STATE-OWNED ENTERPRISES:
A financial hole that must be closed
by
Public Servants Association
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Amid persistent management crises and seemingly endless bailouts, it is easy to forget that State-Owned Enterprises (SOEs) could make a major contribution to the development of South Africa. If there is one segment of the economy that has critiacal importance for aspects of infrastructure, it is the state-owned sector. It comprises, amongst others, the South African Airways (SAA), Transnet and the Passenger Rail Agency of South Africa (PRASA). For all the good they can do, when SOEs are poorly managed they can have a negative impact on the economy. They depend on the fiscal guarantees of the state for raising money in capital markets. In short, if they were to default on their debt repayments, government would be forced to bail them out.

State guarantees to SOEs have resulted in the National Treasury being exposed to an estimated R466 billion in contingent liabilities, which represents the amount of money that Treasury would need to pay in case of default. If South Africa were to experience another downgrade, these guarantees could be called upon. What this would mean is that a significant portion of public finances would be locked up in paying guarantees. Yet another portion would need to be soaked in debt-servicing costs since the interest payment on downgraded sovereign bonds would be higher. These are resources that could otherwise be used to protect the most vulnerable and deliver quality services to communities.

Pension funds under fire

An immediate concern for public servants are suggestions that the Minister of Finance, Malusi Gigaba, intends dipping into the public servants' pension funds that are managed by the PIC to bailout one of the ailing SOEs to the tune of R100 bn. Although the Minister has denied these reports, SAA has confirmed that it intends requesting financial support from the PIC. This was to be achieved through purchasing of government-held shares in Telkom by the PIC, to enable government to raise money for bailing out the airliner. Disconcertingly, these suggestions coincide with reported (and later denied) claims by the current CEO of the PIC that there are attempts to remove him from his position in order to make way for those who want to loot the civil servants' pensions. They say there is no smoke without fire.

The storm around the National Treasury and the PIC suggests that the birds of prey are circling public servants' pension funds to bail out dysfunctional SOEs – more like propping up a dead corpose and dressing it with an expensive suit. The problem is that it is the future savings of the public servants that are devalued. It is therefore important that public servants take a firm stand regarding good corporate governance in SOEs, and play an even more active role in the PIC, including demanding more seats on the PIC Board.

The rot

Untangling the mess created by poor corporate governance in SOEs will be a massive undertaking. It is no longer just a rumour that these SOEs are used for corrupt intents. The rot in state-owned enterprises was laid bare in the 2016 Public Protector's Report on the *State of Capture.* The report detailed various incidents of bad governance, corruption, conflicts of interest between some Board members and suppliers, and the breach of critical regulations by Eskom, Transnet and PRASA. At the heart of the growing cancer of corruption in these SOEs is the notorious Gupta family and other individuals who are close to President Jacob Zuma.

It is thus important to stress that the institutional paralysis of SOEs is not as a result of natural causes, but reflects a political design that is crafted at the top. For example, the Public Protector's Report is emphatic in its assertion that there appears to be a conflict of interests between Zuma's official duties and private interests, where Zuma uses his official position to "extend preferential treatment to Gupta-linked businesses in the form of state contracts, business financing and trading licenses."

Save our SOEs

A few steps need to be taken to clean up SOEs. First, there is a need to define in clearer terms the mandate of each SOE. While these entities are structured along the lines of private companies (corporatised), they are generally expected to act in the public interest, which explains the state guarantees that are extended to them. There are countless examples of these two mandates – public benefit and profit maximisation – coming into conflict. Eskom claims it is only sustainable with higher energy tariffs (to ensure its profitability), but low energy tariffs protect important strategic industries like steel as well as protect vulnerable households.

There are strategic questions that need to be grappled with in respect of the core mandate of SOEs, how this is executed, how public benefit is measured, and the return of value to the state as shareholder. There are also questions related to the structure of these entities. Our country may need to explore whether innovative measures such as partial privatisation (including unbundling certain functions to allow for greater efficiencies) or co-investment with the private sector would not be the best route to take. Any move in this direction would need to ensure that not a single job is lost.

Take the case of SAA. It is torn between cancelling and maintaining unprofitable international routes. This dilemma would not arise if SAA was run on a sound business philosophy.

What makes this a challenge for the airliner is that some of the direct flights to strategic partners are maintained as part of improving bilateral (diplomatic) relations, but such routes may not be profitable. There could well be profitable international routes that are not paved with strong bilateral relations, and may suffer as a result of political consideration of directing focus towards less profitable but politically correct routes.

In the case of Transnet, there is an urge to increase port charges, so as to drive margins. However, such a move could have a negative impact on South Africa's export competitiveness or its ability to trade more with other countries. So there are both political and economic considerations that SOEs take into account in making their strategic calculations.

The dual mandate of SOEs is not a bad thing in and of itself. SOEs are intended to enable government to have latitude to invest in areas that the private sector may not want to invest in, due to short-term profit considerations. SOEs can help government maximise public investment in infrastructure in environments of weak demand and low growth in the economy, something that the private sector may not be geared up for. However, the major problem with the activities of SOEs in South Africa lies in the poor definition of their mandates. There is also the problem of corruption that we have alluded earlier.

Having a strong regulator of SOEs (the case of Eskom and Nersa is instructive) can help balance the public- and private-interest mandate. Secondly, there is a need to address gross mismanagement at public enterprises, something that requires assertive and scrupulous shareholder departments. It helps very little that SOEs report to different shareholder departments: Department of Public Enterprises for Eskom; Department of Transport for Sanral; and the National Treasury for SAA. There is no rational account why this is the case. It can be surmised that this disaggregation of shareholder oversight is done to facilitate rent-seeking in subtle ways.

Way forward

Evidence around the world suggests that one of the key determinants of successful SOEs is a clear division between politics and the operation of the enterprise, including in the appointment of non-political management executives chosen purely on the quality of their knowledge and expertise. This is not the case with any of the recent heads of major South African SOEs. Eskom, SAA, Transnet, Sanral, and many others. These have for the most part been led by political appointees. Their main consideration is not public interests but the political principals. This is also the case with those appointed to the Boards of these entities.

While this is of concern, it is also common among major state enterprises, and perhaps the more serious problem is the creeping politicisation of positions deeper into the institution. Having a political head of an SOE may work if they are underpinned by a middle and professional management that is familiar with the organisation and given independent authority for operations. The prospects for the depoliticization of this tier of middle management are bleak.

It would seem that the placement of cronies into positions of power is a central mechanism through which the current administration operates. Accessing the large pool of money overseen by SOEs is an overriding consideration for the political elites. This is why our union must be vigilant.

Unions must demand more representation and voice on the Boards of the PIC in order to safeguard the lifelong savings of their members. The writing is on the wall: many SOEs have had their resources siphoned off to serve political cronies. The use of SOEs as a conduit to channel money into private pockets of politically protected individuals is now conventional. When these SOEs are dry, it is not far-fetched to suggest that the PIC could be used to replenish them, and by implication to continue to channel funds to political cronies. The biggest losers will be workers.

Improving corporate governance, clarifying the mandate of SOEs, clarifying and tightening the shareholder structure and reporting lines, and restructuring SOEs are some of the basic reforms that are required to put them on better shape.