The Elephant on the Tightrope

What needs to be done to fix South Africa's troubled and underperforming State-Owned Enterprises? A frank and open webinar, organised by the Government Technical Advisory Centre (GTAC) and the National Planning Commission (NPC), addressed the challenges to set a course for corrective action

The NPC recently released a position paper on SOE performance, governance and market structure, with a focus on Eskom, Transnet, and PRASA (Passenger Rail Agency of South Africa). This follows extensive supporting research, working with the African Development Bank.

Leaders from across government, the SOEs, business, labour and academia were convened in a public seminar to debate views emanating from the NPC work. The webinar was organised by the Government Technical Advisory Centre (GTAC), an agency of National Treasury, in collaboration with the National Planning Commission (NPC).

The main findings illuminate serious shortcomings in the performance of these SOEs, and offer grounds for an urgent call to corrective action. The NPC's position paper highlights a "lack of accountability, poor governance, political interference, and poor funding strategies" as the chief causes of underperformance.

"Most problematic," states the paper, "is the adverse impact non-performing SOEs have on the lives of the poorest and vulnerable members of society, and in constraining economic development."

This is in direct contrast to the stated goals of the NDP, which envision a "capable and developmental state" where access to services has been broadened and the economy has been stabilised.

In a keynote presentation to the webinar, NPC Commissioner Dr Miriam Altman emphasised the critical role infrastructure plays in any developing country.

“It underpins social and economic development, creates jobs, and stimulates construction activity,” she noted.
Typically, public sector infrastructure spending will lead this effort, with the NDP aiming for an investment-to-GDP ratio of 30 per cent. Ten per cent of this should be public sector investment, mostly aimed at infrastructure.

In reality, public spending over the last few years has in many cases fallen far short of this goal. Between 2015/16 and 2017/18, SOEs and public entities spent less than 75 per cent and 65 per cent of their budgets, respectively, while the state as a whole spent less than 85% of its available budget.

Dr Altman highlighted several examples of “cost overruns, late delivery, and poor value for money” in infrastructure spending, among them the Gauteng Freeway Improvement Project; the Gautrain Rapid Rail Link System; Transnet’s New Multi-Product Pipeline; and Eskom’s Medupi and Kusile power plants.

But quality of infrastructure spending counts just as much as quantity, and here too, Dr Altman sounded the alarm bell, pointing at the most recent Infrastructure Report Card issued by the South African Institution of Civil Engineering (SAICE). The overall score in 2017 was a D+, which is just above the status of “unfit for purpose”.

Illustrating the challenges SOEs face in boosting that score and reversing their decline, Dr Altman used an image of an elephant making its way across a tightrope.

The recommendations for fixing SOEs include a series of financial, structural, and organisational reforms, such as allowing private entry into value chain; outsourcing service contracts; selling parts of an SOE to an equity partner; enabling direct competition; and establishing public-private partnerships.

“The debate about structural reforms must move away from the unhelpful binary privatise versus nationalise discourse,” said Dr Altman.

But in the spirit of open discussion facilitated by the webinar, it was equally impossible to ignore the “elephant in the room”, in the form of political interference in the day-to-day running of SOEs.

Recalling how Eskom and SAA were once globally-admired institutions, SARS Commissioner Edward Kieswetter told the webinar that the time had come for politicians to "stay out of the engine-room. We need to appoint professional managers and hold them accountable."

One would need to be blind, the Commissioner added, not to see how political interference had “hollowed-out” the organs of state.

What must be done, then, to open eyes anew to the guiding vision of the National Development Plan for 2030?

The authors of one of the commissioned reports, on “Linking state-owned enterprises to economic transformation and inclusive growth” argue that the institutional governance of SOEs should be reformed to address excessive politicisation and “state capture”.

“If the nation’s aspirations to abolish poverty, reduce inequality and generate mass employment through inclusive growth are to be realised,” the report continues, “then decisive and courageous course correction on SOEs is needed from government.”
In its executive summary, the NDP emphasises what will most be needed to build a better South Africa by 2030. “The reality of work,” it states, “connects us to our dreams.”

The road ahead will be long and hard, but as this webinar proved, there is still more than enough time, energy, and selfless determination to make that dream come true for every South African.

For more information on the Government Technical Advisory Centre (GTAC), please visit https://www.gtac.gov.za.*To read the full reports on the role of state-owned enterprises in achieving economic transformation and inclusive growth, please visit https://www.nationalplanningcommission.org.za/Publications_Reports*.

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