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GOVERNANCE

NEVA MAKGETLA: Ailing state companies have bigger flaws than just graft

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Discussions of governance at the state-owned enterprises (SOEs) often focus narrowly on ending corruption.

Chasing corrupt individuals is obviously necessary, but the SOEs need much deeper systemic change. Corruption is just part of a broader governance failure arising from complicated, secretive and defensive oversight structures; the use of boards of directors for patronage; and mandates that are vague, uncosted, and underresourced.

The SOEs have formed the backbone of SA's electricity, freight and commuter rail and communications systems. In 2017, 16 SOEs provided key infrastructure or goods. Together they reported R1.6 trillion in assets and about 176,000 employees. Eskom, the SA National Roads Agency (Sanral) and Transnet alone managed assets worth R1.4 trillion and had 106,000 employees.

Until the commodity boom ended abruptly in 2011, broad prosperity papered over problems at the SOEs, but they became obvious as slower growth set in. Sanral, SAA, the Post Office, Broadband Infraco and the Central Energy Fund made losses every year from 2012/2013 to 2016/2017. Only Eskom, Transnet, Airports Company SA and

Denel made profits in all of those years, but Denel still faced a cash-flow crisis, and Eskom is now making a loss. In 2016/2017, Sanral lost R5bn, mostly from writing off unpaid Gauteng tolls.

Meanwhile, most SOEs habitually increased their tariffs above inflation, while some got subsidies. Eskom's tariffs rose more than 150% in the past decade in constant terms, and Sanral lobbied to expand tolling. About a quarter of all commuter transport subsidies went to Prasa, though it only serves about 5% of the population. And several SOEs got bail-outs.

Corruption aggravated the flood of red ink, but did not cause it. Rather, it flowed out of the SOEs' apparent inability to adapt to the realities of slower growth after 2011. From about 2005 they planned major infrastructure investments, funded in large part by anticipated economic growth, especially in mining. The slowdown has left them facing the real risk of stranded investments. Except for Transnet, however, virtually none of them reported revising down their investment plans or production as demand slowed.

This failure to adapt to changing economic realities is rooted in complex, legally rigid, and insulated governance structures, compounded by incoherent mandates.

Most SOEs answer to both a board of directors and a national department.

Some also have a regulator, report to both the department of public enterprises and a policy department, and are subject to financial supervision from the Treasury. SOE boards are supposed to provide oversight and strategic leadership on behalf of the government as shareholder. Until recently, however, they were often appointed without much visible concern for either experience or technical capacity.

In terms of mandates, the SOEs are supposed to marry socioeconomic requirements, which justify public ownership, with financial autonomy. As a rule, however, developmental targets are neither explicit nor subject to regular review.

As the SOEs' annual reports demonstrate, oversight departments usually set obscure technical performance indicators without much consultation with other departments and virtually none with stakeholders. Often it is impossible to determine the broader outcomes that targets are supposed to achieve.

Ultimately, the SOEs can only recover with relevant, clear and costed mandates and far greater transparency and public accountability. Achieving those aims requires establishing simpler, more expert and more open governance structures.

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