SARPN SUMMARY OF CONTRIBUTIONS FROM THE REFERENCE GROUP (RG) E-DISCUSSION ON

THE ROLE OF THE PRIVATE SECTOR IN THE ACHIEVEMENT OF MDGs HELD DURING 24TH AUGUST – 4TH SEPT 2005.

The main objectives of the RG were twofold:

1. To help SARPN shape its ideas and content for its upcoming half a day round table discussion (19th October 2005) with some selected Private Sector/business entities. The idea was to deepen the discussion on how the private sector can play a key role, if any, in the fight against poverty.

2. To draw from the reference group, through their valued experience in working with or in the Private sector, information on whether their operations/core activities have really made a difference to the economy of South Africa and the lives of the ordinary people (In line with the 8 UN MDGs).

The RG, which constituted 11 people (including 4 SARPN staff members), was carefully selected to include, private sector, UNDP and CSO representatives in South Africa.

SOME REFLECTIONS FROM THE GROUP MEMBERS

1. Case for private sector's role in MDGs: can or should they play a role?

There is a clear case for private sector involvement to support the goals of MDGs. C. K. Prahalad's book titled " The Fortune and the Bottom of the Pyramid" provides a good basis on the case for private sector involvement in MDGs. However, the interesting angle suggested by Prahalad is that probably the best way of dealing with poverty is to look at business practices and strategies and how these in themselves could really deal with poverty reduction in a much more systematic and non-patronising way.

Some examples of private sector involvement would fall under the following aspects:

<u>Philanthropy</u>
Big business may donate capital to launch projects such as construction of a physical facility, or may also commit regular consignments of consumables such as food, medicines, books, etc.

<u>Public-private partnership</u>
This denotes more risk sharing. Private sector may enter into formal arrangements where the private partner accelerates investment into urgently needed infrastructure or facilities, with provision for the private partner to recoup a return from government over time. The government compensates the private partner via pay-backs in tranches, cession of revenues related to the provided infrastructure, or delayed transfer of the infrastructure to government after a concession period in favour of the private partner.

<u>Operation and Maintenance</u>

Oftentimes government finds sufficient capital through savings, tariff collections, division of national revenue, etc, and manages to construct an asset. However for the maintenance of that asset over time, government often do not possess the specialized skills necessary or else do not make enough budgetary provisions to meet operational and maintenance costs. In this instance private sector providers are well-placed to take over operation and maintenance of assets on behalf of government. In this way they assist government in meeting environmental efficiencies, cost efficiencies, etc.

<u>Improvement of ability of government to qualify for loan finance</u>
Sometimes the only challenge for government, particularly municipalities providing tariff-based services, is to improve its balance sheet to make it more possible to borrow from the capital markets. Private sector can offer management and administrative expertise to establish and/or improve collection systems for revenues that are owed to a municipality. Improved revenue streams dramatically improve a municipalities' credit worthiness and ultimately opens up financing options for the municipality.

<u>Favourable credit terms</u>
Private lenders can develop a range of financial instruments that makes borrowing more forgiving for public sector borrowers. In South Africa, the Financial Sector Charter is a useful launch-pad to incite lenders to move down market, take on more risk and service less credit-worthy borrowers.

Regardless of these factors, the overarching concern is that people may be expecting too much from business if they think that it will "save the day" and play a crucial role in achieving the MDGs. There are three inter-related points to be made in this respect:

a) The so-called "business case" for sustainable development – i.e. contributing to development will enhance profits, at least in the medium to long term – is patchy. There are some instances where the business case is relatively strong, particularly for companies with significant brand exposure, but this is most effective in encouraging companies to do no harm, rather than contributing proactively to development. On the other hand, there still remain many instances where core business imperatives in fact mitigate against pro-poor development outcomes.

b) An overly enthusiastic reliance on corporate responsibility may have negative or unintended consequences. For one, it may detract emphasis on the need for more effective and accountable state governance. Furthermore, as argued by John Sharp in a paper to be included in a forthcoming special edition of "Development Southern Africa" on corporate responsibility and development, the discourse of corporate responsibility is in many ways a revision of the development debate of the 70s and 80s, including some of the same potential pitfalls.

c) The business case for development depends on the public policy context in which companies find themselves. Examples of PPPs and SA companies' position in the rest of Africa, the state, in particular, have a crucial role to play in providing relevant incentives and the requisite accountability framework. Considering that the state faces such prescient constraints in this regard, there is an interesting challenge of developing multi-stakeholder negotiations and collaboration structures, whereby the actual process provides for some measure of accountability and simultaneously develops organizational capacities. This is emerging in some instances, such as in local development planning in some areas dominated by mining and others etc.

In addition, it is important to note the need to look at how far the private sector can go in fighting poverty. And this is where the whole issue of Public-private partnerships (PPPs) comes in. PPPs well structured and implemented by both the public and private sectors can go a long way in achieving some of the MDGs. PPPs will right enough not work if both parties are not ready for the partnership and there is not trust and transparency about the whole relationship.

However, the experience in implementing or assessing PPPs, the emphasis is on how important the internal and external accountability measures are, and how rarely these are adequately in place. Reference is made to a recent edition of the internet-based journal of the SA Inst of International Affairs, "Making Partnerships Work for Africa" – can be accessed via the SAIIA website: http://www.saiia.org.za (click on eAfrica logo). The journal is generally optimistic on these issues, but it warns, "If Africa cannot create and obey a transparent, effective system for keeping corruption out of the purchase of school books; it has little hope of keeping corruption out of PPPs."

2. What has the private sector done already to advance the ideals of MDGs in SA and in the African region at large?

Looking at the role that private sector has played in SA post 1994, there is no doubt that there has been some increase in CSI expenditure and also support for other good causes aimed at promoting development in SA. The research project on "The State of Social Giving in South Africa" which was conducted by the Centre for Civil Society, the Southern African Grantmakers Association and the National Development Agency provides some insight on how much as be given by business in this area.

Other examples have some pertinence or counterpart in South(ern) Africa, but there are some particular instances in which South African companies or initiatives are mentioned, including the following:

- Eskom is mentioned as a utility company that "can participate in public-private partnerships to increase access to clean water, energy and communications" (Goal 1 – page 7).
- Anglo American "has developed a comprehensive small business outreach programme" (Goal 1 – page 8).
- The National Business Initiative's EQUIP programme involves business working with "education authorities and other NGOs to improve the quality of education in government schools" (Goal 2 – page 10).
- "Business coalitions dedicated to tackling HIV/AIDS have been established in… South Africa" [SABCOHA] (Goal 6 – page 18).
- "Sustainability Indices, such as those established by the… Johannesburg Stock Exchange" (Goal 7 – page 20)
- Under Goal 8, the report mentions the UN Global Compact (page 23) – the Global Compact has recently established a Regional Learning Forum for Sub-Saharan Africa based in Pretoria. The contact person is Ellen Kallinowsky (kallinowsky@un.org).
- Goal 8 also includes the need to promote investment in Africa (page 23) – this has become especially prominent in the wake of the Commission for Africa, which has also spawned a dedicated business initiative called Business Action for Africa (http://www.businessactionforafrica.org).
- Goal 8 includes "access to affordable drugs": "Anglo American was the first company to announce that it would provide anti-retroviral drugs free to all its employees who needed them" (page 25) – indeed, De Beers was a finalist in a dedicated award for business contributions to the MDGs because it provides such drugs not just to employees, but also their families (see http://www.iccwbo.org/awards).
- Under "access to… ICT", the report mentions the Hewlett Packard E-inclusion initiative. This initiative includes the Mogalakwena HP i-community project, which was also a finalist in the above mentioned awards.

3. Financing MDGs: prospects and challenges

The discussion on the potential role of business in providing funding support to MDGs attainment is an important one. On that note, there is a recent edition of the journal *International Affairs* that focuses on this issue, including articles by Jeffrey Sachs and others. There is also the paper by

Kapoor and Kapoor for SARPN. One of the issues that jump out clearly is the role of taxation. Interestingly, tax payment is rarely considered an integral aspect of the corporate responsibility agenda, though it should be.

There is a notion on how companies that pride themselves on being "good corporate citizens" go to great lengths, often pushing the boundaries of legality, to minimize tax payments. It seems that the relative success of South African Revenue Authority (SARS) in increasing state income, for example, is a positive lesson other developing countries can learn from SA. With respect to the CSR debate, the likes of PWC et al should be encouraged to display greater consistency by refusing to give spurious advice on tax avoidance while simultaneously waxing lyrical about their "sustainability services".

African Governments are facing an overwhelming capital requirement in light of achievement of the MDGs. The provision of adequate resources such as shelter, potable water, food, medication, schools, transport, communications, etc presents a tremendous financial burden on the coffers of government. The role of the private sector is particularly important for MDG financing at the national level, principally because the primary sources for MDG financing and other national poverty-related initiatives will come from - *economic growth*; *tax revenues*; and *domestic borrowing* - areas where economic policy tends to be particularly sensitive to the needs of the private sector. As such, the extent to which MDG and poverty reduction targets will be reached will depend on the performance of the economy and the types of policies in place aimed at addressing poverty-related challenges, tax collection and how public resources are distributed to target poverty, as well as, the extent to which incomes are rising at the household level so that individuals can afford MDG attainment. Linked to these issues one can then tailor questions for countries in SADC region. For example, is monetary policy in the SADC region poverty reducing? Do current exchange rate policies favour protecting the private sector at the expense of poverty reduction? At the social level, one can ask what percentage of the population is in the bottom income quintile and what has been the trend in the last five years?

By and large, there are two fundamental reasons why government should consider partnering with the private sector to achieve any of its aims:

1. Governments lack sufficient capital to *efficiently* acquire and maintain the resources mentioned above
2. Governments have the capital, but may find themselves not well placed to manage one or more key risks related to provision of those resources. The range of risks is wide, from commercial to political to environmental.

There are various ways in which government can find relief for the two scenarios mentioned above, by partnering with the private sector. Although there is almost always a cost implication arising from government relying on the private sector to shoulder certain responsibility, the benefits gained in terms of efficiencies, skills transfer, customer satisfaction, etc go a long way in improving sustainability of investments, which underpins the objectives of the MDGs.

The nature of private sector is simply that, if it is given a task to undertake in exchange for a financial incentive, it usually delivers with efficiency. Sometimes governments are committed to a goal such as gender equality, but fail to honour it, due to a constraint such as ideological resistance to affirmative action within government itself. In this instance political interference gets in the way of delivery. Private sector might be able to focus on the goal of increasing numbers in women employment and deployment for a small fee, but may yield exponential returns as a result of sitting outside the shackles of ideological correctness.

4. Social Corporate Responsibility

On the issue of pricing and provision of goods and services, it is important to note that this is what business is about and ostensibly this is why we adopt a market economy (so that independent businesses can compete for the most efficient allocation of resources). One of the problems of the corporate responsibility debate is that it may deflect attention from these core aspects of business. Hence, for instance, we have retail companies conducting "feel good" public relations campaigns in the name of corporate responsibility, while simultaneously implementing dubious pricing policies for essential products, like maize. Another example is anti-competitive practices: many self-professed "corporate citizens" have fallen foul of anti-trust legislation and people rarely seem to see the contradiction in this.

Eskom also referred to the interesting case of SA companies operating in the rest of Africa. As part of the African Institute of Corporate Citizenship, under a project on promoting SA companies' corporate responsibility in the rest of Africa, they assert that the state has a crucial role to play in promoting responsible business conduct beyond SA's borders (whereby "promoting" is a key word in this respect, denoting something in between regulation and business voluntarism).

APPENDIX 1

Input from Eskom

Human rights:

1. How is business or private sector supporting the protection of human rights within their operations?

Eskom has been a signatory of the Global Compact since inception and I would like to think that a human rights ethic is core to our business. Clearly in South African we are fortunate that we have a Constitution which recognises a broad spectrum of human rights - as such if a company in South Africa abuses human rights they can be sanctioned under law. The point is however not to respect human rights because you have to, but rather because it is the right thing to do - both morally as well as from a business sustainability perspective. Nowhere is this more evident than in a companies operations outside of South Africa. Eskom's policy has it that we will apply the same standards irrespective of where we operate. I think business needs to consider the business case for human rights - for example workplace equity, whilst being a human rights issue, is also about accessing the full skills base of the nation - with positive business benefits. One has only to have a look at Eskom's record of black employees (15% supervisory level and up in 1994, almost 58% in 2005) and women (12% in 1994, almost 30% in 2005), parallelled by continuous performance improvements in all aspects of business, to see the benefits of this approach.

Labour standards:
2. Do business/private sector effectively recognize the right to collective bargaining?
In South Africa this is the norm.

3. How are they dealing with all forms of forced and compulsory labour?
This is not permitted in any of Eskom's operations, wherever they are located

Environment:
4. What types of initiatives are they doing to promote greater environmental responsibility?
Eskom has a long standing environmental policy which dates back to 1980, based on the basic premise of continual improvement - we accept we will never be perfect and that we will have lapses in performance, but our goal is to perform better against our targets every year. SOo far we have been successful in this regard. Key to this performance is transparency. We released our forst environemntal report in 1995 and have been reporting on our positive and negative performance since then. Currently we do not produce a separate environmental report, but produce instead a sustainability report which covers our financial, social and environmental performance - see our website www.eskom.co.za for a copy.

5. And how are they encouraging the development of environmentally friendly technologies?
We factor sustainability in all aspects of our business, from our basic strategy, through business planning and into the day to day operations. Part of our strategy is to encourage the development of technologies which will create a base for sustainable energy development in South Africa. At a macro level, at every opportunity we encourage decision makers to increase investment in R&D into sustainable technologies - eg through input at a local level into the Department of Science and Technology, the National Science and Technology Forum etc etc. Internationally we promote this message through R&D institutions as well as through bodies such as CSD, IEA, WEC etc etc. Internally Eskom has since 1990 consistently increased its investment in R&D - from 0.1% of turnover to 0.65% in 2005. Projects currently underway include the PBMR (I know that there are those who will disagree with me on the role of nuclear in sustainable development, but I feel it is an essential element), a solar thermal demonstartion plant (in feasibility study stage), a wind demonstration plant (commissioned in 2003), energy efficiency programmes and many more - to get an idea of some of these projects visit www.sabregen.co.za or www.pbmr.co.za. We also run a schools competition - run for us by WESSA, which facilitates susatinability type projects in the energy field, the Eskom Expo for young scientists also has a strong sustainability focus, and we sponsor the eta energy efficiency awards.

Other: Core business activities, social investment and policy engagements.
6. Though the provision of good and services - how can the pricing, manufacturing, sourcing of these good and services promoting the MDGs?
There is need to recognise that there are business opportunities here. It can be as simple as a business changing its procurement practices to be able to make a major difference to small business. For example in Eskom we actively support small business, black business and black women owned business. We do this through our procurement practices and specific and growing targtes throughout the business.

- *Is the idea of public private partnership (PPP) just a fad, given that the South African government has procured products and services from the private sector in the past, anyways?*

South African's electrification programme - which has supplied more than 3m households with electricity is a classic example of a working PPP - with Eskom, govt and the private sector as partners

APPENDIX II

PRIVATISATION FAILS TO DELIVER

The canard arguments of 'insufficient state capacity' to solve social and environmental problems and 'impotence' to create jobs were undermined in the first decade of liberation by the ANC's willingness to turn state resources over to the private sector. If outsourcing, corporatisation and privatisation can work anywhere in Africa, they should in South Africa, with its large, wealthy markets, relatively competent firms and advanced infrastructure. However, contrary evidence emerges from the four major cases of commodification of state services: telecommunications, transport, electricity and water.

Before considering these, it is useful to review two aspects of the post-apartheid privatisation strategy's failure. One was the very low revenue inflows that were achieved through Pretoria's botched sales in a buyer's market. By the time of the February 2004 budget, the problems were sufficiently obvious that Manuel conceded to his parliamentary colleagues, 'We have never said that we would have a bargain basement sale of parastatals.' He conceded that there was 'a big rethink about this issue around the world', although for justification, he cited the 'mess' associated with electricity privatisation in California instead of the many homegrown South African problems caused by the drive to commodify. Manuel also recommitted to making parastatals more 'efficient' and 'self-reliant' - codewords for the commodification and commercialisation that typically precedes privatisation.[i]

The second feature of failed privatisation was the failure to build a genuinely patriotic black bourgeoisie in the process. To be sure, a new class emerged to massage the process of crony capitalism. But as Ashwin Desai argued, this group was so bound up in get-rich-quick schemes that a longer-term transfer of assets in a sustainable manner appeared impossible:

They have much to gain from the policies that compound the poverty of the majority. They are not the vanguard of a process of popular empowerment.
They are parasites. New parasites lining up to form lucrative alliances with the old. The late Joe Modise [the first ANC government's defence minister] was a Director of Conlog Holdings, the company that manufactures the prepaid water meters that are currently being installed at gun-point in Phiri, Soweto. And the Directors of Dynamic Cables, the company that supplies the cabling for prepaid electricity meters, include Keith Mokoape, former Deputy Head of ANC intelligence; Diliza Mji, former ANC treasurer general in KwaZulu-Natal; Ian Deetlefs and Ron Haywood who both held senior management positions in the apartheid state's arms industry and Richard Seabrooke, who was involved in smuggling to UNITA in violation of UN sanctions. So it goes.

When water and electricity are finally privatised, local elites stand to become very rich, as the ANC demands that multinationals partner with aspirant black capitalists.[ii]

It is not obvious, however, that Desai's fears will be realised, given the massive grassroots/labour opposition and the ubiquitous poverty that have dogged privatisation to date. The contrast is especially clear when considering the much more successful Keynesian-style strategies deployed by Afrikaans Economic Empowerment advocates a half-century earlier. Many present-day Black Economic Empowerment advocates went bankrupt buying into privatisation deals, such as those attempting to get a privatised second landline telephone system up and running.

Indeed, the lucrative telecommunications sector is a good place to start a review of the record of commercialisation and privatisation. Since 1997, when a 30% share in the state-owned Telkom was sold to a Houston/Kuala Lumpur alliance, numerous problems soon arose:

- for fixed-line telecommunications, the cost of local calls skyrocketed as cross-subsidisation from long-distance (especially international) calls was phased out;
- as a result, out of 2.6 million new lines installed, at least 2.1 million disconnections occurred, due to unaffordability;
- 20,000 Telkom workers were fired, leading to ongoing labour strife;
- a second fixed-line operator was first discouraged then encouraged under pressure from competing commercial interests, and a regulator (with integrity) was ultimately dropped from the selection process;
- attempts to cap fixed-line monopoly pricing by the regulator were rejected by the Texan/Malaysian equity partners via both a court challenge and a serious threat to sell their Telkom shares in 2002;
- Telkom's 2003 Initial Public Offering on the New York Stock Exchange raised only $500 million, with an estimated $5 billion of Pretoria's own funding of Telkom's late 1990s capital expansion lost in the process;
- a collusion pact on pricing and services exists between the two main private cellular operators; and
- persistent allegations of corruption stymied the introduction of a third cellular operator.

Secondly, in the field of transport there were various dilemmas associated with partial-privatisations:

- commercialised toll roads are unaffordable for the poor, especially those living in the immediate vicinity;
- private 'kombi-taxi' minivans remain extremely dangerous - and ungovernable - due to profitability pressures;
- air transport privatisation included a) the collapse of the first regional state-owned airline following privatisation, b) South African Airways' disastrous corporatisation mismanagement by a chief executive imported from the US and

subsequent renationalisation of the 30% share owned by (bankrupted) SwissAir, and c) major security glitches and labour unrest at the privatised airports company;[iii]
- constant strife with the ANC-aligned trade union threw ports privatisation into question; and
- the increasingly corporatised rail service shut down many feeder routes that, although unprofitable, were crucial to rural economies.

Thirdly, the electricity sector commercialised rapidly, with 30% of the Eskom parastatal (the world's fourth largest electricity producer) to be sold. Already by 2004, problems included:

- potentially unnecessary creation of new generation capacity (by private suppliers), given that since the early 1980s, South Africa had enormous (at least 1/3) overcapacity and, from 1994, should have switched to energy conservation, hence making unnecessary the future expansion of dirty coal-fired plants, damaging new hydroelectricity schemes in Mozambique or dangerous nuclear generation;
- the commercialisation of Eskom left 30,000 unemployed during the 1990s, and much higher tariffs for residential customers as cross-subsidies came under attack;
- the slowing of the rural electricity grid's expansion by Eskom, as a result of increasingly unaffordable tariffs; and
- disconnections of millions of people who fell into arrears on inflated bills - leading to massive (often successful) resistance such as illegal reconnections.

Fourthly, water and sanitation outsourcing applies to 5% of all municipalities, but virtually all local governments adopted a 100% cost recovery policy during the late 1990s, at the urging of central government and the World Bank. The results were quite revealing, insofar as substantial problems arose at all the South African pilot projects run by world's biggest water companies:

- the small town of Nkonkobe sued to cancel its long-term contract with Suez (Paris) due to overpricing and underservicing, including the ongoing use of the hated 'bucket system' of sanitation, with many similar protests in nearby Queenstown and Stutterheim (also Suez);
- at Dolphin Coast, Saur (Paris) demanded - and won - a controversial contract renegotiation to raise tariffs because its profits were insufficient;
- at Nelspruit, Biwater (London) is on the verge of departing, after not extending services to most poor people, and disconnecting many other low-income residents;
- in Johannesburg, Suez is under attack by communities for installation of pre-paid water meters, substandard sanitation and refusal to disclose basic information about the utility; and
- across South Africa, 100% cost-recovery dogma led to mass disconnections of water, and the continent's worst-ever cholera outbreak.

That was not the only health epidemic exacerbated by privatised services. In the same spirit, the South African health system's reliance upon for-profit pharmaceutical corporations to deliver anti-retroviral medicines meant that hundreds of thousands of people died unnecessarily early. This was just one of the ways that structured neoliberalism contributed to the AIDS pandemic.

Article provided by Prof. Patrick Bond.