



Report of proceedings

Governance of State-owned enterprises in South Africa: enhancing performance, efficiency and service delivery

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I. Preamble

1. State-owned enterprises (SOEs) play an important role in many countries across the world. Globally, these entities tend to dominate major sectors of the economy, providing essential public services, such as transportation, electricity and water, facilitating technological progress, creating competitive and fairer markets, and supporting national development in general. However, despite their ability to promote development, SOEs have often encountered several governance- and performance-related challenges, primarily because they are government-owned, which often leads to underperformance and an inability to fulfil their mandates. These challenges have affected some of the major SOEs in South Africa in the past decade or so.
2. In 2020, the Economic Commission for Africa (ECA) commissioned a study entitled *Governance of State-owned Enterprises in South Africa: Enhancing Performance, Efficiency and Service Delivery* to explore ways to re-examine the mandates and operation of SOEs in South Africa with a view to reducing poverty and inequality, transforming the economy to allow higher-value productivity and growth and boosting industrialization in line with the country's development agenda. In pursuit of this objective, the challenges encountered by SOEs and the reasons for which many of the major SOEs have become a source of societal value destruction rather than societal value creation were examined.
3. In the study, six South African SOEs that were deemed critical to the South African economy were closely examined. The cases studies involved the Electricity Supply Commission (Eskom), Transnet, Denel, South African Airways, the Water Research Commission and the Land and Agricultural Development Bank of South Africa (Land Bank). The study was approved on 28 January 2021 at a meeting attended by experts from the public and private sectors, civil society organizations, labour movements, regional and international development organizations, regional economic commissions, entities of the United Nations system, academia and research institutions, as well as private citizens from South Africa and the wider region.
4. Using secondary research (including policy documents, reports of SOEs, media sources on SOEs and academic research articles), the study identified several challenges that cut across SOEs in South Africa, including the following:
 - a) Lack of clear legal frameworks for restructuring and governing SOEs, which exposed these entities to political interference and resulted in the appointment of a poorly qualified board of directors and executive management;
 - b) Increasing overreliance on State guarantees and bailouts for operational purposes and to fulfil mandates owing to soft budget constraints and the increasing probability of being able to obtain bailouts from the Government, which created a lax management culture within SOEs and a high fiscal burden on the country's finances;
 - c) Absence of well-defined and clear mandates among SOEs, which undermined performance and led to reduced transparency and accountability, poor coordination among departments, inefficient utilization of factors of production, and poor monitoring and oversight;
 - d) Increasing allegations of corruption within SOEs involving powerful figures with political influence, which had been associated with weakened credibility and delays in implementing the strategic plans of SOEs; Lack of strong internal controls or risk management systems in SOEs and low levels of compliance, resulting in these entities failing to control unethical behaviour;

- e) Lack of clear lines of accountability and, in some instances, an absence of frameworks for such accountability – for instance, there was no clarity on expectations for the relationships between shareholder departments and the SOEs under them, nor on how the political principals in the Office of the President should engage with boards of directors, which created confusion and compromised performance;
 - f) Lack of strategic purpose to address governance challenges and operational inefficiencies – for more than two decades, South African SOEs had struggled to define their purpose, with no overarching strategy to guide their direction.
5. To address these challenges, the study provided, among other things, the following recommendations:
- a) Government should accelerate the process of finalizing the shareholder management bill, which would provide greater legislative clarity on the mandate of SOEs, their strategic goals and the relationship between the shareholder (the sector ministry) and the entities;
 - b) Government should restructure SOEs such that they did not become a burden to the country's finances, which could include changing boards and management structures and functions and establishing robust governance frameworks to enhance SOE performance;
 - c) Given the central function of boards of directors in corporate governance and the performance of SOEs, the boards should be appointed on merit, enjoy independence from politicians, be assigned clear legal mandates and have their performance appraised periodically, and their composition should be representative of various stakeholders to ensure transparency and accountability;
 - d) Specialized ownership units should be established, with high integrity standards and the requisite expertise and staff to manage specialized functions, such as audit, compliance and risk management, in order to shield SOEs from political interference – the units would help to monitor how SOEs conduct their operations and deploy capital, and they would continuously evaluate their development effectiveness;
 - e) SOEs should have well-defined and updated mandates to allow the State to translate those mandates into identifiable objectives and evaluate the performance of SOEs in accordance with the mandates for which they were created;
 - f) Corruption within SOEs should be eliminated, including by:
 - i. Strengthening legal and regulatory frameworks and practices to make corruption harder to conceal and introducing transparency and accountability;
 - ii. facilitating citizen engagement in holding SOEs to account for their performance and providing feedback to management on service delivery issues;
 - iii. professionalizing boards of directors and senior management by bringing in independent members to strengthen board decision-making and to prevent illicit activity from taking place;
 - iv. providing strong political leadership for the implementation of laws and regulations against corruption in SOEs; and
 - v. installing sound internal controls and compliance systems to manage risk and investigate alleged misconduct.

II. Proceedings of the high-level policy dialogue

A. Opening session

6. The session was moderated by Ayodele Odusola (Acting Resident Coordinator for South Africa), who gave a special welcome to the two ministers present, to the representative of the African Union Southern Africa Regional Office and to the Deputy Vice-Chancellor of the University of the Witwatersrand. Mr. Odusola said that SOEs had been established for certain socioeconomic and even political objectives, and that some had achieved those objectives, while some had outlived their usefulness and were still grappling with the changing dynamics caused by changes in the relationship between the public sector and the private sector in managing development. The high-level policy dialogue was relevant not only for South Africa but also for the subregion and the continent. In the process of reforming SOEs, it must be clear to all that the reformer could not satisfy everybody.
7. In her opening remarks, Eunice Kamwendo (Director of the Subregional Office for Southern Africa of ECA), indicated that the high-level dialogue was being held to review the findings of the study on SOEs in South Africa and had been facilitated in collaboration with the University of the Witwatersrand. The study had been informed by challenges in Southern Africa on the management of SOEs. Ms. Kamwendo argued that challenges faced in South Africa, the largest economy in Southern Africa, tended to spill over into other economies integrated with that of South Africa. The platform was intended not only to provide an opportunity to discuss issues around SOEs in South Africa but also to enable representatives of other countries in the subregion to learn and share experiences. SOEs remained critical for service delivery to cover the various needs of citizens. South Africa had many SOEs, some of which may have outlived their purpose, and others needed more innovation to revamp their strategic objectives.
8. She cited successful examples of SOEs in Africa and noted that Ethiopian Airlines had been innovative in withstanding the challenging period of the coronavirus disease (COVID-19) pandemic, including by transforming passenger aircraft into cargo planes, thereby remaining active as it delivered vaccines, among other things, around the world. She highlighted the Debswana Diamond Company – a 50:50 joint venture partnership between the Government of Botswana and De Beers – which had managed to capture a global market by moving towards value addition.
9. In closing, she stressed the need for follow-up discussions that would include the private sector in a concrete way, saying that, despite SOEs being a responsibility of Governments, the private sector was essential to ensuring that SOEs worked efficiently. Thus, there was a need for constant dialogue between the two. In addition, she reminded the participants of the core mandate of the Subregional Office for Southern Africa Office: to help its members move towards industrialization. This, in turn, was expected to reduce poverty and inequality in the subregion.
10. In his opening remarks, Ian Jandrell (Deputy Vice-Chancellor for Systems and Operations, University of the Witwatersrand) reiterated Ms. Kamwendo's remarks on the importance of enhancing the performance of SOEs. He said that their performance was dependent on the availability of resources and the capabilities at their disposal and stressed that SOEs in South Africa had been devalued dur-

ing the period of State capture owing to systemic corruption that had led to economic underperformance and had compromised skills within these institutions. Some SOEs might not be suited to operating under State control, as it could have adverse fiscal implications, forcing the Government to redirect resources away from critical socioeconomic areas. Some SOEs, however, had maintained their strategic importance and, if well managed, could yield desirable developmental results.

11. In addressing possible ways to improve the governance of SOEs, Mr. Jandrell called for strengthened oversight by the boards, which could help to create safeguards against poor governance and mismanagement. Reformed SOEs could be a catalyst for much-needed dynamism in the economy, which could spur development.
12. In his recommendations, he said that it was necessary: (i) for SOEs to have a clear delineation of their commercial and non-commercial sides in governing their operations; (ii) to look into the financing models that had been adopted for the operationalization of SOEs; (iii) to encourage more collaborative leadership among the various SOEs; (iv) to examine the role of development finance institutions (DFIs) in enhancing the performance of SOEs by exploring the synergies between them, guided by well-defined principles; (v) to reconcile the ideologies and political issues that had been highlighted repeatedly in SOE governance discussions; and (vi) for SOEs to ex-

era of State capture, which severely undermined the performance of key SOEs, especially those with huge procurement budgets. Even as the country embarked on SOE reforms for better performance and service delivery, those reforms continued to be buffeted by individuals who had benefited from corruption and were trying to prevent transformation. This was the contextual environment that South Africa currently faced, in which SOEs were still serving the country poorly and required huge and unaffordable government bailouts to continue their operations. Mr. Gordhan praised the role of investigative journalism in revealing corrupt practices within SOEs and encouraged academics to continue coming up with constitutional frameworks that would guide the SOE reform agenda. The State should ensure that the 50 per cent of the population who were without basic services, such as water and sanitation, obtained access to them.

14. Mr. Gordhan reiterated the important role that SOEs had played over decades and continued to play in the socioeconomic development agenda of the country and the subregion. For example, SOEs in South Africa had been at the forefront of major technological innovations in various fields, such as medicine and agriculture, as well as infrastructure development. At the core of the SOE reforms under way was the need to ensure that SOEs were fit for purpose, especially given the additional impact of climate change on the economy and the frequency and intensity of recent external shocks. The reforms would

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