to succeed in pursuing the dual goals of generating employment and enhancing employment quality. Furthermore, based on former discussions, it is apparent that government leverage on MNCs is important if the government is to fulfil its role as protector of its citizens and fostering workforce empowerment. For instance, it was seen how in cases where MNCs were exempt from wage laws (eg. in some EPZs), MNCs were least likely to provide competitive remuneration benefits and invest in skills upgrading programmes for the local workforce.

The Centre for Development and Enterprise (CDE)(1998b) warns that operationalising the above-mentioned factors into concrete policy prescriptions is a major challenge confronting developing country leaders as they try to advance their labour goals. No uniform panacea exists for reaching these goals in all countries alike. The optimal strategy for any country depends, among other things, on its prevailing social values and on the level of development.

The CDE (1998b) goes on to demonstrate this point through an example where a seemingly uncontroversial goal such as ensuring that the maximum number of jobs are generated per unit of investment, poses policy dilemmas. In this case, questions arise such as; is labour-intensity best achieved through cheapening the cost of labour relative to capital economy-wide, or through specific trade and industrial policies aimed at promoting labour-intensive sectors?

Ensuring the sustainable growth of jobs raises even more complicated issues. Is a labour-demanding growth[42] path best pursued solely through labour-intensive growth in the short-term; or does maximising the number of jobs per unit of investment over the medium- to long-term require the use in the short-term of more productivity-enhancing skill-intensive and capital-intensive technologies, at least in some sectors? Furthermore, if the sustainable growth of jobs requires productivity to be boosted, then a trade-off may arise between maximising job creation now (though greater labour-intensity) and ensuring greater job creation over a longer time horizon. The problem is to work out the relationship between labour-intensive and labour-demanding growth, and then adopt a strategy to address pressing short-term needs without undermining long-term growth objectives (CDE 1998b).

Despite these policy disagreements, it is less controversial within contemporary Development Studies literature that various stakeholders[43], particularly labour representatives, company management and the host government, need to have an equal say in the formulation of such policies as well as in their implementation. The ingredient factors to be included in such decision-making are the labour market framework[44], business framework[45], business sector organisations[46], systems of education and training institutions as well as other external and internal pressures[47].

As already discussed, each country's policy needs in the area of FDI geared towards meeting labour needs vary depending on factors such as the country's level of development, trade and industrial strategies, labour goals, the nature of its education and training system as well as the type to FDI. For instance, developing countries with high unemployment and a low skills-base cannot have the same policies as those countries with a higher technology and education base. While the former will primarily strive to attract FDI, which employs basic skills, the latter will strive to maintain and strengthen their skills-base by attracting high-value added FDI.

[42] By labour-demanding growth the CDE refers to the kind of economic growth which sustains a high employment level.
[43] Other stakeholders include consumer groups, shareholders and non-governmental organisations (NGOs) dealing with environmental or human rights issues.
[44] This includes industrial relation and collective bargaining mechanisms.
[45] This includes commercial laws and competition policy.
[46] An example of this is Chambers of Commerce.
[47] Such pressures could include international laws as well as trade union movements.

Furthermore, in order to move from low value-added production to higher value production, the former may need to ensure efficient labour markets and also ensure that their education and training systems are able to meet emerging skill needs. For the latter, it may be more appropriate to induce TNCs to introduce the latest, most sophisticated technology together with advanced training. Nevertheless, no matter what economic and labour circumstances a country is under, a combination of good industrial relations, well-conceived government policy and competitive markets are necessary if FDI is to contribute to the empowerment of a country's workforce (WIR 1999: 288). Literature suggests some workforce empowerment policy options, which may be employed in relation to MNCs. The effectiveness of each of these options once again, depends on each country's specific context.

In order to increase employment quantity, a government may take measures that increase FDI inflows in general such as tax breaks and industrial parks[48]. A government may also target certain types of 'employment-intensive' FDI. For instance, here the government can attract FDI into certain labour-intensive industries (eg. garments or services) or those who have strong linkages with local suppliers so that employment is stimulated in those local firms. In the case of M&As, measures should be taken to conserve existing employment since M&As naturally tend to shed employment.

Fiscal incentives similar to those employed for general FDI attraction may also be provided to encourage TNCs to generate employment. These include tax deductions tied to the amount of employment generated by the TNC, industrial parks and growth triangles. In order to even out employment among regions and attract FDI into economically depressed or remote areas or areas with a high labour surplus, wage tiers differentiated by districts may be applied.

As already discussed, improving the quality of employment through FDI could be a challenging task for low-skilled economies since the high-value added MNCs which offer better employment quality tend to require a highly skilled workforce in the first place. For these kinds of economies, the only way to move towards better employment quality is by improving their own skills-base. Governments of these economies may:

[48] Here the basic industrial infrastructure is put at the disposal of firms under guarantee that services in the park will be reliable and of good quality.

(a) use the public education system to launch schemes to provide specific forms of training for activities they wish to promote.

(b) initiate PPPs to complement publicly-funded or TNC-based training. Here, the TNC can influence employment effects to fit its needs while also sharing in the financial burden. For instance, government might offer tax deductions to companies on training expenditure, offering salaries for training instructors and supplying training equipment.

(c) foster employee training programmes by companies, for instance in the form of levies and grants for training. Furthermore, they can penalise firms for investing too little in training while also providing recognition to those who have been active in employee training.

(d) undertake skills audits whereby governments carry out surveys in national firms to identify training needs and match these needs with future FDI requirements or address them through existing appropriate training institutions.

(e) use private institutions to provide training especially where such institutions outperform public ones in areas such as vocational training.

A combination these tools has allowed a number of governments to succeed in creating a 'training culture' thereby enhancing the country's reputation as a suitable location for skills-intensive investment.

Highly-skilled economies who wish to retain and upgrade their skills-base could require the MNCs investing in their countries to transfer the latest technology and expertise to their workforce. Initially this process may appear to be in conflict with measures to attract FDI in the first place, but as the WIR demonstrates, these two objectives actually converge in many cases. For instance, the government may impose social responsibility clauses upon the MNC while at the same time granting it exclusivity of operation advantages[49]. On the other hand, MNCs, under some circumstances, may want to be 'good citizens' and willingly fulfil their social responsibility, so that in such instances, imposing social responsibility requirements could hardly curtail FDI (Diller 1999: 99).

In all these efforts, it is important to never undermine the importance of a sound industrial relations regime. This regime comprises of institutions, laws, and

[49] While such a combination may reduce competition, it ensures that the MNC does contribute to the empowerment of its workforce while at the same time guaranteeing the MNC a certain level of profit security.

standards related to trade unions and their collective bargaining rights, and labour management relations which vary from country to country based more on socio-cultural factors than economic ones. Where industrial relations are unstable, tense or frail, both FDI and employment are likely to be fraught with problems.

In conclusion to this discussion, it is important to reiterate that success in workforce empowerment is not only limited to highly skilled economies such as Singapore and Taiwan as already discussed. Even low-skill economies such as Chile, have managed to advance their labour goals by following some of the broader workforce empowerment prescriptions identified in this chapter.

According to the CDE (2001), from the mid-1980s onwards, Chile's macroeconomic and labour policies have been consistent with rapid growth in output and employment. Wage policies, training policies and macroeconomic policies were appropriate and consistent with the broad lessons mentioned above. Attention was given to skills development (through demand-driven market-oriented training schemes) in order to support manufacturing, while labour market regulations also supported the expansion of unskilled jobs. A rapid growth in exports (especially agriculture and fishing) was the major source of employment growth. Many of the new jobs were unskilled, but there were also new skilled and semi-skilled jobs through backward and forward linkages and second-round effects through increased aggregate demand in the economy as a whole. As unemployment fell and economic growth picked up, poverty and inequality fell.

### 2.6. Conclusion

This chapter has pulled together a wide range of literature in an attempt to demonstrate the various views surrounding the impact of MNCs on development, particularly in developing countries. The first part of the chapter has clearly shown how far-reaching MNC activities have become worldwide today through operations relating to foreign direct investment (FDI). Indeed, as the neoliberal paradigm continues to predominate in the global political economy of the twenty-first century, FDI may be expected to increase a while longer, superseding trade and foreign aid. This development makes FDI the largest and most stable source of external finance for most developing countries today and in the foreseeable future.

Analysis of FDI and MNC trends showed that the spread of MNCs globally has been very rapid over the past two decades. Indeed, about a third of the world's output today is controlled by MNCs that employ close to three percent of the world's labour force. Most of these MNCs are domiciled in developed countries. Moreover, contrary to conventional belief, there is more FDI exchange between developed countries than between developed and developing countries, even though the latter type of exchange has grown since World War II.

MNCs vary in size, type, structure and strategies and in their performance. Consequently, care must be taken when generalising them. It is now the emergence of mergers and acquisitions (M&As) which appears to fuel FDI into the late twentieth century. Strategic alliances such as private-public partnerships (PPPs), which combine public and private efforts are also gaining popularity amongst governments, as a preferred form of privatisation. In spite of the large numbers of MNCs, overall, global MNC activities are dominated by relatively few firms, mostly based in the European Union, Japan and the United States.

The net impact of MNCs on host developing countries is a subject of major controversy. Proponents of MNCs and FDI argue that MNCs enhance the development of the host countries wherein they invest through activities such as bringing in the much needed investment capital and latest technology; transferring skills to the local workforce; boosting host government revenues through taxes and helping the local economy integrate into global markets. Opponents hold contrary views. These include the fact that MNCs, being profit-driven, are unlikely to bring in much investment capital since they expropriate more capital out through capital allowances and tax breaks as well as transfer pricing. Furthermore, they view MNCs as more likely to 'exploit' the local labour force by cutting jobs (through internal restructuring) and offering poor working conditions to their workforce; crowding out local competing industries, thereby creating even more unemployment; and even disrupting the local culture and political stability through their economic powers.

By taking a closer look at the impacts of MNCs on host country labour force, it was seen how empirical evidence suggests a mixed picture. Though overall, statistics suggested that employment in MNCs globally has slowly increased, the task of assessing the net impact of MNCs on labour was difficult. This task was complicated by time dimensions – the fact that labour impacts vary over time, so that short-term and long-term impacts may offset each other. Nevertheless, it was seen that in some instances, MNCs have enhanced or empowered the local workforce through practices such as direct and indirect employment creation and even providing training and other social programmes. These instances have tended to involve high-value production MNCs, who, driven by global competition, take a vested interest in the productivity of their labour force. In other cases, particularly those involving low-skill industries such as EPZs, the picture has tended to point to the opposite direction.

Furthermore, certain types of FDI tended to generate more employment than others. In this regard, M&As have proven to shed the most number of jobs, while greenfield projects have created the most jobs. Trade and industrial policies also proved to be instrumental in determining the type of labour impacts a country may experience from FDI. Amongst sectors, the manufacturing sector especially in EPZs has tended to have the largest employment share.

In the midst of global competition, there appears to be a shift towards more high-value production amongst investors and away from low-skill labour production. Consequently, governments are now attempting to allure high-value production FDI, since, among other things, this type of FDI tends to offer more job security and better employment quality. This strategy enabled some of the Asian nations such as Singapore and Taiwan to reach high development levels. However, there is hope for low-skill economies too as Chile demonstrated. Nonetheless, some developing countries find themselves in a low-skill 'trap', since such kind of FDI responds most effectively to the quality of the local labour force, than fiscal and any other types of incentives. These countries, with their low levels of skills, find themselves unable to attract the high-value production FDI they need. The only way out for such governments is to raise the basic skills level of their workforce.

Even with the aforementioned factors in mind, it is important to remember, "there are no 'best practices' but a variety of 'good practices'. The successful experience in a specific enterprise of a given country or region, is not directly replicable in the enterprise of another country or sometimes even within the same country"(De Lucas 1996). Even within countries, finding an optimal strategy can pose serious policy dilemmas, given the interconnectedness of the various sectors as well as the time and distributional dimensions of the costs and benefits.

Nevertheless, literature converged on the need for sound industrial relations, transparency and communication between all stakeholders as necessary for enhancing workforce empowerment through FDI. Political will and host government leverage on MNC activities (in terms of well-conceived government policies and monitoring regimes) are also important for ensuring that MNCs do contribute towards workforce empowerment.

Examples of policy options used by various governments to address their particular labour needs include offering fiscal incentives to the MNCs involved, tied to the amount of employment generated; boosting resources in the public education system to raise the national level of education; initiating PPPs to complement publicly-funded or MNC-based training and fostering employee training programmes within MNCs by offering MNCs levy grants for training their workforce. It is also becoming popular, especially amongst high-skill economies, to require MNCs to upgrade the level of skills of the local workforce as part of their operational social responsibility.

The effectiveness of each these policy options (or their combination), depends on each country's particular set of socio-economic, cultural and political circumstances. Therefore countries and even individual enterprises would need to find their own set of suitable options with which to solve their labour dilemmas. In upcoming chapters it shall be seen what policy options were chosen in relation to the case study already alluded to, involving a water MNC operating in South Africa. In preparation for this case study, the next chapter shall move the discussion on MNCs and their impact on labour into the water sector.

# CHAPTER 3: WATER MULTINATIONALS, PRIVATISATION AND WORKFORCE EMPOWERMENT

## 3.1. Introduction

In chapter one, it was demonstrated that water is a vital, yet precarious resource in most of the developing world. Water and sanitation have up until recently been public services in most parts of the world both because of the important role that water plays as social and development cement, and also because of water's tendency to be a natural monopoly (de Luca 1998)[50]. With the recent wave of neoliberalism, developing country governments are increasingly turning to the private sector for water management needs and general infrastructure development. Such private sector involvement has created a niche for water MNCs in the developing world. Indeed as observed by Paddon (1997), water privatisation cases in the developing world mostly involve MNCs or their subsidiaries and consortia, as opposed to uni-national private firms. Based on this observation, Paddon goes on to push for greater efforts to better understand the impact of such MNCs.

In line with the MNC-development discussions from the previous chapter, this chapter shall explore the impact of water MNCs on development, with particular emphasis on workforce empowerment in developing countries. It shall be demonstrated that although the water sector is not a major employer, the labour dimensions of this sector are very critical, given the fact that entire economies rely on the water sector for operation.

Immersed in the water sector, FDI and MNC activity in this chapter, shall assume the shape of water privatisation[51]. As seen with the MNC and development discussions in general, the main challenge in marrying water privatisation and development is "to strike [a] balance between commercial and business concerns calling for cost-efficient, profitable operations; and broader public service values that

[50] Other utilities such as gas and electricity utilities have the same properties. In the case of a natural monopoly, the fixed costs and economies of scale are typically very high so that in an attempt to increase the number of customers (so as to lower average costs), only the largest, most cost-effective firm will survive. Without competition, such a firm could willingly impose high prices while neglecting the quality of its services. In order to avoid such an impact, a public firm being more oriented towards seeking social results was perceived to be 'safer' than a private profit-driven one.

[51] In this work, the terms 'privatisation' and 'private participation' will be used interchangeably even though it will be shown later that colloquial language uses the word 'privatisation' to refer to a specific form of private participation (divestitures). The World Bank defines privatisation as the transfer of productive assets from the state to private investors through such methods as auctions, stock offers, stock distributions, negotiated sales, leasing, joint ventures, management contracts and concessions (World Bank 1998: 103). These methods will be discussed later on in the chapter.

emphasise the provision of cheap, reliable, good quality and widely accessible services" (de Luca 1998). Therefore, the generic development and workforce empowerment prerequisites established in the previous chapter such as sound government policies, healthy industrial relations, transparency, accountability and consultation, are still useful in discussions of this sector.

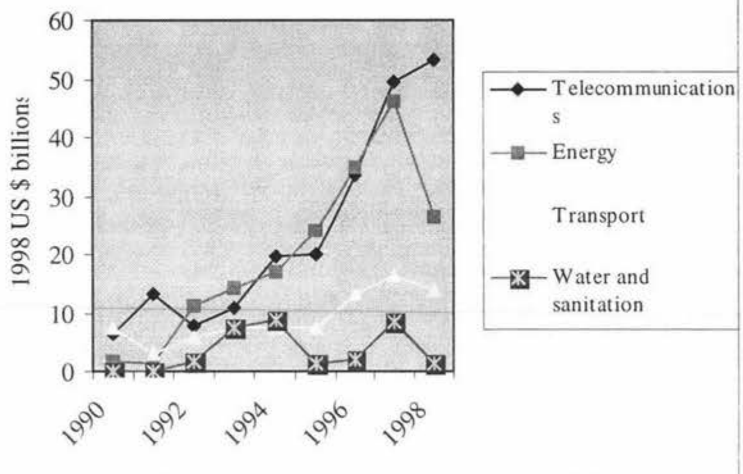
The chapter begins by giving an overview of the extent of infrastructure privatisation in the developing world, before taking a closer look at the particular case of water privatisation. In these sections, worldwide trends and patterns of privatisation, as well as the nature of water MNCs are discussed. This discussion is followed by an examination of the various private participation options in the water sector.

Subsequently, intra-sectoral analysis is made in order to examine more closely, the spread of private participation within the water sector. Lastly, the chapter concludes with a discussion of the debate over the impact of water privatisation on the development of host countries. Once again, the labour dimensions of this impact shall be examined in greater depth, concluding with a suggestion of some policy options, which may be useful for host governments when attempting to foster workforce empowerment within the MNC framework.

### 3.2. Infrastructure privatisation in developing countries: an overview

According to Roger (1999: 1), as with other infrastructure activities, water was first privatised in a handful of countries in the 1970s and 1980s. This trend of liberalising and privatising infrastructure has only gained worldwide popularity since the 1990s. It was especially developing countries who were seen to switch more rapidly to infrastructure privatisation in the 1990s, so that by the late 1990s, almost all developing countries had some private activity in infrastructure. In fact, Roger asserts that market leaders among developing countries such as Argentina, Chile and Hungary have even gone further in privatising infrastructure than all but few industrial countries (such as New Zealand, United Kingdom and the United States). However, in comparison to other utilities, water privatisation is the slowest, most controversial and the most regulated.

Figure 3.1: Infrastructure investment in Developing countries involving private particpation by sector (1990-1998)



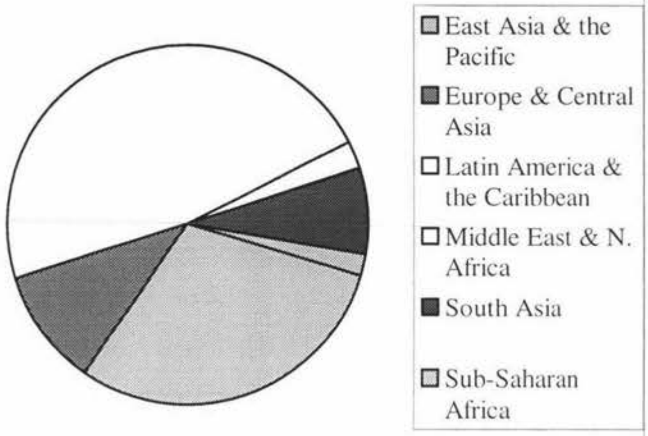

*Source:* Roger 1999: 1

Figure 3.1 above shows the level of private participation in infrastructure investment in developing countries. Several points can be drawn from this table. Firstly, private participation[52] in infrastructure investment has grown rapidly in the last decade, but the public sector still dominates. Private participation declined in 1998 (due to the Asian financial crisis) from a high in 1997, with the highest drop being noted in the energy sector. Secondly, telecommunications and energy have been the leading sectors in private participation. By comparison, transport, water and sanitation received much less private participation. Roger argues that this is because in the latter sectors, technological change is less pronounced, political barriers to reform strong, and sub-national governments' role often significant. These factors tend to dissuade private partners from participating in a local economy.

Figure 3.2 below indicates that Latin America and East Asia lead the way in infrastructure privatisation, while Sub-Saharan Africa comes last.

[52] At this point, private participation is not discriminating between local private companies and MNCs.

Figure 3.2: Cumulative Infrastructure investment involving private participation, 1990-1998, in Developing Countries, 1998 US$billions




*Source:* Roger (1999: 1)

What is the relative contribution of this investment in infrastructure projects with private participation in total infrastructure investment? Roger (1999: 3) states that aggregate data suggest that developing countries have invested on average, about 4 percent of their national incomes in infrastructure facilities, or about US$250 billion a year. So between 1995-98, the average annual investment in infrastructure projects involving private participation was about US$100 billion. This figure accounted for about 40 percent of total infrastructure investment in developing countries. Roger also states that estimates using other data suggest a private share of infrastructure investment financing averaging about 15 to 20 percent a year.

However, it should be noted that these projects are rarely financed exclusively by private funds. They more typically attract some public financing to complement private funds. This form of private participation is called public-private initiatives (PPIs) or public-private partnerships (PPPs)[53]. According to one World Water Forum briefing by the Public Services International (PSI), PPPs are the most favoured current version of privatisation. Put simply, these refer to formal joint-ventures between public authorities and private sector, typically involving MNCs.

[53] These are discussed in more depth much later in the chapter.

## 3.3. Water privatisation patterns worldwide and in developing countries

**Table 3.1: Water privatisation projections for selected regions**

| Region | Percentage privatised, 1997 | Estimated percentage privatised, 2010 | Estimated value of privatised market, 2010 (US $, billions) |
|---|---|---|---|
| Western Europe* | 20 | 35 | 10 |
| Central and eastern Europe | 4 | 20 | 4+ |
| USA | 5 | 15 | 9 |
| Latin America | 4 | 60 | 9+ |
| Africa | 3 | 33 | 3 |
| Asia | 1 | 20 | 10 |

* *Excluding France and UK, study done by Vivendi*

(*Source:* Hall 1999)

As already mentioned, up until the 1990s, water and sewerage services in most countries were a government's responsibility. In the 1990s, along with utility infrastructure privatisation, incidences of water privatisation also increased, particularly in the developing world. According to the Silva *et al.* (1997: 5), between 1984 and 1990, developing countries awarded contracts for only eight water and sewerage projects. Since the 1990s, the number of private water projects increased more than tenfold, though private involvement is still small relative to public provision. By 1997 there were about 97 private water operations in the developing world and future regional projections are demonstrated by Table 3.1 above. These projections show that water privatisation is expected to spread even more, with Latin America leading.

Silva *et al.* (1997: 5) go on to explain that the increased flow of FDI into the water sector of most developing countries was prompted by most governments' decentralising water and sewerage services to municipal or provincial governments[54]. With this decentralisation, municipal or provincial governments found themselves in a position where they needed capital and expertise with which to expand and improve the services under their jurisdiction. The lack of these resources led the municipal and provincial governments to turn to the private sector for help. Furthermore, this increase in private participation in the water sector may be a sign that developing country governments are succeeding in attracting FDI through pricing, regulatory and institutional reforms. This may also be a sign that governments are growing increasingly familiar with private involvement in the sector (ibid.: 6).

[54] This is certainly the case for South Africa, as shall be seen in the next chapter

Similar to the other infrastructure sectors discussed, in the water sector, Latin America, the Caribbean and East Asia lead the way in private participation initiatives (PPIs) amongst developing countries, while sub-Saharan Africa, north Africa and the Middle East rank last. Within Latin America, Mexico, followed by Brazil and Argentina have the most number of PPIs, while China and Malaysia lead the way in East Asia. In sub-Saharan Africa, Benin, Côte d'Ivore, Ghana, Guinea, Mozambique, Nigeria and Senegal account for two thirds of the water privatisation ventures (Development Bank of South Africa: 2000a).

As already mentioned, private participation in water and sanitation projects mostly involves MNCs, their subsidiaries or consortia. They mostly work under PPP arrangements, in joint-venture with other local utility providers or in alliance with them (Paddon 1997). Tables 3.2 and 3.3 below elaborate on this point.

**Table 3.2: Top Five Sponsors by number of projects, 1990-97**

| Sponsor | No. of projects | Total investment in projects with private participation (1997 US$ million) |
|---|---|---|
| Suez Lyonnaise des Eaux | 28 | 16,153 |
| Vivendi (formerly CGE) | 13 | 5,275 |
| Aguas de Barcelona | 6 | 9,072 |
| Thames Water | 6 | 1,375 |
| SAUR International | 5 | 38 |

(*Source:* Silva *et al.* 1997: 11)

**Table 3.3: Top Five Sponsors, by Region, 1990-97, No. of projects**

| Sponsor | East Asia and Pacific | Europe and Central Asia | Latin America and Caribbean | Middle East and North Africa | Sub-Saharan Africa | Total |
|---|---|---|---|---|---|---|
| Suez Lyonnaise des Eaux | 11 | 7 | 6 | 2 | 2 | 28 |
| Vivendi (formerly CGE) | 4 | 3 | 3 | 0 | 3 | 13 |
| Aguas de Barcelona | 0 | 0 | 6 | 0 | 0 | 6 |
| Thames Water | 4 | 1 | 1 | 0 | 0 | 6 |
| SAUR International | 1 | 1 | 0 | 0 | 3 | 5 |

(*Source:* Silva *et al.* 1997: 11)

As these tables show, only a few MNCs dominate private participation in the water sector. The French MNCs Suez-Lyonnaise des Eaux, Vivendi and SAUR International, lead the sector. The British Thames Water and as well as the Spanish Aguas de Barcelona also rank highly in terms of predominance in the water and sanitation sector. Hall (1999) explains that it really was by historical accident that France and the UK came to dominate the water privatisation sphere.

By his explanation, in France, Suez-Lyonnaise, Vivendi and SAUR were the only water companies in the world, which were private and with enough resources to take advantage of the privatisation fashion started in the 1980s. The UK uniquely privatised 15 years earlier. At that time, the Thatcher government privatised nine water companies and gave them uncontested long-term monopolies for political and ideological reasons. These companies, unlike the French ones, have thus never had to compete or negotiate for concessions from political authorities. The success of the British water companies is demonstrated by the fact that in the last six years, over a third of the world's water and sewerage concessions have gone to British companies.

As with other typical MNCs, the majority of the dominant water MNCs undertake a wide variety of operations. In addition to water, they also operate other utilities such as energy and waste. Furthermore, companies such as Suez-Lyonnaise des Eaux (SLE) and Vivendi also operate non-utilities such as media and telecommunications.

Also, as typical of MNCs in general, water MNCs are very diverse and have different corporate and expansionist strategies. Control is very important to their expansionist endeavours. Thus, most of their strategies include creating joint-ventures or alliances with other partners[55]. For instance, SAUR International, the third largest water company in France, is 77 percent owned by Bouygues, a giant French construction company and 22 percent owned by Electricite de France, the French state-owned electricity company (Hall 1999).

Buying out an entire company (buying 100 percent of the shares) is also a common expansionist strategy for water MNCs. SLE for instance, in 1999 bought out two major US water treatment companies Nalco and Calgon, as well as the second largest private company in the USA, United Water Resources. This move gives SLE a substantial base in the US water industry and a felt presence in the water treatment business worldwide (Hall 1999).

[55] These could even be joint-ventures/alliances with state enterprises or a host country private company.

### 3.4. Water privatisation options

Private participation in the water sector, as well as the service sector in general, can take various forms. An article in one issue of the *Nation* (25/10/1999) and Roger (1999: 7) outlines these forms as follows:

(a) Divestitures – these can be full or partial. These involve the sale of all or partial assets to the private sector, while also relinquishing all the operational, management and investment responsibility that goes with it. Here the private entity takes on all operational and commercial risks. It is not a very popular option as it is radical and tends to incite a lot of opposition. Only parts of the United Kingdom have fully divested their water utilities.

(b) Concession contracts (otherwise simply called 'concessions') – these involve major capital expenditure. Under this model, the assets remain in state ownership while the state hires a private company (the concessionnaire) to manage, run and maintain the service for about 30 years[56]. The concessionnaire may also be responsible for financing new investment. This appears to be the most popular option, as shall be clearly demonstrated through the case study ahead. Its appeal lies in its even spread of risk between the concessionnaire and the State. Cities such as Jakarta, Buenos Aires and Manila currently employ this model. Other variations of this model include build-transfer-operate (BTOs), build-lease-transfer (BLTs) and build-rehabilitate-operate-transfer (BROTs).

(c) Leasing contracts – similar to concessions but do not usually involve the commitment to invest in upgrades and new infrastructure (which remains a state responsibility). Also, instead of receiving a payment for running and managing the utilities, the lessee pays the host government a fee for 'use' of the assets. In turn, the lessee is responsible for tariff collection and covering operational and maintenance costs while keeping for itself any profits generated. This model has been used in countries such as Spain, France, the Czech Republic and Guinea. Leasing contracts normally operate for about 10 to 20 years.

(d) Greenfield projects – involve a private entity or a PPP building and operating a new facility. Build (by private sector), operate (by private sector) and transfer (to the state) (BOTs) as well as build-operate-own (BOOs) are an increasingly

[56] Historically concessions have been let for 15-30 years. Recent trends indicate a move towards the longer periods (eg. 25 years).

popular form of this model. Countries such as Scotland, Malaysia, Panama and Cyprus favour this model.

(e) Management contracts require the private operator to deliver a complete and generally self-contained service such as an entire water system with its treatment plants, reservoirs and networks. As with leasing contracts, the government still carries the capital investment responsibility and commercial risk. Places such as Trinidad and Tobago, parts of Israel and Puerto Rico have all used this model, which typically runs for three to five years.

(f) Service contracts usually last one to three years. This option leaves all commercial risk with the State as State authority typically contracts out only part of its operational and administrative activities. This is the most timid of all options in terms of the risk it carries for either the contractor or the State.

Clearly, each option involves a different ratio of government risk versus private responsibility, ranging from minimal to full state withdrawal. Table 3.4 below summarises these options and the spread of risk they entail.

**Table 3.4: Allocation of key responsibilities under the main private sector participation options**

| Option | Asset ownership | Operations and maintenance | Capital investment | Commercial risk | Duration |
|---|---|---|---|---|---|
| Service contract | Public | Public and private | Public | Public | 1-2 years |
| Management contract | Public | Private | Public | Public | 3-5 years |
| Lease | Public | Private | Public | Shared | 8-15 years |
| Concession | Public | Private | Private | Private | 25-30 years |
| Greenfield /BOO | Private and public | Private | Private | Private | 20-30 years |
| Divestiture | Private or private and public | Private | Private | Private | Indefinite (may be limited by license) |

(*Source:* World Bank 1997)

With the exception of full divestitures, all the other the discussed options are PPPs. According to de Luca (1998), PPPs arose from the ideological presumptions pre-eminent in the neoliberal twenty-first century, where public policy focus shifted from coverage as the main goal to cost-recovery. In this era, neoliberal proponents argue that the State should not interfere in the economy and that it must delegate at least some of its previous functions to private agents. However, PPP proponents do not entirely override the traditional role of the State as the social protector.

PPPs are thus designed such that they allow the private sector to provide services, though under some amount of State supervision. Indeed, this appears to be one of the major attractions of PPPs - they foster private sector accountability to the public by remaining under State supervision, while at the same time, placing the financial risks in the hands of the private sector. From that perspective, it is no wonder that by and large, today, PPPs are more preferred by States than fully public or fully private utility enterprises (de Luca 1998).

Nevertheless, different governments prefer different contracts depending on their individual objectives and needs. Brook Cowen (1997: 21) discerns that the benefits from private participation in water and sanitation depend on the level of risk and responsibility the government hands over to the private sector. Van den Berg (2000) draws attention to the importance of the distributional effects of water privatisation. Accordingly, who wins and who looses and by how much, depends on how the contract is designed and regulated. De Luca (1998) further warns that there is no generally optimal option and that the successful experience in one specific enterprise of a given country or region is not directly replicable in the enterprise of another country or sometimes, even within the same country. Both Brook Cowen and de Lucas agree that in order for even the most timid privatisation option to be effective, strong government commitment and careful preparation are required.

Having discussed the various ways in which water privatisation can occur, a detailed intra-sector analysis will now follow.

**Table 3.5: Private water and sewerage projects in developing countries, by type, 1990-97**

| Type | Projects | Total investment in projects with private participation (1997 US$ millions) |
|---|---|---|
| Concession | 48 | 19,909 |
| Greenfield | 30 | 4,037 |
| Operations and management | 13 | n.a. |
| Divestiture | 6 | 997 |
| Total | 97 | 24,950 |

(*Source:* Roger 1999: 9)

Table 3.5 shows that concessions are the most popular water management method. Fifty percent of all water and sewage projects are concessions. Concessions also make up eighty percent of all private capital investment. Silva *et al.* (1997: 10) explain that this could be because concessions cater for both government and private entity concerns. On the one hand, concessions relieve the commercial and investment risk from the government's shoulders, while on the other hand, they allow the private entity to maximise potential benefits from efficiency gains and access to private sector financing. Tight government control is needed in order to make sure that a concession yields benefits for the host economy (Roger 1999: 12).

Silva *et al.* (1997: 11) continue to explain that private participation is easier in water than in sewerage so that the majority of the private water projects identified are in water as opposed to sewerage. They argue that government priorities have generally given greater emphasis to supplying water than to removing wastewater after use. Moreover, consumers are more willing to pay for water delivery service, which yields more immediate and direct benefits than for more dispersed services such as sewerage treatment.

With the upcoming case study discussion in mind, the preceding discussion on water privatisation trends and the various forms it can adopt may be concluded with a brief look at the state of water privatisation in Africa. Table 3.6 below suggests that in line with global water privatisation patterns discussed, French and British MNCs dominate the private water sector scene in Africa. Furthermore, surprisingly, Cote d'Ivore's private sector involvement predates its contemporaries' by a good 40 years. The majority of the private water ventures were launched in the later 1990s, with countries such as South Africa, Chad and Cameroon being amongst the latest-comers. Furthermore, management contracts and concessions form the bulk of the privatisation activity there, with very few greenfield projects.

**Table 3.6: Water privatisation ventures in Africa, August 2000**

| Country | Contract Type | Multinational(s) | Date started |
|---|---|---|---|
| Cote d'Ivoire | Concession renewed every 15 years on negotiated basis | SAUR- also responsible for waste in Abidjan | 1960 |
| Guinea | Private company (SEEG) signed leasing contract for 10 year period | SAUR, EDF | 1989 |
| CAR | 15-year leasing contract from 1991 | SAUR | 1991 |
| Mali | 4-year overall management contract | SAUR-EDF-HQI | 1994 |
| Senegal | SAUR has 51percent of Senegalaise Des Eaux | SAUR | 1995 |
| Guinea-Bissau | Management contract, private partner's remuneration 75 per cent fixed, 25 per cent performance-linked | Suez-Lyonnaise, EDF | 1995 |
| Djibouti | Unknown | Vivendi | 1996 |
| South Africa | 3 small places: Queenstown, Fort Belfort | Suez-Lyonnaise (WSSA) | 1995 |
| Gabon | 20 year concession | Vivendi, ESBI | 1997 |

| | | | |
|---|---|---|---|
| Morocco | 30-year distribution concession Casablanca: water + electricity + waste management | Suez-Lyonnaise, EDF, Agbar, Endesa | 1997 |
| Morocco | 30-year distribution concession Rabat: water + electricity + waste management | Electricidade de Portugal, Pleiade, (Portugal), Dragados & Construcciones (Spain) and Alborada (local) | 1998 |
| South Africa | 30 year concession Dolphin Coast | SAUR | 1999 |
| South Africa | 30 year service contract Nelspruit | Biwater/Nuon | 1999 |
| Mozambique | 15 yrs (Maputo and Matola) and 5 years for the other cities | SAUR+IPE (Portugal) | 1999 |
| Egypt | 30 year BOOT contract Sahl Hashish (tourist resort utilities) | Vivendi | 1999 |
| Kenya | 10 year contract Nairobi (water billing and revenue management) | Vivendi | 1999 |
| Chad | 30 year management contract National | Vivendi | 2000 |
| Cameroon | 20 year concession National (SNEC) | Suez Lyonnaise | 2000 |

*Source*: PSIRU database http://www.psiru.org/reportsindex.htm

### 3.5. The impact of water MNCs on development : the water privatisation debate

One way to introduce the succeeding discussion is by asking the simple question; why is involving the private sector in the water supply and sanitation becoming so popular with governments, despite at times, strong political opposition to the process? Earlier discussions have undoubtedly alluded to an answer to this question.

#### 3.5.1. Arguments in favour of water privatisation

An issue of the *Nation* (25/10/1999) argues that private participation in the water sector could be a preferred mode of operation because of:

> ...the need for capital investment to repair, upgrade and expand supply infrastructure, to modernise and innovate facilities by using new technology, to make customers pay and ensure everyone realises the true value of this essential commodity, whilst ensuring that everyone benefits from greater efficiency, and in the long term, reduced costs and charges.

Proponents of water privatisation see it as fulfilling the needs outlined by the *Nation* article stated above. Indeed Roger (1999: 1) cites countries such Argentina, Chile and Hungary as having pioneered in utility privatisation, thereby "reaping [the] benefits of increased competition and customer focus, which have led to higher efficiency and the easing of fiscal constraints".

Proponents also argue that during water privatisation, governments often require the private entity to perform some level of social responsibility. These usually include community and workforce empowerment programmes, partnerships with local institutions and the use of local inputs (as in classic pro-FDI arguments). In this manner, the private company involved is expected to contribute positively towards the host country's development. Walsh (1995: 118) supports this view. As with the *Nation* article outlined above, he sees privatisation as helping to meet the massive service backlogs in developing countries as well as bringing in necessary investment and human capital. With specific regard to PPPs, South Africa's former Finance Minister, Trevor Manuel also supported this view,

> Public/private partnerships are more than just a mechanism to bring private financing into the public sector, they are a preferred method of development. The private sector is preferred because it is also seen to bring in managerial and technical skills, greater efficiency and more cost effective operations (Van Niekerk 1997).

In addition to all these advantages, the World Bank (1997) argues that the private sector brings in even more benefits to the water sector in the form of a reduction in public subsidies, so that resources are freed to be re-directed to the more needy groups. Moreover, the private sector promotes competition and prevents corruption as it prevents short-term political intervention by powerful interest groups. Lastly, water privatisation proponents see the private sector making the water sector more responsive to consumers' needs and preferences. They believe the latter argument to be true because if the private sector does not act in that manner, consumers will not pay for the service and the private company will not make any profit.

### 3.5.2. Arguments against water privatisation

Movements such as the Public Service International (PSI), a worldwide confederation of public service trade unions, are dedicated to opposing privatisation of all forms. They oppose water privatisation both on ideological grounds and on its perceived impacts. Sceptical of private sector motives, they argue that MNCs, being profit-driven, are unlikely to commit to social community and workforce empowerment goals. To support their case, the PSI has done a number of empirical studies which show that water privatisation can be detrimental to development and distort the development goals of the host country. In fact, their case studies hold contrary evidence to the arguments in favour of water privatisation laid out above.

In one of their studies, they cite several cases in the Czech Republic, Philippines, Germany and Bolivia in the late 1990s, where water privatisation led to increased tariffs. For instance, in the case of the Philippines, Subic water, a subsidiary of the UK-based Biwater, increased water rates to industrial customers by 400 percent. Bolivia had a similar experience with its privatisation of Cochambamba, which led to political unrest in Bolivia.

Other PSI studies suggest that water privatisation has caused job cuts as evidenced in Brazil in 1995, under a concession operation with a company that was 50 percent owned by Lyonnaise des Eaux. Distorted competition is also another factor identified by PSI. They argue that instead of increasing competition between companies, evidence suggests that there is a worldwide collusion between a few companies in the water sector. Such collusion only gives water MNCs monopolistic power over developing country economies.

Private water inefficiencies have also been noted by PSI studies. One study cites a management contract in Puerto Rico involving PRASA, a subsidiary of the French MNC Vivendi. Under this contract, deficiencies in maintenance, repair, administration and operation were spotted. In the same case study, government subsidies were seen to increase as PRASA's finances deteriorated and the government had to step in. Related to this point, the PSI argue that in some cases, profit guarantees offered by governments and local authorities to water MNCs reintroduce debt-like obligations.

Service inequalities or 'cherry-picking' are also claimed to result from water privatisation. Here 'promising' population groups such as tourist resorts and the more affluent areas receive better services than the poorer communities (if they even receive any at all). Also, environmental damage by water MNCs was noted in the same Puerto Rican case study and in many others. The PSI argue that private water companies lower safety standards to allow for environmental pollution. Moreover, such companies being profit-driven, are more likely to undertake excessive abstraction and consumption of water in order to enhance their profitability.

Lastly, the PSI argues that water MNCs, being global multi-utilities, frustrate local development priorities by extracting profits from water concessions locally and investing them elsewhere in an operation of another kind. Vivendi is accused of this practice. As a multi-utility group, the PSI cites it announcing that its entire debt would be placed onto its water, energy, waste and transport operation – the 'environment' division – while the Communications division would become virtually debt free.

The South African Municipal Workers' Union (SAMWU)[57] adds to this list of criticisms. In SAMWU's opinion, water privatisation worsens living conditions for the poor. In addition to creating job-cuts already discussed, private companies (unlike the government) disconnect water services for the most vulnerable groups who cannot afford to pay for the services, as part of their rigorous and uncompromising revenue collection strategies. SAMWU has also accused private companies of tending to neglect their workforce as well as the local communities at all levels of decision-making so that they end up operating only at self-serving level without incorporating worker and community concerns and views. Related to that point, SAMWU has argued that private companies typically do not establish proper accountability structures so that workers and service recipients do not have an avenue through which to address their concerns. Lastly, SAMWU accused private companies of practicing political manipulation through acts such as weapons sponsoring and corruption, thereby tarnishing their own credibility as a trusted provider of social services. Table 3.7 eloquently summarises the water privatisation debate.

**Table 3.7: Summary of the water privatisation debate**

| The problem | Pro-privatisation argument | Anti-privatisation argument |
|---|---|---|
| Lack of investment and maintenance capital by the state | Private company provides such capital. Also reduces public subsidies to the sector and redirect them to the more needy groups. | The costs of monitoring private company performance and other attraction incentives outweighs the benefits of any capital brought in. Public subsidies increase as the government needs to help out inefficient private companies. |
| Water shortages, infrastructural backlogs, especially in the poorer areas | Private companies, because more efficient and profit-driven will strive to meet these backlogs. | Private companies "cherry-pick", supplying services only to those areas which can afford to pay for services and excluding the poorer areas. They are not any more 'efficient' than public bodies, sometimes they are even worse. |
| Lack of consumer affordability and subsequent low repayment rates given the current cost-recovery pricing policy | Private companies provide the most competitive tarriff rates and a broader selection of services in order to cover all levels of affordability; they also provide repayment incentives. | Private companies tend to increase tarriffs, thereby making their service inaccessible to the poor. |

[57] This information was gathered in an interview with a SAMWU representative during fieldwork in South Africa.

| | | |
|---|---|---|
| Poor technical design of current water schemes | Private companies bring in their advanced technology with which to provide better and more effective designs (technology transfer) | Private companies, use technology which is unsuitable for local host conditions (cultural and socioeconomic) and their services may not necessarily be of better quality. |
| Lack of training and transfer prospects | Private companies transfer managerial and other skills to the host economy through the training programmes they provide to the serviced communities and their workforce. Overall, they also stimulate employment within the new firm and through linkages with other firms. | Private companies use their own expatriate staff, especially for the high-level positions and do thus not need to transfer such skills to the local economy. Restructuring often involves job cuts and.inhibits employment through negative linkages. |
| Mismatched stakeholder expectations | Private companies can improve stakeholder cooperation in its endeavours to succeed in their assigned tasks; insulates sector from intervention by powerful interest groups | Stakeholder participation, as applied by the private sector is ingenuine and simply a smokescreen for real monopoly by a few key powerful parties. In fact private companies can cause political strain by aligning with certain stakeholders and bribing them. Corruption, lack of transparency and accountability is evident here. |

### 3.5.3. Way out of the water privatisation impasse

Proponents of water privatisation such as the World Bank staunchly believe that if well designed and carefully implemented, private sector arrangements can bring big improvements in the quality, availability and cost-effectiveness of services. Antagonists are convinced otherwise. They cite one too many detrimental water privatisation projects. Within this antagonistic movement, there are, however, different levels extremism. The less extreme favour regulated water privatisation, while the radicals simply wish to abandon the private sector altogether.

Both sides of the debate have produced volumes elsewhere, dedicated to promoting their view of 'better' development strategy. These views, unfortunately, could not be done justice within the narrow scope of this thesis. Nevertheless, there are some key features, which distinguish the water sector from other utilities, which may be important to bear in mind as one contemplates the possible ways out of the water privatisation debate impasse. These are summed up by Brook Cowen (1997: 21-22) as follows:

First, water and sanitation systems are characterised by a high degree of natural monopoly. Although competition is feasible in such limited areas as building capacity and providing plumbing services, it is difficult to achieve competition in distribution and collection of core activities in water and sanitation. So governments wanting to involve the private sector may need to rely little on competition to assure good outcomes for consumers and instead devise regulatory systems for this purpose.

Secondly, water is essential to life, and access to it must be ensured for all. Guaranteeing access for the poor will sometimes require designing subsidies or schemes for reducing the cost of delivering services to the very poor. A complicating factor for reformers is that existing systems for allocating scarce raw water resources among alternative uses—urban consumption, irrigation, industry—are often incompatible with efficient use. In India, for example, many cities go short of water while farmers continue to receive subsidized water for irrigation.

Thirdly, water and sanitation are well suited to local management, and in many countries, responsibility for service provision is decentralized to the provincial or municipal level. As a result, complex inter-jurisdictional issues often need to be resolved before the private sector can be brought in. Fourth, many of the assets of water and sanitation systems are buried, so obtaining accurate information about them is costly—increasing the cost of preparing for private sector participation, and the chance of surprises after the contract is signed. Fifth, broad access to water and sanitation yields important public health and environmental benefits. Government interventions to promote these benefits are likely to remain after privatization.

The final point is an important one, which does not appear to receive enough attention in today's development paradigm. That is, there is no unequivocal evidence to support that privatised enterprises necessarily perform any better or worse than public ones. Studies undertaken by the International Labour Organisation's Department of Sectoral Activities (SECTOR) illustrate this point clearly (de Luca 1998). This point is a warning against temptation to draw any black or white conclusions about the effectiveness of private enterprises over public ones.

With these factors in mind, the discussion shall now take a closer look at labour dimensions of water privatisation. Given the labour focus of the case study ahead, it is important to spend some time exploring in detail, experiences with water privatisation in this regard. Moreover, de Luca (1998) notes from SECTOR's studies that there is a general lack of research on human resource dimensions of utility privatisation and restructuring, thereby validating the need for studies of this nature.

### 3.6. Labour dimensions of water privatisation

3.6.1. The nature of employment in the water sector

De Luca (1998) sums up the nature of the employment in the water sector. He points out that utility industries such as water are capital- and knowledge-intensive. Consequently, such industries are not major employers. They rarely account for more than two percent of the total national workforce. Furthermore, women's presence is low and tends to be only concentrated in clerical jobs.

De Luca (1998) goes on to explain that employment levels and working conditions in the water sector have a much wider impact than those in most other sectors. This is because the level of activity and employment opportunities in all other sectors depend on a smooth supply of water (and other essential utilities) and thus depends on them being properly staffed both qualitatively and quantitatively. Careful human resource planning and dispute resolution techniques are thus critical in the context of water provision in order to avoid labour breakdowns thereby ensuring at least, a minimal supply of water at all times. Dispute resolution techniques may include legislation or collective agreements with which to address worker discontentment as well as continuous dialogue, which would prevent discontentment in the first place.

Also because of the criticalness of labour in the water sector, many governments retain some oversight on the firm's human resource strategies, regardless of ownership. They typically regulate and monitor the health and safety of workers, and of communities where firms operate. Governments also have professional requirements on the volume, structure and conditions of employment and work.

Based on SECTOR studies, de Luca (1998) goes on to admonish that the negative repercussions of deregulation need to be heeded as they could extend beyond economics – they could also lead to social and political instability as illustrated by the Cochabamba water concession in Bolivia[58]. Furthermore, cost-cutting practices, which cut employment, reduce training opportunities and worsen working conditions could backfire on national economic development. The best workers may leave the host country where there may already be a high shortage of skilled labour as typical of

[58] This concession incited political unrest due to lack of civil society support (Shultz 2000).

most developing countries. The remaining workers, being discontent, may reduce their work effort thereby worsening the already inefficient level of services.

De Luca (1998) concludes by recommending that human resources be made core concerns in public utilities, especially since in most developing countries, the government sector employs the bulk of the labour-force. He points out that sadly, SECTOR's five regional case studies indicate that human resource concerns are by and large ignored when a company's transformation is being considered or even carried out. These concerns are normally considered only in reaction to violent trade union opposition to the restructuring process.

3.6.2. The impacts of utility privatisation on labour

The International Labour Organisation (ILO) estimated in 1995 that world wide, more than 100 million people were employed in state enterprises many of which were in a process of privatisation (DBSA 2000a). Just as demonstrated in the literature discussing the broader impacts of FDI and MNCs on host developing countries' development, the impact of water and utility privatisation as a whole, on labour is just as mixed, varying from context to context.

The DBSA (2000a) even warns that in some cases the impact of utility privatisation may be material, while in others it may be more a question of perception rather than reality. For these reasons, it is difficult to generalise about the impact of utility privatisation on jobs. It is also difficult because distinguishing privatisation's impact from that of related structural adjustment measures is seldom possible, and cross-sectoral trade-offs, as well as trade-offs between long-term and short-term impacts, are not easy to measure separately.

Placing the impact of privatisation on labour within the water privatisation debate, one finds on the one hand, employers and policy makers who are convinced of the potential labour gains from privatisation. Such gains include job creation and the transference of skills onto the local workforce. On the other hand, trade unions are more concerned about the erosion of job security and acquired rights[59]. Furthermore, while employers may favour long-term employment creation over short-term job-cuts,

[59] The unions articulate concern that their members may lose jobs, have to be re-deployed elsewhere within the public service or transferred to a new employer under whom they could lose work opportunities and/or be subjected to different methods of work. Unions further raise reservations about the future of their bargaining rights, their rights to represent members in the work place in dealings with the privatised companies and in wage negotiations.

unions consider the cost of such job-cuts, even if only in the short-term, too high to bear. Despite these differing views, the following section, which is divided up according to the measures of workforce empowerment, shall demonstrate that there is ample empirical evidence to support and disprove both sides of the debate.

3.6.2.1. Labour participation

In the context of water privatisation, the amount of political empowerment that a workforce has may be measured by analysing how much 'say' or decision-making power the workforce exhibits throughout the privatisation process. This measure of political empowerment, pertaining specifically to the initial stages of the privatisation process, is what the study refers to as labour participation. Though labour participation may be hard to quantify, certain principles may be used as a guide to arrive at a qualitative approximation of this measure. Contemporary Development Studies literature converges on the need for consultation, participation and transparency as such principles. As put by de Luca (1998);

> Agreements and formal undertakings (covering employment, income, etc.) that are the outcome of a dialogue among all stakeholders are more credible than those devised unilaterally, by the enterprises or governments. The dialogue with trade unions and other stakeholders should start at the very first stage of privatisation and restructuring processes. Their input should be sought to analyse the situation, identify the problems, and explore the costs and benefits of the various options available. The earlier stakeholders come into the picture, the wider the array of possibilities concerning options and paths to implement them, the smoother the process, and the stronger the solutions. Early-stage dialogue is severely lacking nowadays.

In concurrence with de Luca's views in the excerpt above, Petrazzini (1996: 347) explains that hostility towards reform by labour is more driven by fear of losing important benefits, where consultation and transparency are not being practised. Indeed, utility privatisation processes in places such as Malaysia, India, the Philippines and Indonesia saw massive labour opposition because in these places, governments could not allay labour fears through labour consultation and transparency (Orwin 1999). In contrast, cases such as in Malaysia and Mexico, where the governments were transparent and committed to protecting job stability and labour support, evidenced a much smoother privatisation transition (Petrazzini 1996: 348).

Implementing these principles genuinely is just as important as recognising them and upholding them in theory. Dumol (2000: 17) demonstrates this point through his discussion of the Manila concession in the Philippines. According to Dumol, during the procurement process of this concession, transparency occurred in name only. The Filipino government often based decisions on how a certain course of action could be 'perceived', and not on whether or not the course of action was correct. Such 'mock' transparency resulted in labour opposition (grounded on ideological differences) since labour had not had a genuine chance to participate in some of the initial critical decisions pertaining to the concession agreement.

The Buenos Aires concession in Argentina presents a different instance of a 'mock' participation. Here, labour unions were arguably weakened even though participation was being practised. As Loftus and McDonald (2000) put it, "notably union leaders had veto rights in the privatisation process, but this power was never used... what is clear is that the union representing workers in the water sector has been fundamentally transformed by the privatisation process".

3.6.2.2. Employment quantity

According to de Luca (1998), employment losses almost always accompany adjustments in the public utilities, both under privatization and under restructuring schemes[60]. In some cases they have occurred before privatisation as the government has tried to allure potential foreign buyers or operators (Manila and Buenos Aires concessions are examples)[61]. In other cases, job losses have occurred much later in the privatisation process. As explained by the DBSA (2000a), the latter has tended to happen where employment protection guarantees won by unions have managed to delay job cuts. De Luca goes on to explain that such employment cuts are particularly worrying, as in most cases, they have occurred in times of economic recession and high unemployment. In these instances, the retrenched workers have not easily found alternative ways of earning a living.

A study commissioned by the World Bank in 1994 to investigate the post-privatisation performance of 61 different companies, challenged de Luca and other popular assertions that utility privatisation necessarily leads to job cuts. In this World Bank study, an overall increase of six percent in employment opportunities was experienced in the companies reviewed. The study's authors therefore contended that the perceptions regarding job losses are misguided, largely based on a few highly

[60] De Luca explains that in many instances worldwide, the losses have been massive, up to 30-50 percent workforce slashes in some cases, especially with contracting options and total privatisation, or where privatisation and restructuring are combined.
[61] In these two concessions, the massive short-term job-cuts were largely conducted through voluntary early retirement schemes prior to privatisation.

publicised privatisations such as the British Telecoms, which involved large-scale retrenchments (DBSA 2000a).

It appears that factors such as an economy's level of development affects the amount of possible retrenchments resulting from utility privatisation. To demonstrate this point, the DBSA (2000a) cites the UK water sector, which had complete service coverage and low to negative population growth rates. There, over-staffing in the public enterprise led to sizeable retrenchments during privatisation, in the quest for increased productivity because the labour force could not take advantage of job creation through service extension.

In contrast, in the case of Peru, although 4 500 of 8 000 jobs were lost through the sale of the government telecommunications company, 16 000 jobs were created in this sector later as a result of the infusion of foreign capital and technology. The 30-year water and sewerage service concession awarded in Argentina, Buenos Aires, in 1993 tells a similar story. These cases thrived on the service expansions brought about by increased efficiency, eg. by reducing the massive water losses due to leakages. Nevertheless, questions have been raised about the quality of the employment created in this manner. For instance, in the Buenos Aires concession, the new jobs created were criticised as poor in quality, for these were not unionised and did not have to conform to the same health and safety standards as those fought for by the main water-sector union (Loftus and McDonald 2000).

Further complicating the picture is the fact that in some cases, the impact on employment in one sector/enterprise has been felt by other sectors/enterprises. For instance, the DBSA (2000a) cites the case of some bus companies in the United Kingdom, which grew rapidly and even internationalised since privatisation and deregulation at the expense of their competitors (whom they drove out of business).

3.6.2.3. Employment quality

On employment quality too, the picture is mixed. While some studies such as those done by Harris (1995) have noted employment quality improvements such as employees' pay-raises. The South Australian case involving United Water suggested a decline in the same measures (Orwin 1999). Still other studies have shown no change at all in employment quality resulting from privatisation. Workers' working conditions have shown the same mixed results in the form of workplace safety and other remuneration benefits. Furthermore, the long-term versus short-term outlook of employment quality features resembles the one discussed under employment quantity.

Employment quality proves to be somewhat dependent on factors such as healthy industrial relations, host government's political will and the effectiveness of the host government's monitoring tools. Given that the role of trade unions is to redress the balance of power between labour and capital (Weeks 1999: 162), a work environment fostering their proper functioning, indicative of healthy industrial relations, is important. Furthermore, studies conducted by Sen and Saha (1992) show that the presence of a strong trade union bargaining power increases social welfare in the privatisation of public sector enterprise.

Overall, de Luca (1998) points out that unionisation is relatively high in public utilities worldwide, even though the impact of privatisation on unionization, bargaining patterns and collective agreements is fairly mixed. In some cases, privatisation has strengthened unionisation and industrial relations and in a good number of cases, weakened them. Overall, SECTOR studies have shown that where communication was poor between the workforce and the management, considerable fear tended to arise particularly amongst workers, from uncertainty (de Luca 1998).

In cases where the host government does not have the political will to safeguard its labour interests, employment quality may drop following privatisation. Weeks (1999: 163) argues this point by pulling examples from several Latin American countries, were basic worker rights were eroded due to the lack of such will. Consequently, the workers missed out in the benefits of privatisation (and economic growth) because of the lack of adequate national level protection.

Host government monitoring, especially in the context of PPPs, is also very important in order to ensure that the private company complies with performance and labour requirements. Such monitoring has proven to be a challenge for most PPP arrangements. For instance, the study conducted by Crampes and Estache (1996) on the Buenos Aires concession demonstrated some monitoring complexities, stemming from the government switching roles from provider to regulator. These included the lack of monitoring capacity and the inflexibility of the concession contract.

De Luca (1998) notes though, that a more common feature in privatised utilities is the move towards more flexible individualised remuneration systems, in which larger portions of the pay are determined by personal performance or the firm's profits. Employee shareholding schemes are also a widespread practice. De Luca points that in Latin America, virtually all privatisation projects provide for a distribution of three to ten percent of the company's shares to employees. These serve to make workers feel more involved in the fate of "their" company and in some cases, also helps diffuse opposition.

In fact, in the case of the Buenos Aires concession, such employee shareholding schemes were instrumental in gaining labour support and cooperation for the privatisation process, which led to this particular concession being heralded by the World Bank as a model for labour cooperation during privatisation (Loftus and McDonald 2000). Indeed, as mentioned earlier, very little political obstruction was experienced in the procurement process leading to this concession agreement, even though questions were subsequently raised by critics such as Loftus and McDonald (2000), about the effectiveness and genuineness of these schemes as a co-opting mechanism.

3.6.2.4. Skills upgrading in the water sector

Retraining is key to labour market security (ie. the capacity to find employment fairly rapidly elsewhere). De Luca (1998) stresses that in order to ensure employability and thus be credible, training must be appropriate and provide skills in high demand. SECTOR studies show that retraining is the third most important concern of employees after employment and income security.

In terms of private utility performance on this measure, here too, the picture is mixed. Some companies have offered good training programmes to their workers, while others have not. Increasingly, especially in the context of PPPs, governments require private companies involved in a privatisation venture to offer specific training programmes to their workforce as part of their social responsibility. Adherence to this requirement has differed from one context to another, based among other things, on the effectiveness of the government's monitoring tools.

3.6.3. Some policy options for workforce empowerment in the water sector

In 1997, The World Bank produced a toolkit aimed at guiding policy-makers on how to handle private participation in the water sector. In order to safeguard worker interests, the World Bank's toolkit recommends that issues pertaining to the various stakeholders be identified in the project planning phase and suitable problem-solving mechanisms factored in. An example of such a strategy is given in Table 3.8 below.

**Table 3.8: Possible stakeholder issues and policy responses**

| Stakeholder group | Possible Issues | Policy decisions required | Ways to get inputs |
|---|---|---|---|
| Employees | Is retrenchment likely to be needed? | Retrenchment packages<br>Employment requirements for the private operator | Representation in the reform process<br>Regular consultation |
| Consumers | Which consumers will receive new works first?<br>Which consumers are willing to pay? | System for planning extensions<br>Tariff methodology<br>Design of a subsidy scheme if needed | Public relations campaigns and opportunities for consultation |
| Environmentalists | Will new works have major environmental consequences? | Environmental standards have to be applied<br>Identification of who will bear clean-up costs from past pollution | Consultation on key issues |
| Existing government agencies | Will restructuring or shifts in responsibilities be required? | Identification of which agency will have regulatory authority, and how it will coordinate with other agencies | Opportunities for consultation |
| Other citizens | Will new works require resettlement? | Resettlement policy | Direct consultation with affected groups |

(*Source:* World Bank 1997)

At all stages of the privatisation process, stakeholder consultation is critical in order to avert any future clashes between the water company and its workforce. One of the strategies proposed by the World Bank toolkit is to employ human resource consultants, whose responsibility it would be to manage the consultation process. These consultants would help organise interactions with unions and employees and identify ways of meeting their concerns. They would need to be kept fully briefed on how the proposed transaction is evolving and on which matters are confidential and which may be disclosed to employees and their union representatives.

As a measure to safeguard employment quality, de Luca advises that pay levels be discussed before the launching of the privatisation process and the outcome of those discussions included in some formal agreement. Raising wages after privatisation and restructuring may be a necessary step as it helps compensate the retained workers for the loss of a protected status and facilitate greater productivity. Transparency is also critical in order to avoid opposition and stimulate performance.

Healthy industrial relations cannot be undermined for safeguarding the wellbeing of workers before and during utility privatisation. De Luca advises that the host country may develop and maintain a good national political context conducive for good industrial relations as this encourages the private company involved to adopt their policies in favour of good industrial relations.

Governments may require the private company to contribute towards the training needs of the local workforce. As already mentioned, it is important for this training to be appropriate, providing highly-demanded skills which give employees genuine potential for redeployment. However, the effectiveness of the local government's monitoring tools could go a long way towards ensuring that private companies make such a contribution.

National organisations such as SAMWU, Rural Development Services Network (RDSN) as well as international organisations such as the PSI and the ILO, have produced their own policy guidelines on how to engage private sector in service delivery, particularly with labour concerns in mind (see Appendices 5, 6 and 7). These guidelines prescribe stances such as the application of affirmative action in order to balance out past racial injustice. Community participation and accountability at all levels of project planning and service delivery, transparency and worker participation, staff development and the betterment of working conditions are all given high priority in these guidelines. The guidelines also encourage the developmental role of water MNCs and require them to consider environmental and regional impacts. Overall, they call for service quality, accessibility and affordability. If host governments pledge to uphold such national and international principles, water MNCs and local private water companies are more likely to conform to performance standards which empower the local workforce.

### 3.7. Conclusion

This chapter has given an overview of the MNC discussion applied to the water sector as preparation for the case study to be discussed in succeeding chapters. Here, FDI was discussed vis-à-vis water privatisation. It was seen how water privatisation, like utility privatisation in general, is a fairly recent phenomenon. In most of the world, the move towards utility privatisation has been rapid since the 1990s, except for a few countries such as France and Britain, who made the switch much earlier. This move towards utility privatisation in the 1990s was especially felt in the developing world (led by Latin America and East Asia), prompted by the rapid decentralisation occurring in most of these countries. With such restructuring, local and municipal governments found themselves short of the financial and human resource capacity with which to fulfil their service delivery targets mandates. They thus turned to the private sector for help.

Overall, private participation in the water sector is dominated by a few MNCs, especially French and British owned companies. As seen with typical MNCs, water MNCs are diverse, offer a broad range of activities and collaborate with other private and public entities in their operations.

PPPs have particularly become popular with developing country governments. From these governments' perspective, the appeal of PPPs lies with the more even spread of risks and responsibilities associated with them – they allow the private sector to make the necessary capital investments under government supervision. In this manner, PPP arrangements alleviate accountability concerns, while at the same time, taking advantages of market benefits. Various versions of PPPs exist involving different levels of risks and responsibility between the public and the private bodies. These include concession agreements, lease contracts and greenfield operations. Of these, concession agreements are the most popular. Full privatisation or divestitures are very rare in the water sector.

Different governments prefer different water privatisation options based on their unique socio-political circumstances as well as their development needs and goals. Also, though there is no optimal option and successful experiences are not necessarily replicable everywhere else, the outcome of a utility privatisation venture depends on strong government commitment and careful preparation.

The water privatisation debate pointed to the various controversies surrounding water (and other utilities) privatisation. Here, the various arguments for and against FDI/MNC activity replicated themselves in the context of water privatisation. In addition to those arguments, the debate here factored in time dimensions. While privatisation proponents favoured the long-term benefits over the short-term ones, opponents argued that the short-term costs (such as job-cuts) may be too heavy to bear, especially given the vulnerability of groups who would have to bear the brunt.

Empirical evidence suggested that both sides of the argument are valid. While in some instances, major permanent job losses have occurred pre- or during privatisation, in other instances, these job-losses have been compensated for by massive employment generation in the long-run. The former situation appeared to have been true particularly where there was already full service coverage and therefore the private company's capacity for expansion limited. The alternative scenario has also been true, where job losses have only occurred in the long-term due to union movement pressure in the short-term.

The picture on labour participation, employment quality and skills upgrading appeared to be just as mixed. Nonetheless, empirical evidence suggested that the lack of genuine transparency, consultation and participation has often deterred workforce empowerment, as demonstrated by outcomes such as labour opposition to the privatisation process and declining working conditions and remuneration benefits. Moreover, political will as well effective monitoring tools on the part of host governments, proved to be important in order to ensure private company compliance with workforce empowerment goals.

As seen with the general discussion on MNCs in the previous chapter, there is no uniform workforce empowerment panacea for all water privatisation situations alike. Various policy options, most of which were discussed as general workforce empowerment policy options, may be employed to suit particular contexts. For PPPs, in particular, organisations such as the World Bank, PSI and SAMWU have produced policy guidelines to help policy-makers as they involve the private sector to meet their service delivery goals. All these strategies emphasise the need for transparency, accountability and stakeholder participation as some of the indispensable key tenets if workforce empowerment is to be advanced through MNC activity.

In conclusion, it may be noted that the water sector in general is not a major employer. However, the labour dimensions of this sector are of significant importance. This is so because, firstly, the water sector, anchors activity in other sectors (water is simply a life necessity). Therefore, labour breakdowns in the water sector have the potential to reverberate nationwide in the form of water shortages. Secondly, the negative labour repercussions in the water sector have more than economic implications (eg. brain-drainage); they can also incite social and political unrest. Hence effective dispute resolution techniques in the water sector are of prime importance.

Despite the importance of the labour dimensions as just pointed out, it is unsettling that very little attention typically gets paid to them in privatisation efforts as pointed out by SECTOR (de Luca 1998). They are only heeded in reaction to trade union opposition. In reaction to this observation, SECTOR goes on to recommend that labour be treated as one of the core concerns during privatisation negotiations.

Furthermore, SECTOR calls for more studies to be undertaken to help shed light on the impacts of privatisation on labour, since this topic is, at until now, not very well researched. Related to this point, Paddon (1997)'s recommendation is for greater efforts to be made to better understand the impact of MNCs since these are becoming a major force in water, gas and electricity services in this wake of privatisation and liberalisation processes.

# CHAPTER 4: BACKGROUND TO THE CASE STUDY

## 4.1. Introduction

No company, local or MNC, operates in a contextual vacuum. Companies operate within specific contexts, which influence the parameters and outcomes of their activities. Studying such operations, as is the case with the case-study component of this thesis, requires a good grasp of the background within which the particular company functions. As already mentioned, the case study to be discussed in the next chapter, examines the operations of a single water MNC located in South Africa in 2000.

The goal of this case study was to analyse the labour aspects of this MNC, in order to establish the extent to which the emergence of the MNC (through privatisation) had led to greater or less workforce empowerment. Understanding the wider national, and where possible, regional and international contexts surrounding this MNC is critical for attaining a comprehensive picture of the labour aspects under discussion. While exploring such contexts, it may be useful to pay particular attention to socio-economic, cultural and political features since these inevitably shaped the observed outcomes of the case study.

This chapter attempts to provide a contextual background for the case study ahead. The task of providing such a background in a coherent way could get quite challenging given the massiveness of the subject. For instance, choosing which political and economic features to discuss as part of this background, as well as the time frame over which to cover such features could be a rather daunting task. Hence, the chapter shall try to limit itself only to those background aspects, which relate directly to the case study. Since the case study is based on the water sector, the background discussion shall, where possible, pull examples from the water sector in demonstrating the various features of the South African national context.

The chapter shall firstly deal with South Africa's general macroeconomic and political background spanning mostly over the last five years. This part shall demonstrate how pro-FDI and pro-privatisation South Africa's contemporary development framework is. The current state of FDI, MNC activity and privatisation and the relevant policies governing them are discussed next. As a way to examine more closely, the preceding FDI, MNC and privatisation discussions, the extent of water privatisation in contemporary South Africa is laid out.

Prompted by the issue of workforce empowerment to be discussed in the case study, the state of national employment and the features related to it such as wages, workforce level of skills and industrial relations, are discussed. A close look at the national state of social service delivery and the subsequent changes in local governance structures then follows. As a way to move the background discussion directly into the case study, the chapter concludes with a more detailed account of the emergence of Waterco, thereby explaining the reasons why Waterco came to operate in South Africa.

## 4.2. The National South African Context

### 4.2.1. The macroeconomic strategy

South Africa is considered to be a middle-income developing country with an estimated population of 40 million. In 1994 when the new democratic government came to power some 40 years of apartheid, the term, the 'New' South Africa was coined to signify the country's shift from apartheid to democracy. The new government established a broad mandate of reversing the ills of apartheid capitalism[62] and usher in a new democratic order. This mandate was encapsulated in the Reconstruction and Development Programme (RDP), an economic framework, which resonated with socialist overtones. This framework entailed the meeting of basic needs; democratisation of the state and society; restructuring the economy to address the needs of the working class and the poor; as well as building and strengthening civil society (SANGOCO, 2000).

By mid-1996, the new government had followed the 'global' trend, turning to a more market-oriented economic development strategy known as the Growth, Employment and Redistribution (GEAR). Donaldson (1997: 477) captures the essence of GEAR and its background as follows:

> Against the background of a weakening rand [South African currency] and deteriorating investor confidence, the strategy focused strongly on the need to enhance the international competitiveness of the economy.... It restated commitments to an export-friendly trade regime, reducing the fiscal deficit, liberalising exchange controls, expanding infrastructural investment, enhancing training finance and instituting labour market reforms consistent with accelerated job creation.

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[62] This is a capitalist system based on racial segregation, where on the extreme ends were the African or 'black' populations, who received the least amount of economic development opportunities, while the Caucasians or 'whites' received the most. All the other 'minority' races were placed somewhere along the spectrum between the two extremes.

In short, as characteristic of market-oriented approaches worldwide, GEAR emphasises, among other things, the need to cut government spending and the promotion of privatisation and foreign investment (FDI) which are believed to have the potential to alleviate the government's fiscal burden.

Reflecting GEAR's general mandate, most of South Africa's national development policies also rank FDI and privatisation very highly on their priority lists. By that token, it would not be unfair to assert that MNCs are more than welcomed in official circles in South Africa, for these bring with them much-desired FDI. Indeed, it is not unusual to hear South African government officials speaking of South Africa as "investor friendly". For instance, when Mr Trevor Manuel, South Africa's finance minister announced the government budget for 2001, he illustrated the high priority that most South African politicians give towards FDI and privatisation. According to Manuel, FDI and other investment incentives had been increased in the latest economic and financial policies in order to "reassure the investment community that the government was committed to speeding up privatisation"(Innocenti 2001).

These incentives included expanding the limit on the use of local funds for new FDI by tenfold, and delaying the implementation of the capital gains tax from April 1, 2001 to October 1, 2001. Other such incentives are identified by the South African national trade and investment agency, Trade and Investment South Africa (ISA). These include:

- significant reduction in tariff barriers, ahead of the World Trade Organization (WTO) timetable, resulting in the lowest (trade weighted) average rate of protection in the Southern African Development Community (SADC) region;
- a market related and competitive exchange rate;
- no restrictions on the type or extent of investments available to foreigners nor is government approval required;
- the strengthening of competition and the development of industrial cluster support programs;
- the abolition of exchange control on non-residents and the substantial reduction of controls on residents, with further reductions to come;
- a pro-active strategy to attract foreign strategic equity partners into the process of restructuring state assets and infrastructure; and
- the introduction of greater labour market flexibility

(ISA website, http://www.isa.org.za/)

Heese (2000: 391) describes that the South African government is concentrating its efforts into infrastructure investment plans called spatial development initiatives (SDIs) as infrastructure development is heralded as key to social development in South Africa. She also notes that one of the most important government levers for investment promotion (local and foreign) in contemporary South Africa is the restructuring or privatising state assets. She adds that, in fact, the role of privatisation in boosting FDI figures is significant and the scope for public-private partnerships (PPPs) has been increasing steadily since the late 1990s. This means that more and more MNCs have been increasing FDI by participating in privatisation ventures. Mallet (1999) highlights in one *Financial Times* article:

> Stakes in numerous parastatals are up for sale and, if anything, the pace has accelerated in recent months. A lengthening list of local authorities is seeking private-sector partners to help run water, sewage and other facilities. Out-sourcing of services is increasingly popular. One foreign executive involved in bids for public-private partnerships describes competition among US and European companies for a slice of the [service delivery] action as fierce. "It's worse than a second-hand car market," he says.

In order to support these privatisation ventures, provincial investment agencies and the national ISA have been established with the mandate to facilitate investors' entry into the country. The Municipal Infrastructure Investment Unit (MIIU) plays an important role in advising municipal PPPs. The MIIU has developed a regulatory framework for such municipal undertakings, but not at national level, where large investment flows may be greatest.

Beyond attracting investment, the South African government intends to harness investors' capacities in order to redress the exclusion of the majority of South Africans from the mainstream economy. Hence, according to, Black Economic Empowerment (BEE)[63], affirmative action, training and small business development have been made requirement of doing business in South Africa (BusinessMap website, http://www.businessmap.co.za/).

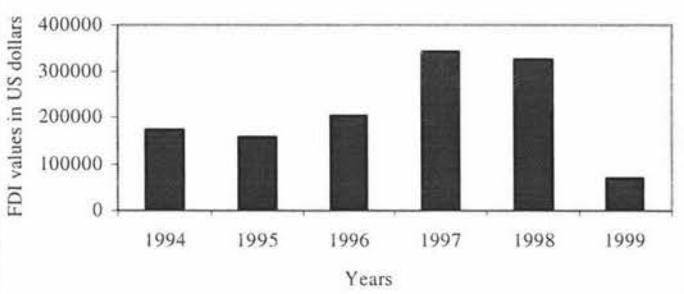
MNCs too have a stake in such arrangements when it comes to implementing a deal. As put by one MNC operator in the *Financial Times* (5/11/2000), through black empowerment groups, MNCs get communities to "buy into the system [ventures involving MNCs such as PPPs] and make it work". However, the same article warns that companies bidding for privatisation and PPP contracts should still expect to encounter frustrations related to apartheid-bred inequalities[64]. "The companies will have to deal with both (mostly white) members of the old guard [apartheid system] struggling to adapt to the new South Africa, and (mostly black) newcomers struggling to grasp the complexities of government and business".

[63] These encourage equity ownership by black owned firms in the corporate sector.
[64] More of such inequalities will be elaborated on later in the chapter.

From the above discussion it may be concluded that the current South African government, like most developing country governments, is making a substantial effort to attract FDI into the various levels of its development needs. At this point, it may be relevant to take a step back and ask; why does South Africa need this FDI? The next relevant question to ask would then be, how successful has South Africa been in its efforts to allure FDI? Lastly, and most importantly, how closely is FDI coming to addressing South Africa's development goals? Examining FDI flows into the New South Africa (1994-2000) may begin to address the question of how successful South Africa has been at alluring FDI. The other questions will be addressed implicitly or explicitly as the chapter progresses.

4.2.2. The state of FDI, MNC activity and Privatisation in contemporary South Africa

Figure 4.1: Year on year FDI, converted at each year's average exchange rate




*Source:* BusinessMap's On-Line SA, http://www.businessmap.co.za/

Following the isolationist apartheid era[65], FDI into the New South Africa has followed a fairly disparate course. As Figure 4.1 above suggests, the overall FDI status in South Africa between 1994 to 1996 increased steadily, peaked in 1997 and plummeted in 1999. According to the latest BusinessMap[66] survey, FDI in 2000 plunged to less than $2bn from $4bn in 1999.

[65] During apartheid, especially in the years towards in demise, international sanctions permitted very little FDI flow into South Africa.

[66] BusinessMap is a political and investment consultancy. Note that the figures shown in Figure 4.1 for 1999 only refer to the first and second quarters of 1999, hence the latest figures suggest a different figure than shown in the diagram.

Heese (2000: 391) attributes the noted FDI upswing between 1994-97 to M&As in activities such as the partial sale of Telkom (the country's national telecommunications company) and South African Airways (the country's national airline) in 1997. She associates the subsequent slowdown with a number of factors including political uncertainty around South Africa's second democratic national elections in 1999. She also blames the South-East Asian crisis as having slowed down FDI into South Africa since some Asian countries such as Malaysia, have grown to be major investors in South Africa.

Table 4.1 below suggests that the prominent investors significant throughout the five-year period (1994-1999) were from the US, Malaysia and the UK. In line with the global trends depicted in the previous chapter, M&As were the most prominent investment type suggesting that South Africa offers greater opportunities for joint ventures. Nonetheless, this could be read as an alarm that investors may be uncomfortable with entering into the much needed greenfield investment. The Information Technology (IT) sector in the same period received the most FDI, followed by energy and oil (Heese, 2000: 389).

**Table 4.1: Top FDI deals in South Africa (1995-99)**

| Investment | Investor | Country | Sector | Million Rands | Year |
|---|---|---|---|---|---|
| Telkom | SBC, Communication /Telkom Malaysia | USA/ Malaysia | Telecom and IT | 5520 | 1997 |
| Engen | Petronas | Malaysia | Energy and Oil | 4000 | 1998 |
| Sentrachem | Dow Chemicals | USA | Chemicals, plastics and rubber products | 2320 | 1997 |
| Engen | Petronas | Malaysia | Energy and oil | 1900 | 1996 |
| Blue Circle | Lafarge-France | France | Construction, building materials and engineering | 1530 | 1998 |
| SA Bottling | Coca Cola | USA | Food, beverages and tobacco | 1440 | 1995 |
| Western Areas Ltd | Placer Dome Inc | Canada | Mining and quarrying | 1410 | 1998 |
| SAA | SwissAir | Switzerland | Transport and transport equipment | 1400 | 1999 |
| Tavistock | Lonrho Plc | UK | Mining and quarrying | 1400 | 1998 |
| Safmarine | A P Moller | Denmark | Transport and transport equipment | 1222 | 1999 |

(*Source:* BusinessMap's Online SA FDI Database, http://www.businessmap.co.za/)

Returning back to the question posed in the previous section about whether South Africa has succeeded in alluring FDI, one may argue that in principle, a 'sufficient' level of FDI does not exist. As demonstrated by the Minister of Finance's budget speech in February 2001, the current South Africa is certainly poised for more FDI. According to market-oriented strategies, there is hardly a point beyond which quantitatively, FDI becomes detrimental to a country's development. It is thus up to the host country to ensure that FDI meets its intended development goals, while at the same time, taking care not to crowd it out. The case study ahead shall demonstrate this point more in-depth where it applies to South Africa. In preparation for this case study, the FDI discussion shall now be moved to the context of the water sector.

4.2.3. The extent of MNC privatisation in the water sector

In line with the global trends discussed in chapter 3, water and sanitation provision in South Africa, has up until recently, been solely in the hands of the government[67]. Triggered by the market-driven reforms mentioned above, it was only in the mid- to late 1990s that South Africa began to shift towards involving the private sector in delivering water and sanitation services. As Abrams (1996b: 3) sees it, the White Paper on Water Supply and Sanitation published in November 1994 was the starting point for a more market-driven water policy in South Africa. Abrams explains that the principles around which the policy was based are:

1. Demand driven and community based development
2. Basic services as a human right
3. "Some for all" rather than "all for some"
4. Equitable regional allocation of development resources
5. Water has economic value
6. The user pays principle
7. Integrated development.
8. Environmental integrity.

Furthermore Jackson (1997a) states that this White Paper on Water Supply and Sanitation Policy acknowledges, "The private sector represents a vast resource which must be harnessed to contribute to the implementation of this policy". Hence, as Bond and Ruiters (2000: 16) point out, by the beginning of 1995, municipalities

[67] It should be noted that South Africa's water industry incorporates a three-tiered structure comprising of the Central government (The Department of Water Affairs and Forestry (DWAF)), water boards or – utilities, and municipalities and metropolitan councils. DWAF is the central controlling body, water boards are responsible for water purification and municipalities and metropolitan councils are responsible for the actual distribution of water to households and industries (US Department of Commerce website, http://www.stat-usa.gov/tradtest.nsf).

were encouraged to contract out infrastructure-related services to the private sector through PPPs for which in 1997, the Department of Constitutional Development (DCD) and its brainchild the MIIU, developed guidelines. Moreover, in 1996, the Department of Water Affairs (DWAF) and the DCD commissioned several dozen small-scale rural PPPs in the form of BOTT contracts, as a way to test the feasibility of PPPs as a preferred water service delivery option. Since then, PPPs in the form of service contracts and concessions[68] are increasingly being employed, especially at the municipal level. So far, no divestitures have been granted at national or municipal level of water and sanitation delivery. However, Jackson (1997b) asserts that most South African public authorities have been employing the private sector to design and construct public infrastructure, such as water and sanitation systems.

MNCs in particular, are involved in other areas of water management. French and British MNCs dominate the water management and treatment sector, with the French being reputed to be more aggressive regarding market penetration activities. A large water supply company, Lyonnaise des Eaux of France has entered into a joint venture partnership with Water Sanitation and Services South Africa. The French have had a long history in water development and management mostly in North and Central Africa as well as in the Middle East. Their operations and maintenance services provided include raw water extraction, water treatment, supply, storage and distribution, sewerage networks and treatment, and network management (US Department of Commerce website, http://www.stat-usa.gov/tradtest.nsf).

The market for water treatment in South Africa is relatively small but competitive. The three major players jointly holding between 70 – 75 percent of the market are Batemans, Biwater and Aquazur. Batemans is a well-established South African company, while Biwater is U.K. based, and Aquazur is jointly owned by Degremont S.A. of France and local company - IMS Holdings. On the equipment side, the French and British dominate the list. American, German, Japanese and Swedish companies are actively engaged in supplying water handling equipment. The Netherlands is also respected locally as having advanced water related technology (US Department of Commerce website, http://www.stat-usa.gov/tradtest.nsf).

[68] By the end of the year 2000, there were only two concession agreements nationwide involving MNCs both on municipal level. One of these served as case study for this thesis. Prior to that, there had been only one other case involving the local water company in 1992. As shall be demonstrated during the case study discussion, it appears that more and more municipalities are now considering PPPs as service delivery options despite opposition from the left.

## 4.2.5. The national employment picture

### 4.2.5.1. Employment growth figures

According to the Centre for Development and Enterprise (CDE), as economic growth fell from around six percent in the 1960s to less than one percent in the 1980s and early 1990s, the capacity of the South African economy to create jobs decreased dramatically[69]. During the 1960s, most new entrants into the labour force obtained formal employment, but by the late 1980s this had dropped to 15 percent and between 1990 and 1995 formal employment declined even further. The latest statistics from South African Reserve Bank (SARB) show that unemployment from 1999 to 2000 grew by 15.9 percent and employment dropped by 2.5 percent (http://www.resbank.co.za/).

The South African NGO Coalition (SANGOCO) (2000) highlights the rapidity of the job losses by citing that 62 000 jobs were lost in the first six months of 1997 only. They estimate an unemployment rate of 37.6 percent[70] in 2000 involving close to 4 million people. Table 4.2 demonstrates annual average employment growth rates in South Africa's formal sectors.

**Table 4.2: Employment in the formal sectors in South Africa**

| | 1970 | 1980 | 1990 | 1998 | *1970-1998 |
|---|---|---|---|---|---|
| Agriculture | 1 638 761 | 1 241 497 | 1 208 370 | .. | .. |
| Mining | 655 346 | 769 000 | 758 000 | 421 006 | -1,6% |
| Manufacturing | 1 068 921 | 1 460 000 | 1 517 000 | 1 341 691 | 0,8% |
| Electricity, gas and water | .. | 46 455 | 52 075 | 38 519 | .. |
| Construction | 317 814 | 370 698 | 424 134 | 282 089 | -0,04% |
| Wholesale and retail trade, motor trade and hotels | 620 268 | 764 443 | 799 232 | 803 414 | 0,9% |
| Transport, storage and communication – government institutions | 277 033 | 348 707 | 269 248 | 188 146 | -1,4% |
| Public road transport of passengers and goods (non-governmental institutions) | .. | 81 402 | 93 340 | 61 117 | .. |
| Banking institutions, building societies and insurance companies | .. | 123 776 | 189 420 | 218 286 | .. |
| National departments and provinces | 458 188 | 620 375 | 816 752 | 1 223 369 | 3,6% |
| Local authorities | 191 294 | 332 189 | 460 986 | 243 775 | 0,9% |
| Other governmental institutions | .. | 59 645 | 78 470 | 103 082 | .. |
| Laundries and dry-cleaning services | .. | 14 744 | 13 440 | 10 736 | .. |

*Source:* Statistics SA http://www.statssa.gov.za/stats_in_brief_2000/stats%20in%20brief.htm

* Average annual growth rate.

... Data not available.

[69] Bhorat (2000: 439) supports this view by asserting that the labour absorptive capacity of the formal economy, is not even half the increase in the size of the labour force. Between 1970 and 1995, formal employment increased by 17.6 percent while the economically active population grew by 36 percent in that time frame.

[70] Official statistics place the current unemployment rate at 33.9 percent (Statistics South Africa 2000b).

According to Table 4.2 above, annual employment growth rates in each of the reported sectors were either negative or insubstantial over the 1970 to 1998 time period. Only employment in national departments and provinces showed a substantially positive growth. Bhorat's study (2000: 437-9) shows that amongst the formal sectors, the primary sectors (mining and agriculture) have suffered the largest employment losses[71].

Most of the other main sectors experienced increases in their workforce, though not enough to cope with the increasing labour force size. The largest percentage increase in employment was in the service sectors, particularly the financial and business services sectors. Wholesale and retail trade followed. The secondary sector, especially manufacturing performed poorly in that period, even though it increased its employment numbers.

Bhorat (2000: 439) explains these trends through occupational analysis. He explains that occupational trends in South Africa show a significant rise in the demand for highly skilled workers at the expense of unskilled workers. He attributes this shift towards high-skill workers to the technological change within individual sectors, meaning the rising capital intensity in sectors coupled with greater computerisation. He therefore argues that given this sort of demand, it is the more skills-intensive sectors viz. financial, business and even other services sector, which have thrived while the less dynamic manufacturing and primary sectors struggled.

The CDE agrees with Bhorat's view of a South African job crisis. It contends that this crisis stems from comparatively weak long-term growth and rising capital intensity. Almost two million jobs are reported to have been lost over the past two decades as a result of investment being channelled increasingly into capital-intensive sectors and technologies. Labour-intensive sectors have declined relative to more capital-intensive sectors, and there has been an economy-wide trend away from labour-intensive techniques. The manufacturing sector's poor employment performance is explained by the very same token; it is now far more capital-intensive than in middle-income countries like Brazil, Mexico, Korea and Malaysia (CDE website, http://www.cde.org.za/wwpubs.asp).

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[71] As a whole, the primary sector is estimated to have shed close to 1.5 million jobs between 1970-1995 (Bhorat 2000: 439).

In their *Sixth Round Table* publication, the CDE also blames South Africa's employment crisis on low business confidence with government having too many priorities and the country facing a growing shortage of skills[72]. Ligthelm and Kritzinger-van Niekerk (1990: 629) also identify trade union conduct[73] and population growth as other factors impeding employment growth in South Africa.

The job crisis is exacerbated by the high dependence of South Africans on wage income. In contrast to most other middle-income economies in Latin America and South East Asia, almost all household income in South Africa now comes from participation in the labour market, mainly through wages, but also through remittances. Old-age pensions are the only other important source of income. This high dependence on wage income in an economy plagued by low employment creation capacity renders unemployment a major determinant of poverty and inequality in contemporary South Africa.

4.2.5.2. Wages

Wages, being the prime source of income for most South Africans merit a special discussion. Statistics South Africa (2000a) states that wages continue to be one of the most controversial aspects of the South African labour market. On the one hand, there are claims that wages are too high and have a negative effect on the economy's international competitiveness and its ability to increase employment. Some also argue that regulated minimum wages[74] contribute to these problems. Counter-arguments suggest that economic growth is unlikely to be achieved on the basis of low wages paid to significant numbers of workers. In this view, low wages constitute a subsidy to unprofitable and inefficient enterprises and labour market intervention is seen as necessary to stimulate restructuring and innovation and also for alleviating poverty and inequality. These debates are likely to continue for sometime.

According to the latest statistics from the SARB, wages in the non-agricultural sector between 1999 and 2000, on average, grew by 9.4 percent. In the

[72] This point shall be discussed in more detail in the upcoming sections later on in the chapter.
[73] Innocenti (2000) expounds on this view in one article of the *Financial Times*. He reports that South Africa's labour legislation is always cited by foreign businessmen as one of the great deterrents to investing in the country. This point is elaborated on in more detail later in the chapter.
[74]These are determined by bargaining councils, who are councils established in terms of the Labour Relations Act of 1995.The councils bring together representative employer associations and trade unions who together establish minimum wages and conditions for the sector and geographical area/s in which they operate. It should be noted that there are no wage regulating instruments for agriculture, domestic work, mining and services these industries.

same time-frame, inflation grew by 6.4 percent. Statistics South Africa (2000a) also notes that mean hourly wages decreased between 1995 and 1997 for all formal sectors except domestic work (where there was an increase) and agriculture (where the real value of the wage was static). The decrease was greatest in absolute terms in electricity and finance, where real wages fell by over R2.50 per hour. The highest wages were found in the financial sector–R20.92 per hour in 1995 and R18.26 in 1997. Other relatively well paid sectors were services[75], electricity and transport. The lowest mean wages were recorded in the construction and trade industries.

4.2.5.3. Workforce level of skills

There is definitely a link between the skills people have and the quality of life they are able to secure. It is because of this fact that workplace skills are an important subject to discuss. Mohr and Fourie (1995: 138) point out that the largest part of the South African population falls into the unskilled category, which constitutes 47.4 per cent of the total population. This is also the fastest growing sector of the population. Semi-skilled workers constitute 37.9 percent of the population and the skilled category is small and grows at a much slower rate. Only 3.2 percent of the population possess managerial and administrative skills. These statistics emphasise once again, the importance of training with regard to not only community development but also to the new challenges brought on by globalisation (Ballard and Scwella 2000:742).

South Africa's social inequalities permeate into the workplace. In addition to the low skills-level, the new South Africa also inherited separate and uneven education and training systems, which were traditionally designed to serve the separate racial groups under apartheid. Hence, the challenge of the first and the current democratic South Africa has been to find a more universal non-racial skills-enhancement framework. In this pursuit, organisations such as Sector Education and Training Authorities (SETAs) were formed in order to try to upgrade South Africa's level of skills[76]. For the purposes of training quality assurance, national bodies such as the South African Qualifications Authority (SAQA) with its wings National

[75] Continuing on from the earlier discussion of the water sector, it appears that water workers are relatively well-paid by this description since water and sanitation are considered as services.
[76] SETAs are responsible for sector skills planning, grant disbursements and quality assurance in industry education and training programmes.

Standards Bodies (NSBs) and Education and Training Quality Assurance (ETQAs) have been established to set national training standards, and monitor their adherence.

The latest intervention geared towards national skills upgrading is the launching of the *National Skills Development Strategy (NSDS)* by the Minister of Labour[77]. The NDSD aims to assist employers in providing high quality training and skills upgrading programmes for their workforce. It does so by subsiding employers in providing such programmes through levy grants and also helping employers design high quality programmes by subsidising their cost of a Skills Development Facilitator[78].

4.2.5.4. Industrial Relations

The last aspect to discuss related to employment is industrial relations. As already alluded to, worker representatives have a significant impact on a country's ability to attract FDI and harness it. They are the sole mechanism through which employees can negotiate their wellbeing at work. Indeed, in South Africa, these play a prominent role. As Heymans and Schur (1999: 612) contend, "South Africa's labour legislation sets many requirements for consultation [labour and other] and also minimum conditions for fairness to individuals". An article in the *Financial Times* (25/1/2001) highlights this point.

> South Africa's labour legislation is always cited by foreign businessmen as one of the great deterrents to investing in the country. "You must hire but you cannot fire," as the local representative of a European company put it. The burden that labour laws and the country's notoriously militant trade unions put on employers is regarded by many as excessive. Even the government has pledged to introduce more flexibility in an effort to attract the foreign investment the country desperately needs.

Despite these claims of trade union militancy, SANGOCO (2000) contends that the clout of the trade unions and mass movement in general, has declined in the new South Africa. Trade unions retain some measure of strength and ability to mobilise though they too, have been significantly fragmented. SANGOCO attributes this fragmentation to the ruling of a traditionally leftist party (African National Congress who are the majority party in the new democratic government) which now serves rightist agendas (as is depicted through GEAR). In other words, SANGOCO

[77] This was launched in February 2001.
[78] The responsibilities of a Skills Development Facilitator include assisting the employer and workers with the development of a workplace skills plan and advise the employer on the quality assurance requirements as set by the relevant SETA.

feels that the new government has abandoned its leftist pro-unionisation roots, thereby stifling the growth and progress of these trade unions.

4.2.6. The state of service delivery: the example of water

Overall, figures released by Statistics South Africa suggest that the income and service delivery gaps planted during the apartheid are not narrowing as quickly as GEAR had hoped. The poorest 20 percent of the population access still only three percent of total income compared to 63 percent of total income that goes to the richest 20 percent (SANGOCO 2000). Some people even talk about South Africa as having a 'First World' within a 'Third World' thereby describing the current income and service inequalities existent between the various racial groups within the country.

Prior to the change of Government in 1994, an estimated 30-40 percent of South Africa's population (14 to 18 million people) were without the minimum standard water supply. On average, South Africans in rural households were forced to travel in excess of 500 meters away from their homes to obtain water for their daily needs[79]. Today the water and sanitation service inequalities and shortages still persist as Table 4.3 below indicates. According to this table, by 1996, only 44 percent of South Africa's total number of households had piped water in their house; 50 percent of them had flush toilets; 14 percent of them had no running water except from a river or stream and 41 percent of them had inadequate sanitation facilities.

**Table 4.3: Household levels of service in South Africa, 1996**

| Services | Full<br>% households | Intermediate<br>% households | Basic<br>% households | Inadequate<br>% households |
|---|---|---|---|---|
| Water supply | 44 | 16 | 26 | 14 |
| Sanitation | 50 | - | 10 | 41 |

Key: Water supply
- Full: Piped water in the dwelling
- Intermediate: Piped water on site or in the yard
- Basic: Public tap, water carrier, tanker, borehole, rainwater tank, well
- Inadequate: Dam, river, stream, spring, other

Sanitation
- Full: Flush toilet
- Basic: Ventilated Improved pit latrines, chemical toilet
- Inadequate: Pit latrine, bucket latrine, other

(*Source:* Statistics South Africa, 1996 census information)

79 This situation had come about as a result of the discriminatory laws and practices of the previous government (e.g. the Water Act of 1965), which were framed to provide an unlimited supply of water to the privileged few, rather than to provide drinkable water and sanitation to all South Africans.

Jackson (1997b) elaborates on this point. He estimates of the 52 percent urban population in South Africa, 18 percent of them have only a minimal water supply, or none at all. The equivalent figure for lack of urban sanitation is 22 percent. In rural areas, it is estimated that 40-60 percent of the population do not have an adequate water supply service[80].

In an effort to rectify the situation, the Department of Water Affairs and Forestry (DWAF) has been active in formulating a policy which is reflected in both the Water Services Act, 1997, and the National Water Bill, 1998. The Bill, which provides for the protection, use, development, conservation, and management of the country's water resources, has been introduced to supply clean water and sanitation to the millions of people in South Africa. It is estimated that between R50-80 billion is needed over the next ten years to eliminate the backlogs in services in the urban areas, depending on the level of service provided (Jackson 1997b).

### 4.2.7. Change of governance structure

In an attempt to even out the income and service delivery inequities created by apartheid as demonstrated above, the national South African government has allocated the responsibility of delivering social services to local government authorities (LGAs)[81]. In 1995, the first democratic government restructured these LGAs from what they had been in the apartheid-era in order to give them greater autonomy so that they may provide more effective and efficient services to their respective communities (Ballard and Scwella 2000: 737). This restructuring involved re-drawing municipality borders so that the different racial group areas, with their varying levels of resources and development were amalgamated to form new 'provinces' and new unified municipal administrations (LGAs). Hence, the well-run 'white' towns were put under the same LGA administration as the barely functioning 'black' townships (Jackson 1997b).

While this restructuring might have seemed like a positive move, especially in terms of fostering democracy, it presented a different set of problems for the newly formed LGAs. Firstly, populations under each new LGA increased, causing the LGAs' financial and resource base to be split over more citizens. For instance, the

[80] In South Africa, this is defined as a reliable 25 litres/capita/day within 200 metres walking distance.

[81] In South Africa, local government authorities are also known as municipalities. These are government units within the provincial government level.

Nelspruit municipality had only around 24,000 people, most of which were 'white' and relatively affluent. With the restructuring of LGAs, its population literally increased by around ten-fold overnight to around 240,000 and its area increased by more than eightfold[82], while its total income grew by only 38 per cent.

The problem of increased populations under each LGA was exacerbated by the second problem – dwindling financial capacity. By combining the 'black' and 'white' local authorities, the operating surpluses, which had sustained the 'white' areas throughout apartheid no longer existed and capital expenditure had to be externally financed[83]. As Jackson (1997a) explains, such external financing involved obtaining loans from the local capital market, as well as obtaining government grants and concessionary finance from the DBSA. The changing role of the DBSA in the new South Africa from providing concessionary finance to merely assisting LGAs to enter the capital markets, diminished LGAs' financial sources.

Leaving LGAs to totally depend on private finance has several unpleasant implications for LGAs. To borrow funds on the open market, LGAs need to demonstrate their capacity to repay. Under present circumstances, most LGAs are not able to demonstrate such capacity since, among other reasons, they suffer from poor revenue performance[84]. In fact, Kotze *et al.* (1999: 627) describe that some municipalities have even largely exhausted their capacity to borrow, where they had any. These circumstances have led many local authorities to start looking at various other options of service delivery.

In considering such options, the Water Services Act (section 19.2.) stipulates: "the public sector is the preferred deliverer of services and … involvement of the private sector in service delivery should only be a very last resort – if there is no public sector provider willing or able to provide the service". Irrespective of this Act, private participation in the form of PPPs appears to be gaining popularity amongst local authorities for reasons which will be discussed in the next section.

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[82] This increase resulted from its absorption of some of the former 'black' residential areas viz. "homelands", particularly from the former KaNgwane.

[83] The formerly 'black' local authorities had depended on government grants and concessional finance from the DBSA (Jackson 1997a).

[84] Non-payment for services is a big problem for local authorities. For instance, residents of Nelspruit's two biggest townships owe the city council R36.9 million in unpaid services (Lubisi 2000). It was common amongst 'black' populations during the struggle against apartheid for residents to boycott payment for social services as a way to show disapproval for the regime. Now with apartheid gone, but now for reasons of poverty, most people find it difficult to deviate from this 'culture of non-payment'.

## 4.3. The *raison d'etre* for Waterco's operation in South Africa

It was in the midst of the political and socio-economic developments discussed in the foregoing discussions that Waterco came to operate in the north-eastern part of South Africa[85]. The LGA operating in this part of the country, the Northern Transitional Local Council (NTLC), faced the same sorts of financial and human resource constraints as most of the other LGAs described in the previous section. By 1996, the NTLC had decided its population had become too big for its diminishing financial capacity. Most of the new areas under its jurisdiction had never received water and sanitation services and there were enormous inequities in the levels of services already in place[86].

Hence, as with other local authorities country-wide, the NTLC went on to investigate ways in which it could meet these challenges given its mandate to provide essential services to all of its population in a fast and efficient manner. Its evaluation studies determined that at least R350 million would be needed in order to bring the level of services in all its areas to an acceptable level. The NTLC could not afford this capital[87] and after much contestation with the various stakeholders, it concluded upon the involvement of the private sector in the form of a concession agreement. The NTLC's main rationale for seeking private sector participation had to do with its belief that the private sector has greater access and flexibility when it comes to capital funding. In addition, it believed in the theories of the private sector as capable of bringing services efficiently and affordable to customers, as well as transferring capital, technology and human resource skills to the local economy[88].

A private partner for the concession agreement would be sought through a bidding process and the winner would be expected to create a special-purpose project company that would act as the concessionaire. The winner would also act as the operator for the same concessionaire in order "to ensure that a competent and

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[85] As already mentioned in previous chapters, SAWCO's exact location of operation will not be specified for confidentiality reasons. Nonetheless, it may be stated that the SAWCO concession covered ten residential areas. One was a formerly 'white' town, four were former 'black' townships and the rest were peri-urban or otherwise rural.

[86] It inherited services at three levels of service as suggested by Table 4.3. Level 1 was the full level of services predominantly found in the former 'white' areas and some 'black' townships; level 2 was found in some of the 'black' townships which was intermediary or basic; level 3 was found mostly in the 'black' peri-urban and rural areas, which were inadequate (see photos in Appendix 3).

[87] According to an interview held by one scholar with Waterco's management, 92 percent of the NTLC's total annual budget of R50 million goes to salaries and the remaining eight percent must cover infrastructure maintenance and expansion.

[88] These are the reasons why PPPs are gaining popularity nationwide amongst local authorities.

experienced water company will always be involved and in control of the operations".[89]

The concessionaire would be responsible for running, upgrading, expanding and servicing water and sewage services then run by the NTLC. The assets to be used during the concession period would remain in the ownership of the NTLC, which would supervise and monitor the concessionaire's performance. Hence, starting with the issuing of a formal Request for Proposals (RFP) in December 1996, the process of seeking a private sector bidder began.

The selection process for a bidder was long and controversial as shall be discussed in the next chapter. Eight international companies including three big French water MNCs - Generale des Eaux (now Vivendi), Lyonnaise des Eaux and SAUR International submitted their proposals by the deadline of May 1997. No domestic companies submitted proposals. The lengthy negotiations for a bidder culminated in October 1997 when the deal was awarded to Waterco. As successful bidder, Waterco was required to form partnership with a local business. Hence it formed a joint-venture with Localco[90] thereby creating the concession company, South Africa Waterco (SAWCO)[91].

The final concession agreement was a 30-year R350 million deal between the NTLC and SAWCO signed on 16 April 1999. This agreement came into effect on 01 November 1999 and was approved by the Department of Constitutional Development (DCD) and the Department of Water Affairs and Forestry (DWAF). It incorporated the provisions of the Water Services Act of 1997 and conformed with the Framework for Restructuring of Municipal Service Provision produced jointly by the Congress of South African Trade Union (COSATU) and South African Local Government Association (SALGA).

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[89] The source of this information is the 'Request for Proposals' document used during the bidding process which culminated in Waterco winning as SAWCO's operator.

[90] For the sake of confidentiality requirements, the local partner's real name cannot be disclosed in this work. It shall thus be simply referred to as Localco.

[91] Once again, the real identity of the concession company may not be revealed in this work for the sakes of confidentiality requirements.

## 4.4. Conclusion

Contemporary South Africa is plagued by massive income and service inequalities and shortages. Reminiscent from the apartheid era, a 'black' Third World co-exists right alongside a 'white' First World in South African society. Indeed as demonstrated, 14 percent of all South African households have no running water within 200 meters of their dwelling while 41 percent have inadequate sanitation facilities.

This chapter has demonstrated that contemporary South Africa, like most developing countries, is actively seeking FDI as one of its main development strategies. Its latest efforts include lifting financial limits and offering temporary tax breaks. Whether these efforts work or not is a subject for another study. Nonetheless, the chapter has demonstrated that South Africa has serious challenges to face in the realm of its development. These challenges do, in turn, influence how much FDI and privatisation South Africa is able to attract. They also highlight the areas where South Africa needs to concentrate its efforts when harnessing MNC capacities through FDI and privatisation.

These challenges include high unemployment and diminishing wages. Since wage income is the main source of making a living for most South Africans, employment features are of paramount importance to South Africa. It is particularly worrying that the country's formal sector labour absorptive capacity has diminished as shown in this chapter, while its labour force, mostly unskilled, continues to grow rapidly. Labour statistics indicated that the primary sectors (mining and agriculture) shed the most number of jobs over the period 1970-95. The secondary sector, particularly manufacturing, contrary to global trends, also performed poorly in terms of generating jobs. It was the services sectors, particularly finance and business, which generated the most number of jobs. The latter sectors were also the best paid, signifying what some perceive to be a shift towards more high-value production.

Such a shift presents a serious problem for South Africa's predominantly unskilled labour force. By examining FDI patterns, it was the high-skill intensive IT sector which received the most FDI, thereby reconfirming the danger presented by South Africa's shortage of a high-skilled workforce. The South African government has launched several initiatives aiming to boost workers' level of skills. These include subsidising employers through grant levies for worker training.

The inflow of FDI into South Africa itself is worrying. Though statistics have shown in this chapter that it has steadily increased over the last five years, it mostly came in the form of M&As, which are notorious for shedding jobs. This could explain the noted high job losses in the last five years. The pie of FDI contributed by privatisation is notably growing. PPPs in particular, are gaining popularity as local governments face the overwhelming challenge of servicing the increasing populations under their jurisdiction with diminishing financial capacity.

The task of striking a balance between attracting FDI and harnessing its potential is not easy for the South African government, especially given the already high level of national unemployment and the generally low level of skills in the workforce. Whether South Africa succeeds at this task is yet to be seen. Nonetheless, micro-level studies such as this one, focusing on one case at a time, may help elicit some pointers which might help South African policy-makers in advancing this task. Given the national problems stated above, it is only appropriate for workforce empowerment to feature highly on FDI priority lists in South Africa.

The strength of the current labour union movement in South Africa (though there are claims suggesting their strength has diminished) makes workforce empowerment requirements even more paramount for preserving national stability and development. The case study to be discussed in the next chapters, may indeed be useful in investigating the best tentative way for South Africa to advance its workforce empowerment goals through FDI in the light of its own specific socio-political, economic and cultural circumstances.

# CHAPTER 5: WORKFORCE EMPOWERMENT IN THE CASE OF SAWCO

## 5.1. Introduction

In the previous chapter, it was established how the problems which precipitated the emergence of Waterco in South Africa, were in fact, reflective of the wider national problems of the time. National unemployment was high, wages and labour absorptive capacity were dropping and most of the country's labour force had few skills in an economy which was rapidly becoming skills-intensive. Furthermore, local governments (LGAs) were quickly running out of financial and human resource capacities with which to meet their service delivery mandate. The previous chapter also demonstrated how increasingly, contemporary South African policy-makers promote high-productivity FDI in the form of M&As and utility privatisation as the best methods through with to address these development problems.

One might rightfully ask at this point: how exactly can South Africa address these problems through FDI? Is FDI (especially M&As) and employment creation not a contradiction in terms? Indeed, as FDI and privatisation proponents would argue, are the possible (and in fact, already evident) short-term job losses likely to pay off in the long-term? FDI and privatisation opponents would raise a different set of questions. In the light of the economy's low labour-absorptive capacity and a high proportion of the unskilled poor in South Africa, can such short-term sacrifices be afforded?

From analysing these two perspectives, it would appear that the challenge facing South Africa is to promote productivity growth in ways that do not undermine the growth of lower wage, lower productivity jobs for its many unskilled and unemployed people. The question to be explored through the case study in this chapter, is how this challenge may be advanced in the context of a PPP-type water privatisation venture. On a broad level, the case study shall ask, as PPPs gain more and more popularity amongst LGAs, how can they be used as a tool to empower South Africa's workforce?

The case study focuses exclusively on one LGA, the NTLC, and investigates how this LGA attempted to advance workforce empowerment as one of its development goals, through a concession agreement involving a MNC, Waterco. In particular, it shall seek to examine the extent to which the NTLC's employment of

SAWCO, a local special project company operated and predominantly owned by Waterco, led to greater or lesser empowerment of the workforce under its jurisdiction. In order to advance this task, SAWCO was studied a year after it began operations.

The chapter begins by closely examining the structure of SAWCO as a multinationally-owned company and concessionnaire. Next, as background to the discussion of SAWCO's workforce empowerment experiences, a picture is painted of SAWCO's level of achievement in service delivery by the time the fieldwork was done. The various operational features of SAWCO are also given as part of this background. Finally, SAWCO's workforce empowerment experiences are given.

The latter step involves a discussion of SAWCO's performance on the measures of workforce empowerment. These measures are labour participation, employment quantity and employment quality. Labour participation looks at the extent to which a company's workers (labour) had participated in the formation of the project-company, SAWCO. The results pertaining to employment quantity simply investigate whether SAWCO had increased or decreased employment numbers.

The employment quality measure is reasonably comprehensive. It entails variables reflecting the conditions of service (eg. remuneration measures such as wages and retirement premiums, as well as working conditions such as safety measures and working hours/day). It also covers variables assessing the level of workplace democracy such as the freedom to unionise as well as other dispute resolution avenues. Finally, it captures training programmes and other skill transfer mechanisms.

In general, these employment quality and quantity measures will be evaluated to see if the private company provided its workforce with better or worse employment conditions than those offered before privatisation under the NTLC. Contemporary Development Studies literature prescribes that sustainability is best attained where accountability tools are in place and where genuine consultation is practised as the norm. It is thus important to bear in mind, as one reads through this chapter, that SAWCO's productivity, the workers' livelihoods and the NTLC's present and future capacities are all threatened if open channels of communication and accountability are not established between the triad (SAWCO, the NTLC and the workers)[92].

[92] It is interesting to note that this triad symbolism mimics the larger picture of global political economy relations, where the triad comprises of civil society, private sector and governments.

## 5.2. The private company

As already mentioned, the company under examination is SAWCO. The concession contract had stipulated that the MNC Waterco, as operator of SAWCO, was to retain a minimum of 25 percent shareholding of SAWCO and form partnership with a local company. Hence, Waterco bought 26 percent of SAWCO, its Dutch affiliate bought 64 percent and the local black empowerment group, Localco received ten percent. From a MNC analysis point of view, it can be seen that by this arrangement, the Waterco group[93] held 90 per cent of the shares in SAWCO, making SAWCO almost wholly multinationally-owned[94].

Waterco itself is a European water company currently operating in around 22 countries. Throughout its history, Waterco has operated in more than 60 countries and currently employs around 2,500 people worldwide. Its expertise includes water and environmental engineering[95]. Waterco appears to fit the typical operational qualities of a MNC identified in chapters 1 and 2. It operates in more than one country; it has a parent base in its home country; and operates in partnership or in joint-venture with a local company (Localco) as required by host country laws. It also utilises its own subsidiaries and affiliates (in this case its Dutch affiliate co-owns SAWCO) to advance its performance strategies.

On a global scale, Waterco's size is modest as Table 5.1 below suggests. Compared to its fellow European counterparts, it is only one-third the size of the next smallest company, and one-quarter the size of Hyder. Put differently, one could fit 72 businesses the size of Waterco into Lyonnaise des Eaux, which is one of the largest water companies.

As with most other water multinationals, Waterco's scope of expertise and activity is diverse. In addition to water and engineering, Waterco also specialises in packaged equipment, products and services; water systems ownership, investment and operations; water asset management; leisure; project and structured finance. Table 5.2 demonstrates that Waterco's business lies mainly in civil engineering and related manufacturing work. It has a relatively small amount of work as an operator of water

[93] The Waterco group refers to Waterco's parent company as well as all its subsidiaries and affiliates.
[94] It may be even more interesting to note that the shares held by Localco were in fact sponsored by Waterco. One of Waterco's managers explained in an interview that Localco was having difficulties coming up with its own shareholding funds, hence it received financial help from Waterco. He also explained that the ultimate goal is for Localco to co-own 50 percent of the SAWCO, but that that was a long way off.
[95] Most of the information in this section was obtained from Waterco's website.

and sewage systems. Its combined turnover of water and sewerage and 'other services' totalled £37.4m, or just over 15 percent of its total business. Waterco obtains the majority of its business through contracting and sees privatised water concessions as the key growth area for the company (Waterco CEO's statement, annual report for 1997 ).

**Table 5.1: Water multinationals: population served**

| Water multinational | Home country | Water and sewerage: Worldwide Population served |
|---|---|---|
| Generale des Eaux | France | 65,000,000 |
| Lyonnaise des Eaux | France | 65,000,000 |
| SAUR | France | 27,000,000 |
| Thames Water | UK | 19,800,000 |
| Severn Trent | UK | 15,100,000 |
| United Utilities | UK | 7,500,000 |
| Aguas de Barcelona | Spain | 4,600,000 |
| Hyder | UK | 4,200,000 |
| Waterco | Home-country | 1,597,500 |

(*Source*: Confidential report[96])

**Table 5.2: Waterco's sectoral breakdown of turnover, profit and assets, year end March 1997**

| Sector | Turnover (£m.) | Pre-tax Profits (£m.) | Net Assets (£m.) |
|---|---|---|---|
| Contracting | 116.1 | 0.8 | 2.8 |
| Manufacturing | 89.4 | 3.9 | 13.0 |
| Water and sewerage systems | 25.0 | 8.9 | 56.6 |
| Other services | 12.4 | -8.1 | 19.8 |
| Total | 242.9 | 5.5 | 92.2 |

(*Source*: Confidential Report)

**Table 5.3: Waterco's geographical breakdown of turnover and assets, year-end March 1997**

| Region | Turnover by destination (£m.) | Net assets (£m.) |
|---|---|---|
| Home-country | 125.5 | 82.2 |
| Africa | 19.1 | 4.4 |
| Middle East | 37.2 | 4.3 |
| Far East | 28.9 | 2.8 |
| Rest of Europe | 26.7 | -6.8 |
| Americas | 5.3 | 5.3 |
| Other | 0.2 | - |
| TOTAL | 242.9 | 92. |

(*Source*: Confidential Report)

[96] Once again, for the sake of confidentiality, the exact source of this information, as well as Waterco's exact home country may not be revealed at any point in this study. This applies to other parts of this chapter, unless otherwise stated.

Table 5.3 suggests that most of Waterco's turnover comes from its home operations. Most of its assets are also invested at home. Externally, it obtains most of its turnover from the Middle East and the Far East. The majority of its assets outside home are invested in the Americas, though the Americas give it the least amount of turnover. Africa receives much less investment and its turnover from there is also not very significant.

Waterco strives to be the 'perfect water company' - one that offers almost perfect solutions in the purity of its water and effluent, its leakage levels and benefits to consumers and investors[97]. Its expansionist strategies include expanding its own range of skills and expertise by acquiring established companies within the water industry and by forming joint ventures with organisations that provide complementary services. It prides itself with several accomplishments accrued over the last three decades. Nonetheless, like most other MNCs, its performance has also raised suspicion in a number of instances related to politics and under-performance. It is important to note that some of these suspicions proved to be unfounded[98].

In sum, the discussion above points to the fact that on a global scale, Waterco is not a major actor in the water sector. Its operations are only a very small fraction of some of the larger water companies. Nonetheless, it has carved itself a path on the global arena mainly through contracts, at times succeeding and at other times faltering. Its role within SAWCO is summarised in Figure 5.1 below.

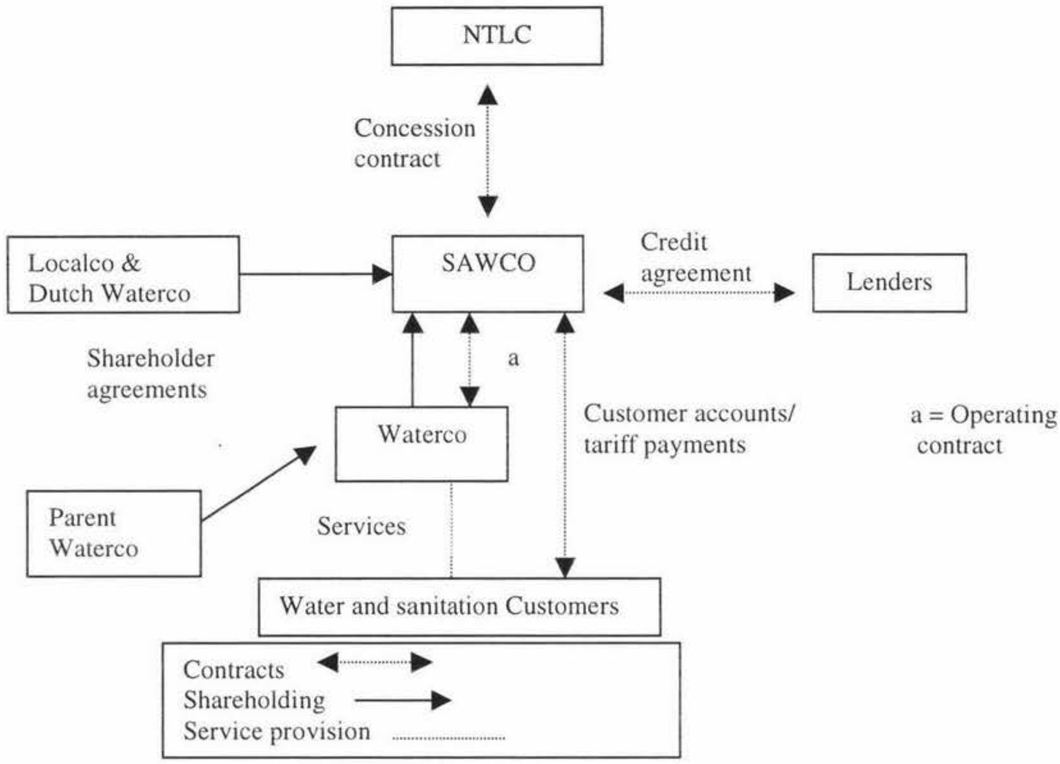
Most of the features demonstrated by Figure 5.1 have already been discussed in the previous sections. As the diagram demonstrates, the concession contract is between the NTLC and SAWCO. Waterco is a shareholder and operator of SAWCO and has an operational contract with SAWCO to provide services to contracted customers. SAWCO also has credit agreements with lenders such as the Development Bank of South Africa (DBSA). The multinational shareholder relationship between Parent Waterco and its subsidiary Waterco is also shown in the diagram. It is also shown how Dutch Waterco, Localco and Waterco then together own SAWCO[99].

[97] Waterco's website.

[98] Some of the accusations made against Waterco were later discovered to be inaccurate and therefore retracted publicly.

[99] It may be interesting to note that at the time of the fieldwork, SAWCO's board of directors had six directors; two from Waterco, two from Dutch Waterco, and two from Localco. The Managing Director was from Waterco and was the only executive director.

**Figure 5.1: The structure of the SAWCO concession**




*Source:* Confidential

Having discussed Waterco's structure as a MNC, its past operations and its role within SAWCO, SAWCO's performance may now be tackled. A good departure point could be by taking a more rounded look at SAWCO's operations and establishing its level of achievement in service delivery by the time the fieldwork for this study was done.

## 5.3. The state of delivery: one year into operation

It has already been mentioned that this study's fieldwork was done in December 2000 by which time SAWCO had been in operation for about a year. Not surprisingly, SAWCO had experienced delays at the onset of its operation attributable to logistical developments. For instance, various task offices had to be established and staffed and sometimes it took a while to employ the best people for certain positions. Consequently, at the time of the fieldwork, some workplace-related activities such as training programmes were running a little behind schedule.

As explained in the previous chapter, the photographs shown in Appendix 3 illustrate some of the various levels of service delivery identified during the fieldwork. Waterco classified these into three levels. Level 1[100] services correspond with those at full service in Table 4.3 of the previous chapter, where piped water and flush toilets were available inside the dwelling (see photos 1 and 2, Appendix 3). Level 2 services were those outlined by Table 4.3 as intermediate or basic, where piped water was available either in the yard or communally (available within 200 meters) (see photos 4 and 5, Appendix 3). Here, sanitation was predominantly through ventilated improved latrines or chemical toilets (see photo 3, Appendix 3). Level 3 services are referred to as inadequate in the same Table. Households on level 3 mostly resort to water vendors or local rivers for their water-needs. For sanitation they use either pit-latrines or the open-field (see photo 6, Appendix 3).

At the time of the fieldwork, SAWCO had begun to upgrade services in two of the black townships within its concession area (those at level 2 of services). One was almost 100 percent upgraded, pending DWAF increasing the pumping capacity, which would give homes in that area 24-hour water supply. The other was only about 60 percent upgraded. In these two areas, SAWCO was offering varying levels of services at staggered costs. For instance, it offered three levels of water supply – the full pressure system, the roof tank system and the ground tank system.

Not much else had been done in the rest of the concession area as yet (most of which are at level 3). At the one extreme, level 1 services in the affluent and formerly 'white' areas had needed very little or no upgrading. At the other extreme end were the peri-urban level 3 households which had never had any running water and sanitation facilities whatsoever, and still had none at the time of the fieldwork[101]. Other level 3 households in some of the 'black' townships had the communal taps they had received when the NTLC took over in 1994-5[102].

These communal taps presented a particular problem since the majority of the households had found ways to illegally connect house taps into the main water pipes to bring water to their individual households (a practice commonly known as

[100] This level is similar to a typical developed country facility.
[101] Also note that these areas did not have any other basic services and infrastructure such as electricity tarred roads and household telephone lines.
[102] In 1994, the national government, under a development plan called the Reconstruction and Development Programme (RDP), had tried to meet the massive water service shortages in some of the 'black' residential areas by installing communal taps for every 200 meter radius.

'tapping') (see photo 5, Appendix 3). This practice wore down the pipes and caused major water losses due to leaks. Poor quality piping in general contributed to these water losses making leaks one of SAWCO's main challenges of the time. It is because of these water losses that the water supply in these areas was rather irregular. By the time of the research, one Waterco official explained that SAWCO had had some success in reducing leakage-related water losses; it had reduced them from 60 percent to around five.

Non-payment was another big problem for SAWCO, ie. getting customers to pay for services they had provided. Level 1 areas did not have this problem; it was the poorer level 2 and 3 communities who were less likely to meet costs[103]. Even some government departments were having trouble honouring their bills, resulting in Waterco having to cut-off their water supplies. At the household level, such service disconnections had not yet begun even though SAWCO had been threatening households with them[104].

In order to assess the quality of services that were being provided by SAWCO, five households were interviewed in the townships where upgrades were in progress. These households were asked to compare the level of services they were receiving from SAWCO to the level they had formerly received from the NTLC. In all the cases, the interviewees conveyed frustration over the 'rampant' water disconnections[105] they were experiencing under SAWCO. They admitted that they received regular bills from SAWCO but that the water irregularities during the day made life rather uncomfortable. All five households had not paid any of their due bills for about a year because of personal financial reasons[106]. The households admitted also, that although SAWCO had been threatening to completely shut off their water supplies, they had not yet done so.

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[103] For instance, while one level 1 town had a payment rate of around 87 per cent at the time of the research, the traditionally 'black' areas had a payment rate of about 30 percent.

[104] In is interesting to note that organised residents groups in the concession area had, at various times, tried to protest against having to pay for their accumulated outstanding bills for the services they had received from the SAWCO and the NTLC. The rationale of these groups was that in the past five years, rates had gone up from about R14 a month to over R100 a month in some of the 'black' townships. They thus argued that most residents could not afford to keep up with these fees (*African Eye News Service* articles September 2000 and April 2001). For confidentiality reasons, the exact dates of these newspaper sources will not be disclosed.

[105] They reported that often unannounced, for several hours usually most of the day except early morning and late evening, they would not have any running water from their taps. Some of them asserted that sometimes, for a whole weekend, they would not have running water.

[106] This point reaffirms the non-payment problem discussed earlier.

When the operator, Waterco, was confronted with this issue, one official explained that the evident water irregularities were due to the infrastructure upgrades they were making. They needed to spend several hours per day working on the pipes and the related infrastructure and that this required them to shut off the main water pipes leading to households. He also blamed the irregularities on the illegal water connections prevalent in these areas.

In order to discourage these illegal water connections, SAWCO issued several articles in some of the local newspapers, urging customers to formally register their water usage instead of resorting to illegal connections[107]. SAWCO was also planning workshops aimed at conscientising the communities about water conservation, hygiene and the need to pay for services. For those individuals who were too poor to pay for services, SAWCO made a provision whereby they could obtain an indigence coupon from the NTLC, which would allow them some amount of free water.

One Congress of South African Trade Union (COSATU) meeting in December 2000 brought to light some of the communication and accountability problems that SAWCO had with the unions and the serviced communities. The attendants of this meeting expressed discontent over the fact that up until that point, SAWCO had still not provided the unions or the general public with clear credentials explaining why it had been chosen as concessionaire.

They were also still not convinced privatisation had been the best service delivery option, especially since the Water Services Act (section 19.2.) stipulated that all public sector options be exhausted first before turning to the private sector. Moreover, they were concerned regarding Waterco's credibility as service provider, since their own studies had shown Waterco's track record as dubious. The meeting attendants were not even convinced that the level of service provided by SAWCO was any better than the previous NTLC level. If anything, the increased water irregularities they claimed[108] appeared to have construed any judgement, which might have put SAWCO in a favourable light.

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[107] One such article explained that a fee would be charged for service registration, which in my opinion, could be a big disincentive for people to register their water usage as urged.

[108] Their claims of water irregularities appear to support the former claims made by the interviewed households. As a side-note, it may be interesting to point out that at the time of this fieldwork, cases of cholera outbreaks in the province (not necessarily in the concession area) were making media headlines. These outbreaks were traced to the adjacent provinces and neighbouring countries, and may thus have nothing to do with the concession operation.

In an interview, one SAWCO official denounced any allegations of SAWCO's lack of accountability. According to him, SAWCO held regular meetings with the serviced communities, led by a committee specifically mandated to mind community-related affairs. He blamed the community's lack of knowledge of SAWCO's activities on individual community members' failure to attend the arranged community information meetings.

Nevertheless, at the time when fieldwork was done, SAWCO was certainly accountable to the NTLC. There was a Concession Monitoring Unit (CMU), comprising of NTLC and DBSA members. However, neither labour nor consumer representatives were part of this. The mandate of the CMU was to monitor SAWCO's activities to ensure high standards of service delivery and adherence to the laws and policies binding SAWCO. As part of the monitoring process, SAWCO was required to produce monthly written reports covering progress in the areas specified by the contract[109]. In addition, the CMU carried out periodic spot checks to assess the standard of capital work and water quality. SAWCO was also required to establish consumer representation committees throughout the concession area as a way to foster its accountability to the serviced communities.

One CMU member explained in an interview that up until that point, the CMU had been satisfied with the concession's progress. He noted that the concession contract did not reach financial closure till July 2000 even though SAWCO had been operating since November 1999, which caused delays in a number of operations, particularly with regards to general infrastructure investment. Nonetheless, this CMU member believed that SAWCO would have caught up with the expected projected capital expenditure by the end of its second year of operation. He also mentioned that one of the challenges they were facing at the time was specifying the kind and format of the data they required from SAWCO. As it was, the reports they were receiving from SAWCO were too technical for the general readership and thus needed to be simplified.

Also at the time of the research, SAWCO had been busy with the planning of community projects, which were required of it as part of its social responsibility. A community training centre had been established but not many community

[109] The areas include the operation and maintenance of treatment works, water quality standards, status of plant equipment, water supply data, levels of service and progress towards achieving RDP minimum standards throughout the concession area.

programmes were yet in place. Educational programmes, imparting business skills, computer skills and basic plumbing skills were only in the pipeline to be implemented in late December 2000 and early 2001. Recreational programmes as well as programmes geared towards subsistence farmers and pensioners were also being planned[110].

**5.4. Critical Operational Features**

The literature review explained that one of the supposed advantages of a concession agreement from the public's point of view is that it allows a private company to operate under host government supervision. This way, the government remains in a position to protect its citizens against self-interested private company motives. This provision certainly applies to SAWCO. For instance, SAWCO was only allowed to charge to its customers, tariff rates set and/or approved by the NTLC. Furthermore, SAWCO was required to pay R8 million per annum as a performance guarantee to back up its performance against contract targets. In addition, as already mentioned, the CMU kept close check of the various activities of SAWCO to ensure high quality service standards and compliance with the rules and policies governing SAWCO's activities.

Theoretically, concession agreements also carry the advantage of bringing in much needed capital investment to the host economy. In this regard, SAWCO was expected to make the necessary capital investments in the assigned concession area while operating and expanding services. It was also expected to make other financial commitments which included a one-time contract implementation fee of R200 000, an annual R1.25 million concession fee, and an annual R11 million lease payment[111]. It would then make its profit from the tariffs charged to those customers it provides services to.

Given the incidence of poverty and low payment rates in the concession area, one could ask a rather simple yet appropriate question; what incentives did SAWCO

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[110] By the end of July 2001, one Waterco official reported that all these programmes were fully operational and running smoothly. 25 community members had already received computer training, 45 of them completed a business skills course, 14 trained in plumbing and 25 completed a subsistence farming course.

[111] All these fees, apart from the contract implementation fee, which was paid only once at the signing of the contract, increased annually in response to inflation. The performance guarantee and the concession fees could be renegotiated after the first five years. The lease payment figure applied only to the first ten years of the concession period, after which the fee would drop to R100 per year (confidential source).

have for operating as concessionaire? One NTLC official responded in an interview that profit prospects for SAWCO lie in the timing – the fact that the concession is for 30 years, which is enough time to realise profits if SAWCO is able to reduce costs and improve payment rates. He also explained that the NTLC's jurisdiction area was one of the fastest growing areas in the country and that SAWCO could expect to increase its customer base.

In another interview, a Waterco official offered a slightly different response to the same question. According to this official, even if profit prospects appeared grim in the short-term, the SAWCO concession was still an effective 'foot in the door' for Waterco. As the idea and success of concession agreements became popular throughout South Africa, Waterco could expect to obtain more contracts thereby expanding its operations to other municipalities. He also explained that the issue of non-payment was not as hopeless as privatisation opponents had made it out to be. Contrary to conventional belief, the majority of the people in the peri-urban areas (who made up most of the concession area), even though poor, were more than keen to pay for services to which they had never had prior access.

He also expressed doubt that the concession would terminate at the end of 30 years. The latter view was confirmed by a NTLC official in a different interview. This official pointed out that up until that time, there had not been much foresight regarding service provision beyond the concession period. Hence there were no tools being implemented to ensure future sustainability of the services at the end of the concession period when the services are returned back to the hands South Africans.

### 5.5. Case Study Results

The objective of this case study is to assess the extent to which SAWCO had empowered its workforce by the end of its first year of operation[112]. This objective will be approached in three stages focusing on the three measures of workforce empowerment – labour participation, employment quantity and employment quality. The first stage reverts back to the procurement process of the SAWCO concession.

[112] Given the short time-span of SAWCO's operation, the results observed should be seen as preliminary and indicative of the state of progress at the time of this fieldwork. Every attempt should be made to avoid jumping to conclusions about the overall impact SAWCO might have on workforce empowerment in the long-run or even medium-run. Also, when reading through the upcoming discussion, it should be borne in mind that this chapter only attempts to present the raw data, and that the synthesis of this data will be given in the next chapter.

From this process, the extent to which labour participated in the formulation and conclusion of the concession contract is examined. The second stage looks at the types of workforce empowerment policies governing SAWCO's activities at the time of the fieldwork. The third stage assesses the workforce empowerment practices evident within SAWCO at that time, using variables measuring employment quality and quantity.

The data used in the upcoming case study discussion was gathered through interviews with relevant members of Waterco, SAWCO, the NTLC and union representatives as well as SAWCO workers. Information was also obtained by collaborating with other scholars doing similar research. Furthermore, secondary data sources such as policy documents and reports relating to the concession agreement, as well as studies done by other institutions on the same topic, were also utilised.

5.5.1. Labour participation in contract design

Table 5.4 below summarises the chronology of events relating to labour union consultation in the procurement process which terminated in the signing of the concession contract. The three labour unions most actively involved in this procurement process were SAMWU, COSATU and the Independent Municipal and Allied Trade Union (IMATU)[113]. Reminiscent of the apartheid era, SAMWU and COSATU mostly represented 'black' workers while IMATU represented mostly 'white' workers.

**Table 5.4: SAWCO concession: Chronology of key events involving labour**

| | |
|---|---|
| 1996 | |
| 26 August | The NTLC resolves to explore the possibility of a PPP for water and sanitation |
| 4 October | First meeting between the council and local branches of SAMWU and IMATU to discuss the concession contract; unions indicate that they understand the rationale for the PPP and that they will report accordingly to their members. |
| 9 December | Request for Proposals issued |
| 1997 | |
| 20 February | Second meeting between the NTLC and SAMWU local and provincial officials to discuss the consultation process. |
| 4 April | Third meeting with local branches of SAMWU and IMATU to discuss union representation on the Evaluation and Negotiation Committee responsible for advising the council on labour issues related to the PPP. (Other formal consultations with unions took place on 10 April, 22 April, 8 August and 10 September 1997, and on 7 May, 14 May, 3 June and 10 June 1998.) |

[113] It is unclear what level of workers these unions represented. Nevertheless, it is more typical for unions to represent more of non-management workers or both, than exclusively management.

| | |
|---|---|
| 30 April | Closing date for bids |
| 19 August | COSATU sends written questions to the NTLC regarding the PPP process; the NTLC responds in writing. |
| 10 October | The preferred bidder, Waterco, is announced. Negotiations begin. |
| 24 November | The NTLC suspends negotiations owing to labour pressure, at the request of provincial politicians. |
| 1998 | |
| 8 February | Water Summit (provincial politicians, the NTLC, COSATU and SAMWU). SAMWU presents an alternative model of service provision involving public sector delivery. |
| 16 February | Further discussions on the model between SAMWU and the NTLC. The latter concludes that unions have no realistic solution for the capital financing needs of the city. |
| April | The NTLC lifts the moratorium on negotiations after consultation with provincial political leadership. |
| October | Request for Proposals document is provided for review by COSATU; no comments received from COSATU. |
| December | The first series of eight drafts of the concession contract are submitted for review by COSATU. No comments received from COSATU on any version until September 1999. |
| 1999 | |
| 10 April | The DCD issues a legal opinion finding that the draft SAWCO contract is fully in compliance with the Framework Agreement signed by COSATU and SALGA on 11 December 1998, regarding requirements for municipal PPPs |
| 21 April | Contract signed |

(*Source:* confidential)

As Table 5.4 demonstrates, these labour representatives only became more actively involved in the negotiation process once the preferred bidder was announced in October 1997. Prior to that, their participation had only been informative and organisational – they had been invited to meetings only to learn and accept the rationale for the concession and discuss ways in which consultation would occur between the unions and the concession committee. They had had no say in either of the bigger decisions made prior to that, ie. whether to privatise water in the first place and choosing the appropriate private sector bidder as operator of the concession.

When the local SAMWU and IMATU offices were invited by the NTLC to participate in the talks after Waterco won the bid in October 1997, SAMWU held that even though the rights of the individual workers did not appear to be in serious jeopardy according to the proposals made, it still objected to the mere principle of involving the private sector in the provision of basic services. As part of its strategy to get its objection across, the SAMWU head office asked the local SAMWU to leave the negotiations up to it, from hence, it refused to participate in the contract negotiation process. IMATU limited itself to worker concerns and remained impartial to the privatisation debate.

In November 1997, the NTLC had to suspend negotiations with the preferred bidder owing to the need to consult with labour whose representatives were refusing to cooperate. A committee of provincial politicians was formed to mediate this impasse between SAMWU and the NTLC. In February 1998, provincial politicians, the NTLC and union officials reached a 'Water Summit', protecting the needs of all these stakeholders. Also at this time, SAMWU submitted an alternative non-privatisation proposal for water services delivery. This alternative was dismissed by the NTLC as financially unsound, ie. it did not address the NTLC's financial shortage problem. Further negotiations continued but no progress was made in resolving the differences between SAMWU and the NTLC.

By mid-April 1998, the NTLC decided to lift the moratorium on negotiations after consulting with provincial leaders and assessing the likely damage that any further delays would cause. The NTLC then proceeded to negotiate with national-level COSATU (which is an affiliate of SAMWU), sending them the various draft proposals relating to the concession contract. Almost for a whole year, COSATU did not respond to any of these drafts.

Meanwhile, the national government bodies Department of Constitutional Development (DCD, now DPLG) and SALGA were holding talks with COSATU to discuss the elements of a conceptual framework within which PPPs at the local level could be structured. In December 1998, SALGA and COSATU signed a framework agreement (FA) for the restructuring of municipal service provision. The purpose of this framework was to "test restructuring initiatives, including PPPs, to determine whether they substantially comply with the provisions of the framework" (Kotze 1999: 635). At the same time, the DCD, SALGA and COSATU formed a sectoral forum to expand and clarify the framework agreement in the context of the actual ongoing PPP projects.

This forum requested and received the SAWCO concession contract draft and reviewed it in early 1999. After much perusal of the proposal, the forum concluded in April 1999 that the draft SAWCO concession contract was in full compliance with the FA. Soon thereafter, the contract was signed even though COSATU representatives were still not satisfied with the level of review that was done by the forum on the concession contract. By September 1999, COSATU and SAMWU were still questioning the consistency of the SAWCO contract with the FA and other existing laws[114]. The NTLC continuously responded with detailed written reports to these arising questions.

5.5.2. Workforce Employment Policies

5.5.2.1. Employment quantity

As demonstrated by the literature review with privatisation, the first issue which concerns workers the most is the issue of job security – whether they get to retain their jobs or loose them as part of 'restructuring'. As a precaution against job retrenchments, the NTLC required SAWCO in policy to retain all of its former staff. Starting from the bidding stage, the NTLC stipulated in its RFP (p. 31), that as a minimum requirement, it expected the successful bidder to:

- Offer to take into its employ those of the existing NTLC personnel who have chosen to be transferred to the successful bidder.
- Warrant that those employees taken over will not be retrenched as a result of the transaction

At this stage, the NTLC asked the bidder to propose means to achieve these minimal requirements. In addition, the bidder was requested to propose an overall employment policy and practice to support staff development and affirmative action (RFP: p. 60). In response to these requirements, at the contract stage, SAWCO undertook:

> 23.10.1. not to terminate a contract of employment of any transferring employee due to the conclusion of the contract (Contract, p.91).

In the same contract, SAWCO also undertook to comply with the other labour laws of the country. These include the Labour Relations Act 66 of 1995, the Basic Conditions of Employment Act 75 of 1997, the Occupational Health and Safety Act 85 of 1993, the Compensation for Occupational Injuries and Diseases Act 130 of 1993 and Employment Equity Act 55 of 1998 and in particular chapter 3 thereof.

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[114] In fact, even when the research for this study was done in December 2000, SAMWU was still disgruntled with this process. A local SAMWU leader interviewed explained that the local SAMWU branch still denounced any 'compromises' which might have been claimed between itself, the NTLC and SAWCO. He explained that the local branch had been altogether shut out of the negotiations leading to the concession agreement, and felt their input was not considered. Moreover, he admitted communication problems between the national and the local SAMWU offices. Nonetheless, he felt that even though the national SAMWU office participated in the discussions, it still only played a cursory role in that process.

5.5.2.2. Employment quality

5.5.2.2.1. Conditions of service

The second biggest concern to workers in cases of privatisation are the conditions of service. Workers are concerned that the new private company might sacrifice their wellbeing on the job in pursuit of profit. They are also concerned that their wages and other benefits could diminish and their voices suppressed through activities such as the banning of trade unions. They also fear that their safety at work could be compromised and work-hours extended without appropriate compensation.

With these concerns in mind, the NTLC safeguarded against such worker exploitation by forbidding the new concessionaire from offering to its workers conditions of service below its own standards. The RFP states that the bidder must "warrant that those employees taken over will be employed under the same, or better employment conditions and will enjoy at least the same benefits as when employed by the NTLC" (p. 31). With regards to the general conditions of service, the contract, states:

> 23.7. All the rights and obligations between the COUNCIL [NTLC] and each transferring employee will be transferred on the effective date to the CONCESSIONAIRE [SAWCO] as if they were rights and obligations between the CONCESSIONAIRE and each transferring employee before the effective date... (p. 89).

On the issue of annual bonuses, the contract protected the workers' entitlement to these. In fact, it required that the workers receive the same bonuses that they would have received under the NTLC. It states:

> 23.6. The cost of any annual supplementary payment (such as thirteenth cheques an bonuses) shall be deemed to have accrued to the transferring employees concerned over the entire year to which such payment relates and the cost thereof shall be shared between the parties pro rata to the time worked by the transferring employees for each party over that year. The NTLC shall pay its share of such costs to the CONCESSIONAIRE upon request from the CONCESSIONAIRE (p. 89).

Where it came to retirement funds, the contract agreed that the concessionaire would no longer have to participate in the Municipal Employees Gratuity Fund and the Municipal Employees Pension Fund, which the NTLC had previously offered to its employees. However, the concessionaire would be expected to establish an alternative retirement fund, "offering benefits [and contribution rates] which as a whole are at least equivalent to the benefits [and contribution rates] previously enjoyed by the transferring employees" (Contract, pp.97-98).

Not all of the NTLC's employees were entitled to receive medical aid[115]. This medical aid scheme was called the Municipal Medical Aid Scheme (Munimed). In the contract, the concessionaire warranted to continue to support those transferring employees who were entitled to receive benefits under this scheme as if they were being supported by the NTLC.

5.5.2.2.2. Workplace democracy policy

In most organisations, trade unions are the voice of the workers. They are a tool through which workers' concerns and views are brought forth to the management and resolved. An examination of their existence and the bargaining power they wield, as well as other similar communication tools, can help establish the level of democracy that exists within an organisation.

In the contract, SAWCO undertook to recognise and enter into negotiations with each of the trade unions (SAMWU and IMATU) as soon as possible. It also undertook:

> 23.14.3. to ensure the continuation of enjoyment of rights enjoyed by the Trade Unions against or in relation to the COUNCIL [NTLC] before the effective date in respect of the CONCESSIONAIRE in as far as it is practicable with reference to any bargaining COUNCIL or other collective bargaining arrangements in the trade or industry in which the CONCESSIONAIRE finds itself (p. 94).

5.5.2.2.3. Training and skills transfer

> 25.1. The CONCESSIONAIRE shall be obliged to develop and implement all the necessary training plans for all employees transferred and/or employed by it, at all levels and in sufficient quality and quantity to ensure that such employees are made aware of significant regulatory provisions that may impact upon their specific job tasks. (p. 99)

According to the Employee Development Plan (EDP), a staffing analysis would have to be undertaken during the first six months of the concession period and restructured for optimum coverage and efficiency where deemed necessary. A training centre, where on-the-job training would occur, would have to be established and operational within the first year of the concession period (EDP, p.419). Training was to be provided for those members of staff joining Waterco operations as deemed necessary. Individual staff appraisals would need to be undertaken on an annual basis. On p.414, the contract stipulated the guiding principles to be applied to all development and training programmes. These include both work-related objectives

[115] The criteria for this entitlement are unclear. They are not discussed in the contract and are thus outside the scope of this discussion.

and individual personal career enhancement. Proper planning based on Waterco's reviewed objectives and staff capabilities would also have to be done and clearly documented. Properly documented assessments related to such training are also required by the contract (p. 417).

Furthermore, the contract required Waterco to include in its training, at the very minimum, induction orientation training to all new employees. Such training would have to include both Waterco's culture, core values, job safety and human resource policies as well as induction training specific to individual employee training. Technical training was to include awareness education, waste-water operations, waste-water maintenance, water operations and water maintenance (p. 418). The contract also required that proper assessments be carried out at the end of each training module and that certificates be awarded to employees who successfully completed such modules (p. 417). Moreover, the contract required refresher courses to be routinely given by Waterco, particularly those concerning safety and permit to work systems (p. 419).

Related to the specific notion of skills transfer, the contract stipulates,

> 4.3. Experienced Waterco staff, introduced into the company to establish new systems and technology, will be actively involved in a programme of mentoring target groups to develop their technical and managerial skills. (p. 415)
>
> 8.1. The benefit of expertise gained by those senior discipline staff who have participated in the training programme will be called on from time to time in order that they may transfer the technology they have gained to operating and maintenance staff.
>
> 1.1.4. international experts will transfer skills and expertise to the employees through a mentorship process (p. 412)

The excerpts above suggest that the contract required that technical and managerial skills be transferred from the MNC, Waterco, to the local workforce. In Annexure D3 of the contract, the concessionaire was required to implement Affirmative Action policy as a way to bridge the opportunity gaps caused by the former apartheid regime, and also to ensure that expertise did get transferred from expatriate staff to the local staff (Annexure D3, p.412). The specific affirmative action goals were stated in paragraph 2.2 (p. 413)[116].

[116] These were 50% in senior management, 75% in supervisors, 75% in technicians, 80% in foreman, 80% in charge-hands and 80% in trainers all to be achieved within the first 5 years of operation. These figures are the percentages of employees from designated groups as defined in the Employment Equity Act.

5.5.2.3. Workforce Empowerment Practices

5.5.2.3.1. Employment quantity

SAWCO's human resource officer (HRO) was interviewed in order to establish the extent to which the employment quantity policies discussed had been implemented. She explained that SAWCO had successfully transferred all those employees formerly employed by the NTLC, with the exception of two - one worker voluntarily retired while the other one passed away. Also according to her, the size of SAWCO's workforce had in fact grown from 131 (its original size under the NTLC administration) to 182, due to the fact that SAWCO had had to adopt additional staff from DWAF.

This transfer of employees occurred at all levels of employment, ranging from management to technicians and labourers. As one Waterco official explained, when SAWCO re-employed these workers, they were first assessed and assigned to positions that were parallel to those they had previously held under the NTLC. However, under SAWCO, each of these positions was re-defined more clearly to carry more responsibility and was subsequently re-titled[117].

In interviews, the workers themselves confirmed that no workers had been retrenched as a result of the concession transaction. It may thus be concluded that indeed, SAWCO caused no job cuts in its first year of operation.

5.5.2.3.2. Employment quality

5.5.2.3.2.1. Conditions of Service

With regards to the current conditions of service of SAWCO workers, the HRO explained that as stipulated by the contract, the current SAWCO workers were under the same conditions of service as had been offered under the NTLC at the time of procurement[118]. According to her the wage scheme, pension and retirement fund as well as work-hours per day (7.30 am to 4 pm) were all adopted straight from the NTLC days.

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[117] For instance, the management-level position known as 'superintendent' under the NTLC came to be called 'unit manager' under SAWCO.

[118] A Waterco official interviewed in July 2001 reported that by then, the salaries of SAWCO workers had increased across the board due to the fact that these workers were then holding higher responsibility positions. By this argument, SAWCO was meeting more than the minimal contract requirements on this directive. He cited the lack of labour opposition at that time as indicative of the workers' level of contentment with the conditions of service they were receiving under SAWCO in comparison to those they had received under the NTLC. Unfortunately, this information could not be verified due to logistical problems.

Overall, the HRO was under the impression that SAWCO workers were more content with their working conditions and environment under SAWCO than they had been under the NTLC. Her information and impressions were refuted by a sample of workers interviewed. Even though the sample was relatively unrepresentative, as described in chapter 1 (only 11 out of 182 were interviewed), all the workers in the sample expressed discontent over their working conditions. Although they agreed that some of their conditions of service features (particularly the wages and work hours per day) had been the same under both the NTLC and SAWCO, they identified some current problems, which they had never experienced under the NTLC.

The first set of problems related to aspects of the workers' conditions of service, where SAWCO might have breached the contract. For instance, the workers had noted that the annual bonuses they received at the end of the year 2000, were much lower than they would have expected if they had remained under the NTLC. One worker even claimed that the number of leave days under SAWCO had been reduced and that housing subsidies, once available under the NTLC, were no longer available under SAWCO[119].

The second set of problems had to do with workers' lack of information concerning their remuneration entitlements. They raised, as an example, that it was unclear to them how Waterco's Provident Fund operated in relation to their wages. They therefore had no way to tell if they were being treated fairly in this regard or not. They also claimed that they were no longer able to use direct debit as a way to pay off recurrent bills such as home mortgages. The inaccessibility of this option was a worry for them for they had not been informed of the change and why the change was necessary.

The last set of concerns identified by the workers involved on-the-job conditions. The shortage of working equipment was one such concern. They explained that SAWCO, in comparison to the NTLC, took a much longer time in delivering such equipment where it was sought. The NTLC had provided them with uniforms twice a year, but SAWCO only supplied these once a year. They also expressed discontent over the level of staffing – they felt there was a shortage of staff to cover the newly expanded concession area, which then overworked the current

[119] The latter claims were however, later contradicted by the CMU.

workforce without extra compensation. Compromised workplace safety was another issue raised. For instance, they expressed that they did not have any shelters provided at their respective work sites, so that they had no refuge during bad weather.

When the last set of concerns were verified against SAWCO's progress reports, it appeared that SAWCO's management had had no awareness of any of the expressed concerns. Three conclusions may be inferred based on these findings. Firstly, if the workers were accurate in their claims, then SAWCO might have indeed breached some aspects of the contract pertaining to workers' conditions of service, even though the CMU disagreed with this view. However, if the workers were somehow misled in their interpretation of their working conditions, it could signal that their earlier claim about them being uninformed about their rights, entitlements and how SAWCO was undertaking to meet those was in fact true. Lastly, and equally as likely, the workers might have concealed their true opinions out of fear or a desire to influence the interviewer's opinion of them – a classic case of interview-related biases.

5.5.2.3.2.2.Workplace democracy

According to the RFP, under the NTLC administration prior to 1999, out of the 131 workers, 13 were affiliated with IMATU and 85 were affiliated with SAMWU (RFP, p.31). This meant that roughly 75 percent of the NTLC workforce belonged to a union (either of these two). The HRO explained that union activity was allowed in SAWCO and that collectively, about 50 percent of the current SAWCO workforce belonged to either of these unions, which signalled a drop of 25 percent from the pre-privatisation times. She also explained that in addition to using unions, individual workers could raise their concerns to the management through suggestion boxes. Furthermore, up until July 2000, workplace forums had been yet another conflict resolution tool. However, since then, these forums had been discontinued as unions proved to be more preferable to the workers despite the drop in union membership numbers.

The workers verified their level of freedom to unionise as essentially the same as under the NTLC, but refuted the claim that they preferred union activity as a conflict resolution mode. On the contrary, they felt their union representatives were rather ineffective at addressing their concerns with the management. As one worker put it, he felt there was a massive communication gap between the workforce and the

SAWCO management, "with or without union membership". Another worker, who was also a SAMWU representative explained that the process of addressing concerns through unions under SAWCO had become more laborious under SAWCO and that feedback simply took too long to get back to the workers. He attributed this noted communication stagnation to the unsuitability of Waterco's labour liason officer. Evidently, the liason officer had a character clash with the workers, which rendered him largely ineffective at his job.

Several other workers stated that while SAWCO had promised to meet with them once a month (for workplace forums), they had not done so for about six months[120]. When asked about the effectiveness of the suggestion boxes as a mode for addressing their concerns, they responded that they did not feel them effective at all and were in fact reluctant to use them.

The last but certainly not least set of problems raised by the workers related to the transition process from the NTLC to SAWCO. Some workers felt that they had not been given much of a choice whether to transfer to SAWCO or not. Related to this point, they contended that during the transfer period, they were promised a ten percent pay-raise pending February 2000. Much to their dismay, such a pay-raise never materialised[121].

5.5.2.3.2.3. Training and skills transfer practice

In order to establish the extent to which training programmes had been implemented, an interview was held with SAWCO's training officer (TO). According to this officer, by the time of the research, SAWCO was running behind schedule in terms of training due to the initial delays[122]. Nevertheless he was still satisfied with the pace at which progress was being made.

By that time, all workers, including those of Waterco, had already undergone induction and safety training. Some technical training had also already been given to

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[120] This point appears to coincide with the HRO's statement that workplace forums had been dismantled since July 2000. If these forums were no longer in use, it is no wonder that the workers did not see SAWCO meeting with them for that long. Nonetheless, this point only re-confirms the workers' perception of a communication gap between themselves and the management since if such gap had not existed, they would have known about the discontinuation of the workplace forums.

[121] No secondary evidence was found to support the latter claim.

[122] Apart from administrative delays, TO explained that for a while, they did not even know about the national training and quality assurance requirements. Consequently, they had to re-invent the wheel and then work backwards once they found out about them much later in the year. Even the appointment of the TO was not until March 2000, four months after the concession operations had begun.

relevant sectors of the workforce. This included a chlorine-handling course, a medium voltage switching course, a chemical wheat control course, the National Qualifications framework (a finance course for Waterco staff only), sub-contractor training and a correspondence course.

At the time of the interview, SAWCO's training office was in the middle of its first individual worker skills audit (see sample of audit questionnaire in Appendix 7), which was already running six months behind schedule. As prescribed by the contract, this audit was aimed at identifying individual workers' level of skills and personal career aspirations. This level would then determine how to best use each worker, and how to build upon each worker's skills, thereby avoiding redundancies. The same officer explained that the process of skills auditing was made difficult by workers' illiteracy (some cannot read or write) and fear[123]. Nonetheless, he was very optimistic about the importance and value of the skills audit.

When asked about the required annual training plan, TO explained that such a plan could only be established after the skills audit. Adult Basic Education and Training (ABET), a literacy programme designed to teach workers how to read and write, was in the pipeline pending March 2001. Other programmes such as a simulation productivity course called 6M would then follow[124].

Assuring the quality and effectiveness of the programmes being offered appeared to be problematic. As the TO conveyed, much could be improved upon regarding these[125]. At the time, as a minimum quality-assurance measure, all their training programmes followed nationally-set standards by Sectoral Education and Training Authority (SETA). However, no assessment, in the form of a test or an exam, was in place for many of the courses being offered. Furthermore, obstacles such as the medium of instruction lowered the effectiveness of the courses offered. For instance, training courses could have been more effective if taught in one of the local languages as opposed to English, which most of the workers were not

[123] Coming out of the apartheid era, a lot of SAWCO workers were still reluctant to reveal their honest opinions in fear of incrimination by authorities.
[124] By the end of July 2001, Waterco reported that all the community and employee training programmes were about 97 percent caught up. For instance, the skills audit had been completed and ABET was fully operational.
[125] All the assertions made by the TO regarding the quality and effectiveness of the training courses being offered were later confirmed by the workers themselves.

comfortable with[126]. The TO also felt that the level of the courses could also be simplified to make them more understandable to their generally poorly educated workforce.

In comparison to the training programmes offered under the NTLC, SAWCO appeared to be of a much better standing. One worker asserted that under the NTLC, all workers only received ABET. Operator training was only offered to drivers. In his view, SAWCO training programmes were much better in terms of quality and variety. He especially appreciated the fact that some of the programmes were certificated, even though he felt the programmes were not practical enough. In his opinion, certification was a good incentive for workers but the lack of practical training rendered the programmes ineffective. He also attributed the programmes' ineffectiveness to the lack of worker consultation in programme design, which led to the programmes not being on par with the workers' own aspirations and level of understanding.

Affirmative action was being implemented in favour of the previously disadvantaged population groups according to the HRO. These in general, are South African 'blacks' and all women. During the NTLC era, all senior positions were held by 'white' men. At the time of the interview in December 2000, SAWCO had already made moves towards filling several top positions with 'black' men. Two 'black' technical seniors had already been recruited and a few others earmarked.

When asked how they were going to fill senior positions with 'blacks' without displacing the 'whites' already holding the positions, the TO replied that there were two strategies being employed to address this issue. Firstly, the 'white' employees could be trained to move on to other jobs, leaving their positions vacant for a 'black' replacement. Secondly, he pointed out that a lot of the senior 'white' employees were almost of pensionable age, so that when they did retire, they would get replaced by potential and trained 'black' staff. Related to this point on affirmative action, he pointed out some difficulties. These included the fact that the hiring department was separate from the training department so that the two departments did not always agree on the choice of a candidate.

[126] Nonetheless, it would appear that by July 2001, the problem of language was being addressed. Waterco reported that some of the employee (and community) training programmes, eg. ABET, were being offered in both English and Siswati (one of the 'black' local languages).

Gender equality hardly featured in SAWCO, simply because the water sector is by nature a predominantly male sector. The HRO explained that formerly, the NTLC had employed no women. SAWCO was making every attempt to move away from this position. By the time of the interview, SAWCO had already employed five to six women, though all filled either secretarial or office cleaning positions[127].

On the issue of skills transfer from expatriate staff to local staff, it appeared that nothing was actively being done. No mentorship programmes were in place wherein Waterco staff as well as other international experts involved would transfer their skills to local staff as required by the contract. One Waterco manager explained this observation by stating that there are too few expatriates involved in Waterco and SAWCO (noticeably only two), and that their exchange of information was two-way[128] and informal. At the very most, SAWCO was making an effort to employ locally-based consultants and use locally-based companies for whatever short-term tasks they needed to have fulfilled.

**5.6. Conclusion**

More and more of South Africa's LGAs are turning to PPPs as an option for service delivery with which to meet the massive service backlogs and broader developmental needs facing them. As these become popular, it becomes useful to keep a close eye on the pioneering PPP arrangements to understand how they work and hopefully draw lessons from them for the future. The case study discussed in this chapter, attempts to do just that. It closely examines one concession operation involving one LGA viz. the NTLC, and a concession company, SAWCO. SAWCO is examined one year after it began operations in order to assess the extent to which it had empowered its workforce. The results of this examination are conveyed in this chapter.

SAWCO is predominantly owned by Waterco, a European water MNC of modest size on a global scale. Waterco's prime expertise lies in water and environmental engineering. It fits a typical MNC model with current operations in

[127] It may be interesting to note that Waterco, which has a totally separate workforce than SAWCO, appeared to be more progressive in implementing affirmative action. For instance, it had 27 employees with 10 men and 17 women. Of these, 12 were 'black' and 15 'white'. The senior management comprised of two expatriates and two local 'blacks'.

[128] The expatriates needed to learn about the South African culture from the local managers in exchange for the 'foreign expertise' which they shared informally. Replacing these expatriates with local staff was at that time, not even under consideration.

more than 22 countries. It won the position of operator in the NTLC concession to run, expand and upgrade NTLC assets in the concession area through a bidding process. In conjunction with its Dutch affiliate, it owns 90 percent of SAWCO.

When SAWCO operations were studied after its first year of operations, SAWCO had only begun upgrades in two out of the ten areas under its mandate. By then, the formerly 'white' areas had hardly needed any upgrading while some of the former 'black' peri-urban areas still had inadequate or non-existent levels of service. The two major challenges facing SAWCO at the time were non-payment and massive water losses induced by leaks. Its customers had trouble meeting their payment obligations for the services they had received and most of them resorted to 'tapping' as a way of obtaining water for free. It was the same 'tapping' practice, which was leading to the leaks causing water losses. Fortunately, by the time of this fieldwork, SAWCO was reporting a 55 percent reduction in these kinds of water losses.

The quality of the services provided by SAWCO at that time was questionable. Though the concession monitoring committee (CMU) was satisfied with it, the households interviewed were not. The seeming 'rampant' water disconnections, which SAWCO later explained as due to service upgrades, were a particular concern for these households. The fact that SAWCO's account could be true and yet the communities were in the dark about it, signalled problems in communication and perhaps accountability too between SAWCO and the serviced communities.

Overall, at the time of the fieldwork, SAWCO's operations were running a little behind schedule mainly due to the initial operational delays related to the concession contract's financial closure. Most of SAWCO's social responsibility programmes such as community programmes and workers' training, had also had a slow and belated start. Nonetheless, the CMU expressed confidence that SAWCO would have caught up by the end of its second year of operation – an opinion whose merit remains to be seen.

Jumping to the issue of workforce empowerment, the extent of labour participation in the concession project's design was first analysed. Here several observations were made. Tracing the chronology of events in the procurement process involving labour, it appears that ultimately, the concession contract was drafted without labour input. SAMWU had altogether retracted from the negotiations and its affiliate, COSATU, did not give its feedback on the contract drafts until after the contract had been signed.

Throughout the whole procurement process, and even at the time of this research, these labour unions openly opposed the process (mainly on ideological grounds). Nonetheless, they agreed that the NTLC workers to be transferred to SAWCO did not appear to be in any apparent danger as far as their conditions of service were concerned. Perhaps labour may have been justified in boycotting the procurement negotiations given the fact that they were asked to support and participate in a process which they had had no part in opting for. However, their lack of cooperation proved to stifle more than help their own prospects. Another way of putting their point across without banishing themselves out of the negotiations may have been more effective in advancing their goals.

Upon examination of the various workforce empowerment clauses within the concession contract and other related policy documents, it appears that at the very least, minimum policy precautions safeguarding workforce empowerment were in place. The contract stipulated against any retrenchments resulting from the concession transaction. Moreover, all of the NTLC's former workers were to be employed by SAWCO under the same or better conditions of service as those previously offered to the workers by the NTLC. The burden of training and skills-transfer was placed upon the MNC operator, Waterco, and affirmative action and training targets were firmly set and required of Waterco and SAWCO.

Examining workforce empowerment practice casts quite a different picture. As already mentioned, most programmes proved to be running a little behind schedule. Even though no workers had been retrenched (in fact the size of SAWCO's labour force had grown due to its absorption of DWAF workers), the labour force appeared to be strained. Assuming that the concerns raised by the workers were accurate, it could be deduced that the size of the labour force was not keeping pace with the expanded territorial responsibility, thereby implying that under SAWCO, the workers had an increased workload which was not being equally compensated for. This point relates to the following one.

Conflicting evidence was obtained with regards to the workers' conditions of service. While SAWCO's management, supported by the CMU claimed that their workers were enjoying the same level of remuneration benefits as before (as stipulated by the contract), the workers themselves told a different story. The workers had noted changes in some of their benefits (eg. annual fund) and workplace safety levels, which if accurate, could imply that SAWCO was not adhering to the contract prescriptions. Furthermore, as the workers themselves put it, they were uncertain about their entitlements and how SAWCO was expected to meet these.

Overall, there appeared to be a substantial communication gap between the workers and SAWCO management, which led to poor workplace democracy. Union membership had declined by 25 percent from the NTLC times for quite unclear reasons. Speculation could hint the blame at the increased employment numbers or the apparent ineffectiveness of the existing unions at addressing workers' concerns. This ineffectiveness was partly attributed to the strained personal relations between SAWCO's labour relations officer and the workers. An instance highlighting the communication gaps between SAWCO's management and the workers was when the workers expressed discontent at the management for not having showed up for workplace forums for six months, unaware that the workplace forum option had been discontinued. Furthermore, several times, SAWCO's management proved to hold different opinions of worker on-the-job wellbeing than the worker themselves expressed.

Though the training programmes offered by SAWCO proved to be better in quality and variety than those previously offered by the NTLC, the effectiveness of these programmes was questionable. Factors such as lack of worker consultation in the designing of these programmes, language, as well as inadequate practical learning tools all contributed towards the programmes being ineffective. Moreover, the workers' low level of education and skills made employee training even slower in addition to the initial programme delays.

It may also be interesting to point out that follow-up interviews conducted in July 2001 suggested that SAWCO operations were then running much smoother than they had in SAWCO's first year of operation. Though these claims could not be verified, community and employee training programmes were reported to be 97 percent caught up (offered in one of the local languages, thereby improving programme effectiveness), some employees promoted and wages increased across the board. If these claims are true, it may be concluded that SAWCO was then successfully recovering from its initial operational setbacks.

The outcomes laid out in this chapter shall be analysed in more depth in the following chapter. In addition, an attempt will be made to draw lessons from these outcomes and also establish if the SAWCO concession has the potential to meet the NTLC's labour needs.

# CHAPTER 6: WORKFORCE EMPOWERMENT LESSONS FROM THE SAWCO CONCESSION

## 6.1. Introduction

The previous chapter laid out the results of the case study by taking a close look at the structure and composition of SAWCO, its mandate, as well as its performance on the measures of workforce empowerment. SAWCO's performance on these measures was assessed in terms of policy and in practice. It is the results of this assessment that shall be synthesised in the current chapter. Toward this end, it will be seen what place the South African context (eg. policy, environment and institutions) played in determining the noted case study outcomes. This synthesis or data analysis shall be done through pattern-matching, which involves matching observed variables against theorised ones (Yin 1993: 69). Lessons will then be drawn from this analysis.

This chapter follows the same structure as its predecessor. The first part of the chapter analyses the extent to which labour was involved in the process of formulating and shaping the concession project (labour participation). The second part evaluates the SAWCO's workforce empowerment policies. The last part assesses SAWCO's labour practices, in order to determine the extent to which the company had adhered to the set labour goals expressed in the policies and laws binding it.

Towards the end of this chapter, SAWCO's experiences are compared to other similar ones worldwide. In this process, lessons are drawn for future policy prescriptions for both the company itself and the local government involved (the NTLC) on how to improve upon the privatisation venture in order to make it more labour-responsive. Though cautious about the case study's generalisation abilities, the case study experience will in addition, impart more general lessons which may be useful for other local government authorities in South Africa wishing to enhance their workforce when implementing PPPs (particularly concession agreements involving MNCs). Lessons are also drawn from this study in order to inform the wider South African national policy framework regarding FDI and the MNC debate. A brief contextual summary will now follow as a way to introduce case study analysis.

## 6.2. Brief contextual summary

At the core of this case study is the company, SAWCO. At the time of the research, it was operating in the north-eastern part of South Africa under a 30-year concession agreement with the local government authority, the NTLC. Its operator and main shareholder was Waterco, a European water MNC. It came to operate in this capacity in response to the NTLC's overwhelming challenge of trying to bridge the increasing water service backlogs in the area under its jurisdiction with its own diminishing financial prospects.

Signed in April 1999 and operational in November of the same year, the concession agreement expected SAWCO, as concessionaire, to assume overall responsibility for the water and sanitation services previously run by the NTLC. This means that it had to operate, maintain, manage as well as provide the capital investment necessary for expanding the services as stipulated in the contract. It operated under the supervision of the NTLC, which retained ownership of the capital assets run by SAWCO.

At the time of the research, SAWCO had only been in operation for one year and was still recovering from initial logistical delays. SAWCO had only upgraded about ten per cent of its mandated concession area and still had a massive task ahead of trying to provide high quality and affordable water and sanitation services to the rest of its concession area, which was plagued by poverty and a culture of non-payment.

## 6.3. An analysis of SAWCO's workforce empowerment performance

### 6.3.1. Labour participation

The literature review pointed out that labour dimensions in the water sector, though critical, are often ignored when public utilities are restructured. The literature also discussed how employment levels and working conditions in the water sector have much wider national impacts because other sectors depend on a smooth supply of water (and other essential services). Moreover, the lack of such critical services such as water not only has economic repercussions; it also causes political and social instability as nations, under these circumstances, tend to turn to rioting.

The literature review thus recommended that the water sector be properly staffed in terms of quality and quantity. It also suggested that effective dispute resolution techniques be devised in order to avoid labour breakdowns and the subsequent water service inadequacies. Most importantly, it recommended a system for avoiding potential labour breakdowns in the first place. This is labour participation[129] – involving labour in all decisions and processes pertaining to work. Labour participation not only ensures that workers' concerns are heeded; it also gives workers a sense of ownership or belonging to the institution at hand. It gives them an opportunity to help shape the institution. This fosters a good morale amongst workers, improves their feelings of self-worth and increases productivity. It also leads to greater chances of success in the company's operations and to the sustainability of such operations.

Based on these recommendations, the labour participation aspect of SAWCO will now be examined. In the first instance, it will be sought to understand what role organised labour (unions) played in helping to shape the NTLC concession agreement. Furthermore, as shall be shown in the upcoming 'workforce democracy' discussions, labour's continued participation in the running of the concession operation will also be analysed.

The previous chapter traced some of the major events along the concession procurement process involving the three main worker unions, SAMWU, COSATU and IMATU. Taking a closer look at the chronology of these events, it appears that the concession agreement never quite won labour's approval. Though the union representatives participated in some negotiations during parts of the procurement process, they never reached a point where they fully supported the concession idea.

Throughout the procurement process and even by December 2000 when this study was done, SAMWU was still not supportive of the NTLC's choice of privatisation as a viable option for service delivery. Even though they agreed that the concession

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[129] According to the literature review, the participation of labour is not the only force necessary for harmonious labour relations. Other forces such as the labour market framework, the business framework (industrial relations and their collective bargaining), business framework (including commercial laws and competition policy), business sector organisations (eg. Chambers of Commerce), systems of education and training institutions, internal and external pressures (eg. international laws and trade union movements) as well as the various stakeholder groups (eg. consumer groups, shareholders, environment and human rights NGOs, central and local governments) also need to be balanced in order to achieve this.

contract did not appear to put the individual workers' rights in jeopardy, they still opposed privatisation in principle. Moreover, they were not convinced of Waterco's credence as an effective service provider. Their own studies had indicated that other public sector options were possible and more preferable, and that Waterco's performance and reputation was questionable.

This lack of support from labour presented several problems for the concession process as well as for broader national development goals. Firstly, the concession negotiation process experienced considerable delays[130], which inevitably costed the negotiators in money and time. Secondly, in opposition to the concession, SAMWU and later its affiliate COSATU, refused to participate in the formulation of the contract. Such withdrawal meant that a genuine chance was missed to bring worker concerns and views to the negotiating table, even though, as it turns out, the final contract did not appear to jeopardise workers' rights.

Thirdly, this lack of worker support may have implications for individual workers' wellbeing at work and hence their productivity. As outlined in the previous chapter, the workers interviewed expressed low morale for they felt that they had not been given a choice whether to transfer to SAWCO or not, even though the Request For Proposals (RFP) document had stipulated that they had that choice. The union leaders themselves felt that their unions were defenseless against the national government, the NTLC and their pro-privatisation alliances. They had lost faith in their government's ability to fend for its people and felt that their say, as the voice of labour, was undermined in favour of multinational interests.

The evident lack of labour support can be attributed, at least in part, to a communication breakdown, which resulted from the fact that the unions had not been invited to participate in the two major decisions of the privatisation process - the decision to involve the private sector in service delivery in the first place, and the choice of Waterco as service-provider and operator of the concession. These two decisions were the pillars of the whole concession venture, and should have thus involved a much wider participation base than was the case.

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[130] For instance, as the previous chapter explained, the NTLC suspended negotiations due to labour pressure for about five months (between November 1997 and April 1997).

With regards to the former decision, labour was invited too late into the process, which made the fundamental philosophical differences between labour and the NTLC more difficult to resolve. These differences could have been resolved much easier at the conception stage of the project[131]. In fact, such a move could have even led to a different choice of service delivery method[132], one which, perhaps, both parties supported or at least one which neither of them were averse to. Therefore, labour's later opposition to the concession process and to the privatisation ideology could have been avoided.

Similar arguments hold for the latter decision. If labour had at least been allowed to participate in the choice of a private bidder, their later opposition to the concession company and particularly to Waterco, could have been avoided. Their proposed alternatives would have at least received a fair consideration. Though uncertain of the outcome that such participatory negotiations could have yielded, one may still argue that participation could have been a way of mitigating the fierceness of labour's later opposition to the concession. These views are supported by de Luca (1998):

> The dialogue with trade unions and other stakeholders should start at the very first stage of privatisation and restructuring processes. Their input should be sought to analyse the situation, identify the problems, and explore the costs and benefits of the various options available. The earlier stakeholders come into the picture, the wider the array of possibilities concerning options and paths to implement them, the smoother the process, and the stronger the solutions.

From labour's side, opting out of the negotiations altogether proved to be a poor strategy, which only resulted in labour voices being completely left out of the contract drafting process. Perhaps labour, in reaction to the privatisation developments, could have found a more effective way to get its point across without totally alienating itself from the contract drafting process. Nevertheless, given the depth of the differences

[131] Put differently, it would appear that the process began on a poor footing. If ideological differences had been resolved before the process began, they would have not stifled the process later, thereby costing money and time. Even if resolving these differences in the beginning might have been just as difficult, both parties would be starting on a more neutral footing where they had nothing to loose. Done much later, the NTLC had already gone through the pains of selecting a private bidder and was thus less likely to back down, even if the unions might have had a sound alternative.

[132] By working together with the unions, the NTLC could have also made better use of the studies undertaken by the unions concerning the various other service delivery options (apart from the one which it did consider and dismiss as financially unviable), thereby saving itself the consultancy costs incurred in doing parallel work.

between labour and the NTLC, as well as the shape of events, it may be understandable why labour unions chose defiance as their strategy[133].

It follows from the arguments made above that perhaps one way of preventing the noted labour breakdown could have been by involving labour in decision-making from the initial conception stages of the process. In order to sustain labour support, such involvement would also need to continue throughout all stages of the concession process. Overall these developments appear to validate the observation made by SANGOCO (2000) regarding the relationship between the current government and the mass movement (unions included) in South Africa.

The observation was that the mass movement in South Africa was being weakened by the two-faced nature of the current government. That is, though the predominant party in the current government had been traditionally leftist aligning itself with the mass movement throughout the apartheid era, now, as government, the party appeared to have traded allegiances by supporting a rightist socio-economic framework. This may be evident in the light of the apparent adamant behaviour of the NTLC in securing the privatisation venture, despite the lack of labour support. This adamance could even be interpreted as pre-meditated support for the privatisation process, with or without civil society support. If that is the case, serious questions may be raised about the government's genuine willingness to protect its citizens' interests vis-à-vis MNC interests.

[133] It may be interesting to note however, that in a follow-up interview conducted in July 2001, a Waterco official recalled the opposition that labour had launched against the concession's procurement process. He argued that SAWCO had proved labour wrong by not worsening and in fact, improving workers' conditions of service beyond minimum contract requirements. This would suggest that labour's defiance strategy might have been somewhat effective since its reverberations were still felt amongst SAWCO's management circles two years after the opposition was launched. It could even be argued based on these interview findings that these reverberations may have kept SAWCO management cautious over employment quality issues, thereby discouraging them from any inclinations to lower employment quantity and quality standards at least in the short-term.

6.3.2. Labour Policy

As seen in chapters two and three, different countries' labour policies pertaining to multinationals and FDI vary. They vary depending on factors such as each individual country's level of development, the nature of education and training systems, trade and industrial strategies and the role the country assigns to foreign investment related to employment. The literature also pointed out that despite these factors, all countries need a combination of good industrial relations, well conceived government policy and competitive markets in order to take full advantage of MNC activity. Furthermore, the literature suggested that industrial relations depend more on socio-cultural factors than economic ones. Such socio-cultural factors include the types of institutions, labour-related laws and standards and collective bargaining rights as well as labour management. In short, where industrial relations are unstable, tense or frail, both foreign investment and employment are likely to experience enormous problems. With that admonition in mind, an examination of SAWCO's labour policy may be made.

6.3.2.1. SAWCO's employment creation policies

The literature suggested numerous strategies that governments could employ in order to create employment using MNC activity. They could, for instance, attract FDI into labour-intensive industries or to less advantaged groups where employment is mostly sought. They could also offer to the MNC incentives such as tax deductions tied to the amount of employment created and industrial parks. The effectiveness of each of these strategies depends on the context to which they are applied.

In the case of SAWCO, the concession area consisted predominantly of poorer households. There, as in the majority of the country, job losses would be unwelcomed, both from a political point of view and for overall national development. With unemployment already high and labour absorptive capacity low, the concession area could simply not afford any more job losses. Job losses in this context are particularly dangerous as shown by wider experiences since they may incite political instability.

Aware of these possible repercussions from the concession arrangement, the NTLC decided to take precautions against job losses. The NTLC safeguarded the jobs of those it had previously employed through policy. As discussed in the previous chapter, the contract it signed with SAWCO required that SAWCO as concessionaire, take on-board all of its employees. This strategy proved to have been quite effective in combating any potential short-term job retrenchments resulting from the concession transaction. Nevertheless, it is important to keep in mind that as demonstrated by wider experiences, sometimes short-term observations may be misleading since job-losses may occur in the long-term when companies decide to improve cost efficiency[134].

Therefore one could argue that the contract could have been more progressive, at the very least, by taking steps to safeguard long-term employment. Employment growth targets could have been set in order to encourage employment growth in the future. This task may prove to be difficult especially given the government's care not to drive out private bidders. Also, making futuristic decisions of this manner is not easy given the difficulty in arriving at estimates based on the unknown.

6.3.2.2. SAWCO's employment quality policies

6.3.2.2.1. Conditions of service

Employees' conditions of service are very important for their productivity as well as their overall wellbeing. Wages and other remuneration benefits need to be competitive and satisfactory to them and their safety made a priority. In fact, the literature review pointed out that MNCs can be notorious for neglecting this aspect of their operations. Opponents of MNCs often accuse MNCs of 'exploiting cheap labour' implying that MNCs overwork their workers, often in unsafe conditions and underpaying them in the process.

In an attempt to curb such practices by SAWCO, the NTLC required that SAWCO employ all of its former employees under the same or better conditions of service, "as at the effective date" [135]. Though this policy could be heralded as positive in

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[134] This point may be especially relevant to the SAWCO concession since as discussed in the previous chapter, Waterco itself, had described that the company is willing to loose in the short-term, and that its profit prospects lie in the future. Nonetheless, the follow-up interviews of July 2001 suggested that by then, labour's initial opposition to the privatisation procurement process was still being felt amongst SAWCO's management ranks and SAWCO's labour performance was showing no signs of deterioration. In fact, claims were made by Waterco to the contrary suggesting that overall, SAWCO workers' conditions of service had improved from the initial interview period in December 2000.

[135] The effective date is defined as "10h00 of the first day of the third calendar month following the month in which this contract is signed by the party signing last in time" (Contract: p. 11). This means 10am of the first day, three months after the last party signed the contract.

safeguarding minimal standards for conditions of work, it could be criticised for being vague in terms of temporal prescriptions. It does not state explicitly for how long the concessionaire is supposed to observe this directive (for the transition period or for the whole concession period?). Since this directive could easily be interpreted as short-term, it could allow SAWCO to deviate from it in the future, beyond the transition period. Furthermore, with this sort of policy prescription, wage rates did not take into account inflation implications, so that in the long-run the value of the workers' wages would significantly diminish if SAWCO continued to pay them the same level of wages.

#### 6.3.2.2.2. Workplace democracy

As already mentioned above, the literature stresses the importance of establishing effective conflict resolution techniques in order to prevent labour breakdowns. Furthermore, where employees have effective avenues through which to express their concerns, discontent is mitigated before it arises.

In the case of the SAWCO concession, the NTLC required SAWCO to guarantee to its workers the same level of freedom of association and enjoyment of collective bargaining rights as that it had offered. Nonetheless, once again, the NTLC did not directly specify the duration of this requirement. As already discussed for the service conditions policy, this directive could easily be misleading, allowing SAWCO to deviate from it some time in the future. Once again, this policy directive could be heralded as mitigatory but its lack of clarity on time frames could render it as ineffective, especially in the longer term. Furthermore, it does not actively encourage the concessionaire to strive to improve on these prescriptions. Perhaps clear time-frames as well as incentives encouraging SAWCO to improve its workplace democracy practices could have made the contract more assertive in safeguarding worker interests.

#### 6.3.2.2.3. Training and skills transfer

From the literature review, it was established that the water sector requires low labour but high capital and knowledge. Also according to the literature, the education base of the workforce is the most powerful factor in attracting foreign investment into skill-intensive industries such as water. It thus follows that in order to attract FDI into the water sector, one of the host government's best strategies would be to raise its own workers' education base.

In other instances, the host government could use the foreign investor (MNC) in reverse[136]. It could offer them incentives to invest in local worker education and skills upgrading, which would be profitable for the host country's overall development. These could include grant levies or tax breaks. The government could also initiate PPPs to complement the training offered by the private entity. As a more futuristic strategy, the government could undertake skills audits in public firms prior to restructuring to ascertain training needs, which would then be registered as a skills-enhancement requirement for prospective investors. It should also be noted as a separate point that the foreign MNC would also find it beneficial to improve its own workers' education and skills base for the sake of its own productivity and development.

As established in chapter five, most of SAWCO's workers have a low level of education. Given the high-skill requirement of the water industry, improving these workers' education- and skills-base is very much in SAWCO's interest for the sake of productivity. The NTLC, on the other hand, had also hoped to use SAWCO to help raise the education and skills level of the local workforce and the serviced communities at large[137].

The NTLC approached this goal by requiring SAWCO to implement specific training programmes within set time-frames. The starting point for these training programmes was to be staff assessments, which would identify workers' potential, as well as areas needing to be restructured. The NTLC placed most of the training burden in the hands of SAWCO's MNC operator, Waterco, in order to ensure that skills would get transferred from this MNC to the local workforce. The contract specifically required that Waterco experts and other international experts actively mentor local target groups as a way to transfer their skills to them. In addition, the NTLC aimed to use SAWCO to reverse some of the income inequalities inherited from the apartheid era. To this end, it

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[136] In fact, as seen in the literature review chapter, proponents of MNC activity and MNCs themselves use the notion of skills transfer from the MNC to the local workforce as one of the reasons why MNCs are a positive development force in host Third World economies. It thus makes sense for host governments to expect or even require MNCs operating in their countries to transfer skills to the local economies.
[137] The NTLC also required that SAWCO perform some level of 'social responsibility'. This responsibility included the establishment of community education and training projects.

set affirmative action goals to which SAWCO was to adhere to in its hiring practices, which would foster more equitable distribution of income and opportunities in the wider South African communities.

Overall, these training and affirmative action targets might have been quite ambitious in terms of the range of programmes and other related activities expected from the concessionaire and its operator. Nonetheless, given the NTLC's weak financial capacity, it would appear that shifting the training burden to the MNC was a wise and practical strategy in the context of the concession. The other strategies suggested by the literature review would have involved the NTLC spending its own already scarce resources.

One of the shortfalls of the NTLC's training and skills upgrading strategy was that it failed to include in its policy quality assurance measures for the training programmes it required. In the contract, it only required that training plans, progress reports and post-training assessments be done and documented, but it suggested no particular standards to be adhered to in this process. This omission runs the danger of having SAWCO provide the training programmes as required, but at a quality level that may be unsatisfactory.

In the following section, the discussion shall move on to assess how closely SAWCO had come to adhering to the policy prescriptions stated above.

#### 6.3.3. Labour practice

##### 6.3.3.1. SAWCO's employment quantity performance

This is one aspect of SAWCO's performance where it appears to have succeeded greatly, at least in the short-term. No job cuts before or during the first year of SAWCO's operation occurred as required by the contract. Nevertheless, as already admonished under the policy section, it may be too soon to tell, especially granted that the policy did not make any long-term stipulation safeguarding job security.

However, even though no short-term job losses occurred, it appeared that the size of the labour force was not keeping pace with the new area expansion demands. SAWCO only fulfilled minimum requirements in terms of employment numbers (by not cutting any), but did not take into account the fact that its area of service had grown from the NTLC period. Consequently, as the next section will demonstrate, the quality of employment of SAWCO's workers declined as the workers had to do more work for the same level of pay.

6.3.3.2. SAWCO's employment quality performance

6.3.3.2.1. Conditions of service

As already established, in policy, SAWCO workers were under the same conditions of service as they had previously been under the NTLC. However, in practice, several operational problems had arisen under SAWCO at the time of the research, which the workers had not experienced before under the NTLC. These included lowered benefits[138], lack of information concerning benefits[139] as well as on-site job conditions[140].

Analysing the problem raised with lowered benefits is precarious given the mismatch between the workers' information and that of SAWCO's management. Two conclusions may be drawn from this. Either that SAWCO has failed to honour some aspects of the contract if the workers' claims are accurate (note, the CMU supported SAWCO's side) or that the workers' claims were inaccurate. The latter could reflect the lack of information available to the workers (as they themselves noted), which indicates that better communication is necessary between SAWCO management and the workers. The latter outcome could also be a mere result of interview-related biases where the workers deliberately concealed the truth in order to influence the interviewer's opinion. The former would call more for better monitoring strategies by the NTLC to ensure that the contract is implemented.

The on-site working condition problems were also difficult to verify for the same reasons as the aforementioned problems. Nonetheless, if these problems are accurate,

[138] It may be recalled here that some workers had claimed that their annual bonuses were lower under SAWCO than had been offered by the NTLC and that their number of leave days per annum had also been reduced.

[139] This generally had to do with the lack of clarity on the various benefits derived from the workers' salaries, eg. what proportion of their salaries went to the Provident Fund and what proportion was contributed by the employer (SAWCO).

[140] These included understaffing and shortages of work equipment. The workers had also felt that they did not have any effective means to get their concerns across to the management.

they could have resulted from shear structural inefficiencies, possibly arising from the initial technical delays[141].

6.3.3.2.2. Workplace democracy

One of the interesting features identified regarding workplace democracy within SAWCO was that at the time of the research, union membership under SAWCO had dropped by 25 percent from what it had been under the NTLC. It is unclear what caused this drop. Perhaps this could be attributed to the 40 percent workforce size increase[142] evidenced by SAWCO, or else, put down to apparent union ineffectiveness discussed below. Interestingly, Lamont (2001) notes that union membership is dropping nationally. This could validate SANGOCO's argument that South Africa's union movement is weakening.

Overall, the examination of SAWCO's workplace democracy practices signalled the need for more effective communication channels between the workers and SAWCO's management[143]. Though the workers had the same rights as before, to join and express their concerns through a union, they felt that this avenue was no longer working as well as it used to under the NTLC. One worker blamed the ineffectiveness of unions on SAWCO's liason officer, whom, according to this worker, was simply an unsuitable character for the job.

One feature worth mentioning, which distinguishes SAWCO from most other concession companies worldwide, is that it does not offer employee-share ownership. As established in chapter three, in cases such as the Buenos Aires concession of 1993, employee-share ownership was implemented as a means to get workers more actively interested and involved in the running of the concession company. Perhaps this

[141] Given that at the time of the research SAWCO had only been operating for about a year, it is not inconceivable that it could still have been recovering from the initial operational delays, resulting in the noted poor delivery performance. In fact, follow-up interviews conducted in July 2001 suggest that seven months into its second year of operation, SAWCO's activities were running much smoother than they had in its first year.

[142] SAWCO absorbed 50 more workers from DWAF. Perhaps most of these workers were non-union members.

[143] An instance demonstrating this point is when the workers did not know that workplace forums were no longer in use and had been expecting a SAWCO officer to come hold one with them for about six months. Also, overall, the management's impressions of the workers' conditions were not on par with worker views.

instrument could be considered in the context of the SAWCO concession in order to boost worker participation.

6.3.3.2.3. Training and skills transfer programmes

At the time of this research, the training sector of SAWCO was running behind schedule. Hampered by problems such as worker illiteracy, individual staff appraisals were being carried out even though that process was already about six months behind schedule. Since the rest of the training programmes to be implemented depended on the outcome of these appraisals, most of the other required training programmes were also running behind their targeted schedules. These delays were due to the initial logistical challenges, which included hiring appropriate training staff and communication gaps between SAWCO and the necessary national education bodies.

Overall, programme ineffectiveness in reaching the set productivity and personal enhancement goals was another problem identified in the previous chapter. Apart from not meeting the individual workers' personal aspirations, some workers had expressed that they did not feel that they had absorbed much from the training programmes even though they received certificates for having undertaken the training[144]. These problems could be attributed to the lack of worker consultation. Consultations with the workers in designing the training programmes could have alleviated these problems by accommodating the workers' aspirations, as well as making them suitable for the workers' level of understanding.

The lack of quality assurance tools was also another impediment identified under SAWCO's training performance. With these absent in policy, it could hardly be surprising that they did not exist in practice. This lack meant that there was no way to appraise the quality of the programmes being offered either for SAWCO's own benefits or for the NTLC's.

[144]The specific problems identified in this regard, had to do with the use of English as the language of instruction, which most of the workers were not comfortable with. Moreover, the workers felt that the programmes needed to be simplified to their level of understanding and more practical training offered to accompany the taught theory.

Apparently, no skill transfer mentorship programmes were in place at the time of the research. SAWCO's management was made up of only two expatriates (officials from Waterco) out of a total of six (four were local). The two local Waterco officials had undergone some initial induction training into Waterco's values and strategies, but no further training or mentoring of these two individuals was in sight in the foreseeable future. As one of these officials had explained, there were too few expatriates involved in this venture and no formal mentoring had been necessary. If anything, their exchange was an informal two-way process, where the locals were also coaching the expatriates on the appropriate way of doing things locally. Under these particular circumstances, Waterco's bridging of this policy directive does not appear to have major consequences for the local workforce since there appears to be few prospects for this form of mentoring practice. Nevertheless, this policy directive must be fully implemented should the opportunity allowing it arise.

Some success could be noted from SAWCO's training performance. At the time of the research, some training programmes such as induction and safety, as well as first aid for all workers (including those of Waterco), had been met. Also, the certification of training programmes proved to be an effective incentive for workers to learn. Affirmative action was being applied even though it had fallen short of the targets set in the contract. Overall, SAWCO proved to offer much better training programmes, at least in terms of quantity, than the NTLC had.

It may also be interesting to note that by July 2001, SAWCO appeared to be faring much better than it had in its first year of operation. Most of the employee (and community) training programmes were reported to be almost back on targeted schedule, the workers' wages increased across the board and some workers even promoted. The language problem was also being addressed as the training programmes were then being offered in both English and one of the local languages in order to increase programme effectiveness.

These observations, if accurate, could partly be attributable to the strength of the labour movement in South Africa. Though the unions proved to be much less effective within SAWCO during its first year of operation, the initial opposition by these unions to the concession procurement certainly had a lasting effect on Waterco and SAWCO management. When follow-up interviews were conducted in July 2001, it was evident that this opposition still resonated within Waterco and SAWCO's management circles. This kind of resonance, accompanied by Waterco's drive to preserve its reputation (and perhaps its profit motive too), may have encouraged Waterco and subsequently SAWCO, to strive towards improving workers' conditions of service as noted. These observations could signal even better labour performance outcomes as SAWCO moves towards its medium-term, though such a conclusion may be a little premature given the limited scope of the follow-up exercise.

### 6.4. Concluding discussions

The debate over the impact of MNCs on host developing countries is likely to continue to command wide attention in development rounds as FDI increasingly becomes the main mode of conducting North-South economic relations in the twenty-first century. In fact, the fierce anti-globalisation movements evidenced in the late twentieth century and today, suggest that the debate over MNCs may even occupy centre-stage in development dialogues of the early twenty-first century.

The international community has been somewhat progressive in encouraging MNCs to promote social development in host developing countries. Even though there are international labour conventions such as Directive 94/45 adopted by the Council of Ministers in 1994, which promote consultation and collective bargaining in thousands of MNCs, it is still really up to individual host governments to enforce them (Gernigon *et al.* 2000: 53). The task of enforcing such conventions, or using any other means to ensure that MNCs contribute towards a host country's social development without crowding out FDI, is not easy since no universal blueprint exists for carrying out such tasks.

This thesis has examined possible ways in which tasks of this nature may be undertaken, specifically related to the empowerment of a host country's workforce. It did not attempt to create a universal blueprint for fostering workforce empowerment through FDI, but focused on one enterprise, SAWCO (operated and 90 percent owned by a water MNC, Waterco), in order to examine how workforce empowerment was advanced in this enterprise's particular context.

The current chapter has attempted to analyse the findings made on SAWCO's workforce empowerment performance. The central question asked in this analysis was; to what extent had the emergence of Waterco (hence SAWCO) led to greater or lesser workforce empowerment by the end of SAWCO's first year of operation? Labour participation, employment quantity and employment quality were used as measures of workforce empowerment. In answering the central question, the chapter also demonstrated the interplay between South African policies, environment and institutions which helped shape the noted performance outcomes.

In the remainder of this chapter, the results of this case study analysis will be highlighted by comparing them to other similar experiences worldwide. The lessons drawn from these experiences will help to establish a series of good practices, which could be useful for policy-makers worldwide wishing to empower their workforce as they pursue PPP strategies. This section will be arranged according to the three measures of workforce empowerment. In the last part of the chapter, the SAWCO concession experience will be returned back to the wider South African national context, as well extrapolated to inform the MNC/FDI debate.

Before commencing with this task, it is important to reiterate that each case of utility reform is different given its own unique set of circumstances. However, some development principles are valid across countries. These include the need for a strong and dedicated government team supported by experienced advisers, transparency, accountability and broad consultation (Dumol 2000: vii).

Also, in many ways, South Africa's experience with the SAWCO concession resembles other transnational experiences involving concessions and PPPs in general. For instance, the factors which necessitated SAWCO's emergence were by no means unique. South Africa's water and sewerage system suffered from the same problems seen in Asia and Latin America; that is, inadequate infrastructure, huge water losses, little or no sewage treatment, and millions of residents unconnected to piped water and sewerage networks. Furthermore, as happened in most of the developing world, it was the process of decentralisation, which led the local government (NTLC) to find itself unable to meet the human resource and financial demands needed to fulfil its service delivery.

In the following sections, it shall be seen how the South African context distinguished SAWCO from other concession cases around the world in terms of labour performance. These transnational concession experiences will be drawn from chapter three of this thesis.

6.4.1. SAWCO's labour performance: cross-country comparison

6.4.1.1. Labour participation

Privatisation plans seem more often than not to become embroiled in political controversy. It was seen how in places such as Malaysia, India, the Philippines, and Indonesia, this was due mainly to the heavy-handed tactics employed by the government. This aspect was different in South Africa, in the case of the SAWCO concession. There, the militant South African union movement, which the government had no control over, was more responsible for the political controversy surrounding the procurement process (Orwin 1999). This signifies the importance of labour support in South Africa's development ventures, as highlighted in chapter four[145].

Nonetheless, similar to the Manila concession (Dumol 2000), the government's full support for privatisation overrode their desire for labour support in the case of the SAWCO concession. Even though in SAWCO's case, the workers to be transferred turned out not to be in much short-term jeopardy, the lack of labour support for this privatisation venture is still disturbing. This is so because wider literature in chapters two and three, demonstrated that the lack of labour support often threatens a venture's productivity, sustainability and national political stability as illustrated by the Bolivia concession (Shultz 2000).

Dumol (2000: 117) correctly warns that sometimes, it may not be possible to involve everyone in all stages of the privatisation process. Based on the Manila concession, Dumol especially advises against involving all stakeholders in the approval process, in fear that divergent stakeholder views may stifle progress. Without diminishing the value of Dumol's assertions, one may then have to ask; is labour a wise stakeholder to

[145] In this chapter, it was demonstrated how South Africa's labour movement is of prime concern to investors.

leave out of negotiations at stages where it is not possible to consult with all stakeholders?

An answer to this question must vary from context to context, so that in cases such as South Africa, where the labour movement is very strong, (as compared to other developing countries such as Colombia (Cardenas and Juarez (1994)), excluding labour may be a very poor choice. It may be argued that in the South African case, the amount of power (though notably diminishing) wielded by labour, and hence the amount of potential damage that labour discontent could cause, warrants the need for labour support at all stages of the privatisation process.

In fact it was argued earlier in the chapter that involving labour at the conception stages of the concession process might have mitigated labour opposition in the first place. It was indeed also established that in cases such as Malaysia and Mexico, where labour consultation was wide, and the government was committed to protecting job stability and labour support, a much smoother privatisation transition was evidenced (Petrazzini 1996: 347). Furthermore, SECTOR studies demonstrated that hostility towards reform by labour was usually driven by fear of losing important benefits (de Luca 1998). By these arguments, leaving labour out of critical decisions could hardly solve the problem of labour hostility towards privatisation.

The picture of SAWCO's labour participation practice as outlined above raises questions concerning the balance of power between the government, civil society (represented by labour) and the private sector. The government, as friend and foe to both civil society and the private sector is caught in a precarious position where it needs to appease both civil society and the private sector, and sometimes, one at the expense of the other. Where the government leans too heavily towards the private sector, it may sacrifice its citizens' wellbeing in favour of MNC interests.

In the instance of SAWCO, where the government was willing to proceed with the concession despite labour opposition, the government may be read by some, as more of a friend to the MNC community than to its own society. If that is the case, then serious concerns could be raised about the type of leverage that the South African government has over MNCs in its role as social protector. As seen with some Latin American countries, when government leverage is weak, and subsequently, national level protection inadequate, basic worker rights could be eroded and workers could miss out on the benefits of FDI and economic growth (Weeks 1999: 163).

Perhaps South Africa could learn from instances such as the Buenos Aires concession, which the World Bank has heralded as a model for labour cooperation during privatisation. In this concession case, labour unions were offered stakes in the concession company as a way to promote their cooperation. Indeed, very little political obstruction was experienced in the privatisation procurement process, even though scholars such as Loftus and McDonald (2000) regarded this move as a form of 'bribery' for labour.

Learning from the Buenos Aires concession, South Africa would need to guard against weakening its labour union movement through any practices it may adopt to promote labour cooperation before, during and after the privatisation procurement process. Moreover, as admonished by the Manila concession (Dumol 2000), labour consultation needs 'genuine' (as opposed to 'mock') if labour support is to be gained. As a more general point, as governments seek to privatize water utilities in the future, they should be well aware of the politics that go along with it (Orwin 1999). They must also remember that the acceptability, credibility and support (or at least non-opposition) for privatisation and restructuring undertakings, hence their success, hinges on transparency, avoiding ambiguity, communication and negotiation among all stakeholders (de Luca 1998).

6.4.2.2. Employment quantity

It is common practice for privatisation ventures to involve job-cuts either before or during privatisation, as the private company strives for cost-efficiency. This is especially the case when the public utility to be privatised proves to be overstaffed. However, if the company's expansion capacity appears to be high (ie. if there is low service coverage in the concession area), these job-losses may be compensated for by long-term employment creation.

SAWCO's experience with regards to employment quantity differs from those in Manila and Buenos Aires, where massive job-cuts were conducted in the short-term mainly through voluntary early retirement schemes prior to privatisation. SAWCO had, up until the end of its first year of operation, managed to avoid job-cuts altogether.

This outcome may be attributed mostly to firm government policy and the strong labour movement. Indeed, South Africa could be heralded as exemplary for this outcome. The NTLC had firmly stipulated in the SAWCO concession contract that no job-losses were to occur as a result of the concession transaction. Furthermore, even though labour effectively did not participate in the drafting of the concession contract, it may be expected that its initial fierce opposition against the concession venture managed to bring forth the plight of workers perhaps by 'intimidation'. This means that although labour clearly lost its battle against privatisation (it effectively could not stop the concession proceedings), it still managed to influence labour outcomes, even if indirectly[146]. Similarly, it may be argued that the initial opposition by labour had left Waterco needing to protect its reputation and was thus not inclined to act in a contrary manner by cutting jobs in the short-term.

However, these short-term outcomes may be misleading, especially in the light that the contract made no provision for long-term job security for the workers concerned. Overall, the contract appeared to adopt a minimalist strategy, requiring of the concessionaire only what appeared to be necessary in the short-term. Perhaps the South African government (NTLC) had needed some amount of political 'protection', given its need and drive to attract and retain foreign investors (MNCs). Nevertheless, such protection could potentially backfire as the same MNCs may also adopt a minimalist approach in meeting its requirements, thereby sticking only to the minimal requirements in the short-term and violating the requirements in the long-run. In fact, SAWCO appeared to be utilising this strategy in some respects. For instance, it retained all former NTLC workers as required by the contract, but did not cater for the increased labour demands created by the new area expansions.

Despite these concerns, the DBSA (2000) have argued that PPPs have the potential to create jobs in South Africa, given the massive infrastructure expansion needed to address historical service backlogs. Nonetheless, it is my contention that such

[146] Coincidentally, follow-up interviews held in July 2001 with Waterco supported this argument. As proclaimed by Waterco, Waterco and SAWCO were out to contravene union expectations and allegations raised during the opposition phase by improving workers' conditions of service. If that is the case, then labour unions may be said to have had an indirect impact on SAWCO's labour performance, or 'intimidated' Waterco, despite the fact that they did not have a direct impact as explained under the labour participation section above.

success depends among other things, on how effective the government is at integrating labour voices into these PPP processes. As already mentioned, without labour support in the instance of SAWCO, area expansions may not even be possible[147] and thus no employment creation would result. In the event of employment creation related to service expansion, care would need to be taken to ensure the quality of such employment as learned from the Buenos Aires concession (Loftus and McDonald 2000).

6.4.3.3. Employment quality

The impact of water privatisation on the quality of jobs varies worldwide. Wider literature suggested that the most important prerequisites for safeguarding short-term and long-term employment quality are healthy industrial relations and a highly educated and skilled workforce. In the context of PPPs, effective monitoring tools could be added to this list of requirements.

In policy, SAWCO's employment quality had not changed from what it had been under the NTLC. However, analysing practice gave a more complicated picture, with some workers claiming a reduction in benefits and working conditions. SAWCO appeared to be deficient in the three prerequisite areas for employment quality stated above.

Poor industrial relations were signalled by the apparent communication gap between SAWCO's management and the workers, and perhaps even, the drop in union membership. The workers' low-level of literacy was evidently delaying the implementation of some training programmes. Monitoring came under questioning when the monitoring committee (CMU) appeared to be out of touch with the workers' real feelings and concerns about the workplace. Indeed it appeared that overall, more attention was being paid to the technical operations of the concession, and that the most important factor, human relations, was not receiving its due attention.

[147] South African organised labour is world-renowned for going on strike whenever discontent arises, thereby disrupting productivity and service delivery. However, Lamont (2001) notes that such strikes have significantly diminished since 1994. He attributes this change to declining union membership, poor economic conditions, longer wage agreements and more efficient and effective labour laws, which offered speedier dispute resolution. SAWCO's noted drop in union membership was thus on par with this national-level development.

In pursuit of better communication strategies between the workforce and the management, the SAWCO concession may well learn from the attempted Caracas concession about the importance of healthy inter-personal relations. In fact, it was the same factor, inter-personal relations, which appeared to stifle union effectiveness in the SAWCO concession. SAWCO could also bear in mind that considerable fear amongst labour arises from mere uncertainty (de Luca 1998).

Monitoring appears to be a challenge for most PPP arrangements, making SAWCO by no means a loner in this regard. The challenges are often embedded in the lack of government capacity as it switches roles from provider to regulator. The CMU too could improve its monitoring capacity. Furthermore, as the CMU itself proclaimed, SAWCO's data could be simplified to make it more understandable to the CMU itself, as well as the wider civil society. Another improvement, which could particularly enhance the amount of attention paid to labour aspects, could be by including labour representatives in the CMU. This way, labour concerns would always be on the forefront together with other technical concerns. Here, it may be necessary to keep in mind that the views of labour representatives may vary substantially from those of the workers themselves.

6.4.3.4. Training and skills transfer

Wider literature suggested that when the education and skills levels of a workforce are high, and there are high chances of training benefits appropriability, a MNC is likely to invest in advanced skills upgrading. Otherwise, as seen with some EPZs, the MNC is likely to offer low level training, if any at all. Furthermore, critics of MNCs often claim that MNCs' social responsibility in the form of employee training and community programmes tend to receive secondary attention within MNCs since these do not directly contribute toward company profits.

Based on the literature prescriptions stated above, SAWCO workers' low level of education and skills appeared to put them at a disadvantage. As already mentioned, evidently, the workers' low level of literacy was delaying the implementation of some of the training programmes offered by SAWCO. Nevertheless, it cannot be concluded if these training programmes were of secondary importance to SAWCO as critics would expect[148]. This is so because although the worker training and social programmes were noted to be running behind schedule, other technical operations were also reported to be running behind schedule due to initial delays in the contract's financial closure. A more detailed longitudinal study of this aspect would need to be undertaken in order to shed more light on this question.

It could be clearly established from the SAWCO case though, that the effectiveness of the training programmes offered was in question. Language barriers in programme teaching, as well as the lack of worker consultation in programme design, were some of the major problems stifling programme effectiveness[149]. Furthermore, it was established that at the time of this research (and even in the follow-up), neither the NTLC nor SAWCO appeared to have any intensions of equipping the local workforce with the skills necessary for taking the service delivery task back at the end of the concession period. Such lack of foresight may be reason for concern, especially since one of the main reasons why MNCs are employed into projects in the first place, is so that they can transfer their skills to the local workforce[150]. However, here too, it may be argued that it is too soon to tell, and that it could be a bit unfair to expect such a long-term concern to occupy short-term priorities.

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[148] Even though follow-up interviews could not be verified (conducted seven months after the initial field research), they still pointed to the same unclear results - once again, both social programmes and technical operations appeared to be catching pace with targeted schedules.

[149] Follow-up interviews suggest that the language barrier problem was being addressed during SAWCO's second year of operation.

[150] The argument made here is that the NTLC, or whoever is likely to take over the service delivery responsibility at the end of the concession period, was not receiving any training to prepare for such a move. It must be noted though, that Waterco had hired locals to help run its operations and that mentoring between the few Waterco expatriates and the local Waterco and SAWCO management occurred informally. It may be argued based on the latter observations that Waterco was imparting its skills to the local workforce, even though the skills were not of the nature described in the former argument.

6.4.2. Lessons for other PPPs and the wider South African national policy context concerning FDI and workforce empowerment

It has been shown that the events surrounding the emergence of SAWCO were only reflective of the wider national picture in terms of development needs and resource constraints. Confronted with the problems of high unemployment, massive service backlogs and the low level of skills of the South African workforce, the South African government continues to find itself in the challenging position of having to attract high-value production FDI and harness its social development capacity. This task could prove to be very challenging especially given that this type of FDI requires a high level of skills in the first place.

Unfortunately, most of the recent incoming FDI into South Africa has been in the form of the notorious labour-shedding M&As. M&As have indeed caused exponential national job-losses over the last five years or so. That being the case, and with FDI being one of the South African government's main development strategies, it is imperative that ways be found within the FDI framework, which will help address South Africa's employment needs, primarily in the short-term.

As more and more local authorities in South Africa turn to PPPs for service delivery needs, PPPs may provide a window of opportunity for the South African government to address these short-term employment needs. This is so because unlike full divestitures or full privatisation, PPPs carry the dual advantage of utilising private sector strengths without undermining the government's role as social protector.

As one of the pioneers in the PPP field, preliminary assessment of the SAWCO concession demonstrated that it **is** possible to secure jobs in the short-term and advance other workforce empowerment goals through PPPs. Indeed if the challenge facing South Africa is to promote productivity growth in ways that do not undermine the growth of lower wage, lower productivity jobs for its many unskilled and unemployed people, PPPs could be one way to advance this challenge, if certain precautions are taken.

Paramount on this list of precautions[151] is the need for labour support, cooperation and continued participation, without which any noted success is likely to be only short-lived. Political will is also critical, for the government needs to be able to defend its citizens against MNC interests if such a need should arise. Along with this will, better cooperation between civil society (labour unions involved) and the government is also necessary. Though such a goal may be viewed as unrealistic given the diverse nature of opinions within both civil society and the government, it is important to remember that the government's role as social protector in the context of MNC operations cannot be undermined. In other words, despite the internal differences inherent within governments and their societies, the government must always remain the protector of its people. Failure to do so may result in MNCs or the private sector in general, being detrimental to local development as instances with some EPZs and some Latin American countries demonstrated.

Sound policy (with a short-term and long-term vision) as well as firm and effective monitoring tools are also important to ensure good practice by the MNC. In the case of South Africa, boosting the local monitoring capacity could be a good start since no effective monitoring can occur if no one has the capacity to undertake it. Institutions such as the MIIU and the DBSA are already in place to offer guidelines and advice to any local authorities wishing to pursue PPP options (Hlahla 1999).

Despite the seemingly daunting challenges facing contemporary South Africa, South Africa has shown has progress in addressing employment issues using FDI, particularly privatisation. The CDE (1999) describes that the new president of South Africa has repeatedly voiced his expectations of business if it is to help develop and transform society, thereby exercising moral or political pressure on business to conform to South Africa's development goals. Lamont (2001) even notes an improvement in South Africa's industrial relations as indicated by the drop in the number of strikes experienced in the country.

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[151] Other prescriptions made elsewhere in literature (ie. not based on the case study findings) include export-orientation, competitive labour market policies and firm and unambiguous commitment to market principles (CDE 2001).

Furthermore, the CDE (1999) also notes rapid progress towards employment equity within South Africa's private sector. The 75 firms covered in one of the CDE's surveys were training an average of 530 people per firm in special advancement programmes, and nearly 85 per cent of those being trained were Africans. Notably, 55 per cent of the Africans being trained in advancement programmes were women. The 75 firms were spending about 17 per cent of their total training budgets on special advancement training and the proportion of personnel involved in these forms of special training was about 12 per cent of all personnel being trained.

However, South Africa's overwhelmingly strong 'faith' in MNC and FDI could be worrying. This 'faith' was even reflected in SAWCO's policy prescriptions regarding shareholding. Indeed, while most countries have a maximum shareholding requirement for foreigners, South Africa has a minimum requirement[152]. Though free-market proponents could regard these observations as good signs, the same observations may once again, resonate concerns about the South African government's willingness and ability to protect its citizens against MNCs interests. The government's apparent lack of long-term requirements from SAWCO, in the form of employment security and post-concession preparations also raises similar concerns. Perhaps the South African government could remember that markets are imperfect, and sometimes inadequate for addressing social needs. Therefore, the government must take care not to compromise its duty as social protector in its pursuit of free-market strategies.

### 6.4.3. The MNC/FDI debate

In situating the SAWCO case study within the larger MNC/water privatisation debate, it appears that some of the correct tools are in place to ensure that Waterco as a MNC, and SAWCO as a private company, do contribute positively towards local development. For instance, the contract was progressive in that it stipulated certain workforce and community empowerment targets required of Waterco and SAWCO.

[152] It may be recalled that the concession operator had to own at least 25 percent of the concession company. In contrast, the Filipino concession contract required that the concession company had to be 60 percent domestically-owned (Dumol 2000: 38). In fact, South Africa has made it clear that it has no dogma about foreign ownership of domestic companies (Chalmers 2000).

However, as already pointed out, without a long-term vision and effective monitoring, these policies could falter.

It may be concluded from this study that MNCs are not inherently an 'evil' force, as some contend, but there should not be any misgivings about their profit motives either. The challenge for governments is to somehow marry company profit motives with social development goals. Control or leverage is very important in this process as it determines the direction in which the 'company profit' versus 'social development' scale tips. Without such leverage, governments may find themselves in a rather precarious position since company motives and development goals do not always coincide.

Therefore, if South Africa is to follow along the FDI route, it appears to stand a good chance of benefiting itself from it if it gains as much leverage over MNCs as possible. Based on this thesis's findings, it could gain such leverage by consolidating its strengths. One such strength is its labour movement. South Africa's apartheid history has left it with a robust labour movement, which as supported by wider literature, could be a powerful weapon in safeguarding worker interests in the MNC context. South Africa should thus make all efforts to avoid weakening this movement, but ensuring, at the same time, that this movement does not impede FDI.

South Africa has already made a head-start by introducing labour laws which foster healthy industrial relations. Other laws and policies such as these, which promote social development through MNC activity should be improved and upheld. Along with these, enforcement tools are necessary in order to ensure MNC compliance with these laws and policies. As a step towards establishing such tools, South Africa could improve and tighten its monitoring capacity. The South African government could also improve its cooperation with labour (and civil society) as this will enhance its effectiveness in performing its role of social protector in the MNC context. These moves would offer the South African labour force and civil society at large, some degree of national-level protection which is necessary for ensuring that they do not miss out on the benefits of FDI and the wider economic growth that such FDI might induce.

South Africa may not necessarily see the same development and labour outcomes as experienced in Singapore, Taiwan and Hong Kong since in comparison, it is starting on a weaker footing (lower national skills level). Other countries in a similar position as South Africa have sought ways to harness MNC benefits while mitigating against loss of control. Some, such as Chile, appear to have succeeded (CDE 2001), while others have not. Nonetheless, there is hope that if South Africa (and other similar countries) does not loose its grip against the sweeping wave of globalisation, it may, at the very least, avoid the MNC brunt.

#### 6.4.4. Areas of future study

The SAWCO case study has demonstrated that in the context of South Africa, PPP arrangements can involve a high level of foreign ownership and MNC involvement. Hence, along the lines of the MNC debate, the notions of skills transfer, employment creation and competitive working conditions are very relevant in the context of PPPs. As PPPs are only a recent phenomenon, not much research has been undertaken on them. Additionally, as pointed out by de Luca (1998), studies on labour impacts of utility privatisation in general are lacking.

This thesis only offers a preliminary examination of the labour dimensions of one such PPP arrangement through the SAWCO case study. It would be beneficial if future longitudinal studies could be undertaken in order to learn more about SAWCO's impacts on labour over time. Such studies would compliment this one in creating a much stronger base from which to inform the wider South African FDI policy framework regarding PPPs and the MNC debate on labour.

Furthermore, other similar small-scale, company-level studies could be undertaken in other sectors in order to assess the effectiveness of FDI and MNCs at contributing towards workforce empowerment in South Africa and in other similar developing countries. It is only with such studies that a more comprehensive understanding of MNC impacts in developing country contexts, including forms of labour resistance, may be gained. In such pursuits, it must be remembered,

> The lives of working people are of course, directly affected by the rules and conventions that govern their employment and work, but they are also influenced, ultimately by their freedoms as citizens with a voice who can influence policies and even institutional choices (Sen 2000: 125).

*Appendix 1:* Sample of structured interview questionnaire – addressed to SAWCO.

# QUESTIONNAIRE I

***An assessment of the workforce empowerment practices of the water company****

The following questions refer to current developments within the water company. Please answer the following questions:

1. Job creation:
1.1. how much employment was created/terminated since they began operation?
1.2. current labour structure (local workers versus expatriate per level, especially for top-level positions)

2. Remuneration:

2.1. wage rates per employment level versus current public sector wage rates (min. pay/hour?)
2.2. pension allowance
2.3. maternity allowance
2.4. sick-leave allowance
2.5. holiday allowance

3. Working conditions:

3.1. Describe the general working conditions, esp. in terms of safety
3.2. work hours/day?

4. Workforce democratisation:

4.1. how are workers' concerns handled?
4.2. labour representation (union activity allowed?)

5. Skills transfer and education:

5.1. any training programmes?
5.2. any attempt to replace top-level expatriate/white staff with black staff?
5.3. any other education-related programmes supplied by the company?

* A similar questionnaire, (questionnaire II), was addressed to the NTLC.

*Appendix 2:* Number of parent corporations and foreign affiliates by area and economy, latest available year
*Source*: *World Investment Report* (1999: 5-7)

| Area/economy | Year | Parent corporations based in economy[a] | Foreign affiliates located in economy[a] |
|---|---|---|---|
| **Developed economies** | | 49 806 [b] | 94 623 |
| **Western Europe** | | 39 415 | 62 226 |
| **European Union** | | 33 939 [b] | 53 373 |
| Austria | 1996 | 897 | 2 362 |
| Belgium | 1997 [c] | 988 | 1 504 |
| Denmark | 1998 | 9 356 | 2 035 [e] |
| Finland | 1997 | 1 963 [e] | 1 200 |
| France | 1996 | 2 078 | 9 351 |
| Germany | 1996 | 7 569 | 11 445 [f] |
| Greece | 1991 | .. | 798 |
| Ireland | 1994 | 39 | 1 040 |
| Italy | 1995 | 966 | 1 630 |
| Netherlands | 1993 | 1 608 [g] | 2 259 [g] |
| Portugal | 1997 | 1 350 | 5 809 |
| Spain | 1998 | 857 [h] | 7 465 |
| Sweden [i] | 1998 | 5 183 | 3 950 |
| United Kingdom [j] | 1997 | 1 085 [k] | 2 525 [l] |
| **Other Western Europe** | | 5 476 [b] | 8 853 |
| Iceland | 1998 | 70 | 79 |
| Norway | 1997 | 900 [m] | 3 000 [m] |
| Switzerland | 1995 | 4 506 | 5 774 |
| Japan | 1998 | 4 334 | 3 321 [n] |
| United States | 1996 | 3 382 [o] | 18 711 [p] |
| **Other developed** | | 2 675 | 10 365 |
| Australia | 1998 | 596 | 2 550 |
| Canada | 1997 | 1 722 | 4 562 |
| New Zealand | 1998 | 217 | 1 106 |
| South Africa | 1997 | 140 | 2 147 |
| **Developing economies** | | 9 246 [b] | 238 906 |
| **Africa** | | 43 [b] | 429 |
| Ethiopia | 1998 | .. | 21 [p] |
| Mali [r] | 1999 | 3 | 33 |
| Seychelles | 1998 | - | 30 |
| Swaziland | 1996 | 30 | 134 |
| Zambia | 1997 | 2 | 175 |
| Zimbabwe | 1998 | 8 | 36 |
| **Latin America and the Caribbean** | | 2 594 [b] | 26 577 |
| Bolivia | 1996 | .. | 257 |
| Brazil | 1998 | 1 225 | 8 050 |
| Chile | 1998 | 478 [s] | 3 173 [t] |
| Colombia [q] | 1998 | 877 | 4 468 |
| El Salvador | 1990 | .. | 225 |
| Guatemala | 1985 | .. | 287 |
| Guyana | 1998 | 4 | 56 |
| Jamaica | 1997 | .. | 156 |
| Mexico | 1993 | .. | 8 420 |
| Paraguay | 1995 | .. | 109 |
| Peru | 1997 | 10 [u] | 1 183 [v] |
| Trinidad & Tobago | 1998 | .. | 70 [w] |
| Uruguay | 1997 | .. | 123 |

/...

| Area/economy | Year | Parent corporations based in economy[a] | | Foreign affiliates located in economy[a] | |
|---|---|---|---|---|---|
| **South, East and South-East Asia** | | **6 067** | b | **206 148** | |
| Bangladesh | 1997 | 143 | x | 288 | |
| China | 1997 | 379 | y | 145 000 | |
| Hong Kong, China | 1998 | 500 | z | 5 312 | |
| India | 1995 | 187 | z | 1 416 | |
| Indonesia | 1995 | 313 | aa | 3 472 | ab |
| Korea, Republic of | 1998 | 4 488 | | 5 137 | |
| Malaysia | 1998 | .. | | 3 787 | ac |
| Mongolia | 1998 | .. | | 1 100 | ad |
| Pakistan | 1993 | 57 | | 758 | |
| Philippines | 1995 | .. | | 14 802 | ae |
| Singapore | 1995 | .. | | 18 154 | |
| Sri Lanka [af] | 1995 | .. | | 139 | |
| Taiwan Province of China | 1990 | .. | | 5 733 | |
| Thailand | 1992 | .. | | 1 050 | |
| **West Asia** | | **449** | b | **1 948** | |
| Oman | 1995 | 92 | ab | 351 | ab |
| Saudi Arabia | 1989 | .. | | 1 461 | |
| Turkey | 1995 | 357 | | 136 | |
| **Central Asia** | | **9** | | **1 041** | |
| Kyrgyzstan | 1997 | 9 | ag | 1 041 | ah |
| The Pacific | | 84 | | 2 763 | |
| Fiji | 1997 | - | | 151 | |
| Papua New Guinea | 1999 [ai] | - | | 2 342 | |
| Tonga | 1998 | 84 | | 270 | |
| Central and Eastern Europe | | 850 | b | 174 710 | |
| Albania | 1998 | .. | | 1 239 | |
| Armenia | 1998 | .. | | 157 | aj |
| Belarus | 1994 | .. | | 393 | |
| Bulgaria | 1994 | 26 | | 918 | |
| Croatia | 1997 | 70 | | 353 | |
| Czech Republic | 1999 | 660 | ak | 71 385 | al |
| Estonia | 1999 | .. | | 3 066 | am |
| Hungary | 1998 | .. | | 28 772 | af |
| Lithuania | 1998 | 16 | | 1 778 | |
| Poland | 1998 | 58 | an | 35 840 | ao |
| Romania | 1998 | 20 | an | 9 195 | ap |
| Russian Federation | 1994 | .. | | 7 793 | |
| Slovakia | 1997 | .. | | 5 560 | aq |
| Slovenia | 1997 | .. | | 1 195 | af |
| Ukraine | 1998 | .. | | 7 066 | |
| **World** | | **59 902** | | **508 239** | |

*Source:* UNCTAD estimates.

[a] Represents the number of parent companies/foreign affiliates in the economy shown, as defined by that economy. Deviations from the definition adopted in the World Investment Report (see section on definitions and sources in the annex B) are noted below.
[b] Includes data for only the countries shown below.
[c] Provisional figures by Banque Nationale de Belgique.
[d] Of this number, 1,517 are majority-owned foreign affiliates.
[e] Directly and indirectly owned foreign affiliates.
[f] Does not include the number of foreign-owned holding companies in Germany which, in turn, hold participating interests in Germany (indirect foreign participating interests).
[g] As of October 1993.
[h] Includes those Spanish parent enterprises which, at the same time, are controlled by a direct investor.

owning majority-owned foreign affiliates are considered, the number of Swedish TNCs was 1,833. Similarly, the number of majority-owned foreign affiliates operating in Sweden was 3,953. The survey on majority-owned foreign affiliates is conducted by NUTEK (Swedish National Board for Industrial and Technical Development).

j Data on the number of parent companies based in the United Kingdom, and the number of foreign affiliates in the United Kingdom, are based on the register of companies held for inquiries on the United Kingdom FDI abroad, and FDI into the United Kingdom conducted by the Central Statistical Office. On that basis, the numbers are probably understated because of the lags in identifying investment in greenfield sites and because some companies with small presence in the United Kingdom and abroad have not yet been identified.

k Represents a total of 27 bank parent companies and 1,058 non-bank parent companies.

l Represents 453 foreign affiliates in banking and 2,072 non-bank foreign affiliates.

m Approximation.

n Only foreign affiliates that have over 20 per cent stake in their affiliates located in Japan.

o Represents a total of 2,613 non-bank parent companies in 1996 and 60 bank parent companies in 1994 with at least one foreign affiliate whose assets, sales or net income exceeded $3 million, and 709 non-bank and bank parent companies in 1994 whose affiliate(s) had assets, sales and net income under $3 million. Each parent company represents a fully consolidated United States business enterprise, which may consist of a number of individual companies.

p Represents a total of 12,226 bank and non-bank affiliates in 1996 whose assets, sales or net income exceeded $1 million, and 5,551 bank and non-bank affiliates in 1992 with assets, sales and net income under $1 million, and 534 United States affiliates that are depository institutions. Each affiliate represents a fully consolidated United States business enterprise, which may consist of a number of individual companies.

q Represents the number of foreign affiliates that received permission to invest during 1992-May 1998.

r As of April 1999.

s Estimated by Comite de Inversiones Extranjeras.

t Number of foreign companies registered under DL600.

u Less than 10.

v Out of this number, 811 are majority-owned foreign affiliates, while 159 affiliates have less than 10 per cent equity share.

w An equity stake of 25 per cent or more of the ordinary shares or voting power.

x Estimates by the Board of Investment.

y As of 1989.

z As of 1991.

aa As of October 1993.

ab As of May 1995.

ac Wholly-owned foreign affiliates only.

ad The number of companies receiving foreign investment that are registered with the Foreign Investment and Foreign Trade Agency.

ae This number covers all firms with foreign equity, i.e., equity ownership by non-resident corporations and/or non-resident individuals, registered with the Securities Exchange Commission from 1989 to 1995.

af Data are for the number of investment projects.

ag The number of firms that are registered with the National Bank of Kyrgyz Republic. The actual number of firms that are in operation was three.

ah The number of firms that are registered with the National Bank of Kyrgyz Republic. The actual number of firms that are in operation was 387.

ai As of March 1999.

aj The number refers to the firms that are in operation. The total number of foreign affiliates registered is 1,299.

ak As of 1997.

al Out of this number 53,775 are are fully-owned foreign affiliates. Includes joint ventures.

am As of 15 March 1999. Only registered affiliates with the Estonian Commercial Register.

an As of 1994.

ao Number of firms with foreign capital.

ap The number of affiliates established during December 1990-December 1998.

aq Includes joint ventures with local firms.

*Note*: The data can vary significantly from preceding years, as data become available for countries that had not been covered before, as definitions change, or as older data are updated.

***Appendix 3*:** Photographs showing the different levels of service delivery in the SAWCO concession area

Photo 1: Level 1 - A middle-class household in one of the 'black' townships with a conservation tank supplied by SAWCO.

Photo 2: A level 1 household in of the 'black townships' with owner displaying off his tap water. In-door and outdoor taps and waterborne sewage are available here.

Photo 3: Outside pit latrine for a level 2 household in one of the local 'black' townships. Here, taps are communal and there is some of the basic infrastructure such as tarred roads.

Photo 4: A level 2 communal standpipe adopted from the RDP times.

Photo 5: Level 2 communal tap. The arrow shows 'tapping' where a hose is attached illegally leading into someone's household.

Photo 6: A level 3 scene in one of the 'black' peri-urban areas. No water and sanitation supplies are available here. There is also no other basic infrastructure such as tarred roads and electricity.

*Appendix 4:* SAMWU vision for Water Provision
*Source:* http://www.cosatu.org.za/samwu/

# The SAMWU Vision for Water Provision

***(drawn up by workers from across the country at a recent National Workshop)***

## Representativeness:

***Problem Statement***

Water services in South Africa are male dominated. There is also a racial division of labour with blacks being labourers (semi & unskilled) and whites exclusively dominating the managerial layers.

***Our Vision***

An affirmative action policy must be implemented to redress the gender and racial imbalances within the service. The service and its management must reflect the demographics of the country. There must be a special consideration for the accommodation of the physically disabled within the entire service. This also entails the provision of workplace infrastructure to assist the concerned individuals. There must be mechanisms to ensure the employers do not practice discriminatory actions.

## Legitimacy and Service Delivery

***Problem Statement***

The providers of water do not enjoy legitimacy due to lack of accountability, high tariffs, poor infrastructure, erratic water supply, insufficient water tanks in the case of rural areas. Inferior service to black areas as compared to other areas (white areas) also contributes to the lack of legitimacy of the services. The service providers are also not properly educated on the role of communities. There is no community participation in the running of the service.

***Our Vision***

There should be 50 litres per person per day provided for free. Over and above this free amount, there should be rising block tariffs with a cut-off point.

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*This principle of rising block tariff should further be debated in terms of which areas it will cover since there are indications that certain sections of communities might be disadvantaged by this e.g. working class areas, rural communities & emerging farmers.*

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There should be access to clean and tapped/piped water to all households. This means a metered supply into each house. There should be uniformity in the quality of services and equitable service to all. There should be re-deployment of workers and re-allocation of resources to previously disadvantaged communities. Services must also be delivered at affordable prices. There should be a strong civil society to control and manage water provision.

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*The union must take a position on the user charge and the cost-recovery principles as pursued by the ministry and the government.*

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There should be cross-subsidisation from urban to rural, and from rich and poor, and from industry to households. There needs to be a review of the price structure of the water services.

## Developmental Role of Water Provision

***Problem Statement***

There is no developmental approach in the manner in which water is used and provided in some areas. This can be seen in that there was no empowerment of communities. There was no education provided to communities and some communities have to travel distances to fetch water. For example, there was no water provided for recreational facilities such as swimming pools, parks, gardening etc.

***Our Vision***

Service delivery should be speeded-up. Our vision should also take into account the cultural use of water by communities. Our vision should facilitate subsistence farming and community based economic activities such as vegetable gardening and brick-making. There should be subsidised tariffs or infrastructure for small black farmers. There should be provision of education about the importance of water in terms of health and hygiene standards, its conservation and good quality and the cost of providing the water service. The provision of water to households should happen with a view to reduce the heavy domestic burden on women. There should also be an integrated developmental approach to the provision of housing, health and water.

# Community Participation and Accountability

***Problem Statement***
There is no community participation and forums to address problems experienced by communities. The service providers are not accountable to the communities.
***Our Vision***
There should be community participation through development forums at local, provincial and national levels. The community should own the process of delivering water services. They should also take part in decision making and policy formulation and budgetary processes around the provision of water services. The issue of community participation should also be seen as a way to hold councillors accountable and democratic in carrying out their responsibilities. All forums need to be accountable to the community. Community participation will also help realise integrated development by bringing other social concerns into the process of water provision.

# Worker Participation, Staff Development and Utilisation and Wages\Salaries and Conditions of Service

***Problem Statement***
There is no worker participation in the development of policies. There is also no change in apartheid policies. Workers are made to perform jobs without any form of training. There has not been any transparency in the functioning of the services. Workers are demotivated by low wages and lack of incentives. There is also racial discrimination in the distribution of benefits such as training. There is no participative management, there is lack job mobility, and there are no opportunities. Salaries are low.
***Our Vision***
Workers must take part in decision making and form part of the organisational structures. All workers should be developed to become educators in their own right. There should be resources devoted to the education and training of staff with specific reference to the 'front-line' workers. Workers must also be involved in the actual implementation of decisions and policies. There should be worker control in the workplace and the union should interact with other community stakeholders.

# Management of the Service

***Problems***
Management is inexperienced, there is no transparency, no clearly structured organisation of work and unilateral policy making.
***Vision***
There must be participation of workers and the community in management, affirmative action and flat management structures. There must be transparency and accountability to workers and the community, and devolution of decision-making.

# Financing of delivery

***Problem Statement***
Poor delivery because of a lack of finance from central government, and advantaged communities are still benefiting from the present the structure of local government finance.
***Vision***
There must be full cost recovery provided basic needs are met. There must be block financing, cross subsidising, and free 50 litres per person per day.

# Utilisation of physical resources

***Problem Statement***
There are poor budgetary allocations, poor management of resources, for example there is insufficient transport for maintenance.
***Vision***
Union/worker involvement in the budgetary process, proper prioritisation of expenditure, accountability to workers and the community, SAMWU to encourage self-discipline of its members.

# Technology

***Problem Statement***
There is a lack of staff assessment of resources, equipment, conditions and alternatives kinds of technologies. There is no worker participation in technological development. The technology that is employed is not worker and community friendly. Few are skilled to use equipment, and there is a lack of recognition of skills informally acquired. There is no consultation with the union around the introduction of new technology. The introduction of new technology frequently leads to retrenchments.
***Vision***
Working conditions must be improved, including health and safety. The introduction of new technology must lead to extended services and it must be introduced in a transparent manner. There must be worker participation in technological development and research. Technology must be locally developed and resources must be put aside for the development of appropriate technology. SAMWU and the community must set the agenda of the Water Research Commission. SAMWU must transform the composition of the Commission and the process of deciding on research agendas.

# Relationship to other services

***Problem Statement***
Generally there is no relationship, and there is fragmented planning and this affects service delivery.
***Vision***
There must be an integrated approach and planning, joint accountability and responsibility between different services.

# Conservation and Environment

***Problem/Conservation***
There is no uniform approach to conservation issues, and there is no relationship between water services and other services around conservation. There is also a lack of conservation education.
***Problem/Environment***
There is no improvement in water quality, dams are of poor standards, dumps are set up next to rivers, and there is no maintenance of reservoirs. There is also no recognition of water table(level of ground water).
***Vision***
The intergrated development strategy that must be approached in a way that takes into account conservation and environmental concerns. These considerations will make the delivery of water sustainable over long periods.

# International Issues

***The workshop agreed that there is a need to look further into this question as there was not sufficient information to be able to deal with it adequately.***
***Problem Statement***
There is a poor relationship between countries. For example, the Lesotho Highlands Project will impact on price and it will impact on local communities in Lesotho.
***Vision***
Enhance the quality of life of communities affected by international water agreements, study the impact of inter-basin transfers and limit these. Countries should be able to export/import water freely but must pay for infrastructure. Neighbouring countries should be able to utilise water free of charge where they share rivers, the population of each country to determine how much water it can import/export.

# Institutions of water supply

***Problem Statement***
The existing institutions distribute water inequitably, and there are too many institutions that are delivering water. Private companies are also allowed to deliver water.
***Vision***
Democratise and organise water institutions, and local authorities must take responsibility to deliver water and not shift these to private companies. Water boards must provide services where local authorities cannot. Institutions that deliver water must be transparent and accountable, and they must be rationalised.

# Overall Water Policy

*Vision*

Water services must be of high quality, affordable and accessible. The payment for water must be based on the principle of 'more you use more you pay'. Water provision must be public sector driven, sustainable and there must be delivery with no profits for the private sector. There must be on-going education and awareness, integrated approach with all related departments, cross subsidisation, and policy formulation must include all role players.

*Appendix 5:* "Water for All" draft resolutions by RSDN
*Source:* http://www.rdsn.org.za/

# *RDSN "Water for All" draft resolutions*
# *E. London, Regent Hotel, 23-25 May 2000*

### *PREAMBLE TO THE RESOLUTIONS:*

The Rural Development Initiative (RDI) at the Bloemfontein conference held in April 1999 adopted the Rural People's Charter. This charter outlined the basic needs of the rural people.

The Rural Development Services Network was given the mandate to develop the vision of water provision for rural people as part of the process of developing an alternative intergrated rural development programme. The present workshop is a part of this process and has successfully linked up with rural communities to elaborate this vision of water.

The resolutions below constitute a more elaborate understanding of the complexity of rural water service delivery in a context of rampant privatisation of basic services. The workshop too posed a number of questions that require further interrogation; is there is a link between our anti-privatisation stance and the campaign for a lifeline supply of 50 litres? Is the delay in government implementing national cross-subsidisation and the progressive block tariff because cross-subsidisation will eat into the profits of the private sector?

Furthermore, privatisation is also affecting local government capacity as resources decline for building local government capacity. The resolutions below on privatisation, national cross-subsidisation and a progressive block tariff, local government and equitable share and productive use rights are intricately linked. However, we have separated these issues into different resolutions so as to highlight particular concerns we have as the Community Based Organisations (CBO's), Non Governmental Organisations (NGO's) and Organised Labour who participated in this National "Water for All" workshop organised by RDSN.

### Resolution on 50 litres per person per day Free

**Noting that;**

- 18 000 people in South Africa die from diarrhoea or dysentery every year. These diseases come from unclean water.
- It costs the country R4billion every year to treat and cope with the effects of these two water borne diseases.
- We know that 18 million people in South Africa do not have a basic water supply and that 27 million people (more than half of the South African population) have no sanitation services.
- That commercial agriculture uses 53% of available water supply and half is waited due to inappropriate technology and crop choice. Of the available 12% of water for domestic use, half is consumed by affluent households for luxurious gardens and swimming pools.
- That rural communities only consume 1% of available water supply.

**Further noting;**

- That it is largely rural women, children and the aged who bear the brunt of inadequate water supply
- That the World Health Organisation stipulates consumption of 50 litres per person per day to lead a normal healthy and productive life
- That the RDP endorsed an on site supply of 50-60 litres person per day in the medium term
- That communal tap stands contain harmful bacteria and causes tension amongst rural communities over unregulated or improper use of water

**Believing that;**

- If the money that was being spent on treating diarrhoea and dysentery (R4billion per year) was directed at providing basic water to currently un-serviced people, we could over a relatively short period, go a long way in reducing the incidence of water borne disease, which would lead to a healthier and more productive nation.

**Therefore resolve;**

- To mobilise communities to campaign for 50 litres per person per day free
- To lobby government to ensure a lifeline supply of 50 litres through yard connections
- To build alliance with civil society organisation who would actively support the 50 litre campaign

## RESOLUTION ON PRIVATISATION:

**Noting**

- The historical backlog in terms of water services to the majority of people in SA
- That the delivery of basic services as defined in the Constitution and RDP is the responsibility of Local Government
- The shift to the right in the form of the macro-economic policy such as GEAR and other legislation and policy since the RDP which is eroding the rights of South African and undermining the delivery of basic services
- That water delivery is being privatised
- That the Water Services Act section 19.2 says that a water services authority may only enter into a contract with a private sector water services provider after it has considered all known public sector service providers which are willing and able to perform the relevant functions
- There is a lack of support and encouragement for public sector initiatives
- That current privatised water schemes are failing both in SA and internationally
- There has been a lack of thorough consultation at community level and with other stakeholders
- That privatisation leads to lowering of standards. This includes poor quality of water, poor labour standards, environmental degradation, the threat of job losses and retrenchments
- That the state is becoming a regulatory regime rather than furthering a developmental agenda as outlined in the RDP

**Believing**

- That water is a national asset and should be managed by the state, be it at national, provincial or local level
- That water is a basic human need and a right enshrined in the Bill of Rights
- Water delivery should be needs driven and not profit-driven
- Local Government must be held accountable for water delivery and should it not have the capacity to deliver itself, it should get assistance from public sector providers

**Understanding**

- that privatisation comes in many forms, including corporatisation, Public Private Partnerships, Municipal Service Partnerships, and contracts involving the private sector such as BOTT and other long term contracts
- the involvement of the private sector undermines the capacity of the public sector such as water boards and other public sector providers as well as Local Government as resources are shifted to consolidate the private sector for profit

**Therefore resolve to:**

- Reject privatisation in all its forms
- Encourage and support public sector initiatives

- Hold Local Government accountable for water and sanitation delivery within an integrated rural development strategy
- Encourage communities to actively participate and give direction to water and sanitation service delivery
- Call on Government to build the capacity of Local Government

**Undertake to:**

- Engage in a programme of mass mobilisation through education, media and information campaigns which will include provincial workshops
- form a broad alliance including NGOs, CBOs , trade unions and other progressive formations
- Link the struggles of rural and urban progressive formations with those of other local, national and international struggles against privatisation
- Monitor, evaluate and take the necessary action regarding current privatised contracts such as BOTT

## Resolution on Lifeline Supply, National Cross-Subsidisation (CS) and a Progressive Block Tariff

**Noting**

- The unequal distribution, quality, consumption and quantity of current available water
- The backlog in delivery and the extent to which delivery targets have not been met
- That the current policy on water service provision is premised upon the "user-pays principle" and "cost recovery" in a context of widespread poverty and inability to pay.
- That the existing pre-paid system undermines the lifeline supply and adds further hardship to rural communities.
- The existence of current cross-subsidisation models and the creation of a parliamentary task team to consider forms and approaches to national cs
- That the RDP supported national cs and the introduction of a progressive block tariff
- That a lack of water impacts negatively on people's health and dignity
- The lack of integrated planning and budgeting across government departments for water and sanitation and health needs
- The present system is demand driven and application based
- Current delivery is based upon communal standpipes

**Believing:**

- That a lifeline supply of 50 litres of potable water per person per day is a basic right and minimum for a decent healthy existence and human dignity.
- That the lack of a basic minimum lifeline supply of water leads to higher incidence of water borne disease which further add to the burden of the resources of people and the state
- That the introduction of a progressive block tariff will reduce wastage and decrease environmental degradation, and contribute to the redistribution of the costs of water delivery.

**Therefore resolve:**

- To actively campaign for a free lifeline of 50 litres of potable water per person per day through a yard connection to be included in all policy formulations of government
- To reject any attempts to decrease the minimum basic supply
- To struggle for a national cross-subsidisation programme and a progressive block tariff on high consumers to finance the supply of 50 litre free lifeline supply

**Resolution on Local Government and Equitable Share**

**Noting that:**

- The Constitution of South Africa mandates local government, as the sphere of government closest to the people, to promote social and economic development and a safe and healthy environment;
- The Constitution provides for local government to receive an equitable share of nationally raised revenue;
- The Water Services Act makes local government responsible for the provision and management of water supply and sanitation;
- The unequal distribution of national resources for meeting social needs;
- There is great divergence within government as to what constitutes basic needs;
- Local government is not prioritising the allocation of its equitable share towards the delivery of water and sanitation;
- Local government lacks the capacity to deliver on its developmental mandate especially with regard to ensuring accountability to Integrated Development Planning (IDP) processes
- It is the responsibility of national government to facilitate the transformation and building of local government capacity;
- Civil society has been excluded from the decision-making processes around resource allocation at all levels of government.

**Therefore resolve:**

- To demand the cancellation of apartheid debt;
- To advocate the reprioritisation of government's expenditure towards social service delivery
- To demand civil society's right of participation in budget formulation processes;
- Lobby local government to reinvest revenue for and from water provision in the delivery of a life line supply of water
- Lobby national government to increase the equitable share allocation to local government;
- To actively support measures to transform and build the capacity of local government and ensure accountability

**Undertake to:**

- Link and support other initiatives around the cancellation of debt e.g Jubillee 2000;
- Facilitate and participate in capacity building programmes on economic literacy and governance;
- Strengthen the capacity of civil society to monitor and evaluate resource allocations expenditure at all levels;
- Foster alliances with other progressive formations to lobby for equitable allocation of resources;
- Use public and community media to popularise and share information on these campaign issues.

**Productive use rights**

**Noting that**:

- Existing water supply is not adequate to maintain rural livelihoods
- There is existing unused or underused irrigation schemes

**Believing that**:

- Water is a key input to stimulate productive activity and local economic development in rural areas
- Water supply must take into account watering of food gardens and livestock
- Irrigation schemes must be rehabilitated urgently

**Therefore resolve that**:

- Provision in government policy must be made for a raw water supply for agriculture and other economic activities
- Government must integrate its land, agriculture and water policies and delivery

**Undertake to**:

- Investigate alternative ways of getting enough water for productive use (for example, rainwater harvesting)
- Mobilise disadvantaged/emerging farmer organisations and other interested CBO's to lobby on these issues
- Gather information about cases where communities are being supplied with water for productive use (for example, Umgeni raw water provision), and see how this can be used to strengthen the case for rights to productive water
- Hold workshops in rural communities to discuss these issues further
- Carry forward the decision taken at the Rural Development Initiative conference in 1999 to develop an integrated rural development strategy from civil society

## Way Forward

**Populising:**

- To submit our resolutions to progressive organisation locally, provincially, nationally and internationally
- Member organisations popularise the campaign
- Add to web-site pages

**Education:**

- That RDSN affiliates and allies develop and carry out self education programmes around the campaign in provinces

**Funding:**

- That the RDSN affiliates and allies raise sufficient funds to take the campaign forward

**Mobilisation and organisation:**

- Make submissions to relevant government bodies
- Lobby the water portfolio committee and SALGA on the campaign issues
- Prepare for ongoing mass mobilisation for a rural-urban action around the budget, 50l free water campaign, to build up to a national march before the finalisation of the government budget.
- Link and support the anti-privatisation struggles of other sectors including organised public sector workers
- Build and support rural community organisations to ensure community participation and ownership of the campaign

*Appendix 6*: PSI Water Code
*Source:* http://www.world-psi.org/

**Public Services International**

**An International Code of Conduct**

**Sign up for Clean and Safe Drinking Water and Fair Labour Practices in Water Services**

***Water: an Essential Public Service***

This code of conduct developed by Public Services International (PSI) reflects a common effort of companies providing the public service of supplying clean and safe drinking water to communities, and trade unions organising water workers, to address issues related to public service obligations, democratic regulation, environmental standards and fair labour practices. It promotes their common interest in delivering drinking water of high quality and safe treatment and disposal of sewage and other contaminated effluents for citizens.

Access to clean and affordable drinking water must be regarded as a fundamental human right. This right must be protected, monitored and enforced by the appropriate public authorities in the communities in which water companies operate. The Code of Conduct recognises that the health, welfare and prosperity of all citizens depend on the production and distribution of good quality drinking water and the safe treatment and disposal of sewage and other contaminated effluents.

Water service providers have a commitment to ensure quality, universally available, potable water for citizens, careful water resource management and waste water management for our environment and fair treatment for water service workers.

**Chapter One: Safe and Clean Drinking Water, Sound Systems of Sewage disposal and Water Resource Management**

The aims of the code of conduct are:

- To promote access for all citizens to clean and safe drinking water.
- To promote access to a safe, efficient and environmentally sound system of sewage disposal. Water systems need to be developed and maintained and water resources protected. Signatories to the Code of Conduct recognise Agenda 21 of the Earth Summit (1992) as the reference point for sustainable development of water resources.
- To establish common agreement that the supply of drinking water and the disposal of sewage and other contaminated effluents are essential public services.
  - ⇒ Access for all at affordable prices, continuity and security of supply of drinking water and disposal of sewage are important public service obligations.
  - ⇒ Fair and just solutions will be sought for any citizens with difficulties to pay, if necessary through the appropriate legal process. Disconnections of water supply should be prohibited.
- To promote that the supply of drinking water and the disposal of sewage and other contaminated effluents must be under democratic control and regulation by the appropriate public authorities.

Transparency (and integrity) in operations and not engaging in corruption are important conditions to guarantee that democratic decisions prevail. Signatories to this code of conduct advocate democratic regulation based on the citizens' right-to-information and the right-to-participate in the regulation regarding water quality, tariffs and the investment policies of water companies in local communities' water systems for example. Financial means should be provided so citizens can actively exercise these rights. This is a prerequisite for democracy to function.

Profits made, if any, are to contribute fully to the development of the water-services systems in the communities. Regulators are to guarantee compliance with investment plans.

National water programmes integrating economic, environmental and community concerns need to be established to ensure that the development of water resources and water services proceeds in a consistent manner. Community Water Councils, including representatives of users and workers in the community, will be promoted.

***Chapter Two: Fair Labour Conditions in Water Services***

This Code of Conduct recognises that the supply of drinking water and the disposal of sewage and other contaminated effluents is best ensured by well qualified and skilled employees, and based on good relations between the water companies and their employees. PSI and the water companies agree that the development of water services to local communities is dependent on professionalism and contributions of the workers of the water companies.

Constructive industrial relations and social dialogue promote productivity, employment security and good employment and working conditions. PSI and the water companies signatory to the code of conduct recognise that competition in the industry is to be based on the quality of product and service and shall not be based on working conditions and employment as this will bring hardship to workers and their families as well as to the communities in which they live.

Citizens and local communities can have confidence that the services provided in accordance with the standards laid down in this code of conduct are not performed under exploitative or inhumane working conditions by the companies signatory to the code of conduct. These companies are also committed to apply these same principles to workers of subsidiaries, joint ventures, sub-contractors and suppliers and will assess and verify whether subsidiaries, joint ventures, sub-contractors and suppliers meet the principles set out in this Code of Conduct.

To this end the following apply:

- It is recognised that International Labour Office Conventions are central to fair labour practices, in particular, the right to collective bargaining, and the right to be represented by a trade union. (ILO Conventions 87 and 98)
- The water companies recognise the valuable contribution trade unions make to prevention of exploitation. They will adopt a positive approach towards the activities of trade unions. They will not interfere in any manner with any employee's decision to be represented by a union. Companies will refrain from any interference, harassment or intimidation of employees during trade union organising efforts.
- There is no place for the use of child or forced labour in the water industry, including in the construction of facilities. (ILO Conventions 29, 105 and 138)
- The water companies acknowledge the right of their workers to receive a just and fair wage which will enable workers to provide a decent home and living standard for themselves and their families and which will enable them to contribute to the economic well being of their communities.
- Employers will ensure equal treatment of women and men. To this end equal opportunity programmes will be negotiated with the trade unions.

- Wages, benefits, working hours and other working conditions shall comply with applicable law and industry standards and be based on negotiations between representatives from both sides of the industry.
- Employers should endeavour to provide regular and secure employment and refrain from the excessive use of temporary or casual labour. Obligations to employees arising from the regular employment relationship should not be avoided through the use of labour only sub-contracting arrangements, or through apprenticeship schemes where there is no real intent to impart skills or provide regular employment. Younger workers should be provided the opportunity to participate in education and training programmes.
- A healthy and safe working environment shall be provided based on the prevailing knowledge of the industry and the hazards known.
- Water companies operating on a transnational basis and having subsidiaries in more than one country shall negotiate, with a PSI delegation of trade unions representing workers in their subsidiaries, appropriate forums for information and consultation on matters relating to the company. To ensure the forums will function, properly sufficient resources will be provided by the employer.
- To insure that fair labour practices prevail in the water industry, Public Services International and the companies signatory to the agreement will establish an International Water Industry Council to monitor and promote safe and clean drinking water and sound management of sewage and other contaminated effluents based on fair labour practices, high standards for health and safety and adequate training and skill development for employees in the water industry. To this end a delegation of PSI and of the water companies will meet at least once a year to discuss developments in the industry. The International Water Industry Council and the delegation composed of PSI and the water companies must be consulted and must dispose of sufficient material and human resources to permit a valid debate.

International financial institutions shall be encouraged to guarantee that all water companies seeking funding apply the provisions of this Charter when such institutions provide loans for investments in water services. This will ensure a level playing field and fair competition for the companies seeking such investment which will not harm workers, their families and the communities they are living in.

# STAFF SKILLS AUDIT BASELINE STUDY

## EMPLOYEE QUESTIONNAIRE

This skills Audit Baseline Study will be valuable for the company in the development of a skills development plan, for employment equity and for assisting in updating Human Resources staff information. It will also provide important data for the training and career development of each employee. Your co-operation with filling in this questionnaire is appreciated.

**Staff number:** ______

**BIOGRAPHICAL DATA**

1 **Surname:** ______

**Full Names:** ______

2 **ID number:** ______

3 **Contact Details:** ______

Address: ______

______

______

Tel: ______ Home: ______

Fax: ______ Cell: ______

E-mail: ______

4 **DATE OF BIRTH:** ______ YYYY-MM-DD

5 **Gender*** Male 1 ______ Female 2 ______

6 **Race*:** African 1 ______ Coloured 2 ______ Asian ______ 3 White

7 **Do you have any disability*:** No 1 ______ Yes ______ 2

| Type of disability: | | | |
|---|---|---|---|
| 1 | Cardiovascular | 5 | Metabolic |
| 2 | Muscoskeletal | 6 | Malignancies |
| 3 | Respiratory | 7 | Psychological |
| 4 | Neurological | 8 | Other |

Marked items required for purposes of Employment Equity.

*Appendix 7:* SAWCO's skills audit questionnaire sample
*Source*: SAWCO training office

8 **CITIZENSHIP:**

9 **LANGUAGES:**

Please specify your proficiency in any of the official languages; where:

0=None; 1=Poor; 2=Good; v=Home Language

| | V | SPEAK | READ | WRITE |
|---|---|---|---|---|
| ENGLISH | | | | |
| AFRIKAANS | | | | |
| XHOSA | | | | |
| ZULU | | | | |
| SISWATI | | | | |
| VENDA | | | | |
| SHANGAAN | | | | |
| N.SOTHO | | | | |
| S.SOTHO | | | | |
| TSWANA | | | | |
| OTHER (SPECIFY) | | | | |
| | | | | |

## PRESENT EMPLOYMENT

1. Designation: ______________________

2. Commencement date: ______________________

3. Employment Status: ☐ Permanent ☐ Temporary

☐ Contract ☐ Casual

4. LIST THE MAIN FUNCTIONS OF YOUR WORK:

Functional area: ______________________

Activities: (I) (I) ______________________

(ii) ______________________

(iii) ______________________

(iv) ______________________

(v) ______________________

**QUALIFICATIONS**

1. Please identify your highest qualification/s

**a) First qualification**

Learning Field: ______________________________

Qualification: ______________________________

Status: [ ] 1 Current [ ] 2 Partially completed [ ] 3 Fully completed

Year completed [ ] 1 Before 1970 [ ] 2 1971-1980 [ ] 3 1981-1990

[ ] 4 1991-2000

Have you ever been or are you eligible for professional registration in this field?

[ ] 1 No [ ] 2 Yes

Please specify the qualification you obtained [ ]

**b) Second qualification**

Learning Field: ______________________________

Qualification: ______________________________

Status: [ ] 1 Current [ ] 2 Partially completed [ ] 3 Fully completed

Year completed [ ] 1 Before 1970 [ ] 2 1971-1980 [ ] 3 1981-1990

[ ] 4 1991-2000

Have you ever been or are you eligible for professional registration in this field?

[ ] 1 No [ ] 2 Yes

Please specify the qualification you obtained [ ]

**c) Third qualification**

Learning Field: ______________________________

Qualicaition: ______________________________

Status: [ ] 1 Current [ ] 2 Partially completed [ ] 3 Fully completed

Year completed [ ] 1 Before 1970 [ ] 2 1971-1980 [ ] 3 1981-1990

[ ] 4 1991-2000

Have you ever been or are you eligible for professional registration in this field?

[ ] 1 No [ ] 2 Yes

Please specify the qualification you obtained [ ]

2. Continuing Education and Training

List all courses you have attended within the last five years that relate to the work of the municipality and/or water and sanitation services.

**a) First course**

Learning field: ______________________________

Duration: [ ] 1 <1 week [ ] 2 <1 month [ ] 3 <months

[ ] 4 >3 months

Year completed [ ] 1 Before 1970 [ ] 2 1971-1980 [ ] 3 1981-1990

[ ] 4 1991-2000

Course name: [ ]

**b) Second Course**

Learning field: ______________________________

Duration: [ ] 1 <1 week [ ] 2 <1 month [ ] 3 <months

[ ] 4 >3 months

Year completed [ ] 1 Before 1970 [ ] 2 1971-1980 [ ] 3 1981-1990

[ ] 4 1991-2000

Course name: [ ]

**c) Third course**

Learning field: ______________________________

Duration: [ ] 1 <1 week [ ] 2 <1 month [ ] 3 <months

[ ] 4 >3 months

Year completed [ ] 1 Before 1970 [ ] 2 1971-1980 [ ] 3 1981-1990

[ ] 4 1991-2000

Course name: [ ]

D. PREVIOUS FORMAL EXPERIENCE/EMPLOYMENT

Have you had experience or exposure to (different) functional area/s and activities in the last 10 years?

**a) First experience/employment**

* Functional area: ______________________________

* Activities (I) ______________________________

(ii) ______________________________

(iii) ______________________________

(iv) ______________________________

(v) ______________________________

**b) Second experience/employment**

* Functional area: ______________________________

* Activities (I) ______________________________

(ii) ______________________________

(iii) ______________________________

(iv) ______________________________

(v) ______________________________

**c) Third experience/employment**

* Functional area: ______________________________

* Activities (I) ______________________________

(ii) ______________________________

(iii) ______________________________

(iv) ______________________________

(v) ______________________________

E. PREVIOUS INFORMAL EXPERIENCE/EMPLOYMENT

Have you had experience or exposure to (different) functional area/s and activities in the last 10 years?

a) First experience/employment

* Functional area: ______________________________

* Activities (I) ______________________________

(ii) ______________________________

(iii) ______________________________

(iv) ______________________________

(v) ______________________________

b) Second experience/employment

* Functional area: ______________________________

* Activities (I) ______________________________

(ii) ______________________________

(iii) ______________________________

(iv) ______________________________

(v) ______________________________

c) **Third experience/employment**

* Functional area: ______________________________

* Activities (I) ______________________________

(ii) ______________________________

(iii) ______________________________

(iv) ______________________________

(v) ______________________________

## F. ON-THE JOB TRAINING

Have you received any on-the-job training in the last five years? If "yes" please specify.

| Training/course | Provider/Institution | Year(from to) |
|---|---|---|
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |

## G. OTHER

Have you got a driver's licence?

Code ________

## H. FUTURE TRAINING

**(I) Present position**

What training do you suggest/need for your present position in year 2001?

- ______________________________
- ______________________________
- ______________________________
- ______________________________

**(ii) Future position**

What do you intend to be by the year 2005? ____________________

________________________________________

Which training courses would you recommend for yourself in order to attain your goal in year 2005.

________________________________________

________________________________________

________________________________________

________________________________________

________________________________________

________________________________________

____________ SIGNATURE

____________ DATE

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