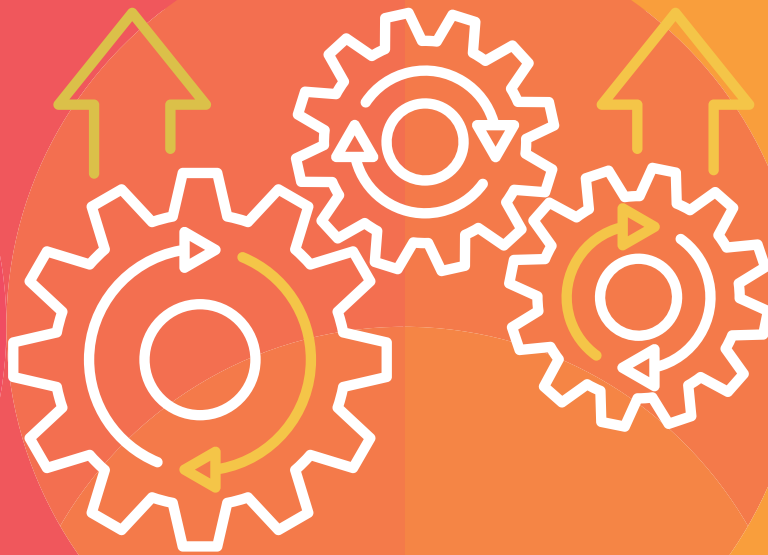


# GOVERNANCE OF STATE-OWNED ENTERPRISES IN SOUTH AFRICA

enhancing  
performance,  
efficiency and  
service delivery



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## EXECUTIVE SUMMARY

1. Historically, South Africa has used State-owned enterprises (SOEs) for economic development, in particular to expand productive capacities and foster economic growth. The first major SOE, the Electricity Supply Commission (Eskom), was established in 1923 to support industrialization while taking advantage of the vast coal resources that the country possessed. Eskom was followed by other entities such as Telkom Limited (wireline and wireless telecommunications provider) and Rand Water (a water utility) in the first decade of the twentieth century, which became the powerhouses of the economy. At various times, these entities suffered governance and operational weaknesses and the Government came under intense pressure to privatize them in the 1960s; however, the two-pronged objective for SOE establishment, which is socioeconomic development and financial sustainability, made it difficult to heed the privatization calls. Furthermore, under the apartheid era, these SOEs were in the service of a small white minority – a key constituency for the apartheid-era Government – either through reserving jobs for white South Africans or nurturing a racially exclusive entrepreneurial class.
2. In the democratic South Africa, the purpose of these SOEs has been expanded to serve the entire population irrespective of race, but their mandate has never been clearly articulated. As a consequence, SOEs have suffered from a variety of challenges, including an absence of a clearly defined development mandate. State capture<sup>1</sup> has added to, and intensified, these challenges. While corruption is a catch-all phrase and tends to be used by individuals or those working with a syndicate to exploit loopholes in the State, the phenomenon of State capture is more systemic, has political or ideological angles and is sanctioned by a network of powerful actors. State capture has hollowed out critical elements of the Government, eroded value in SOEs, and weakened the rule of law. The extent to which this phenomenon has seeped into the institutional makeup of the country, and especially that of SOEs, is the subject of the ongoing Commission of Inquiry into Allegations of State Capture, which is chaired by Raymond Zondo, the Deputy Chief Justice.
3. State capture has caused serious damage to South African institutions (including SOEs), but is not the only cause of institutional failure. Many of the challenges faced by SOEs relate to governance failures on the part of both the shareholder (government departments with responsibility over SOEs) and the board of directors. It is often assumed that political principals understand corporate governance principles and grasp the importance of board independence, but this is not always the

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