

# There is an alternative **THE PUBLIC SECTOR**

## Public Services International (PSI)

Public Services International (PSI) is an international trade union federation which represents public sector trade unions in 146 countries around the world. The affiliated unions, 572 in number, cover some 20 million public sector members. PSI is an autonomous body which works in association with Federations covering other sectors of the workforce and with the International Confederation of Free Trade Unions (ICFTU). The PSIRU is the research arm of the PSI.

PSI has a regional and subregional structure, with offices around the world. Its southern Africa office is in Johannesburg.

## The International Resource and Information Group (ILRIG)

The International Resource and Information Group (ILRIG) is a non-governmental organisation based at the University of Cape Town. ILRIG has provided research, education and popular publications for the trade union movement since 1983.

Contact ILRIG:

Tel: (021) 447 6375

FAX: (021) 448 2282

Email: [ilrig@wn.apc.org](mailto:ilrig@wn.apc.org)

Website: <http://aidc.org.za/ilrig>



**A PSIRU/ILRIG publication**

**A PSIRU/ILRIG publication**



There is an alternative  
**THE PUBLIC SECTOR**

written by  
David Hall and John Pape

**A PSIRU/ILRIG PUBLICATION**

THERE IS AN ALTERNATIVE: THE PUBLIC SECTOR

Published by  
PSIRU

in association with  
ILRIG  
P O Box 1213  
Woodstock 7915  
South Africa

© Public Service International Research Unit, UK and  
International Labour Resource and Information Group, Cape Town

This material may be used for non-profit organisations. We request that such users acknowledge the publisher. No part of the booklet may be reproduced by any means, electronic, mechanical, photocopying, recording or otherwise for the purposes of profit without the prior written consent of the copyright holder.

First published in 2000

ISBN 0-620-26514-0

*Authors:* David Hall and John Pape  
*Design and layout:* Rosie Campbell  
*Cover design:* Rosie Campbell and Doret Ferreira  
*Photographs:* PSI, iAfrica Photos, Cape Argus, ITF News, LLB  
*Cartoon:* Chip Snaddon

Reproduction by Image Mix  
Printed and bound by Logo Printers

Every effort has been made to contact and acknowledge copyright holders. However, should any infringement have occurred, ILRIG would like to be notified. We take this opportunity to offer our apologies. In the event of a reprint, these will be corrected.

**Acknowledgements**

We would like to thank PSI for their support.

**Contact the PSI**

*PSI Sub-Regional Office for Southern Africa*  
P. O. Box 32136, Braamfontein 2017  
South Africa

Tel: +27 11 403 7765 or +27 11 403 7766

Fax: +27 11 403 2479

Admin@psi.wn.apc.org

Busang Moiloa, Southern Africa Co-ordinator – Busang@psi.wn.apc.org  
Ntokozo Mbhele, Women's Project Co-ordinator – Ntokozo@psi.wn.apc.org

*PSI Head Office*

Public Services International  
BP 9, F-01211 Ferney-Voltaire CEDEX, France

Tel: +33 (0)4 50 40 64 64

Fax: +33 (0)4 50 40 73 20

# CONTENTS

## **Section 1:**

Introduction 1

## **Section 2:**

How do we learn from international experience 3

## **Section 3:**

Debate number one: South African cities must  
be internationally competitive 5

## **Section 4:**

Debate number two: South African cities must  
be run like a business 8

## **Section 5:**

Debate number three: We need partnerships  
with business to deliver! 12

# FOREWORD

For more than 90 years, Public Sector International (PSI) has fought for public services through campaigns and by representation on international organisations such as the ILO. PSI also developed an independent research arm, the Public Services International Research Unit (PSIRU) to collect and analyse global data on privatisation and multinational corporations.

PSI is proud to be continuing its work in South Africa, by sponsoring research and educational materials which support the campaigns around local government restructuring. This booklet, produced by PSIRU and ILRIG, is part of this work.

PSI knows that it will be a useful resource for all its South African affiliates.

Hans Engelberts  
General Secretary

# Introduction

According to existing policy, the public sector is the preferred option for service delivery in South Africa. In addition, the Integrated Development Plan (IDP) process is supposed to ensure popular participation in decision making on municipal restructuring and transformation. Yet on the ground a different process is taking place. Plans are being drawn up by consultants. Services are being outsourced to private companies without any consultation with labour or community. Workers are losing jobs or seeing their wages and conditions of service downgraded.

Such problems are not unique to South Africa. Around the world public sector and municipal workers are confronting similar problems: cities are trying to become internationally competitive, municipalities are trying to run along business lines, employers are down-sizing and outsourcing to make their organisations “lean and mean”. In short, public sector and municipal workers are under threat. There is the threat of job loss, the threat of working without benefits. There is even the threat of being called “rich” because unionised workers are supposedly better off than those who are unemployed.

## Market-orientated approach

Many of these problems are a result of the dominance of the neoliberal or market-oriented approach. In the current local government debates, this market-oriented point of view has come to dominate. A market-oriented approach generally calls for an increased role for business in service delivery and other government operations. This is done in the name of efficiency, cost recovery, sus-tainability, even black economic empowerment. We have seen this approach in many of the plans which have been developed for the metropolitan areas: **IGoli 2002, the Unicity of Cape Town, the Durban Urban Strategy**. We have also seen how

more recent legislation such as the Municipal Systems Bill gives a more powerful role to business than to labour or community. The market-oriented approach is further strengthened by the national macroeconomic framework GEAR and its calls for “fiscal discipline”, labour market flexibility and restructuring of state assets.

The dominance of the market approach has put most unions on the back foot. We are told that our ideas about public sector delivery are “out of date” and “out of touch” with the realities on the ground.

One of the most powerful arguments that supporters of the market use is international experience. Over and over we hear that the experience of the rest of the world tells us that there is no alternative. International institutions such as the World Bank and consulting firms like Price Waterhouse Coopers have spent millions on research to promote this view of international experience.

**Around the world public sector workers, like these health workers from Britain, have protested cutbacks in services.**



We need to ask a different set of questions.

But we beg to differ. As a labour organisation that works with public sector unions around the world, the PSI knows that there is no one thing which we can call “international experience.” Different countries live under different conditions and have very different experiences. This does not mean, however, that we cannot learn from international experience. We can. But as trade unionists we need to develop our own ways of learning from what happens in other countries. We need to ask a different set of questions. In particular, we need to know if there are examples of other countries where transformation of local government has:

- increased equality of living standards
- reduced poverty
- created jobs
- improved wages and conditions of service
- helped to promote participation by workers and their communities in the political process.

This booklet is meant to help South African workers to build their own view of international experience. In particular, through the experience of a wide range of PSI affiliates, we hope to provide you with some ideas about how workers in other countries have experienced municipal restructuring. This is part of our contribution toward building a counter to the market solution.

## The structure of the booklet

We have broken the booklet up into four sections. The first section will discuss how we can learn from international experience.

The other three sections deal with specific debates which emerge from looking at international experience. The key debates are:

1. South African cities must be internationally competitive
2. South African cities must be run like a business
3. We need partnerships with the private sector to deliver

Each of these three sections are divided into four parts:

Part 1: “Key issue”: a summary of the key issue

Part 2: “The market solution”: a summary of the market solution to this issue

Part 3 “Countering the market solution”: a summary of criticisms of the market solution

Part 4: “Workers international experience”: relevant examples from other cities

We hope this booklet will be useful in your struggles to build municipalities which are democratic, help to build a more equal society, and meet the basic needs of all citizens, and ensure “decent jobs” at a “living wage” for public sector and municipal workers.

# How do we learn from international experience

South African municipalities should not reinvent the wheel. There is much experience from other cities around the world about how to improve services to communities. We need to find a way to learn from this.

The supporters of the market approach tell us that we must learn from “best practice” around the world. We must look at cities where services have been delivered effectively and adapt what has been done there to the South African context. In most cases they will tell us that international experience reflects the need for the private sector to play a bigger role in service delivery. They say that if the private sector makes profits by delivering service, the profits are supposed to be reinvested in the municipality. Hence, everyone in the municipality will benefit from these profits. Supporters of the market approach argue that this is what has been done in successful municipalities around the world.

Trade unionists and other critics have raised a number of key questions in the effort to build a counter view of how we look at international experience. These questions have informed the way we have written this booklet. Let us look at them briefly.

## Question 1: Which countries do we look to as international examples?

The supporters of the market approach tend to emphasise examples of industrialised countries like the United States or Germany. While there is much to learn from the experience of workers in these countries, it is important to have a truly global view of municipal restructuring. We must learn from the countries of the South as well as from the countries of the North. In particular, we must look to the experience of countries which share some of South Africa’s main features: a highly developed industrial

sector, a high degree of poverty and inequality, and a well-organised labour movement.

## Question 2: What questions do we want to ask about what has occurred in other municipalities?

The supporters of a market-oriented approach ask a particular, limited set of questions about how municipalities are structured. They look at how it affects the economic interests of business, how it affects the lives of executives. Their questions include:

- Are taxes on business low? By how much have municipal budgets been reduced?
- By how much has foreign investment increased?
- Does the council interfere with business decisions on development? How many new skyscrapers, hotels and conference centres have been built?
- Are more tourists visiting the city?

But for unions there are other important questions as well:

- Are services affordable to all communities in the city?
- Are services provided universally, and equally, to all residents?

1999 saw the largest public sector strikes in South African history.



- How many jobs have been created and lost? What type of jobs are they?
- Are workers earning a living wage, or a survival wage? Are the basic conditions of their employment improving or falling? Are unions gaining strength or losing members in these municipalities?

Overall, when we hear about the experience of another municipality we need to know if things are getting better for workers both at work and in their communities. We especially need to pay attention to the situation of workers who tend to be the first victims in restructuring: women, lesser skilled workers, older workers, members of groups who have been the targets of discrimination.

finding out whether life improved for the people who sweep the streets and collect the dirt, not learning about how many new five-star hotels or shopping malls were built.

### Question 3: What role have trade unions and community structures played in the developing plans to improve a municipality?

Recently we have seen an increasing use of consultants in drawing up municipal development plans. In Johannesburg more than R50 million was spent on consultants for iGoli 2002. Many municipalities have outsourced development of IDPs to consultants who have bypassed community and labour. Global consulting firms like Ernst and Young or Andersen are playing a larger and larger role in urban planning. This is a key issue we need to look at when examining international experience.

When we look at the experience of another municipality we must ask: Have trade unions and communities actively participated in putting together municipal development plans, including budgets or have they been left to technocrats, officials and consultants? We want to make sure that the restructuring of municipalities is a process which promotes democracy by empowering workers and communities. In order for such empowerment to take place, there must be structures and processes which not only have the power to recommend, but also to take decisions on issues that affect their lives.

### Conclusion

Supporters of the market solution have used international experience as an ideological club to silence workers when they question the market solution. We only hear that "there is no alternative". — we do not hear about the cases where privatisation has been contested or been unsuccessful.

This booklet rejects that position. We will discuss examples of international experience which help us to learn more about the effects of market-oriented solutions on workers and communities. We will look at examples of what an alternative might look like and how it might be achieved.

**"85% of the world's consumers live in developing countries...**

**How much of your money is invested there?"**

### The Robertson Stephens Developing Countries Fund

**Michael Hoffman**  
Portfolio Manager

One-Year Total Return 12/31/95 - 12/31/96	Average Annual Return Since Inception 5/2/94 - 12/31/96
--	--

Robertson Stephens Developing Countries Fund

**21.19%**

**-0.19%**

Morgan Stanley

There is a need for workers and unions to demand this type of information before our cities follow an example from overseas on the basis of information which simply presents a rosy picture for business. When we listen to reports on the experience of other cities, let us begin by

# Section three

## Debate number one: South African cities must be internationally competitive

### Key issue

South African municipalities are not efficient and effective. Service to residents is often very poor. Bills do not arrive or are incorrect. Technology is out of date. Worst of all, there are enormous service backlogs — thousands of people have no basic services such as housing, water, electricity, and waste removal. This is the legacy of apartheid which we still see in our cities, towns and rural areas. This needs to be eradicated as soon as possible, but our municipalities seem to lack both the capacity and the political will to handle these problems.

### The market solution

According to the market solution, the key to solving these problems is for municipalities to become competitive. This means competing with other municipalities to attract investors and tourists. Supporters of the market solution argue that attracting investment will mean more jobs for local citizens and more tax revenue for the municipality. More tax revenue will mean that the municipality will be able to ensure there are more services for residents. At the end of the day, this will mean a better quality of life for the citizens of the city.

### Countering the market solution

Nearly everyone acknowledges that there are serious backlogs and inequalities in South African municipalities. But the key question critics of the market solution will ask is: will building a culture of competition solve these problems?

The first criticism is that profit-driven competition will never deliver services according to needs and

equal rights. There must be a political commitment to extend services to those who have none, to deliver basic needs to all the people, to reduce poverty and inequality. This means there must be an authority which is democratically accountable to the people, not subordinated to the needs of business.

The second criticism of the idea of competitive cities is that municipalities in the same province, the same country will be forced to compete with each other. In any competition there are winners and losers. If Johannesburg wins, Pretoria or Bloemfontein will lose. If Cape Town wins, what happens to Ga-Rankuwa? The idea that cities must compete with each other goes against the idea of working toward a national solution or even international solution to the problem. Apartheid affected the entire nation of South Africa. Because of uneven development in South Africa, some municipalities have few resources while others have nearly “world class” services. In general, urban areas have better services than rural areas, big cities have better services than small towns. Even within the same municipalities we find that historically white areas are better off than historically black areas. Anyone knows for a competition to be fair, everyone must start from the same point.

The idea that cities must compete with each other goes against the idea of working toward a national solution or even international solution to the problem.

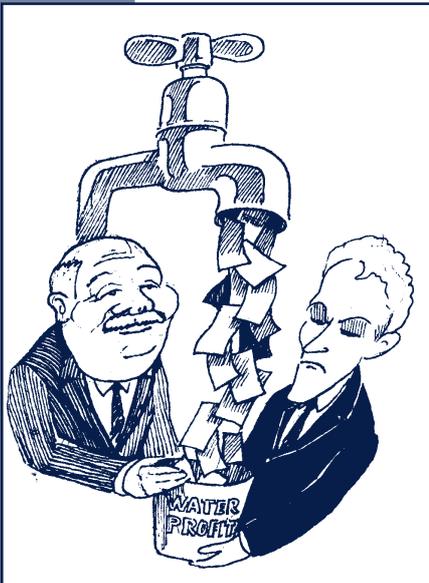


The third criticism of 'competitive' cities is that it means giving businesses what they want, even at the expense of the people of the city.

Competition means viewing those from other cities, from other parts of the country, even from other communities as your enemy. They are trying to out-compete you for resources. The winners will get the jobs, the parks, the roads, the new houses. The losers will get increased poverty and illness. This approach goes against the entire spirit of the labour movement which is based on the concept of solidarity and common interest.

The third criticism of 'competitive' cities is that it means giving businesses what they want, even at the expense of the people of the city. It means reducing the taxes paid by business. It means not expecting businesses, or their executives, to contribute towards the cost of services for poorer members of the community. It means cutting back the role of the council, to allow free rein to business decisions on developing areas for profit. It means cutting the number of workers employed, and weakening their trade unions, to reduce the cost of services. It means privatising the delivery of services, even at the expense of quality and accountability, so that business can make profits from this expenditure too. It means

that the only role of the council is to encourage profit-making — and the rest of the city will benefit from the trickle-down effect.



### The international experience

The international experience is supposed to support the business-driven 'competitive' approach. Consultants from the UK tell South African municipalities that they must listen to

business, and not provide subsidised public services.

Consultants from the USA warn that municipalities will frighten businesses into leaving unless they drive down the wages and conditions of their workers.

But experiences from their own home countries tell a very different story.

### London — business ruins public transport

In 1981 the Labour Party won an election for the Greater London Council (GLC), with a popular commitment to radically improve public services — especially public transport, mainly by heavily subsidising fares. This policy was widely popular — except with business. Large companies formed a special group to stop this democratically-elected council — they used the courts to get the fares policy declared illegal, and they persuaded the Thatcher government to abolish the GLC altogether in 1985, because the people of London could not be trusted to vote the way business wanted.

Business interests had triumphed completely over democracy. The transport systems of London got more congested and expensive, as fares rose to 'commercial' levels, and public spending was cut back. Privatisation of railway services made things even worse, not better. Commuting into London became an unreliable and costly ordeal. By following business principles, London was becoming a worse and worse place to live, to work — and to do business.

In 1999, the new government recreated a democratic council for London. The election for mayor was won overwhelmingly by Ken Livingstone — the man who had led the GLC in the 1980s. He won because the people of London still supported his policies on public transport — in favour of public ownership, public investment, lower fares, and taxes on private motorists.

Even the representatives of business interests, the Confederation of British Industries (CBI), have changed their minds. The CBI now supports massive public expenditure on public transport, to make London work more smoothly.

### Living wage policies in municipalities

Interestingly enough, some municipalities in the United States have taken steps to try to prevent poverty wages for municipal workers. Many South African trade unionists remember the campaigns for a "living wage" in the 1980s and early 1990s. In a number of municipalities in the USA, city councils have passed living wage legislation. Living wage legislation sets a minimum wage for anyone working for the

municipality — either as a full-time employee or on a city service contract. A number of large cities such as Baltimore, Maryland, San Jose, California (near Silicon Valley), and St Paul, Minnesota have passed such laws. Some have made a living wage policy a requirement for any companies receiving economic subsidies from the municipality. Trade unions and community groups have often united around the struggle for a living wage policy — and have mobilised in local elections on this issue. While many businesses have opposed such legislation, a number of studies have shown that in many instances such measures have not led to job losses or relocation. One of the arguments has been that workers who are better paid are more productive — something that trade unionists have been saying for years.

Moreover, while some factory assembly work can be sent overseas to cheap labour zones, most work done in municipalities must be done locally. Cleaning of streets, cutting of grass, building of



**The struggle for a living wage is more crucial than ever in the age of labour flexibility.**

roads cannot be moved to another country where labour costs are cheaper. These need to be done by local workers. Therefore, there is the possibility of exerting local pressure without the same kinds of risk of job losses that might take place in sectors like computer assembly or clothing production.

## Debate number two: South African cities must be run like a business

### Key issue

Municipalities across South Africa are in financial shambles. Many of them do not have enough money to pay salaries of workers. Those who pay salaries may not be able to pay for the electricity services for their own offices. But despite the shortages of finance, needs continue to grow. In many municipalities the ranks of the homeless and the informal settlements are growing. This puts even more pressure on municipalities to increase service delivery.

Despite the tight finance and the growing demand for service, there is less money available. In the name of fiscal discipline, national government has cut back on allocations to provinces and to municipalities. To make matters worse, many municipalities seem to be unable

to manage the little finance they do have available.

All in all, these municipalities are not financially sustainable. They will keep spending more than they take in, leading to more debt and further cutbacks in services.

### The market solution

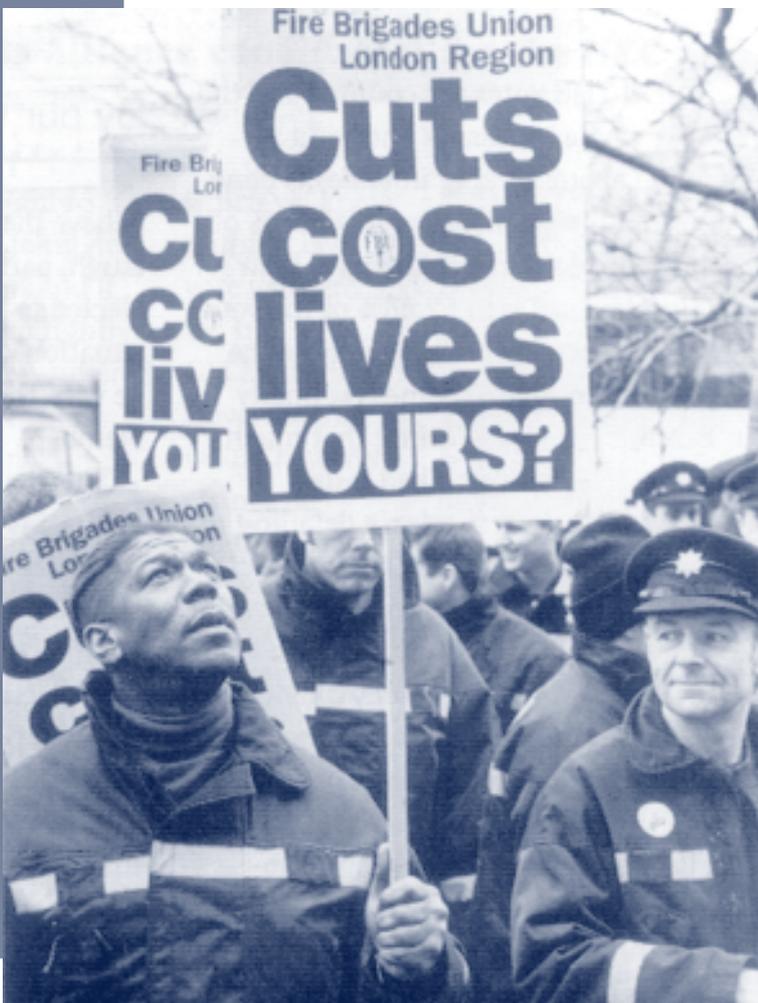
The market solution calls for restructuring to cut costs. This is the key to “turning around” municipal finances. The first step in this “turn around” is for cities to focus on their “core business”. According to the market supporters the “core business” of municipalities is to provide an “enabling environment” for the private sector to operate effectively in delivering services and carrying out other functions within the city. The private sector can do these jobs more efficiently than the public sector. The municipality must no longer be a service deliverer but rather a service “assurer”.

In addition, the “core business” of the city must be run along business lines. This means efficiency and cost-cutting must be top priorities. No department or unit must run at a loss. Organisationally this means “ring fencing” — dividing the municipality into a number of business units or companies. Each of these units or companies must be self-supporting.

The municipality itself becomes a business instead of a democratic institution. Citizens are turned into consumers, with basic services turned into commodities which are bought and sold. Ability to pay determines what services you receive.

### Countering the market solution

A counter view to the market solution questions a number of assumptions. Firstly, a counter view queries the market solution’s definition of financial sustainability. Plainly stated, the principle of financial sustainability means that



you cannot spend more than you earn over the long run. Linked to this is the idea that if you do incur debts you must be able to pay them. But there are many ways to achieve financial sustainability. For a municipality, being financially sustainable does not mean that every activity must support itself. For example, in Johannesburg, some municipal activities like the fruit and vegetable market (before it was corporatised) earned money for the municipality. Other activities like running parks or cemeteries have little opportunity for earning money. But a carefully managed city finance system can be run so that those activities that earn a profit will assist in supporting those that do not. This is financially sustainable as long as there is enough money to pay expenses and pay debts.

### **“One city, one tax base”: a counter solution to financial sustainability**

In the early 1990s, civic organisations organised around the slogan: “one city, one tax base”. This slogan led to the drive to create “megacities”. In megacities suburbs and townships were to join together in order to promote redistribution from the wealthy to the poor areas. The basic principle of “one city, one tax base” was that in the apartheid cities most of business and expensive houses were located in the historically white areas. Since rates and taxes on businesses and expensive properties are a large part of a municipality’s income, the historically white areas received most of that income. The idea of “one city, one tax base” was that the income from the historically white areas would be used to subsidise service delivery and infrastructure development in the historically black areas. This is called cross-subsidising.

The present system is based on the idea of ring fencing — separating functions into business units which must be self-supporting. Ring-fencing may make cross-subsidising difficult. For example, it could be that in Johannesburg under ring fencing two business units could be set up: one to deliver water to Sandton and another to deliver water to Soweto. But Sandton has wealthy citizens who

can pay high tariffs for high quality service. On the other hand, most citizens of Soweto will not be able to afford such tariffs. So one alternative to “ring fencing” is to go back to the principle of “one city, one tax base” which inspired the creation of the megacities or metro areas in the first place.

A second counter to the market solution is that national and provincial budget allocations are not cast in stone. They are the products of policy decisions taken in other spheres of government. When national government decides to buy a new military aircraft or weapons system, there is what economists call an “opportunity cost”. The opportunity cost of a weapons system is what was sacrificed in order to buy the weapons. One of the opportunity costs of increased defence expenditure is services for historically disadvantaged communities (another is public sector wage increases).

The counter view means that the struggle for a pro-worker national economic policy is linked to the question of financial sustainability of municipalities. For example, since 1996, tax on company profits has fallen from by almost 40%. This reduction in corporate taxes means that less money is available from national government to finance local government services and operations.

Lastly, the counter to the market solution queries the desirability of selling off public assets. Such

The idea of “one city, one tax base” was that the income from the historically white areas would be used to subsidise service delivery and infrastructure development in the historically black areas.



The approach followed in Porto Alegre is a clear counter to that of running the city as a business.

a process may raise some money in the short term but will it contribute to financial sustainability in the long run? Such a process needs to be examined very closely. To use an example from our households: Because you don't have money for food today, does it make sense to sell the cooking pot? In the long run, you will need the pot to cook again.

Similarly, selling off an office block used by municipal workers may only lead to increased rent costs in the future. If assets are sold off, who determines the price? Selling off public assets or even awarding contracts to the private sector can also lead to corruption, since huge sums of money are often involved.

Those who attempt to counter the market solution generally argue that financial sustainability must not be considered in isolation from the general sustainability of a democratic and equitable society which improves the quality of life for its citizens.

### A privatisation question?

In Queenstown a municipal swimming pool was sold for R1 000. Did this contribute to financial sustainability for the municipality? Was this a market value? Did this sale help to reduce corruption in the municipality or was it an example of corruption?

### International experience

A number of municipalities have attempted to counter the notion of municipalities run as a business by developing a democratic process of city planning. One of the most important

examples of such alternatives is Porto Alegre in Brazil:

### Porto Alegre: participatory budgeting

Porto Alegre is a city of 1,3 million in southern Brazil. In 1989 a Workers' Party (PT) local government came into power. The new local authority found the municipal finances in a mess. 98% of all income was spent on salaries — leaving little for development. To help address these problems, a participatory budgeting process was set up. We will now briefly describe and analyse this process.

The PT government began the process of transformation by increasing the number of administrative regions from four to sixteen. Most regions have between 40 000 and 100 000 residents. Each of these regions has a budget forum. This forum decides on priorities for the region. At the regional budget forums, neighbourhoods put forward their demands for expenditure. From the proposal of the various neighbourhoods, the forum must then decide which are to be the priority for the region. Technical experts from the municipality attend these regional forums as well, answering questions and giving advice. But the technical experts do not have the final decision about the investment priorities of the region — the forum does! The region then elects two delegates and two alternates to represent them on the Budget Council. All in all, about 14 000 people participate in budget forums throughout the city.

The Budget Council has final decision-making power over the city budget. Each year the city presents a proposed budget to the council. The city proposal recommends how much money should be spent on each function (for example health, transport, and water). The council then reviews the proposal over the course of several weeks of meetings and either accepts it or makes changes. In some years the council accepts the proposal, in other years millions of rands worth of changes are made. Once the money is allocated, the regional forums have a monitoring responsibility to make sure that projects for which funds have been allocated are implemented.

### Porto Alegre and democracy in local government

The approach followed in Porto Alegre is a clear counter to that of running the city as a business.

Norwegian workers show that the actions of the labour movement take many forms.



The Porto Alegre approach (which is also followed in many other municipalities in Brazil where the Workers' Party has power) is based on a number of assumptions about local government. Firstly, this approach implies that grassroots structures are the key to developing local government. While local government officials advise the forum and Council and draw up proposed budgets, final power rests with the popular structures. Experts must submit to the authority of citizens.

Secondly, rather than centralising power and authority, the Porto Alegre approach gives power over resources to neighbourhoods and communities.

Thirdly, the Porto Alegre approach assumes that people have both the will and the skills to be able to control their lives and make financial decisions about their lives. This is a big difference to the market-oriented approach. In the market-oriented approach, residents are viewed as "consumers" whose role is to consume the services provided by the service deliverers. But the residents of Porto Alegre are full citizens with political rights. They are not passive consumers but active participants in making decisions about service delivery

Lastly, the Porto Alegre approach is an integrated approach to local development. Different services are not divided into business units or separate companies. The assumption of the Porto Alegre approach is that a municipality has no core business — it must take responsibility for the lives of the people who live there, including setting up structures like the forums and Council where citizens can build up their capacity to control their lives. With regard to financial sustainability, the Porto Alegre approach places responsibility for this in the hands of the citizens, not with international experts or high-priced consultants. Also the integrated approach takes into account that the activities of one sector impact on the others. For example, if there is high-quality water service, it will improve the health of the population — thereby reducing the health care demands (but also changing the types of health problems which emerge). Setting up separate business units leads to a separation of the impact of the services as well.

## SANCO

In 1994 SANCO wrote the following about communities and local government under a democratic dispensation. Is this the reality of today?

Community groups are expected to have a major say in what local governments do in their areas, especially with respect to planning decisions. And they should be able to play as active a role as they wish. But government cannot throw the responsibility for provision onto community groups.

Democratic local government has the responsibility to allocate resources fairly throughout the entire town or city. Community groups have the role of demanding improved services, new schools, better roads and so on for their own area. Thus, all over the world, there is a permanent tension between local government and community groups and this will occur here as well. It is a healthy part of the democratic process.

Recommendations: Money is power and reversing apartheid relations means money must be given to communities and not developers or gatekeepers.

*Making People-Driven Development Work*  
SANCO, 1994

The assumption of the Porto Alegre approach is that a municipality has no core business — it must take responsibility for the lives of the people who live there.

## Debate number three: We need partnerships with business to deliver!

Low-income people cannot afford to pay the full cost of basic services like water and refuse removal. If they cannot pay, does it mean they are not entitled to services?

### Key issue

A number of the democratic government's promises for service delivery have not been fulfilled. Affordable housing for the majority is not being delivered. Municipal services are not meeting demand. While local governments are aware of these problems, they are unable to deliver. We have lots of nice-sounding policies but there is little implementation. Urgent action is needed or we may descend into total chaos.

### The market solution

The supporters of the market approach argue that the solution is partnerships between the government and the private sector. They recommend that services should be contracted out through a range of public-private partnerships (PPPs). PPPs will help to increase the capacity of local government to deliver. Through such partnerships the skills, experience and resources of business supposedly will be brought in to take the weight off local government. In many services such as waste removal and water, there are companies with years of international experience which are eager to do business in South Africa. Such companies will ease the burden on local government, and provide efficient, high-quality service even to previously disadvantaged areas. To ensure the efficiency and quality of services, supporters of the market solution propose that municipalities can monitor the performance of service delivery.

### Building a counter to the market

A counter view to the market questions a number of aspects of PPPs. Firstly, there is the question of the profit motive of the private sector. Many South African communities, especially black communities, are poor. In particular people residing in rural areas or informal settlements are unlikely to have high incomes. Low-income people cannot afford to pay the full cost of basic services like water and refuse removal. If they cannot pay, does it mean they are not entitled to services? The RDP promised some basic "life lines" for people. Will the private sector honour these even if it eats into their profit?

Secondly, there is the question of accountability. Businesses are accountable to shareholders for profit. Even if companies are providing service to the community, that is not their first priority. Profits are the most important goal — the "bottom line" as they call it in business. Moreover, if local government does not deliver, it can be voted out of office. Its decisions can be contested at council meetings. But a private company has no such direct political accountability to the community.

Thirdly, a counter view to the market questions whether partnerships will enhance the capacity of the local government to deliver. Many PPPs are based on long-term partnerships of 20 to 30 years. At present many municipalities have considerable capacity to deliver. But if service delivery is outsourced for 20 or 30 years, the local authority will lose what capacity it does have. This will become a permanent handing over of services to the private sector.

Fourthly, a large part of the reputation of the private sector's efficiency is based on cutting down on the costs of labour. This often involves retrenchments or cutting back on wages and benefits. In a country with an unemployment rate of roughly 40% and a high number of "working poor", job losses and increased poverty should not be promoted.

Lastly, monitoring the performance of private companies is not an easy task. In some cases, it may take nearly as much expertise to monitor the service as to deliver it. Moreover, many companies do not actually want to be monitored. They can make more profits when regulations are not strict or are not enforced.

### International experience

Part of the motivation for bringing in the private sector is to increase efficiency and reduce corruption. Yet there is considerable international experience which calls into question the capacity

of the private sector to deliver. The private sector's capacity has been questioned in four areas. Firstly, there are a number of instances where privatisation and contracting out have been linked to cases of corruption. Secondly, in many instances, private service providers are not directly accountable to the communities. Thirdly, there have been instances where the actual delivery performance of the private sector companies has led to problems which were far more serious than ever took place under public sector delivery. Fourthly, in many municipalities where privatisation has taken place, the poor have ended up worse off due to increased cost of services. We will look at international examples of each of these capacity problems of the private sector.

### Corruption

International experience reveals a number of forms of corruption in contracting services to private sector companies. One string often attached to privatisation is aid. For example, the then Prime Minister of Britain offered aid to Malaysia build rural water supply infrastructure — on the condition that the British company, Biwater, be given the contract to do the construction. One Malaysian diplomat said: "She stood up and offered aid to build the rural water supply project. It was to be built by Biwater, a British firm. We could have done it ourselves but the money was offered — and we accepted." Sometimes corruption is not so subtle. For example, in France a court investigation found that the three largest construction companies in the country, Vivendi, Suez-Lyonnaise and Bouygues had a secret agreement to share all school construction work in the country. This agreement was solidified by giving 2% of the value of each contract to the three main political parties — a bribe to keep out the competition. In Grenoble, France the mayor and a water company executive were sent to prison for being involved in bribes for water service contracts. Citizens discovered that the price they paid for their water included a surcharge to pay for the bribe. Finally, in March 2000, the city council voted to cancel the contract. Having learnt their lesson, councillors are now bringing the operation of water back inside the council itself.

### Accountability

While many businesses claim to be transparent and promoters of democracy, there are a number of cases where they have inserted clauses into contracts which are clearly undemocratic. For example, in Pakistan a German company bidding for water services demanded "a free hand...without any political interference and a complete ban on worker unions".

Other privatisation initiatives have also been linked to the suppression of trade union rights. In the West African country of Senegal, several trade union leaders were detained for six months in 1998 for organising a campaign against privatising the state electricity company, SENELEC.

### Performance

Perhaps the most widely-cited motivation for bringing in the private sector is their capacity "to deliver". Yet international experience has revealed a wide range of examples where the performance of private sector delivery has been disastrous — much worse than anything which occurred under public sector delivery. A few of the most important examples follow:

In Auckland, New Zealand a state-run electricity supply company was changed to run along business lines (commercialised) in the 1990s. From February to May of 1998 repeated blackouts of the central business district occurred. One lasted up to two weeks — the longest ever





**In Cochabamba, Bolivia tens of thousands of citizens confronted authorities when water prices rose after privatisation.**

recorded in any major city. Private sector deliverers have made it into the Guinness Book of Records for causing the longest power blackout!

Auckland is not the only place such blackouts happened. The following year Buenos Aires, Argentina, suffered a ten-day blackout, shortly after privatising the city's electricity service. This was the second longest blackout in world history after Auckland. And these two were joined by Rio de Janeiro, Brazil, whose residents suffered repeated blackouts after the electricity companies were privatised.

But electricity is not the only service where privatisation has led to serious problems. When water was privatised in Tucuman, Argentina, the quality worsened sharply, so orange-coloured water was coming out of the taps. The people voted to get rid of the party which had introduced privatisation, and the new council terminated the contract.

When water was privatised in the city of Pecs, Hungary, the price was increased sharply by the multinational company that took over. The

councillors found that the small print of the contract state that the council guarantees that the company will always make a profit.

In June 2000, in the Canadian city of Walkerton, Ontario at least seven people died from drinking water from the local taps. Another 2000 became ill from the water supply. This incident was the result of a high presence of *E. coli* bacteria in the water. But the presence of such bacteria is supposed to be monitored by the water supply authorities. In this case, municipal restructuring had led to the privatisation of monitoring the quality of water. Government labs were closed down across the province and many private companies contracted to do the work. But their contract did not place any legal requirement on them to inform health officials of problematic test results. As a result, although the company knew about the high levels of *E. coli* a week

before the deaths, proper authorities were not informed. Action to improve the situation was only taken after people died.

These are but a few examples of poor performance by the private sector in service delivery. But each of these cases raises crucial issues of accountability and priorities. In the case of the electricity blackouts in Auckland, an independent study showed that the power company "had been too preoccupied by its takeover mania to do anything but make plans for an alternative (electrical) feed". In other words, the company was far more worried about playing global markets, taking over other companies and generating profits for shareholders than ensuring proper infrastructure was in place. In the case of the tap-water poisoning in Canada, the company apparently did its job according to description. That is, it analysed the water and prepared a report. But it did not take re-sponsibility for the identifying the seriousness of the problem and taking action to address it. In short, its own operational requirements, not the health of the public, were its major concern.

In South Africa, these problems of performance and accountability must be looked at before partnerships are formed — not after disasters take place. Perhaps an example to learn from is that of the people of Debrecen in Hungary. They compared the cost of running water themselves with the costs of privatisation and discovered that it was more efficient for the municipality to run the service. Not only that, the construction work is also done by local workers — instead of making more lucrative profits for the multinationals.

## Affordability

Another key area where the private sector's performance has been highly suspect is the question of affordability. In a large number of municipalities, privatisation has led to large-scale increases in service fees and cutoffs. In Cochabamba, Bolivia, the privatisation of water led to tariff increase of up to 50%. Some workers were paying 20% of their monthly wages for water. The situation became so critical early in 2000 that mass demonstrations were held. Eventually there was a general strike and the local government was forced to cancel the contract with the US-based company Bechtel. However, the national government over-ruled this action, stating that the contract should remain. This led to demonstrations across the country and a struggle over water which continues.

Even in France, one of the few industrialised countries where water is privatised, the cost of water increased at 10% per annum throughout most of the 1990s. This was high above the inflation rate. Companies blamed the price rises on the cost of building infrastructure. But in one town, Egletons, the price of water more than doubled in three years following privatisation even though responsibility for infrastructure remained with the council.

## A constitutional right to water?

We don't have to look around the world to see rising water and electricity tariffs and cutoffs. They are happening in South Africa at an alarming rate. According to the government some 3 million people gained access to water by through government

provision of infrastructure post-1994. Yet some estimates are that up to half of these people have since lost access. In some townships thousands have been cut off. In Chatsworth (Durban), Christina Manqele, an unemployed woman responsible for looking after seven children, had her water cut off for non-payment. She took the local authority to court, arguing that this violated her constitutional right to water. She won the first round forcing the municipality to give her a minimum amount of water each day as a life line.

Apart from bringing out problems with the performance of the private sector, international experience has also shown that there are a number of instances where public sector companies from one country have been brought in on a short-term basis to help build public sector capacity in the host country. One of the methods for achieving this is "twinning" — pairing a municipality in Western Europe with a municipality in another part of the world. Such twinning is one form of a "public-public partnership" or PUP — a partnership where one public sector authority or company helps to build the capacity of another public sector authority or company. PUPs have been implemented widely in water service. Perhaps the most frequent participants in PUPs are public sector companies from the Nordic countries (for example the Netherlands, Sweden, Norway and Finland). Many of these projects have taken place in Eastern Europe but some have involved countries of the South.

For example, from 1991 to 1998 the Dutch water company GWA provided capacity building for water companies in Alexandria, Egypt. Another Dutch company, WMD Drenthe, was involved in a similar initiative in Ambon, Indonesia. One of the first such PUPs occurred in Malawi in the early 1980s. In that instance the British public sector water company (which has since been privatised) provided sustained training and other support to a company in the city of Lilongwe, Malawi. This had a dramatic impact in reducing unaccounted for water and increasing access to water and sanitation.

...international experience has also shown that there are a number of instances where public sector companies from one country have been brought in on a short-term basis to help build public sector capacity in the host country.

But the key issue which Malung highlights is the need to put workers at the centre of the process of any restructuring or transformation.

## A South African PUP

In September 1999 a public-public partnership for water delivery was formed in the North West province. Covering the area of Odi, this partnership linked the government water provider, Rand Water, with the municipalities of Winterveldt, Mabopane and the Eastern District Councils. Instead of privatising water services, this partnership agreed that Rand Water would use the next three years to capacitate the municipality so that it could operate and maintain the water delivery system. This was the first PUP for water service in South Africa. The South African Municipal Workers Union (SAMWU) as well as a number of organisations and individuals played a leading role in bringing about the agreement.

## Worker control

Another alternative to privatisation is to build the capacity of the existing workforce and give it more control. This was done in one municipality in Sweden, Malung. In 1991 the union in the municipality took on the responsibility for cutting costs by 10% in order to keep their jobs and provide better services. To do this, they divided the workers into teams of 10 to 12 people. One person from each group was given training to facilitate a process amongst the workers to analyse their work and their organisation. This process took about 10 months altogether. The result was not only that the 10% cuts were reached, but that workers gained more control over the work process and management of the system.

### One of the union officials described the process

"The members become researchers in their own jobs. They discuss how to improve quality, where responsibility lies and should lie, and what their training needs are. They measure the costs of specific tasks, so that each person knows the costs associated with his or her own job."

This approach was the result of the need to develop an alternative to market-oriented restructuring which was taking jobs in other municipalities in Sweden. But it also was part of an effort to improve the quality of services to local citizens. As Lars-Ake Almquist, one of the trade union officials, put it:

"In order to confront requests for cuts in public services or privatisation, SKAF (the union) has realised that just trying to refuse changes is not very constructive, especially as some of the accusations of inefficiency in the public service have definitely been true. SKAF has for many years stressed that the traditional hierarchical organisation of work in local government administration must of necessity be inefficient if it does not involve the knowledge and experience of employees."

The Malung example has been followed by more than 60 municipalities across Sweden as a response to market-oriented restructuring.

The Malung experience raises a number of issues. Firstly, there is the question of how to cre-



ate alternatives which increase worker control. If workers are simply given a task of cutting back on costs without having resources to research and design alternatives, they may just end up forcing themselves to work harder for less money. Secondly, how do workers balance their need for jobs and acceptable working conditions with the demands for service? This is a more pressing issue in South Africa than in Sweden. In Sweden, existing services and infrastructure are far more advanced and equitable than in South Africa. In South Africa the pressure to improve and expand service delivery will always create pressure for municipal and public sector workers to be more “productive”. At times such pressure may be genuine, and at times it may be motivated by market-oriented demands. But the key issue which Malung highlights is the need to put workers at the centre of the process of any restructuring or transformation.

### Cape Town workers speak

The urge for workers to be heard in municipal restructuring has been expressed in South Africa as well. In 2000 ILRIG conducted a survey of municipal workers in Cape Town about restructuring. These are some of their comments about the problems in their metro area:

“We’ve got dictatorship rather than partnership. Council decided what they wanted to do on behalf of the workers”.

“If they take the time to listen to what we say, most of the problems will be resolved”.

This is an article from the *Natal Mercury*, 7 April 2000. Although Umgeni is a parastatal water board, it is now commercialising — operating more along business lines. If this continues, we may see more and more articles like this in our newspapers.

### UMGENI WATER STANDS FIRM ON 13%

Durban’s water consumers — many of them already struggling to pay their bills — will be slapped with a 13% increase because of

Umgeni Water’s refusal to budge on its annual above inflation bulk water tariff hike. The big jump for the Metro’s consumers was passed by the council yesterday after negotiations between Umgeni Water and local political leadership failed to reduce the bulk supplier’s own 13% increase. Umgeni Water’s inflexible stance has drawn harsh criticism and led to a call for intervention from the National Ministry... The increase will be an added burden on hundreds of metro consumers and is almost certain to add to the council’s rising water debts, which are currently standing at R204 million. Every month hundreds of disconnections are being effected because of the growing number of consumers who cannot pay their bills ...

### Conclusion

In this booklet we have tried to present some key issues of debate for public sector and municipal workers involved in issues of municipal restructuring. In particular, we have tried to discuss ways in which workers and communities have experienced market-oriented restructuring. We have attempted to do three things.

1. To highlight the debates and struggles over the issue of municipal restructuring.
2. To look at examples of where the market-oriented approach has failed to promote democracy or deliver high quality services.
3. To look at examples where workers and communities have developed their own alternatives in order to advance their interests.

We hope the issues and international experience presented in this booklet will be of assistance to South African workers as they take forward the struggle for democratic local government which meets the needs of the citizens who have fought for so long and so heroically to improve their lives. We think international experience shows that the public sector, not the market, offers the best service to communities and the best opportunities for workers.

If workers are simply given a task of cutting back on costs without having resources to research and design alternatives, they may just end up forcing themselves to work harder for less money.