

IN CONVERSATION WITH UDESH PILLAY

# Rethinking the role of state-owned enterprises



**S**outh Africa has, like many developing economies, made significant gains in addressing a range of socioeconomic challenges over the past decade and a half. Yet high levels of poverty and an unacceptably high level of unemployment persist, compounded by income inequality levels that are now recognised as among the highest in the world.

Presented with serious challenges, the government recently proposed a number of targeted interventions to accelerate economic growth, create new employment opportunities, improve access to basic services, and reduce poverty. In emerging policy debates, thinking has begun to converge on a new (or more specifically defined) role for state-owned enterprises (SOEs) to address some of the challenges described above. SOEs are commonly defined in South Africa as business entities owned wholly or partly by the state and run by a public authority, generating the bulk of their revenue from selling goods and services.

South Africa – still a transitional democracy – has a long history of using SOEs as instruments of socioeconomic advancement, and their contribution to the development of the country has been significant.

They have, however, been plagued by structural and operational problems, resulting in irregular and unequal patterns of development, and an uneven delivery of services and infrastructure. These problems, stemming from what many consider to be sub-optimal modes of operation and inefficient management practices, coupled with a limited human resource base and quite narrowly targeted constituencies, have given rise to considerable debate and discussion about the place and role of SOEs in the country's mixed economy and evolving system of democracy.

Consequently, government has started a process of articulating a more specific vision for SOEs as entities that need to make a direct contribution in improving the standard of living of the population by creating sustainable economic and social benefits. An immediate need, it is argued, is for infrastructure and services

to be provided at the lowest cost and highest quality, with access being extended to historically disadvantaged groups in the community.

#### DEFINING THE DEVELOPMENTAL STATE

Of wider and longer-term significance is the belief that SOEs should ideally be equipped to lead the way in promoting an African Renaissance by providing world-class expertise, resources, services and infrastructure to a developing continent. This vision is based on the country's ambitions to become a true developmental state, defined at its most basic level as a state that derives its political legitimacy from its record in economic development, which it tries to achieve mainly by means of selective industrial policy.

A more expansive definition, and one taking root in development discourse in South Africa, is a state whose political and bureaucratic elite have the genuine developmental determination and autonomous capacity to define, pursue or implement policies that seek to address a plurality of developmental goals.

It follows, then, that a key question currently being debated in both political and economic circles is whether SOEs in their current form produce the outcomes of a developmental state. As discussed above, the strategic foundational mandate of SOEs in South Africa has always been socioeconomic development. Given that this goal intersects with the outcomes of a developmental state, it would appear axiomatic that the mandate of SOEs should produce the intended goals of a developmental state.

The answer to this question, however, is not obvious, and lies in the ideological and strategic orientation of the SOEs; how they conduct their operations; how they understand their mandates; what their governance, leadership and management structures look like; what type of staffing and procurement practices are evident; what the nature of strategic partnerships looks like; and what investment is made in human capital and technology. It is necessary that this analytic framework be used in determining any strategic repositioning of SOEs as pillars of economic growth and social development.

It has been a key contention that the primary objective of South Africa's developmental state should be to transform the structure of opportunity in the context of a strong and vibrant mixed economy: one in which private sector invest-

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ment and activity will offer essential dynamism technological innovation and advancement; and where the state's wide and effective provision of social and economic infrastructure and services becomes a necessary pre-condition for broad-based participation in economic processes.

The combination of such private and public sector potential for development will be crucial to achieving the socioeconomic objectives of a developmental state. Furthermore, such an approach is essential if the country is to meet the challenges associated with integration into the global economy, where the ability to compete increasingly requires productivity gains through investment in human capital and new technologies.

#### THE ROLE OF SOES

SOEs have a crucial role to play in the above processes. With the recent 'return of the state' following the failure of global markets, and shifts away from the hegemony of neoliberal ideology, SOEs are likely to be at the centre of development in order to assert the role of the state in this process. Factors that hinder SOEs from contributing optimally to development therefore need to be investigated, whether these be ideological contestations, a lack of overarching legislation, unstructured systems of accountability, complicated lines of reporting, or ownership and governance challenges.

Ultimately, the performance of SOEs against their strategic objectives needs urgent attention. Alignment to current economic policy and national outcomes is also critical; so is a longer-term approach to strategic planning. Reliable and accurate performance information is also critical to assess delivery on mandates.

The New Growth Path and the Industrial Policy Action Plan aptly illustrate government's recent intentions to address – through heightened levels of economic growth – South Africa's job creation challenges in order to mitigate stubborn levels of poverty and growing levels

of inequality. The centrality of SOEs in this process is key, and any attempt to review or rethink their role needs to be supported.

#### KEY OUTCOMES

If the above necessitates a process of restructuring, it is crucial that three unambiguous outcomes emerge. Firstly, at an enterprise level, efficiency and effectiveness of individual SOEs need to be ensured by searching for private sector expertise and capital, and adopting globally competitive technologies. Recent proposals, for example, to strip Transnet of its rail infrastructure assets (Transnet's inefficient freight operations have caused a bottleneck in the economy) and become an operator competing with the private sector need further investigation.

Secondly, at a broader macroeconomic level, more foreign direct investment (FDI) needs to be attracted to minimise public borrowing tendencies and enhance the economy in ways that encourage financial growth and industrial competitiveness.

Thirdly, at a social level, employment levels need to rise dramatically, and the development of new skills must be enhanced and deployed throughout the economy.

On 12 May 2010, President Zuma announced the establishment of the Presidential Review Committee (PRC) on State-Owned Enterprises, with the main objective of reviewing the role of SOEs in a developmental state. The analytic framework currently used by the committee is analogous to the one cited above, providing a sound basis for enquiry and investigation.

The work of the PRC represents the first real and coordinated attempt in the country's 17 years as a transitional democracy to review the role of SOEs against our national priorities, and its recommendations are eagerly awaited.

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