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Public Enterprises

Introduction

This chapter explains how state ownership came into existence in South Africa during apartheid. It also gives an overview of other experiences and examples of state ownership in other countries. Relevant government departments and their roles are also discussed as far as state ownership is concerned. Most importantly, this chapter explores how and to what extent state ownership has been successful or otherwise in South Africa. The chapter also gives an overview of the types of state owned entities and companies that have been critical in the post-1994 South African economy.

South Africa has a long history of state ownership. State ownership refers to any form of ownership or majority shareholding by a government. The establishment of the Electricity Supply Commission (Eskom in Afrikaans language) in the 1920s is said to mark the beginning of state ownership in South Africa. State ownership has its merits, if undertaken properly. Broadly speaking, state ownership is critical for socio-economic development. There are two main institutions that entail state ownership: State Owned Entities (SOEs) and State Owned Companies (SOCs). This chapter clarifies the difference between SOEs and SOCs, which is important but often taken for granted. Also, the term 'public enterprise' is generally used to refer to both SOEs and SOCs. In the context of South Africa, there is also a notion of Development Finance Institutions, which include SOEs and SOCs as well as other institutions that are within the control of the government – as long as those institutions are said to be pursuing a developmental goal. This chapter uses public enterprises to include both SOEs and SOCs.

Historical Context

The history of the state intervening in the economy and business operations in South Africa started in the 1920s, when the Electricity Supply Commission (Eskom), Iron and Steel Corporation (Iscor), South African Railway (SAR), South

African Coal, Oil and Gas Corporation (Sasol), and South African Airways (SAA) were created. The logic for establishing SOEs was a politically motivated decision that stemmed from the political aspirations of the leadership of the National Party (NP) to advance Afrikaner Empowerment.

The 1920s and the 1980s are the phases that are important in understanding state ownership initiatives in South Africa. The initiatives of the 1920s stemmed from the basic notion that the state in the form of government should manage and establish large utilities like electricity, railway, water projects and companies. It is for this reason that the South African government created companies like Eskom and SAR. However, other SOEs such as Iscor, the Armaments Corporation of South Africa (Armscor) and the South African Broadcasting Corporation (SABC) came into existence to primarily meet the political objectives of the NP, namely to ensure the economic and human capital development of the Afrikaner population.

The 1980s and post-1980s period saw the creation of SOEs, first to counter the international sanctions the apartheid government had come under as a result of the crimes it committed against humanity, in the form of the subjugation of black people through apartheid laws and policies. It was during this time that SOEs like Sasol (this SOE was primarily created to offset the petroleum embargo imposed on South Africa), Telkom (a telecommunications company) and Transnet (a transportation infrastructure and logistics company) were established. During the 1980s in particular, SOEs also allowed for development into newer technologies and markets, such as the communications, rail and ports businesses.

Therefore, SOEs in South Africa began their existence as large state or government investment into large utilities but would later come to be used by the NP to establish an Afrikaner middle-class and skilled working community. As apartheid and NP rule began to unravel and the African National Congress (ANC) emerged as the leading political party to lead the Republic of South Africa, the role and nature of SOEs would change. South African SOEs, in the post-apartheid dispensation, would come to be characterised, first, by the privatisation of certain key entities such as Iscor (which would later become ArcelorMittal) and the Sasol (which would become a private business corporation); and secondly, inquiries into the performance management, or lack thereof, of the remaining SOEs or SOCs, such as SAA, SABC, Eskom and Alexkor.

Size Complexity of Public Enterprises

In establishing what and how many SOEs currently exist under the current government, it is important to start by defining what an SoE in post-apartheid legal terms means. The Public Finance Management Act (PFMA) of 1999[164] defines SOEs as:

> Government business enterprises – juristic persons, under the ownership control of the national executive (the line minister), assigned financial and operational authority to carry on a business activity, as their principal business provides goods or services in accordance with ordinary business principles, and are financed fully or substantially from sources other than the National Revenue Fund or by way of tax, levy or other statutory money.

Two of the unforeseen consequences of new SOE laws and policies have been that (a) numerous and new SOEs have come into existence; and (b) a poor attitude to understanding how many SOEs exist has occurred. The National Treasury in 2006[165] explained that there were 38 SOEs or what it terms Government Business Enterprises (GBEs) and they operated in the following sectors: Transport (4), Defence (2), Telecommunications (4), Energy – Oil, Gas and Electricity (3), Development Finance Institutions (DFIs) (6), Others – Agriculture, Mining, Water, Research, etc. (19). Yet, the more recent 2012 Presidential Review Committee (PRC)[166] Report says that:

> According to the PRC database, there are more than seven hundred public entities/SOES in existence in South Africa. These include subsidiaries. There is currently no official mechanism of keeping an accurate record of how many public subsidiaries exist.

What is particularly interesting about the propagation of SOEs is that, according to the Human Sciences Research Council (HSRC), the majority of new SOEs were established after 1997.[167] However, the PRC[168] explains that:

> There has been a proliferation of SOEs, including commercial and non-commercial entities and their subsidiaries, across all spheres of Government. At the start of its investigation, the PRC received a list of recognised SOEs from National Treasury, comprising approximately 300 entities. This list did not include municipal entities and other forms of SOEs, such as trusts and Section 21 companies...the PRC compiled a consolidated national database of SOEs that includes subsidiaries, trusts and Section 21 companies. The PRC's consolidated database established that, as at end May 2012, there were approximately 715 SOEs (including Chapter Nine institutions).

What is important to note about South Africa's SOEs is that they are fairly numerous in size and that many of them are recent creations.[169] It therefore should be no surprise that the numerical size of SOEs has caused multiple problems related to how government SOE boards manage so many numerous and complex institutions.[170] An SOC refers to 'an enterprise that is registered in terms of the Companies Act as a company, and is either listed as a public entity in Schedule 2 or 3 of the PFMA or is owned by a municipality.'[171]

Brief Profiles of Selected Public Enterprises

State Owned Companies

Alexkor

Alexkor was established in accordance with the Alexkor Limited Act, No. 116 of 1992, and amended by the Alexkor Amendment Act, No. 29 of 2001. Alexkor is a listed Schedule 2 public entity wholly owned by the government through the Minister of Public Enterprises who acts as the shareholder representative. The company has two divisions or business units, which are the Alexander Bay Mining (Alexkor RMC JV) and the Alexkor Corporate Unit. The mining division is the core business of the company, exploiting a large land-based diamond resource and extensive diamondiferous marine deposits.[172]

Eskom

Eskom was established in South Africa in 1923 as the Electricity Supply Commission. In July 2002, it was converted into a public, limited liability company, wholly owned by government. Eskom is one of the top twenty utilities in the world by generation capacity (net maximum self-generated capacity of 41 194MW). Eskom generates approximately 95 per cent of the electricity used in South Africa and approximately 45 per cent of the electricity used in Africa. Eskom directly provides electricity to about 45 per cent of all end-users in South Africa. The other 55 per cent is resold by redistributors (including municipalities).[173]

SAA

SAA is one of the world's longest-established airlines. It was founded on 1 February 1934, when the South African government acquired the assets and liabilities of a private airline, Union Airways, to create a new national airline, South African Airways. On 1 April 1999, SAA ceased to be a division of what had by then become Transnet and was incorporated as a company in its own right, South African Airways (Pty) Limited.[174]

Denel

Denel is the largest manufacturer of defence equipment in South Africa and operates in the military aerospace and landward defence environment. Incorporated as a private company in 1992 according to the South African Companies Act (No 62 of 1973), Denel's sole shareholder is the South African Government. Denel is an important defence contractor in its domestic market and a key supplier to the South African National Defence Force (SANDF), both as original equipment manufacturer (OEM) and for the overhaul, maintenance, repair, refurbishment and upgrade of equipment in the SANDF's arsenal.[175]

State Owned Enterprises

SABC

The main object of the Corporation is to supply broadcasting and information services and services that are ancillary thereto, to the general public in the Republic of South Africa and beyond its borders, and to achieve the objectives as set out in the Broadcasting Act 4 of 1999 (as amended), and in accordance with the objectives set out in the Independent Broadcasting Authority Act 153 of 1993 (as amended) that are directly relevant to the Corporation.[176]

Armscor

The Armaments Corporation of South Africa Ltd (Armscor) is a South African state-owned entity mandated by the Armaments Development and Production Act, 1968 (Act 57 of 1968), and continues its existence through the Armaments Corporation of South Africa Limited Act (51) of 2003. The Minister of Defence and Military Veterans is the executive authority responsible for Armscor.[177]

Perspective Box: State Owned Entities

Pros	Cons
• Government is able to invest human capital and state tax in selected utilities for strategic and national security reasons. • Government can sometimes use public enterprises to create mass employment. • Government can shape and lead economic developmental imperatives through using policy and large institutional capabilities. • Government is able to use large amounts of resources to foster and grow niche human capital skills capabilities like engineering, artisan, science type skills.	• Governments use government taxes to compete with more nimble and smaller better operated private sector companies. • Government resources are divverted from developmental sons, e.g. service delivery, road building, developing health facilities in order to sometimes compete in niche non-profitable industries. • Public enterprises are prone to prevailing political dynamics or manipulations and may end up draining much needed tax. • Public enterprises can be prone to laziness as they understand that government resources are able to bail them out.

Internal and External Challenges

SOEs and SOCs in post-1994 South Africa have had to deal with numerous operating challenges stemming from not only internal dynamics but also external dynamics which made it hard to operate their businesses.

External
Thatcherism and Reaganomics

One of the biggest influences on how South African SOEs and SOCs operated post-1994 is how the then British Prime Minister, Margaret Thatcher, and the then United States of America President, Ronald Reagan, understood and approached SOEs. Both these leaders, and more precisely Prime Minister Thatcher, believed that SOEs should be privatised and that the market, and not the state in the form of government, should lead economic development initiatives. Chaves[178] explains that:

> The combined pressures of globalisation, liberalisation and marketisation unleashed by the market-driven dogmas of Thatcherism and Reaganomics had massively expanded the private sector and concurrently downsized the public sector. Corporate power was in the ascendancy and many state-owned companies had become a little more than second-rate government departments; and the underlying assumption was that, as the economy evolved, the government would close or sell them to private investors.

While Thatcherism[179] was a United Kingdom-based policy and operation, it did greatly influence how the government of South Africa went about operating its SOEs. It is important to acknowledge that certain nuances did influence the move towards privatisation of SOEs, given that the inherited debt from the apartheid government meant that the new government of the ANC had to rethink the role and existence of SOEs. One of the decisions taken in the early 90s, with regards to SOEs, was to follow the Thatcher model and privatise them; yet this decision, according to political entities like the South African Communist Party (SACP), was disastrous due to the large job losses that followed it.[180] It should also be mentioned that the privatisation of public enterprises was also influenced by the World Bank and International Monetary Fund within the context of Structural Adjustment Programmes. In short, Structural Adjustment Programmes were neo-liberal economic projects aimed at reducing the role of governments in socio-economic development and prioritising the market.

Changing Market Dynamics

Another factor influencing how public enterprises would perform and operate after 1994 was the influence of external competition and evolving competitors in various operating spaces of public enterprises. One SOC that has had to rethink how it works and operates its business is the South African Airways (SAA), within the aviation sector.

While SAA is one of the oldest operating aviation companies, the competition and competitors it has come up against in twenty years (1994-2014) has meant that it is constantly having to find new means to **(a)** stay profitable; **(b)** compete with foreign carriers; and **(c)** assist government to meet its developmental mandate. Yet, meeting these challenges has been affected, firstly, by the aviation sector experiencing mass privatisation in the early 1990s in the form of European carriers such as British Airways (BA), Lufthansa and Air France.[181] Secondly, the rise of newly established SOE carriers from the Middle East, in the form of Emirates and Etihad Airlines, has had a negative impact.[182] Thirdly, it has also been affected by the fluctuating role of operating inputs like fuel, as well as the geographical location where the airline operates.[183]

Alexkor too has not been able to compete with established Anglo-American, Ashanti-Gold, Anglo-Platinum and other privately owned mining firms, the role and future of South African mining continues to face the challenge of deteriorating labour relations between employers and employees.[184] Furthermore, while the established private sector companies have found some form of success within the twenty-year period, the success of Alexkor has yet to be properly assessed with regards to whether its structure and current mandate allow it to be considered a major asset in government's public enterprises plans.[185]

Internal
Balancing Mandate

In the early formation and operational mandate of the SOEs, especially under NP rule, the Afrikaner economic development was the primary goal and objective. The SOEs were seen and operated in a manner that would (a) allow for skills development; (b) encourage Afrikaner entrepreneurship; (c) enable unskilled labour to have a decent income among Afrikaner and white minorities.[186] However, the post-1994 mandate of the SOEs and SOCs has been a rather complex and tougher one to establish. While the apartheid SOEs did not judiciously operate in a manner that sought to keep operation cost down, the post-1994 government has had to battle with the challenges of corporate governance and balancing the financial status of the SOEs.[187]

The post-1994 balancing mandate has become a rather tough prospect for SOEs to manage. Commentators, such as the SACP, complain that the SOEs have failed to learn from the NP government and re-skill the mass population of African and black people; while other commentators continuously call for SOEs and SOCs to act as private sector entities and ensure they keep their finances positive, and not operate as debt ridden entities.

Poor Leadership

The final internal factor that has seen public enterprises' existence being questioned and at times criticised is the issue of their leadership. Post-1994, the leadership of public enterprises has been cited as a major reason for their inability to deliver on either a mandate to grow jobs or create the necessary capital/service delivery outputs.[188]

Major indicators of the poor leadership of public enterprises like the SABC, SAA and Eskom are (a) bailouts by National Treasury; (b) constant or seasonal restructuring programmes; and (c) constant scandals over decisions or appointments made by their boards. While it is possible to sometimes quantify the mistakes of leadership, as in the case with the Eskom's rolling blackouts cost to the economy and the external funds sourced for developmental purposes, in most cases the full extent of the damage of poor leadership has yet to be estimated. However, it cannot be overstated how much poor leadership in some public enterprises has cost the South African taxpayer and hampered the government's intention of utilising public enterprises to meet South African socio-economic needs.

Performance of Selected Commercial Public Enterprises

The assessment of public enterprises is not straightforward, because as stated earlier, when observing the fact that Eskom has been mismanaged alongside other public enterprises like SAA and SABC, it would seem that public enterprises are underperforming if not mismanaged. However, it needs to be remembered that there exists numerous other public enterprises which this chapter has not analysed, such as Airport Company South Africa (ACSA), Public Investment Corporation (PIC) and Human Sciences Research Council (HSRC), to mention but a few. In some ways, some of these public enterprises are performing relatively well.

This then brings to question whether new measurements and metrics are needed to assess where and whether the numerous public enterprises are playing a positive socio-economic developmental role. On current evidence as has been outlined in this chapter, the performance in relation to not only present-day reports like the

HSRC 2006 and 2012 Reports explain, but also reports emanating from the apartheid government operational mandate of SOEs, the present day public enterprises are not doing enough to assist South Africa develop socio-economically.

Conclusion

This chapter has explained the difference between the State Owned Companies (SOCs) and State Own Enterprises (SOEs) and discussed selected SOEs and SOCs, such as the SABC, SAA and Alexkor, to ascertain how the post-1994 ANC governing party views and operates public enterprises. It would seem that the post-1994 government has not been able to learn or build on the models put forward by the NP government with regards to ensuring that SOEs and SOCs operate in a manner as to (a) strengthen a black skills base; and (b) use them to jumpstart black entrepreneurs and other mandates the NP government had used to uplift the white minorities. It might very well be that the challenge has to do with a non-racialism philosophy of the ANC that could be limiting the extent to which explicit affirmative action programmes can be pursued.

Key Terms

Development Finance Institution: Both State Owned Companies and State Owned Enterprises as well as government agencies implementing developmental programmes.

Public Enterprises: Companies or enterprises owned by government, both State Owned Companies and State Owned Enterprises.

State Owned Company: A company that is owned by government or in which the government has majority shareholding, and is listed as a public entity.

State Owned Enterprise: An enterprise that is either wholy owned by government or the government is a majority shareholder.