Landscape of the true extent of state-owned entities

The much awaited report of the Presidential Review Committee (PRC) on state-owned entities (SOEs) was released on 28 May 2013 by the Minister in The Presidency, Collins Chabane. *Modimowabarwa Kanyane* summarises the HSRC's contributions to the report.

State-owned entities – from Eskom to smaller service-delivery entities.

The purpose of the review, as stated by President Jacob Zuma at the announcement of the investigation, was 'to ensure that while they remain financially viable, the SOEs, development finance institutions, as well as companies in which the state has a significant shareholding, must respond to a clearly-defined public mandate and help us to build a developmental state'.

The HSRC was contracted by the PRC to provide support by conducting a qualitative survey and international benchmarking to develop a comprehensive, credible and complete database of SOEs across all spheres of the government with respect to actual number of entities, performance data and other relevant information on SOEs in the country. The HSRC team was also part of the team that finalised the report.

State-owned entities include businesses owned by the government and operated for profit, as well as non-profit and service delivery entities. They range from huge entities such as South African Airways, the SABC, Telkom and others, to small companies delivering services to municipalities.

Challenges faced by SOEs after 1994

SOEs have always been used as a means to address socioeconomic challenges in different countries and in different times. The logic and sustainability of SOEs is well articulated in the context of an era, but based on contemporary developments. Their first objectives should be in line with that of a developmental (or rather capable) state. The South African government is attempting to style the country along these imperatives.

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What the research showed

What the SOE survey showed:

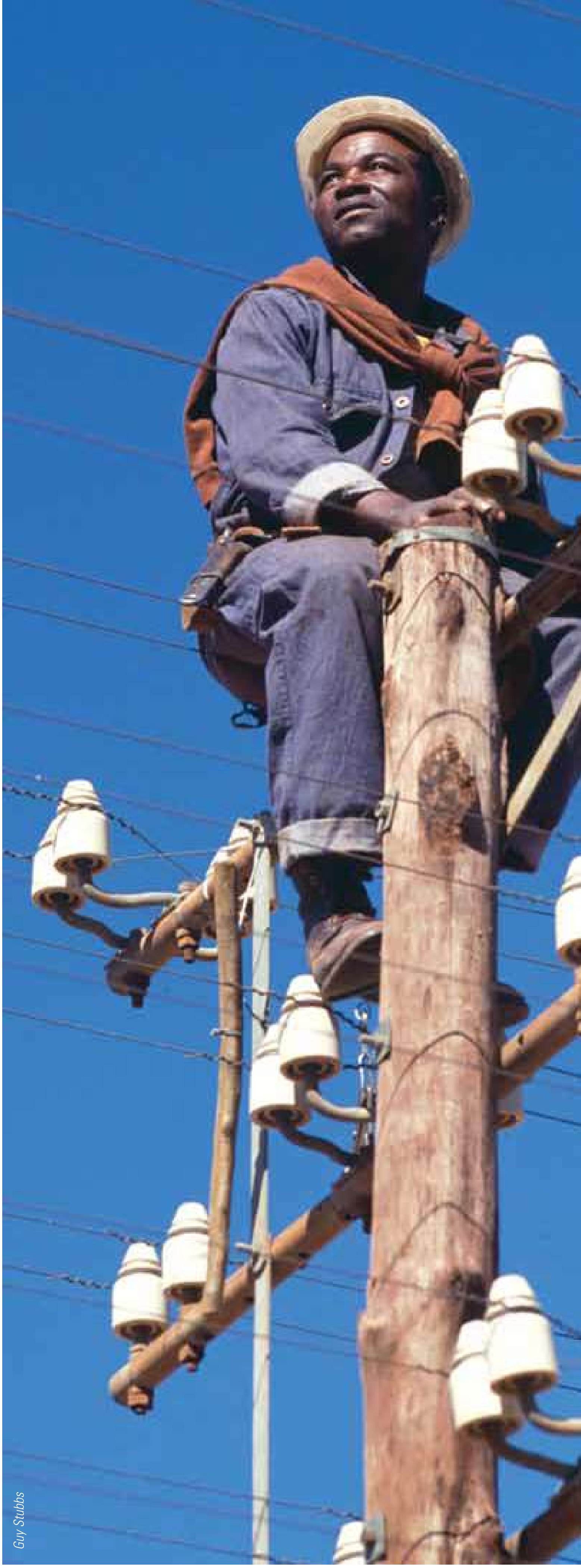
- The number of employees per entity ranged from seven to 48 778, and revenue in the period 2009-2010 varied from R35.6 billion to no revenue. The mean or average revenue of the sampled SOEs was R1.98 billion.

- Most SOEs were in the community, social and personal (CSP) services sector, followed by finance, business services and property (FBP); transport, storage and communication (TSC); electricity, gas and water (EGW); forestry, fishing and agriculture (FFA); manufacturing; mining; and construction.
- Most of the non-commercial entities, regulators, service delivery entities and SETAs were established in 1997 or later.
- All entities in the manufacturing sector and more than half of the entities in the EGW, TSC and FBP sectors had assets valued in excess of R170 million. Conversely, SOEs in the mining, FFA and CSP services sectors mainly had asset bases of less than R170 million.
- Capital expenditure during 2009-2010 ranged from R20 000 to R18 billion.
- Operating expenditure fell within the range R100 000 to R37 billion in 2009-2010 (mean R1.3 billion, median R66.2 million).
- A little more than half of all entities had a grant-based funding model (56%). Substantial proportions were funded by levies (21%) or by the sale of the SOE's own services or products (21%). Other funding came in the form of loans (18%); debt equity (16%); guarantees (8%); subsidiaries (8%) and/or bonds (1%). More than a third (36%) of SOEs had more than one source of funding.

South Africa had no common agenda for SOEs. This diversity ranged from varying terminology used to denote SOEs, to the perceived absence of a long-term vision for SOEs that clarified their role in the country.

What the findings showed:
There has been a proliferation of SOEs across all spheres of government, including commercial and non-commercial entities and their subsidiaries. At the start of its investigation, the PRC received a list of recognised SOEs from National Treasury comprising approximately 300 entities. This list did not include municipal entities and other forms of SOEs such as trusts and Section 21 companies.

For the sake of completeness, the HSRC compiled a consolidated national database of SOEs that included subsidiaries, trusts and Section 21 companies. The consolidated database established that as at the end of May 2012, there were approximately 715 SOEs (including chapter 9 institutions) in South Africa. This figure may increase as further investigations are conducted.


Guy Stubbs

The service delivery performance of SOEs was mixed; some exhibited excellence… while in other areas there were deficiencies characterised by low levels of customer satisfaction, complaints and community protests on service delivery.

With such a large portfolio of SOEs, particular attention was paid to the capacity and capability of the state to effectively oversee these, and to identify the best options to manage SOEs without compromising their service delivery and financial performance.

The main problem under investigation was whether SOEs were responding to government's developmental agenda. This required that government be an active and decisive shareholder, and that it played a leadership role in creating an enabling environment to drive the performance of SOEs in delivering their mandate.

Notable observations were that South Africa had no common agenda for, and understanding of, SOEs. This diversity ranged from varying terminology used to denote SOEs, to the perceived absence of a universal and compulsory long-term vision and plan for SOEs that clarified their role in the country at large.

There were no commonly agreed upon strategic sectors and priorities. In addition to the absence of a consolidated national repository for all SOEs, there was confusion regarding SOEs' categorisation. There were also challenges with balancing the trade-offs between commercial and non-commercial objectives of SOEs.

Furthermore, the legislative framework for SOEs was found to be inadequate, displaying evidence of conflict and duplication. The governance, ownership policy and oversight systems were found to be inadequate. In addition, the quality of board and executives' recruitment had to be improved. There was also a need to clarify the role of the executive authority, boards and the chief executive in the governance and operational management of SOEs.

Many SOEs currently need a massive injection of capital, while finance policies require close re-examination. Funding models for the social and economic development mandates of SOEs are blurred and confusing, often leading to undercapitalisation, which impedes the SOE's ability to contribute to meeting national challenges. The service delivery performance of SOEs was noted to be mixed; some exhibited excellence and provided high quality services, while in other areas there were deficiencies characterised by low levels of customer satisfaction, complaints and community protests on service delivery.

Generally, SOEs tend to lack robust leadership and initiative on crucial transformation imperatives such as broad-based black economic empowerment, the creation of meaningful employment opportunities and comprehensive skills development.

International best practices

Many countries have embarked on review processes to investigate and reformulate the specific goals, rationale and mission of SOEs, individually and collectively, in terms of accelerating wider economic growth; expanding industrialisation; providing infrastructure; and ensuring quality and timely public service delivery. The countries that were visited have formulated clear national policies on the roles of SOEs in driving the objectives of a national development plan. Some countries have standing processes in place to regularly review the rationale, goals and mission of SOEs:

- In Canada, New Zealand and Sweden, SOE reforms have proved reasonably successful. They were among the first to focus on formulating a clear, overarching legislative framework for SOEs, and setting out objectives for the management of SOEs.
- Successful reformers have focused on clarifying the multiplicity of roles of the state, whether as shareholder, policy maker, regulator or operator, among others. Some countries have consolidated the ownership and monitoring of SOEs into a single, central agency. In this way, one government agency acts as the owner on behalf of the state and exercises the shareholder rights. Many governments have formulated an explicit ownership policy that defines the overall objectives of state ownership; the state's specific role in the corporate governance of SOEs; and how the state will efficiently implement such an ownership policy.
- China, for example, established the State Owned Assets Supervision and Administration Commission of the State Council (SASAC) to oversee the ownership, supervision and monitoring of SOEs. Singapore, on the other hand, formed a separate company, Temasek Holdings, to serve as the central ownership and monitoring agency for SOEs. Similarly, France established the *Agence des Participations de l'Etat* to oversee SOEs.

The impact of the research will only be revealed in years to come, following the recent adoption of the report and its recommendations by parliament. The report is still under consideration for practical implementation. However, there is a need to finalise the SOE database to make it more useful by updating the financial and non-financial information on a regular basis to inform policy-makers. ■

The full report is available at www.thepresidency.gov.za/pebble.asp?t=121 *and the survey report at* www.thepresidency.gov.za/ElectronicReport/downloads/volume_4/SOE_survey/Survey_Analysis_Final_Oct_2011.pdf

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