STRATEGY TO TRANSFORM STATE-OWNED ENTERPRISES

Acronyms and Abbreviations

ACSA - Airports Company of South Africa

AFS – Annual Financial Statements

A-G – Auditor-General

ALEXCOR - Alexander Bay Corporation

ANC - African National Congress

CEO - Chief Executive Officer

CFO – Chief Financial Officer

COO - Chief Operating Officer

COSATU - Congress of South African Trade Unions

DA - Democratic Alliance

DPE - Department of Public Enterprises

ESKOM - Electricity Supply Commission

GAAP – Generally accepted accounting principles

GDP - Gross Domestic Product

ICT - Information and communications technology

IMF - International Monetary Fund

ISMO - Independent System Market Operator

KPI - Key Performance Indicators

PETROSA - Petroleum Oil and Gas Corporation of South Africa

PFMA – Public Finance Management Act

PRASA - Passenger Rail Agency of South Africa

PRC - Presidential Review Commission

SAA - South African Airways

SABC - South African Broadcasting Corporation

SAFCOL - South African Forestry Company

SANRAL - South African National Roads Agency

SAPO - South African Post Office

SAX - South African Express

SCA - Supreme Court of Appeal

SOEs - State-Owned Entities

SCM - Supply Chain Management

Contents

1. Introduction

South Africa's (SA) state-owned enterprises (SOEs) are in a crisis and have been for several years now. The combined profitability of state-owned entities, measured by return on equity, fell from 0.8% in 2015/16 to 0.3% in 2016/17[1]. Several are in financial distress. Despite numerous moves by government in the past, no solution to this crisis has yet been realised. It is clear that the transformation of SOEs is a vital step in unlocking and kick-starting the SA economy which currently hovers at a meagre 1.3% Gross Domestic Product (GDP) growth rate in 2017[2]. This paper will set out a number of solution-tailored plans by the Democratic Alliance (DA) that can be put in place within SOEs to end the current crisis**.**

The continual downward spiral of SA's SOEs is eroding our country' credibility on the global stage. The worst performers – including South African Airways (SAA), South African National Roads Agency (SANRAL), Petroleum Oil and Gas Corporation of South Africa (PETROSA), South African Post Office (SAPO), South African Broadcasting Corporation (SABC) and Passenger Rail Agency of South Africa (PRASA – draft report) – made a combined loss of more than R15 billion in the 2016/2017 financial year, representing 28% of all losses. Other SOEs in financial stress include Denel, SA Express and the Electricity Supply Commission (Eskom). Overall, loss-making public entities totalled R53.7 billion in losses for the 2016/17 year-end[3], that is 38% of all entities. Together, SOEs represent a major risk to the financial standing of our country through a cumulative R466 billion in government guarantees as at the 2017/18 financial year-end. These government guarantees have created additional liabilities to which our fiscus is hamstrung by thus potentially diverting vital funds and resources away from higher education and job creating initiatives. However, what is more concerning is the increase in the exposure that the fiscus has to these guarantees; this is the actual amount of the guarantee that a public institution has utilized. The exposure increased by R10 billion from R290.4 billion in 2016/17 to R300.4 billion in 2017/18. This exposure can affect SA's ability to access the debt market and pay off its debts given potential ratings agency downgrades[4].

Finance institutions are highly alarmed about governance failures within SOEs. Over the past year, the majority of these SOE bond auctions have either been cancelled or undersubscribed. This has led to severe liquidity shortfalls, and calls on the state to extend assistance through guarantees or recapitalisation. In the 2017/18 year, SOEs required an additional R 13.7 billion in recapitalisation from the government with SAA currently calling for a further urgent R5 billion recapitalisation (R21.7 billion is the total required over next 3 years) along with a plea from SA Express for further financial assistance[3].

In a World Economic Forum (WEF) report, the International Monetary Fund (IMF) has echoed the sentiments of credit rating agencies, Standard and Poor (S&P), Moody's and Fitch, stating that measures to improve SOEs efficiency and governance, including through greater private participation, can lift growth prospects and reduce contingent fiscal risks for SA.

Moody's did place SA's Baa3 ratings on review for downgrade in its November 2017 report[5]. The review allowed the rating agency to assess the government's willingness and ability to address

[1] http://www.treasury.gov.za/documents/national%20budget/2018/review/Chapter%208.pdf
[2] http://www.statssa.gov.za/?cat=30
[3] Consolidated financial statements (2017), National Treasury, pg. 125 - 128
[4] http://www.treasury.gov.za/documents/national%20budget/2018/review/Chapter%207.pdf
[5] https://www.moodys.com/research/Moodys-places-South-Africas-Baa3-ratings-on-review-for-downgrade--PR_375816

improvements to SOE governance that contain contingent liabilities along with a number of other measures. Moody's has subsequently changed its outlook to stable in March 2018[6]. Moody's did however, downgrade Eskom's credit rating to B2 in March 2018, the fifth rung of sub-investment grade debt[7].

S&P commented in its November 2017 report that there are increased risks to central government finances from non-financial public enterprises with weak balance sheets that require further extraordinary government support[8]. Specific mention was made of Eskom and its weak financial predicament with R87 billion still required to complete build projects such as Medupi and Kusile. In February 2018, S&P downgraded Eskom's credit rating, lowering its junk status from "highly speculative" to "substantial risks" in reference to liquidity concerns and a lack of government support[9].

Fitch stated that SA's ratings were "weighed down by low trend growth, sizeable government debt, contingent liabilities and deteriorating governance standards in its November report. Fitch Ratings did keep SA's long-term foreign and local currency debt ratings at 'BB+ '(junk) with a stable outlook[10]. It downgraded Eskom's credit rating from BB+ to BB- in January 2018[11]. In February 2018, Fitch reiterated that the largest risk to SA's sovereign rating was SOEs, referring particularly to Eskom and its financial pressures. Fitch highlighted that any private-sector participation would face political hurdles[12].

Given the rating agencies' concerns and our current SOE crisis, the DA believes it is vital to address the situation urgently with a well thought-out plan of action to improve the performances of these critical entities that can unleash growth and employment within a hamstrung economy.

2. Background

There are roughly 715 SOEs serving various social and commercial objectives in the different spheres of government. The ownership structure of SA's state assets was reviewed shortly after 1994, with agreement being reached between government, business and labour, including the Congress of South African Trade Unions (COSATU) through the National Framework Agreement (NFA) on Restructuring of State Assets of 1995.

The NFA stated that the restructuring of SOEs should be designed to encourage domestic and foreign investors to invest in new economic projects. It noted that the effectiveness, sustainability and viability of SOEs was vital to the objective of maintaining and generating employment opportunities. Moreover, that restructuring proceeds should be used along with improved financial management systems to reduce state debt where appropriate.

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[6] https://www.fin24.com/Economy/just-in-moodys-keeps-sa-at-investment-grade-20180323
[7] https://www.fin24.com/Economy/Eskom/eskom-looks-for-silver-lining-after-moodys-downgrade-20180329
[8] http://www.politicsweb.co.za/documents/why-weve-also-downgraded-sas-local-currency-rating
[9] https://www.businesslive.co.za/bd/companies/energy/2018-02-28-sp-global-puts-eskom-deeper-into-junk/
[10] https://www.fin24.com/Economy/fitch-keeps-sa-ratings-at-junk-with-stable-outlook-20171123
[11] http://www.eskom.co.za/news/Pages/2018Jan31B.aspx
[12] https://businesstech.co.za/news/government/227491/the-biggest-risks-still-facing-south-africa-fitch/

Progress since 1995 has however been slow, while SOEs have grown increasingly uncompetitive and burdensome to the state. This necessitated the government's establishment of a Presidential Review Committee (PRC) in 2010 to review and address the issues facing SOEs.

The PRC aimed to present recommendations for reforms of SOEs that would make them more efficient and effective in accelerating the country's growth and development aspirations.

The PRC report concluded that:

- The ability of these SOEs to remain viable while delivering on determined socioeconomic imperatives should be transparently measured through an SOE scorecard and electronic performance management system;
- Government must delineate the separate roles of government as owner, policy-maker, regulator and implementer;
- Government must maintain a consolidated SOEs database; and
- There must be recognition that SOEs are critical in attaining the objectives of the developmental state.

Further, on the issue of non-financially viable commercial SOEs[13], the report states that these SOEs:

- Must be rationalised based on certain criteria; and
- Must be injected with private sector practices in order to gradually phase them into commercial entities with a mix of public and private equity ownership, or to completely dispose of them as state entities.

The PRC's recommendations were approved at a Cabinet meeting in April 2013 by the President at the time, President Jacob Zuma, and he commented in his 2016 State of the Nation Address that government would be implementing the recommendations of the PRC on SOEs.

In August 2016, former President Jacob Zuma was named as chairperson of a new co-ordinating committee that will oversee SOEs based on the recommendations of the PRC, to be known as the 'Presidential SOE Coordinating Council'. However since then, nothing has progressed in terms of this report. We cannot allow any more delays in the PRC reports implementation, especially considering that it has been 3 years since the report has been released. If the new President, Cyril Ramaphosa, is serious about the rejuvenation of SOEs in his "new dawn", he must announce a deadline for this process to be completed, otherwise this is another stalling tactic to subvert any real change.

With the arrival of President Cyril Ramaphosa, the landscape has shifted substantially. He has been vocal on cleaning up and prosecuting corruption in SOEs. In Ramaphosa's state of the nation speech in February 2018, he said the government would urgently overhaul the appointment of oversight boards of SOEs, which up to now had been plagued by allegations of corruption, financial mismanagement and maladministration. He has stated that they would be looking at tightening the auditing of the finances of SOEs through the Auditor-General (A-G) and removing board members from any procurement involvement. With Pravin Gordhan now in charge of the Public Enterprises Ministry, a number of the SOE boards have been replaced including Eskom, Denel and Transnet.

[13] Commercial SOE: A legal entity that is created by the government in order to partake in commercial activities on the government's behalf (www.presidency.gov.za)

3. State Capture

The well-documented state capture project has been undertaken by the Guptas, the Zuma family, a number of Ministers, government officials, SOE executives and Gupta-linked lieutenants. It has hollowed out our SOEs and destroyed corporate governance. Billions of rands have been looted from these entities through a shadow network of procurement irregularities, Black Economic Empowerment (BEE) fronting, inflated contract prices, middleman service fees and kickbacks. A few incidents that emphasize this point include Ministers and executives influencing the sale of Optimum mine to Tegeta (Gupta-owned), prepayments for coal to Tegeta and inflating coal prices between Eskom and Tegeta[14]. At Transnet, there was the infamous R5.3 billion kickback for the locomotive deal where a Gupta firm received R10 million in commission for every train provided by Chinese firm China South Rail[15]. Then there is the McKinsey/Trillian service level agreement with Eskom where R1.59 billion in fees was charged for "turnaround" advice given to Eskom that supposedly would assist Eskom reach financial stability[16]. There are a number of other incidents where service agreements, IT agreements and infrastructure projects have been tainted by this nefarious network.

State capture has destroyed SOE credibility in the market along with reducing the sovereign and SOE ratings. Corporate governance and the financial stability of the SOEs has also been severely affected.

With Parliamentary Inquiries into Eskom, Transnet and Denel underway and a Judiciary Commission of Inquiry being set up to investigate state capture, swift action is needed to charge and prosecute all those implicated in this network which has been raised in the inquiries on numerous occasions.

We, as the DA, have laid charges in this regard including the Bank of Baroda (facilitator of Gupta funds), Anoj Singh (ex - Chief Finance Officer of Eskom), Brian Molefe (ex - Chief Executive Officer of Eskom), SAP (international IT firm), McKinsey (management consulting firm), Trillian (Gupta-linked firm), and Matshela Koko (ex-CEO of Eskom)

The next step following the charges will be for the Treasury and the Asset Forfeiture Unit along with other financial bodies to recover the funds stolen.

4. Auditor-General's Report on SOEs

The A-G compiled a report on SOEs and the Department of Public Enterprises (DPE) in the National and Provincial Audit Outcomes, in November 2017. A few key points have been extracted from this report[17].

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[14] http://amabhungane.co.za/article/2017-06-09-guptaleaks-how-eskom-was-captured

[15] http://amabhungane.co.za/article/2017-06-01-guptaleaks-guptas-and-associates-score-r53bn-in-locomotives-kickbacks

[16] http://amabhungane.co.za/article/2017-09-14-how-mckinsey-and-trillian-ripped-r16bn-from-eskom-and-planned-to-take-r78bn-more

[17] AG Report, 2017
https://www.agsa.co.za/Portals/0/PFMA/201617/GR%20Sections/04%20status%20of%20state-owned%20enterprises.pdf

Six SOE audits had not been completed due to delayed financials including SAA. Of the 19 audits completed, three were qualified opinions and two had adverse findings. A qualified opinion describes a situation where parts of the financials do not comply with generally accepted accounting principle while adverse findings indicate a materially misstated financial statement and, when considered as a whole, do not conform to Generally Accepted Accounting Principles (GAAP). SAPO and PETROSA both raised going concern issues to the A-G, which indicates that there are concerns that the entity cannot remain in business for the foreseeable future.

The number of SOEs with irregular expenditure decreased slightly but the value increased significantly.

The main contributors in 2016/17 were the following:

- ACSA - R1.1 billion (2015-16: R134 million) – 60% was as a result of non-compliance with legislation on contracts

- SAPO – R719 million (2015-16: R127 million) – 45% was as result of non-compliance with procurement process requirements and 37% as a result of not following competitive bidding or quotation processes

- SABC – R687 million (2015-16: R764 million) – 75% was a result of not following competitive bidding or quotation processes

The 2016/17 irregular expenditure of the significant-risk SOEs the A-G did not audit was:

- Eskom - R4.4 billion
- Transnet - R923 million
- Denel - R146 million

PRASA's 2016/17 Annual Financial Statements (AFS) have not been finalised, however it incurred R14.66 billion in irregular expenditure in 2015/16.

Other findings adverse findings: Six of the SOEs did not have chief executive officers at year-end, vacancies at senior management level was up to 17%, there was a lack of appropriate skills at board level, and a large amount of instability existed at board and executive level.

According to the A-G, government should work towards a consistent strategy for SOEs, which includes firm commitments to support strategic SOEs where the economic climate is affecting their sustainability. SOEs should strengthen their financial and performance management systems to account, in a credible manner, on their finances and performance. The oversight by the departments, ministers and parliamentary committees responsible for the SOEs should include strong in-year monitoring and ensuring that governance policies and practices are in place. Boards and chief executive officers should be held accountable for the delivery and financial results of the SOEs, and there must be immediate and effective consequences for poor performance and transgressions[18].

[18] AG Report, 2017 https://www.agsa.co.za/Portals/0/PFMA/201617/GR%20Sections/04%20status%20of%20state-owned%20enterprises.pdf

The A-G's report condenses the problems and issues within SOEs into a few major themes which the DA will address in the following section.

5. The DA's plan to turn SOEs around

While government has acknowledged that our SOEs are failing, they seem to lack the political will to fix them as demonstrated by the constant delays in implementing action plans to restructure them. This will may be lacking due to the patronage network that has enveloped SOEs in SA and benefits from the corruption. This political will is crucial for the effective implementation of a turnaround plan. The DA will outline a detailed action plan to turn around SOEs in SA and restore confidence to investors in the points below. The DA has taken the above recommendations from the PRC report into consideration along with the A-G's comments and included further ideas from the private sector. These have been broadly grouped into six steps that can be implemented effectively.

5.1 The de-politicisation of boards

Political appointments to the boards of SOEs through the African National Congress (ANC's) cadre deployment policy have come at the cost of exceptional board members with the requisite skills and knowledge required to lead these massive institutions. Instead, a number of boards were captured by political rent-seekers or connected individuals, such as Dudu Myeni (ex-chair of SAA) who is a known Zuma ally. At Denel, a new board was installed and soon after a joint venture between Denel Asia and a Gupta-linked company, VR Lazer Asia was setup without the requisite Treasury approval in terms of the Public Finance Management Act (PFMA).

The Public Protector found in her State Capture Report that certain Eskom board members and the ex-CEO, Brian Molefe, had an unhealthily close relationship with the Guptas. It was inferred that Ajay Gupta and members of his family stood to benefit directly from contracts awarded by the Eskom board while Molefe was in such frequent contact with them via telephone calls and house visits. He was deemed a good friend by Ajay Gupta, and in a position of influence as the CEO of the board of Eskom. This represents a breach of the PFMA.

This state capture has exposed our SOE boards to increasing political interference in the awarding of tenders and contracts which has led to a loss of brand power, hollowed out balance sheets and a loss of integrity. Restoring confidence in SOEs requires the de-politicisation of boards in order to rid them of undue influence and thus eliminate political drag.

To this end the DA would advocate for a number of solutions:

- *Board members must be appointed first and foremost for their business knowledge and expertise, and not on their political connections*
- *Following on from this, board members need to be vetted for political connections including key Ministers and Cabinet positions*
- *SOE boards and executives must be appropriately skilled in understanding the unique role they play and the outcomes they must achieve*
- *Board appointments need to be made with a clear mandate to instil stability, confidence and vital skills on the board of SOEs*
- *Board members need to be vetted for conflicting business interests with the SOE and its suppliers*

- *Board members need to be vetted to make sure that they have the relevant business experience*
- *Life-style audits should be carried out once a year*
- *A Director's Academy should be created, with the primary objective of providing the directors of SOEs with world-class knowledge and management skills*
- *A Codes of Good Practise for SOEs should be developed to govern board members and incorporate these ideas*

5.2 Introduce professional expertise

The lack of commercial expertise and requisite skills on SOE boards and among top management has created an environment in which decisions are not always made with profitability or sustainability in mind. This has led to poor strategic and management decisions being taken in relation to costing, infrastructure spending and performance targets.

Attracting the right talent and skills is therefore a critical problem at SOEs given their decreasing credibility and the above-mentioned political issues. This is highlighted by SAA's irrational and illogical decision to pay excessive fees for the restructuring of debt by BNP Capital. The deal was subsequently reversed after much public and political pressure. Another example of this was the attempt by Dudu Myeni, to authorise a connected party of hers to buy new airplanes and arrange for SAA to lease them from this connected party at inflated costs. This deal was also eventually stymied.

At PetroSA, the CEO and CFO were suspended and subsequently fired following the company's dismal performance, bad investment decisions and a failed bid to enter the fuel retail market. PetroSA posted a R14.5 billion loss, the largest loss ever incurred by an SOE, in the 2014/15 AFS. Similarly, the decision to sell SA's strategic oil stock was sold at "discounted prices" without permission from the Minister of Energy was an astounding display of unprofessionalism/corruption.

PRASA has been in the news, with the previous CEO, Lucky Montana fired after being accused of benefiting from a corrupt deal while heading the agency last year and the latest acting CEO, Collins Letsoalo, was fired when it was revealed that he had orchestrated a 350% pay raise for himself.

The DA believes that in order to ensure that a successful turnaround plan is implemented our SOEs must first be managed by fit-for-purpose executives. This should be accomplished by:

- *Establishing SOEs as employers of choice by promoting the unique opportunities they provide talented people. This could include graduate recruitment programs*
- *SOEs must also be more open to hiring talented foreigners, who can bring much needed skills*
- *SOEs must offer competitive compensation and revamp the employee-compensation system in line with international best practices linked with stringent performance criteria, especially for CEOs*
- *Often the SOEs have staid, hierarchical and bureaucratic systems with promotion based on tenure not performance. Rewards and consequences should be based on merit, not tenure. SOEs could use a ranking system for employees rather than tenure. This generate the desired behaviour and performance outcomes, be less rigid and be based on merit*

5.3 A focus on becoming competitive

Our SOEs often juggle multiple opaque and conflicting financial and social objectives due to the DPE being the main or only shareholder. The result is that profitability and economic sustainability is juggled against ideological, developmental and political concerns. Instead of approaching decisions from a purely rational, cost-benefit perspective, issues of national interest and ideology are also taken into account.

Furthermore, SOEs are often shielded from competitive pressures given their monopolistic position in the market place. This allows SOEs to become bloated and inefficient. The example of uncompetitive practices within SOEs is firmly made with the SAA and Nationwide court case. SAA was found guilty of market dominance through incentivising travel agents unlawfully and was ordered to pay a R104 million fine[19]. SAA has also been referred to the Competition Commission by the DA for uncompetitive practices of subleasing planes to Mango at discount prices.

The DA would ensure that SOEs are guided by financial considerations and sustainability and not by ideological considerations. This would require that:

- *SOEs have a transparent and clear mandates that sets financial objectives and sustainability as the primary goals*
- *Key performance indicators (KPI) are selected covering both financial and non-financial metrics, contributing to the creation of a performance-based culture*
- *Profit and non-profit objectives of SOEs must be clearly defined and match industry standards and best practices for financial targets such as: returns on equity (e.g. 13 %), interest coverage (e.g. 2:1), and minimum debt-to-equity ratios (e.g. 1:1)*
- *Non-core activities and assets need to be examined and if necessary sold off, franchised outsourced, or terminated*
- *SOEs must pursue an operational campaign focusing on improved technical capabilities and a more effective working culture with excellence at its core*

5.4 Good governance based on transparency

Political interference can prompt decisions that threaten SOE's financial goals, as has been seen at numerous entities including SAA. The airline has continually been interfered with, as was witnessed for example in the much-maligned Airbus deal. This can lead to pressure on the supply chain side with uncompetitive and unsuitable tenders in the name of "transformation" (but really in the form of kickbacks to patrons). For example, it was revealed last year that the ANC's Chancellor House allegedly received "success fees" from Hitachi after it was awarded a contract for Eskom's Medupi Power Station. In another case,[20] Sizwe Zuma, a suspected presidential relation, was requested to be put on the new suppliers list for jet fuel by former SAA Chairperson Dudu Myeni.

Another prime example of this is the R4 billion Eskom tender awarded to Areva for steam generators at Koeberg. The Supreme Court of Appeal (SCA) overturned the awarding of the tender on the basis that the process was procedurally unfair and that the decision was based on criteria deemed irrelevant by the court.[21]

The SCA found that there was no rational basis to award the tender to Areva when the preferred bidder was in fact Westinghouse. Instead the tender was awarded citing "strategic considerations" - a smokescreen for political interference. This does raise additional red flags around the transparency of big energy build procurements which will be managed by this self-same Eskom tender committee.

[19] Case No: 12026/2012, judgement at http://www.comptrib.co.za/assets/Uploads/Nationwide-v-SAA3.pdf)
[20] News 24, SAA chair invites mystery Zuma to jet fuel talks
[21] Case No: 476/2015. Neutral Citation: Westinghouse v Eskom Holdings (476/2015) [2015] ZASCA 208 (9 December 2015)

The Public Protector found that there was a systematic failure to comply with supply chain management policies and a culture of hiding information at PRASA. This included wasteful and fruitless expenditure on rentals, termination of the contracts and irregular replacements, improperly awarded tenders and over-expenditure on the budget.

The Denton Report on Eskom found extensive evidence of procurement issues which may have breached the PFMA. These included invoices that looked fraudulent, suppliers being fronted by a beautician and a dentist, copied invoicing templates and conflicts of interest. There were a number of short/medium term diesel contracts that were paid excessively high amounts without any negotiations for discounts. This wastage on the lack of discounts may have cost the SOE R200 million over two years and would be a distinct breach of the PFMA. The Denton Report was hidden by Eskom and redacted before it was finally released after much pressure, as it implicated certain executives.

SOEs must become more transparent in order to minimise the opportunity for corruption. A major theme running through most of the corruption and governance issues is procurement within SOEs. Procurement of contracts and tenders for politically connected or related parties is hampering service delivery. Clean, transparent procurement must be the strong message that is injected into all SOEs as a focal point for good governance. The DA would see that:

- *SOEs communicate regularly (monthly) on progress achieved with regard to KPIs, and social and financial objectives to maintain public support and buy-in*
- *Performance agreements with executives must be publicly available and executives must be held accountable to these*
- *The tender awarding process over a certain value should be made open to the public at the adjudication stage to avoid cases of political interference*
- *An online portal should be developed for viewing these tenders*
- *Procurement oversight at SOEs must be strengthened through implementing regulations that would create an internal procurement oversight committee, consisting of selected internal auditors that would report to the board directly every fortnight*
- *Included in these regulations, procurement officers must be vetted extensively for conflicts of interest on an annual basis by the procurement committee*

5.5 Accelerate the introduction of private equity partners

Pressure from the ANC's pro-nationalisation alliance partners has constrained its thinking on privatisation, and resulted in decisions in relation to SOEs being based on the ANC's geo-political alignment with certain countries such as China. This has influenced their stance on SOEs dramatically. The socialistic argument that SOEs are pro-poor while private-owned ones are not is undermined by the hefty tariff increases in electricity prices and government tax increases that have been required to fund these mismanaged SOEs.

It is untenable for government to continue to support financially unviable SOEs. The DPE must accelerate the process of restructuring ownership. This requires that:

- *SOEs need to be bolstered with private equity injections. Government must look at partial or full privatisation of a number of SOEs by bringing in private equity partners and disinvesting from non-core SOEs urgently. This will bring in vital cash injections, skills, systems and expertise to turn-around a number of SOEs, while ridding the fiscus of the burden of the worst offenders.*
- *Privatisation can stimulate a more dynamic industrial infrastructure and provide SOEs with the discipline of the marketplace to bring them back to life*

The sales of SOEs would need to be managed by an independent board to prevent oligarchs from forming. Share options for employees can be offered to get buy-in for privatisation from workers. The Competition Commission would need to be strengthened to regulate the sale of SOEs *as they are currently under-capacitated to deal with this mammoth task. We have developed a privatisation strategy for SOEs and discussed the potential break-up of Eskom into a generation (privatised) and transmission (public) entity in separate documents.*

5.6 Streamline government oversight

Many SOEs currently sit under various departments and are disjointed and scattered. We currently have SAA under the National Treasury, Eskom half in the Department of Energy and half in the DPE. Denel is sitting under the DPE. Transnet is sitting half-in the DPE and half-in the Department of Transport. This has muddled the reporting lines and accountability structures of the SOEs. It has created confusion in terms of mandates via shareholder compacts and allowed certain entities to justify poor performances.

It is urgent that we dispose of the defunct and ineffective DPE and manage the SOEs under their rightful departments.

- *In the case of Transnet, government should return it entirely to the Department of Transport. Eskom should move to the Department of Energy. SAFCOL should move to the Department of Agriculture and Denel should go to the Department of Defence. This would improve the lines of accountability and communication and also align the SOEs with the efforts of their rightful sector and portfolio*
- *The entire DPE should be dissolved*
- *Another option would be to move and consolidate SOEs to different departments. Clustering and centralising would be in the following groupings: commercial, development finance institutions, statutory corporations, and non-commercial SOEs*
- *Reducing the number of SOEs and streamlining them where appropriate, would be a necessity. This will mean better synergy and efficiency and it will reduce the demand on monitoring resources*

The changes mentioned above will require a detailed action plan from the President, Cyril Ramaphosa, who heads up the SOE Co-ordinating Council and the new minister of DPE, Pravin Gordhan, as the previous Minister of the DPE has been absent and disengaged from the issue of SOEs throughout her tenure. SOE leadership needs political support and backing for this to work.

6. Summary

In summary, SOEs in SA are in a dismal state. Both ratings agencies and the A-G of SA have flagged SOEs as a major concern for the country’s economic future, with mounting government guarantees coupled with financial and commercial mismanagement. The DA has provided an action plan to address these concerns. These include streamlining government oversight, accelerating the introduction of private equity partners, implementing good governance based on transparency, becoming more competitive, strengthening oversight of the procurement process, introducing professional expertise and de-politicising the boards. SOEs should analyse the root causes of underperformance, examine best international practices, benchmark performances against their international peers and best practices, and upgrade policies and the legal framework governing the company. They should also be open to bringing in a new management team from private and public sectors to transform individual companies, communicate the strategy to all stakeholders and keep the public informed of their progress. The real change is the metamorphosis of the organization from being ruled by individuals with no checks and balances to being ruled by the law under a competent and credible board and management team, with the necessary checks and balances in place. This will help unleash much needed economic and job-creating stimuli into our flagging economy.

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