

# How to make state-owned enterprises fit to fight SA's ills

**S**A HAS made significant gains in addressing a range of socio-economic challenges over the past 15 years. Yet high levels of poverty and unemployment persist, compounded by an income inequality gap that is the highest in the world.

The government recently proposed a number of targeted interventions to accelerate economic growth, create new jobs, 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. SOEs are commonly defined in SA 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.

SA, still a transitional democracy, has a long history of using SOEs as instruments of socioeconomic advancement — their contribution to the development of the country has been significant. They have, however, been lagged by structural and operational problems, resulting in irregular and unequal patterns of development and an uneven delivery of services and infrastructure.

These problems, which stem from substantial modes of operation, inefficient management practices, a limited human resource base and narrowly targeted consistencies, have given rise to debate about the place and role of SOEs in SA's mixed economy and obiding democracy.

Consequently, the government has started a process of articulating a more specific vision for SOEs — as entities that need to make a net contribution in improving the standard of living of the population by creating sustainable economic and social benefits. An immediate need, it has been argued, is for infrastructure and services to be provided at a lowest cost and highest quality, with access being extended to historically disadvantaged groups.

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 predicated 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 via selective industrial policy. A more expanded definition, and one taking root in development discourse in SA, is a state whose political and bureaucratic elite has the developmental determination and autonomous capacity to define, pursue or implement policies that seek to address several developmental goals.

A key question being debated in political and economic circles is whether SOEs in their current form produce the outcomes of a developmental state. The strategic founda-

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tion of SOEs in SA has always been socioeconomic development. Given that the goal interests with the outcomes of a developmental state, it seems 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 government, leadership and management structures look like, what type of staffing and procurement practices are evident, the nature of strategic partnerships, 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.

The primary objective of SA's develop-

ment state should be to transform the structure of opportunity in the context of a strong and vibrant mixed economy. One in which private sector investment and activity will offer essential dynamism, technological innovation advancement and innovation, and where the state's wide and effective provision of social and economic infrastructure and services becomes a necessary precondition for broad-based participation in economic processes. The combination of such private and public-sector potentialities will be critical to achieving the socioeconomic objectives of a developmental state.

Further, such an approach will be essential if the country is to integrate into the global economy, where the ability to compete increasingly requires productivity gains through investment in human capital and new technologies. SOEs have a crucial role to play in this process. With the recent "return

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of the state" following the failure of global markets, and shifts away from the hegemony of neoliberal ideology, SOEs are likely to be thrust at the centre of development 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 they be ideological constraints, 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 apply, illustrate the government's recent intentions to address — through heightened levels of economic growth — SA'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.

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

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

And third, at a social level, employment levels need to rise dramatically, and the deployment of new skills needs to be enhanced and deployed throughout the economy.

On May 12 last year, President Jacob Zuma announced the establishment of the Presidential Review Committee on SOEs — its main objective is to review the role of SOEs in a developmental state. The work of the committee represents the first real and co-ordinated attempt, in our 17 years as a transitional democracy, to review the role of SOEs against our national priorities, and its recommendations are eagerly awaited. This process must be strongly supported.

**Udesh Pillay is executive director of the Democracy, Governance and Service Delivery programme of the Human Sciences Research Council.**

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