Huruma Bantfu™

Enhancing the Transparency and Accountability of

State-Owned Enterprises in South Africa

MILLASA™
Enhancing Innovation in human capital

HURUMA
BANTFU

FOREWORD

FOREWARD

In 2019, the first State Owned Enterprises Conference was convened in Cape Town bringing together public and private sector stakeholders to share best practices in strengthening corporate governance, financial management, organisational sustainability and ethical leadership. Due to the Covid-19 pandemic, the 2020 and 2021 State Owned Enterprises Conferences took place virtually fostering even more deliberate interventions in the improvement of ethical behaviour, change management and regulatory reform in State Owned Enterprises in South Africa. The first publication of this report, brings together not only the discussions and solutions from the 2022 State Owned Enterprises but the consolidation of debates, breakaway sessions, consultations and presentation of models to transform, innovate and reimagine the situation of State Owned Enterprises within the South African context.

State Owned Enterprises in post-apartheid South Africa have played a significant role in the socio-economic upliftment of communities through employment opportunities in public service. The commercialisation of State Owned Enterprises to strategically become profitable has been rooted in the Constitutional mandate for government to enable the enjoyment of socio-economic rights such as education, sanitation, healthcare and social welfare for all, equally. Furthermore, the deliberate effort of State Owned Enterprises to invest in social infrastructure and transformative objectives that intend to '*heal the wounds of the past'* has been exemplary in particular through the notion of restorative justice.

> In 1990 at the Options for Building an Economic Future Conference convened by the Consultative Business Movement, President Nelson Mandela stated that '*to establish a system of cooperation requires that we should at least share some common objectives. But it also means that we have to overcome the mutual mistrust that, to some degree, undoubtedly exists between us. We do not have to elaborate the reasons for that mistrust. As South Africans, we all know that they emanate from the fact that on one side of the street are the haves, and on the other, the have-nots; on one side, the whites, and on the other, the blacks*'.

As much as State Owned Enterprises have undoubtedly been critical in redressing inequalities of the past, they have also been crucial in paving the way for a new economic and political power dynamic in South Africa.

Post -994 democratic elections, saw a rise in black executives leading State Owned Enterprises; showcasing the deracialisation of power, restructuring of political power which allowed for government to ideate and curate social impact interventions such as the Reconstruction and Development Programme in South Africa.

Post-Mandela administration created a sense of hope and prosperity for South Africa as State Owned Enterprises become renowned examples of stability, service delivery and access especially the Post Office which introduced banking to rural areas and the elderly. Post-Mbeki administration created a sense of caution on the execution of political power seen through the HIV&AIDS denialism era and the tensions between the government and the Constitutional Court in the enforcement of the basic right to healthcare. In which State Owned Enterprises were crucial in providing awareness campaign, access to medication and anti-stigma social cohesion.

Post-Zuma administration create a sense of politics of unethical behaviour and blame which lead to the establishment of the Mpati Commission and Zondo Commission which showcased deep systematic 'disgust' rhetoric into the thriving culture of corruption in State Owned Enterprises. In which political exposed persons were preferred beneficiaries of procurement opportunities while providing unsatisfactory services to society thus creating a sense of deep hopelessness and questionable public leadership that could not be trusted.
In the State of the Nation Address, President Cyril Ramaphosa mentioned that 'many of our SOEs are struggling with significant debt, under-investment in infrastructure, the effects of state capture and a shortage of skills'.

This report interrogates solutions that help us reimage an era of State Owned Enterprises that are serving communities, enabling society to equally flourish and providing dignified services embedded in quality. Despite, the degradation and degeneration of State Owned Enterprises; this report signals a pathway into shifting the socio-political power of State Owned Enterprises as central to systems change that is coordinated by a consultative process of inclusion, diversity and the politics of affection.

Almost 30 years since democratic South Africa, what are we capable of looking forward to? What are we prepared to reimagine? What are we ready to critically claim as intolerable? Where is our voice for socio-economic justice? Are our communities resilient to catastrophic changes? South Africa's economy is troubled and poverty is still deeply entrenched – to what extent are we fostering collective an deliberate transformation for South Africans. This report starts a journey towards reimagining a new social compact for South Africa; by working together and embracing a shared vision, South Africa can unlock the full potential of its State-Owned Enterprises and create a sustainable and inclusive economy for the benefit of present and future generations.

Mr Sandile Tshabalala (he/him)
Co-Founder Huruma Bantfu.

Mr Reon Van Der Merwe (he/him)
Co-Founder Huruma Bantfu.


Huruma
Bantfu
Co-creating, Co-evolving

SECTION A

INTRODUCTION

SECTION A: INTRODUCTION

The Republic of South Africa (RSA) has undergone a historic struggle for liberation, with the hope that democracy would bring about widespread benefits for its citizens. However, even three decades after the advent of democracy, the fruits of this struggle have only been enjoyed by a select few elites, while the majority of ordinary South Africans continue to wait for significant improvements in their lives. One area where this disparity is particularly evident is in the performance of State-Owned Enterprises (SOEs), which were designed to serve and enhance the lives of all South Africans. SOEs in South Africa stands at a cross road. Decades of deterioration have left these State-Owned Enterprises weak and dysfunctional. Critics and proponents of SOEs alike have taken this matter to heart, proposing alternative models and solutions.

The Judicial Commission of Inquiry into Allegations of State Capture, Corruption and Fraud in the Public Sector (a.k.a Zondo Commission) and the The Commission of inquiry into allegations of impropriety regarding Public Investment Corporation (Mpati Commission) form an important backdrop to the conversation on SOE reform in South Africa. The Zondo Commission in particular highlights the need to adopt new appointment processes for SOE management and oversight mechanisms to ensure transparency and accountability.

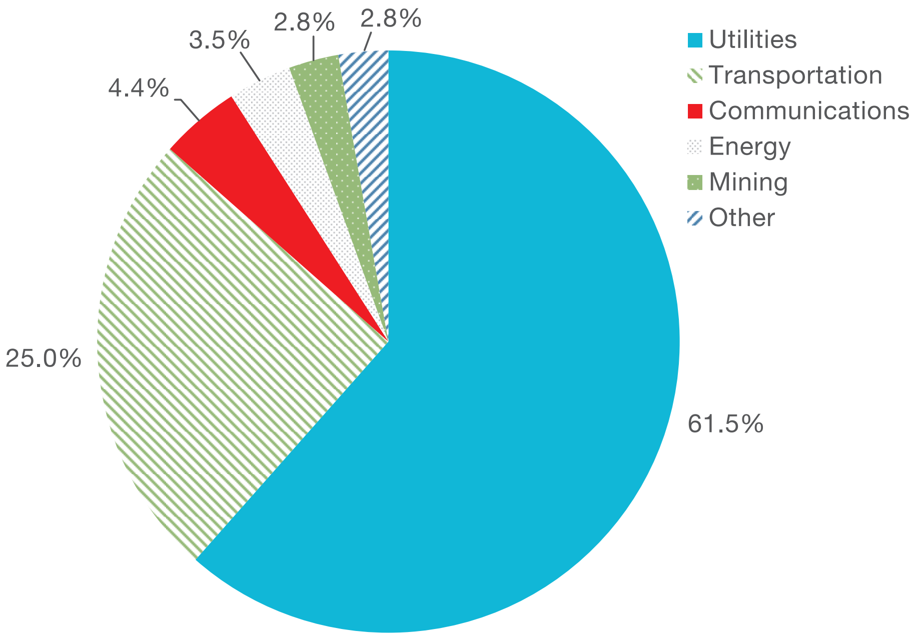
The report further highlights the need to mitigate the effects of political interference in SOE processes. The findings of the Mpati Report furthermore highlighted the improprieties that exist in the management of SOE assets. Its recommendations for a revision of the legal framework that underpins SOE management serves as inspiration for some of the discussion points highlighted throughout the report.

The landscape of SOEs assets in South Africa is significant, accounting for approximately 34 percent of the country's GDP by the end of the fiscal year 2019/2020.

Non-financial SOEs make up 86 percent of these assets, with three key entities - Eskom, Transnet, and Telkom - accounting for about 75 percent of the non-financial SOE assets.

The concentration of these assets primarily lies in utilities, such as electricity and water, as well as transportation. SOEs in South Africa face a unique challenge as they are required to fulfil a dual mandate that often presents conflicting objectives. On one hand, they are entrusted with the responsibility of providing critical social services, while on the other hand, they are expected to generate profits or at least avoid losses for the national government. This duality often poses challenges for SOEs in effectively meeting both the social and economic goals set for them.

Non-Financial SOE Assets by Sector (percent)



Sources: South African Authorities and IMF staff calculations

The purpose of SOEs in South Africa is to establish essential infrastructure and services with the aim of creating socio-economic impact and fostering national competitiveness. SOEs are catalysts for economic growth, as they have the potential to stimulate investment, create jobs, and drive innovation. By providing reliable infrastructure and services, they enable businesses to operate efficiently and attract both domestic and foreign investment.

SOEs are necessary to any developmental state, as they contribute to the country's overall development and progress rather than solely functioning as regulators. In addition to their economic and social mandates, SOEs in South Africa are also tasked with advancing national objectives and promoting overall economic growth in alignment with the National Development Plan (NDP) 2030. To fulfill their mandate effectively, SOEs must operate in an equitable, cost-effective, competitive, transparent, and fair manner.

In the conversations that have contributed to the contents of this report there are several themes and trends that the reader will note. Equity is crucial to ensure that the benefits of their services reach all citizens, regardless of their socio-economic backgrounds or geographical locations. Cost-effectiveness ensures the efficient allocation of resources and the sustainability of services. Competitiveness drives innovation, efficiency, and responsiveness to meet the evolving needs of customers and the market.

Transparency and fairness promote public trust, accountability, and good governance practices, which are essential for the effective functioning of SOEs. Achieving this requires straightforward governance structures that enable them to balance their economic and social objectives. This includes establishing greater stability in SOE Boards of Directors and ensuring that the Chief Executives are accountable to the Boards of Directors. The ultimate aim is to ensure that SOEs play a strategic role in advancing national objectives, delivering quality and reliable services, and contributing to the country's overall economic growth and global competitiveness.

Given the significance of SOEs in South Africa's developmental agenda, it is crucial to have effective and efficient, profitable, and well-governed enterprises. This requires continuous evaluation, monitoring, and potential reforms to improve their performance, enhance service delivery, and align them with the evolving needs of society. In light of the challenges faced by SOEs in South Africa and the imperative to align them with national objectives, this report aims to critically analyze the State-Owned Enterprises in the country. It will delve into the governance structures, performance, and potential areas for improvement in order to ensure the effective delivery of services and the realization of developmental objectives.

SECTION B

CURRENT TRENDS & ANALYSIS OF ROOT CAUSES

SECTION B: CURRENT TRENDS & ANALYSIS OF ROOT CAUSES

I. Broken Societal Linkages

Building linkages between SOEs and different stakeholders in society is essential for promoting responsible business conduct, fostering transparency, and ensuring the effective management of environmental, social, and governance (ESG) characteristics. In the South African context, the importance of EGS considerations for SOEs cannot be overstated. Embracing ESG practices is essential for these enterprises to fulfill their developmental objectives, promote sustainability, and effectively serve the needs of society. These developmental objectives include:

- ***Economic Growth:*** SOEs are expected to contribute to economic growth by investing in strategic sectors, promoting job creation, and driving innovation and competitiveness.
- ***Infrastructure Development:*** Many SOEs in South Africa are responsible for developing and maintaining critical infrastructure such as energy, transportation, telecommunications, and water supply. The objective is to improve infrastructure quality, accessibility, and efficiency, which in turn supports economic activities and social development.
- ***Service Provision:*** Some SOEs are tasked with delivering essential services to the public, such as electricity, water, healthcare, and education. The objective is to ensure affordable and reliable access to these services for all citizens, including those in underserved areas.
- ***Transformation and Inclusion:*** SOEs play a crucial role in advancing economic transformation and promoting inclusivity. They are expected to support black economic empowerment, increase opportunities for historically disadvantaged individuals and communities, and promote employment equity.
- ***Regional Development:*** SOEs can contribute to regional development by investing in economically disadvantaged areas, promoting local industries, and fostering regional integration.
- ***Environmental Sustainability:*** With growing concerns about climate change and environmental degradation, SOEs are encouraged to adopt sustainable practices, reduce carbon emissions, and promote renewable energy sources.

Environmental considerations are particularly significant in a country where natural resources play a crucial role in the economy. By adhering to environmental standards and adopting sustainable practices, SOEs can contribute to environmental conservation, mitigate the impact of their operations on ecosystems, and promote the efficient use of resources. This is especially relevant in sectors such as energy, water, and transportation, where SOEs have a substantial influence on South Africa's environmental footprint. The social aspect of ESG is equally important for South African SOEs.

These enterprises have a responsibility to address social inequalities, promote inclusivity, and contribute to the well-being of communities. By prioritizing social considerations, SOEs can ensure that their services reach underserved areas, provide affordable and reliable access to essential services, and create employment opportunities. Linking with stakeholders, including local communities, allows SOEs to understand their needs, foster engagement, and implement initiatives that align with societal expectations. SOEs have a unique opportunity to drive positive change, contribute to the country's socio-economic development, and align their activities with the objectives outlined in the National Development Plan (NDP) 2030.

> *By 2030, South Africa needs to be served by a set of efficient, financially sound and well-governed SOEs that address the country's developmental objectives in areas where neither the executive arms of government nor private enterprises are able to do so effectively. These enterprises must deliver a quality and reliable service at a cost that enables South Africa to be globally competitive. To live up to these expectations, SOEs will require clear public-interest mandates, which are consistently enforced. (National Development Plan 2030: 2012)*

Moreover, adopting robust ESG practices can enhance the competitiveness of South African SOEs in the global market. Investors and customers increasingly consider ESG factors in their decision-making processes, and SOEs that demonstrate their commitment to sustainability and responsible practices are more likely to attract investment, forge partnerships, and access capital.

II. Corruption & decision-making processes

Corruption in South African SOEs has had far-reaching effects on both the institutions themselves and the broader economy. The consequences of corruption in SOEs are evident in various aspects, including financial mismanagement, increased burden on the government, compromised service delivery, and erosion of public trust. One cause of corruption in SOEs is the presence of weak financial controls, as highlighted in the Auditor-General's report, unauthorized expenditure totalling R3.21 billion indicates a lack of proper financial oversight and controls within these entities. Weak financial controls create opportunities for misappropriation of funds, fraudulent activities, and embezzlement, which ultimately results in financial mismanagement and the regression of audit outcomes. The deteriorating financial health of SOEs exacerbates the issue of corruption. As these entities face financial challenges, they increasingly rely on government bailouts and guarantees to sustain their operations. This places a significant burden on the government and taxpayers, diverting funds that could be allocated to essential public services and infrastructure development. The misuse or misallocation of funds in corrupt practices further worsens the financial strain on SOEs and the government as a whole.

When corruption thrives, resources are diverted away from their intended purposes, leading to inefficient use of assets and a lack of benefit derived from incurred costs. This directly impacts the delivery of essential services such as electricity, water, transportation, and communication, affecting the daily lives of South Africans and hindering economic growth.

Late or non-submission of financial statements and performance reports is another concern raised by the Auditor-General, which hampers oversight and accountability. The absence of accurate and timely reporting inhibits proper monitoring of SOEs and the implementation of necessary consequences for mismanagement or corruption. Effective controls, such as proper record keeping, processing, and reconciliation, are essential for financial and performance management within SOEs. Moreover, corruption erodes public trust and confidence in the government, undermining the legitimacy of institutions and hindering foreign investment.

Addressing corruption in SOEs requires comprehensive reforms that prioritize strong financial controls, accountability mechanisms, and transparent governance. Consequence management plays a crucial role in combating corruption within SOEs in South Africa. Effective consequence management refers to the swift and appropriate response to instances of corruption, ensuring that those responsible are held accountable for their actions. By implementing robust consequence management mechanisms, such as investigations, disciplinary procedures, and legal actions, corrupt practices can be deterred and rooted out. It sends a strong message that corruption will not be tolerated and instills a culture of transparency, accountability, and ethical conduct within SOEs. Furthermore, consequence management helps to restore public trust in these institutions, as it demonstrates the commitment of the government to combating corruption and safeguarding public resources. By upholding consequences for corruption, SOEs can foster a clean and efficient operating environment that promotes economic growth, development, and the overall well-being of South African society. Implementing effective anti-corruption measures, strengthening oversight bodies, promoting transparency in procurement processes, and holding individuals accountable for corrupt practices are crucial steps in combating corruption and restoring trust in SOEs. By addressing the root causes of corruption and promoting good governance practices, South Africa can foster an environment of integrity, efficiency, and economic growth within its SOEs.

III. Financial unsustainability

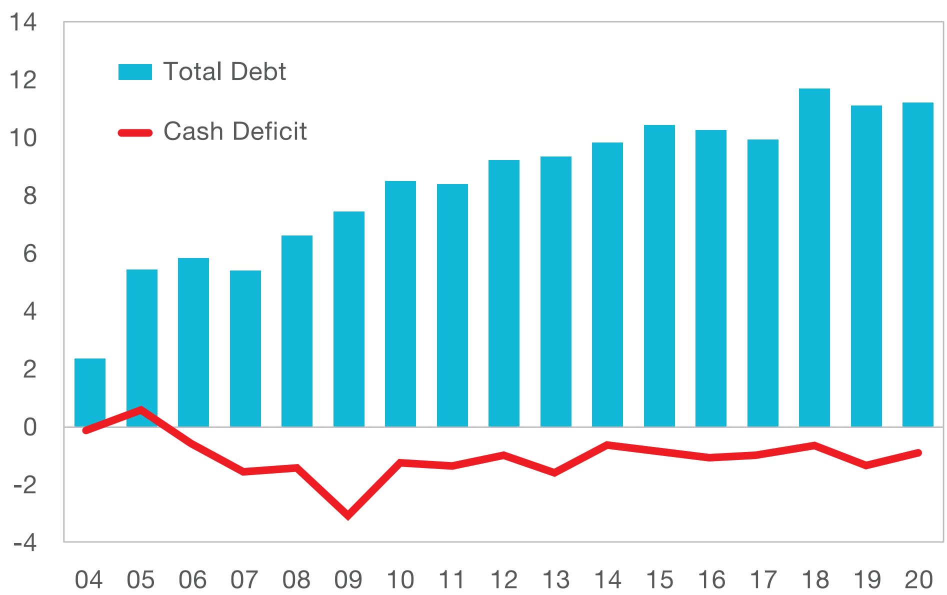
The financial sustainability of SOEs in South Africa faces several challenges that impact their performance and create fiscal risks for the government. The weak and deteriorating performance of Non-Financial SOEs is a significant contributing factor to these challenges. Over the years, SOEs have experienced persistent deficits, leading to a substantial increase in debt levels. Since 2004, their debt has nearly multiplied six-fold, putting a strain on the government's finances. According to an International Monetary Fund health check methodology applied to eleven large SOEs, around 70 percent of SOEs pose significant fiscal risks.

These SOEs consistently demonstrate poor profitability, liquidity, and solvency, making their financial positions precarious. The inability to generate sustainable profits and maintain adequate liquidity adversely affects their ability to meet their financial obligations and invest in necessary infrastructure and operations. Interestingly, the performance of SOEs with minority private ownership tends to be relatively better.

This suggests that private sector involvement, even in a minority capacity, can bring about improved financial performance, efficiency, and governance to some extent.

The challenges facing the financial sustainability of SOEs have implications beyond their individual operations. The government, as the majority shareholder or guarantor, bears the burden of their deficits and mounting debt. These financial risks can strain the national budget, limit fiscal resources available for critical public services and infrastructure, and affect the overall economic stability of the country. Addressing these challenges requires a comprehensive approach that includes strategic reforms, improved governance, and financial discipline within SOEs. Enhancing transparency, accountability, and efficiency in their operations is crucial. Exploring partnerships with the private sector and leveraging their expertise and resources could also contribute to improving the financial sustainability of SOEs.

Nonfinancial Public Enterprise Debt and Deficit
(percent of GDP)



Source: South African Reserve Bank and STATS SA

The South African government has taken measures to improve the financial sustainability of SOEs through various forms of fiscal support. These actions are in line with the findings of the IMF Health check methodology, which identified significant fiscal risks posed by certain SOEs. To address the financial challenges faced by non-financial SOEs, such as Eskom, SAPO, SABC, Denel, and SAA, the government has provided transfers from the budget. These transfers aim to alleviate their financial strains, support their operations, and enable them to meet their financial obligations.

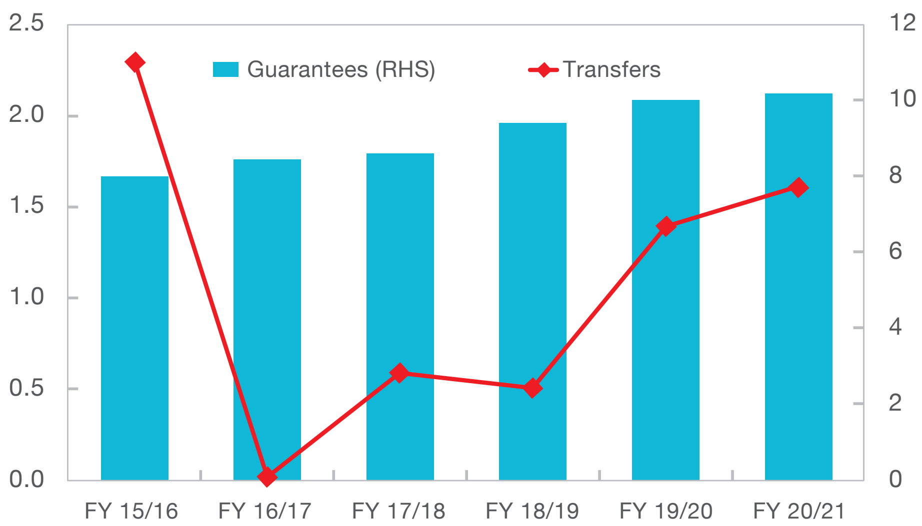
Additionally, several SOEs, including Eskom, TCTA, SAA, and Transnet, have benefited from government guarantees on their borrowing. These guarantees serve as a form of financial backstop, providing reassurance to lenders and reducing borrowing costs for the SOEs.

It is worth noting that Eskom and the energy sector-related guarantees accounted for a significant portion, approximately 87 percent, of the total stock of guarantees in the fiscal year 2020/2021.

Over the years, the cost of government support through transfers and guarantees has shown a consistent increase. From the fiscal year 2015/2016 to 2020/2021, the financial commitment made by the government to support these SOEs has risen steadily. This demonstrates the ongoing efforts by the government to address the financial challenges faced by these entities and ensure their continued operations. While fiscal support through transfers and guarantees can provide temporary relief and stability, it is important for the government to complement these measures with long-term reforms aimed at improving the financial sustainability and performance of SOEs. This includes implementing robust governance frameworks, promoting transparency and accountability, and exploring avenues for private sector participation and investment.

By combining short-term fiscal support with sustainable structural reforms, the South African government should aim to enhance the financial sustainability of SOEs, reduce their reliance on budget transfers and guarantees, and foster a more efficient and resilient state-owned sector. These actions are crucial for ensuring the optimal use of public resources, strengthening the country's economy, and promoting sustainable development.

Fiscal Support to Major SOEs (percent of GDP)



National Treasury and IMF staff estimates

The productivity of SOEs in South Africa, as measured by sales per employee, has been facing challenges even prior to the devastating effects of the COVID-19 pandemic. Prior to the pandemic, sales per employee in constant prices, which is a commonly used measure of productivity, had been decreasing. This trend suggests that SOEs were facing difficulties in maximizing output relative to their workforce.

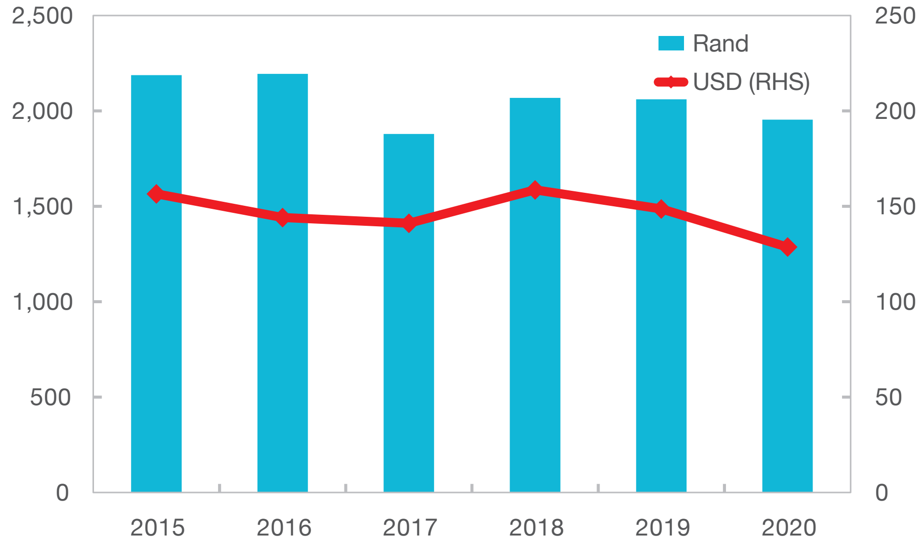
The decline in productivity may be attributed to various factors, such as inefficiencies, operational challenges, and suboptimal utilization of resources.

Mental health issues and socio-economic conditions have further had a significant impact on the productivity of employees in SOEs in South Africa. The prevalence of mental health challenges, such as stress, anxiety, and depression, can undermine the well-being and functioning of employees. The demanding work environment, coupled with socio-economic pressures such as financial insecurity and social inequalities, exacerbates the situation. These factors contribute to decreased concentration, increased absenteeism, and reduced overall productivity.

Additionally, employees facing mental health issues may experience difficulties in maintaining positive working relationships, effective communication, and problem-solving skills. Recognizing the importance of employee well-being, some SOEs have implemented measures to address mental health concerns, including employee assistance programs and awareness campaigns. By prioritizing mental health support and creating a supportive work environment, SOEs can enhance employee productivity, job satisfaction, and overall organizational performance.

Diversity and inclusion also play a vital role in performance and productivity. Diversity means recognizing and valuing individual differences in terms of race, ethnicity, gender, age, disability, and other characteristics. Inclusive practices ensure that everyone, regardless of their background, feels welcome, respected, and empowered to contribute their unique perspectives and skills. By promoting diversity and inclusion, SOEs can harness the benefits of a diverse workforce. Different backgrounds and experiences foster innovation, creativity, and adaptability, enabling organizations to better address complex challenges and seize opportunities. Furthermore, diversity and inclusion contribute to a more equitable and fair work environment, supporting social cohesion and economic transformation objectives. By actively promoting diversity and inclusion through policies, programs, and leadership commitment, SOEs can create a workplace that attracts top talent, fosters collaboration, and maximizes the potential of all employees, ultimately enhancing their performance and driving organizational success.

Productivity: Sales per Employee
(Thousands, constant 2017 prices, proup median)



Annual Financial Statements, IMF World Economic Outlook, and Staff calculations

It is important to note that the pandemic further exacerbated the situation. The sharp recession caused by the pandemic likely resulted in a further decline in sales per employee during the fiscal year 2020/2021. The economic disruptions and reduced demand across sectors directly impacted the performance and productivity of SOEs. Enhancing staff productivity is a critical aspect of improving the overall performance and efficiency of SOEs. To address this issue, it is necessary for SOEs to focus on implementing strategies that promote productivity growth. This may involve optimizing operational processes, investing in training and skill development programs for employees, adopting new technologies and automation where feasible, and fostering a culture of innovation and continuous improvement.

Change management is crucial in this regard as it helps create a clear vision for innovation, setting goals and values that align with the organization's objectives. Through effective communication and awareness campaigns, change management builds understanding and commitment among employees, encouraging them to embrace and contribute to innovation initiatives. It also addresses resistance by identifying barriers and addressing them proactively, engaging stakeholders in open dialogue, and providing the necessary training and support. By empowering employees and creating an environment that embraces change, change management enables SOEs to foster a culture of innovation, driving growth, competitiveness, and sustainability.

This includes regularly assessing and monitoring performance metrics, identifying areas of inefficiency or underperformance, and implementing appropriate measures to address them. By improving staff productivity, SOEs can enhance their competitiveness, achieve better financial performance, and contribute to the overall economic growth of South Africa. The government, in collaboration with SOE management and relevant stakeholders, should prioritize efforts to support and drive productivity improvements across the state-owned sector.

IV. Weak Governance Structures

The governance structures of South African SOEs face several challenges that need to be addressed in order to improve their effectiveness and accountability. While there are signs that certain aspects of governance are being adequately managed, there are still areas that require attention and reform. One key challenge is ensuring that the composition of SOE Board of Directors is weighted towards appropriately qualified independent professionals. This means having board members with relevant expertise and experience who can provide objective oversight and strategic guidance. Additionally, strong policies should be in place to manage operations and relationships with politically exposed individuals, ensuring that decisions are made in the best interest of the organization rather than for personal or political gain.

Another critical area is supply chain management, where robust policies are needed to ensure transparency, fairness, and efficiency in procurement processes. By strengthening supply chain management, SOEs can mitigate the risks of corruption, irregularities, and inefficiencies. Operational independence is another crucial aspect of governance. It is important for SOEs to have a history of making commercially sound decisions, even in the face of political opposition. This requires a clear separation between political interference and the day-to-day operations of the SOEs. Independence in decision-making is essential for the long-term success and financial sustainability of these entities.

V. Politization of State-owned enterprises

The politicization of SOEs in South Africa poses a significant challenge to their governance structures and operational efficiency. It is evident that substantial political interference, particularly in appointments and activities, has undermined the specialized expertise within many SOEs. This interference has resulted in detrimental consequences for their performance and overall effectiveness. A prime example of the consequences of political interference can be observed in Eskom, where there has been a revolving door of CEOs and chairpersons.

With nine CEOs and six chairpersons in recent years, Eskom has struggled to maintain stable leadership, leading to disruptions in decision-making processes and strategic planning. Similarly, South African Airways (SAA) has experienced frequent changes in CEOs, indicating a lack of consistent leadership and direction. Another SOE affected by political interference is the Road Accident Fund (RAF), which has faced a scarcity of expertise, resulting in chaos and mounting debt.

The dearth of specialized knowledge within the RAF has hindered its ability to effectively fulfill its mandate and manage its financial obligations. The problem of political interference is compounded by the appointment of individuals to key positions within SOEs based on political affiliations rather than their qualifications and expertise. This practice further perpetuates the politicization of SOEs and undermines their independence and professional functioning. While oversight and accountability of SOEs should ideally rest with Parliament, the current system falls short of achieving this goal. Members of Parliament are often appointed by political leaders rather than being directly accountable to the electorate. As a result, the independence of parliamentary oversight is compromised, and MPs may prioritize party interests over their role in holding SOEs accountable.

SECTION C

RECOMMENDATIONS & STRATEGIES

SECTION C: RECOMMENDATIONS & STRATEGIES

I. Practical Stakeholder Management

The practical management of stakeholders by SOEs in South Africa is an integral part of a comprehensive ESG strategy. It requires reliable management information and the ability of leaders to make sound, balanced judgment calls when responding to legitimate concerns. In line with the recommendations of the Organization for Economic Co-operation and Development (OECD), state ownership policies should recognize and acknowledge SOEs' responsibilities towards stakeholders. It is important to establish clear expectations for responsible business conduct by SOEs. This includes reporting on their relations with stakeholders and adhering to high standards of transparency. Disclosing material financial and non-financial information aligned with internationally recognized standards is vital for promoting transparency in SOEs. These enterprises should be subject to the same rigorous accounting, disclosure, compliance, and auditing standards as listed companies. By observing high standards of transparency, SOEs can enhance public trust, facilitate accountability, and demonstrate their commitment to responsible business practices.

As part of their ESG strategy, SOEs should:

- **Prioritize the production of an annual integrated report.** This report should focus on the impact of the organization in the economic, environmental, and social contexts. By providing a holistic view of the SOE's performance, including its contributions to sustainable development, environmental conservation, and social well-being, the integrated report enables stakeholders to assess the organization's ESG practices and outcomes.

- **Comply with environmental standards**. This includes minimizing their environmental footprint, adopting sustainable practices, and mitigating any adverse impacts on the environment. By doing so, SOEs can contribute to environmental conservation, resource efficiency, and the overall sustainability agenda. Identifying any shortfalls in compliance with environmental standards is equally important. It allows SOEs to assess their performance, identify areas for improvement, and implement corrective measures. Understanding the consequences of non-compliance enables SOEs to address potential risks and enhance their environmental stewardship.

- **Develop a clear strategy to manage the competing interests associated with ESG considerations.** This involves navigating the balance between economic objectives, social responsibilities, and environmental sustainability. By developing comprehensive strategies, SOEs can progress their ESG agenda with minimal disruption to existing structures and operations. Collaborating with stakeholders allows SOEs to gain access to technologies, knowledge, and capital that can support their ESG initiatives. By forging partnerships with various stakeholders, such as local communities, civil society organizations, and industry experts, SOEs can tap into valuable resources and expertise, enhancing their ability to address social and environmental challenges effectively.

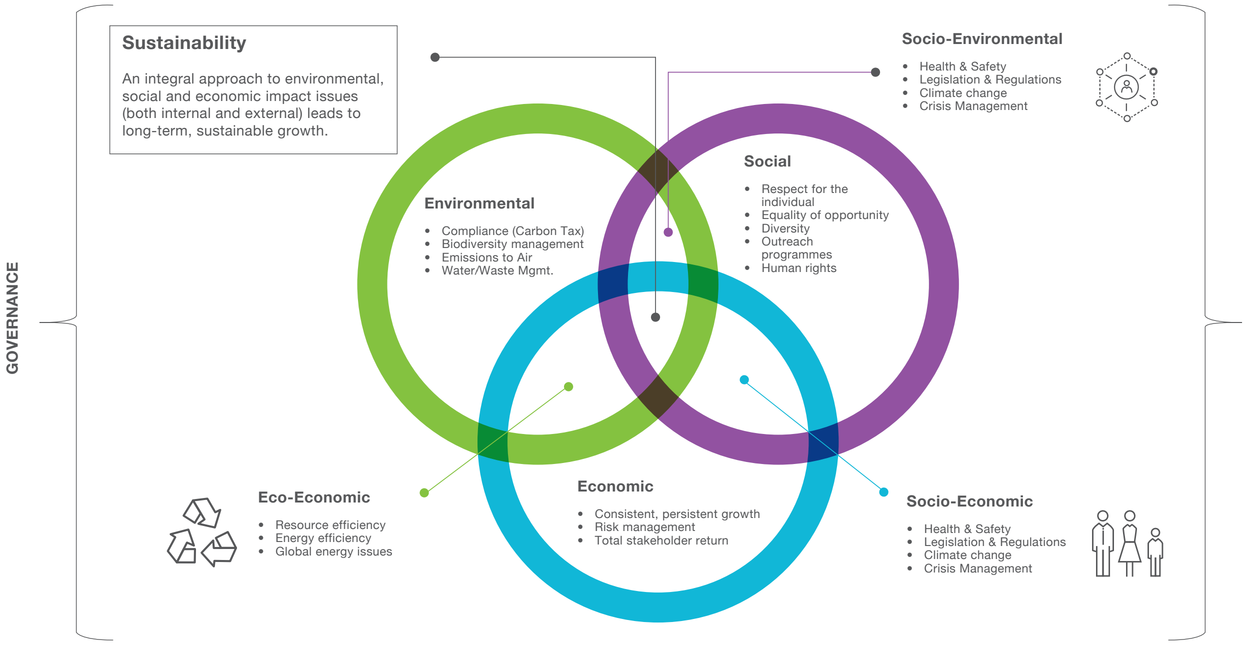
- **Audit and Risk Committees should provide a statement to the board and shareholders on the effectiveness of internal financial controls.** This demonstrates the organization's commitment to financial transparency, accountability, and responsible business conduct. To further strengthen stakeholder management and ensure robust internal control, SOEs should position internal audit as a strategic function.

- **Internal audit should conduct a risk-based assessment of the organization's system of internal control, including internal financial controls.** The results of this assessment, along with a written assessment of the organization's internal control mechanisms, should be shared with stakeholders. This promotes transparency, enhances stakeholder confidence, and demonstrates the SOE's commitment to sound governance practices.

- **Establish formal risk management processes to identify, assess, and mitigate risks across their operations.** Governance of risk is a vital component of an effective ESG strategy and stakeholder management. By proactively managing risks related to environmental, social, and governance factors, SOEs can address stakeholder concerns and minimize potential adverse impacts. This includes implementing measures to prevent and manage environmental pollution, promoting social inclusivity and diversity, and ensuring ethical conduct throughout the organization.

SOEs are increasingly being encouraged to adopt sustainable practices and align their operations with environmental and social priorities. EGS integration involves incorporating principles of environmental stewardship, social responsibility, and good governance into the decision-making processes and practices of SOEs. This includes implementing sustainable resource management, reducing carbon emissions, promoting renewable energy sources, prioritizing community development, and ensuring transparent and accountable governance structures. By integrating EGS considerations, SOEs can enhance their long-term sustainability, mitigate environmental risks, and contribute to social and economic development in South Africa. Furthermore, EGS integration can enhance the reputation of SOEs, attract responsible investment, and strengthen their overall performance and resilience in a changing global landscape.

Integrated operating model - map your stakeholder interests/concerns
Agility in the operating/business model



ESG considerations and integration are of utmost importance for SOEs in the South African context. By embracing environmental, social, and governance practices, SOEs can fulfil their developmental objectives, contribute to sustainable development, and effectively serve the needs of society. Integrating ESG principles into their operations not only aligns with South Africa's sustainability agenda but also enhances the competitiveness and long-term viability of these enterprises in a globalized economy. By complying with environmental standards, understanding the consequences of non-compliance, and developing clear strategies, SOEs can progress their ESG agenda. Moreover, forging partnerships with stakeholders and adhering to high standards of disclosure and transparency will contribute to the overall sustainability and success of SOEs.

II. Role of Civil Society

Civil society plays an important role in reforming SOEs in South Africa. Through their active participation and oversight, civil society can contribute to improving the governance, accountability, and transparency of these institutions. One significant aspect of civil society's role is the promulgation of laws that ensure their representation on regulatory and SOE boards. This representation serves to negate conflicts of interest and reduce the excessive influence of ministers over these institutions. By having civil society representatives on these boards, there is an opportunity for diverse perspectives and independent voices to contribute to decision-making processes. Furthermore, civil society input on new or amended regulations is crucial to ensure that the interests of the broader society are taken into account. This input helps to shape regulations that are more inclusive, equitable, and responsive to the needs of citizens.

Effective civil society interventions and oversight can have several positive impacts on SOEs. They help impede and reduce political interference, ensuring that decisions are made in the best interest of the organization and the public. By enhancing accountability and consequence management, civil society interventions promote a culture of responsibility and discourage corrupt practices. Robust governance processes and oversight are strengthened when civil society actively monitors the performance of SOEs and holds them accountable for their actions. Transparency is a critical aspect that civil society drives where necessary. By advocating for greater transparency in the operations of SOEs, civil society helps foster public trust and confidence in these institutions. This can include advocating for open and transparent procurement processes, disclosure of financial information, and public reporting on performance indicators.

In line with the recommendations put forth by the Zondo Commission, the government should:

- **Prioritize civil society interventions in the reform of SOEs.** Ensuring civil society input and oversight in board appointments enhances the independence and credibility of these institutions. Improved governance through civil society representation brings diverse perspectives and expertise to the decision-making process. Accountability is strengthened through performance-based leadership, ensuring that those in leadership positions are held responsible for their actions. Additionally, introducing transparency in procurement processes helps mitigate the risk of corruption and maladministration.

III. Improving Oversight

The findings of the Zondo Commission regarding corruption in SOEs have shed light on significant issues related to cronyism, cadre deployment, and the lack of transparent appointment processes. These findings underscore the need for independent and merit-based selection processes to address these challenges effectively. One key finding of the Zondo Commission is the absence of effective mechanisms to prevent cronyism and cadre deployment from dominating appointments to SOE boards and senior executive positions. This practice has perpetuated a system where political considerations take precedence over merit and qualifications. The Commission emphasizes the importance of establishing mechanisms that ensure appointments are based on merit and free from political manipulations. The Commission has recommended:

- **Establishment of a Standing Appointment and Oversight Committee.** This committee would be responsible for conducting public hearings to assess the professional, reputational, and eligibility requirements of individuals nominated for board appointments or key executive positions within SOEs. Additionally, the committee would investigate and address any complaints regarding misconduct by board members or senior executives in the discharge of their duties. This proposal aims to introduce greater transparency and accountability in the appointment processes.

- **Introduction of legislation by the government that would provide a framework for the selection and appointment of board members and senior executives in SOEs**, establishing clear criteria and processes to prevent undue influence and favouritism. In order to institutionalize transparent appointment procedures and ensure the appointment of qualified and experienced individuals with high integrity.

- **Strengthen the oversight function of Parliament.** Strengthened parliamentary oversight would enable better monitoring of SOEs, their operations, and the actions of board members and senior executives. This increased scrutiny would contribute to greater accountability and reduce the risk of corruption and maladministration within these institutions.

By introducing transparent appointment processes, establishing oversight mechanisms, and enacting legislation to ensure the selection of qualified and reputable individuals, South Africa can work towards restoring public trust, promoting good governance, and combating corruption in SOEs. These measures are crucial to safeguarding the integrity and effectiveness of these vital institutions.

The President's response, outlined in October 2022, presented a comprehensive plan to address these issues and restore trust in the public sector. Key aspects of the government's plan involve:

- **Appointment of independent panels with appropriate technical expertise in recommending suitable candidates for board appointments and executive positions in SOEs.** This measure aims to ensure a merit-based selection process that is free from political manipulations. The government plans to finalize a Guide for the Appointment of Persons to Boards and CEOs of State-Owned and State-Controlled Institutions by the fiscal year 2023/2024. This guide will provide clear guidelines for the appointment process, including the use of independent panels comprising relevant stakeholders and experts.

- **Establishment of a central database of potential candidates for SOE boards.** However, this will only be done after the finalization of the Guide for Appointment, ensuring that the database aligns with the prescribed guidelines and criteria.

- **Finalizing the State-Owned Enterprises Bill, which will strengthen the governance and oversight of SOEs.** This bill, along with its accompanying regulations, will provide a comprehensive framework to ensure accountability and transparency in the operations and management of SOEs.

- **Implement the approved National Framework towards Professionalization of the Public Sector.** This framework applies to public administration across the three spheres of government, SOEs, and all other organs of state. Key interventions include promoting professional, meritocratic, and ethical public administration; improving leadership, governance, and accountability; establishing functional, efficient, and integrated government operations; mainstreaming gender, youth empowerment, and the inclusion of people with disabilities; and fostering a social compact and engagement with key stakeholders.

To support these goals, fundamental public sector reforms are required. These include stabilizing the political-administrative interface, establishing a Head of Public Administration (HOPA), implementing merit-based recruitment and selection, enacting legislative amendments to govern professionalization, addressing consequence management, and utilizing distinguished former public servants and senior public representatives as mentors and coaches to stabilize public sector institutions.

Government has also noted that appointments to SOE boards and executives should be based on merit. Newly appointed board members are required to undergo training, including participation in continuous professional programs offered by the National School of Government. It is also encouraged for them to register with relevant institutes or professional bodies that certify directors and provide ongoing development opportunities. Furthermore, clear role segregation between boards and executives is essential, with boards having the authority, competencies, and objectivity to provide strategic guidance and oversight while being held accountable for their actions. By implementing these comprehensive measures, the government aims to address the findings of the Zondo Commission, promote good governance, transparency, and accountability, and restore public trust in South African State-Owned Enterprises and the public sector as a whole. These initiatives will contribute to the professionalization of the public sector, enhance performance efficiency, and strengthen the overall integrity of SOEs and the government's operations.

IV. The Role of Ethical Leadership

Improving the quality of leadership within SOEs in South Africa is crucial for their effective operation and long-term success. To achieve this, several strategies can be implemented:

- **Merit-based appointments should be prioritized**, where leaders are chosen based on qualifications, experience, and competence rather than political considerations. Transparent and rigorous selection processes can ensure that capable individuals are appointed to key positions.

- **Investing in comprehensive professional development programs for current and aspiring leaders is essential.** These programs should focus on enhancing leadership skills, strategic thinking, financial management, and stakeholder engagement. By providing opportunities for leadership training, executive coaching, and mentoring, a pipeline of competent leaders can be nurtured.

- **Implementing performance-based incentive systems can motivate and reward leaders for achieving key performance targets and driving organizational growth.** These incentives should be tied to measurable outcomes, such as financial sustainability, operational efficiency, and stakeholder satisfaction, to encourage leaders to prioritize results and accountability.

- **Establishing robust boards with diverse expertise and independent directors can provide strategic guidance and oversight.** Boards should have the authority to hold leaders accountable for their actions, make informed decisions, and promote a culture of ethical behaviour.

- **Collaborating with the private sector and academia can bring fresh perspectives**, innovation, and specialized expertise to improve leadership practices within SOEs. Engaging industry leaders and academic institutions in advisory roles, joint research projects, and collaborative initiatives can enhance leadership capabilities.

- **Developing a comprehensive succession planning framework is vital for continuity and leadership development.** Identifying potential successors, creating leadership development pathways, and providing opportunities for talent rotation can ensure a smooth transition of leadership.

- **Performance evaluations and consequences are necessary to assess leaders' effectiveness and identify areas for improvement.** Holding leaders accountable for their performance, including consequences for underperformance, unethical behaviour, or non-compliance, emphasizes the importance of responsible leadership. Effective leaders within SOEs must also engage with stakeholders, including employees, customers, government entities, and the public. Open channels of communication, seeking input, and addressing concerns can enhance trust, collaboration, and shared decision-making.

By implementing these strategies, South Africa can foster a culture of strong and effective leadership within state-owned enterprises. Prioritizing leadership quality, professionalism, and integrity is essential to drive the financial sustainability, operational efficiency, and positive impact of SOEs on the country's economy and society as a whole.

V. Reforming Financial Models

In order to improve the financial sustainability of SOEs in South Africa, it is crucial to implement financial reforms that align with the considerations outlined in the summary text. Ensuring wide access to capital is vital, as it allows SOEs to explore diverse funding sources beyond relying solely on taxes, levies, or government subsidies. By reducing dependence on government funding and expanding access to capital, SOEs can enhance their financial resilience and flexibility. Furthermore, developing a sustainable capital structure is essential.

- **SOEs should aim for long-term maturities that match the duration of their projects**, ensuring that their debt obligations align with the revenue streams generated over time. This approach helps to mitigate liquidity risks and provides a stable financial foundation for the SOEs. It is crucial to ensure that SOE earnings are sufficient to service their debt obligations, with some headroom for contingencies.

- **Cultivating strong working relationships with private sector funders, development finance institutions (DFIs), and donors** is instrumental in accessing concessionary funding terms that provide favourable interest rates and flexible repayment conditions.

- **Effective treasury management is another key aspect of financial sustainability for SOEs.** By spacing out debt maturities and extending them to 10 years or more, SOEs can better manage their cash flow, reduce refinancing risks, and maintain financial stability. A well-planned debt maturity profile allows for smooth repayment and minimizes the potential impact of sudden liquidity challenges.

- **SOEs should implement robust financial management systems and adhere to international accounting standards to improve the accuracy and timeliness of their financial reporting.** This commitment to financial discipline and transparency instils confidence in stakeholders, attracts potential investors, and enhances the overall credibility of the SOEs.

By addressing these funding considerations and implementing financial reforms, SOEs can strengthen their financial sustainability and contribute to the economic growth of South Africa. Diversifying funding sources, establishing a sustainable capital structure, presenting a strong balance sheet, cultivating relationships with funders and DFIs, managing debt maturity profiles effectively, and enhancing financial reporting and transparency are key steps toward achieving long-term financial stability for state-owned enterprises.

VI. Implementing Governance Best Practices

To address the governance challenges in South African SOEs a comprehensive set of recommendations have been proposed. These include the following:

- **Re-evaluate the vision and mandates of the SOE sector and design an appropriate architectural framework.** This entails clarifying the objectives of each SOE and establishing categories within the sector based on their specific roles and functions. In addition, a detailed SOE reform program, including a business plan with clear goals, timelines, deliverables, and assigned responsibilities, should be developed. The implementation of this program will be overseen by the Presidency, ensuring effective execution, reporting, and consequence management. To establish a solid governance framework, it is crucial to review and amend existing fragmented transversal and entity-specific policies and regulatory frameworks. These revisions should align with the new SOE framework, taking into account constitutional requirements, the recommendations from the Zondo Commission and the President's response, international best practices, and principles of good corporate governance.

- **Strengthen oversight, responsibility, reporting, and intervention roles, as well as relationships between key stakeholders.** This includes accounting authorities, chief operating executives, executive authorities, legislatures, the National Treasury, the Department of Planning, Monitoring, and Evaluation (DPME), and constitutional institutions. By enhancing the roles and relationships among these stakeholders, the governance structures of SOEs can be improved. The role of the Auditor General should also be reinforced. Special audits, such as those conducted in real-time on flood relief funds and the rehabilitation of derelict and ownerless mines, as well as performance audits, can enhance the AG's oversight of SOEs and their executive authorities. This will contribute to ensuring transparency and accountability within the sector.

- **Establishment of a statutory standing independent SOE Council.** This council would be responsible for conducting periodic reviews of each SOE's mandate, objectives, and performance, ensuring alignment with the overall vision and goals of the sector. To support effective governance, comprehensive training programs should be implemented for accounting authorities, chief operating executives, executive management, and employees. These programs should address both external and institutional environments, focusing on professionalism, ethical conduct, transparency, personal and institutional responsibility, accountability, and consequence management.

- **A strong commitment to investigating and punishing corrupt or wasteful activities is necessary to maintain public trust and ensure accountability.** This includes taking swift action against individuals involved in misconduct and implementing measures to prevent corruption and mismanagement in the future. To address these challenges, the South African government should revisit the recommendations outlined in the 2012 Presidential Committee Report on State-Owned Entities (PCRSOE). This report highlighted various areas of concern, such as the lack of clarity in the objectives of many SOEs, the need to reduce the multiplicity of mandates in business models, and the improper costing of mandates, including board fees and time. Addressing these weaknesses in governance and oversight is crucial for improving the performance and accountability of SOEs.

- **A fundamental culture change is necessary, which can be achieved through policy, regulatory, and administrative frameworks.** This change should prioritize professional and ethical conduct, transparency, personal and institutional responsibility, accountability, and consequence management. By instilling these values across the sector and within each SOE, a culture of good governance can be fostered. Overall, implementing these recommendations for governance reform in South African SOEs will enhance their accountability, transparency, and performance.

By redefining their vision and mandates, developing a comprehensive reform program, aligning policies and regulations, strengthening oversight mechanisms, and promoting a culture of professionalism and ethics, the financial sustainability and overall effectiveness of SOEs can be significantly improved.

VII. Private public partnerships

The relationship between public enterprises and private companies in South Africa is of great importance and can significantly impact the performance and sustainability of SOEs. International experiences provide valuable recommendations for SOE reform, which highlight the need to change the underlying incentives that contribute to inefficiencies in SOEs. Creating a favourable political economy environment is essential for successful reform. This entails making reform politically desirable, providing leaders with the means to implement change, and ensuring credible reform announcements to stakeholders. Increasing market competition through trade liberalization, removing barriers to entry, and unbundling large SOEs helps level the playing field and promotes efficiency. Private sector participation is crucial in enhancing the performance of SOEs. This can be achieved in the following ways:

- **Broadening the ownership structure of SOEs** and utilizing management contracts through transparent and competitive processes introduce private sector expertise and efficiency. It encourages collaboration between public and private entities and fosters innovation.

- **Establishing hardened budget constraints is vital for financial sustainability.**

- **Subsidies, transfers, bailouts, and guarantees should be reduced or eliminated** to promote financial discipline and accountability within SOEs. This ensures that resources are allocated efficiently and sustainably. Strengthening regulation is another important aspect.

- **Regulations should incentivize investment, expansion of services, and efficient operations while safeguarding consumer interests.**

- **Well-designed regulatory frameworks and effective enforcement mechanisms strike a balance between encouraging growth and protecting the rights of stakeholders.**

- **Collaboration between the government and SOE managers is key to driving performance improvement.** Granting SOE managers the freedom, means, and accountability to make decisions that enhance operational efficiency can lead to positive outcomes. Aligning the interests of the government and SOE managers through incentives fosters a cooperative relationship and drives performance.

- **A SOE inventory should be undertaken, covering all levels of government.** This inventory should assess the commercial viability, relevance of objectives, and operational and financial performance of SOEs. Based on the inventory results, a tailored reform strategy should be developed for each SOE, considering options such as transforming them into budgetary institutions or agencies, divesting, liquidating, or maintaining them as SOEs.

Addressing weaknesses in the institutional framework is crucial. Developing and periodically reviewing a comprehensive ownership policy provides clarity and guidance. Standardizing the legislative framework across SOEs eliminates legal uncertainty and strengthens enforcement. Simplifying the oversight model through increased centralization of the ownership function streamlines decision-making processes. Furthermore, it is important to reform retained SOEs, increase competition in their respective markets, broaden the ownership structure to include private sector participation, impose hardened budget constraints, reduce regulatory uncertainty, and establish collaborative relationships between the government and SOE managers. By implementing these recommendations, South Africa can enhance the efficiency and performance of its SOEs, promote healthy competition, and reduce fiscal risks. The relationship between public enterprises and private companies can be strengthened, leading to a more dynamic and sustainable economic environment.

VIII. Depoliticization of SOEs

The politicization of state-owned enterprises in South Africa has had detrimental effects on their governance structures and operational efficiency. Political interference in appointments and activities has led to a lack of specialized expertise and compromised the independence of SOEs. To address these challenges, it is crucial for:

- **The government to revisit the 2012 Presidential Committee Report on State-Owned Entities (PCRSOE).** The report highlighted the need to clarify the objectives of SOEs, reduce the multiplicity of mandates in their business models, address improper costing of mandates (including board fees and time), and strengthen governance and oversight mechanisms. By revisiting the recommendations of the PCRSOE, implementing government policies that encourage market-oriented approaches, and pursuing meaningful electoral reform, South Africa can address these challenges and foster the effective governance and performance of its state-owned enterprises.

- **Government policies should emphasize the importance of avoiding further bailouts to non-core, commercially based SOEs** and consider disposing of full or minority stake-holdings in non-core, competitive, and commercially based SOEs, regardless of their profitability. These measures would help alleviate the financial burden on the government and encourage a more efficient and market-oriented approach within the SOE sector.

- **Meaningful electoral reform is also crucial to ensure that MPs are directly accountable to the electorate rather than political leaders.** By implementing electoral reforms that enhance transparency, promote merit-based appointments, and foster public participation, the independence and effectiveness of parliamentary oversight can be strengthened.

SECTION D

TAKING THE CONVERSATION FORWARD

SECTION D: TAKING THE CONVERSATION FORWARD

I. Talent drainage

Addressing talent drainage within SOEs in South Africa is of paramount importance for their success and sustainable development. Talent drainage refers to the loss of skilled and experienced professionals from SOEs, which can have detrimental effects on their operations, performance, and overall effectiveness. Retaining top talent is crucial for the long-term viability and competitiveness of SOEs. Skilled professionals bring valuable expertise, knowledge, and innovation to the organization, enabling it to adapt to changing market conditions, implement efficient strategies, and deliver quality services. When talented individuals leave SOEs, it not only results in a loss of institutional memory but also disrupts the continuity of critical projects and initiatives. One of the primary reasons for talent drainage in SOEs is the perception of limited career growth and development opportunities. Skilled professionals seek challenges, growth prospects, and a conducive work environment that fosters their personal and professional advancement. If SOEs fail to provide a clear career progression path, offer skill-building programs, and create a supportive culture, talented individuals are more likely to seek opportunities elsewhere.

The entrance of millennials (born 1981-1996) and Generation Z (born 1996-2010) into the workforce of SOEs further brings forth a shift in workplace dynamics and an opportunity to harness the unique characteristics of these generations. Gen Z and millennials are known for their digital fluency, having grown up in a technology-driven world. They possess a natural aptitude for adapting to new tools and platforms, which can be leveraged to drive digital transformation within SOEs. Additionally, these generations exhibit a strong desire for purposeful work and meaningful impact. They seek roles that align with their personal values and are drawn to organizations that prioritize sustainability, social responsibility, and ethical practices. Empowering Gen Z and millennials in the workplace involves providing them with opportunities for skill development and continuous learning.

They thrive in environments that foster growth, where they can acquire new competencies and advance their careers. Collaborative and inclusive cultures are particularly important for these generations. They value teamwork, diverse perspectives, and open communication. Encouraging cross-generational collaboration, mentorship programs, and platforms for their voices to be heard can enhance their engagement and foster innovation. Lastly, highlighting the organizational mission and values that address social and environmental challenges resonates strongly with Gen Z and millennials. By emphasizing the purpose behind their roles and showcasing the positive impact of their work, SOEs can motivate and empower these generations to perform at their best. Overall, recognizing and leveraging the unique characteristics of Gen Z and millennials will not only benefit individual performance but also contribute to the overall success and future relevance of SOEs in an evolving work landscape.


SOE
STATE OWNED ENTERPRISES
(SOE'S) CONFERENCE AFRICA
2nd Annual
OPTIMIZING SUCCESS FOR THE SUSTAINABILITY
OF STATE-OWNED ENTERPRISES
17-18 NOVEMBER 2022
CTICC, CAPE TOWN, SOUTH AFRICA

Another factor contributing to talent drainage is the remuneration gap between the public and private sectors. Often, private companies can offer higher performance-based incentives, attracting top talent away from SOEs. To address this issue, it is crucial to review and revise compensation structures within SOEs, ensuring they are competitive and commensurate with market rates. This would help retain skilled professionals and incentivize them to contribute their best to the organization's success. Moreover, fostering a positive work environment and organizational culture is essential. SOEs should create an atmosphere that promotes collaboration, innovation, and employee engagement. Encouraging open communication, recognizing and rewarding outstanding performance, and providing opportunities for skill development and career advancement can help enhance employee satisfaction and retention.

Furthermore, becoming more inclusive will allow the talents of all communities to be geared towards the success of the enterprise. This includes addressing pay gaps for members of different marginalised groups. Addressing the gender pay gap in SOEs requires a commitment to gender equality and inclusivity that recognizes and respects the diversity of the workforce, including the queer community. Ensuring pay equity is crucial for creating a fair and just work environment. It involves examining compensation structures, identifying disparities, and implementing measures to rectify them. By employing gender-affirming language and inclusive policies, SOEs can promote an inclusive and supportive atmosphere where individuals, regardless of their gender identity or sexual orientation, are valued and compensated fairly. It is essential to recognize that the gender pay gap affects people of all gender identities and orientations, and by adopting an intersectional approach, SOEs can work towards closing the gap and creating a workplace that champions equality, respect, and opportunity for all employees.

Investing in talent management and succession planning is another critical aspect. Identifying high-potential individuals within SOEs and implementing development programs to nurture their skills and groom them for leadership positions can create a pipeline of capable leaders. This proactive approach to talent management ensures a smooth transition of leadership and minimizes disruptions caused by vacancies at critical positions. Collaboration with educational institutions and professional bodies can also contribute to addressing talent drainage. Establishing partnerships to provide internships, apprenticeships, and specialized training programs can attract young talent and equip them with the necessary skills for the industry. Additionally, fostering a culture of continuous learning and knowledge sharing within SOEs can enhance employee engagement and professional growth. By addressing talent drainage within SOEs, South Africa can create a workforce that is skilled, motivated, and committed to driving the success of these organizations. Retaining top talent not only strengthens the operational capacity and performance of SOEs but also contributes to overall economic growth and development.

II. Infrastructure collapse

Addressing infrastructure collapse within SOEs in South Africa is of utmost importance for the country's economic development, service delivery, and the well-being of its citizens.

Infrastructure collapse refers to the deterioration, malfunction, or inadequate maintenance of critical infrastructure assets owned and operated by SOEs, such as transportation networks, energy systems, telecommunications, and water supply. Infrastructure plays a pivotal role in driving economic growth and productivity. It provides the backbone for industries to thrive, facilitates efficient movement of goods and services, connects communities, and enables the delivery of essential public services. When infrastructure within SOEs collapses or becomes unreliable, it poses significant challenges and hampers economic activities and social development.

One of the key consequences of infrastructure collapse is the negative impact on service delivery. SOEs are responsible for providing essential services to the public, such as electricity, water, transportation, and communication. When infrastructure fails, it leads to service interruptions, unreliable access, and lower quality of services. This not only affects businesses' operations but also impacts the daily lives of individuals, hampering productivity, hindering economic activities, and diminishing the overall quality of life. Furthermore, infrastructure collapse can deter domestic and foreign investments. Investors seek stable and reliable infrastructure networks to support their operations. When SOEs fail to maintain and upgrade infrastructure assets, it creates uncertainty and risk for potential investors. A lack of reliable infrastructure can discourage private sector participation, limit economic growth opportunities, and impede job creation.

Addressing infrastructure collapse within SOEs requires a multi-faceted approach. Firstly, there is a need for adequate funding and investment in infrastructure maintenance, repair, and modernization. SOEs should allocate sufficient resources to ensure regular inspections, timely repairs, and upgrades of infrastructure assets. Additionally, exploring partnerships with the private sector and leveraging public-private partnerships (PPPs) can bring in expertise, technology, and additional funding for infrastructure development and maintenance.

Secondly, effective asset management systems and strategies should be implemented within SOEs. This includes developing comprehensive asset inventories, conducting condition assessments, and implementing preventive maintenance programs. Proactive asset management helps identify vulnerabilities, prioritize investments, and ensure the longevity and reliability of infrastructure assets.

Thirdly, enhancing technical capacity and expertise within SOEs is crucial. Investing in training, skills development, and knowledge transfer programs can empower employees to effectively operate, maintain, and manage infrastructure assets. Collaborating with academic institutions, industry experts, and professional bodies can provide access to specialized knowledge and best practices in infrastructure management.

Lastly, improving governance and accountability within SOEs is essential to address infrastructure collapse. Enhancing transparency, strengthening oversight mechanisms, and promoting a culture of accountability can help ensure that infrastructure investments are effectively utilized, maintenance is prioritized, and resources are allocated efficiently.

Attending to infrastructure collapse within SOEs is a strategic imperative for South Africa. By prioritizing infrastructure maintenance, investing in asset management, building technical capacity, and fostering good governance, the country can revitalize its infrastructure networks, drive economic growth, enhance service delivery, and improve the overall well-being of its citizens.

III. New political dynamics

The importance of reform in SOEs in South Africa is further heightened by the changing political landscape and the prospects of a coalition government being established. The political landscape of a country has a significant influence on the governance, operations, and performance of SOEs. As South Africa navigates potential changes in its political landscape, it presents an opportunity to prioritize and accelerate reforms within the SOE sector.

A coalition government, formed by multiple political parties, brings with it the need for consensus-building, collaboration, and compromise. In such a scenario, it becomes even more crucial to address the challenges and inefficiencies that have plagued SOEs, as they have often been subject to political interference, mismanagement, and lack of accountability. Reforming SOEs in the context of a changing political landscape can have several advantages. First and foremost, it allows for a fresh evaluation of the objectives, mandates, and governance structures of SOEs. This evaluation can lead to the alignment of SOE objectives with national priorities, the streamlining of mandates, and the establishment of clear performance indicators and accountability mechanisms. Additionally, reforming SOEs can help mitigate the risks of political interference. By implementing measures to enhance operational independence, professionalize management, and strengthen governance frameworks, the influence of political considerations on the day-to-day operations and decision-making of SOEs can be minimized. This can contribute to the long-term sustainability, efficiency, and effectiveness of SOEs, regardless of changes in the political landscape.

In the context of a coalition government, reforming SOEs can serve as a unifying agenda that transcends political affiliations. Recognizing the common goal of efficient and effective public service provision, political parties forming a coalition government can work together to prioritize and drive the necessary reforms within the SOE sector. This collaboration can lead to more comprehensive and sustainable reforms, as diverse perspectives and expertise are brought to the table. The changing political landscape in South Africa, coupled with the prospects of a coalition government being established, underscores the importance of reforming state-owned enterprises.

Such reforms can address challenges of political interference, improve transparency and accountability, attract private sector participation, and foster sustainable development. By prioritizing SOE reform in this dynamic political context, South Africa can lay the foundation for a more efficient, effective, and resilient public enterprise sector that serves the interests of all its citizens.

IV. New ownership model

The debate on reforming the ownership model in SOEs within South Africa holds great importance as it revolves around differing views on private, public, and mixed ownership of these enterprises. This debate has significant implications for the efficiency, accountability, and performance of SOEs, as well as the broader socio-economic objectives of the country. Advocates of private ownership argue that introducing private sector participation in SOEs can bring greater efficiency, innovation, and market discipline. They argue that private ownership fosters competition, as private companies strive to deliver quality services and products to gain a competitive edge. Private ownership is often associated with profit-driven decision-making, which can incentivize better resource allocation, cost management, and responsiveness to market dynamics. Proponents of public ownership, on the other hand, emphasize the importance of maintaining strategic control and public interest in key sectors. They argue that public ownership allows for a direct alignment of objectives with broader social goals, such as job creation, equitable service provision, and addressing socio-economic inequalities. Public ownership is often seen as a means to prioritize public welfare over profit maximization and to safeguard essential services from market fluctuations and private sector interests.

Meanwhile, proponents of mixed ownership advocate for a balanced approach that combines elements of both private and public ownership. They argue that a mixed ownership model can harness the benefits of private sector efficiency and innovation while maintaining public control and ensuring the fulfilment of broader societal objectives. Mixed ownership structures can provide a platform for collaboration, knowledge-sharing, and risk-sharing between the public and private sectors. The debate on ownership models in SOEs is complex and nuanced, and different sectors and industries may require different approaches. The decision on ownership models should consider factors such as the sector's strategic importance, the level of competition, the potential for private sector investment, and the capacity of the public sector to effectively manage and regulate the industry.

Ultimately, the importance of the debate lies in finding a balance between private and public interests that maximizes the benefits for society as a whole. Regardless of the ownership model chosen, it is crucial to prioritize good governance, transparency, and accountability in the management of SOEs. Clear performance indicators, independent oversight mechanisms, and effective regulatory frameworks can help ensure that SOEs operate in the best interest of the public, regardless of the ownership structure in place. It is worth noting that the debate on ownership models in SOEs is not exclusive to South Africa and is an ongoing global discussion. Different countries have adopted varying approaches based on their specific contexts, priorities, and experiences. South Africa's unique socio-economic landscape and development goals should inform the decision-making process, ensuring that the chosen ownership model contributes to inclusive growth, sustainable development, and the well-being of its citizens.


MILLASA
Enhancing Innovation in human capital
SOE
2nd Annual
SOE
STATE OWNED ENTERPRISES
(SOE'S) CONFERENCE AFRICA
2nd Annual
OPTIMIZING SUCCESS FOR THE SUSTAINABILITY
OF STATE-OWNED ENTERPRISES
17-18 NOVEMBER 2022
CTICC, CAPE TOWN, SOUTH AFRICA

SECTION E

TOWARDS A NEW SOCIAL COMPACT ON SOEs IN SOUTH AFRICA

SECTION E: CONCLUSION – TOWARDS A NEW SOCIAL COMPACT ON SOEs IN SOUTH AFRICA

In conclusion, the establishment of a new social compact on SOEs in South Africa is of paramount importance. This social compact serves as a collaborative agreement among various stakeholders to address the challenges faced by SOEs and unlock their potential for the benefit of the country. The nature of this social compact lies in its inclusive and participatory approach, bringing together the government, private sector, civil society, and other stakeholders. It fosters a shared commitment to reform and a collective vision for the future of SOEs. By harnessing the expertise and perspectives of diverse stakeholders, the social compact ensures that solutions are comprehensive, balanced, and responsive to the needs of the nation. A new Social Compact on SOEs addresses the challenges identified in this report by incorporating strategies, solutions, and recommendations proposed. It recognizes the importance of good governance, transparency, and accountability in SOEs. It calls for the implementation of robust governance structures, strengthened oversight mechanisms, and the adoption of best practices from both domestic and international experiences.

Financial sustainability is a key focus within the social compact. It emphasizes the need to reduce reliance on government funding and explore alternative sources of capital. This includes widening access to capital, aligning funding with long-term project needs, and establishing a sustainable capital structure. It also encourages the implementation of financial reforms, such as improved treasury management and the reduction of subsidies and guarantees. The social compact addresses the issue of leadership within SOEs by advocating for merit-based appointments and the professionalization of management. It recognizes the importance of developing capable leaders who are empowered to make commercially sound decisions and operate independently from political interference. The compact also stresses the significance of talent retention and continuous training to ensure a skilled workforce within SOEs.

Furthermore, the social compact acknowledges the need to address the politicization of SOEs and emphasizes the importance of collaboration between the government and SOE managers. It advocates for a relationship governed by incentives that motivate performance and promote the best interests of the enterprises and the public. By fostering a culture of collaboration, the social compact aims to mitigate political interference and enhance operational efficiency. Importantly, the social compact recognizes the value of the debate on ownership models for SOEs. It encourages a balanced consideration of private, public, and mixed ownership structures, taking into account the specific characteristics and objectives of each enterprise. It emphasizes the need for increased private sector participation, competition, and market-oriented reforms to enhance efficiency and effectiveness. By embodying these strategies, solutions, and recommendations, the social compact on SOEs aims to overcome the challenges faced by state-owned enterprises in South Africa. It provides a comprehensive framework for reform, underpinned by a commitment to good governance, financial sustainability, capable leadership, depoliticization, and stakeholder collaboration.

Through this social compact, South Africa can forge a new path for its state-owned enterprises, ensuring they become engines of economic growth, drivers of social welfare, and contributors to national development. It is an opportunity to build a resilient and prosperous future, where SOEs operate efficiently, transparently, and in the best interests of the country and its citizens. The establishment of this social compact requires the commitment and active engagement of all stakeholders. This can be achieved by firstly, transparent and inclusive communication channels should be established, allowing for open dialogue and the exchange of ideas among employees, management, government entities, shareholders, and other relevant parties.

This ensures that all perspectives and concerns are considered, fostering a sense of ownership and shared responsibility. Secondly, the development of clear goals, objectives, and performance indicators is crucial. These should reflect the shared values and priorities of all stakeholders, with a focus on sustainability, social impact, and ethical practices. Thirdly, robust mechanisms for accountability and monitoring should be implemented, enabling stakeholders to assess progress, provide feedback, and hold each other accountable for their commitments. Regular reporting and evaluation processes ensure transparency and maintain the momentum of the social compact.

Finally, fostering a culture of collaboration and inclusion through training, workshops, and diversity initiatives is vital for building trust and strengthening relationships between stakeholders. By taking these practical steps, SOEs can establish a social compact that promotes a collective effort towards achieving long-term success, societal well-being, and sustainable development. By working together and embracing a shared vision, South Africa can unlock the full potential of its state-owned enterprises and create a sustainable and inclusive economy for the benefit of present and future generations.

Notes

Notes

HURUMA
BANTFU

Johannesburg

Workshop17 The Bank
24 Cradock Avenue
Rosebank
Johannesburg
2196

Cape Town

Workshop17 Watershed
17 Dock Road
Victoria & Alfred Waterfront
Cape Town
8002

E: sandile@hurumabantfu.com
C: +27 73 043 8916